SWS CAPITAL BERHAD ("SWS" OR THE "COMPANY")

PROPOSED PRIVATE PLACEMENT OF UP TO 10% OF THE ORDINARY SHARES OF SWS

1. INTRODUCTION

On behalf of the board of directors of SWS ("**Board**"), Malacca Securities Sdn. Bhd. ("**Malacca Securities**") wishes to announce that the Company proposes to undertake a private placement of up to 10% of the issued ordinary shares of SWS ("**SWS Share(s)**") ("**Placement Share(s)**") at an issue price to be determined later ("**Proposed Private Placement**").

The Proposed Private Placement will be undertaken in accordance with the approval obtained from the shareholders of the Company at the 20th Annual General Meeting ("**AGM**") of the Company convened on 22 July 2020, whereby pursuant to Section 75 of the Companies Act 2016 ("**Act**"), the Board was authorised to allot and issue new SWS Shares, from time to time and upon such terms and conditions and for such purposes and to such persons whomsoever the Directors may, in their absolute discretion deem fit and expedient in the interest of the Company, provided that the aggregate number of SWS Shares to be issued during the preceding twelve (12) months does not exceed 10% of the total number of the issued shares (excluding treasury shares, if any) of the Company for the time being ("**General Mandate**"). Such authority shall continue to be in force until the conclusion of the next AGM of SWS, unless revoked or varied by the Company at a general meeting.

Further details of the Proposed Private Placement are set out in the ensuing sections.

2. DETAILS OF THE PROPOSED PRIVATE PLACEMENT

As at 12 August 2020, being the latest practicable date preceding the date of this announcement ("**LPD**"), SWS has:

(a) a share capital of RM91,242,917 comprising 182,343,782 SWS Shares;

(b) 91,171,801 outstanding warrants 2018/2023 ("**Warrants**");

(c) 7,000,000 outstanding employees share options ("**ESOS Options**"); and

(d) up to 20,351,567 ESOS Options which may be granted pursuant to the maximum allowable amount under the employees share option scheme ("**ESOS**")

The total ESOS Options of 27,351,567 ESOS Options that are granted/may be granted and exercisable represents approximately 15% of the total issued SWS Shares as at LPD ("**Total ESOS Options**").

In view of the above, for illustrative purposes throughout this announcement, the effects of the Proposed Private Placement shall be illustrated based on the following two (2) scenarios:

Minimum Scenario:	Assuming none of the 91,171,801 outstanding Warrants and Total ESOS Options are exercised prior to the implementation of the Proposed Private Placement. The number of Placement Shares under the minimum scenario is up to 18,234,378 Placement Shares.
Maximum Scenario:	Assuming all the 91,171,801 outstanding Warrants and Total ESOS Options are exercised prior to the implementation of the Proposed Private Placement. The number of Placement Shares under the maximum scenario is up to 30,086,715 Placement Shares.

The Proposed Private Placement will entail the issuance of up to 30,086,715 Placement Shares representing not more than 10% of the issued SWS Shares as at the LPD (assuming the Warrants and the Total ESOS Options are exercised), at an issue price to be determined by the Board and announced at a later date.

The actual number of SWS Shares to be placed to investors and issued pursuant to the Proposed Private Placement will be determined at a later date, after obtaining Bursa Malaysia Securities Berhad's ("**Bursa Securities**") approval for the listing of and quotation for the Placement Shares on the Main Market of Bursa Securities ("**Bursa's Approval**"). Subject to the prevailing market conditions, the Proposed Private Placement may be implemented in multiple tranches, if required, within six (6) months from Bursa's Approval (depending on investors' interests at the point of implementation) or any extended period as may be approved by Bursa Securities, until the conclusion of the next AGM of the Company, to provide the Company with the flexibility to secure interested investors and to maximise the number of Placement Shares to be placed out. As such, there could potentially be several price-fixing dates depending on the number of tranches and timing of implementation.

The details of placees and the number of Placement Shares to be placed to each placee in accordance with Paragraph 6.15 of the Main Market Listing Requirements of Bursa Securities ("**Listing Requirements**") will be submitted to Bursa Securities before the listing of the Placement Shares to be issued pursuant to the Proposed Private Placement.

2.1. Basis and justification on arriving at the issue price of the Placement Shares

The issue price of each tranche of the Placement Shares, where applicable, shall be determined separately and fixed by the Board on a later date after the receipt of Bursa's Approval.

The Board will take into consideration amongst others, the prevailing market conditions and the provisions of Paragraph 6.04(a) of the Listing Requirements, in determining the issue price(s) of the Placement Shares at a discount of not more than 10% to the volume weighted average market price ("**VWAP**") of SWS Shares for the five (5) market days immediately preceding the price fixing date(s).

For illustrative purposes, the Company has assumed that the Placement Shares are issued at an indicative issue price of RM0.49 per Placement Share ("**Indicative Placement Issue Price**") representing the VWAP of SWS Shares for the five (5) market days up to the LPD of RM0.4896, the Proposed Private Placement is expected to raise gross proceeds of up to approximately RM14.74 million.

2.2. Placement arrangement

The Placement Shares are proposed to be placed to independent third-party investor(s) ("**Placee(s)**") to be identified at a later date. In accordance with Paragraph 6.04(c) of the Listing Requirements, the Placement Shares will not be placed to the following parties:

(i) a director, major shareholder or chief executive of SWS or a holding company of SWS (if applicable), or person(s) connected with such director, major shareholder or chief executive; and

(ii) nominee corporations, unless the names of the ultimate beneficiaries are disclosed.

