

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 31 MAY 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 31 May 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 (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 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 31 May 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	9 months ended 31 May 2019				
	Investment Holding RM	Manufacturing of furniture RM	Manufacturing of plastic wares RM	Eliminations RM	Consolidated RM
External sales	0	46,410,777	54,727,599	0	101,138,376
Dividend income	0	0	0	0	0
Inter-company transaction	0	5,221,456	20,807,735	(26,029,191)	0
Total	0	51,632,233	75,535,334	(26,029,191)	101,138,376

Results	9 months ended 31 May 2019				
	Investment Holding RM	Manufacturing Of furniture RM	Manufacturing Of plastic ware RM	Eliminations RM	Consolidated RM
Interest income	80,689	138,195	84,667	(128,598)	174,953
Finance costs	0	(688,809)	(2,123,525)	128,598	(2,683,736)
Depreciation of property, plant and equipment	0	(1,270,620)	(3,561,926)	(185,816)	(5,018,362)
Taxation	(41,202)	(427,650)	0	0	(468,852)
Other non-cash items	0	(47,273)	0	0	(47,273)
Segment profit/(loss)	(579,646)	(360,585)	(2,248,806)	0	(3,189,037)
Segment assets	72,758,882	81,516,151	123,000,339	(90,538,730)	186,736,642
Segment liabilities	287,143	31,263,635	70,975,966	(11,916,030)	90,610,714

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 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	2,994,010	7,166,362
			Purchases of plastic wares and other household products	141,741	634,916
ELE	PT. Elianware Houseware ("PTE")	Director of ELE	Sales of water bottles and tumblers	552,885	1,609,483
ELE	E Sponge Household S/B ("ES")	Director of ELE	Sales of plastic wares and cleaning products	48	3,862
			Purchases of cleaning products	56,934	153,600
			Rental	15,000	45,000
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	144,000
ELP	Ebottles Marketing (M) S/B ("EBM")	Director of ELE	Sales of printing services	17,011	76,822

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	792,526	2,601,128
Other employee benefits	103,920	330,600

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-19 (RM)	31-May-18 (RM)		31-May-19 (RM)	31-May-18 (RM)	
Furniture Division	16,213,693	13,084,294		46,410,777	37,467,811	
Plastic Wares Division	23,973,154	22,158,543		54,727,599	59,352,733	
Total	40,186,847	35,242,837	14	101,138,376	96,820,544	4

For the quarter under review, we recorded a higher turnover of RM40.19 million compared to RM35.24 million recorded in the previous year corresponding quarter ended 31 May 2018.

The revenue contribution from the furniture division increased by 23.9% to RM16.21 million as compared to previous year corresponding quarter of RM13.08 million, due to the increase in foreign market demand. The revenue contribution from the plastic wares division increased by 8.2% to RM23.97 million as compared to previous year corresponding quarter of RM22.16 million. Local and export market demand increased in April and May 2019 due to Hari Raya festival and launching of new products and design.

Profit / (Loss) Before Tax	Individual quarter		+/- (%)	Cumulative quarters		+/- (%)
	31-May-19 (RM)	31-May-18 (RM)		31-May-19 (RM)	31-May-18 (RM)	
Furniture Division	(546,664)	(122,898)		(360,585)	(1,419,404)	
Plastic Wares Division	960,717	1,583,841		(2,248,806)	2,947,582	
Others	(161,457)	(121,878)		(579,646)	(654,437)	
Total	252,596	1,339,065	(81)	(3,189,037)	873,741	(465)

In terms of gross profit margin, it has decreased from 18.6% in Q3 2018 to 17.1% in Q3 2019. Plastic wares division's gross profit margin decreased from 20.6% in Q3 2018 to 20.1% in Q3 2019 due increased in fixed operation overhead and sales promotion. Furniture division's gross profit margin decreased from 15.3% in Q3 2018 to 12.6% in Q3 2019 as shortage of manpower. Furniture divisions increased in purchases from sub-contractors to meet production requirement and sales orders..

