

**NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 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 30 September 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 audited financial statements of the Group for the financial period ended 31 December 2019 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 period ended 31 December 2019.

The interim financial statements should be read in conjunction with the Group’s audited financial statements for the financial 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 financial 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 30 September 2020.

#### A6. CHANGES IN ESTIMATES OF AMOUNTS REPORTED

There were no material changes in estimates of amounts reported in prior interim financial 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	9 months ended 30 September 2020				
	Investment Holding RM	Manufacturing of furniture RM	Manufacturing of plastic wares RM	Eliminations RM	Consolidated RM
External sales	0	41,677,030	55,621,756	0	97,298,786
Management income	585,000	0	0	(585,000)	0
Inter-company transaction	0	4,279,437	15,807,699	(20,087,136)	0
Total	585,000	45,956,467	71,429,455	(20,672,136)	97,298,786

Results	9 months ended 30 September 2020				
	Investment Holding RM	Manufacturing Of furniture RM	Manufacturing Of plastic ware RM	Eliminations RM	Consolidated RM
Interest income	52,305	171,887	64,256	(202,838)	85,610
Finance costs	0	(678,106)	(1,878,126)	202,838	(2,353,394)
Depreciation of property, plant and equipment	0	(1,286,202)	(3,583,661)	(185,816)	(5,055,679)
Taxation	(55,739)	(781,616)	0	0	(837,355)
Other non-cash items	0	(60,905)	0	0	(60,905)
Segment profit/(loss)	(389,145)	(1,382,107)	2,799,709	0	1,028,456)
Segment assets	72,949,964	84,291,552	122,892,371	(96,136,516)	183,997,371
Segment liabilities	8,208	36,967,998	72,893,439	(16,343,842)	93,525,803

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

There were no issuance, repurchase and repayment of debt and equity securities for the current financial 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 financial period ended 30 September 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	2,562,253	5,990,257
			Purchases of plastic wares and other household products	236,550	491,050
ELE	PT. Elianware Houseware ("PTE")	Director of ELE	Sales of plastic wares and other household products	798,538	2,069,327
ELE	E Sponge Household S/B ("ES")	Director of ELE	Sales of plastic wares and cleaning products	12,104	12,104
			Purchases of cleaning products	116,716	206,919
			Rental	15,000	45,000
ELE	Ebottles Marketing (M) S/B ("EBM")	Director of ELE	Purchases of water bottles and tumblers	286,121	302,468
Ee-Lian Plastic Industries (M) Sdn Bhd ("ELP")	EJ	Director of ELE	Sales of plastic wares and other household products	40,796	51,219
			Purchases of plastic wares and other household products	113,391	193,391
ELP	EBM	Director of ELE	Sales of printing services	27,482	64,036
ELP	ES	Director of ELE	Sales of plastic wares and cleaning products	Nil	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	705,091	2,124,927
Other employee benefits	79,980	277,556

**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		+/- (%)
	30-Sept-20 (RM)	30-Sept-19 (RM)		30-Sept-20 (RM)	30-Sept-19 (RM)	
Furniture Division	18,878,441	N/A		41,677,030	N/A	
Plastic Wares Division	26,028,778	N/A		55,621,756	N/A	
<b>Total</b>	<b>44,907,219</b>	<b>N/A</b>	<b>N/A</b>	<b>97,298,786</b>	<b>N/A</b>	<b>N/A</b>

For the period under review, the Group recorded a total turnover of RM44.91 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. The impact of MCO on local and worldwide export market is still on going.

The revenue contribution from the furniture and plastic wares division are RM18.88 million and RM26.03 million respectively in Q3 2020. Revenue from furniture division is recovered during the reporting quarter with increase in foreign market demand. Local sales of plastic wares division improved due to market recovery since June 2020 and change of consumer spending behaviour.

Profit / (Loss) Before Tax	Individual period		+/- (%)	Cumulative period		+/- (%)
	30-Sept-20 (RM)	30-Sept-19 (RM)		30-Sept-20 (RM)	30-Sept-19 (RM)	
Furniture Division	660,064	N/A		(1,382,107)	N/A	
Plastic Wares Division	1,798,639	N/A		2,799,709	N/A	
Others	(125,757)	N/A		(389,145)	N/A	
<b>Total</b>	<b>2,332,946</b>	<b>N/A</b>	<b>N/A</b>	<b>1,028,456</b>	<b>N/A</b>	<b>N/A</b>

In Q3 2020, the Group recorded gross profit of RM7.89 million. Furniture division recorded RM2.80 million gross profit, with gross profit margin of 14.8%. The margin for furniture divisions remain challenging due to limitation of direct labour. Plastic wares division recorded RM5.09 million gross profit, with gross profit margin of 19.6%. Management is monitoring the fluctuation of raw material cost for plastic wares division. The improved gross profit margin also due to increase in sales of premium and e-commerce products.

The Group has recorded profit before tax of RM2.33 million for Q3 2020. Furniture division reported profit before tax of RM0.66 million due to the recovery of export sales orders. Plastic wares division recorded profit before tax of RM1.80 million mainly due to the improved sales.