Placees shall be person(s) or party(ies) who/which qualify under Schedules 6 and 7 of the Capital Markets and Services Act 2007.

2.3. Ranking of the Placement Shares

The Placement Shares shall, upon allotment and issuance, rank pari passu in all respects with the existing SWS Shares, save and except that the Placement Shares shall not be entitled to any dividends, rights, allotment and/or distributions, which may be declared, made or paid to the shareholders of the Company, the entitlement date of which is prior to the date of allotment and issuance of the Placement Shares.

2.4. Listing of and quotation for the Placement Shares

An application will be made to Bursa Securities for the listing of and quotation for the Placement Shares to be issued pursuant to the Proposed Private Placement on the Main Market of Bursa Securities.

2.5. Utilisation of proceeds

For illustration purposes, based on the proposed placement size of up to 30,086,715 Placement Shares at the Indicative Placement Issue Price, the Proposed Private Placement is expected to raise total gross proceeds of up to approximately RM14.74 million which will be utilised in the following manner:

	Notes	**Minimum Scenario**	**Maximum Scenario**	**Expected timeframe for utilisation of proceeds (from the date of listing of the Placement Shares)**
		RM'000	**RM'000**	
Working capital	(i)	Up to 4,181	Up to 7,049	Within 12 months
Repayment of bank borrowings	(ii)	Up to 4,604	Up to 7,543	Within 12 months
Estimated expenses for the Proposed Private Placement	(iii)	150	150	Within 3 months
Total proceeds		**8,935**	**14,742**	

Notes:

(i) *Part of the proceeds will be utilised as general working capital for SWS and its subsidiaries ("**SWS Group**" or "**Group**") as follows:*

Description/details	***Minimum Scenario (RM'000)***	***Maximum Scenario (RM'000)***
Payroll (staff salary)	*3,000*	*3,000*
Utilities (electricity and water)	*900*	*900*
Payment to suppliers	*281*	*3,149*
Total	***4,181***	***7,049***

(ii) *The Company proposes to utilise up to approximately RM7.54 million of the proceeds to reduce the bank borrowings of SWS Group. The total borrowings of SWS Group as at 31 July 2020 amounted to approximately RM57.99 million.*

The details of the bank borrowings that SWS proposes to repay are as follows:

Description/ type of bank facilities	***Average effective interest rates per annum for the 16-months financial period ended ("FPE") 31 December 2019 (%)***	***Outstanding amount as at 31 July 2020 (RM'000)***	***Amount proposed to repay***	
			Minimum Scenario (RM'000)	***Maximum Scenario (RM'000)***
Term loan	*6.14*	*14,441*	*4,604*	*7,543*

Under the Minimum Scenario and Maximum Scenario respectively, the repayment of bank borrowings of RM4.6 million and RM7.54 million is expected to result in an estimated saving in interest payment of approximately RM0.28 million and RM0.46 million per annum based on an interest rate of 6.14% per annum.

(iii) *This includes payment of fees to Bursa Securities, adviser's fees and share issuance expenses in relation to the Proposed Private Placement. Any deviation in the actual amount of expenses for the Proposed Private Placement will be adjusted accordingly to/from the working capital and repayment of bank borrowings of SWS Group.*

Pending the full utilisation of the proceeds raised from the Proposed Private Placement, the Company intends to place these proceeds (including accrued interest, if any) or the balance thereof in interest-bearing deposit accounts with licensed financial institution(s) or in short term money market instruments. The interest derived from the deposits with financial institutions or any gains arising from the short-term money market instruments will be used as working capital of the SWS Group, including but not limited to servicing of interest payment for the borrowings of SWS Group.

The actual proceeds to be raised from the Proposed Private Placement is dependent on the issue price and actual number of Placement Shares issued. In the event of a variation in the actual gross proceeds raised due to differences in the issue price(s) and/or the number of Placement Shares to be issued, the amount proposed to be allocated for working capital and repayment of bank borrowings in relation to the Proposed Private Placement purposes will be varied accordingly.

3. RATIONALE AND JUSTIFICATION FOR THE PROPOSED PRIVATE PLACEMENT

The rationale for the Proposed Private Placement are as follows:

(i) to allow SWS to raise funds expeditiously as opposed to a pro-rata issuance of securities such as a rights issue;

(ii) to provide an avenue for SWS to tap into the equity market to raise additional funds effectively without incurring interest costs as compared to funding via bank borrowings;

(iii) to reduce the gearing of the Group due to an increase in the net assets ("**NA**") of the Group; and

(iv) to strengthen the Group's financial and capital position and may potentially improve the liquidity of SWS Shares in the market.

The Board is of the opinion that the Proposed Private Placement is a cost-effective source of capital to raise additional funds and an expeditious way of fundraising from the capital market (pursuant to the General Mandate) as opposed to other forms of fundraising based on the following:

(i) the Proposed Private Placement is a less risky avenue to raise the required quantum of funds as opposed to other forms of equity raising methods such as a rights issue exercise. Although a rights issue is a pro-rated issuance of securities to all shareholders, there is no certainty of successful full subscription and may require underwriting to be undertaken;

(ii) a rights issue will also require the Company to identify certain shareholders to provide irrevocable undertakings to subscribe for a minimum number of rights shares or, alternatively, procure underwriting arrangements (which will incur additional cost), in order to achieve a minimum subscription level to raise the requisite funds. In addition, a rights issue exercise is likely to take a longer time to complete as compared to a private placement exercise; and

(iii) the Proposed Private Placement also enables SWS to raise funds for its working capital without having to incur borrowings with related interest expenses. This allows SWS Group to utilise its cash reserves for the Group's operational purposes. The Proposed Private Placement will also improve SWS's capital base (i.e. increase in shareholders' equity) as it will provide the flexibility for future fundraising from financial institutions for committed capital expenditures as and when the need arises.

