

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE FOURTH QUARTER ENDED 31 AUGUST 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 August 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 August 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	12 months ended 31 August 2018				
	Investment Holding RM	Manufacturing of furniture RM	Manufacturing of plastic wares RM	Eliminations RM	Consolidated RM
External sales	0	52,286,788	78,379,518	0	130,666,306
Dividend income	600,000	0	0	(600,000)	0
Inter-company transaction	0	3,299,218	37,520,478	(40,819,696)	0
Total	600,000	55,586,006	115,899,996	(41,419,696)	130,666,306

Results	12 months ended 31 August 2018				
	Investment Holding RM	Manufacturing Of furniture RM	Manufacturing Of plastic ware RM	Eliminations RM	Consolidated RM
Interest income	106,050	183,409	155,046	(141,988)	302,517
Finance costs	0	(732,047)	(2,634,425)	141,988	(3,224,484)
Depreciation of property, plant and equipment	0	(1,603,077)	(4,658,689)	(245,888)	(6,507,654)
Taxation	(4,188)	(10,315)	(1,337,999)	0	(1,352,502)
Other non-cash items	0	71,401	153,416	0	224,817
Segment profit/(loss)	(220,275)	(2,700,305)	3,567,816	0	647,236
Segment assets	73,197,453	78,585,468	125,687,644	(97,698,962)	179,771,603
Segment liabilities	104,865	27,392,430	71,581,140	(19,090,734)	79,987,701

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 August 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 ("EJ")	Director of ELE	Sales of plastic wares and other household products	3,881,358	11,536,444
			Purchases of plastic wares and other household products	246,344	954,072
ELE	Ebottles Marketing (M) S/B ("EBM")	Director of ELE	Sales of water bottles and tumblers	2,523	144,634
			Purchases of water bottles and tumblers	0	88,335
ELE	E Sponge Household S/B ("ES")	Director of ELE	Sales of plastic wares and cleaning products	10,315	280,310
			Purchases of cleaning products	103,031	249,070
			Rental	20,000	54,000
Ee-Lian Plastic Industries (M) Sdn Bhd ("ELP")	EJ	Director of ELE	Sales of plastic wares and other household products	160	160
			Purchases of plastic wares and other household products	32,000	32,000
ELP	EBM	Director of ELE	Sales of printing services	29,674	29,674
ELP	ES	Director of ELE	Purchases of cleaning products	475	475

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	992,387	3,511,470
Other employee benefits	99,738	475,678

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-Aug-18 (RM)	31-Aug-17 (RM)		31-Aug-18 (RM)	31-Aug-17 (RM)	
Furniture Division	14,818,977	20,256,768		52,286,788	133,156,917	
Plastic Wares Division	19,026,785	11,707,550		78,379,518	11,707,550	
Total	33,845,762	31,964,318	6	130,666,306	144,864,467	(10)

For the quarter under review, we recorded a higher turnover of RM33.85 million compared to RM31.96 million recorded in the previous year corresponding quarter ended 31 August 2017.

In YE 2018, the Group's revenue decreased by 9.8% to RM130.67 million as compared to the revenue in the previous year of RM144.86 million. 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-Aug-18 (RM)	31-Aug-17 (RM)		31-Aug-18 (RM)	31-Aug-17 (RM)	
Furniture Division	(680,898)	(2,091,421)		(2,100,305)	1,423,437	
Plastic Wares Division	620,234	681,826		3,567,816	681,826	
Others	(165,842)	9,936,064		(820,275)	9,356,357	
Total	(226,506)	8,526,469	(103)	647,236	11,461,620	(94)

In terms of gross profit, it has increased from 8.9% in Q4 2017 to 19.0% in Q4 2018. The plastic wares division has higher gross margin compared to furniture division.

The Group's gross profit has increased from 14.8% in YE 2017 to 18.4% in YE 2018. Plastic division recorded higher gross profit of 22.3% in YE 2018 as compared to the gross profit in the previous year of 18.8%. The higher gross profit was due to gross profit margin of new range of products and control of manufacturing efficiency. The gross profit from furniture division has decreased from 14.4% in YE 2017 to 12.6% in YE 2018. 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 loss before tax of RM0.23 million for Q4 2018 compared to profit before tax of RM8.53 million recorded in Q4 2017.

In YE 2018, the Group's profit before tax decreased to RM0.65 million as compared to the profit before tax in the previous year of RM11.46 million. The profit in YE 2017 was mainly due to the negative goodwill recognised upon acquisition of ELE.

