

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE FIRST QUARTER ENDED 31 MARCH 2020****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 March 2020, 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 period ended 31 December 2019 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 period ended 31 December 2019.

The interim financial statements should be read in conjunction with the Group's annual audited financial statements for the period ended 31 December 2019.

A2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are consistent with those of the audited financial statements for the period ended 31 December 2019 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 period ended 31 December 2019 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 financial period ended 31 March 2020.

A6. CHANGES IN ESTIMATES OF AMOUNTS REPORTED

There were no material changes in estimates of amounts reported in prior interim periods or prior financial period 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	3 months ended 31 March 2020				
	Investment Holding RM	Manufacturing of furniture RM	Manufacturing of plastic wares RM	Eliminations RM	Consolidated RM
External sales	0	14,330,331	16,905,656	0	31,235,987
Management income	195,000	0	0	(195,000)	0
Inter-company transaction	0	870,151	4,523,311	(5,393,462)	0
Total	195,000	15,200,482	21,428,967	(5,588,462)	31,235,987

Results	Investment Holding RM	Manufacturing Of furniture RM	Manufacturing Of plastic ware RM	Eliminations RM	Consolidated RM
Interest income	17,533	49,100	21,432	(60,668)	27,397
Finance costs	0	(287,069)	(690,508)	60,668	(916,909)
Depreciation of property, plant and equipment	0	(433,600)	(1,192,915)	(61,939)	(1,688,454)
Taxation	(10,623)	(170,802)	0	0	(181,425)
Other non-cash items	0	(83,719)	0	0	(83,719)
Segment loss	(137,524)	(821,602)	(660,157)	0	(1,619,283)
Segment assets	73,033,174	80,089,575	113,863,251	(94,609,637)	172,376,363
Segment liabilities	215,959	31,473,402	67,062,794	(14,661,551)	83,896,604

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 March 2020.

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	2,048,803	2,048,803
			Purchases of plastic wares and other household products	83,331	83,331
ELE	PT. Elianware Houseware ("PTE")	Director of ELE	Sales of plastic wares and other household products	784,947	784,947
ELE	E Sponge Household S/B ("ES")	Director of ELE	Sales of plastic wares and cleaning products	Nil	Nil
			Purchases of cleaning products	53,102	53,102
			Rental	15,000	15,000
ELE	Ebottles Marketing (M) S/B ("EBM")	Director of ELE	Purchases of water bottles and tumblers	12,989	12,989
Ee-Lian Plastic Industries (M) Sdn Bhd ("ELP")	EJ	Director of ELE	Sales of plastic wares and other household products	4,615	4,615
			Purchases of plastic wares and other household products	48,000	48,000
ELP	EBM	Director of ELE	Sales of printing services	22,344	22,344
ELP	ES	Director of ELE	Sales of plastic wares and cleaning products	229	229

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	730,650	730,650
Other employee benefits	114,419	114,419

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		+/- (%)
	31-March-20 (RM)	31-March-19 (RM)		31-March-20 (RM)	31-March-19 (RM)	
Furniture Division	14,330,331	N/A		14,330,331	N/A	
Plastic Wares Division	16,905,656	N/A		16,905,656	N/A	
Total	31,235,987	N/A	N/A	31,235,987	N/A	N/A

For the period under review, the Group recorded a total turnover of RM31.24 million.

2020 Malaysia Movement Control Order (“MCO”) was implemented by the federal government of Malaysia towards the 2019–20 coronavirus pandemic on 18 March 2020. As both furniture and plastic wares divisions do not fall within the approve industries, the Group’s operations were shut down, resulting loss of operation days during MCO period.

The revenue contribution from the furniture and plastic wares division are RM14.33 million and RM16.91 million respectively in Q1 2020. Revenue from furniture division is slowdown due to decrease in foreign market demand after the yearend holiday period. Plastic wares division is facing more competition and lower demand from local market, due to change of consumer spending behaviour. Plastic wares division is losing sales orders of Raya series due to MCO.

Loss Before Tax	Individual period		+/- (%)	Cumulative period		+/- (%)
	31-March-20 (RM)	31-March-19 (RM)		31-March-20 (RM)	31-March-19 (RM)	
Furniture Division	(821,602)	N/A		(821,602)	N/A	
Plastic Wares Division	(660,157)	N/A		(660,157)	N/A	
Others	(137,524)	N/A		(137,524)	N/A	
Total	(1,619,283)	N/A	N/A	(1,619,283)	N/A	N/A

In Q1 2020, the Group recorded gross profit of RM3.92 million. Furniture division recorded RM1.34 million gross profit, with gross profit margin of 9.3%. The margin for furniture divisions are more challenging due to the decreased in sales orders. Plastic wares division recorded RM2.59 million gross profit, with gross profit margin of 15.3%. Raw material cost for plastic wares division decreased significantly during the period.

