

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED 28 FEBRUARY 2018****PART A – EXPLANATORY NOTES IN COMPLIANCE WITH MALAYSIAN FINANCIAL
REPORTING STANDARDS (“MFRS”) 134, INTERIM FINANCIAL REPORTING****A1. BASIS OF PREPARATION**

These condensed consolidation interim financial statements, for the period ended 28 February 2018, have been prepared in accordance with MFRS134 Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. These condensed consolidated interim financial statements also comply with IAS 34 Interim Financial Reporting issued by the International Accounting Standards Board.

The consolidated financial statements of the Group for the year ended 31 August 2017 are available upon request from the Company registered office at No. 7 (1st Floor), Jalan Pesta 1/1, Taman Tun Dr Ismail 1, Jalan Bakri, 84000 Muar, Johor Darul Ta’zim.

The explanatory notes attached to these condensed consolidated interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 August 2017.

The interim financial statements should be read in conjunction with the Group’s annual audited financial statements for the year ended 31 August 2017.

A2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 August 2017 and include the adoption of MFRS Framework and Interpretation which applicable to the Group. The adoption of MFRS, amendments to MFRSs and Interpretation Committee Interpretations do not have material impact on the financial statement in the period of initial application.

A3. AUDITORS’ REPORT

The audited financial statements for the financial year ended 31 August 2017 was not subject to any qualification.

A4. SEASONAL OR CYCLICAL FACTORS

The Group's operation is seasonal and cyclical in nature whereby the performance for the second quarter (December to February) is normally lower than the rest of the quarters. This is mainly due to the long festive holidays in Malaysia as well as lower demand for the local and export markets after back-to-school, Christmas and New Year celebration.

A5. EXTRAORDINARY AND EXCEPTIONAL ITEMS

There were no extraordinary and exceptional items of unusual nature affecting assets, liabilities, equity, net income, or cash flows in the interim financial period ended 28 February 2018.

A6. 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 in the current financial period to-date.

A7. SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's business segment.

Revenue and Expenses	6 months ended 28 February 2018				
	Investment Holding RM	Manufacturing of furniture RM	Manufacturing of plastic wares RM	Eliminations RM	Consolidated RM
External sales	0	24,383,518	37,194,190	0	61,577,708
Dividend income	600,000	0	0	(600,000)	0
Inter-segment revenue	0	1,355,782	15,616,106	(16,971,888)	0
Total	600,000	25,739,299	52,810,296	(17,571,888)	61,577,708

Results	6 months ended 28 February 2018				
	Investment Holding RM	Manufacturing of furniture RM	Manufacturing of plastic ware RM	Eliminations RM	Consolidated RM
Interest income	50,236	73,231	53,109	(61,280)	115,295
Finance costs	0	(329,334)	(1,285,855)	61,280	(1,553,909)
Depreciation of property, Plant and equipment	0	(807,246)	(2,377,523)	(12,766)	(3,197,535)
Taxation	(21,246)	(277,439)	(412,769)	112	(711,342)
Other non-cash items	0	57,925	(157,139)	0	(99,214)
Segment profit/(loss)	67,444	(1,895,091)	1,363,741	(1,420)	(465,326)
Segment assets	73,464,241	76,019,971	122,865,581	(89,387,145)	182,962,648
Segment liabilities	100,992	24,177,367	71,153,528	(11,999,596)	83,432,291

A8. CHANGES IN DEBT AND EQUITY SECURITIES

There were no issuance, repurchase and repayment of debt and equity securities for the financial period-to-date.

A9. DIVIDENDS PAID

There were no dividends paid during the reporting period.

A10. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE INTERIM REPORT

Other than as disclosed in Note B8, no material events subsequent to the period ended 28 February 2018 have been reflected in the financial statements for the interim period.

A11. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the financial period.

A12. CHANGES IN CONTINGENT LIABILITIES/ASSETS

There were no changes in contingent liabilities/assets since previous reporting date and there were no contingent liabilities pending at the date of this report.

A13. CAPITAL COMMITMENTS

There were no capital commitments in the current interim financial statements.

