

**NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE FOURTH QUARTER ENDED 31 DECEMBER 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 December 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 is 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 December 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	12 months ended 31 December 2020				
	Other RM	Manufacturing of furniture RM	Manufacturing of plastic wares RM	Eliminations RM	Consolidated RM
External sales	0	63,397,775	76,166,430	0	139,564,205
Management income	780,000	0	0	(780,000)	0
Inter-company transaction	0	6,792,520	21,733,713	(28,526,233)	0
Total	780,000	70,190,294	97,900,143	(29,306,233)	139,564,205

Results	Other RM	Manufacturing Of furniture RM	Manufacturing Of plastic ware RM	Eliminations RM	Consolidated RM
Interest income	73,340	233,330	92,513	(273,386)	125,797
Finance costs	0	(876,498)	(2,072,901)	273,386	(2,676,013)
Interest expense in lease liabilities	0	(8,988)	0	0	(8,988)
Depreciation of property, plant and equipment	0	(1,744,421)	(4,786,073)	(247,755)	(6,778,249)
Depreciation of ROU	0	(91,322)	0	0	(91,322)
Taxation	(106,374)	(214,584)	(1,878,633)	142,681	(2,056,910)
Other non-cash items	0	(97,484)	0	0	(97,484)
Segment profit/(loss)	(1,579,650)	(1,596,010)	2,707,306	0	(468,354)
Segment assets	89,660,155	86,674,143	121,122,624	(102,622,374)	194,834,548
Segment liabilities	2,385,523	38,652,767	72,375,012	(21,618,761)	91,794,541

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

There was 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 31 December 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	2,398,714	8,388,971
			Purchases of plastic wares and other household products	246,790	737,840
ELE	PT. Elianware Houseware ("PTE")	Director of ELE	Sales of plastic wares and other household products	428,208	2,497,535
ELE	E Sponge Household S/B ("ES")	Director of ELE	Sales of plastic wares and cleaning products	Nil	12,104
			Purchases of cleaning products	52,057	258,976
			Rental	Nil	45,000
ELE	Ebottles Marketing (M) S/B ("EBM")	Director of ELE	Purchases of water bottles and tumblers	238,593	541,061
Ee-Lian Plastic Industries (M) Sdn Bhd ("ELP")	EJ	Director of ELE	Sales of plastic wares and other household products	17,881	69,100
			Purchases of plastic wares and other household products	135,640	329,031
ELP	EBM	Director of ELE	Sales of printing services	40,725	104,761
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	897,589	3,022,516
Other employee benefits	101,723	379,279

**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-Dec-20 (RM)	31-Dec-19 (RM)		31-Dec-20 (RM)	31-Dec-19 (RM)	
Furniture Division	21,720,745	N/A		63,397,775	N/A	
Plastic Wares Division	20,544,673	N/A		76,166,430	N/A	
<b>Total</b>	<b>42,265,418</b>	<b>N/A</b>	<b>N/A</b>	<b>139,564,205</b>	<b>N/A</b>	<b>N/A</b>

In financial year ended (“FYE”) 2020, the Group recorded a total turnover of RM139.56 million. The revenue contribution from the furniture and plastic wares division are RM63.40 million and RM76.16 million respectively.

2020 Malaysia Movement Control Order (“MCO”) was implemented by the federal government of Malaysia towards the covid-19 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 Q1 and Q2 2020. For the first half of 2020, furniture division suffered slowdown in export market due to worldwide practises to prevent covid-19 pandemic. Plastic wares division lost sales orders of Raya series due to MCO.

Revenue from furniture division is recovered from Q3 2020 with increase in foreign market demand. Local sales of plastic wares division improved since June 2020 due to market recovery and change of consumer spending behaviour.

For Q4 2020, the Group recorded a total turnover of RM42.27 million. The revenue contribution from the furniture and plastic wares division are RM21.72 million and RM20.55 million respectively in Q4 2020.

Profit / (Loss) Before Tax	Individual quarter		+/- (%)	Cumulative quarters		+/- (%)
	31-Dec-20 (RM)	31-Dec-19 (RM)		31-Dec-20 (RM)	31-Dec-19 (RM)	
Furniture Division	(213,902)	N/A		(1,596,010)	N/A	
Plastic Wares Division	(92,403)	N/A		2,707,306	N/A	
Others	(1,190,505)	N/A		(1,579,650)	N/A	
<b>Total</b>	<b>(1,496,810)</b>	<b>N/A</b>	<b>N/A</b>	<b>(468,354)</b>	<b>N/A</b>	<b>N/A</b>

In FYE 2020, the Group recorded a total gross profit of RM23.19 million. Furniture and plastic wares division contributed RM7.20 million and RM15.99 million respectively.

Furniture division's gross profit margin decreased from 13.5% in FPE 2019 to 11.4% in FYE 2020. The margin for furniture division is more challenging due to the increased in labour charges and fixed operation overhead and decreased in sales orders. Plastic wares division's gross profit margin increased from 14.4% in FPE 2019 to 21.0% in FYE 2020 due to decrease in raw material cost and increase in sales of premium and e-commerce products. The increased in gross profit margin also due to improvement in monitoring of production efficiency and quality.

