

**NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE SECOND QUARTER ENDED 31 AUGUST 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 August 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**

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

**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 and there were no contingent liabilities pending at the date of this report.

### 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	94,920
PKI	Dee Sin Agency	A firm in which Gan Poh Keong, a director of PKI, is sole proprietor	Foreign workers' expenses paid/ payable	60,002	131,372
PKI	Envision Enterprise	Director of PKI	Purchases of Hardware	146,928	146,928
UDT / SWS	Nate Auto Trading	Director of SWS Capital Berhad	Upkeep of Vehicle	31,344	112,544

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	450,569	1,628,757
Other employee benefits	28,740	113,720

**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-Aug-12 (RM)	31-Aug-11 (RM)	31-Aug-12 (RM)	31-Aug-11 (RM)
Revenue	28,375,757	23,532,540	112,254,913	89,181,722
Profit /(loss) before taxation	865,331	(222,926)	3,671,266	915,259

The Group's revenue of RM28.4 mil for the fourth quarter ended 31 August 2012 (Q4 2012) was higher than the revenue in the previous corresponding fourth quarter ended 31 August 2011 (Q4 2011) of RM23.5 mil. The increase of the revenue was mainly due to the increase of demand of leather upholstery sofa from overseas and increase of sales for laminated veneer department whereby the revenue of leather upholstery sofa has increased 21% and recorded RM17.3 mil in the fourth quarter ended 31 August 2012 (Q4 2012) compared in the previous corresponding fourth quarter ended 31 August 2011 (Q4 2011) of RM14.2 mil. Meanwhile, the revenue of laminated veneer has increased 74% and recorded RM4.0 mil in the fourth quarter ended 31 August 2012 (Q4 2012) compared in the previous corresponding fourth quarter ended 31 August 2011 (Q4 2011) of RM2.3 mil.

And the Group's profit before tax for the Q4 2012 has increased to RM0.87 mil compared to loss before tax of RM0.22 mil recorded in the Q4 2011. For the cumulative quarter's result, the Group's profit before tax recorded at RM3.7 mil for the quarter ended 31 August 2012 compared to profit before tax of RM0.9 mil which recorded in Q4 2011.

**B2. MATERIAL CHANGE IN PROFIT BEFORE TAXATION**

	Individual quarter		Changes (RM)
	31-Aug-12 (RM)	31-May-12 (RM)	
Profit before taxation	865,331	1,192,253	(326,922)

The Group's profit before taxation stood at RM0.87 mil for the quarter under review compared to RM1.19 mil profit registered in the preceding quarter ended 31 May 2012. The decrease of profit for this quarter was mainly due to the 5% drop of Group's revenue whereby the revenue recorded RM28.3 mil in the fourth quarter ended 31 August 2012 (Q4 2012) compared to the previous quarter ended 31 May 2012 (Q3 2012) of RM29.8 mil. Besides, the provision of doubtful debts of RM0.73 mil and write down value of inventories for RM0.33 mil in the log houses construction business which already been ceased down since last year also another contributor to lower down the profit of the Group for the quarter under review.

### **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.

The World Bank has lowered its global economic growth to 3.0% for Year 2013. And world purchasing power parity also has been weighted down to 3.9 in June'12.

Given the above scenario, the Group expects challenging times ahead in the upcoming months as the buying power in Europe might be dropped. The furniture market place is becoming more competitive due to a weaker export market demand.

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.

Besides, the Group will continue their effort in R&D and to explore new and innovative ways to meet customers' demand as well as further diversify our customer base geographically. And the Group will continue look for opportunities to pass on some of our increasing costs to the customers via replacing old models with new models.

### **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	5,713	5,713
Deferred taxation	259,345	259,345
Taxation	<u>265,058</u>	<u>265,058</u>

The Group's effective tax rate for the quarter under review was lower than the statutory tax rate mainly due to the utilisation of unabsorbed business losses on which deferred tax assets were not previously recognised.

## **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 22<sup>nd</sup> March 2012.

On 29 August 2011, its 100% owned subsidiary, U.D.Panelform Sdn Bhd has entered into a Sale and Purchase Agreement to dispose of one plot of leasehold industrial land together with a single storey detached warehouse cum double storey office building with a carrying value of approximately RM1,274,739 for a sale consideration of approximately RM2,000,000. UDP had obtained the Consent from the State Authority via its letter dated 22 February 2012 to transfer the property to buyer. Upon fulfilment of the condition precedent as stated above and receipt of the remaining balance of the disposal price from buyer on 17 July 2012, the Disposal was duly completed on 17 July 2012.

## **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 August 2012 are as follow:

	RM
Secured Short Term Borrowings	24,958,871
Secured Long Term Borrowings	3,198,716
Total Borrowings	<u>28,157,587</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 August 2012 are as follows:-

	Notional Amount As At 31 August 2012	Fair Value As At 31 August 2012
Foreign currency forward contracts:		
Less than 1 year	3,437,600	3,437,335

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 profit and loss.

## **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 Aug 2012 (RM)	As at 31 Aug 2011 (RM)
Total accumulated losses of the SWS Capital Berhad and its subsidiaries:		
- Realised	(19,586,936)	(21,663,152)
- Unrealised	1,133,636	29,167
Total group accumulated losses as per consolidated accounts	(18,453,300)	(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	(725,261)	(801,761)
Bad debts recovered	80,859	111,888
Depreciation / amortisation	(572,840)	(2,265,316)
Net gain from fair value adjustment of investment property	370,000	1,490,674
Fair value gain/(loss) on derivative financial Instruments	285,512	(41,969)
Gain on disposal of property, plant & equipment	912,694	1,515,263
Interest Income	16,582	18,489
Inventories written-off	0	(283,462)
Inventories write-down value	(325,124)	(697,555)
Provision for foreseeable loss	0	(690,216)
Property, plant and equipment written off	(4,912)	(100,888)
Rental received	136,300	550,950
Realised foreign exchange (loss) / gain	(109,994)	128,220
Sundry Income	382	285,717
Unrealised foreign exchange loss	<u>(42,051)</u>	<u>(1,004)</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)	495,176	3,159,953
Weighted average number of shares	(shares)	126,505,500	126,505,500
Basic earnings per share	(sen)	0.39	2.50

### ***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)**  
**29<sup>th</sup> October 2012**