

SPRING ART HOLDINGS BERHAD**REGISTRATION NO: 201801016143 (1278159-A)****NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED 30 JUNE 2022****PART A – EXPLANATORY NOTES IN COMPLIANCE WITH MALAYSIAN FINANCIAL REPORTING
STANDARDS (“MFRS”) 134, INTERIM FINANCIAL REPORTING****A1. BASIS OF PREPARATION**

The interim financial report of SPRING ART HOLDINGS BERHAD (“**SPRING**” or “**the Company**”) and its subsidiaries (“**the Group**”) are unaudited and have been prepared in accordance with the requirements of Malaysian Financial Reporting Standards (“**MFRS**”) No. 134: Interim Financial Reporting and Rule 9.22 of Listing Requirements.

This interim financial report should be read in conjunction with the Group’s annual audited financial statements for the year ended 31 December 2021 and the accompanying notes attached to this interim financial report.

A2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted as disclosed in the Group’s annual audited financial statements for the year ended 31 December 2021.

Adoption of new or revised MFRSs

The Group and the Company have applied the following standards, amendments to published standards and IC Interpretation approved by Malaysian Accounting Standards Board (“MASB”) for the first time for the financial year beginning on 1 January 2022:

- Amendments to MFRSs contained in the document entitled – *Annual improvements to MFRS Standards 2018 – 2020*
- Amendments to MFRS 3 – *Business Combinations*
- Amendments to MFRS 116 – *Property, Plant and Equipment Proceeds before Intended Use*
- Amendments to MFRS 137 – *Provision, Contingent Liabilities and Contingent Assets for Onerous Contracts – Cost of Fulfilling a Contract*

The adoption of the above MFRSs, amendments to published standards and IC Interpretation did not have any material impact on the current and prior year financial statements of the Group and of the Company.

Standards issued but not yet effective

The following are MFRSs, Amendments to MFRSs and IC Interpretations with effective dates on or after 1 January 2023 issued by MASB and they have not been early adopted by the Group. The Group intends to adopt these new standards, amendments to the published standards and interpretations, if applicable, when they become effective.

(a) MFRS and amendments effective for financial period beginning on or after 1 January 2023

- MFRS 17 – *Insurance Contracts*
- Amendments to MFRS 17 – *Insurance Contracts*
- Amendment to MFRS 101 – *Classification of Liabilities as Current or Non-current*

(b) Amendments effective for a date yet to be confirmed

- Amendments to MFRS 10 and MFRS 128 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The initial application of the MFRSs and amendments to the published standards and interpretations is not expected to have any material impact on the financial statements of the Group and of the Company.

A3. AUDITORS' REPORT

The audited financial statements for the financial year ended 31 December 2021 was not subject to any qualification.

A4. SEASONAL OR CYCLICAL FACTORS

Our operations are not significantly affected by seasonal or cyclical patterns as our furniture products are exported to several regions globally, where the differing sales and promotion period of furniture sales in different regions allow us to benefit from consistent sales throughout the year.

A5. EXTRAORDINARY AND EXCEPTIONAL ITEMS

There were no extraordinary and exceptional items of unusual nature affecting assets, liabilities, equity, net income, or cash flows during the current financial quarter under review.

A6. MATERIAL CHANGES IN ESTIMATES OF AMOUNTS REPORTED

There were no material changes in estimates of amounts reported in prior interim periods or prior financial year that have a material effect during the current financial quarter under review.

A7. CHANGES IN DEBT AND EQUITY SECURITIES

There were no issuances, cancellation, repurchase, resale or repayment of debt and/or equity securities, share buy-backs, share cancellations, share held as treasury shares and resale of treasury shares during the current financial quarter under review.

Type of Securities	As at 01.04.2022	Allotment	Conversion	As at 30.06.2022
Ordinary shares	415,689,400	-	-	415,689,400
Warrants A	166,272,400	-	-	166,272,400

A8. DIVIDENDS PAID

There were no dividends paid for the current financial quarter under review.

A9. SEGMENTAL INFORMATION

For management purposes, majority of the operations of the Group is involved in the manufacturing of office and household furniture. There were no separate business units for the purpose of making decisions about resource allocation and performance assessment by the Managing Director.

The Group operates only in Malaysia hence there is no disclosure of geographical segments on the non-current assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers.

The following table provides an analysis of the Group's revenue by geographical segment:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	30.06.2022	30.06.2021	30.06.2022	30.06.2021
	RM'000	RM'000	RM'000	RM'000
Middle East	8,015	8,937	16,670	20,531
Asia Pacific	1,158	2,362	4,318	3,796
North America and Latin America	548	1,683	2,095	4,008
Europe	117	525	440	851
Africa	-	80	-	80
Oceania	221	-	335	-
Total	10,059	13,587	23,858	29,266

A10. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

There was no valuation of property, plant and equipment during the current financial quarter under review.