The Proposed Private Placement is undertaken for the purposes as set out in Section 2.5 of this announcement. The proceeds raised to be utilised for working capital and repayment of bank borrowings will help to facilitate the Group's existing day-to-day operations as a whole by providing more flexibility in terms of cash flow management amid the prospects of the Group as set out in Section 6.4 of this announcement.

4. THE DETAILS OF EQUITY FUND-RAISING EXERCISES UNDERTAKEN IN THE PAST 12 MONTHS

On 29 July 2019, the shareholders of SWS had approved in an extraordinary general meeting the following proposals:

(i) acquisition of 5,250,000 ordinary shares in Ee Jia Housewares (M) Sdn. Bhd. ("**Ee Jia**"), representing the entire equity interest in Ee Jia for a purchase consideration of RM65.0 million to be satisfied via a combination of RM20.0 million in cash and the issuance of 55,000,000 new SWS Shares at an issue price of RM0.80 each ("**Acquisition**");

(ii) renounceable rights issue of up to 547,031,166 new irredeemable convertible preference shares in SWS ("**ICPS**") ("**Rights ICPS**") at an issue price of RM0.07 each on the basis of two (2) Rights ICPS for every one (1) existing SWS Share held at an entitlement date to be determined later ("**Rights Issue of ICPS**");

(iii) private placement of up to 143,000,000 new ICPS ("**Placement ICPS**") at an issue price to be determined later that shall not be lower than RM0.07 each ("P**rivate Placement of ICPS**"); and

(iv) amendments to the Constitution of SWS ("Amendments")

On 27 April 2020, the Board had announced that the vendors of Ee Jia had decided not to further extend the long stop date under the sale and purchase agreement in relation to the Acquisition ("**SPA**") which was previously extended until 25 April 2020. As such, the SPA had been terminated and ceased to have effect on 25 April 2020 in accordance with Clause 4.3(e) of the SPA which states that if the conditions precedent are not satisfied or waived on or before the long stop date, the SPA shall terminate and cease to have effect on the long stop date except for surviving provisions and any rights, remedies or liabilities of SWS and the vendors of Ee Jia that have accrued at termination of the SPA.

Consequently, as the Acquisition, the Rights Issue of ICPS and the Amendments are inter-conditional upon one another and the Private Placement of ICPS is conditional upon the Rights Issue of ICPS and the Amendments, the aforementioned proposals did not proceed and were aborted accordingly.

Saved as disclosed above, the Company has not undertaken any equity fund-raising exercises in the past 12 months before the announcement of the Proposed Private Placement.

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5. EFFECTS OF THE PROPOSED PRIVATE PLACEMENT

The pro forma effects of the Proposed Private Placement are based on the following scenarios:

Minimum Scenario	Assuming none of the 91,171,801 outstanding Warrants and Total ESOS Options as at the LPD are exercised prior to the Proposed Private Placement. The number of Placement Shares under the minimum scenario is up to 18,234,378 Placement Shares.
Maximum Scenario	Assuming all the 91,171,801 outstanding Warrants and Total ESOS Options are exercised prior to the implementation of the Proposed Private Placement. The number of Placement Shares under the maximum scenario is 30,086,715 Placement Shares.

5.1 Share capital

The pro forma effects of the Proposed Private Placement are as follows:

	Minimum Scenario		**Maximum Scenario**	
	No. of SWS Shares	**RM'000**	**No. of SWS Shares**	**RM'000**
Issued share capital of SWS as at the LPD	182,343,782	91,243	182,343,782	91,243
To be issued assuming full exercise of all outstanding Warrants	-	-	91,171,801	(i)82,055
	182,343,782	91,243	273,515,583	173,298
To be issued assuming full exercise of all Total ESOS Options	-	-	27,351,567	(ii)17,978
	182,343,782	91,243	300,867,150	(i)191,276
Placement Shares to be issued pursuant to the Proposed Private Placement(iii)	18,234,378	(iii)8,935	30,086,715	(iii)14,742
Enlarged share capital of SWS	**200,578,160**	**100,178**	**330,953,865**	**206,018**

Notes:

(i) Assuming all outstanding Warrants are exercised at RM0.90 per Warrant.

(ii) Assuming all outstanding ESOS Options are exercised at RM0.49 per ESOS Option and the transfer of equity-settled employees' based benefit of RM1,524,600 to the share capital for the existing 7,000,000 outstanding ESOS Options and an assumed transfer of equity-settled employees' based benefit of approximately RM3,052,000 for the remaining 20,351,567 ESOS Options upon vested and granted to eligible persons.

(iii) Calculated based on the Indicative Placement Issue Price.

