

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE FOURTH QUARTER ENDED 31 AUGUST 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 August 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 (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 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 August 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 year to-date.

A7. CHANGES IN DEBT AND EQUITY SECURITIES

There were no issuance, repurchase and repayment of debt and equity securities for the financial year-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

On 30 August 2015, the 51% owned subsidiary, Poh Keong Industries Sdn Bhd entered into Sale and Purchase Agreement to acquire a piece of agriculture land under Title Geran 96065 Lot No. 2815, Mukim Parit Jawa, District of Muar, State of Johor with an approximate 2.4888 hectares for a total consideration of RM 3,300,000. As at the date of this report, the above transaction is not yet completed

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

A13. CAPITAL COMMITMENTS

As at 31 August 2015, capital commitment is as follow:

Approved and contracted for purchase of property RM 3,445,000

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	25,281	172,612
PKI	Envision Enterprise	Director of PKI	Purchases of Hardware	17,131	88,750
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	719,728	2,596,724
Other employee benefits	42,588	162,124

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-15 (RM)	31-Aug-14 (RM)	31-Aug-15 (RM)	31-Aug-14 (RM)
Revenue	30,924,177	30,344,766	124,852,204	126,619,050
Profit before tax	1,489,395	673,928	564,090	4,349,498

The Group's revenue of RM30.9 million for the fourth quarter ended 31 August 2015 ("Q4 2015") increased by 2% as compared to the revenue in the previous year's corresponding quarter ended 31 August 2014 ("Q4 2014") of RM30.3 million.

The revenue of leather upholstery sofa was the major contributor and increased by 8.6% from RM18.6 million in Q4 2014 to RM20.2 million in Q4 2015. Meanwhile, the revenue of dining sets decreased by 6.8% from RM4.4 million in Q4 2014 to RM4.1 million in Q4 2015.

However, the Group was in the profit position in Q4 2015 whereby the profit before tax was RM1.49 million compared to profit before tax of RM0.67 million recorded in the Q4 2014. The increase of profit for this quarter was mainly due to the appreciation of USD.

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

	Individual quarter		Changes (RM)
	31-Aug-15 (RM)	31-May-15 (RM)	
Profit / (loss) before tax	1,489,395	(3,064,036)	4,553,431

The Group recorded profit before tax at RM 1.49 million for the quarter under review compared to RM3.06 million loss registered in the preceding quarter ended 31 May 2015.

The increase of profit for this quarter was mainly due to the USD appreciate about 13.5% from 1USD to 3.68MYR as at 1st June 2015 to 1USD to 4.18MYR as at 31st August 2015.

In the previous quarter, the Group had written off of inventory and made provision for obsolete goods which is approximately RM 2.4 million.

B3. PROSPECT FOR THE CURRENT FINANCIAL YEAR

The Group would continue to face stiff competitions given the volatile economic condition and operating environment. To promote sustainability of the Group as a whole, Management would prioritise new product offering and implement strategic marketing initiatives by providing competitive pricing to the existing customers and penetrating new market through participation to new exhibitions.

Barring unforeseen circumstances, the Board believes that the Group would continue to be profitable in the current financial year ending 31 August 2016.

B4. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT

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

B5. INCOME TAX INCOME / (EXPENSE)

	Current quarter RM	Financial year-to-date RM
Current taxation	90,932	(348,918)
Deferred taxation	895,564	895,564
	<u>986,496</u>	<u>546,646</u>

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 and financial year-to-date.

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 as at 31 Aug 2015 are as follow:

	RM
Secured Short Term Borrowings	
- denominated in Ringgit Malaysia	11,857,123
- denominated in US Dollar	7,669,634
Secured Long Term Borrowings	2,552,869
Total Borrowings	<u>22,079,626</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 Aug 2015 are as follows:-

	Notional Amount As At 31 Aug 2015	Fair Value As At 31 Aug 2015
Foreign currency forward contracts		
Less than 1 year :	2,251,775	283,327

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 Aug 2015 (RM)	As at 31 Aug 2014 (RM)
Total accumulated losses of the SWS Capital Berhad and its subsidiaries:		
- Realised	(12,215,806)	(12,839,454)
- Unrealised	(1,380,513)	252,189
Total group accumulated losses as per consolidated accounts	(13,596,319)	(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
Allowance for doubtful debts	(155,398)	(155,398)
Bad debts recovered	119,587	128,998
Depreciation of property, plant and equipment	(675,798)	(2,676,438)
Fair value loss on financial instruments	(289,749)	(302,086)
Fair value adjustment on investment properties	105,000	105,000
Gain on disposal of property, plant and equipment	55,660	153,596
Gain on disposal of assets held for sale	0	281,668
Gain/ (loss) on foreign exchange		
Realised	880,078	2,184,990
Unrealised	(825,347)	(1,736,899)
Interest income	23,802	31,686
Finance costs	(203,115)	(821,083)
Inventories written off	(28,270)	(1,501,245)
Inventories written down	(30,819)	(958,444)
Property, plant and equipment written off	(115)	(115)
Rental received	37,980	153,660

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)	2,310,327	256,001
Weighted average number of shares	(shares)	126,505,500	126,505,500
Basic earnings per share	(sen)	1.83	0.20

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
29th October 2015