A11. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE CURRENT FINANCIAL QUARTER

There were no other material events subsequent to the end of the current financial quarter that have not been reflected in this interim financial report.

A12. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group for the current financial quarter under review.

A13. CHANGES IN CONTINGENT LIABILITIES/ASSETS

As at the date of this report, the Group has contingent liabilities as follows:

	RM'000
Corporate guarantees for credit facilities granted to subsidiaries (unsecured)	12,961

A14. CAPITAL COMMITMENTS

The material capital commitments of the Group as at 30 June 2022 are as follows:

					As at	As at
					30.06.2022	30.06.2021
					RM'000	RM'000
Authorised and Contracted for:						
Application for access road					260	260
Purchase of property, plant and equipment					15,986	174
					16,246	434

A15. RELATED PARTY TRANSACTIONS

There were no related party transactions in the current financial quarter under review.

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PART B - EXPLANATORY NOTES PURSUANT TO CHAPTER 9, APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1. PERFORMANCE REVIEW

- Results for current quarter and financial year-to-date

	INDIVIDUAL QUARTER			CUMULATIVE QUARTER		
	Current	Preceding Year		Current	Preceding Year	
	Year	Corresponding		Year-	Corresponding	
	Quarter	Quarter	+/-	To-Date	Period	+/-
	30.06.2022	30.06.2021	%	30.06.2022	30.06.2021	%
	RM'000	RM'000		RM'000	RM'000	
Revenue	10,059	13,587	(26.0)	23,858	29,266	(18.5)
PBT	623	574	8.5	2,240	2,211	1.3

The Group recorded revenue of RM10.06 million for the current financial quarter ended 30 June 2022 ("Q2 2022"), a decrease of 26.0% as compare to the preceding year corresponding quarter ended 30 June 2021 ("Q2 2021").

The lower revenue was mainly attributed to lower sales volume from Middle East and North America. The decrease in revenue was mainly resulted from the deferment of shipments by customers which caused by the escalation of shipping charges.

The Group's PBT increased by 8.5% from RM0.57million in Q2 2021 to RM0.62 million in Q2 2022. The improvement in PBT was mainly attributed to the improved operational efficiency and strengthening of USD against MYR.

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER RESULTS

	INDIVIDUAL QUARTER		CHANGES	
	Current	Preceding		
	Year	Quarter		
	Quarter	Quarter		
	30.06.2022	31.03.2022		
	RM'000	RM'000	RM'000	%
Revenue	10,059	13,799	(3,740)	(27.10)
PBT	623	1,617	(994)	(61.47)

The Group recorded revenue of RM10.06 million in Q2 2022 as compared to RM13.80 million recorded in the preceding quarter ended 31 March 2022 ("Q1 2022"), it was a decrease of RM3.74 million during current financial quarter.

The decrease of revenue was due to the decrease of demand from customers which affected by the rate of inflation as it effects consumer spending on goods significantly.

Interest rates also effects the level of spending on consumer goods substantially. Many higher-end consumer goods, such as new home, properties or automobiles, are often purchased by consumers on credit. Higher interest rates also make such purchases substantially more expensive and therefore people will deter these expenditures.

B3. PROSPECT AND OUTLOOK FOR THE CURRENT FINANCIAL YEAR

The global economy continues to face many challenges such as the increase of interest rate, global inflation, foreign exchange rate fluctuations and the Russia-Ukraine war. All these have caused cost inflation in the businesses around the world. The COVID-19 pandemic has led to the global shortage of containers, a hike in ocean freight charges, raw material costs, and uncertainties in shipping schedules. The shortage of containers has disrupted the operations of the Group when exporting finished goods. The Group expects this problem to ease in the future as many countries have reopened their international borders and allowed businesses to operate as usual.

In Malaysia, the government has moved to the endemic transition phase, allowing all businesses to fully operate. The borders were also reopened to allow foreign workers to enter to lighten the shortage of workers across industries. However, supply chain disruption still persists and the implementation of the minimum wage with effect from 1 May 2022 will increase raw material and labour costs for the Group's businesses.

Looking ahead, the operating and business environment remains challenging with the emergence of new challenges. Nevertheless, the Group will continue to focus on the Group's core competency, stay vigilant and putting in place various cost cutting and control strategies and take timely and appropriate action plans to mitigate the adverse impact of the challenges on the Group's financial performance.

The Group is confident that the future prospects of the Group will be favourable after the completion of the Factory C. With the increasing production capacity, the Group is now focused in driving more research and development activities in enhancing our products to better suit the needs of our customers. The Group businesses will continue with their business plans to expand market coverage and product range and at the same time, remain vigilant and responsive to market changes.

In addition, the Board will regularly review the performance and progress of the Group's operations and financial performance. The Board expects that the Group's prospects for the financial year ending 31 December 2022 to be challenging but satisfactory.