5.2 NA, NA per SWS Share and gearing

The pro forma effects of the Proposed Private Placement on the NA, NA per SWS Share and gearing of the SWS Group are as follows:

Minimum Scenario

	(I) Audited as at 31 December 2019 (RM'000)	After (I) and the Proposed Private Placement[(i)] (RM'000)
Share capital	91,243	100,178
Reserves	(1,072)	[(ii)](1,222)
Shareholders' funds/ NA	90,171	98,956
Number of SWS Shares issued ('000)	182,344	200,578
NA per SWS Share (RM)	0.49	0.49
Borrowings (RM'000)	59,932	[(iii)]55,328
Gearing (times)	0.66	0.56

Notes:

(i) After incorporating the issuance of approximately 18.23 million Placement Shares at the Indicative Placement Issue Price.

(ii) After deducting the estimated expenses for the Proposed Private Placement of approximately RM150,000.

(iii) Assumed after repayment of bank borrowings of approximately RM4.60 million.

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Maximum Scenario

	(I) Audited as at 31 December 2019 (RM'000)	(II) After (I) and assuming full exercise of outstanding Warrants(i) (RM'000)	(III) After (II) and assuming full exercise of outstanding ESOS Options(ii) (RM'000)	After (III) and the Proposed Private Placement(iii) (RM'000)
Share capital	91,243	173,298	191,276	206,018
Reserves	(1,072)	(1,072)	(5,649)	(iv)(5,799)
Shareholders' funds/ NA	90,171	172,226	185,627	200,219
Number of SWS issued ('000)	182,344	273,516	300,867	330,954
NA per SWS Share (RM)	0.49	0.63	0.62	0.60
Borrowings (RM '000)	59,932	59,932	59,932	(v)52,389
Gearing (times)	0.66	0.35	0.32	0.26

Notes:

(i) Assuming all outstanding Warrants are exercised at RM0.90 per Warrant.

(ii) Assuming all outstanding ESOS Options are exercised at RM0.49 per ESOS Option and the transfer of equity-settled employees' based benefit of RM1,524,600 to the share capital for the existing 7,000,000 outstanding ESOS Options and an assumed transfer of equity-settled employees' based benefit of approximately RM3,052,000 for the remaining 20,351,567 ESOS Options upon vested and granted to eligible persons.

(iii) After incorporating the issuance of approximately 30.09 million Placement Shares at the Indicative Placement Issue Price.

(iv) After deducting the estimated expenses for the Proposed Private Placement of approximately RM150,000.

(v) Assumed after repayment of bank borrowings of approximately RM7.54 million.

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5.3 Earnings and earnings per share ("EPS")

The Proposed Private Placement is not expected to have any immediate material effect on the earnings of the Group for the financial year ended ("**FYE**") 31 December 2020 as the Proposed Private Placement is only expected to be completed in the 4th quarter of year 2020 whilst the proceeds to be raised are expected to be utilised within 12 months from the date of the listing of the Placement Shares. However, the Proposed Private Placement is expected to contribute positively to the consolidated earnings of SWS Group for the ensuing financial years when the benefits of the utilization of proceeds are realised. The EPS will correspondingly be diluted as a result of the increase in the number of issued SWS Shares pursuant to the Proposed Private Placement.

For illustrative purposes, assuming that the Proposed Private Placement was effected at the beginning of the 16-months FPE 31 December 2019 of SWS, the pro forma effects on the earnings and EPS of SWS Group are as follows:

Minimum Scenario

	(I) Audited for FPE 31 December 2019	**After (I) and the Proposed Private Placement**
Loss after tax ("**LAT**") (RM'000)	(10,699)	(i)(ii)(10,569)
Loss per SWS Share ("**LPS**") (RM)	(0.06)	(0.05)
No of SWS Shares ('000)	182,344	200,578

Notes:

(i) After deducting the estimated expenses for the Proposed Private Placement of approximately RM150,000.

(ii) Included an estimated saving in interest payment of approximately RM0.28 million per annum based on the repayment of approximately RM4.60 million at an interest rate of 6.14% per annum.

Maximum Scenario

	(I) Audited for FPE 31 December 2019	**(II) After (I) and assuming full exercise of Warrants**	**(III) After (II) and assuming full exercise of ESOS Options**	**After (III) and the Proposed Private Placement**
LAT (RM'000)	(10,699)	(10,699)	(13,752)	(ii)(iii)(13,439)
LPS (RM)	(0.06)	(0.04)	(0.05)	(0.04)
No of SWS Shares ('000)	182,344	273,516	300,867	330,954

Notes:

(i) Assumed equity-settled employees' based benefit of approximately RM3.05 million for the remaining 20,351,567 ESOS Options upon vested and granted to eligible persons.

(ii) After deducting the estimated expenses for the Proposed Private Placement of approximately RM150,000.

(iii) Included an estimated saving in interest payment of approximately RM0.46 million per annum based on the repayment of approximately RM7.54 million at an interest rate of 6.14% per annum.

5.4 Convertible securities

The Proposed Private Placement will not have any effect on the outstanding Warrants and ESOS Options.

In accordance with the provisions of the by-laws governing the ESOS Options, the Proposed Private Placement will not result in any adjustment to the exercise price and number of granted ESOS Options.

In accordance with the provisions of the deed poll governing the Warrants, the Proposed Private Placement will not result in any adjustment to the exercise price and number of outstanding Warrants.

