

**NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE SECOND QUARTER ENDED 30 JUNE 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 30 June 2021, have been prepared in accordance with MFRS 134 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.

| Revenue and Expenses         | 6 months ended 30 June 2021 |                                     |   |                    | Consolidated<br>RM |
|------------------------------|-----------------------------|-------------------------------------|---|--------------------|--------------------|
|                              | Other<br>RM                 | Manufacturing<br>of furniture<br>RM | Manufacturing<br>of plastic wares<br>RM | Eliminations<br>RM |                    |
| External sales               | 0                           | 35,756,001                          | 45,252,790                              | 0                  | 81,008,791         |
| Management income            | 197,000                     | 0                                   | 0                                       | (197,000)          | 0                  |
| Inter-company<br>transaction | 0                           | 3,430,472                           | 13,674,119                              | (17,104,591)       | 0                  |
| Total                        | 197,000                     | 39,186,473                          | 58,926,909                              | (17,301,591)       | 81,008,791         |

| Results  | 6 months ended 30 June 2021 |                                     |   |                    | Consolidated<br>RM |
|--|-----------------------------|-------------------------------------|---|--------------------|--------------------|
|  | Other<br>RM                 | Manufacturing<br>of furniture<br>RM | Manufacturing<br>of plastic wares<br>RM | Eliminations<br>RM |                    |
| Interest income                                  | 198,120                     | 95,559                              | 42,938                                  | (196,557)          | 140,060            |
| Finance costs                                    | 0                           | (390,982)                           | (896,581)                               | 196,557            | (1,091,006)        |
| Interest expense in lease<br>liabilities         | 0                           | (1,343)                             | 0                                       | 0                  | (1,343)            |
| Depreciation of property,<br>plant and equipment | 0                           | (848,971)                           | (1,801,808)                             | (123,877)          | (2,774,656)        |
| Amortisation of ROU                              | 0                           | (5,684)                             | 0                                       | 0                  | (5,684)            |
| Taxation   | (39,996)                    | (717,534)                           | (266,240)                               | 0                  | (1,023,770)        |
| Other non-cash items                             | 0                           | (91,150)                            | 0                                       | 0                  | (91,150)           |
| Segment profit/(loss)                            | (325,031)                   | 4,421,546                           | 1,589,863                               | 0                  | 5,686,378          |
| Segment assets                                   | 90,718,514                  | 89,995,495                          | 125,471,864                             | (106,045,268)      | 200,140,605        |
| Segment liabilities                              | 164,635                     | 38,382,526                          | 75,421,154                              | (24,854,020)       | 89,114,295         |

**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     | 2,495,333            | 4,411,714                     |
|  |                                    |                 | Purchases of plastic wares and other household products | 193,588              | 434,385                       |
| ELE  | PT. Elianware Houseware            | Director of ELE | Sales of plastic wares and other household products     | 675,804              | 1,796,965                     |
| ELE  | E Sponge Household S/B ("ES")      | Director of ELE | Sales of plastic wares and other household products     | 6,221                | 6,221                         |
|  |                                    |                 | Purchases of cleaning products                          | 25,723               | 78,356                        |
| ELE  | Ebottles Marketing (M) S/B ("EBM") | Director of ELE | Purchases of water bottles and tumblers                 | 14,900               | 19,820                        |
| Ee-Lian Plastic Industries (M) Sdn Bhd ("ELP") | EJ                                 | Director of ELP | Sales of plastic wares and other household products     | 48,084               | 159,556                       |
|  |                                    |                 | Purchases of plastic wares and other household products | 48,000               | 96,000                        |
| ELP  | EBM                                | Director of ELP | Sales of printing services                              | 22,843               | 29,145                        |
| ELP  | ES                                 | Director of ELP | Sales of plastic wares and cleaning products            | 0                    | 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                          | 638,008              | 1,463,216                     |
| Other employee benefits                               | 71,598               | 190,625                       |

**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 |                    | +/-<br>(%) | Cumulative quarter |                    | +/-<br>(%) |
|------------------------|--------------------|--------------------|------------|--------------------|--------------------|------------|
|                        | 30-June-21<br>(RM) | 30-June-20<br>(RM) |            | 30-June-21<br>(RM) | 30-June-20<br>(RM) |            |
| Furniture Division     | 15,177,546         | 8,468,258          |            | 35,756,001         | 22,798,589         |            |
| Plastic Wares Division | 21,119,313         | 12,687,323         |            | 45,252,790         | 29,592,978         |            |
| <b>Total</b>           | <b>36,296,859</b>  | <b>21,155,581</b>  | <b>72</b>  | <b>81,008,791</b>  | <b>52,391,567</b>  | <b>55</b>  |

For current quarter under review, the Group recorded a higher turnover of RM36.30 million compared to RM21.16 million recorded in the previous year corresponding quarter ended 30 June 2020.

