

**NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE SECOND QUARTER ENDED 28 FEBRUARY 2013**

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

**A1. FIRST-TIME ADOPTION OF MALAYSIAN FINANCIAL REPORTING STANDARDS  
 (“MFRS”)**

These condensed consolidated interim financial statements, for the period ended 28 February 2013, have been prepared in accordance with MFRS134 Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. These condensed consolidated interim financial statements also comply with IAS 34 Interim Financial Reporting issued by the International Accounting Standards Board. For the periods up to and including the year ended 31 August 2012, the Group prepared its financial statements in accordance with Financial Reporting Standards (“FRS”).

The consolidated financial statements of the Group for the year ended 31 August 2012 which were prepared under FRS are available upon request from the Company registered office at No. 7 (1<sup>st</sup> Floor), Jalan Pesta 1/1, Taman Tun Dr Ismail 1, Jalan Bakri, 84000 Muar, Johor Darul Ta’zim.

These condensed consolidated interim financial statements are for part of the Group's first MFRS annual FS for the year ending 31 August 2013. MFRS 1 First-Time Adoption of Malaysian Financial Reporting Standards (“MFRS 1”) has been applied.

The explanatory notes attached to these condensed consolidated 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 year ended 31 August 2012.

**A2. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 August 2012 and include the adoption of MFRS Framework and Interpretation which applicable to the Group. The adoption of MFRS, amendments to MFRSs and Interpretation Committee Interpretations do not have 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 2012 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 28 February 2013.

#### **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 principally within the business of design, manufacture and sale of leather upholstery and wooden furniture products in Malaysia. Accordingly, information by operating segments on the Group's operations as required by MFRS 8 is not presented.

#### **A10. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE INTERIM REPORT**

On 13 March 2013, its 100% owned subsidiary, Sin Wee Seng Industries Sdn Bhd has entered into a Sale and Purchase Agreement to dispose of a piece of land together with warehouse-cum-office structure erected thereon known as Lot No. 127, Lok Kawi Industrial Estate Phase 1, Lok Kawi, Penampang in the District of Penampang, Sabah with a total carrying value of approximately RM 650,000 for a total sale consideration of approximately RM 800,000. The estimated completion date will be at June 2013.

#### **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 2012 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                       | 15,820               | 31,640                      |
| PKI          | Dee Sin Agency      | A firm in which Gan Poh Keong, a director of PKI, is sole proprietor | Foreign workers' expenses paid/ payable | 77,837               | 104,978                     |
| PKI          | Envision Enterprise | Director of PKI  | Purchases of Hardware                   | 35,933               | 96,383                      |

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                          | 488,656              | 869,925                     |
| Other employee benefits                               | 36,900               | 65,640                      |

**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 |                   |
|------------------------|--------------------|-------------------|--------------------|-------------------|
|                        | 28-Feb-13<br>(RM)  | 29-Feb-12<br>(RM) | 28-Feb-13<br>(RM)  | 29-Feb-12<br>(RM) |
| Revenue                | 24,372,801         | 28,019,914        | 50,564,465         | 54,041,395        |
| Profit before taxation | 4,753              | 1,093,940         | 686,326            | 1,613,683         |

The Group's revenue of RM24.3 mil for the second quarter ended 28 February 2013 (Q2 2013) was dropped by 13% compared to the revenue in the previous corresponding second quarter ended 29 February 2012 (Q2 2012) of RM28.0 mil. The decrease in revenue was mainly due to the decrease in demand for sofa and laminated veneer and minimum wages crisis. Revenue of sofa has decreased by 14.6% and recorded RM14.6mil in the second quarter ended 28 February 2013 (Q2 2013) compared to the previous corresponding second quarter ended 29 February 2012 (Q2 2012) of RM17.1mil. Meanwhile, the revenue of laminated veneer has decreased by 9.1% and recorded RM3.0 mil in the second quarter ended 28 February 2013 (Q2 2013) compared to the previous corresponding second quarter ended 29 February 2012 (Q2 2012) of RM3.3 mil. Consequently, the Group has recorded profit before tax at RM4,753 in the Q2 2013 compared to profit before tax of RM1.1mil recorded in the Q2 2012.

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

|                        | Individual quarter |                   | Changes<br>(RM) |
|------------------------|--------------------|-------------------|-----------------|
|                        | 28-Feb-13<br>(RM)  | 30-Nov-12<br>(RM) |                 |
| Profit before taxation | 4,753              | 682,573           | (677,820)       |

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. With the decrease revenue, the Group recorded profit before taxation at RM4,753 for the quarter under review compared to RM0.68 mil profit registered in the preceding quarter ended 30 November 2012. The decrease of profit for this quarter was mainly due to loss on disposal of property, plant and equipment amounting to RM495,185. Besides, there are several expenses incurred in this quarter such as the exhibition expenses incurred in Malaysian International Furniture Fair, bonus payout during Chinese New Year and factory relocation expenses incurred for the dining sets department.

