SWS Capital Berhad

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE FIRST QUARTER ENDED 31 MARCH 2021

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 financial period ended 31 March 2021, 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 year ended 31 December 2020 are available upon request from the Company registered office at Level 5, Block B Dataran PHB, Saujana Resort Section U2, 40150 Shah Alam, Selangor.

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 financial year ended 31 December 2020.

The interim financial statements should be read in conjunction with the Group’s audited financial statements for the financial year ended 31 December 2020.

A2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 31 December 2020 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 December 2020 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 for the current quarter under review and financial period to-date.

A6. CHANGES IN ESTIMATES OF AMOUNTS REPORTED

There were no material changes in estimates of amounts reported in prior financial periods that have a material effect on the current quarter under review and financial period to-date.

A7. SEGMENTAL INFORMATION

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

	3 months ended 31 March 2021				
Revenue and Expenses	Other RM	Manufacturing of furniture RM	Manufacturing of plastic wares RM	Eliminations RM	Consolidated RM
External sales	0	20,578,455	24,133,477	0	44,711,932
Management income	97,500	0	0	(97,500)	0
Inter-company transaction	0	1,926,635	6,403,411	(8,330,046)	0
Total	97,500	22,505,090	30,536,888	(8,427,546)	44,711,932

Results	Other RM	Manufacturing Of furniture RM	Manufacturing Of plastic ware RM	Eliminations RM	Consolidated RM
Interest income	75,908	47,493	21,580	(77,374)	67,607
Finance costs	0	(188,585)	(470,572)	77,374	(581,783)
Interest expense in lease liabilities	0	(356)	0	0	(356)
Depreciation of property, plant and equipment	0	(425,155)	(1,042,359)	(61,939)	(1,529,453)
Depreciation of ROU	0	(5,684)	0	0	(5,684)
Taxation	(19,998)	(391,398)	(96,000)	0	(507,396)
Other non-cash items	0	(66,573)	0	0	(66,573)
Segment profit/(loss)	(126,679)	4,184,801	589,182	0	4,647,304
Segment assets	90,823,541	85,532,486	121,843,433	(101,141,210)	197,058,250
Segment liabilities	203,451	33,727,068	72,627,962	(20,003,841)	86,554,640

A8. CHANGES IN DEBT AND EQUITY SECURITIES

There was no issuance, repurchase and repayment of debt and equity securities for the current quarter under review and financial period to-date.

A9. DIVIDENDS PAID

There were no dividends paid during the current quarter under review.

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 end of the interim reporting period reported.

A11. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the financial period under review.

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 material capital commitments during the current quarter under review.

A14. RELATED PARTY TRANSACTIONS

The Group's related party transactions during the current quarter under review and financial period-to-date are as follows:

Subsidiaries	Transacting parties	Relationship	Nature of transactions	Current quarter (RM)	Financial period 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 Purchases of plastic wares and other household products	1,916,381 240,797	1,916,381 240,797
ELE	PT. Elianware Houseware	Director of ELE	Sales of plastic wares and other household products	1,121,161	1,121,161
ELE	E Sponge Household S/B ("ES")	Director of ELE	Purchases of cleaning products	52,633	52,633
ELE	Ebottles Marketing (M) S/B ("EBM")	Director of ELE	Purchases of water bottles and tumblers	4,920	4,920
Ee-Lian Plastic Industries (M) Sdn Bhd ("ELP")	EJ	Director of ELE	Sales of plastic wares and other household products Purchases of plastic wares and other household products	111,472 48,000	111,472 48,000
ELP	EBM	Director of ELE	Sales of printing services	6,302	6,302
ELP	ES	Director of ELE	Sales of plastic wares and cleaning products	413	413

The Group's key management personnel compensation during the current quarter under review and financial period-to-date is as follows:

Compensation paid/payable to key management personnel	Current quarter (RM)	Financial period to-date (RM)
Short term employee benefits	825,208	825,208
Other employee benefits	119,027	119,027

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 quarter		+/-
	31-Mar-21 (RM)	31-Mar-20 (RM)	(%)	31-Mar-21 (RM)	31-Mar-20 (RM)	(%)
Furniture Division	20,578,455	14,330,331		20,578,455	14,330,331	
Plastic Wares Division	24,133,477	16,905,656		24,133,477	16,905,656	
Total	**44,711,932**	**31,235,987**	**43**	**44,711,932**	**31,235,987**	**43**

For current quarter under review, the Group recorded a higher turnover of RM44.71 million compared to RM31.24 million recorded in the previous year corresponding quarter ended 31 March 2020. Both divisions have recovered from the negative impact of covid-19 pandemic.

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.

The revenue contribution from the furniture division increased by 43.6% to RM20.58 million as compared to previous year corresponding quarter of RM14.33 million, due to the increase in foreign market demand.

The revenue contribution from the plastic wares division increased by 42.8% to RM24.13 million as compared to previous year corresponding quarter of RM16.91 million due to market recovery and change of consumer spending behaviour.