2020 Malaysia Movement Control Order (“MCO”) was implemented by the federal government of Malaysia towards the covid-19 pandemic on 18 March 2020. In view of the worrying situation, Malaysian government impose CMCO in October 2020 and later reintroduces second MCO on 13 January 2021. Adding to that, Prime Minister of Malaysia addressed the nation on the proclamation of a nationwide State of Emergency and subsequently followed by the third MCO starting on 12 May 2021 due to the recent spike in COVID-19 cases in Malaysia.

Before the third MCO, both divisions have recovered from the negative impact of covid-19 pandemic. As furniture divisions do not fall within the approve industries, the operations were shut down, resulting loss of operation days in Q2 2021. The revenue contribution from the furniture division increased by 79.2% to RM15.18 million as compared to previous year corresponding quarter of RM8.47 million.

Plastic wares division falls within essential services and was operating at minimum capacity with MITI approval. The market demands decreased since the lockdown and continued closure of international borders. The revenue contribution from the plastic wares division increased by 66.5% to RM21.12 million as compared to previous year corresponding quarter of RM12.69 million due to market recovery.

| Profit / (Loss)<br>Before Tax | Individual quarter |                    | +/-<br>(%) | Cumulative quarter |                    | +/-<br>(%) |
|-------------------------------|--------------------|--------------------|------------|--------------------|--------------------|------------|
|                               | 30-June-21<br>(RM) | 30-June-20<br>(RM) |            | 30-June-21<br>(RM) | 30-June-20<br>(RM) |            |
| Furniture Division            | 236,745            | (1,220,569)        |            | 4,421,546          | (2,042,171)        |            |
| Plastic Wares Division        | 1,000,681          | 1,661,226          |            | 1,589,863          | 1,001,070          |            |
| Others                        | (198,352)          | (125,865)          |            | (325,031)          | (263,388)          |            |
| <b>Total</b>                  | <b>1,039,074</b>   | <b>314,792</b>     | <b>230</b> | <b>5,686,378</b>   | <b>(1,304,489)</b> | <b>536</b> |

## B1. PERFORMANCE REVIEW (Cont'd)

For the quarter under review, the Group recorded total gross profit of RM6.40 million, compared to RM5.03 million recorded in Q2 2020. Gross profit margin decreased from 23.8% in Q2 2020 to 17.6% in Q2 2021.

Furniture division's gross profit margin increased from 5.3% in Q2 2020 to 14.0% in Q2 2021, recorded RM2.13 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 36.1% in Q2 2020 to 20.2% in Q2 2021, recorded RM4.27 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 RM1.04 million for Q2 2021 compared to RM0.31 million recorded in Q2 2020. Furniture and plastic wares divisions recorded profit before tax of RM0.24 million and RM1.00 million respectively.

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

| <b>Profit / (Loss) Before Tax</b> | <b>Individual quarter<br/>30-June-21<br/>(RM)</b> | <b>Preceding quarter<br/>31-March-21<br/>(RM)</b> | <b>+ / -<br/>(RM)</b> |
|-----------------------------------|---|---|-----------------------|
| Furniture Division                | 236,745   | 4,184,801   | (3,948,056)           |
| Plastic Wares Division            | 1,000,681   | 589,182   | 411,499               |
| Others                            | (198,352)   | (126,679)   | (71,673)              |
| <b>Total</b>                      | <b>1,039,074</b>                                  | <b>4,647,304</b>                                  | <b>(3,608,230)</b>    |

The Group recorded a lower turnover of RM36.30 million during the quarter under review against turnover of RM44.71 million in the preceding quarter ended 31 March 2021, due to third MCO lockdown. Gross profit margin was higher at 17.6% against 16.6% in the preceding quarter while absolute amount was lower at RM6.40 million against RM7.44 million in the preceding quarter.