The Group has recorded loss before tax of RM1.62 million for Q1 2020. Furniture and plastic wares division reported loss before tax of RM0.82 million and RM0.66 million respectively. The loss before tax was mainly due to poor performance in both divisions during Q1 2020. Significant drop in revenue caused insufficient gross profit to cover the administrative and finance expenses.

B2. VARIANCE IN PROFIT / (LOSS) BEFORE TAX

Profit / (Loss) Before Tax	Individual period 01.01.2020 to 31.03.2020 (3 months) (RM)	Preceding quarter 01.09.2019 to 31.12.2019 (4 months) (RM)	+ / - (RM)
Furniture Division	(821,602)	90,695	(912,297)
Plastic Wares Division	(660,157)	(3,465,907)	2,805,750
Others	(137,524)	891,502	(1,029,026)
Total	(1,619,283)	(2,483,710)	864,427

The Group recorded turnover of RM31.24 million during period under review. Gross profit margin was lower at 12.6% against 15.1% in the preceding quarter.

The gross profit margin for furniture division was higher from 13.5% in preceding quarter to 9.3% in Q1 2020. Gross profit margin of plastic wares division increased from 13.0% in preceding quarter to 15.3% in Q1 2020. Manufacturing overhead and direct labour cost were not fully utilised due to significant decreased in sales order.

In addition, the Group recorded loss before tax of RM1.62 million for the period under review. The management work on improvement in revenue and production planning to minimise the unutilised capacity.

B3. PROSPECT

With the continued uncertainties in the global economy and the negative impact of the Covid-19 outbreak, economic growth is seen slowing into year 2020. Depending on the severity and duration of the outbreak and barring any other unforeseen circumstances, the management are cautiously optimistic of the Group's prospects in the near future as the Group forged a resilient path to growth and success.

Plastic wares division is putting effort to cover the significant loss of revenue caused by the MCO. The launching of new range of plastic housewares include Raya series was affected and delayed. The Group anticipates that the conditions of the plastic wares sector will be more challenging and slowdown in both local and export market demands. Management is working on new marketing strategies to stay competitive and to attract a larger pool of prospects, including further investment for ecommerce department.

Furniture division is also facing negative impact from Covid-19 outbreak. Sales order from foreign customers were cut due to lock down of many countries. Imports from China include hardware and raw material are slow down. Substitute suppliers are increasing the selling price as available stock is running low. The management estimated the negative impact will be on-going for year 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	(181,425)	(181,425)
Deferred taxation	0	0
	<u>(181,425)</u>	<u>(181,425)</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

- (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.

On 27 April 2020, SWS has announced that Vendors had decided not to further extend the long stop date under the SPA. As such, the SPA had been terminated and ceased to have effect on 25 April 2020 in accordance with clause 4.3(e) of the SPA which states that if the conditions precedent are not satisfied or waived on or before the long stop date, the SPA shall terminate and cease to have effect on the long stop date except for surviving provisions and any rights, remedies or liabilities of SWS and the Vendors that have accrued at the termination of the SPA.

(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 March 2020 are as follows:

	RM
Secured Short Term Borrowings	
- denominated in Ringgit Malaysia	44,126,590
- denominated in US Dollar	302,918
Secured Long Term Borrowings	
- denominated in Ringgit Malaysia	14,732,824
Total Borrowings	<u>59,162,332</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 March 2020 are as follows:-

	Notional Amount As At 31.03.2020	Fair Value As At 31.03.2020
Foreign currency forward contracts		
Less than 1 year	1,539,079	1,574,374

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

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

	Current quarter RM	Financial year-to-date RM
Bad debts recovered	34,438	34,438
Depreciation of property, plant and equipment	(1,688,460)	(1,688,460)
Loss on disposal of property, plant and equipment	(4,835)	(4,835)
Gain on foreign exchange		
Realised	12,765	12,765
Unrealised	48,425	48,425
Interest income	27,397	27,397
Finance costs	(916,909)	(916,909)
Fair value loss on financial instruments	(35,294)	(35,294)
Rental received	45,900	45,900

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
Loss attributable to			
Owners of the Parent	(RM)	(1,624,252)	(1,624,252)
Weighted average number of shares	(shares)	182,343,782	182,343,782
Basic loss per share	(sen)	(0.89)	(0.89)

Diluted earnings per share

		Current quarter	Financial year-to-date
Loss attributable to			
Owners of the Parent	(RM)	(1,595,301)	(1,595,301)
Weighted average number of shares			
- Basic	(shares)	182,343,782	182,343,782
- Effects of dilution:			
- Options under ESOS	(shares)	<u>7,000,000</u>	<u>7,000,000</u>
- Diluted	(shares)	<u>189,343,782</u>	<u>189,343,782</u>
Diluted loss per share	(sen)	(0.86)	(0.86)

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 period exceeds the exercise price of the warrant.

Board of Directors
SWS Capital Berhad
29th June 2020