

**NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE FIRST QUARTER ENDED 30 NOVEMBER 2018****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 November 2018, 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 for the second quarter (December to February) is normally lower than the rest of the quarters. This is mainly due to the long festive holidays in Malaysia as well as lower demand for the local and export markets after back-to-school, Christmas and New Year 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 November 2018.

#### 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 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 30 November 2018				
	Investment Holding RM	Manufacturing of furniture RM	Manufacturing of plastic wares RM	Eliminations RM	Consolidated RM
External sales	0	15,681,055	16,255,151	0	31,936,206
Dividend income	0	0	0	0	0
Inter-company transaction	0	808,058	7,104,702	(7,912,760)	0
Total	0	16,489,113	23,359,853	(7,912,760)	31,936,206

Results	3 months ended 30 November 2018				
	Investment Holding RM	Manufacturing Of furniture RM	Manufacturing Of plastic ware RM	Eliminations RM	Consolidated RM
Interest income	29,214	51,360	21,537	(58,548)	43,563
Finance costs	0	(233,626)	(686,926)	58,548	(862,004)
Depreciation of property, plant and equipment	0	(410,869)	(1,113,089)	(61,940)	(1,585,898)
Taxation	(10,623)	(107,469)	0	0	(118,092)
Other non-cash items	0	(28,783)	0	0	(28,783)
Segment profit/(loss)	(60,852)	206,863	(1,286,897)	0	(1,140,886)
Segment assets	73,105,283	77,812,796	130,026,568	(92,561,488)	188,383,159
Segment liabilities	84,170	26,514,066	77,151,399	(13,891,315)	89,858,320

#### **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 30 November 2018.

#### **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	2,075,859	2,075,859
			Purchases of plastic wares and other household products	208,908	208,908
ELE	PT. Elianware Houseware ("PTE")	Director of ELE	Sales of water bottles and tumblers	711,302	711,302
ELE	E Sponge Household S/B ("ES")	Director of ELE	Sales of plastic wares and cleaning products	2,333	2,333
			Purchases of cleaning products	40,177	40,177
			Rental	15,000	15,000
Ee-Lian Plastic Industries (M) Sdn Bhd ("ELP")	EJ	Director of ELE	Sales of plastic wares and other household products	800	800
			Purchases of plastic wares and other household products	48,000	48,000
ELP	Ebottles Marketing (M) S/B ("EBM")	Director of ELE	Sales of printing services	39,765	39,765

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	746,508	746,508
Other employee benefits	95,070	95,070

**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		+/- (%)
	30-Nov-18 (RM)	30-Nov-17 (RM)		30-Nov-18 (RM)	30-Nov-17 (RM)	
Furniture Division	15,681,055	12,222,888		15,681,055	12,222,888	
Plastic Wares Division	16,255,151	20,127,374		16,255,151	20,127,374	
<b>Total</b>	<b>31,936,206</b>	<b>32,350,262</b>	<b>(1)</b>	<b>31,936,206</b>	<b>32,350,262</b>	<b>(1)</b>

For the quarter under review, the Group recorded a lower turnover of RM31.94 million compared to RM32.35 million recorded in the previous year corresponding quarter ended 30 November 2017.

The revenue contribution from the furniture division increased by 28.3% to RM15.68 million as compared to previous year corresponding quarter of RM12.22 million, due to the increase in foreign market demand. The revenue contribution from the plastic wares division decreased by 19.2% to RM16.26 million as compared to previous year corresponding quarter of RM20.13 million. Local market demand decreased significantly for houseware since the implementation of Sales and Service tax (“SST”) in September 2018.

Profit / (Loss) Before Tax	Individual quarter		+/- (%)	Cumulative quarters		+/- (%)
	30-Nov-18 (RM)	30-Nov-17 (RM)		30-Nov-18 (RM)	30-Nov-17 (RM)	
Furniture Division	206,863	(439,677)		206,863	(439,677)	
Plastic Wares Division	(1,286,897)	1,560,011		(1,286,897)	1,560,011	
Others	(60,852)	(10,614)		(60,852)	(10,614)	
<b>Total</b>	<b>(1,140,886)</b>	<b>1,109,720</b>	<b>(203)</b>	<b>(1,140,886)</b>	<b>1,109,720</b>	<b>(203)</b>

In terms of gross profit margin, it has decreased from 19.5% in Q1 2018 to 15.1% in Q1 2019. Plastic wares division's gross profit margin decreased from 24.3% in Q1 2018 to 13.0% in Q1 2019 due increased in raw material cost and fixed operation overhead. As trading company, ELE cost of sales increased significantly as not able to transfer the SST expenses to customers. Selling price are revised by stages to minimise the impact on gross profit margin. The Furniture division's gross profit margin increased from 11.8% in Q1 2018 to 17.2% in Q1 2019 as supply of materials are stable with lower material costs and slight appreciation of USD.

