

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### A1. BASIS OF PREPARATION

The interim financial statements are unaudited and have been prepared in accordance with the requirements of Financial Reporting Standards (FRS) 134: Interim Financial Reporting and Chapter 9, Appendix 9B of the Listing Requirements.

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 August 2011 and the accompanying explanatory notes attached to these interim financial statements.

These explanatory notes attached to the 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 August 2011.

### A2. ACCOUNTING POLICIES

The accounting policies and methods of computation adopted by the Group in these quarterly financial statements are consistent with those adopted in the audited financial statements for the year ended 31 August 2011, except for the adoption of following new and revised Financial Reporting Standards (FRSs), Amendments to FRSs, and IC Interpretations.

FRS 9	Financial Instruments
FRS 10	Consolidated Financial Statements
FRS 11	Joint Arrangements
FRS 12	Disclosure of Interests in Other Entities
FRS 13	Fair Value Measurement
FRS 119	Employee Benefits
FRS 124	Related Party Disclosures
FRS 127	Separate Financial Statements
FRS 128	Investment in Associates and Joint Ventures
Amendment to FRS 1	First-time Adoption of Financial Reporting Standards
	- Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
	- Additional Exemptions for First-time Adopters
	- Severe Hyperinflation and Removal Of Fixed Dates for First-time Adopters
Amendment to FRS 2	Group Cash-settled Share-based Payment Transactions
Amendment to FRS 3	Business Combinations
Amendment to FRS 7	Improving Disclosure about Financial Instruments
Amendment to FRS 7	Disclosures - Transfers of Financial Assets
Amendment to FRS 101	Presentation of Items of Other Comprehensive Income
Amendment to FRS 112	Deferred Tax: Recovery of Underlying Assets
Amendment to FRS 121	The Effects of Changes in Foreign Exchange Rates
Amendment to FRS 128	Investments in Associates

Amendment to FRS 131	Interests in Joint Ventures
Amendment to FRS 132	Financial Instruments : Presentation
Amendment to FRS 134	Interim Financial Reporting
Amendment to FRS 139	Financial Instruments : Recognition and Measurement
IC Interpretation 4	Determining Whether an Arrangement contains a Lease
IC Interpretation 18	Transfer of Assets from Customers
IC Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments
IC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine
Amendment to IC Interpretation 13	Customer Loyalty Programmes
Amendment to IC Interpretation 14	Prepayments of a Minimum Funding Requirement

The adoption of these new FRSs, amendments to FRS and IC Interpretations do not have material financial impact on the results and the financial position of the Group except for the adopting of the following FRSs :-

***(i) FRS 7, Financial instrument: Disclosures***

Prior to the adoption of FRS 7, the disclosures for financial instruments were based on the requirements of the original FRS 132, Financial Instruments: Disclosure and Presentation. With the adoption of FRS 7, financial assets and financial liabilities are disclosed in the statement of financial position based on their respective classifications. However, FRS 7 disclosures are not required in the interim financial statements, and hence, no further disclosures is required in these interim financial statements.

***(ii) FRS 101(revised), Presentation of Financial Statements***

Prior to the adoption of the revised FRS 101, the components of the financial statements presented consisted of a balance sheet, an income statement, a statement of changes in equity, a cash flow statement and notes to the financial statements. With the adoption of the revised FRS 101, the components of the interim financial statements presented consist of a statement of financial position, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and notes to the financial statements.

The effects of the changes in presentation are as follows:

The gains and losses that were recognised directly in equity in the preceding financial year corresponding period are presented as components in other comprehensive income in the statement of comprehensive income. The total comprehensive income for preceding financial year corresponding period is presented separately and allocation is made to show the amount attributable to owners of the parent and to non-controlling interests.

The total comprehensive income for the financial period is presented as a one-line item in the statement of changes in equity.

