

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 31 MAY 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 31 May 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 31 May 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	9 months ended 31 May 2018				
	Investment Holding RM	Manufacturing of furniture RM	Manufacturing of plastic wares RM	Eliminations RM	Consolidated RM
External sales	0	37,467,811	59,352,733	0	96,820,544
Dividend income	600,000	0	0	(600,000)	0
Inter-segment revenue	0	2,516,178	27,847,154	(30,363,332)	0
Total	600,000	39,983,990	87,199,887	(30,963,332)	96,820,544

Results	9 months ended 31 May 2018				
	Investment Holding RM	Manufacturing Of furniture RM	Manufacturing Of plastic ware RM	Eliminations RM	Consolidated RM
Interest income	78,588	128,728	77,261	(120,321)	164,255
Finance costs	0	(533,183)	(1,974,216)	120,321	(2,387,078)
Depreciation of property, plant and equipment	0	(1,200,236)	(3,472,537)	(19,149)	(4,691,922)
Taxation	(36,057)	(18,925)	(1,007,522)	112	(1,062,392)
Other non-cash items	0	53,129	(157,139)	0	(104,010)
Segment profit/(loss)	(54,433)	(2,019,403)	2,947,577	0	873,741
Segment assets	73,225,812	76,507,060	129,369,438	(91,840,565)	187,261,745
Segment liabilities	(749)	24,153,766	76,423,544	(14,448,052)	86,128,509

A8. CHANGES IN DEBT AND EQUITY SECURITIES

There were no issuance, repurchase and repayment of debt and equity securities for the current period and financial year-to-date, other than as disclosed in Note B8.

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, there were no material events subsequent to the period ended 31 May 2018 .

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	3,295,290	7,655,086
			Purchases of plastic wares and other household products	271,716	707,728
ELE	Ebottles Marketing (M) S/B	Director of ELE	Sales of water bottles and tumblers	37,048	142,111
			Purchases of water bottles and tumblers	42,975	88,335
ELE	E Sponge Household S/B	Director of ELE	Sales of plastic wares and cleaning products	143,263	269,995
			Purchases of cleaning products	58,758	146,039
			Rental	15,000	34,000
ELE	PT. Elianware Houseware Trading	Director of ELE	Sales of plastic wares and other household products	592,761	1,010,271

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	727,280	2,519,083
Other employee benefits	104,280	375,940

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		+/- (%)
	31-May-18 (RM)	31-May-17 (RM)		31-May-18 (RM)	31-May-17 (RM)	
Furniture Division	13,084,294	38,420,165		37,467,811	112,900,149	
Plastic Wares Division	22,158,543	0		59,352,733	0	
Total	35,242,837	38,420,165	(8)	96,820,544	112,900,149	(14)

For the quarter under review, we recorded a lower turnover of RM35.24 million compared to RM38.42 million recorded in the previous year corresponding quarter ended 31 May 2017. The revenue contribution from the 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		+/- (%)
	31-May-18 (RM)	31-May-17 (RM)		31-May-18 (RM)	31-May-17 (RM)	
Furniture Division	(122,898)	1,482,491		(1,419,404)	3,514,858	
Plastic Wares Division	1,583,841	0		2,947,582	0	
Others	(121,878)	(458,117)		(654,437)	(579,709)	
Total	1,339,065	1,024,374	31	873,741	2,935,149	(70)

In terms of gross profit, it has decreased from 19.0% in Q3 2017 to 18.6% in Q3 2018. The plastic wares division has higher gross margin compared to furniture division. The gross profit of furniture division has dropped from 19.0% to 15.3%. The lower gross profit was due to progressive increase in raw material and packing material prices over the year, higher labour costs and lower average selling prices due to the depreciation of USD.

The Group has recorded profit before tax of RM1.34 million for Q3 2018 compared to profit before tax of RM1.02 million recorded in Q3 2017. The profit was mainly due to the increased in sales in the plastic wares division during the Hari Raya festival. However, furniture division has not fully recovered from the poor performance as a result of shortage in foreign workers and higher raw material cost which mentioned above.

B2. VARIANCE IN PROFIT/(LOSS) BEFORE TAX

Profit / (Loss) Before Tax	Individual quarter 31-May-18 (RM)	Preceding quarter 28-Feb-18 (RM)	+ / - (RM)
Furniture Division	(122,898)	(856,832)	733,934
Plastic Wares Division	1,583,841	(196,271)	1,780,112
Others	(121,878)	(521,942)	400,064
Total	1,339,065	(1,575,045)	2,914,110

The Group recorded a higher turnover of RM35.24 million during the quarter under review against a turnover of RM29.23 million in the preceding quarter ended 28 February 2018. Gross profit margin was higher at 18.6% against 16.2% in the preceding quarter while absolute amount was higher at RM6.55 million against RM4.74 million in the preceding quarter.

In addition, the profit before tax of RM1.34 million for the quarter under review compared to the loss before tax of RM1.58 million registered in the preceding quarter ended 28 February 2018. The profit before tax for this quarter was due to the improved performance in plastic wares division. Market demand for plastic wares division increased significantly in April and May 2018 due to Hari Raya festival resulting increased in local and export sales. Furniture division has partially sorted out the issues of shortage in foreign workers. Raw material cost decreased and stable during the quarter but still facing issues of higher packing material cost.

The profit margins in plastic wares division were higher due to new range of products for Hari Raya festival. The profit margins in furniture division were higher as supply of materials are stable and material costs are lower during the quarter. The increase in sales order for both divisions allowed the production to utilise the capacity and minimise down time. However, furniture division still working on 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 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	(106,186)	(1,062,392)
Deferred taxation	370,000	614,865
	<u>263,814</u>	<u>(447,527)</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 Bonus Issue of Shares with Warrants has been completed following the listing of and quotation for 36,468,744 Bonus Shares and 91,171,801 Warrants on the Main Market of Bursa Malaysia Securities Berhad on 26 July 2018.

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 31 May 2018 are as follows:

	RM
Secured Short Term Borrowings	
- denominated in Ringgit Malaysia	40,217,087
- denominated in US Dollar	1,622,858
Secured Long Term Borrowings	
- denominated in Ringgit Malaysia	13,723,174
Total Borrowings	<u>55,563,119</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 31 May 2018 are as follows:-

	Notional Amount As At 31 May 2018	Fair Value As At 31 May 2018
Foreign currency forward contracts		
Less than 1 year :	Nil	Nil

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

	Current quarter RM	Financial year- to-date RM
Bad debt recover	2,000	8,000
Depreciation of property, plant and equipment	(1,494,387)	(4,691,922)
Fair value loss on financial instruments	(1,420)	0
Gain on disposal of property, plant and equipment	581,300	1,243,238
Gain / (Loss) on foreign exchange		
Realised	12,727	(844)
Unrealised	3,376	(210,268)
Interest income	48,960	164,255
Finance costs	(833,169)	(2,387,078)
Rental received	48,900	139,900

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)	1,582,064	371,145
Weighted average number of shares	(shares)	145,875,038	145,875,038
Basic earnings per share	(sen)	1.08	0.25

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
30^h July 2018