

**NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE THIRD QUARTER ENDED 31 MAY 2015**

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

**A1. BASIS OF PREPARATION**

These condensed consolidation interim financial statements, for the period ended 31 May 2015, 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 2014 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.

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 2014.

The interim financial statements should be read in conjunction with the Group’s annual audited financial statements for the year ended 31 August 2014.

**A2. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 August 2014 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 2014 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 2015.

#### **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 period to-date.

#### **A7. CHANGES IN DEBT AND EQUITY SECURITIES**

There were no issuance, repurchase and repayment of debt and equity securities for the financial period-to-date.

#### **A8. DIVIDENDS PAID**

The Group paid a final single tier dividend of 1 sen (net) per ordinary share amounting to approximately RM1.26 million on 17 March 2015 in respect of the financial year ended 31 August 2014.

#### **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 material events subsequent to the period ended 31 May 2015 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 period.

## A12. CHANGES IN CONTINGENT LIABILITIES/ASSETS

There were no changes in contingent liabilities/assets since previous reporting date 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 period-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	24,465	147,331
PKI	Envision Enterprise	Director of PKI	Purchases of Hardware	22,274	71,620
PKI	Public Furniture Sdn. Bhd.	Director of PKI	Sales of Double Decker	Nil	1,440

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	517,081	1,876,996
Other employee benefits	40,192	119,536

**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-15 (RM)	31-May-14 (RM)	31-May-15 (RM)	31-May-14 (RM)
Revenue	31,447,146	32,020,653	93,928,027	96,274,284
(Loss) / profit before tax	(3,064,036)	306,267	(925,305)	3,675,571

The Group's revenue of RM31.5 million for the third quarter ended 31 May 2015 ("Q3 2015") decreased by 1.8% as compared to the revenue in the previous year's corresponding quarter ended 31 May 2014 ("Q3 2014") of RM32.0 million. The drop of Group revenue was mainly due to the lower sales in dining sets, whereby it decreased by 28.1% from RM5.8 million in Q3 2014 to RM4.2 million in Q3 2015. The decrease of demand for dining sets division was caused by the lower purchasing power in Europe countries as a result of strong USD recently. Although the sales dropped in dining sets division but it managed to maintained its profit consistently due to the appreciation of USD as well.

However, the Group was in the loss position in Q3 2015 whereby the loss before tax was RM3.06 million compared to profit before tax of RM0.31 million recorded in the Q3 2014. This is mainly due to the write off of inventory, provision for obsolete goods, unrealized foreign exchange losses and exhibition expenses incurred in the leather upholstery sofa division.

**B2. MATERIAL CHANGE IN (LOSS) / PROFIT BEFORE TAX**

	Individual quarter		Changes (RM)
	31-May-15 (RM)	28-Feb-15 (RM)	
(Loss) / profit before tax	(3,064,036)	764,579	(3,828,615)

The Group recorded loss before tax at RM 3.06 million for the quarter under review compared to RM0.76 million profit registered in the preceding quarter ended 28 February 2015.

The decrease of profit for this quarter was mainly due to the write off of inventory and provision for obsolete goods which is approximately to RM2.4 million. Besides, there was an unrealized foreign exchange losses amounting to RM0.67 million arising from USD denominated banking facilities as a result of strong USD recently.

Furthermore, there were new exhibition expenses of RM0.34 million incurred for China International Furniture Fair (CIFF) in Guangzhou and another RM0.33 million incurred in local furniture fairs.

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

The Group is operating in global economic uncertainties as well as facing increases in its raw materials costs and fluctuation in foreign exchange rates. The Group had taken action to strengthen the procurement operations to further ensure the quality of raw materials that 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 face stiff challenges in the volatile economic uncertainties in the next quarter ending 31 August 2015.

### **B4. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT**

The Group did not issue any profit forecast or profit guarantee for the period.

### **B5. INCOME TAX EXPENSE**

	Current quarter RM	Financial year-to-date RM
Current taxation	(171,855)	(439,851)
Deferred taxation	0	0
	<u>(171,855)</u>	<u>(439,851)</u>

The tax expense for the period is in respect of certain profit making subsidiaries.

### **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 as at the date of this report.

## B9. GROUP'S BORROWINGS

The Group's borrowings, all denominated in Ringgit Malaysia, as at 31 May 2015 are as follow:

	RM
Secured Short Term Borrowings	22,619,237
Secured Long Term Borrowings	2,435,322
Total Borrowings	<u>25,054,559</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 2015 are as follows:-

	Notional Amount As At 31 May 2015	Fair Value As At 31 May 2015
Foreign currency forward contracts		
Less than 1 year :	2,135,380	2,147,716

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 dividend was proposed by the Board of Directors for the current quarter under review.

### B13. REALISED AND UNREALISED (LOSS) / PROFIT

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 2015 (RM)	As at 31 Aug 2014 (RM)
Total accumulated losses of the SWS Capital Berhad and its subsidiaries:		
- Realised	(14,640,662)	(12,839,454)
- Unrealised	(1,265,984)	252,189
Total group accumulated losses as per consolidated accounts	(15,906,646)	(12,587,265)

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

Loss for the period has been arrived at after crediting / (charging):-

	Current quarter RM	Financial year-to-date RM
Bad debts recovered	4,973	9,411
Depreciation of property, plant and equipment	(656,675)	(2,000,641)
Fair value profit / (loss) on financial instruments	85,254	(12,336)
Gain on disposal of property, plant and equipment	1,000	97,935
Gain on disposal of assets held for sale	0	281,668
Gain/ (loss) on foreign exchange		
Realised	183,296	1,304,912
Unrealised	(672,080)	(911,552)
Interest income	2,491	7,884
Finance costs	(185,943)	(617,969)
Inventories written off	(1,472,375)	(1,472,375)
Inventories written down	(927,625)	(927,625)
Rental received	40,700	115,680

## B15. EARNINGS PER SHARE

### ***Basic (loss) / earnings per share***

The basic (loss) / 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
(Loss) / Earnings attributable to Owners of the Parent	(RM)	(3,235,891)	(2,054,326)
Weighted average number of shares	(shares)	126,505,500	126,505,500
Basic (loss) / earnings per share	(sen)	(2.64)	(1.62)

### ***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**  
**22<sup>nd</sup> July 2015**