

**NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE 4 MONTHS PERIOD ENDED 31 DECEMBER 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 4 months period ended 31 December 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 are normally higher during back-to-school, Christmas, New Year and Hari Raya 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 4 months period ended 31 December 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 4 months period to date.

#### A7. SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's business segment.

Revenue and Expenses	16 months ended 31 December 2019				
	Investment Holding RM	Manufacturing of furniture RM	Manufacturing of plastic wares RM	Eliminations RM	Consolidated RM
External sales	0	85,864,158	92,431,659	0	178,295,817
Management income	1,040,000	0	0	(1,040,000)	0
Inter-company transaction	0	8,730,161	34,871,772	(43,601,933)	0
Total	1,040,000	94,594,319	127,303,431	(44,641,933)	178,295,817

Results	Investment Holding RM	Manufacturing Of furniture RM	Manufacturing Of plastic ware RM	Eliminations RM	Consolidated RM
Interest income	127,978	243,234	145,132	(290,516)	225,828
Finance costs	0	(1,198,278)	(3,811,781)	290,516	(4,719,543)
Depreciation of property, plant and equipment	0	(2,285,482)	(6,436,770)	(330,340)	(9,052,592)
Taxation	(133,000)	(639,523)	(139,289)	0	(911,812)
Other non-cash items	0	(4,648)	(40,491)	0	(45,139)
Segment loss	(732,421)	(1,643,326)	(7,490,575)	0	(9,866,322)
Segment assets	73,917,267	82,717,340	114,959,331	(91,445,315)	180,148,623
Segment liabilities	165,500	33,154,721	67,609,791	(11,781,871)	89,148,141

#### **A8. CHANGES IN DEBT AND EQUITY SECURITIES**

There were no issuance, repurchase and repayment of debt and equity securities for the current 4 months period 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 current 4 months period ended 31 December 2019.

#### **A11. CHANGES IN THE COMPOSITION OF THE GROUP**

There were no changes in the composition of the Group during the current 4 months 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 4 months period and 16 months financial period to date are as follows:

Subsidiaries	Transacting parties	Relationship	Nature of transactions	Current period 01.09.2019 to 31.12.2019 (4 months) (RM)	Financial period to date 01.09.2018 to 31.12.2019 (16 months) (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	3,848,892	13,238,355
			Purchases of plastic wares and other household products	326,217	1,524,619
ELE	PT. Elianware Houseware ("PTE")	Director of ELE	Sales of plastic wares and other household products	1,336,598	3,317,741
ELE	E Sponge Household S/B ("ES")	Director of ELE	Sales of plastic wares and cleaning products	12,111	15,973
			Purchases of cleaning products	58,038	284,031
			Rental	20,000	80,000
ELE	Ebottles Marketing (M) S/B ("EBM")	Director of ELE	Purchases of water bottles and tumblers	18,480	18,480
Ee-Lian Plastic Industries (M) Sdn Bhd ("ELP")	EJ	Director of ELE	Sales of plastic wares and other household products	339	4,739
			Purchases of plastic wares and other household products	80,000	256,000
ELP	EBM	Director of ELE	Sales of printing services	54,875	152,823
ELP	ES	Director of ELE	Sales of plastic wares and cleaning products	190	190

The Group's key management personnel compensation is as follows:

Compensation paid/payable to key management personnel	Current period 01.09.2019 to 31.12.2019 (4 months) (RM)	Financial period to date 01.09.2018 to 31.12.2019 (16 months) (RM)
Short term employee benefits	1,186,953	4,577,248
Other employee benefits	135,196	567,076

#### **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 Reports is for the 16-month period ended 31 December 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 period		+/- (%)	Cumulative period		+/- (%)
	01.09.2019 to 31.12.2019 (4 months) (RM)	01.09.2018 to 31.12.2018 (4 months) (RM)		01.09.2018 to 31.12.2019 (16 months) (RM)	01.09.2017 to 31.12.2018 (16 months) (RM)	
Furniture Division	22,220,170	N/A		85,864,158	N/A	
Plastic Wares Division	21,404,563	N/A		92,431,659	N/A	
<b>Total</b>	<b>43,624,733</b>	<b>N/A</b>	<b>N/A</b>	<b>178,295,817</b>	<b>N/A</b>	<b>N/A</b>

For the 4 months period under review from 01.09.2019 to 31.12.2019, we recorded a total turnover of RM43.62 million.,

The revenue contribution from the furniture division is RM22.22 million. Foreign market demand improved during the yearend holiday period. The revenue contribution from the plastic wares division is RM21.40 million. Local and export market demand decreased significantly for plastic wares.