### ***(iii) Amendment to FRS 117, Leases***

Prior to 01 September 2010, for all leases of land and buildings, if title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of risks and rewards incidental to ownership. Hence, all leasehold land held for own use was classified by the Group as operating lease and where necessary, the minimum lease payments or the up-front payments made were allocated between the land and the building elements in proportion to the relative fair values for leasehold interests in the land element and building element of the lease at the inception of the lease. The up-front payments represented prepaid lease payments and were amortised on a straight-line basis over the lease term.

The Amendment to FRS 117 Leases clarifies that leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. They also clarify that the present value of the residual value of the property in a lease with a term of several decades would be negligible and accounting for the land element as a finance lease in such circumstances would be consistent with the economic position of the lessee. Hence, the adoption of the Amendment to FRS 117 has resulted in certain unexpired land leases to be reclassified as finance leases. The Group has applied this change in accounting policy retrospectively and certain comparatives have been restated.

The following are effects arising from the above change in accounting policy:

Increase/  
(decrease)  
As at  
31 August 2011  
RM

#### **Consolidated statement of financial position**

Property, plant and equipment	2,267,140
Prepaid lease payments	(2,267,140)

The following comparatives have been restated:

<b>Consolidated statement of financial position</b>	<b>Previously stated</b>	<b>Reclassification</b>	<b>Restated</b>
<b>31 August 2010</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Property, plant and equipment	43,240,557	2,294,653	45,535,210
Prepaid lease payments	2,294,653	(2,294,653)	-
<b>1 September 2009</b>			
Property, plant and equipment	44,873,355	2,322,449	47,195,804
Prepaid lease payments	2,322,449	(2,322,449)	-

### ***(iv) FRS 139: Financial instruments: Recognition and Measurement***

Prior to the adoption of FRS 139, financial derivatives were recognised on their settlement dates. Outstanding derivatives at the balance sheet date were not recognised. With the adoption of FRS 139, all financial assets and liabilities, including derivatives, are recognised at contract dates when, and only when, the Company or any subsidiary becomes a party to the contractual provision of the instruments.

With the adoption of FRS 139, financial assets and financial liabilities recognised and unrecognised in the prior financial year are classed into the following categories:

	Pre-FRS 139	Post- FRS 139
1	Long term equity investment	Available for sales investment
2	Current investment	Financial assets at fair value through profit or loss
3	Unrecognised derivative assets	Financial assets at fair value through profit or loss
4	Long term borrowings	Financial liabilities at amortised cost
5	Unrecognised derivative liabilities	Financial liabilities at fair value through profit or loss

The measurement bases applied to the financial assets and liabilities in the prior financial year were changed to conform to the measurement standards of FRS 139 in the current quarter. At initial recognition, all financial assets and liabilities are measured at their fair value plus in the case of financial instruments not at fair value through profit or loss, transaction costs directly attributable to the acquisition or issuance of the instruments.

Subsequent to their initial recognition, the financial assets and liabilities are measured as follows:

	Category	Measurement basis
1	Financial instruments at fair value through profit or loss	At fair value through profit or loss
2	Held to maturity investments	At amortised cost effective interest method
3	Loans and receivable	At amortised cost effective interest method
4	Available for sales investments	At fair value through other comprehensive income, unless fair value cannot be reliably measured, in which case, they are measured at cost
5	Loans and other financial liabilities	At amortised cost effective interest method

All financial assets other than those classified as at fair value through profit or loss are subject to impairment test of FRS 139.

### **A3. 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 poorer than the rest of the quarters. This is due mainly to the long festive holidays in Malaysia as well as lower demand for the export markets after Christmas and New Year celebration.

### **A4. UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE AND INCIDENCE**

No unusual items of nature, size or incidence that affect the assets, liabilities, equity, net income or cash flow of the Group during the reporting period.

### **A5. MATERIAL CHANGES IN ESTIMATES**

No material changes in estimates of amounts reported in prior interim periods of the current or previous financial years.

## A6. ISSUANCES, REPURCHASES AND REPAYMENTS OF DEBT / EQUITY SECURITIES

There were no issuance, repurchase and repayment of debt / equity securities during the reporting period.

