SWS Capital Berhad

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE FOURTH QUARTER ENDED 31 AUGUST 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 August 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 August 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.

	12 months ended 31 August 2019				
Revenue and Expenses	Investment Holding RM	Manufacturing of furniture RM	Manufacturing of plastic wares RM	Eliminations RM	Consolidated RM
External sales	0	63,643,988	71,027,096	0	134,671,084
Dividend income	0	0	0	0	0
Inter-company transaction	0	7,435,676	26,581,118	(34,016,794)	0
Total	0	71,079,664	97,608,214	(34,016,794)	134,671,084

Results	Investment Holding RM	Manufacturing Of furniture RM	Manufacturing Of plastic ware RM	Eliminations RM	Consolidated RM
Interest income	102,324	180,084	106,106	(213,597)	174,917
Finance costs	0	(936,347)	(2,812,308)	213,597	(3,535,058)
Depreciation of property, plant and equipment	0	(1,705,207)	(4,774,424)	(247,754)	(6,727,385)
Taxation	(51,833)	(960,868)	0	528,500	(484,201)
Other non-cash items	0	(63,196)	0	0	(63,196)
Segment loss	(1,623,923)	(1,734,021)	(4,024,668)	0	(7,382,612)
Segment assets	72,309,232	82,420,713	121,519,147	(91,271,476)	184,977,616
Segment liabilities	21,200	33,635,756	70,823,043	(12,943,987)	91,536,012

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 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	2,223,101	9,389,463
			Purchases of plastic wares and other household products	563,486	1,198,402
ELE	PT. Elianware Houseware ("PTE")	Director of ELE	Sales of water bottles and tumblers	371,660	1,981,143
ELE	E Sponge Household S/B ("ES")	Director of ELE	Sales of plastic wares and cleaning products	0	3,862
			Purchases of cleaning products	72,393	225,993
			Rental	15,000	60,000
Ee-Lian Plastic Industries (M) Sdn Bhd ("ELP")	EJ	Director of ELE	Sales of plastic wares and other household products	3,600	4,400
			Purchases of plastic wares and other household products	32,000	176,000
ELP	Ebottles Marketing (M) S/B ("EBM")	Director of ELE	Sales of printing services	21,126	97,948

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	789,166	3,390,295
Other employee benefits	101,280	431,880

A15. CHANGE OF FINANCIAL YEAR END

As announced on 29 July 2019, the Board of Directors of the Company had approved the change of financial year end ("FYE) of the Company from 31 August to 31 December. Accordingly, the financial period of the Companies and its subsidiaries presented for this Quarterly Reports is for the 12-month period ended 31 August 2019.

Following the change of financial year end, the next set of financial statements will be made up from 1 September 2018 to 31 December 2019 covering a period of 16 months. Thereafter, the subsequent FYEs shall be on 31 December.

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-19 (RM)	31-Aug-18 (RM)	+/- (%)	31-Aug-19 (RM)	31-Aug-18 (RM)	+/- (%)
Furniture Division	17,233,211	14,818,977		63,643,988	52,286,788	
Plastic Wares Division	16,299,497	19,026,785		71,027,096	78,379,518	
Total	**33,532,708**	**33,845,762**	**(1)**	**134,671,084**	**130,666,306**	**3**

For the quarter under review, we recorded a lower turnover of RM33.53 million compared to RM33.85 million recorded in the previous year corresponding quarter ended 31 August 2018.

The revenue contribution from the furniture division increased by 16.3% to RM17.23 million as compared to previous year corresponding quarter of RM14.82 million, due to the increase in foreign market demand. The revenue contribution from the plastic wares division decreased by 14.3% to RM16.30 million as compared to previous year corresponding quarter of RM19.03 million. Local and export market demand decreased significantly for houseware.

Profit / (Loss) Before Tax	Individual quarter			Cumulative quarters		
	31-Aug-19 (RM)	31-Aug-18 (RM)	+/- (%)	31-Aug-19 (RM)	31-Aug-18 (RM)	+/- (%)
Furniture Division	(1,373,436)	(680,898)		(1,734,021)	(2,100,305)	
Plastic Wares Division	(1,775,862)	620,234		(4,024,668)	3,567,816	
Others	(1,044,278)	(165,842)		(1,623,923)	(820,275)	
Total	**(4,193,576)**	**(226,506)**	**1,751**	**(7,382,612)**	**647,236**	**(1,241)**

In terms of gross profit margin, it has decreased from 19.0% in Q4 2018 to 9.6% in Q4 2019. Plastic wares division's gross profit margin decreased from 25.4% in Q4 2018 to 13.5% in Q4 2019 due to increase in raw material cost, fixed operation overhead and sales promotion. Furniture division's gross profit margin decreased from 10.8% in Q4 2018 to 6.0% in Q4 2019 as increased in labour charges and fixed operation overhead. Furniture divisions increased in purchases from sub-contractors to meet production requirement and sales orders.

