

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED 29 FEBRUARY 2012**

**PART A – EXPLANATORY NOTES IN COMPLIANCE WITH FINANCIAL REPORTING
STANDARDS (“FRS”) 134, INTERIM FINANCIAL REPORTING**

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. CHANGES IN ACCOUNTING POLICIES

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 August 2011 and include the adoption of new and revised Financial Reporting Standards ('FRS') and Interpretation applicable to the Group. The adoption of the new and revised FRS and Interpretation are expected to have no material impact on the financial statement in the period of initial application.

A3. AUDITORS' REPORT

The audited financial statements for the financial year ended 31 August 2011 was not subject to any qualification.

A4. SEASONAL OR CYCLICAL FACTORS

The Group's operation is seasonal and cyclical in nature whereby the performance for the second quarter (December to February) is normally 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.

A5. 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.

A6. MATERIAL CHANGES IN ESTIMATES

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

A7. ISSUANCES, REPURCHASES AND REPAYMENTS OF DEBT / EQUITY SECURITIES

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

A8. DIVIDENDS PAID

No dividend was paid during the current quarter.

A9. SEGMENTAL INFORMATION

The Group operates in a single industry in the business of design, manufacture and sale of furniture products in Malaysia. Accordingly, segmental information by industry and geographical segments has not been presented.

A10. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE PERIOD

No materials events subsequent to the period ended 29 February 2012 that have not been reflected in the financial statements for the interim period.

A11. CHANGES IN THE COMPOSITION OF THE GROUP

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

A12. 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 29.02.2012 RM	As at 31.08.2011 RM
Unsecured Corporate guarantee given to bankers for credit facilities granted to subsidiary companies	43,011,211	42,668,656

A13. 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

A14. 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	47,460
PKI	Dee Sin Agency	A firm in which Gan Poh Keong, a director of PKI, is sole proprietor	Foreign workers' expenses paid/ payable	8,688	51,287
UDT / SWS	Nate Auto Trading	Director of SWS Capital Berhad	Upkeep of Vehicle	80,600	81,200

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	421,976	752,109
Post-employee benefits	31,430	56,360

PART B - EXPLANATORY NOTES PURSUANT TO CHAPTER 9, APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1. PERFORMANCE REVIEW

	Individual quarter		Cumulative quarter	
	29-Feb-12 (RM)	28-Feb-11 (RM)	29-Feb-12 (RM)	28-Feb-11 (RM)
Revenue	28,019,914	19,577,695	54,041,395	43,770,065
Profit/ (Loss) before taxation	1,093,940	(119,373)	1,613,683	303,431

The Group's revenue of RM28.0 mil for the second quarter ended 29 February 2012 (Q2 2012) was higher than the revenue in the previous corresponding first quarter ended 28 February 2011 (Q2 2011) of RM19.6 mil. And the Group's profit before tax for the Q2 2012 increased to RM1.09 mil compared to loss before tax of RM0.12 mil recorded in the Q2 2011.

For the cumulative quarter's result, the Group's profit before tax recorded at RM1.6 mil for the quarter ended 29 February 2012 compared to profit before tax of RM0.3 mil which recorded in the first six month for YE2011. The increase of the profit was mainly due to the increase of 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 demand for laminated veneer department was attributed to the increase of price for solid wood e.g. rubber wood, oak, beech and others. It caused the furniture manufacturers change to use veneer laminated board to replace solid wood to reduce their manufacturing costs.

B2. MATERIAL CHANGE IN PROFIT BEFORE TAXATION

	Individual quarter		Changes (RM)
	29-Feb-12 (RM)	31-Nov-11 (RM)	
Profit/ (Loss) before taxation	1,093,940	519,742	574,198

The Group's profit before taxation stood at RM1.09 mil for the quarter under review compared to RM0.52 mil profit registered in the preceding quarter ended 30 November 2011. This is an outstanding quarter result for the Group as the performance for the second quarter (December to February) is normally poorer than the rest of the quarter due to the long festive holidays in Malaysia as well as lower demand for the export markets after Christmas and New Year celebration.

B3. PROSPECT FOR THE CURRENT FINANCIAL YEAR

The International Monetary Fund (IMF) has lowered its forecast for 2012 global growth to 4 per cent, down from 5.1 per cent as it had forecasted earlier. The still unfolding euro zone debt crisis is at the centre of these downgrades. It is hurting the region's growth outlook and weighing on the exports of the European Union's key trading partners, which includes China. All this will weigh down on the near-term outlook of the Malaysian economy.

As expectation, the furniture market place is becoming more competitive than even given the supply meets limited demand. 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.

Given the many challenges that we faced, we will continue to carve a clear and distinctive positioning in the market place. We will continue to invest in R&D, and to explore new and innovative ways to meet customers' demand. The management is making concerted efforts to strengthen market positioning, increase operational competency, maintain strong customer relationship and deliver high quality products continuously.

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. Every effort would be made to mitigate risks and further increase operational efficiency in positioning our core business for growth opportunities.

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 taxation for current period under review, due to availability of tax incentive and 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 RM1,630,948 for a sale consideration of approximately RM1,950,000.

This transaction has been completed at 22nd March 2012.

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 29 February 2012 are as follow:

	RM
Secured Short Term Borrowings	27,158,852
Secured Long Term Borrowings	3,950,333
Total Borrowings	<u>31,109,185</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 29 February 2012 are as follows:-

	Notional Amount As At 29 Feb 2012	Fair Value As At 29 Feb 2012
Foreign currency forward contracts:		
Less than 1 year	7,908,882	7,851,530

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. With the adoption of FRS139, the fair value changes have been recognised in the income statement.

B11. MATERIAL LITIGATION

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 29 Feb 2012 (RM)	As at 31 Aug 2011 (RM)
Total accumulated losses of the SWS Capital Berhad and its subsidiaries:		
- Realised	(19,888,644)	(21,663,152)
- Unrealised	(170,639)	29,167
Total group accumulated losses as per consolidated accounts	(20,059,283)	(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. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

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

	Current quarter (RM)	Financial year-to-date (RM)
Bad Debts Recovered	31,030	31,030
Fair Value Adjustment on Investment property	(318,500)	(568,500)
Gain on disposal of property, plant & equipment	82,593	115,527
Rental Received	147,800	272,250
Foreign exchange gain/(loss)		
- realised	(257,419)	(252,317)
- unrealised	200,458	41,047
Foreign currency differences	(88,586)	282,645
Sundry Income	114,574	216,040
Fair value gain/(loss) on derivative financial instruments	126,671	(66,179)
Depreciation / amortisation	(558,442)	(1,120,357)
Provision for foreseeable loss	<u>(200,000)</u>	<u>(200,000)</u>

B15. 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)	902,442	1,574,702
Weighted average number of shares	(shares)	126,505,500	126,505,500
Basic earnings per share	(sen)	0.71	1.24

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.

Board of Directors
SWS Capital Berhad (Formerly known as UDS Capital Berhad)
18th April 2012