

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 31 MAY 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 31 May 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 (1st 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 financial statements 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 31 May 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

No materials events subsequent to the period ended 31 August 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

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	Nil	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	64,445	169,423
PKI	Envision Enterprise	Director of PKI	Purchases of Hardware	53,090	149,473

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	371,531	1,241,455
Other employee benefits	28,740	94,380

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-13 (RM)	31-May-12 (RM)	31-May-13 (RM)	31-May-12 (RM)
Revenue	27,925,893	29,837,761	78,490,358	83,879,156
Profit before taxation	1,306,441	1,192,253	1,992,768	2,805,936

The Group's revenue of RM27.9mil for the third quarter ended 31 May 2013 (Q3 2013) was dropped by 6.4% compared to the revenue in the previous corresponding third quarter ended 31 May 2012 (Q3 2012) of RM29.8mil. The decrease in revenue was mainly due to the decrease in demand for sofa and laminated veneer. Revenue of sofa has decreased by 8.2% and recorded RM16.8mil in Q3 2013 compared to the previous corresponding Q3 2012 of RM18.3mil. Meanwhile, the revenue of laminated veneer has decreased by 16.7% and recorded RM3.5mil in Q3 2013 compared to Q3 2012 of RM4.2mil. Consequently, the Group has recorded profit before tax at RM1.3mil in the Q3 2013 compared to profit before tax of RM1.2mil recorded in the Q3 2012.

B2. MATERIAL CHANGE IN PROFIT BEFORE TAXATION

	Individual quarter		Changes (RM)
	31-May-13 (RM)	28-Feb-13 (RM)	
Profit before taxation	1,306,441	4,753	1,301,688

The Group recorded profit before taxation at RM1.3mil for the quarter under review compared to RM4,753 profit registered in the preceding quarter ended 28 February 2013. The increase of profit for this quarter was mainly due to increase in revenue whereby the Group's revenue achieved RM27.9mil in Q3 2013 compared to RM24.4mil in Q2 2013. Besides, many management strategies have been implemented to improve business viability and operation efficiency. The Group also stressed on the capacity of production to improve the cost efficiency and gross margin. By reducing the downtime and changeover time of machines, the Group has succeeded to increase our competitive ability and able to provide a better price for our customer.

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 hiring 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 quarter RM	Financial year-to-date 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 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.

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 2013 are as follow:

	RM
Secured Short Term Borrowings	20,847,725
Secured Long Term Borrowings	3,702,769
Total Borrowings	<u>24,550,494</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 2013 are as follows:-

	Notional Amount As At 31 May 2013	Fair Value As At 31 May 2013
Foreign currency forward contracts: Less than 1 year	3,387,095	3,421,361

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 statements.

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 2013 (RM)	As at 31 Aug 2012 (RM)
Total accumulated losses of the SWS Capital Berhad and its subsidiaries:		
- Realised	(16,102,937)	(19,607,882)
- Unrealised	(374,926)	1,107,041
Total group accumulated losses as per consolidated accounts	(16,477,863)	(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 quarter RM	Financial year-to-date RM
Allowance for doubtful debts	(266,071)	(266,071)
Doubtful debt no longer required	18,834	51,891
Bad debts written off	-	-
Depreciation / amortisation	(579,059)	(1,744,165)
Fair value (loss)/ gain on derivative financial instruments	63,879	(34,266)
Fair value adjustment on investment properties	-	-
Loss on disposal of quoted and unquoted investment	-	-
Gain/ (loss) on disposal of property, plant and equipment	30,800	(464,385)
Gain on foreign exchange		
Realised	229,383	542,467
Unrealised	-	-
Interest income	46	46
Interest expenses	(275,495)	(748,945)
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)
Provisions	-	-
Rental received	132,300	305,140
Sundry Income	34,385	175,703

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)	1,255,010	2,022,978
Weighted average number of shares	(shares)	126,505,500	126,505,500
Basic earnings per share	(sen)	0.99	1.60

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
25th July 2013