

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE FOURTH QUARTER ENDED 31 AUGUST 2016**

**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 2016, 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 2015 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 2015.

The interim financial statements should be read in conjunction with the Group’s annual audited financial statements for the year ended 31 August 2015.

A2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 August 2015 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 2015 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 2016.

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 first interim single tier tax exempt dividend of 1 sen (net) per ordinary share amounting to approximately RM1.46 million on 20 July 2016 in respect of the financial year ended 31 August 2016 to all holders of ordinary shares whose names appear in the Record of Depositors at the close of business on 30 June 2016.

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 August 2016 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

As at 31 August 2016, capital commitment is as follows:

Approved and 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 follows:

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	20,806	68,971
PKI	Envision Enterprise	Director of PKI	Purchases of Hardware	30,667	89,075
PKI	R T A Components, Corp	Director of PKI	Sales	Nil	4,206
PKI	Public Furniture Sdn. Bhd.	Director of PKI	Sales of Double Decker	Nil	1,357

The Group's key management personnel compensation is as follows:

Compensation paid/payable to key management personnel	Current quarter (RM)	Financial Year-to-date (RM)
Short term employee benefits	730,165	3,003,915
Other employee benefits	47,731	200,194

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 quarters	
	31-Aug-16 (RM)	31-Aug-15 (RM)	31-Aug-16 (RM)	31-Aug-15 (RM)
Revenue	33,977,499	30,924,177	149,098,472	124,852,204
(Loss) /profit before tax	(1,146,518)	1,489,395	5,639,990	478,512

The Group's revenue of RM34.0 million for the fourth quarter ended 31 August 2016 ("Q4 2016") increased by 10% as compared to the revenue in the previous year's corresponding quarter ended 31 August 2015 ("Q4 2015") of RM30.9 million.

The Group has recorded loss before taxation of RM1.15 million for Q4 2016 compared to profit before tax of RM1.49 million recorded in Q4 2015. The decrease in profit was mainly due to the poor performance in the leather upholstery sofa division as a result of shortage in foreign workers which in turn has caused the increase in subcontractors' charges.

In YE2016, the Group's revenue increased by 19.2% to RM149.1 million as compared to the revenue in the previous year of RM124.9 million. The increase in revenue was mainly generated from dining sets division which have successfully increased their revenue by 27.5% if compared to YE 2015.

The Group has recorded profit before taxation of RM5.6 million in YE2016 compared to RM0.48 million recorded in YE2015. The main reason for the improvement in results in YE2016 was due to the bad debts recovered of RM0.73 million in the local board lamination division and fair value gain on investment properties of RM0.85 million. Unlike previous year, there was a written off of inventory and provision for obsolete goods of approximately RM2.4 million in leather upholstery sofa division.

B2. VARIANCE IN (LOSS) / PROFIT BEFORE TAX

	Individual quarter		Changes (RM)
	31-Aug-16	31-May-16	
	(RM)	(RM)	
(Loss) / profit before tax	(1,146,518)	1,857,730	(3,004,248)

The Group recorded loss before tax of RM 1.15 million for the quarter under review compared to RM1.86 million registered in the preceding quarter ended 31 May 2016.

Shortage of foreign workers has caused subcontractors' charges increased in the leather upholstery sofa division and its gross profit has decreased from 16.3% in Q3 2016 to 12.1% in Q4 2016.

The decrease of profit for this quarter was also due to the local exhibition fair expenses incurred of RM 0.43 million and provision of incentive of RM 0.87 million made in leather upholstery sofa division.

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.

Shortage of workers had resulted extra cost to the Group especially in the leather upholstery sofa division which is labour intensive. The management needs time to train new batch of workers and emphasises mix combination of foreign workers and local workers.

The management is in the process to increase in productivity and investment in technology, thereby reducing reliance on labour-intensive manufacturing practices especially in wood based division.

The Group will continue to develop new products and new design for existing products, derive better cost efficiencies and effective cost management across all functions. The Group is exploring diversification into other industries as and when opportunities arise.

The Board believes the coming financial year will remain to be challenging amid current operating and business conditions.

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	173,749	(650,294)
Deferred taxation	(364,835)	635,165
	<u>(191,086)</u>	<u>(15,129)</u>

The Group's effective tax rate for the quarter under review was lower than the statutory tax rate mainly due to the recognition of deferred tax assets arising from unabsorbed business losses of certain 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 as at 31 August 2016 are as follows:

	RM
Secured Short Term Borrowings	
- denominated in Ringgit Malaysia	12,321,756
- denominated in US Dollar	10,814,283
Secured Long Term Borrowings	
- denominated in Ringgit Malaysia	4,096,896
Total Borrowings	<u>27,232,935</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 August 2016 are as follows:-

	Notional Amount As At 31 August 2016	Fair Value As At 31 August 2016
Foreign currency forward contracts		
Less than 1 year :	606,050	610,753

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 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 August 2016 (RM)	As at 31 Aug 2015 (RM)
Total accumulated losses of the SWS Capital Berhad and its subsidiaries:		
- Realised	(13,305,394)	(12,173,804)
- Unrealised	2,128,800	(1,376,570)
Total group accumulated losses as per consolidated accounts	(11,176,594)	(13,550,374)

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	Nil	(392)
Bad debts recovered	Nil	789,171
Depreciation of property, plant and equipment	(741,528)	(2,940,381)
Fair value gain on financial instruments	317,984	278,624
Fair value adjustment on investment properties	850,000	850,000
Loss on disposal of property, plant and equipment	Nil	(152,434)
Gain / (loss) on foreign exchange		
Realised	310,994	799,138
Unrealised	222,313	(202,462)
Interest income	167,554	292,452
Finance costs	(257,876)	(1,151,858)
Rental received	40,000	453,400

B15. EARNINGS PER SHARE***Basic earnings per share***

Basic earnings per share amount are calculated by dividing the profit attributable to Owners of the Parent by the weighted average number of ordinary shares outstanding during the period.

		Current quarter	Financial year-to-date
Earnings attributable to Owners of the Parent	(RM)	(1,064,769)	4,126,530
Weighted average number of shares	(shares)	140,953,270	140,953,270
Basic earnings per share	(sen)	(0.76)	2.93

Diluted earnings per share

There is no dilutive effect of the potential ordinary shares convertible under warrants issued for year ended 31 August 2016.

**Board of Directors
SWS Capital Berhad
26th October 2016**