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5.5 Substantial shareholders' shareholdings

For illustrative purposes, the pro forma effects of the Proposed Private Placement on the shareholdings of the substantial shareholders of SWS are set out as follows:

<u>Minimum Scenario</u>

Substantial shareholders	**(I) As at the LPD**				**After (I) and the Proposed Private Placement**			
	Direct		**Indirect**		**Direct**		**Indirect**	
	No. of SWS Shares ('000)	**%**	**No. of SWS Shares ('000)**	**%**	**No. of SWS Shares ('000)**	**%**	**No. of SWS Shares ('000)**	**%**
Tan Sri Dato' Seri Dr. Tan King Tai @ Tan Khoon Hai ("**Tan Sri Tan**")	21,628,525	11.86	(i)28,455,325	15.61	21,628,525	10.78	(i)28,455,325	14.19
Puan Sri Datin Chan Mei Cheng	12,210,281	6.70	(ii)37,873,569	20.77	12,210,281	6.09	(ii)37,873,569	18.88
Dato' Seri Mr. Sem Juthamongkhon	15,692,625	8.61	-	-	15,692,625	7.82	-	-
Teoh Han Chuan	10,625,000	5.83	(iii)1,841,250	1.01	10,625,000	5.30	(iii)1,841,250	0.92

Notes:

(i) Deemed interested pursuant to Section 8 of the Act by virtue of his spouse's, son's and daughter's direct interest in SWS.

(ii) Deemed interested pursuant to Section 8 of the Act by virtue of her spouse's, son's and daughters' direct interest in SWS.

(iii) Deemed interested pursuant to Section 8 of the Act by virtue of his spouse's and son's direct interest in SWS.

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Maximum Scenario

Substantial shareholders	(I) As at the LPD				(II) After (I) and assuming full exercise of outstanding Warrants			
	Direct		Indirect		Direct		Indirect	
	No. of SWS Shares ('000)	%	No. of SWS Shares ('000)	%	No. of SWS Shares ('000)	%	No. of SWS Shares ('000)	%
Tan Sri Tan	21,628,525	11.86	(i)28,455,325	15.61	30,327,037	11.09	(i)44,535,663	16.28
Puan Sri Datin Chan Mei Cheng	12,210,281	6.70	(ii)37,873,569	20.77	16,597,519	6.07	(ii)58,265,091	21.30
Dato' Seri Mr. Sem Juthamongkhon	15,692,625	8.61	-	-	20,230,937	7.40	-	-
Teoh Han Chuan	10,625,000	5.83	(iii)1,841,250	1.01	15,937,500	5.83	(iii)2,311,875	0.85

Substantial shareholders	(III) After (II) and assuming full exercise of outstanding ESOS Options(iv)				After (III) and the Proposed Private Placement			
	Direct		Indirect		Direct		Indirect	
	No. of SWS Shares ('000)	%	No. of SWS Shares ('000)	%	No. of SWS Shares ('000)	%	No. of SWS Shares ('000)	%
Tan Sri Tan	30,827,037	10.25	(i)44,535,663	14.80	30,827,037	9.31	(i)44,535,663	13.46
Puan Sri Datin Chan Mei Cheng	16,597,519	5.52	(ii)58,765,091	19.53	16,597,519	5.02	(ii)58,765,091	17.76
Dato' Seri Mr. Sem Juthamongkhon	20,730,937	6.89	-	-	20,730,937	6.26	-	-
Teoh Han Chuan	16,437,500	5.46	(iii)2,311,875	0.77	16,437,500	4.97	(iii)2,311,875	0.70

Notes:

(i) *Deemed interested pursuant to Section 8 of the Act by virtue of his spouse's, son's and daughters' direct interest in SWS.*

(ii) *Deemed interested pursuant to Section 8 of the Act by virtue of her spouse's, son's and daughters' direct interest in SWS.*

(iii) *Deemed interested pursuant to Section 8 of the Act by virtue of his spouse's and son's direct interest in SWS.*

(iv) *Assumed full exercised of their respective outstanding ESOS Options granted to eligible persons on 25 June 2019 and that the remaining 20,351,567 ESOS Options that is yet to be granted as at the LPD will not be granted to and exercised by Tan Sri Tan, Dato' Seri Mr. Sem Juthamongkhon and Teoh Han Chuan.*

6. INDUSTRY OUTLOOK AND PROSPECTS OF SWS

6.1 Overview of the Malaysian economy

The Malaysian economy contracted by 17.1% in the second quarter of 2020 (1st quarter ("**Q1**") of 2020: 0.7%). The decline reflected the unprecedented impact of the stringent containment measures to control the COVID-19 pandemic globally and domestically. In Malaysia, the nationwide Movement Control Order ("**MCO**"), which was implemented by the federal government of Malaysia ("**Government**") on 18 March 2020, included various measures that restricted production and consumption activities. This resulted in demand and supply shocks that emanated not only from significantly weak external demand conditions, but also production constraints in many economic sectors. Additionally, there was a marked decline in tourism activity due to international border closures and restricted interstate travel. On the supply side, most economic sectors registered negative growth, while most expenditure components declined. On a quarter-on-quarter seasonally-adjusted basis, the economy contracted by 16.5%.

During the quarter, headline inflation was at -2.6%, mainly due to substantially lower retail fuel prices compared to last year and the tiered electricity tariff rebate. Core inflation moderated slightly to 1.2%.

In the second quarter of 2020, the ringgit appreciated by 0.5% against the US dollar, following resumption of non-resident portfolio inflows as investor sentiments and risk appetite improved. This was due to the quick implementation of large-scale liquidity injections and policy responses by central banks and governments. Additionally, investor sentiments were also supported by the gradual easing of movement restrictions in a number of countries. This development is in line with regional currencies, which also appreciated against the US dollar during the quarter. In the more recent period beyond the second quarter, the low global interest rate environment and optimism on a recovery in global growth continue to drive the positive market momentum within the region. As a result, Malaysia continued to experience non-resident portfolio inflows and the ringgit appreciated by 2.2% against the US dollar since end-June 2020 (as at 13 August 2020). However, the global environment remains highly uncertain in the near-term, which may lead to capital flows and exchange rate volatility going forward.

