

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED 31 MAY 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. EXTRAORDINARY AND EXCEPTIONAL ITEMS

There were no extraordinary and exceptional items of unusual nature affecting assets, liabilities, equity, net income, or cash flows in the interim financial period ended 31 May 2012.

A6. CHANGES IN ESTIMATES OF AMOUNTS REPORTED

There were no material changes in estimates of amounts reported in prior interim periods or prior financial year that have a material effect in the current financial year to-date.

A7. CHANGES IN DEBT AND EQUITY SECURITIES

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

A8. DIVIDENDS PAID

There were no dividends paid during the reporting period.

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 INTERIM REPORT

There were no significant subsequent events after the end of the interim period to the date of this announcement, which will materially affect the earnings or income of the Group.

A11. CHANGES IN THE COMPOSITION OF THE GROUP

On 06 April 2012, the Company has acquired an additional 15,762 ordinary shares of RM1.00 each in the share capital of its subsidiary, U.D. Industries Sdn Bhd for a total cash consideration of RM20,000.

Upon completion of the additional investment, the Company's equity interest in U.D. Industries Sdn Bhd would be increased from 2,719,238 ordinary shares of RM1.00 each which represent 99.42% of the total issued and paid up shares capital of UDI to 2,735,000 ordinary shares of RM1.00 each representing 100% of the issued and paid up share capital of U.D. Industries Sdn Bhd.

A12. CHANGES IN CONTINGENT LIABILITIES/ASSETS

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

	As at 31.05.2012 RM	As at 31.08.2011 RM
Unsecured Corporate guarantee given to bankers for credit facilities granted to subsidiary companies	42,917,993	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
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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	71,190
PKI	Dee Sin Agency	A firm in which Gan Poh Keong, a director of PKI, is sole proprietor	Foreign workers' expenses paid/ payable	20,083	71,370
UDT / SWS	Nate Auto Trading	Director of SWS Capital Berhad	Upkeep of Vehicle	0	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	426,078	1,178,188
Other employee benefits	28,620	84,980

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	
	31-May-12 (RM)	31-May-11 (RM)	31-May-12 (RM)	31-May-11 (RM)
Revenue	29,837,761	21,879,115	83,879,156	65,649,181
Profit before taxation	1,192,253	834,754	2,805,936	1,137,746

The Group's revenue of RM29.8 mil for the third quarter ended 31 May 2012 (Q3 2012) was higher than the revenue in the previous corresponding third quarter ended 31 May 2011 (Q3 2011) of RM21.9 mil. The increase of the revenue was mainly due to the increase of demand of leather upholstery sofa and dining sets from overseas and increase of sales for laminated veneer department.

And the Group's profit before tax for the Q3 2012 has increased slightly to RM1.19 mil compared to profit before tax of RM0.83 mil recorded in the Q3 2011. For the cumulative quarter's result, the Group's profit before tax recorded at RM2.8 mil for the quarter ended 31 May 2012 compared to profit before tax of RM1.1 mil which recorded in Q3 2011.

B2. MATERIAL CHANGE IN PROFIT BEFORE TAXATION

	Individual quarter		Changes (RM)
	31-May-12 (RM)	29-Feb-12 (RM)	
Profit before taxation	1,192,253	1,093,940	98,313

The Group's profit before taxation stood at RM1.19 mil for the quarter under review compared to RM1.09 mil profit registered in the preceding quarter ended 29 February 2012. The slightly increase of profit for this quarter was mainly due to the gain on fair value adjustment on investment property for a total of RM1.68 mil. However, the impact has been offset with the written-off of inventory for RM0.28 mil, write down value of inventories for RM0.37 mil, provision for foreseeable loss for RM0.49 mil and write off of property, plant and equipment for RM0.41 mil.

B3. PROSPECT FOR THE CURRENT FINANCIAL YEAR

The economic situation in Europe has worsened considerably, giving rise to a very worrisome situation. The ramifications of a full-blown crisis are serious not only for Europe but also the rest of the world.

Given the above scenario, the Group expects challenging times ahead in the upcoming months as the buying power in Europe might be dropped.

Nevertheless, the Group will continue to undertake strategic, financial and operational reviews to identify any areas of underperformance and work with management to implement strategies to improve overall performance of the business. We will be focusing on the objectives of improving cash flow, stabilising operations and developing a more comprehensive turnover strategy.

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

There were no sales of unquoted investments and/or properties during the current quarter and financial year-to-date.

B7. QUOTED SECURITIES

There was no purchase or disposal of quoted securities by the Group for the current quarter and financial year-to-date.

B8. STATUS OF CORPORATE PROPOSALS

There were no corporate proposals announced which remain uncompleted during the quarter under review as at the date of this report.

B9. GROUP'S BORROWINGS

The Group's borrowings, all denominated in Ringgit Malaysia, as at 31 May 2012 are as follow:

	RM
Secured Short Term Borrowings	24,733,432
Secured Long Term Borrowings	4,471,809
Total Borrowings	<u>29,205,241</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 31 May 2012 are as follows:-

	Notional Amount As At 31 May 2012	Fair Value As At 31 May 2012
Foreign currency forward contracts: Less than 1 year	9,750,919	10,078,400

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 31 May 2012 (RM)	As at 31 Aug 2011 (RM)
Total accumulated losses of the SWS Capital Berhad and its subsidiaries:		
- Realised	(18,516,534)	(21,663,152)
- Unrealised	(431,942)	29,167
Total group accumulated losses as per consolidated accounts	(18,948,476)	(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
Allowance for doubtful debts	(76,500)	(76,500)
Bad debts recovered	0	31,029
Depreciation / amortisation	(572,119)	(1,692,476)
Fair value adjustment on Investment property	1,689,174	1,120,674
Fair value gain/(loss) on derivative financial instruments	(327,481)	(327,481)
Gain on disposal of property, plant & equipment	487,042	602,569
Interest Income	1,907	1,907
Inventories written-off	(283,462)	(283,462)
Inventories write-down value	(372,431)	(372,431)
Provision for foreseeable loss	(490,216)	(690,216)
Property, plant and equipment written off	(414,476)	(414,476)

Rental received	142,400	414,650
Realised foreign exchange gain	207,885	238,213
Sundry Income	69,295	285,335
Unrealised foreign exchange gain	<u>0</u>	<u>41,047</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)	1,090,075	2,664,777
Weighted average number of shares	(shares)	126,505,500	126,505,500
Basic earnings per share	(sen)	0.86	2.11

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)
25th July 2012