Profit / (Loss) Before Tax	Individual quarter		+/-	Cumulative quarter		+/-
	31-Mar-21 (RM)	31-Mar-20 (RM)	(%)	31-Mar-21 (RM)	31-Mar-20 (RM)	(%)
Furniture Division	4,184,801	(821,602)		4,184,801	(821,602)	
Plastic Wares Division	589,182	(660,157)		589,182	(660,157)	
Others	(126,679)	(137,524)		(126,679)	(137,524)	
Total	**4,647,304**	**(1,619,283)**	**387**	**4,647,304**	**(1,619,283)**	**387**

B1. PERFORMANCE REVIEW (Cont'd)

For the quarter under review, the Group recorded total gross profit of RM7.44 million, compared to RM3.92 million recorded in Q1 2020. Gross profit margin improved from 12.6% in Q1 2020 to 16.6% in Q1 2021.

Furniture division's gross profit margin increased from 9.3% in Q1 2020 to 15.6% in Q1 2021, recorded RM3.21 million gross profit. The increase in sales orders improved the utilisation of production capacity and overheads.

Plastic wares division's gross profit margin increased from 15.3% in Q1 2020 to 17.5% in Q1 2021, recorded RM4.23 million gross profit. The increased in gross profit margin mainly due to improvement in monitoring of production efficiency and quality. The improvement also due to the increase in sales of premium and e-commerce products.

The Group has recorded profit before tax of RM4.65 million for Q1 2021 compared to loss before tax of RM1.62 million recorded in Q1 2020. Included in profit before tax is gain on disposal of a piece of land under furniture division amounting RM3.10 million. Furniture and plastic wares divisions recorded loss before tax of RM0.89 million and RM0.59 million respectively.

B2. VARIANCE IN PROFIT / (LOSS) BEFORE TAX

Profit / (Loss) Before Tax	Individual quarter 31-Mar-21 (RM)	Preceding quarter 31-Dec-20 (RM)	+ / - (RM)
Furniture Division	4,184,801	(213,902)	4,398,703
Plastic Wares Division	589,182	(92,403)	681,585
Others	(126,679)	(1,190,505)	1,063,826
Total	**4,647,304**	**(1,496,810)**	**6,144,114**

The Group recorded a higher turnover of RM44.71 million during the quarter under review against turnover of RM42.27 million in the preceding quarter ended 31 December 2020. Gross profit margin was higher at 16.6% against 14.8% in the preceding quarter while absolute amount was higher at RM7.44 million against RM6.26 million in the preceding quarter.

The gross profit margin for furniture division was higher from 11.7% in preceding quarter to 15.6% in Q1 2021. Gross profit margin of plastic wares division decreased from 18.1% in preceding quarter to 17.5% in Q1 2021 mainly due to increase in raw material cost.

In addition, the Group has recorded profit before tax of RM4.65 million for the quarter under review compared to loss before tax to RM1.50 million registered in the preceding quarter. Included in profit before tax is gain on disposal of a piece of land under furniture division amounting RM3.10 million.

B3. PROSPECT

Budget 2021 was tabled in Parliament by Finance Minister on 6 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 January 2021, and MCO 3.0 start from 12 May 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 e-commerce 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 under review.

B5. TAXATION

	Current quarter RM	Financial period to-date RM
Current taxation	(507,396)	(507,396)
Deferred taxation	-	-
	(507,396)	(507,396)

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 said transaction was completed on 10 February 2021.

B7. QUOTED SECURITIES

There was no purchase or disposal of quoted securities by the Group for the financial period under review.

B8. STATUS OF CORPORATE PROPOSALS

On 6 May 2021, the Group proposed to undertake a private placement of up to 97,046,000 new ordinary shares of SWS at an issue price to be determined later ("Proposed Private Placement"). A revision was announced on 12 May 2021 on the proposed issued price.

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 March 2021 are as follows:

	RM
Secured Short Term Borrowings	
- denominated in Ringgit Malaysia	50,484,414
- denominated in US Dollar	-
Secured Long Term Borrowings	
- denominated in Ringgit Malaysia	986,651
Total Borrowings	51,471,065

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 2021 are as follows:-

	Notional Amount As At 31.03.2021	Fair Value As At 31.03.2021
Foreign currency forward contracts		
Less than 1 year	889,347	904,872

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 period under review.

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 before tax for the financial period has been arrived at after crediting / (charging):-

	Current quarter RM	Financial period to-date RM
Amortisation of ROU	(5,684)	(5,684)
Bad debts recovered	5,592	5,592
Bad debts written off	(4,149)	(4,149)
Depreciation of property, plant and equipment	(1,529,453)	(1,529,453)
Fair value gain on financial instruments	(15,525)	(15,525)
Finance costs	(581,783)	(581,783)
Finance income	67,607	67,607
Gain on disposal of property, plant and equipment	3,285,374	3,285,374
Gain/(Loss) on foreign exchange		
Realised	(27,679)	(27,679)
Unrealised	50,049	50,049
Interest expense in lease liabilities	(356)	(356)
Rental received	21,000	21,000

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)	4,067,523	4,067,523
Weighted average number of shares	(shares)	211,578,160	211,578,160
Basic earnings per share	(sen)	1.92	1.92

Diluted earnings per share

		Current quarter	Financial year-to-date
Profit attributable to Owners of the Parent	(RM)	4,067,523	4,067,523
Weighted average number of shares			
- Basic	(shares)	211,578,160	211,578,160
- Effects of dilution of ESOS	(shares)	-	-
- Diluted	(shares)	211,578,160	211,578,160
Diluted earnings per share	(sen)	1.92	1.92

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 under review exceeds the exercise price of the warrant.

Board of Directors
SWS Capital Berhad
28th May 2021