

**NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE SECOND QUARTER ENDED 28 FEBRUARY 2019****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 2019, 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 2018 are available upon request from the Company registered office at No. 7 (1<sup>st</sup> 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 2018.

The interim financial statements should be read in conjunction with the Group’s annual audited financial statements for the year ended 31 August 2018.

**A2. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 August 2018 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 2018 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 2019.

#### 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 2019				
	Investment Holding RM	Manufacturing of furniture RM	Manufacturing of plastic wares RM	Eliminations RM	Consolidated RM
External sales	0	30,197,084	30,754,445	0	60,951,529
Dividend income	0	0	0	0	0
Inter-company transaction	0	2,410,762	12,948,425	(15,359,187)	0
Total	0	32,607,846	43,702,870	(15,359,187)	60,951,529

Results	6 months ended 28 February 2019				
	Investment Holding RM	Manufacturing Of furniture RM	Manufacturing Of plastic ware RM	Eliminations RM	Consolidated RM
Interest income	55,046	94,066	63,341	(107,585)	104,868
Finance costs	0	(444,125)	(1,398,598)	107,585	(1,735,138)
Depreciation of property, plant and equipment	0	(832,049)	(2,417,948)	(123,877)	(3,373,874)
Taxation	(30,579)	(214,938)	0	0	(245,517)
Other non-cash items	0	(24,313)	0	0	(24,313)
Segment profit/(loss)	(418,190)	186,078	(3,209,521)	0	(3,441,633)
Segment assets	72,675,362	77,326,099	121,447,195	(89,174,422)	182,274,234
Segment liabilities	31,543	26,149,238	70,439,096	(10,442,310)	86,177,567

**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 28 February 2019.

**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	2,096,493	4,172,352
			Purchases of plastic wares and other household products	284,268	493,176
ELE	PT. Elianware Houseware ("PTE")	Director of ELE	Sales of water bottles and tumblers	345,295	1,056,597
ELE	E Sponge Household S/B ("ES")	Director of ELE	Sales of plastic wares and cleaning products	1,481	3,814
			Purchases of cleaning products	56,489	96,666
			Rental	15,000	30,000
Ee-Lian Plastic Industries (M) Sdn Bhd ("ELP")	EJ	Director of ELE	Sales of plastic wares and other household products	0	800
			Purchases of plastic wares and other household products	48,000	96,000
ELP	Ebottles Marketing (M) S/B ("EBM")	Director of ELE	Sales of printing services	20,046	59,811

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	1,062,093	1,808,602
Other employee benefits	131,610	226.680

**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-19 (RM)	28-Feb-18 (RM)		28-Feb-19 (RM)	28-Feb-18 (RM)	
Furniture Division	14,516,030	12,160,630		30,197,084	24,383,518	
Plastic Wares Division	14,499,293	17,066,816		30,754,445	37,194,190	
<b>Total</b>	<b>29,015,323</b>	<b>29,227,446</b>	<b>(0.7)</b>	<b>60,951,529</b>	<b>61,577,708</b>	<b>(1)</b>

For the quarter under review, we recorded a lower turnover of RM29.02 million compared to RM29.23 million recorded in the previous year corresponding quarter ended 28 February 2018.

The revenue contribution from the furniture division increased by 20.5% to RM14.52 million as compared to previous year corresponding quarter of RM12.05 million, due to the increase in foreign market demand. The revenue contribution from the plastic wares division decreased by 15.0% to RM14.50 million as compared to previous year corresponding quarter of RM17.07 million. Local market demand decreased significantly for houseware since the implementation of Sales and Service tax in September 2018.

Profit / (Loss) Before Tax	Individual quarter		+/- (%)	Cumulative quarters		+/- (%)
	28-Feb-19 (RM)	28-Feb-18 (RM)		28-Feb-19 (RM)	28-Feb-18 (RM)	
Furniture Division	(20,784)	(856,832)		186,078	(1,296,511)	
Plastic Wares Division	(1,922,626)	(196,271)		(3,209,521)	1,363,741	
Others	(357,338)	(521,942)		(418,190)	(532,556)	
<b>Total</b>	<b>(2,300,748)</b>	<b>(1,575,045)</b>	<b>(46)</b>	<b>(3,441,633)</b>	<b>(465,326)</b>	<b>(640)</b>

In terms of gross profit margin, it has decreased from 16.2% in Q2 2018 to 15.5% in Q2 2019. Plastic wares division's gross profit margin decreased from 18.8% in Q2 2018 to 14.1% in Q2 2019 due increased in raw material cost and fixed operation overhead. Furniture division's gross profit margin increased from 12.6% in Q2 2018 to 16.9% in Q2 2019 as supply of materials are stable with lower material costs and slight appreciation of USD.

The Group has recorded loss before tax of RM2.30 million for Q2 2019 compared to loss before tax of RM1.58 million recorded in Q2 2018. The decreased in plastic division from RM0.20 million loss to RM1.92 loss was due to the significant drop in revenue as mentioned above, resulting insufficient gross profit to cover the administrative, finance and other expenses. Furniture division recorded loss before tax of RM0.02 million in Q2 2019 as compare to RM0.86 million in Q2 2018.

