

SPRING ART HOLDINGS BERHAD**REGISTRATION NO: 201801016143 (1278159-A)****NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED 30 JUNE 2024****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 2023 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 2023.

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 2024:

- Amendments to MFRS 16 – Lease Liability in a Sale and Leaseback
- Amendments to MFRS 101 – Classification of Liabilities as Current or Non-current
- Amendments to MFRS 101 – Non-current Liabilities with Covenants
- Amendments to MFRS 107 and MFRS 7 – Supplier Finance Arrangements

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 2025 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 2025

- Amendments to MFRS 121 – Lack of Exchangeability

(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 2023 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 except the conversion of 2,000 of Warrants A at exercise price of RM0.28 per share as illustrated as per below table: -

Type of Securities	As at 01.04.2024	Allotment	Conversion	As at 30.06.2024
Ordinary shares	415,689,400	2,000	-	415,691,400
Warrants A	166,272,400	-	2,000	166,270,400

A8. DIVIDEND PAID

The Group paid a final dividend of RM0.005 per share amounting to RM2,078,457 on 20 June 2024 in respect of the financial year ended 31 December 2023 to all holders of ordinary shares whose names appear in the Record of Depositors at the close of business on 31 May 2024.

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	
	30.06.2024	30.06.2023	30.06.2024	30.06.2023
	RM'000	RM'000	RM'000	RM'000
Middle East	12,406	4,950	23,961	13,161
Asia Pacific	1,254	4,777	2,040	6,463
North America and Latin America	497	963	2,491	1,096
Europe	471	123	818	123
Africa	228	428	334	603
Oceania	-	107	-	107
Total	14,856	11,348	29,644	21,553

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)	14,447

A14. CAPITAL COMMITMENTS

The material capital commitments of the Group as at 30 June 2024 are as follows:

	As at 30.06.2024 RM'000	As at 30.06.2023 RM'000
Authorised and Contracted for:		
Application for access road	-	260
Purchase of property, plant and equipment	795	2,057
	795	2,317

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 30.06.2024 RM'000	Preceding Year Corresponding Quarter 30.06.2023 RM'000	+/- %	Current Year-To-Date 30.06.2024 RM'000	Preceding Year Corresponding Period 30.06.2023 RM'000	+/- %
Revenue	14,856	11,348	30.9	29,644	21,553	37.5
PBT	2,548	484	426.4	6,378	1,017	527.1

The Group recorded revenue of RM14.86 million for the current financial quarter ended 30 June 2024 ("Q2 2024"), an increase of 30.9% as compare to the preceding year corresponding quarter ended 30 June 2023 ("Q2 2023").

The increase of revenue was mainly because of higher demand from the Middle East driven by strong consumer spending.

The Group's PBT increased by 426.4% from PBT of RM0.48 million in Q2 2023 to RM2.55 million in Q2 2024. The increase in profit before tax was mainly due to better production efficiency and the strengthening of the US dollar against the Malaysian ringgit.

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER RESULTS

	INDIVIDUAL QUARTER		CHANGES	
	Current Year Quarter 30.06.2024 RM'000	Preceding Quarter 31.03.2024 RM'000	RM'000	%
Revenue	14,856	14,788	68	0.5
PBT	2,548	3,830	(1,282)	(33.5)

The Group recorded revenue of RM14.86 million in Q2 2024 as compared to RM14.79 million recorded in the preceding quarter ended 31 March 2024 ("Q1 2024"), it was an increase of RM0.07 million during current financial quarter.

The increase of revenue was due to the higher demand for living furniture in Q2 2024 but overall sales were considered average compared to Q1 2024. The shorter working period due to Hari Raya celebrations also limited sales growth. Despite the modest rise in revenue, PBT decreased, primarily due to higher operating costs.

B3. PROSPECT AND OUTLOOK FOR THE CURRENT FINANCIAL YEAR

The global economy is expected to slow down as inflation control efforts take effect, impacting business activities and creating ongoing difficulties in the export market. In response, our Group will remain focused on our core competencies, actively seek out new opportunities, and implement cost-cutting measures wherever possible. We are prepared to take swift action to mitigate the financial impact.

We also expect the complete of Factory C in Q4 2024, pending the receipt of the Certificate of Completion and Compliance (CCC). We received the Certificate of Practical Completion (CPC) on 28 March 2023. Although there has been a delay, we are optimistic that once Factory C becomes operational, it will improve our prospects by increasing production capacity and better meet customers' needs.

Our Group is dedicated to making prudent decisions to strengthen our business. We will collaborate closely with our customers to streamline orders, manage costs, expand our customer base, and utilize our workforce efficiently. The Board will continue to closely monitor the Group's performance. While we anticipate challenges in the current financial year ending on 31 December 2024, our primary goal 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	
	30.06.2024	30.06.2023	30.06.2024	30.06.2023
	RM'000	RM'000	RM'000	RM'000
Current tax expense	867	283	1,629	286
Deferred tax expense	(8)	(129)	59	(70)
Total tax expense	859	154	1,688	216

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	As At
	30.06.2024	30.06.2023
	RM'000	RM'000
Non-current :		
Term loan	13,085	13,865
	13,085	13,865
Current :		
Term loan	1,362	1,492
	1,362	1,492
Total borrowings	14,447	15,357

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: -

	<u>NOTIONAL AMOUNT AS AT</u>		<u>FAIR VALUE LOSS AS AT</u>	
	<u>30.06.2024</u>	<u>30.06.2023</u>	<u>30.06.2024</u>	<u>30.06.2023</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Foreign currency contracts				
Less than one year	3,304	5,378	16	50

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 2024.

B11. DIVIDEND

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

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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	
	30.06.2024	30.06.2023	30.06.2024	30.06.2023
	RM'000	RM'000	RM'000	RM'000
Depreciation of property, plant and equipment	527	544	1,055	1,095
Depreciation of right-of-use assets	69	68	139	136
Fair value loss / (gain) on derivative financial instruments	8	(49)	16	50
Gain on disposal of property, plant and equipment	-	-	(120)	-
Loss / (Gain) on foreign exchange				
Realised	37	8	2	(123)
Unrealised	29	-	(282)	(275)
Interest income	(160)	(47)	(292)	(88)
Finance costs	150	151	296	301

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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	
	30.06.2024	30.06.2023	30.06.2024	30.06.2023
Profit after tax attributable to owners of the Company (RM'000)	1,689	330	4,690	801
Weighted average number of ordinary shares in issue ('000) (a)	415,691	415,689	415,691	415,689
Basic earnings per share (sen)	0.41	0.08	1.13	0.19
Profit after tax attributable to owners of the Company (RM'000)	1,689	330	4,690	801
Weighted average number of ordinary shares for diluted earnings per ordinary share computation ('000) (b)	415,691	415,689	415,691	415,689
Diluted earnings per share (sen)	0.41	0.08	1.13	0.19

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 415,691,400 shares.
- (b) The effects of potential ordinary shares arising from the conversion of warrants is anti-dilutive and accordingly, it has been ignored in the calculation of diluted earnings per share. As a result, the diluted earnings per share is the same as basic earnings per share.

Board of Directors
Spring Art Holdings Berhad
22nd August 2024