B2. VARIANCE IN PROFIT/(LOSS) BEFORE TAX

Profit / (Loss) Before Tax	Individual quarter 31-Aug-18 (RM)	Preceding quarter 31-May-18 (RM)	+ / - (RM)
Furniture Division	(680,898)	(122,898)	(558,000)
Plastic Wares Division	620,234	1,583,841	(963,607)
Others	(165,842)	(121,878)	(43,964)
Total	(226,506)	1,339,065	(1,565,571)

The Group recorded a lower turnover of RM33.85 million during the quarter under review against a turnover of RM35.24 million in the preceding quarter ended 31 May 2018. Gross profit margin was higher at 19.0% against 18.6% in the preceding quarter while absolute amount was higher at RM7.62 million against RM6.55 million in the preceding quarter.

In addition, the loss before tax of RM0.23 million for the quarter under review compared to the profit before tax of RM1.34 million registered in the preceding quarter ended 31 May 2018. The loss before tax for this quarter was due to the poor performance in furniture division. Gross profit margin of furniture division decreased from 15.3% in Q3 2018 to 10.8% in Q4 2018. Manufacturing overhead and direct labour cost were not fully utilised due to significant decreased in sales order. Market demand for furniture division decreased significantly in June and July 2018. Furniture division still working on lower manufacturing efficiency during the initial adjustment period for several range of new bedroom sets and dining sets.

The gross profit margins in plastic wares division were higher from 20.6% to 25.4% due to new range of products and minimised down time. However, the revenue decreased from RM22.16 million in Q3 2018 to RM19.03 million in Q4 2018. Plastic wares division has recorded lower profit before tax of RM0.62 million for Q4 2018 compared to profit before tax of RM1.58 million recorded in Q3 2018.

B3. PROSPECT FOR THE CURRENT FINANCIAL YEAR

Plastic ware division is facing slow down in market demand, especially in the local market. The management is confident and positive that the market uncertainties will be resolved before the next peak season. The Group is working on new marketing strategies and expand the product ranges to stay competitive in this challenging period. The management is also exploring the opportunity to diversify into plastic industrial market while monitoring the manufacturing efficiency.

Furniture division has partially sorted out the issues of shortage in foreign workers. The tensions between United States (“US”) and China may have cause significant decreased in the export market demand, but also provide opportunity for the export to US. The Group will focus on the cost monitoring and keep on exploring new market, especially for the new bedroom sets and dining sets.

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	(290,109)	(1,352,502)
Deferred taxation	(832,719)	(217,854)
	<u>(1,122,828)</u>	<u>(1,570,356)</u>

The Group’s effective tax rate for the quarter under review was higher than the statutory tax rate mainly due to under provision of taxation for prior years, tax effects of non-deductible expenses and deferred tax assets not recognised.

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 have 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 August 2018 are as follows:

	RM
Secured Short Term Borrowings	
- denominated in Ringgit Malaysia	39,185,755
- denominated in US Dollar	425,487
Secured Long Term Borrowings	
- denominated in Ringgit Malaysia	15,159,814
Total Borrowings	<u>54,771,056</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 August 2018 are as follows:-

	Notional Amount As At 31 Aug 2018	Fair Value As At 31 Aug 2018
Foreign currency forward contracts		
Less than 1 year :	2,018,000	2,058,525

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 RM	Financial year- to-date RM
Allowance for doubtful debts	(24,959)	(24,959)
Bad debts recovered	2,000	10,000
Bad debts written off	(354,601)	(354,601)
Depreciation of property, plant and equipment	(1,815,736)	(6,507,654)
Fair value adjustment on investment properties	27,000	27,000
Fair value loss on financial instruments	(46,944)	(46,944)
(Loss) / Gain on disposal of property, plant and equipment	(136,955)	1,106,283
Gain / (loss) on foreign exchange		
Realised	(257,280)	(258,124)
Unrealised	292,283	82,015
Interest income	138,262	302,517
Inventories write-down value	(141,653)	(141,653)
Finance costs	(837,406)	(3,224,484)
Rental received	50,250	190,150

B14. EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share amount are calculated by dividing the 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)	(1,409,180)	(1,038,035)
Ordinary shares in issued	(shares)	145,875,038	145,875,038
Effect of bonus shares	(shares)	36,468,744	36,468,744
Weighted average number of shares	(shares)	<u>182,343,782</u>	<u>182,343,782</u>
Basic earnings per share	(sen)	(0.77)	(0.57)

Diluted earnings per share

There is no dilutive effect of the potential ordinary shares convertible under warrants issued during the financial quarter. Warrants have a dilutive effect only when the average market price of ordinary share during the financial year exceeds the exercise price of the warrant.

**Board of Directors
SWS Capital Berhad
30th October 2018**