For Q4 2020, the Group recorded gross profit of RM6.33 million. Furniture division recorded RM2.61 million gross profit, with gross profit margin of 12.0%. The management is working on handle the limitation of direct labour. Plastic wares division recorded RM3.72 million gross profit, with gross profit margin of 18.1%. Management is monitoring the fluctuation of raw material cost for plastic wares division.

In FYE 2020, the Group recorded loss before tax of RM0.47 million. Furniture and investment holding division recorded loss before tax of RM1.60 million and RM1.58 million respectively. Plastic wares division reported profit before tax of RM2.71 million.

For Q4 2020, The Group has recorded loss before tax of RM1,50 million for Q4 2020. Furniture and plastic wares division reported loss before tax of RM0.21 and RM0.09 million respectively.

The impact of MCO on local and worldwide export market is still on going.

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

<b>Profit / (Loss) Before Tax</b>	Individual quarter 31-Dec-20 (RM)	Preceding quarter 30-Sept-20 (RM)	+ / - (RM)
Furniture Division	(213,902)	660,064	(873,966)
Plastic Wares Division	(92,403)	1,798,639	(1,891,042)
Others	(1,190,505)	(125,757)	(1,064,748)
<b>Total</b>	<b>(1,496,810)</b>	<b>2,332,946</b>	<b>(3,829,756)</b>

The Group recorded a lower turnover of RM42.27 million during period under review against a turnover of RM44.91 million in the preceding quarter ended 30 September 2020. Gross profit margin was lower at 15.0% against 17.6% in the preceding quarter while absolute amount was lower at RM6.33 million against RM7.89 million in the preceding quarter.

The gross profit margin for furniture division was lower from 14.8% in preceding quarter to 12.0% in Q4 2020. The improve utilisation of manufacturing overhead and direct labour cost due to the increased in sales. The lower gross profit margin mainly due to increased in raw material cost. Gross profit margin of plastic wares division decreased from 19.6% in preceding quarter to 18.1% in Q4 2020.

In addition, the Group has recorded loss before tax of RM1,50 million for the quarter under review for Q4 2020 compared to profit before tax to RM2.33 million registered in the preceding quarter ended 30 September 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 in year 2021.

Covid-19 has dominated daily lives and economic since 2019. In view of the worrying situation, Malaysian government reintroduces MCO 2.0 start from 13<sup>th</sup> January 2021. Adding to that, Prime Minister addressed the nation on the proclamation of a nationwide State of Emergency. 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 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 foresee the significant increase in raw material cost in 2021. Both divisions are monitoring the inventories level and production schedule to minimise the impact. The management also 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, 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	(1,380,050)	(2,217,405)
Deferred taxation	160,495	160,495
	<u>(1,219,555)</u>	<u>(2,056,910)</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 OR PURCHASE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES**

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.

On 1 October 2020, the Group incorporated a new company in Malaysia, known as SWS In Medics Sdn. Bhd. (InMedics). SWS hold 51 ordinary shares, representing 51% of the total issued share capital of InMedics.

On 7 October 2020, the Group acquired a company in Malaysia, known as Skywood Residence Sdn. Bhd. (SKY). SWS hold 1 ordinary share, representing 100% of the total issued share capital of SKY.

## **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. On 27 February 2021, the Group has confirmed that there will be no subsequent tranches or additional Placement Shares to be placed out pursuant to the Private Placement and deemed completed.

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

## **B9. GROUP'S BORROWINGS**

The Group's borrowings as at 31 December 2020 are as follows:

	RM
Secured Short Term Borrowings	
- denominated in Ringgit Malaysia	47,228,215
- denominated in US Dollar	Nil
Secured Long Term Borrowings	
- denominated in Ringgit Malaysia	9,095,756
Total Borrowings	<u>56,323,971</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 2020 are as follows:-

	Notional Amount As At 31.12.2020	Fair Value As At 31.12.2020
Foreign currency forward contracts		
Less than 1 year	309,711	308,238

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	(77,349)	44,309
Bad debts written off	(1,000)	(1,000)
Depreciation of property, plant and equipment	(1,722,568)	(6,778,249)
Depreciation of ROU	(91,322)	(91,322)
Fair value gain on financial instruments	1,472	1,472
Fair value adjustment on IP	125,000	125,000
Gain on disposal of property, plant and equipment	Nil	9,165
Gain/(Loss) on foreign exchange		
Realised	(133,481)	(353,730)
Unrealised	36,579	97,484
Interest expense in lease liabilities	(8,988)	(8,988)

	Current quarter RM	Financial year-to-date RM
Interest income	40,186	125,797
Inventories written-off	(262,849)	(262,849)
Inventories write-down value	(62,478)	(62,478)
Finance costs	(322,619)	(2,676,013)
Rental received	21,000	135,400

#### 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)	(2,587,604)	(2,422,833)
Weighted average number of shares	(shares)	206,428,160	182,343,782
Basic earnings per share	(sen)	(1.25)	(1.17)

##### ***Diluted earnings per share***

		Current quarter	Financial year-to-date
Profit attributable to Owners of the Parent	(RM)	(2,558,653)	(2,307,030)
Weighted average number of shares			
- Basic	(shares)	206,428,160	182,343,782
- Effects of dilution:			
- employee share option	(shares)	9,150,000	7,000,000
- Diluted	(shares)	<u>215,578,160</u>	<u>189,343,782</u>
Diluted earnings per share	(sen)	(1.20)	(1.12)

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**  
**25<sup>th</sup> March 2021**