A14. RELATED PARTY TRANSACTIONS

The Group's related party transactions in the current quarter and financial year-to-date are as follows:

Subsidiaries	Transacting parties	Relationship	Nature of transactions	Current quarter (RM)	Financial Year-to-date (RM)
Ee-Lian Enterprise (M) Sdn Bhd ("ELE")	Ee Jia Housewares (M) S/B	Director of ELE	Sales of plastic wares and other household products	1,659,826	4,359,796
			Purchases of plastic wares and other household products	233,184	436,012
ELE	Ebottles Marketing (M) S/B	Director of ELE	Sales of water bottles and tumblers	75,416	105,063
			Purchases of water bottles and tumblers	0	45,360
ELE	E Sponge Household S/B	Director of ELE	Sales of plastic wares and cleaning products	12,428	126,732
			Purchases of cleaning products	26,998	87,282
			Rental	15,000	19,000
ELE	PT. Elianware Houseware Trading	Director of ELE	Sales of plastic wares and other household products	297,451	417,510

The Group's key management personnel compensation is as follows:

Compensation paid/payable to key management personnel	Current quarter (RM)	Financial Year-to-date (RM)
Short term employee benefits	1,140,112	1,791,803
Other employee benefits	177,883	271,660

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

B1. PERFORMANCE REVIEW

Revenue	Individual quarter		+/- (%)	Cumulative quarters		+/- (%)
	28-Feb-18 (RM)	28-Feb-17 (RM)		28-Feb-18 (RM)	28-Feb-17 (RM)	
Furniture Division	12,049,630	36,417,506		24,272,518	74,479,984	
Plastic Wares Division	17,066,816	0		37,194,190	0	
Total	29,227,446	36,417,506	(20)	61,577,708	74,479,984	(17)

For the quarter under review, we recorded a lower turnover of RM29.23 million compared to RM36.42 million recorded in the previous year corresponding quarter ended 28 February 2017. The revenue contribution from the newly acquired plastic wares division is lower than the revenue loss resulting from the disposal of leather upholstery business.

Profit / (Loss) Before Tax	Individual quarter		+/- (%)	Cumulative quarters		+/- (%)
	28-Feb-18 (RM)	28-Feb-17 (RM)		28-Feb-18 (RM)	28-Feb-17 (RM)	
Furniture Division	(856,832)	773,599		(1,296,511)	2,032,365	
Plastic Wares Division	(196,271)	0		1,363,741	0	
Others	(521,942)	(119,829)		(532,556)	(121,592)	
Total	(1,575,045)	653,770	(341)	(465,326)	1,910,773	(124)

In terms of gross profit, it has increased from 14.6% in Q2 2017 to 16.2% in Q2 2018. The plastic wares division has higher gross margin compared to furniture division. The gross profit of furniture division has dropped from 20.0% to 12.6%. The lower gross profit was due to progressive increase in raw material prices over the year, higher labour costs and lower average selling prices due to the depreciation of USD.

The Group has recorded loss before tax of RM1.58 million for Q2 2018 compared to profit before tax of RM0.65 million recorded in Q2 2017. The loss was mainly due to the decreased in sales in the plastic wares division after back-to-school season and poor performance in the furniture division as a result of shortage in foreign workers and higher raw material cost which mentioned above.

The loss before tax for other division is related to corporate proposal.

B2. VARIANCE IN PROFIT BEFORE TAX

Profit / (Loss) Before Tax	Individual quarter 28-Feb-18 (RM)	Preceding quarter 30-Nov-17 (RM)	+ / - (RM)
Furniture Division	(856,832)	(439,677)	(417,155)
Plastic Wares Division	(196,271)	1,560,011	(1,756,282)
Others	(521,942)	(10,614)	(511,328)
Total	(1,575,045)	1,109,720	(2,684,765)

The Group recorded a lower turnover of RM29.23 million during the quarter under review against a turnover of RM32.35 million in the preceding quarter ended 30 November 2017. Gross profit margin was lower at 16.2% against 19.6% in the preceding quarter while absolute amount was lower at RM4.74 million against RM6.32 million in the preceding quarter.

In addition, the loss before tax of RM1.58 million for the quarter under review compared to the profit before tax of RM1.11 million registered in the preceding quarter ended 30 November 2017. The loss before tax for this quarter was due to the poor performance in both plastic wares and furniture divisions. Market demand for plastic wares division drop significantly after December 2017 and holiday season resulting decreased in local and export sales. Furniture division has not sorted out the issues of shortage in foreign workers and higher raw material cost.

The profit margins in plastic wares division were lower due to increase in raw material and packing cost during the current quarter. The profit margins in furniture division were lower due to the progressive increase in material costs and lower manufacturing efficiency during the initial adjustment period for several range of new bedroom sets and dining sets.

B3. PROSPECT FOR THE CURRENT FINANCIAL YEAR

The acquisition of ELE enabled the Group to diversify into the manufacturing and trading of plastic wares, utensils and goods. In view of the favourable prospects of the plastic wares division, ELE will continue to meet higher quality standards and remain cost effective and this will enable the Group to compete effectively in global markets through high quality “product differentiation” instead of merely low cost “price differentiation”.