The Group has recorded loss before tax of RM1.14 million for Q1 2019 compared to profit before tax of RM1.11 million recorded in Q1 2018. The decreased in plastic wares division from RM1.56 million profit to RM1.13 million loss was due to the significant drop in revenue as mentioned above, resulting insufficient gross profit to cover the administrative, finance and other expenses. Furniture division recorded profit before tax of RM0.21 million in Q1 2019 as compare to loss before tax of RM0.44 million in Q1 2018.

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

<b>Profit / (Loss) Before Tax</b>	Individual quarter 30-Nov-18 (RM)	Preceding quarter 31-Aug-18 (RM)	+ / - (RM)
Furniture Division	206,863	(680,898)	887,761
Plastic Wares Division	(1,286,897)	620,234	(1,907,131)
Others	(60,852)	(165,842)	104,990
<b>Total</b>	<b>(1,140,886)</b>	<b>(226,506)</b>	<b>(914,380)</b>

The Group recorded a lower turnover of RM31.94 million during the quarter under review against a turnover of RM33.85 million in the preceding quarter ended 31 August 2018. Gross profit margin was lower at 15.1% against 19.0% in the preceding quarter while absolute amount was higher at RM4.81 million against RM6.43 million in the preceding quarter.

In addition, the loss before tax of RM1.14 million for the quarter under review compared to the loss before tax of RM0.23 million registered in the preceding quarter ended 31 August 2018. The loss before tax for this quarter was due to the poor performance in plastic wares division. Gross profit margin of plastic wares division decreased from 25.4% in Q4 2018 to 13.0% in Q1 2019. Manufacturing overhead and direct labour cost were not fully utilised due to significant decreased in sales order. Market demand for plastic wares division decreased significantly since the implementation of SST in September 2018.

The gross profit margins in furniture division were higher from 10.8% to 17.2% due to increase in export demand. The improve in revenue and production efficiency to meet higher market demand resulted in profit before tax of RM0.21 million from loss before tax of RM0.68 million in preceding quarter ended 31 August 2018.

### **B3. PROSPECT FOR THE CURRENT FINANCIAL YEAR**

Plastic ware division is facing slowdown in market demand, both in the local and export market. The consumers' behaviour changed since the implementation of SST causing decreased in retailers' sales. This has led to decreased in sales orders from distributors and wholesalers, keeping less inventories level. The management is not expecting significant changes and improvement in short term, but confident and positive that the market uncertainties will be resolved before the next peak season. The Group is working on new marketing strategies and expand the product ranges to stay competitive in this challenging period. The management is also exploring the opportunity to expand and increase the product categories for plastic industrial market.

Furniture division had improved performance due to the increase in export market. As the tensions between United States ("US") and China is still on-going, management found opportunity to export bed rooms sets to US. The sales order increased and recurrent with short term agreement during the reporting period. The Group will focus on the cost monitoring, manufacturing efficiency and utilisation of available resources to meet the increased market demand.

### **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	(118,092)	(118,092)
Deferred taxation	0	0
	<u>(118,092)</u>	<u>(118,092)</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

On 28 January 2019, the Group proposed to undertake the following: -

- (i) proposed acquisition of 5,250,000 ordinary shares in Ee Jia Housewares (M) Sdn. Bhd. ("Ee Jia") ("Ee Jia Share(s)") ("Sale Share(s)"), representing the entire equity interest in Ee Jia 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 ("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").

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

## B9. GROUP'S BORROWINGS

The Group's borrowings as at 30 November 2018 are as follows:

	RM
Secured Short Term Borrowings	
- denominated in Ringgit Malaysia	41,632,852
- denominated in US Dollar	191,223
Secured Long Term Borrowings	
- denominated in Ringgit Malaysia	14,751,752
Total Borrowings	<u>56,575,827</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 November 2018 are as follows:-

	Notional Amount	Fair Value
	As At	As At
	30 Nov 2018	30 Nov 2018
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

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

	Current quarter RM	Financial year-to-date RM
Allowance for doubtful debts	(161,000)	(161,000)
Bad debts recovered	4,583	4,583
Bad debts written off	(3,000)	(3,000)
Depreciation of property, plant and equipment	(1,585,898)	(1,585,898)
Gain on disposal of property, plant and equipment	30,999	30,999
Gain / (loss) on foreign exchange		
Realised	(58,035)	(58,035)
Unrealised	28,783	28,783
Interest income	43,563	43,563
Finance costs	(862,004)	(862,004)
Rental received	50,250	50,250

## 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
Earnings attributable to			
Owners of the Parent	(RM)	(1,311,229)	(1,311,229)
Weighted average number of shares	(shares)	182,343,782	182,343,782
Basic earnings per share	(sen)	(0.72)	(0.72)

### *Diluted earnings per share*

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 year exceeds the exercise price of the warrant.

**Board of Directors  
SWS Capital Berhad  
30<sup>th</sup> January 2019**