

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED 30 JUNE 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 June 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 30 June 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	6 months ended 30 June 2020				
	Investment Holding RM	Manufacturing of furniture RM	Manufacturing of plastic wares RM	Eliminations RM	Consolidated RM
External sales	0	22,798,589	29,592,978	0	52,391,567
Management income	390,000	0	0	(390,000)	0
Inter-company transaction	0	1,613,994	9,419,586	(11,033,580)	0
Total	390,000	24,412,583	39,012,564	(11,423,580)	52,391,567

Results	Investment Holding RM	Manufacturing Of furniture RM	Manufacturing Of plastic ware RM	Eliminations RM	Consolidated RM
Interest income	34,765	113,280	42,756	(130,590)	60,211
Finance costs	0	(458,832)	(1,324,482)	130,590	(1,652,724)
Depreciation of property, plant and equipment	0	(864,614)	(2,404,539)	(123,877)	(3,393,030)
Taxation	(21,246)	(343,273)	0	0	(364,519)
Other non-cash items	0	(58,009)	0	0	(58,009)
Segment loss	(263,388)	(2,042,172)	1,001,070)	0	(1,304,489)
Segment assets	73,048,847	77,895,847	119,158,361	(94,823,130)	175,279,925
Segment liabilities	157,564	30,750,990	70,852,310	(15,092,398)	86,668,466

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 June 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	1,379,202	3,428,004
			Purchases of plastic wares and other household products	171,169	254,500
ELE	PT. Elianware Houseware ("PTE")	Director of ELE	Sales of plastic wares and other household products	485,842	1,270,789
ELE	E Sponge Household S/B ("ES")	Director of ELE	Sales of plastic wares and cleaning products	Nil	Nil
			Purchases of cleaning products	37,101	90,203
			Rental	15,000	30,000
ELE	Ebottles Marketing (M) S/B ("EBM")	Director of ELE	Purchases of water bottles and tumblers	3,360	16,349
Ee-Lian Plastic Industries (M) Sdn Bhd ("ELP")	EJ	Director of ELE	Sales of plastic wares and other household products	5,808	10,423
			Purchases of plastic wares and other household products	32,000	80,000
ELP	EBM	Director of ELE	Sales of printing services	14,210	36,554
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	689,186	1,419,836
Other employee benefits	83,157	197,576

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-June-20 (RM)	30-June-19 (RM)		30-June-20 (RM)	30-June-19 (RM)	
Furniture Division	8,468,258	N/A		22,798,589	N/A	
Plastic Wares Division	12,687,323	N/A		29,592,978	N/A	
Total	21,155,581	N/A	N/A	52,391,567	N/A	N/A

For the period under review, the Group recorded a total turnover of RM21.16 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 RM8.47 million and RM12.69 million respectively in Q2 2020. Revenue from furniture division is slowdown due to decrease in foreign market demand during MCO period. Plastic wares division is losing sales orders of Raya series due to MCO. Local sales of plastic wares division improved since June 2020 due to market recovery and change of consumer spending behaviour.

Profit / (Loss) Before Tax	Individual period		+/- (%)	Cumulative period		+/- (%)
	30-June-20 (RM)	30-June-19 (RM)		30-June-20 (RM)	30-June-19 (RM)	
Furniture Division	(1,220,569)	N/A		(2,042,171)	N/A	
Plastic Wares Division	1,661,226	N/A		1,001,070	N/A	
Others	(125,864)	N/A		(263,388)	N/A	
Total	314,793	N/A	N/A	(1,304,489)	N/A	N/A

In Q2 2020, the Group recorded gross profit of RM5.03 million. Furniture division recorded RM0.45 million gross profit, with gross profit margin of 5.3%. The margin for furniture divisions are more challenging due to the decreased in sales orders. Plastic wares division recorded RM4.58 million gross profit, with gross profit margin of 36.1%. Raw material cost for plastic wares division decreased significantly during the period. 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 RM0.31 million for Q2 2020. Furniture and reported loss before tax of RM1.22 million due to the slow recovery of sales. Significant drop in revenue caused insufficient gross profit to cover the administrative and finance expenses. Plastic wares division recorded profit before tax of RM1.66 million mainly due to the improved sales and significant decreased in raw material cost. Management were able to plan and monitor the direct material costing.

B2. VARIANCE IN PROFIT / (LOSS) BEFORE TAX

Profit / (Loss) Before Tax	Individual period 30-June-20 (RM)	Preceding quarter 31-Mar-20 (RM)	+ / - (RM)
Furniture Division	(1,220,569)	(821,602)	(398,967)
Plastic Wares Division	1,661,226	(660,157)	2,321,383
Others	(125,864)	(137,524)	11,660
Total	314,793	(1,619,283)	1,934,076

The Group recorded a lower turnover of RM21.16 million during period under review against a turnover of RM31.24 million in the preceding quarter ended 31 March 2020. Gross profit margin was higher at 23.8% against 12.6% in the preceding quarter while absolute amount was higher at RM5.03 million against RM3.92 million in the preceding quarter.

The gross profit margin for furniture division was lower from 9.3% in preceding quarter to 5.3% in Q2 2020. Manufacturing overhead and direct labour cost were not fully utilised due to significant decreased in sales order. Gross profit margin of plastic wares division increased from 15.3% in preceding quarter to 36.1% in Q2 2020 due improved in sales and significant decreased in raw material cost.

In addition, the improved performance of plastic wares division bring the group profit before tax of RM0.31 million for the quarter under review compared to the loss before tax of RM1.62 million registered in the preceding quarter ended 31 March 2020.

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, include the launching of new range of quality affordable. 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	(183,093)	(364,519)
Deferred taxation	0	0
	<u>(183,093)</u>	<u>(364,519)</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 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 June 2020 are as follows:

	RM
Secured Short Term Borrowings	
- denominated in Ringgit Malaysia	45,392,675
- denominated in US Dollar	819,044
Secured Long Term Borrowings	
- denominated in Ringgit Malaysia	14,571,614
Total Borrowings	<u>60,783,333</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 June 2020 are as follows:-

	Notional Amount As At 30.06.2020	Fair Value As At 30.06.2020
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	450	34,888
Depreciation of property, plant and equipment	(1,704,570)	(3,393,030)
Loss on disposal of property, plant and equipment	14,000	9,165
Gain on foreign exchange		
Realised	(71,391)	(58,626)
Unrealised	9,584	58,009
Interest income	32,814	60,211
Finance costs	(735,815)	(1,652,724)
Fair value loss on financial instruments	35,294	0
Rental received	32,500	78,400

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)	(27,170)	(1,651,422)
Weighted average number of shares	(shares)	182,343,782	182,343,782
Basic loss per share	(sen)	(0.01)	(0.91)

Diluted earnings per share

		Current quarter	Financial year-to-date
Profit / (loss) attributable to			
Owners of the Parent	(RM)	1,781	(1,593,520)
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 loss per share	(sen)	(0.01)	(0.87)
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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
28th August 2020