## A7. DIVIDENDS PAID

No dividend was paid during the current quarter.

## A8. SEGMENTAL INFORMATION

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

Revenue and Expenses	3 months ended 30 Nov 2011					
	Investment Holding ( RM )	Manufacturing ( RM )	Property Investment ( RM )	Log house Construction ( RM )	Eliminations ( RM )	Consolidated ( RM )
External sales	0	26,008,526	0	12,955	0	26,021,481
Management income	0	0	0	0	0	0
Inter-segment revenue	0	980,695	51,000	0	(1,031,695)	0
Total	0	26,989,221	51,000	12,955	(1,031,695)	26,021,481

Results	3 months ended 30 Nov 2011					
	Investment Holding ( RM )	Manufacturing ( RM )	Property Investment ( RM )	Log house Construction ( RM )	Eliminations ( RM )	Consolidated ( RM )
Segment Results	(35,043)	910,186	26,436	(6,872)	(69,324)	825,383
Finance costs	0	(305,641)	0	0	0	(305,641)
Finance income	0	0	0	0	0	0
Profit / (loss) before taxation	(35,043)	604,545	26,436	(6,872)	(69,324)	519,742
Income tax expenses						0
Profit / (loss) for the period						519,742

## A9. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE PERIOD

No materials events subsequent to the period ended 31 August 2011 that have not been reflected in the financial statements for the interim period.

## A10. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the financial quarter.

## A11. CHANGES IN CONTINGENT LIABILITIES/ASSETS

No changes in contingent liabilities/assets since the last annual balance sheet as at 31 August 2011 other than as follows:-

	As at 30.11.2011 RM	As at 31.08.2011 RM
Unsecured Corporate guarantee given to bankers for credit facilities granted to subsidiary companies	42,254,918	42,668,656

## A12. CAPITAL COMMITMENTS

Capital commitment not recognised in the current interim financial statements during the current reporting period is as follow:

Approved but not contracted for purchase of property	RM 475,000
--	------------

## A13. RELATED PARTY TRANSACTIONS

The Group's related party transactions in the current quarter and financial year-to-date are as follow:

Subsidiaries	Transacting parties	Relationship	Nature of transactions	Current quarter (RM)	Financial year-to-date (RM)
PKI	Lee Geok Kim	Director of PKI	Rental of factory	23,730	23,730
PKI	Dee Sin Agency	A firm in which Gan Poh Keong, a director of PKI, is sole proprietor	Foreign workers' expenses paid/ payable	42,600	42,600

The Group's key management personnel compensation is as follow:

Compensation paid/payable to key management personnel	Current quarter (RM)	Financial year-to-date (RM)
Short term employee benefits	330,134	330,134
Post-employee benefits	24,930	24,930

## BMSB LISTING REQUIREMENTS

### B1. PERFORMANCE REVIEW

Revenue	Individual quarter		Cumulative quarter	
	30-Nov-11	30-Nov-10	30-Nov-11	30-Nov-10
Subsidiaries	(RM)	(RM)	(RM)	(RM)
SWS	16,748,250	14,678,451	16,748,250	14,678,451
PKI	2,831,126	3,657,934	2,831,126	3,657,934
UDP & UDW	4,879,683	3,192,466	4,879,683	3,192,466
UDT	1,549,467	2,113,221	1,549,467	2,113,221
Others	12,955	550,299	12,955	550,299
<b>Total</b>	<b>26,021,481</b>	<b>24,192,371</b>	<b>26,021,481</b>	<b>24,192,371</b>

Profit / (Loss) before taxation	Individual quarter		Cumulative quarter	
	30-Nov-11	30-Nov-10	30-Nov-11	30-Nov-10
Subsidiaries	(RM)	(RM)	(RM)	(RM)
SWS	750,561	498,155	750,561	498,155
PKI	(310,973)	100,246	(310,973)	100,246
UDP & UDW	219,824	(72,102)	219,824	(72,102)
UDT	(73,575)	(57,620)	(73,575)	(57,620)
Others	(66,095)	(45,875)	(66,095)	(45,875)
<b>Total</b>	<b>519,742</b>	<b>422,804</b>	<b>519,742</b>	<b>422,804</b>

