

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 31 MAY 2014****PART A – EXPLANATORY NOTES IN COMPLIANCE WITH MALAYSIAN FINANCIAL
REPORTING STANDARDS (“MFRS”) 134, INTERIM FINANCIAL REPORTING****A1. BASIC OF PREPARATION**

These condensed consolidation interim financial statements, for the period ended 31 May 2014, 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.

The consolidated financial statements of the Group for the year ended 31 August 2013 which were prepared under MFRS 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.

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 2013.

The interim financial statements should be read in conjunction with the Group’s annual audited financial statements for the year ended 31 August 2013.

A2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 August 2013 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 2013 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 2014.

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 9 July 2014, its 100% owned subsidiary, Sin Wee Seng Industries Sdn Bhd has entered into 2 Sale and Purchase Agreements to dispose of 2 adjoining units of double-storey semi-detached houses thereon known as No. 48-10 and 48-11, Jalan Khalidi, 84000 Muar, Johor Darul Takzim with a total carrying value of approximately RM 620,000 for a total sale consideration of approximately RM 900,000.

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 2013 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	Dee Sin Agency	A firm in which Gan Poh Keong, a director of PKI, is sole proprietor	Foreign workers' expenses paid/ payable	45,869	125,654
PKI	Envision Enterprise	Director of PKI	Purchases of Hardware	40,045	128,595
PKI	RTA Components Corp.	Director of PKI	Sales of Furniture	971	23,631
PKI	Public Furniture Sdn. Bhd.	Director of PKI	Sales of Double Decker	480	480

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	883,395	1,730,494
Other employee benefits	34,716	105,580

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-14 (RM)	31-May-13 (RM)	31-May-14 (RM)	31-May-13 (RM)
Revenue	32,020,653	27,925,893	96,274,284	78,490,358
Profit before taxation	306,267	1,306,441	3,675,571	1,992,768

The Group's revenue of RM32 million for the third quarter ended 31 May 2014 ("Q3 2014") increased by 14.7% as compared to the revenue in the previous year's corresponding quarter ended 31 May 2013 ("Q3 2013") of RM27.9 million. The increase in revenue was mainly due to the increase in the demand of leather upholstery sofa and dining sets from overseas.

In terms of revenue contribution, the revenue of leather upholstery sofa was the major contributor and increased by 21% from RM16.8 million in Q3 2013 to RM20.3 million in Q3 2014. Meanwhile, the revenue of dining sets increased by 62% from RM3.6 million in Q3 2013 to RM5.8 million in Q3 2014.

However, the Group's profit before tax for the Q3 2014 has decreased to RM0.3 million if compared to profit before tax of RM1.3 million recorded in the Q3 2013. The decrease of profit for this quarter was mainly due to the increase of sub-con wages which caused by the lack of skilled workers. Besides, the rise of material cost e.g. leather also triggered the drop of gross profit for this quarter.

B2. MATERIAL CHANGE IN PROFIT BEFORE TAXATION

	Individual quarter		Changes (RM)
	31-May-14 (RM)	28-Feb-14 (RM)	
Profit before taxation	306,267	1,284,191	(977,924)

The Group recorded profit before taxation at RM 0.31 million for the quarter under review compared to RM1.28 million profit registered in the preceding quarter ended 28 February 2014. The decrease of profit for this quarter was mainly due to more sub-con charges being paid as the new hired foreign workers are not skilled and competent. This is a common issue for this labour oriented industry to face the drop of productivity during the end of 3 years' service contracts of foreign workers. To ensure the customer's delivery date not being interrupted, the Group has to engage more sub-contractors and hence increased of sub-con charges. In addition, we are unable to transfer the cost to customers due to the unexpected increase of leather cost especially for those customers who placed their order earlier.

B3. PROSPECT FOR THE CURRENT FINANCIAL YEAR

Lack of skilled workers and increase of material cost will be the next challenges to the Group. To mitigate these, time needed to train the new batch of workers and a mix combination of foreign workers and local workers need to be emphasised. Besides, the Group also need to strengthen the procurement operations to further ensure the quality of material will meet the customers' satisfaction at competitive prices.

The Group is continuing with the effort to develop new products and new design, drive better cost efficiencies and effective cost management across all divisions. The Group continues to stay focus on our strategy of introducing value-based products. Barring unforeseen circumstances, the Board believes that the Group would continue to be profitable in the current financial year ending 31 August 2014.

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	(312,196)
Deferred taxation	0	(200,000)
	<u>0</u>	<u>(512,196)</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.

B6. SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

There was no sale of unquoted investments and/or properties by the Group for the current quarter.

B7. QUOTED SECURITIES

There was no purchase or disposal of quoted securities by the Group for the current quarter.

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 2014 are as follow:

	RM
Secured Short Term Borrowings	18,593,643
Secured Long Term Borrowings	2,097,370
Total Borrowings	<u>20,691,013</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 2014 are as follows:-

	Notional Amount As At 31 May 2014	Fair Value As At 31 May 2014
Foreign currency forward contracts: Less than 1 year	2,344,200	2,258,717

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 2014 (RM)	As at 31 Aug 2013 (RM)
Total accumulated losses of the SWS Capital Berhad and its subsidiaries:		
- Realised	(12,901,600)	(14,983,285)
- Unrealised	(658,245)	(974,939)
Total group accumulated losses as per consolidated accounts	(13,559,845)	(15,958,224)

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	Financial year-to-date
	RM	RM
Allowance for doubtful debts	(198,003)	(367,594)
Impairment loss on receivables	0	0
Reversal of impairment loss on receivables	0	0
Bad debts written off	0	0
Depreciation of property, plant and equipment	(596,140)	(1,764,372)
Fair value gain on financial instruments	4,390	85,483
Fair value adjustment on investment properties	0	0
Loss on disposal of quoted and unquoted investment	0	0
Gain on disposal of property, plant and equipment	350	10,450
(Loss) / Gain on foreign exchange		
Realised	(31,568)	357,488
Unrealised	43,144	168,395
Interest income	0	0
Interest expenses	(225,281)	(687,450)
Inventories written off / write down	0	(330,534)
Impairment of goodwill	0	0
Impairment of other assets	0	0
Impairment loss on property, plant and equipment	0	(87,000)
Property, plant and equipment written off	0	0
Provisions	0	0
Rental received	25,300	75,100
Sundry income	42,276	107,516

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)	216,684	2,398,379
Weighted average number of shares	(shares)	126,505,500	126,505,500
Basic earnings per share	(sen)	0.17	1.90

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 are 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
24th July 2014