In YE 2019, the Group's generated RM178.30 million sales revenue for the 16 months financial period under review from 01.09.2018 to 31.12.2019. Furniture division's sales performance improved due to export market expansion, especially sales order to United States ("US"). Recurrent sales order from other export customers especially from European countries also improved and utilise the available capacity. Plastic ware division is facing slowdown in the local and export market. Sales orders decreased significantly from distributors and wholesalers since beginning of YE 2019.

Profit / (Loss) Before Tax	Individual period		+/- (%)	Cumulative period		+/- (%)
	01.09.2019 to 31.12.2019 (4 months) (RM)	01.09.2018 to 31.12.2018 (4 months) (RM)		01.09.2018 to 31.12.2019 (16 months) (RM)	01.09.2017 to 31.12.2018 (16 months) (RM)	
Furniture Division	90,695	N/A		(1,643,326)	N/A	
Plastic Wares Division	(3,465,907)	N/A		(7,490,575)	N/A	
Others	891,502	N/A		(732,421)	N/A	
<b>Total</b>	<b>(2,483,710)</b>	<b>N/A</b>	<b>N/A</b>	<b>(9,866,322)</b>	<b>N/A</b>	<b>N/A</b>

Plastic wares division recorded RM0.91 million gross profit, with gross profit margin of 13.0%. Furniture division recorded RM3.34 million gross profit, with gross profit margin of 13.5%.

In YE 2019, the Group's generated RM23.66 million gross profit for the 16 months financial period ended 31.12.2019. Furniture division contributed RM11.58 million gross profit, with the improved in gross profit margin from 12.6% in YE 2018 to 13.5% in YE 2019. The improvement mainly due to supply of raw materials are stable with lower material costs and slight appreciation of USD. Plastic wares division contributed RM12.08 million gross profit. The gross profit margin decreased from 22.3% in YE 2018 to 13.0% in YE 2019 due to increase in raw material cost, fixed operation overhead and sales promotion.

The Group has recorded loss before tax of RM2.48 million for the 4 months period under review. Furniture division reported profit before tax of RM0.09 million and plastic wares division reported loss before tax RM3.47 million. Profit before tax from other division of RM0.89 million is mainly management fees charged by holding company.

In YE 2019, the Group's recorded RM9.87 million loss before tax for the 16 months financial period ended 31.12.2019. Furniture division improved sales performance and gross profit margin is still insufficient to generate profit before tax. The poor performance in plastic wares division recorded RM7.49 million loss before tax was due to significant drop in revenue as mentioned above, resulting insufficient gross profit to cover the administrative and finance expenses.

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

<b>Profit / (Loss) Before Tax</b>	Individual period 01.09.2019 to 31.12.2019 (4 months) (RM)	Preceding quarter 01.06.2019 to 31.08.2019 (3 months) (RM)	+ / -  (RM)
Furniture Division	90,695	(1,373,436)	1,464,131
Plastic Wares Division	(3,465,907)	(1,775,862)	(1,690,045)
Others	891,502	(1,044,278)	1,935,780
<b>Total</b>	<b>(2,483,710)</b>	<b>(4,193,576)</b>	<b>1,709,866</b>

The Group recorded turnover of RM43.62 million during the 4 months period under review from 01.09.2019 to 31.12.2019. Gross profit margin was lower at 9.6% against 9.8% in the preceding quarter.

In addition, the Group recorded loss before tax of RM2.48 million for the 4 months period under review. The loss before tax was mainly due to poor performance in plastic wares division. Gross profit margin of plastic wares division decreased from 13.5% in Q4 2019 to 13.0% in 4 months period ended 31.12.2019. Manufacturing overhead and direct labour cost were not fully utilised due to significant decreased in sales order.

The gross profit margin for furniture division was higher from 6.0% in Q4 2019 to 13.5% in the 4 months period under review. The management work on improvement in revenue and production efficiency to meet higher market demand.

### B3. PROSPECT

With the continued uncertainties in the global economy as the on-going trade war between the US and China, United Kingdom exit from the European Union's Customs Union, and the negative impact of the Covid-19 outbreak, economic growth is seen slowing into year 2020.

Plastic wares division is expecting short term increased in sales for local products as Covid-19 outbreak had reduced the import from China. The Group will take the opportunity to improve sales of premium products and to clear the slow-moving products. The management focus on cost control as labour cost increased due to minimum salary and overtime arrangement announced in BUDGET 2020 and decreased in plastic raw material since end of year 2019. The launching of new range of plastic housewares include Raya series will improve the sales performance in first half of year 2020.

For the second half of year 2020, the Group anticipates that the conditions of the plastic wares sector will be more challenging and slowdown in both local and export market demand. Management is working on marketing strategies to stay competitive and to attract a larger pool of prospects. The management is also exploring the opportunity to expand the plastic industrial market.