Net financing to the private sector continued to expand at 3.7% on an annual basis. Growth in outstanding business loans increased from 3.4% in 1Q 2020 to 3.9% in the 2nd quarter of 2020, while outstanding household loan growth was sustained. On a monthly basis, disbursements for business loans recovered to normal levels in June from low levels during the MCO in April and May. This was in line with business loan demand that increased during the quarter, especially for working capital needs, while household demand for loans continued to decline amid more cautious sentiments.

Economic activity has resumed since the economy began to reopen in early May 2020. Consequently, growth is expected to have troughed in the second quarter of 2020, with a gradual recovery in the second half. This outlook is underpinned by the rebound of key indicators such as wholesale and retail trade, industrial production, gross exports, and electricity generation.

This improvement in growth will also be supported by the recovery in global growth and continued domestic policy support. In particular, consumption and investment activity is projected to benefit from the wide-range of measures in the fiscal stimulus packages, continued financial measures and low interest environment. With the reopening of economic activities, a concurrent improvement in labour market conditions is expected. Overall, the Malaysian economy is therefore forecasted to grow within the range of -3.5% to -5.5% in 2020, before staging a rebound within a growth range of 5.5% to 8.0% in 2021.

Average headline inflation in 2020 is likely to be negative, in line with the earlier projected range of -1.5% to 0.5%, primarily reflecting the substantially lower global oil prices. The risks of a broad-based and persistent decline in prices are assessed to be limited as economic activity gradually resumes and demand conditions improve. Underlying inflation is expected to average within expectations for the year as a whole. For 2021, headline inflation is forecasted to average higher, between 1% to 3%, in line with the longer-term historical average. This mainly reflects the expected recovery in global oil prices and improvement in domestic demand conditions. However, the outlook will continue to be significantly affected by uncertainties surrounding global oil and commodity prices as well as the evolving COVID-19 developments.

(Source: Economic and Financial Developments in the Malaysian Economy in the Second Quarter of 2020, Bank Negara Malaysia)

6.2 Overview of the furniture industry

The world has been astounded by the spread of the COVID-19 virus at the start of the year 2020. The Malaysian economy was also affected, notably smaller businesses and vulnerable groups such as lower income individuals, daily wage earners and workers. Proactively, Malaysia implemented the MCO since 18 March 2020 to battle the pandemic. Selected economic sectors were, however allowed to operate subject to strict adherence to the standard operating procedures (SOPs) for the respective sector.

The furniture business and associated players have been affected in the first quarter of 2020. Muar Furniture Association (MFA) also added that by not being in operation for 28 days, the furniture factories in Muar are expecting losses amounting to RM500 million, in addition to fines due to potential violation of agreements of approximately RM10 million.

Categorised as non-essential, the wood-based industry is among the sectors affected by the MCO. For the past 20 years, Malaysia’s wood-based industry has become one of the major revenue contributors to the country’s economic growth.

Employing approximately 240,000 workers, the industry encompasses the production of sawn timber, veneer, panel products (plywood, particleboard, chipboard, and fibreboard), mouldings, and builder joinery and carpentry (BJC), as well as furniture and furniture components.

In 2019, Malaysia’s exported wood and wood products valued at RM22.5 billion. Of this, 40.6 per cent was from wooden furniture and 15.1 per cent, from plywood. Notably, furniture companies in Muar, Johor play a critical role in contributing to Malaysia’s exports of wood and wood products, accounting for 60 per cent of the export value.

Muar is the furniture hub of Malaysia, housing 700 factories that represent approximately 45 to 50 per cent of the country’s furniture export.

The rapidly growing furniture industry in Muar saw many small scale businesses shifting their operations to industrial estates in Pagoh, Bukit Pasir, Bukit Bakri, Parit Jamil, Tanjong Agas and Gresik, to establish furniture manufacturing clusters with essential supporting industries. In addition to the small and medium-sized factories, many companies have expanded into larger entities. Currently, there are eight furniture companies listed on Bursa Malaysia.

The abundance of subcontractors ensured Muar’s global competitiveness in price and quantity. Muar has also become an internationally renowned Malaysian Furniture City. Since 1982, MFA, which represents all furniture and furniture parts manufacturers in Muar, has been the main driving force to make Malaysia one of the most outstanding furniture manufacturing nations in the world.

Hence, as the wood-based industry is export-oriented, the Government has taken several measures and consideration to assist wood-based industry players during this challenging time. The Ministry of Plantation Industries and Commodities (MPIC) mandated the Malaysian Timber Industry Board (MTIB) to evaluate and approve companies in the wood-based industry to operate during the MCO, particularly to fulfil agreed-upon contracts. This is in line with the stipulated conditions by the Malaysian National Security Council (MKN) and the Ministry of International Trade and Industry (MITI).

The submission of applications to MTIB began on 21 March 2020. The main criterion evaluated by MTIB is the penalty for breaching the export agreement/contract, and for preventing huge losses for exporters. Nevertheless, companies have also been approved on a case by case basis, especially for manufacturers that are suppliers to essential products.