The Group will continue to remain vigilant to external forces and risks such as raw material price fluctuations, raw material supply constraints, developments of geo-political nature as well as foreign currency rates fluctuations. The Group will constantly monitor external developments to ensure that the volatility is managed in a prudent and effective manner.

The Board does not anticipate the predicament of the shortage of labour to be resolved rapidly in the near future. The management is in the midst of implementing a project to increase the productivity and investment in machine technology, thereby reducing reliance on labour-intensive manufacturing practices especially in wood based division.

Moving forward, the Group will continue to formulate new marketing strategy and expand our product ranges to drive our financial performance to greater heights. Amidst the challenging operating environment, the Group is optimistic of progressive growth and confident that our prospects shall remain bright in coming financial year.

B4. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT

The Group did not issue any profit forecast or profit guarantee for the period.

B5. INCOME TAX EXPENSE

	Current quarter RM	Financial year-to-date RM
Current taxation	(538,113)	(956,207)
Deferred taxation	244,809	244,865
	<u>(293,304)</u>	<u>(711,342)</u>

The Group's effective tax rate for the quarter under review was higher than the statutory tax rate mainly due to tax effects of non-deductible expenses.

B6. SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

There was no sale of unquoted investments and/or properties by the Group for the current quarter.

B7. QUOTED SECURITIES

There was no purchase or disposal of quoted securities by the Group for the current quarter.

B8. STATUS OF CORPORATE PROPOSALS

On 11 December 2017, the Group proposed to undertake the following:-

- (i) Proposed bonus issue of 36,468,759 new ordinary shares in SWS ("Bonus Share(s)") to be credited as fully paid-up, together with 91,171,898 free detachable warrants ("Warrant(s)"), on the basis of two (2) Bonus Shares together with five (5) warrants ("Warrant(s)") for every eight (8) existing ordinary shares ("SWS Share(s)" or "Share(s)") held by the entitled shareholders whose names appear on the Record of Depositors on an entitlement date to be determined and announced later; and
- (ii) Proposed establishment of an employees' share option scheme ("ESOS") of up to 15% of the total number of issued shares of the Company at any point in time to be granted to the eligible directors and employees of SWS and its subsidiaries.

The Proposed Bonus Shares, Warrants and ESOS were tabled and approved at the Extraordinary General Meeting ("EGM") held on 26 March 2018.

The Group is in the midst of preparing the post EGM procedures, announcement and quotation application to Bursa Malaysia Securities Berhad for the issuance of Bonus Shares and Warrants.

Details of the proposals and EGM outcome can be obtained from the website of Bursa Malaysia Berhad.

B9. GROUP'S BORROWINGS

The Group's borrowings as at 28 February 2018 are as follows:

	RM
Secured Short Term Borrowings	
- denominated in Ringgit Malaysia	40,653,501
- denominated in US Dollar	1,163,866
Secured Long Term Borrowings	
- denominated in Ringgit Malaysia	13,857,493
Total Borrowings	<u>55,674,860</u>

B10. 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 as at 28 February 2018 are as follows:-

	Notional Amount As At 28 February 2018	Fair Value As At 28 February 2018
Foreign currency forward contracts		
Less than 1 year :	1,965,800	1,967,220

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.

B11. MATERIAL LITIGATION

There was no material litigation during the financial quarter.

B12. DIVIDEND

No dividend was proposed by the Board of Directors for the current quarter under review.

B13. NOTES TO THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Profit/(Loss) for the period has been arrived at after crediting / (charging):-

	Current quarter	Financial year-to-date
	RM	RM
Bad debt recover	2,500	6,000
Depreciation of property, plant and equipment	(1,612,064)	(3,197,535)
Fair value loss on financial instruments	(8,753)	(1,420)
Gain on disposal of property, plant and equipment	493,699	661,938
Loss on foreign exchange		
Realised	(76,754)	(13,571)
Unrealised	(197,433)	(213,644)
Interest income	55,905	115,295
Finance costs	(794,005)	(1,553,909)
Rental received	51,700	91,000

B14. EARNINGS PER SHARE

Basic earnings per share

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

		Current quarter	Financial year-to-date
Earnings attributable to Owners of the Parent	(RM)	(1,875,644)	(1,210,919)
Weighted average number of shares	(shares)	145,875,038	145,875,038
Basic earnings per share	(sen)	(1.29)	(0.83)

Diluted earnings per share

There is no dilutive effect of the potential ordinary shares convertible under warrants issued during the financial quarter.

Board of Directors
SWS Capital Berhad
25^h April 2018