

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

Type of Securities	As at 01.07.2024	Allotment	Conversion	As at 30.09.2024
Ordinary shares	415,691,400	-	-	415,691,400
Warrants A	166,270,400	-	-	166,270,400

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	
	30.09.2024	30.09.2023	30.09.2024	30.09.2023
	RM'000	RM'000	RM'000	RM'000
Middle East	7,929	10,353	31,890	23,514
Asia Pacific	1,185	3,303	3,225	9,765
North America and Latin America	858	622	3,349	1,718
Europe	326	226	1,144	350
Africa	212	83	546	686
Oceania	120	-	120	107
Total	10,630	14,587	40,274	36,140

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)	14,114

A14. CAPITAL COMMITMENTS

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

	As at 30.09.2024 RM'000	As at 30.09.2023 RM'000
Authorised and Contracted for:		
Application for access road	-	260
Purchase of property, plant and equipment	447	2,057
	447	2,317

A15. RELATED PARTY TRANSACTIONS

(i) Spring Art Industries Sdn. Bhd. and Kejora Bitara Sdn. Bhd.

Kejora Bitara Sdn. Bhd. is a company in which Datuk Lim Kok Eng and Datin Kwan Chian Poh have interest.

	Transaction value	
	As at 30.09.2024 RM'000	As at 30.09.2023 RM'000
Nature of transaction:		
• Rental payable by Spring Art Industries Sdn. Bhd. to Kejora Bitara Sdn. Bhd. in respect of the rental of office and factory (1)	29	-

Note:

- (1) Spring Art Industries Sdn. Bhd. entered into a tenancy agreement dated 15 August 2024 with Kejora Bitara Sdn. Bhd. for the rental of an office and factory space located at No. K45, Jalan Rami 3, Kawasan Perindustrian Bukit Pasir, 84300 Muar, Johor for a period commencing from 15 August 2024 to 14 August 2027.

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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 30.09.2024 RM'000	Preceding Year Corresponding Quarter 30.09.2023 RM'000	+/- %	Current Year-To-Date 30.09.2024 RM'000	Preceding Year Corresponding Period 30.09.2023 RM'000	+/- %
Revenue	10,630	14,587	(27.1)	40,274	36,140	11.4
(LBT) / PBT	(335)	2,102	(115.9)	6,043	3,119	93.7

The Group recorded revenue of RM10.63 million for the current financial quarter ended 30 September 2024 ("Q3 2024"), a decrease of 27.1% as compare to the preceding year corresponding quarter ended 30 September 2023 ("Q3 2023").

The decline in revenue was primarily driven by reduced demand from the Middle East which was impacted by a moderate economic slow-down in the region. This led to a decrease in consumer spending power, particularly on non-essential items such as furniture.

The Group's PBT of RM2.10 million in Q3 2023 shifted to a LBT of RM0.34 million in Q3 2024. This change was mainly due to lower revenue from reduced demand. Additionally, the weakening of the US Dollar against the Malaysia Ringgit reduced the value of earnings from foreign sales when converted to the local currency, further affecting the overall financial performance.

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER RESULTS

	INDIVIDUAL QUARTER		CHANGES	
	Current Year Quarter 30.09.2024 RM'000	Preceding Quarter 30.06.2024 RM'000	RM'000	%
Revenue	10,630	14,856	(4,226)	(28.4)
(LBT) / PBT	(335)	2,548	(2,883)	(113.1)

The Group recorded revenue of RM10.63 million in Q3 2024 as compared to RM14.86 million recorded in the preceding quarter ended 30 June 2024 ("Q2 2024"), it was a decrease of RM4.23 million during current financial quarter.

The decrease in revenue was due to the lower demand from Middle East customers in Q3 2024 compared to Q2 2024. Furthermore, the higher of shipping fee likely contributed to a reduction in sales volume.

B3. PROSPECT AND OUTLOOK FOR THE CURRENT FINANCIAL YEAR

The global economy is expected to slow as inflation control measures take effect, affecting business activities and presenting challenges in the export market. In response, our Group will focus on our strengths, seek new opportunities, and implement cost-saving measures to minimize financial impact.

The Board are pleased to announce that have obtained the Certificate of Completion and Compliance (CCC) for Factory C on 4 September 2024. This allows operations to begin in Q4 2024 and the Board look forward to using this new facility to grow the business.

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	
	30.09.2024	30.09.2023	30.09.2024	30.09.2023
	RM'000	RM'000	RM'000	RM'000
Current tax expense	(266)	290	1,363	576
Deferred tax expense	267	(131)	326	(201)
Total tax expense	1	159	1,689	375

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 30.09.2024 RM'000	As At 30.09.2023 RM'000
Non-current :		
Term loan	12,727	13,494
	12,727	13,494
Current :		
Term loan	1,387	1,502
	1,387	1,502
Total borrowings	14,114	14,996

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 (GAIN) / LOSS AS AT</u>	
	<u>30.09.2024</u>	<u>30.09.2023</u>	<u>30.09.2024</u>	<u>30.09.2023</u>
	RM'000	RM'000	RM'000	RM'000
Foreign currency contracts				
Less than one year	4,534	3,754	(212)	207

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 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

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

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	30.09.2024	30.09.2023	30.09.2024	30.09.2023
	RM'000	RM'000	RM'000	RM'000
Depreciation of property, plant and equipment	489	540	1,544	1,635
Depreciation of right-of-use assets	98	68	237	204
Fair value (gain) / loss on derivative financial instruments	(228)	157	(212)	207
Gain on disposal of property, plant and equipment	-	-	(120)	-
Loss / (Gain) on foreign exchange				
Realised	125	(157)	127	(279)
Unrealised	174	217	(108)	(58)
Interest income	(128)	(59)	(420)	(147)
Finance costs	151	153	447	454

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B13. (LOSS) / EARNINGS PER SHARE***Basic (loss) / earnings per share***

Basic (loss) / 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	
	30.09.2024	30.09.2023	30.09.2024	30.09.2023
(Loss) / Profit after tax attributable to owners of the Company (RM'000)	(336)	1,943	4,354	2,744
Weighted average number of ordinary shares in issue ('000) (a)	415,691	415,689	415,691	415,689
Basic (loss) / earnings per share (sen)	(0.08)	0.47	1.05	0.66
(Loss) / Profit after tax attributable to owners of the Company (RM'000)	(336)	1,943	4,354	2,744
Weighted average number of ordinary shares for diluted earnings per ordinary share computation ('000) (b)	415,691	415,689	415,691	415,689
Diluted (loss) / earnings per share (sen)	(0.08)	0.47	1.05	0.66

Notes:

- (a) Basic (loss) / 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 (loss) / earnings per share. As a result, the diluted (loss) / earnings per share is the same as basic (loss) / earnings per share.

Board of Directors
Spring Art Holdings Berhad
21st November 2024