## B2. VARIANCE IN PROFIT/(LOSS) BEFORE TAX

<b>Profit / (Loss) Before Tax</b>	<b>Individual quarter 28-Feb-19 (RM)</b>	<b>Preceding quarter 30-Nov-18 (RM)</b>	<b>+ / - (RM)</b>
Furniture Division	(20,784)	206,863	(227,647)
Plastic Wares Division	(1,922,626)	(1,286,897)	(635,729)
Others	(357,338)	(60,852)	(296,486)
<b>Total</b>	<b>(2,300,748)</b>	<b>(1,140,886)</b>	<b>(1,159,862)</b>

The Group recorded a lower turnover of RM29.02 million during the quarter under review against a turnover of RM31.94 million in the preceding quarter ended 30 November 2018. Gross profit margin was higher at 15.5% against 15.1% in the preceding quarter while absolute amount was lower at RM4.50 million against RM4.81 million in the preceding quarter.

In addition, the loss before tax of RM2.30 million for the quarter under review compared to the loss before tax of RM1.14 million registered in the preceding quarter ended 30 November 2018. The loss before tax for this quarter was due to the poor performance in plastic wares division. Gross profit margin of plastic wares division increased from 13.0% in Q1 2019 to 14.1% in Q2 2019. Manufacturing overhead and direct labour cost were not fully utilised due to significant decreased in sales order. Market demand for plastic ware division decreased significantly since the implementation of Sales and Service tax in September 2018.

The gross profit margins in furniture division were lower from 17.2% to 16.9%. The management work on improvement in revenue and production efficiency to meet higher market demand. However, the shortage of manpower caused in loss before tax of RM0.02 million from profit before tax of RM0.21 million in preceding quarter ended 30 November 2018. Experienced workers were sent back due to expired of working permit while new intake was delayed.

## B3. PROSPECT FOR THE CURRENT FINANCIAL YEAR

Plastic ware division is facing slow down in market demand, both in the local and export market. The consumers' behaviour changed since the implementation of Sales and Service Tax, causing drop in sales orders from distributors and wholesalers. The management is not expecting significant changes and improvement in short term, but confident and positive that the market uncertainties will be resolved before the next peak season. The Group is expanding the product ranges for Hari Raya Puasa promotions. Management also working on marketing strategies to clearing the slow moving products. The launching of new product range also in progress to stay competitive in this challenging period. The management is also exploring the opportunity to diversify into plastic industrial market.

Furniture division had improved performance due to the increase in export market. Management found opportunity to export with recurrent and increase in sales order for bed rooms sets to United States ("US") during the reporting period when tensions between US and China is still on-going. Management also take note on the potential risk cause by United Kingdom's plan to leave the European Union. European demand might stay low until the completion and stabilisation of the exercise. The Group will also focus on the cost monitoring and manufacturing efficiency.

**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	(127,425)	(245,517)
Deferred taxation	0	0
	<u>(127,425)</u>	<u>(245,517)</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 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 28 January 2019, the Group proposed to undertake the following: -

- (i) proposed acquisition of 5,250,000 ordinary shares in Ee Jia Housewares (M) Sdn. Bhd. ("Ee Jia") ("Ee Jia Share(s)") ("Sale Share(s)"), representing the entire equity interest in Ee Jia for a purchase consideration of RM64.0 million ("Purchase Consideration") to be satisfied via a combination of RM20.0 million in cash ("Cash Consideration") and the issuance of 55,000,000 new ordinary shares in SWS ("SWS Share(s)") ("Consideration Share(s)") at an issue price of RM0.80 each ("Proposed Acquisition");
- (ii) proposed renounceable rights issue of up to 547,031,166 new ICPS at an issue price of RM0.07 each in SWS ("Rights ICPS") on the basis of two (2) Rights ICPS for every one (1) existing SWS Share held at an entitlement date to be determined later ("Entitlement Date") ("Proposed Rights Issue of ICPS");
- (iii) proposed private placement of up to 143,000,000 new ICPS in SWS ("Placement ICPS") at an issue price to be determined later, representing up to approximately 26.14% of the Rights ICPS to be issued pursuant to the Proposed Rights Issue of ICPS ("Proposed Private Placement of ICPS"); and



(iv) the proposed amendments to the Constitution of SWS (“Proposed Amendments”).

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

## **B9. GROUP’S BORROWINGS**

The Group’s borrowings as at 28 February 2019 are as follows:

	RM
Secured Short Term Borrowings	
- denominated in Ringgit Malaysia	44,466,332
- denominated in US Dollar	788,167
Secured Long Term Borrowings	
- denominated in Ringgit Malaysia	14,703,936
Total Borrowings	<u>59,958,435</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 2019 are as follows:-

	Notional Amount As At 28 Feb 2019	Fair Value As At 28 Feb 2019
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/(Loss) for the period has been arrived at after crediting / (charging):-

	Current quarter RM	Financial year-to-date RM
Allowance for doubtful debts	161,000	0
Bad debts recovered	13,690	18,273
Bad debts written off	(158,000)	(161,000)
Depreciation of property, plant and equipment	(1,787,977)	(3,373,874)
Gain on disposal of property, plant and equipment	150,500	181,499
Gain / (loss) on foreign exchange		
Realised	(128,147)	(186,182)
Unrealised	(4,469)	24,313
Interest income	61,305	104,868
Finance costs	(873,134)	(1,735,138)
Rental received	50,250	100,500

## 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)	(2,283,349)	(3,594,577)
Weighted average number of shares	(shares)	182,343,782	182,343,782
Basic earnings per share	(sen)	(1.25)	(1.97)

### ***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**  
**29<sup>th</sup> April 2019**