B4. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT

The Group did not issue any profit forecast or profit guarantee during the current financial quarter under review.

B5. INCOME TAX EXPENSE

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	30.06.2022	30.06.2021	30.06.2022	30.06.2021
	RM'000	RM'000	RM'000	RM'000
Current tax expense	6	126	356	269
Deferred tax expense	(136)	(116)	(181)	114
Total tax expense	(130)	10	175	383

B6. STATUS OF CORPORATE PROPOSALS

There were no other corporate proposals announced but not completed for the current financial quarter under review.

B7. UTILISATION OF PROCEEDS RAISED FROM THE IPO

The estimated gross proceeds arising from Public Issue of approximately RM24.42 million shall accrue entirely to us and will be utilised in the following manner:

Utilisation of proceeds	Estimated timeframe for utilisation	Proposed utilisation	Actual utilisation (a)	Unutilised Amount
		RM'000	RM'000	RM'000
Machinery for Factory C	24 months	17,550	7,880	9,670
General working capital	24 months	3,672	3,672	-
Estimated listing expenses	1 month	3,200	3,200	-
		24,422	14,752	9,670

Note:

- (a) The utilisation of proceeds disclosed above should be read in conjunction with the Prospectus of the Company dated 16 October 2019.

B8. GROUP'S BORROWINGS AND DEBT SECURITIES

The Group's borrowings are as follows:

	As At 30.06.2022 RM'000	As At 30.06.2021 RM'000
Non-current :		
Term loan	11,846	4,495
	11,846	4,495
Current :		
Term loan	1,115	703
	1,115	703
Total borrowings	12,961	5,198

All the Group's borrowings are secured and denominated in Ringgit Malaysia.

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B9. FINANCIAL INSTRUMENTS - DERIVATIVES

The Group uses derivative financial instruments, mainly foreign currency forward contracts to hedge its exposure to fluctuations in foreign exchange arising from sales. The Group does not hold or issue derivative financial instruments for trading purposes.

The details of the outstanding foreign currency forward contracts are as follows: -

	NOTIONAL AMOUNT AS AT		FAIR VALUE LOSS AS AT	
	30.06.2022	30.06.2021	30.06.2022	30.06.2021
	RM'000	RM'000	RM'000	RM'000
Foreign currency contracts				
Less than one year	4,185	8,265	141	338

The above instruments are executed with credit worthy financial institutions in Malaysia. The Directors are of the view that the possibility of non-performance by these financial institutions is remote on the basis of their financial strength. There are also no cash requirements risks as the Group only uses foreign currency forward contracts as its hedging instruments. The fair value changes have been recognised in the profit and loss.

B10. MATERIAL LITIGATION

There were no material litigation involving the Group as at 30 June 2022.

B11. DIVIDEND

No dividend has been proposed for the current quarter under review.

B12. DISCLOSURE ON SELECTED EXPENSE/ INCOME ITEMS AS REQUIRED BY THE LISTING REQUIREMENTS

Profit before tax is arrived after charging / (crediting): -

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	30.06.2022	30.06.2021	30.06.2022	30.06.2021
	RM'000	RM'000	RM'000	RM'000
Depreciation of property, plant and equipment	523	535	1,079	1,032
Depreciation of right-of-use assets	226	225	453	469
Fair value loss on derivative financial instruments	109	25	141	338
Gain on disposal of property, plant and equipment	(33)	-	(33)	(5)
(Gain) / Loss on foreign exchange				
Realised	(59)	(133)	(82)	(180)
Unrealised	(156)	39	(275)	(246)
Interest income	(28)	(86)	(88)	(184)
Finance costs	114	72	208	145

B13. EARNINGS PER SHARE***Basic earnings per share***

Basic earnings per share amount are calculated by dividing the profit attributable to Owners of the Parent by the weighted average number of ordinary shares outstanding during the period.

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	30.06.2022	30.06.2021	30.06.2022	30.06.2021
Profit after tax attributable to owners of the Company (RM'000)	753	564	2,065	1,828
Weighted average number of ordinary shares in issue ('000) (a)	415,689	415,687	415,689	415,687
Basic earnings per share (sen)	0.18	0.14	0.50	0.44
Profit after tax attributable to owners of the Company (RM'000)	753	564	2,065	1,828
Weighted average number of ordinary shares for diluted earnings per ordinary share computation ('000) (b)	415,689	415,688	415,689	415,688
Diluted earnings per share (sen)	0.18	0.14	0.50	0.44

Notes:

- (a) Basic earnings per share is calculated based on the Company's number of ordinary shares at the end of the reporting period which is 415,689,400 shares.
- (b) Diluted earnings per share of the Company for the individual quarter ended 30 June 2022 and year-to-date ended 30 June 2022 is equivalent to the basic earnings per share as the Company does not have any convertible options as at the end of the reporting period.

Board of Directors
Spring Art Holdings Berhad
25th August 2022