### **B3. PROSPECT FOR THE CURRENT FINANCIAL YEAR**

The Malaysian government has approved the delayed implementation by small and medium-sized enterprises (SMEs) of new minimum wage standard for the foreign workers until 31 December 2013.

Although this implementation has been deferred, the worries of furniture manufacturers did not fade away as they will face the increase of labour cost in several months later. Foreign workers play a very important role in the furniture manufacturing industry as we always facing difficulty in hire local workers for this industry. With the unavoidable increased cost, we expect to lose the competitive advantage against other countries and our exports and margin will be affected.

Given the above scenario, the Group expects challenges ahead with the increases in input costs and weaker export market demand. To mitigate these, the Group will strive to further improve efficiency through the higher turnover and mass production system in place. The Group will continue to undertake strategic, financial and operational reviews to identify any areas of improvement.

### **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<br>quarter<br>RM | Financial<br>year-to-date<br>RM |
|-------------------|--------------------------|---------------------------------|
| Current taxation  | Nil                      | Nil                             |
| Deferred taxation | Nil                      | Nil                             |
| Taxation          | <u>Nil</u>               | <u>Nil</u>                      |

There is no tax change of the Group for quarter under review is 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 5 February 2013, its 100% owned subsidiary, Syarikat U.D. Trading Sdn Bhd has entered into a Sale and Purchase Agreement to dispose of two plots of land held under Lot 2312 and Lot 1794 situated in Mukim Sungai Raya, District of Muar, State of Johor with a total carrying value of approximately RM1,800,000 for a total sale consideration of approximately RM1,450,000.

### **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 28 February 2013 are as follow:

|                               |                   |
|-------------------------------|-------------------|
|                               | RM                |
| Secured Short Term Borrowings | 18,660,447        |
| Secured Long Term Borrowings  | 3,755,833         |
| Total Borrowings              | <u>22,416,280</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 28 February 2013 are as follows:-

|                                     | Notional Amount<br>As At<br>28 February 2013 | Fair Value<br>As At<br>28 February 2013 |
|-------------------------------------|--|---|
| Foreign currency forward contracts: |  |   |
| Less than 1 year                    | 6,596,425                                    | 6,694,571                               |

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. The fair value changes have been recognised in the profit and loss.

## B11. MATERIAL LITIGATION

There was no material litigation during the financial quarter.

## 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 28 Feb 2013<br>(RM) | As at 31 Aug 2012<br>(RM) |
|--|---------------------------|---------------------------|
| Total accumulated losses of the SWS Capital Berhad and its subsidiaries: |                           |                           |
| - Realised   | (17,294,067)              | (19,607,882)              |
| - Unrealised   | (438,806)                 | 1,107,041                 |
| Total group accumulated losses as per consolidated accounts              | (17,732,873)              | (18,500,841)              |

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<br>quarter<br>RM | Financial<br>year-to-date<br>RM |
|--|--------------------------|---------------------------------|
| Bad debts recovered                                    | -                        | 33,057                          |
| Bad debts written off                                  | -                        | -                               |
| Depreciation / amortisation                            | (575,538)                | (1,165,105)                     |
| Fair value loss on derivative financial<br>instruments | (90,666)                 | (98,146)                        |
| Fair value adjustment on investment<br>properties      | (145,185)                | -                               |
| Loss on disposal of quoted and<br>unquoted investment  | -                        | -                               |
| (Loss) on disposal of property, plant<br>and equipment | (495,185)                | (495,185)                       |
| (Loss) / gain on foreign exchange                      |                          |                                 |
| Realised   | (13,442)                 | 313,084                         |
| Unrealised   | -                        | -                               |
| Interest income  | -                        | -                               |
| Interest expenses                                      | (212,377)                | (473,450)                       |
| Inventories written off/ write down                    | -                        | -                               |
| Impairment of goodwill                                 | -                        | -                               |
| Impairment of other assets                             | -                        | -                               |
| Impairment of property, plant and equipment            | -                        | -                               |
| Impairment loss on trade receivables                   | -                        | -                               |
| Property, plant and equipment written off              | (73,028)                 | (73,028)                        |
| Provisions   | -                        | -                               |
| Rental received  | 105,100                  | 212,840                         |
| Sundry Income  | 102,045                  | 141,318                         |



## 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<br>quarter | Financial<br>year-to-date |
|--|----------|--------------------|---------------------------|
| Earnings attributable to<br>Owners of the Parent | (RM)     | 219,297            | 767,968                   |
| Weighted average number of shares                | (shares) | 126,505,500        | 126,505,500               |
| Basic earnings per share                         | (sen)    | 0.17               | 0.61                      |

### ***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 MFRS 133 on Earnings per Share.

### **Board of Directors**

**SWS Capital Berhad (Formerly known as UDS Capital Berhad)**

**24<sup>th</sup> April 2013**