The Group's revenue of RM26.0 mil for the first quarter ended 30 November 2011 (Q1 2012) was higher than the revenue in the previous corresponding first quarter ended 30 November 2011 (Q1 2011) of RM24.2 mil. And the Group's profit before tax (PBT) for the Q1 2012 increased by 23% to RM0.52 mil compared to PBT of RM0.43 mil recorded in the Q1 2011.

The increase of 8% in turnover was mainly due to higher sales volume which caused by the increase of demand of leather upholstery sofa from overseas and increase of sales for laminated veneer department. In general, the increase of revenue was attributed to the increase of demand from customers and increase of the certain product pricing.

During Q1 2012, PKI has making losses of RM0.3 mil compare to profit of RM0.1mil which recorded in Q1 2011. The larger drop in PBT was mainly due to the lower profit margin as a result of lower sales. It is mainly due to the costs which incurred by PKI in Q1 2012 such as the exhibition fee and commission for property agent fee which amounting to RM80,190. The lower output growth also contributed to the losses recorded whereby current production output has reduced due to the foreign workers shortage which was faced by most of the furniture manufacturer after the amnesty programme which starts from 1 July 2011.

## B2. MATERIAL CHANGE IN PROFIT BEFORE TAXATION

Profit / (Loss) before taxation	Individual quarter		Changes
	30-Nov-11	31-Aug-11	
Subsidiaries	(RM)	(RM)	(RM)
SWS	750,561	1,009,289	258,728
PKI	(310,973)	(431,623)	(120,650)
UDP & UDW	219,824	(282,106)	(501,930)
UDT	(73,575)	(221,298)	(147,723)
Others	(66,095)	(297,254)	(231,159)
Total	519,742	(222,992)	(742,734)

The Group's profit before taxation stood at RM0.52 mil for the quarter under review compared to RM0.23 mil loss registered in the preceding quarter ended 31 August 2011. The loss of PKI amounted to RM0.31 mil is mainly due to the lower output growth as the result of the foreign workers shortage. Meanwhile, UDP & UDW has making a profit at RM0.22 mil for the quarter under review compared to RM0.28 mil loss registered in the preceding quarter ended 31 August 2011. This was mainly attributed by the improved factory efficiency and better cost management.

## B3. PROSPECT FOR THE CURRENT FINANCIAL YEAR

The global economic recovery particularly in the United States, Europe and Japan is expected to remain moderate. Furniture manufacturers and exporters will continue to face the challenges posed by the increase in crude oil price, lower consumer confidence, increase in raw material price, the weakening of the US Dollar against Ringgit Malaysia as well as the increase in labour cost which resulting from the foreign worker shortage issue.

The Group, nevertheless, remains committed to perform better and is confident of achieving attractive position in the market in terms of quality, pricing, on-time delivery, and a wide range of product varieties. The management is making concerted efforts to strengthen market positioning, increase operational competency, maintain strong customer relationship and deliver high quality products continuously. Every effort would be made to mitigate risks and further increase operational efficiency in positioning our core business for growth opportunities. We are confident to weather the challenge on the back of an improving financial balance sheet and vast experience of the efficient and prudent management team.

## B4. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT

The Group did not issue any profit forecast or profit guarantee for the year.



## B5. TAXATION

	Current quarter RM	Financial year-to-date RM
Current taxation	0	0
Deferred taxation	0	0
Taxation	<u>0</u>	<u>0</u>

No provision of current year taxation, due to sufficient of tax business losses carried forward from prior years.

## B6. SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

On 17 October 2011, its 51% owned subsidiary, Poh Keong Industries Sdn Bhd has entered into a Sale and Purchase Agreement to dispose of one plot of freehold industrial land together with single storey detached factory and office with a carrying value of approximately RM2,902,394 for a sale consideration of approximately RM1,950,000.

