

SPRING ART HOLDINGS BERHAD**REGISTRATION NO: 201801016143 (1278159-A)****NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2023****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 2022 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 2022.

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 2023:

- MFRS 17 – *Insurance Contracts*
- Amendments to MFRS 17 – *Insurance Contracts*
- Amendments to MFRS 101 – *Disclosure of Accounting Policies*

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 2024 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 2024

- Amendment to MFRS 16 – *Lease Liability in a Sale and Leaseback*
- Amendment to MFRS 101 – *Classification of Liabilities as Current or Non-current*
- Amendment to MFRS 101 – *Non-current Liabilities with Covenants*

(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 2022 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 01.07.2023	Allotment	Conversion	As at 30.09.2023
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	
	30.09.2023	30.09.2022	30.09.2023	30.09.2022
	RM'000	RM'000	RM'000	RM'000
Middle East	10,353	7,069	23,514	23,739
Asia Pacific	3,303	2,656	9,765	6,974
North America and Latin America	622	-	1,718	2,095
Europe	226	-	350	440
Africa	83	-	686	-
Oceania	-	-	107	335
Total	14,587	9,725	36,140	33,583

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)	14,996

A14. CAPITAL COMMITMENTS

The material capital commitments of the Group as at 30 September 2023 are as follows:

	As at 30.09.2023 RM'000	As at 30.09.2022 RM'000
Authorised and Contracted for:		
Application for access road	260	260
Purchase of property, plant and equipment	2,057	15,986
	<u>2,317</u>	<u>16,246</u>

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 Year Quarter 30.09.2023 RM'000	Preceding Year Corresponding Quarter 30.09.2022 RM'000	+/- %	Current Year-To-Date 30.09.2023 RM'000	Preceding Year Corresponding Period 30.09.2022 RM'000	+/- %
Revenue	14,587	9,725	50.0	36,140	33,583	7.6
PBT	2,102	391	437.6	3,119	2,631	18.5

The Group recorded revenue of RM14.59 million for the current financial quarter ended 30 September 2023 ("Q3 2023"), an increase of 50.0% as compare to the preceding year corresponding quarter ended 30 September 2022 ("Q3 2022").

The increase of revenue was mainly because of higher demand from the Middle East. In this quarter, orders from the Middle East went up primarily due to increased consumer spending power and rebound of retail expenditure.

The Group's PBT increased by 437.6% from PBT of RM0.39 million in Q3 2022 to RM2.10 million in Q3 2023. The increase in profit before tax was mainly due to increased sales and the strengthening of the USD against the RM, especially since most of the Group's sales are in USD.

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER RESULTS

	INDIVIDUAL QUARTER		CHANGES	
	Current Year Quarter 30.09.2023 RM'000	Preceding Quarter 30.06.2023 RM'000	RM'000	%
Revenue	14,587	11,348	3,239	28.5
PBT	2,102	484	1,618	334.3

The Group recorded revenue of RM14.59 million in Q3 2023 as compared to RM11.35 million recorded in the preceding quarter ended 30 June 2023 ("Q2 2023"), it was an increase of RM3.24 million during current financial quarter.

The increase of revenue was due to the increase of demand for bedroom furniture in Q3 2023 compared to Q2 2023.

B3. PROSPECT AND OUTLOOK FOR THE CURRENT FINANCIAL YEAR

The global economy is expected to slow down due to efforts to control inflation, impacting economic activity. This will create ongoing challenges in the export market, with customers adjusting their procurement practices due to high stock levels in their warehouses.

Despite this, our Group will stay focused on our strengths, actively seek opportunities, cut costs where possible, and take quick actions to minimize the impact of these challenges on our finances.

The completion of Factory C is now expected in Q1 2024 as we await the Certificate of Completion and Compliance ("CCC"). On a positive note, electricity supply to Factory C's substation from Tenaga Nasional Berhad was completed in Q3 2023. The Group received the Certificate of Practical Completion ("CPC") on 28 March 2023. Despite the delay, we remain optimistic about improved prospects after Factory C is up and running. With increased production capacity, we are focusing on enhancing our products to better meet our customers' needs.

The Group is dedicated to making smart decisions to strengthen our business. We will work closely with customers to simplify orders, manage costs efficiently, expand our customer base, and optimize workforce use. The Board will closely monitor the Group's performance. Despite expecting challenges in the current financial year ending on 31 December 2023, our primary aim is to achieve positive results.

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	
	30.09.2023	30.09.2022	30.09.2023	30.09.2022
	RM'000	RM'000	RM'000	RM'000
Current tax expense	290	95	576	451
Deferred tax expense	(131)	(109)	(201)	(290)
Total tax expense	159	(14)	375	161

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	17,550	-
General working capital	24 months	3,672	3,672	-
Estimated listing expenses	1 month	3,200	3,200	-
		24,422	24,422	-

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 30.09.2023 RM'000	As At 30.09.2022 RM'000
Non-current :		
Term loan	13,494	13,915
	13,494	13,915
Current :		
Term loan	1,502	1,124
	1,502	1,124
Total borrowings	14,996	15,039

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	
	30.09.2023	30.09.2022	30.09.2023	30.09.2022
	RM'000	RM'000	RM'000	RM'000
Foreign currency contracts				
Less than one year	3,754	3,938	207	213

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 September 2023.

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	
	30.09.2023	30.09.2022	30.09.2023	30.09.2022
	RM'000	RM'000	RM'000	RM'000
Depreciation of property, plant and equipment	540	532	1,635	1,611
Depreciation of right-of-use assets	68	244	204	697
Fair value loss on derivative financial instruments	157	72	207	213
(Gain) on disposal of property, plant and equipment	-	-	-	(33)
Loss/(Gain) on foreign exchange				
Realised	(157)	(35)	(279)	(117)
Unrealised	217	(180)	(58)	(455)
Interest income	(59)	(258)	(147)	(346)
Finance costs	153	124	454	332

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	
	30.09.2023	30.09.2022	30.09.2023	30.09.2022
Profit after tax attributable to owners of the Company (RM'000)	1,943	405	2,744	2,470
Weighted average number of ordinary shares in issue ('000) (a)	415,689	415,689	415,689	415,689
Basic earnings per share (sen)	0.47	0.10	0.66	0.59
Profit after tax attributable to owners of the Company (RM'000)	1,943	405	2,744	2,470
Weighted average number of ordinary shares for diluted earnings per ordinary share computation ('000) (b)	415,689	415,689	415,689	415,689
Diluted earnings per share (sen)	0.47	0.10	0.66	0.59

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 September 2023 and year-to-date ended 30 September 2023 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
30th November 2023