Sales performance of furniture division had improved due to export market expansion, especially sales order for bedroom sets to US. Management 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 remains challenging. Hence, the Group is focusing on the cost control and manufacturing efficiency. Management also working on adoption and improvement in automated technology as promoted in Budget 2020.

Unlike plastic wares division, furniture division is facing negative impact from Covid-19 outbreak. Imports from China include hard wares and raw material are now on hold till further notice from overseas suppliers. Substitute suppliers are increasing the selling price as available stock is running low. The management estimated the impact will be in second quarter of year 2020 if not able to solve the shortage of stock and supply.

### B4. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT

The Group did not issue any profit forecast or profit guarantee for the current 4 months period.

### B5. INCOME TAX EXPENSE

	Current period 01.09.2019 to 31.12.2019 (4 months) RM	Financial period to date 01.09.2018 to 31.12.2019 (16 months) RM
Current taxation	(427,609)	(911,812)
Deferred taxation	799,199	799,199
	<u>371,590</u>	<u>(112,613)</u>



The Group's effective tax rate for the current 4 months period 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 4 months period.

## **B7. QUOTED SECURITIES**

There was no purchase or disposal of quoted securities by the Group for the current 4 months period.

## **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 29<sup>th</sup> July 2019. Save for Proposed Amendments which have been completed, all remaining proposals are now pending implementation.

On 31 October 2019, an application has been submitted to Bursa Securities on 31 October 2019 to seek for an extension of time of six (6) months from 16 November 2019 to 16 May 2020 to enable SWS to complete the implementation of the Proposals. Bursa Securities had on 1 November 2019 resolved to grant SWS an extension of time until 16 May 2020 to complete the implementation of the Proposals. SWS and the Vendors had on 27 November 2019, agreed to further extend the Long Stop Date under the SPA by 4 months from 26 December 2019 to 25 April 2020.

(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.

On 14 February 2020, SWS and Nexus have mutually agree to terminate the Option Agreement and irrevocably and unconditionally release and discharge each other from the further performance of, and from all and any liabilities, losses and obligations which SWS and Nexus have, may have had or may have under the Option Agreement and the Option Agreement shall have no further force or effect whatsoever. In this regard, both SWS and Nexus mutually agree to waive any and all other rights, entitlements, claims including refunds, deposits, considerations, payments or costs that it has or may have against the other under or arising from 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 December 2019 are as follows:

	RM
Secured Short Term Borrowings	
- denominated in Ringgit Malaysia	43,625,488
- denominated in US Dollar	1,596,757
Secured Long Term Borrowings	
- denominated in Ringgit Malaysia	14,942,546
Total Borrowings	<u>60,164,791</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 December 2019 are as follows:-

	Notional Amount As At 31.12.2019	Fair Value As At 31.12.2019
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 current 4 months period.

## **B12. DIVIDEND**

No dividend was proposed by the Board of Directors for the current 4 months period under review.

## **B13. NOTES TO THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

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

	Current period 01.09.2019 to 31.12.2019 (4 months) RM	Financial period to date 01.09.2018 to 31.12.2019 (16 months) RM
Bad debts recovered	23,908	66,401
Bad debts written off	135,381	(18,500)
Depreciation of property, plant and equipment	(2,325,207)	(9,052,592)
Gain on disposal of property, plant and equipment	1,114,196	1,346,196
Gain / (loss) on foreign exchange		
Realised	15,329	(240,351)
Unrealised	(99,039)	(35,843)
Interest income	50,911	225,828
Inventories written-off	0	(20,984)
Inventories write-down	(49,851)	(111,884)
Finance costs	(1,184,485)	(4,719,543)
Rental received	67,000	268,000
Fair value gain on financial instruments	40,525	40,525
Fair value adjustment on investment properties	40,000	40,000

## 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 period 01.09.2019 to 31.12.2019 (4 months)	Financial period to date 01.09.2018 to 31.12.2019 (16 months)
Loss attributable to Owners of the Parent	(RM)	(1,807,490)	(9,107,885)
Weighted average number of shares	(shares)	182,343,782	182,343,782
Basic loss per share	(sen)	(0.99)	(4.99)

### **Diluted earnings per share**

		Current period 01.09.2019 to 31.12.2019 (4 months)	Financial period to date 01.09.2018 to 31.12.2019 (16 months)
Loss attributable to Owners of the Parent	(RM)	(1,807,490)	(9,107,885)
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)	<u>189,343,782</u>	<u>189,343,782</u>
Diluted loss per share	(sen)	(0.95)	(4.81)

There is no dilutive effect of the potential ordinary shares convertible under warrants issued during the current 4 months period. Warrants have a dilutive effect only when the average market price of ordinary share during the financial period exceeds the exercise price of the warrant.

**Board of Directors**  
**SWS Capital Berhad**  
**28<sup>th</sup> February 2020**