## B7. QUOTED SECURITIES

No purchase or disposal of quoted securities for the current financial period.

## B8. STATUS OF CORPORATE PROPOSALS

No corporate proposals announced but not completed as at the date of this interim financial statements.

## B9. GROUP'S BORROWINGS

The Group's borrowings, all denominated in Ringgit Malaysia, as at 30 November 2011 are as follow:

Secured Short Term Borrowings	RM 26,899,407
Secured Long Term Borrowings	4,174,844
Total Borrowings	<u>31,074,251</u>

## B10. FINANCIAL INSTRUMENTS - DERIVATIVES

As at 30 November 2011, the foreign currency contracts which have been entered into by the Group to hedge its foreign currency sales are as follows: -

Forward foreign currency contracts	Contract value (RM)	Fair value (RM)	Changes in fair value (RM)
US Dollar – less than 1 year	6,506,771	6,699,621	(192,850)

Derivative financial assets and liabilities are initially recognised, and subsequently measured at fair value. The fair value of derivatives are determined based on market data (primarily exchange rate) to calculate the present value of all estimated flows associated with each derivative as at the date of the financial position. The changes in the fair value are recognised in the Statement of Comprehensive Income.

There have been no significant changes to the Group's exposure to credit risk, market risk and liquidity risk from the previous financial year. There have been also no changes to the Group's risk management objectives, policies and processes since the previous financial year end.

## **B11. MATERIAL LITIGATION**

As previously disclosed, a subsidiary company, Syarikat U.D. Trading Sdn. Bhd. has a pending litigation with Goo Chuan Lai, trading as Chuan Lai Furniture ('CLF'). Based on the advice of solicitors, the directors are of the opinion that the counter-suit by CLF will not be successful.

There were no changes in material litigation, including the status of pending material litigation as mentioned above since the last annual balance sheet as at 31 August 2011.

## **B12. DIVIDEND**

No interim dividend has been declared for the current reporting period.

## **B13. REALISED AND UNREALISED PROFITS/(LOSS)**

Bursa Malaysia Securities Berhad ("Bursa Malaysia") has, on 25 March 2010 and 20 December 2010, issued directives requiring all listed corporations to disclose the breakdown of retained profits or accumulated losses into realised and unrealised in quarterly reports and annual audited financial statement.

The breakdown of retained profits of the Group as at the reporting date, into realised and unrealised losses is as follows:

	As at 30 Nov 2011 (RM)	As at 31 Aug 2011 (RM)
Total accumulated losses of the UDS Capital Berhad and its subsidiaries:		
- Realised	(20,864,874)	(21,663,152)
- Unrealised	(96,852)	29,167
Total group accumulated losses as per consolidated accounts	(20,961,726)	(21,633,985)

The determination of realised and unrealised profits is made based on the Guidance on Special Matter No. 1, *determination of Realised and Unrealised Profits or Losses in the Contest of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

## B14. EARNINGS PER SHARE

### ***Basic earnings per share***

The basic earnings per share is calculated by dividing the profit attributable to Owners of the Parent by the weighted average number of ordinary shares in issue during the period.

		Current quarter	Financial year-to-date
Earnings attributable to Owners of the Parent	(RM)	672,259	672,259
Weighted average number of shares	(shares)	126,505,500	126,505,500
Basic earnings per share	(sen)	0.53	0.53

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

The fully diluted earnings per share is the same as the basic earnings per ordinary share, as the effects of warrants are ignored as they all anti-dilutive, in calculating the diluted earnings per ordinary share in accordance with FRS 133 on Earnings per Share.

## B15. AUDIT QUALIFICATION REPORT

The preceding financial statements for the year ended 31 August 2011 were report on without any qualification.

**For and on behalf of the Board**  
**UDS Capital Berhad**

**TAN WANG GIAP**  
Secretary

10 January 2012