The Group has recorded profit before tax of RM0.25 million for Q3 2019 compared to profit before tax of RM1.34 million recorded in Q3 2018. The decreased in plastic division from RM1.58 million profit to RM0.96 million profit was due to decreased in other income arising from disposal of PPE and foreign exchange gain in Q3 2018. Furniture division recorded loss before tax of RM0.55 million in Q3 2019 as compare to loss of RM0.12 million in Q3 2018 due to drop in gross profit margin as mentioned above.

B2. VARIANCE IN PROFIT/(LOSS) BEFORE TAX

Profit / (Loss) Before Tax	Individual quarter 31-May-19 (RM)	Preceding quarter 28-Feb-19 (RM)	+ / - (RM)
Furniture Division	(546,664)	(20,784)	(525,880)
Plastic Wares Division	960,717	(1,922,626)	2,883,343
Others	(161,457)	(357,338)	195,881
Total	252,596	(2,300,748)	2,553,344

The Group recorded a higher turnover of RM40.19 million during the quarter under review against a turnover of RM29.01 million in the preceding quarter ended 28 February 2019. Gross profit margin was higher at 17.1% against 15.5% in the preceding quarter while absolute amount was higher at RM6.86 million against RM4.50 million in the preceding quarter.

In addition, the profit before tax of RM0.25 million for the quarter under review compared to the loss before tax of RM2.30 million registered in the preceding quarter ended 28 February 2019. The profit before tax for this quarter was due to the improve performance in plastic wares division during the Hari Raya festival. Gross profit margin of plastic wares division increased from 14.1% in Q2 2019 to 20.1% in Q3 2019.

The gross profit margins in furniture division were lower from 16.9% to 12.6%. 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 RM0.55 million from loss before tax of RM0.02 million in preceding quarter ended 28 February 2019. 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 improved performance during the quarter under review as expected. However, the market is facing slow down immediately after the holiday season, both in the local and export market. Sales orders decreased from distributors and wholesalers. The management is not expecting significant changes and improvement in short term. Management is working on marketing strategies to clear 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.

Sales performance of furniture division had improved due to export market expansion. Management found opportunity to export with recurrent and increase in sales order for bedroom 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 market demand might stay low until the completion and stabilisation of the exercise. The margin of furniture division still remain challenging. Hence, the Group is focusing on the cost control 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	(223,334)	(468,852)
Deferred taxation	0	0
	<u>(223,334)</u>	<u>(468,852)</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").

All the above proposals had been approved during Extraordinary General Meeting on 29th July 2019. Details of the proposals can be obtained from the website of Bursa Malaysia Berhad.

B9. GROUP'S BORROWINGS

The Group's borrowings as at 31 May 2019 are as follows:

	RM
Secured Short Term Borrowings	
- denominated in Ringgit Malaysia	47,776,218
- denominated in US Dollar	269,171
Secured Long Term Borrowings	
- denominated in Ringgit Malaysia	14,807,072
Total Borrowings	<u>62,852,461</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 2019 are as follows:-

	Notional Amount As At 31 May 2019	Fair Value As At 31 May 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
Bad debts recovered	4,947	23,220
Bad debts written off	7,119	(153,881)
Depreciation of property, plant and equipment	(1,644,488)	(5,018,362)
Gain on disposal of property, plant and equipment	0	181,499
Gain / (loss) on foreign exchange		
Realised	(3,993)	(190,175)
Unrealised	22,960	47,273
Interest income	70,085	174,953
Finance costs	(948,598)	(2,683,736)
Rental received	50,250	150,750

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/(Loss) attributable to			
Owners of the Parent	(RM)	177,361	(3,417,218)
Weighted average number of shares	(shares)	182,343,782	182,343,782
Basic earnings/(loss) per share	(sen)	0.10	(1.87)

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
29th July 2019