The Group has recorded loss before tax of RM4.19 million for Q4 2019 compared to loss before tax of RM0.23 million recorded in Q4 2018, mainly due to RM1.52 million expenses on ESOS granted and accepted. The decreased in plastic wares division from RM0.62 million profit to RM1.78 million loss was due to significant drop in revenue as mentioned above, resulting insufficient gross profit to cover the administrative and finance expenses. Furniture division recorded loss before tax of RM1.37 million in Q4 2019 as compare to loss of RM0.68 million in Q4 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-Aug-19 (RM)	Preceding quarter 31-May-19 (RM)	+ / - (RM)
Furniture Division	(1,373,436)	(546,664)	(826,772)
Plastic Wares Division	(1,775,862)	960,717	(2,736,579)
Others	(1,044,278)	(161,457)	(882,821)
Total	**(4,193,576)**	**252,596**	**(4,446,172)**

The Group recorded a lower turnover of RM33.53 million during the quarter under review against a turnover of RM40.19 million in the preceding quarter ended 31 May 2019. Gross profit margin was lower at 9.6% against 17.1% in the preceding quarter while absolute amount was lower at RM3.23 million against RM6.86 million in the preceding quarter.

In addition, the loss before tax of RM4.19 million for the quarter under review compared to the profit before tax of RM0.25 million registered in the preceding quarter ended 31 May 2019. The loss before tax for this quarter was mainly due to RM1.52 million expenses on ESOS granted and accepted. The loss before tax also due to poor performance in plastic wares division. Gross profit margin of plastic wares division decreased from 20.1% in Q3 2019 to 13.5% in Q4 2019. Manufacturing overhead and direct labour cost were not fully utilised due to significant decreased in sales order.

The gross profit margins in furniture division were lower from 12.6% to 6.0%. 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 RM1.37 million from loss before tax of RM0.55 million in preceding quarter ended 31 May 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 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 and expend the 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 remains challenging. Hence, the Group is focusing on the cost control and manufacturing efficiency.

The management take note on the possibility of increased in labour cost due to minimum salary and overtime arrangement announced in BUDGET 2020. Management also working on adoption and improvement in automated technology as promoted in Budget 2020.

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	(15,349)	(484,201)
Deferred taxation	0	0
	(15,349)	(484,201)

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

(A) On 28 January 2019, the Group proposed to undertake the following: -

(i) proposed acquisition of 5,250,000 ordinary shares in EJ ("EJ Share(s)") ("Sale Share(s)"), representing the entire equity interest in EJ 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 Capital Berhad (“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. Save for Proposed Amendments which have been completed, all remaining proposals are now pending implementation.

(B) The Group and Nexus Union Sdn. Bhd. (“Nexus”) has on 9 July 2019 entered into an Option Agreement for Nexus to grant an option to SWS to purchase 3,442,500 ordinary shares in MATA Aerotech Sdn. Bhd. (“MATA Aerotech”) held by Nexus at a purchase consideration of RM4,725,000 (“Purchase Price”) representing 51% of the paid-up capital of MATA Aerotech (“Agreement”). The Option (as defined herein) is granted to SWS by Nexus for a consideration of RM200,000 (“Consideration”) which shall be utilised as part payment of the Purchase Price in the event SWS exercises the Option.

On 5 August 2019, SWS has agreed to exercise the Option in accordance with the terms of the Option Agreement.

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 August 2019 are as follows:

	RM
Secured Short Term Borrowings	
- denominated in Ringgit Malaysia	47,119,869
- denominated in US Dollar	181,235
Secured Long Term Borrowings	
- denominated in Ringgit Malaysia	14,826,785
Total Borrowings	62,127,889

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 2019 are as follows:-

	Notional Amount As At 31 Aug 2019	Fair Value As At 31 Aug 2019
Foreign currency forward contracts		
Less than 1 year	2,103,125	2,115,353

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	19,273	42,493
Bad debts written off	0	(153,881)
Depreciation of property, plant and equipment	(1,709,024)	(6,727,385)
Gain on disposal of property, plant and equipment	50,501	232,000
Gain / (loss) on foreign exchange		
Realised	(65,506)	(255,680)
Unrealised	15,923	63,196
Interest income	(36)	174,917
Inventories written-off	(20,984)	(20,984)
Inventories write-down	(62,033)	(62,033)
Finance costs	(851,231)	(3,535,058)
Rental received	50,250	201,000

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)	(3,883,178)	(7,300,395)
Weighted average number of shares	(shares)	182,343,782	182,343,782
Basic earnings/(loss) per share	(sen)	(2.13)	(4.00)

Diluted earnings per share

		Current quarter	Financial year-to-date
Earnings/(Loss) attributable to Owners of the Parent	(RM)	(3,883,178)	(7,300,395)
Weighted average number of shares			
- Basic	(shares)	182,343,782	182,343,782
- Effects of dilution:			
- Options under ESOS	(shares)	7,000,000	7,000,000
- Diluted	(shares)	189,343,782	189,343,782
Diluted earnings/(loss) per share	(sen)	(2.05)	(3.86)

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 2019