The gross profit margin for furniture division was lower from 15.6% in preceding quarter to 14.0% in Q2 2021. Gross profit margin of plastic wares division increased from 17.5% in preceding quarter to 20.2% in Q2 2021.

In addition, the Group has recorded profit before tax of RM1.04 million for the quarter under review compared to profit before tax to RM4.65 million registered in the preceding quarter. Included in profit before tax of Q1 2021 is gain on disposal of a piece of land under furniture division amounting RM3.10 million.

### **B3. PROSPECT**

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. To contain the Covid-19 pandemic, the government has imposed National Recovery Plan (PPN) which come effective from 20 August 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, include the launching of new range of quality affordable products, investment for e-commerce department and marketing for corporate products. Management is focusing on planning to stay competitive and exploring the opportunity to expand. With minimum operation rate approved by MITI during MCO and PPN, the management is working hard on the production planning. The Group also anticipates that the conditions of the plastic wares sector will be challenging for local and export market demand.

Before MCO 3.0 lockdown, 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. During MCO and PPN, the management keep following up with oversea customers to secure the delayed export orders. The operations will re-open in September 2021 with approval from MITI based on staff vaccination rate. Production with The Group will focus on the cost monitoring, manufacturing efficiency and utilisation of available resources to recover the negative impact of lockdown.

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<br>quarter<br>RM | Financial<br>period to-date<br>RM |
|-------------------|--------------------------|-----------------------------------|
| Current taxation  | (516,374)                | (1,023,770)                       |
| Deferred taxation | -                        | -                                 |
|                   | <u>(516,374)</u>         | <u>(1,023,770)</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**

There was no sale of unquoted investments and/or properties by the Group for the current quarter under review.

**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. The proposal was duly passed by the shareholders by way of poll at the Extraordinary General Meeting ("EGM") held on 30 July 2021.

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 2021 are as follows:

|                                   | RM                |
|-----------------------------------|-------------------|
| Secured Short Term Borrowings     |                   |
| - denominated in Ringgit Malaysia | 41,498,379        |
| - denominated in US Dollar        | 377,444           |
| Secured Long Term Borrowings      |                   |
| - denominated in Ringgit Malaysia | 9,156,873         |
| Total Borrowings                  | <u>51,032,696</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 2021 are as follows:-

|                                    | Notional Amount<br>As At<br>30.06.2021 | Fair Value<br>As At<br>30.06.2021 |
|------------------------------------|--|-----------------------------------|
| Foreign currency forward contracts |  |                                   |
| Less than 1 year                   | 742,400                                | 749,870                           |

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 charging / (crediting):-

|   | Current<br>quarter<br>RM | Financial<br>period to-date<br>RM |
|---|--------------------------|-----------------------------------|
| Amortisation of ROU                               | 313,217                  | 318,901                           |
| Bad debts recovered                               | (17,325)                 | (22,917)                          |
| Bad debts written off                             | (4,149)                  | -                                 |
| Depreciation of property, plant and equipment     | 1,245,203                | 2,774,656                         |
| Fair value gain on financial instruments          | (8,055)                  | 7,470                             |
| Finance costs                                     | 509,223                  | 1,091,006                         |
| Finance income                                    | (72,453)                 | (140,060)                         |
| Gain on disposal of property, plant and equipment | (71,660)                 | (3,357,034)                       |
| (Gain)/Loss on foreign exchange                   |                          |                                   |
| Realised  | 67,307                   | 94,986                            |
| Unrealised  | (33,632)                 | (83,680)                          |
| Interest expense in lease liabilities             | 987                      | 1,343                             |
| Impairment loss on receivables                    | 66,217                   | 66,217                            |
| Rental received                                   | (21,000)                 | (42,000)                          |

## 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<br>quarter | Financial<br>period-to-date |
|-----------------------------------|----------|--------------------|-----------------------------|
| Profit attributable to            |          |                    |                             |
| Owners of the Parent              | (RM)     | 460,218            | 4,527,741                   |
| Weighted average number of shares | (shares) | 211,578,160        | 211,578,160                 |
| Basic earnings per share          | (sen)    | 0.22               | 2.14                        |

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

There is no dilutive effect of the potential ordinary shares convertible under warrants and ESOS issued during the financial quarter. Warrants and ESOS have 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**  
**28<sup>th</sup> September 2021**