As to date, a total of 421 companies have been approved to operate during the MCO. MKN, The Royal Malaysian Police (PDRM), local authorities (PBT) and State Forestry Department closely monitor these approved companies to ensure their compliance in adhering to all imposed conditions particularly in ascertaining the safety and health of employees. This includes physical distancing, temperature checking, as well as health and hygiene protocols.

At this challenging time, SMEs, including those within the wood based industry, are strongly encouraged to use technology to create new value in business models, customer experiences and the internal capabilities that support their core operations. This will accelerate the recovery phase and enable the companies to become highly adaptable towards the post-MCO era.

(Source: Malaysian Investment Development Authority (MIDA) - The Wood-Based Industry in Malaysia: The Impact of COVID-19 and the MCO)

6.3 Overview of the plastic industry

The plastics industry registered a total turnover of RM30.98 billion, representing an increase of 4% from RM29.80 billion in 2017. Exports grew marginally by 0.14% from RM14.58 billion in 2017 to RM14.60 billion in 2018. The marginal growth in exports was partially attributed to the restrictions on the use of plastic bags in certain EU countries. Growth of the plastics industry was mainly domestic driven, with strong demand from the electrical, electronic as well as the automotive sub-sectors.

The pace of automation has accelerated in recent years due to the shortage of labour, the highly competitive export market that demands consistent quality, along with the need to cope with high-volume production and the introduction of more sophisticated processes such as an integrated manufacturing process system.

Malaysia is one of the top exporters of plastic products in the region. About 50% of the plastic industry’s production is directly exported as finished products while another 30% is sold in the domestic market as parts and components of appliances or as packaging that goes into a product of another sub-sector that is eventually exported. The combined direct and indirect export volume of the industry is therefore very high. As the country’s plastics industry is very export-focused, it has to navigate a very competitive market. International clients demand high-quality products and the industry needs to keep up by having top notch human capital that are highly skilled workers. A shortage in talent in our industry could have an adverse long-term effect on productivity, that ultimately would affect the industry. Training and human capital development is therefore one of the key pillars of Malaysia Plastics Manufacturers Association (“MPMA”).

In September 2017, MPMA carried out the “First Step to Injection Moulding 4.0”, a one-year Pilot Programme involving four training programmes, namely, Scientific Moulding, First Step to Smart Manufacturing, Smart Maintenance as well as Lean and Robot Based Automation for the Plastics Injection Moulding Industry. A total number of 100 employees from four participating companies successfully completed the Programme, which ended in November 2018.

The MPMA's next step would be the launch of the Training Factory – a component of the Centre of Excellence. The objective of the Training Factory is to prepare a steady stream of trained workforce who are ready to enter and contribute to the industry.

(Source: MPMA Annual Report 2019 – extraction form the President's Review)

6.4 Prospects of SWS

Pursuant to the MCO that was implemented by the Government on 18 March 2020 whereby the Government had restricted non-essential businesses from operating, SWS' operations were temporarily halted for around two months till the implementation of the Conditional Movement Control Order ("**CMCO**") on 4 May 2020, as the Group's furniture and plastic business segments are not categorised as essential services.

Due to the loss of revenue during the MCO period, the Group is actively monitoring its cash flow to ensure that it is is able to overcome any challenges against the backdrop of COVID-19 which saw the reduction of household spending in Malaysia. The Group also noted that the Malaysian economy contracted by 17.1% in Q2 of 2020, reflecting the unprecedented impact of the stringent containment measures to control the COVID-19 pandemic globally and domestically.

Plasticware division of SWS

The plasticware division of SWS faces a slowdown in the domestic and export markets since the beginning of the 16-months FPE 31 December 2019. The Group experienced a significant decrease in sales orders from its distributors and wholesales, resulting in underutilisation of the production capacity. The plasticware division's gross profit margin decreased due to the fixed production overhead costs and was further impacted to the implementation of the Sales and Services Tax ("**SST**") of which the additional costs need to be absorbed by the Group. The poor performance recorded by the plasticware division of SWS in the 16-months FPE 31 December 2019 was mainly due to the insufficient gross profit to cover the administrative and finance expenses.

The performance of the plasticware division of SWS was impacted from the COVID-19 pandemic as it was not operating during the MCO as it was without approval to operate during MCO from the Ministry of International Trade and Industry ("MITI Approval"). The plasticware division resumed full operations with MITI Approval in May 2020. The Group anticipates that the plasticware sector will remain challenging to operate in, and that there will be a decrease in demand for SWS' plasticware products in both domestic and export markets. In order to recover the sales for the FYE 31 December 2020, the management of SWS is formulating marketing strategies to remain competitive and to also improve the Group's prospects, including improving the sales of premium products and to clear slow-moving products.

The product design and development team within the plasticware division of SWS developed a range of products for the holiday season which includes Raya series and back-to-school series. The Group's launch of new range of plastic houseware products, which includes the 'Raya' series, was affected by the MCO. The plasticware division of SWS plans to launch quality affordable products under the brand name "Daison" to target middle-and-low income groups. The management is also exploring opportunities to expand sales in the industrial plastic market.

However, during the month of May and June 2020, the plasticware division recorded a production utilisation rate of 85%. The management of SWS opined that it was due to increase in spending power during the period of loan moratorium imposed by the Bank Negara Malaysia. In order to breakeven, the utilisation rate to cover the fixed overhead for plasticware division is 80%.