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

Profit / (Loss) Before Tax	Individual period 30-Sept-20 (RM)	Preceding quarter 30-June-20 (RM)	+ / - (RM)
Furniture Division	660,064	(1,220,569)	1,880,633
Plastic Wares Division	1,798,639	1,661,226	137,413
Others	(125,757)	(125,864)	107
<b>Total</b>	<b>2,332,946</b>	<b>314,793</b>	<b>2,018,153</b>

The Group recorded a higher turnover of RM44.91 million during period under review against a turnover of RM21.16 million in the preceding quarter ended 30 June 2020. Gross profit margin was lower at 17.6% against 23.8% in the preceding quarter while absolute amount was higher at RM7.89 million against RM5.03 million in the preceding quarter.

The gross profit margin for furniture division was higher from 5.3% in preceding quarter to 14.8% in Q3 2020. Increased in sales and utilisation of manufacturing overhead and direct labour cost improved the gross profit margin. Gross profit margin of plastic wares division decreased from 36.1% in preceding quarter to 19.6% in Q3 2020.

In addition, the improved performance of both furniture and plastic wares division resulting increased in the group profit before tax to RM2.33 million for the quarter under review compared to the profit before tax of RM0.31 million registered in the preceding quarter ended 30 June 2020.

## B3. PROSPECT

Budget 2021 was tabled in Parliament by Finance Minister on 6<sup>th</sup> November 2020. The GDP is recovering with improvement in export market. However, the negative impact of the Covid-19 is on-going with the third wave outbreak in Malaysia, economic growth is seen slowing into year 2021.

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 soon as the Group forged a resilient path to growth and success.

Plastic wares division is getting better performance from marketing strategy during the MCO, include the launching of new range of quality affordable products, investment for ecommerce department and marketing for corporate products. The Group anticipates that the conditions of the plastic wares sector will be challenging in both local and export market demands. Management is focusing on planning to stay competitive and exploring the opportunity to expand.

Furniture division is recovering from the negative impact from Covid-19 outbreak. Sales order from foreign customers improved after months of poor operations. Imports from China include hardware and raw material are back to normal purchase schedule. Furniture division received more sales orders for year 2020 and first half of year 2021. The Group will focus on the cost monitoring, manufacturing efficiency and utilisation of available resources to meet the increased market demand.

The management take note on the possibility of shortage of labour and increased in labour cost due to MCO. The Group is working on adoption and improvement in automated technology as promoted in Budget 2020, thereby reducing reliance on labour-intensive manufacturing practices and increase the productivity.

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

The Group did not issue any profit forecast or profit guarantee for the financial period.

**B5. INCOME TAX EXPENSE**

	Current quarter RM	Financial year-to-date RM
Current taxation	(472,837)	(837,355)
Deferred taxation	0	0
	<u>(472,837)</u>	<u>(837,355)</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, other than as follows:-

On 14 September 2020, Poh Keong Industries Sdn Bhd, a wholly-owned subsidiary of the SWS Capital Berhad has entered into a sale and purchase agreement ("SPA") for the disposal of freehold land for a total consideration of RM7,233,000.00. The estimated completion date of the disposal is four months from the date of the SPA.

**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 19 August 2020, the Group proposed to undertake a private placement of up to 10% of the issued ordinary shares of SWS at an issue price to be determined later ("Proposed Private Placement").

On 26 August 2020, Bursa Malaysia Securities Berhad had approved the proposed private placement with conditions.

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



## B9. GROUP'S BORROWINGS

The Group's borrowings as at 30 September 2020 are as follows:

	RM
Secured Short Term Borrowings	
- denominated in Ringgit Malaysia	
- denominated in US Dollar	44,245,758
	Nil
Secured Long Term Borrowings	
- denominated in Ringgit Malaysia	14,354,416
Total Borrowings	<u>58,600,174</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 30 September 2020 are as follows:-

	Notional Amount As At 30.09.2020	Fair Value As At 30.09.2020
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

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

	Current quarter RM	Financial year-to-date RM
Bad debts recovered	86,770	121,658
Depreciation of property, plant and equipment	(1,662,649)	(5,055,679)
Gain on disposal of property, plant and equipment	Nil	9,165
Gain/(Loss) on foreign exchange		
Realised	(161,622)	(220,248)
Unrealised	2,896	60,905
Interest income	25,399	85,610
Finance costs	(700,670)	(2,353,394)
Rental received	36,000	114,400

## B14. EARNINGS PER SHARE

### *Basic earnings per share*

Basic earnings per share amount are calculated by dividing the profit attributable to Owners of the Parent by the weighted average number of ordinary shares outstanding during the period.

		Current quarter	Financial year-to-date
Profit attributable to			
Owners of the Parent	(RM)	1,816,193	164,771
Weighted average number of shares	(shares)	182,343,782	182,343,782
Basic earnings per share	(sen)	1.00	0.09

### *Diluted earnings per share*

		Current quarter	Financial year-to-date
Profit attributable to			
Owners of the Parent	(RM)	1,845,144	251,623
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 earnings per share	(sen)	0.96	0.09

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**  
**27<sup>th</sup> November 2020**