For the FYE 31 December 2020, the Group also focuses on controlling production costs within the plasticware division of SWS. This include reducing headcount and overtime and revising the payroll in order to minimise the production overhead. The management of SWS had also reschedules purchases of its finished goods and raw material to minimise the issues of overstock. In addition, the cost of the raw material consumed by the plasticware division of SWS had also reduced significantly since the end of 16-months FPE 31 December 2019 in tandem with the decrease in the crude oil prices.

The management of SWS is also monitoring its cashflow closely due to delayed collection from customers. Bank borrowings and payment to suppliers were either extended or deferred during the MCO.

Furniture division of SWS

The furniture division of SWS recorded improvement in sales due to increase in sales order from the United States. However, the gross profit margin for sales to the United States is much lower compared to the sales to European countries. The sales of boards are facing competition due to decrease in market demand. In this regard, the management of SWS had noted that the sales and gross profit margin drop significantly during the 16-months FPE 31 December 2019. Gross profit was further reduced due to the implementation of minimum wages and levy costs bear by the Group.

The performance of the furniture division of SWS was impacted from the COVID-19 pandemic as it was not operating during the MCO without MITI Approval. The furniture division resumed full operations with MITI Approval in May 2020. The Group’s sales to foreign customers is expected to be lower due to the lockdown restrictions of many countries imposed by the foreign governments. Only those customers with e-commerce site continue their orders with the Group. The Group’s furniture division is also experiencing higher cost of production as substitute suppliers had increased the prices of hardware and raw materials, in view of a shortage of supply in the market amidst the reduction of imports hardware and raw materials from China. Depending on the availability of stock and the price of the required raw material as the supply of wood is seasonal, the management will source for the raw material locally or import it from overseas. The increased cost of production is not expected to be passed to the customers in terms of higher sale prices to remain competitive. Hence, the Group is focusing on tightening cost control measures, improving its automated manufacturing technology to increase manufacturing efficiency and reduce reliance on labour intensive manufacturing processes. While waiting for the sales orders from export customers to improve, the furniture division of SWS is working on new designs with a better profit margin. The management of SWS will work with the sales team to forecast sales and arrange for the necessary stock level to meet sales order.

Notwithstanding the above, the management is mindful of labour costs, which are now higher due to the increase in the minimum wage and higher salary cap for overtime payments, as announced by the Government of Malaysia in Budget 2020. The management is also mindful of controlling costs including reduction in non-essential expenses.

With the uncertainty in the domestic and global economy due to the COVID-19 pandemic, the outlook of the Group for the plasticware and furniture divisions will be unfavourable and challenging. Nevertheless, the Group is cautiously optimistic about its ability to overcome the challenges from the impact of COVID-19.

(Source: Management of SWS)

7. APPROVALS REQUIRED

The Proposed Private Placement is subject to Bursa's Approval.

SWS has obtained its shareholders' approval for the General Mandate at the 20th AGM of the Company convened on 22 July 2020 which has given the Board the authority pursuant to Section 75 of the Act to allot and issue new SWS Shares, from time to time and upon such terms and conditions and for such purposes and to such persons whomsoever the Directors may, in their absolute discretion deem fit and expedient in the interest of the Company, provided that the aggregate number of SWS Shares to be issued during the preceding twelve (12) months does not exceed 10% of the total number of the issued shares (excluding treasury shares, if any) of the Company for the time being. Such authority shall continue to be in force until the conclusion of the next AGM of SWS, unless revoked or varied by the Company at a general meeting.

In the event the Proposed Private Placement is not completed before the 21st AGM of the Company, the Company will obtain a renewal of its General Mandate pursuant to Section 75 of the Act and Paragraph 6.03 of the Listing Requirements at the next AGM of SWS for the issuance of the Placement Shares.

The Proposed Private Placement is not conditional upon any other corporate proposal undertaken or to be undertaken by SWS.

8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/OR PERSONS CONNECTED WITH THEM

None of the Directors, major shareholders of SWS, chief executive of SWS and/or persons connected with them have any interest, direct or indirect, in the Proposed Private Placement.

9. DIRECTORS' RECOMMENDATION

The Board (save for Tan Kok Tiam), after having considered all aspects of the Proposed Private Placement (including but not limited to the rationale set out in Section 3 of this announcement, the pro forma effects set out in Section 5 of this announcement) and the proposed utilisation of proceeds, is of the opinion that the Proposed Private Placement is in the best interests of the Group and its shareholders.

Tan Kok Tiam is the Head of the Corporate Finance Department in Malacca Securities. He is an independent non-executive director of the Company and also a part of the Audit Committee of the Company. He has abstained and will continue to abstain from the Board's deliberation and recommendation in relation to the Proposed Private Placement in order to mitigate any conflict of interest situations by virtue of Malacca Securities being the Adviser and Placement Agent to SWS in relation to the Proposed Private Placement. He has also abstained and will continue to abstain from advising SWS on any matters relating to the Proposed Private Placement.

10. ADVISER AND PLACEMENT AGENT

Malacca Securities has been appointed as the Adviser and the Placement Agent to the Company for the Proposed Private Placement.

11. ESTIMATED TIMEFRAME FOR APPLICATION TO BURSA SECURITIES AND COMPLETION

Barring any unforeseen circumstance, the application to Bursa Securities in relation to the Proposed Private Placement is expected to be made within one (1) month from the date of this announcement.

The Proposed Private Placement is expected to be completed by the 4th quarter of year 2020.

This announcement is dated 19 August 2020.