

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 31 MAY 2017****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 2017, 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 2016 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 2016.

The interim financial statements should be read in conjunction with the Group’s annual audited financial statements for the year ended 31 August 2016.

A2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 August 2016 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 2016 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 lower than the rest of the quarters. This is mainly due 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 2017.

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

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

All material events subsequent to the period ended 31 May 2017 have been reflected in Section A11 and B8 of the financial statements for the interim period.

A11. CHANGES IN THE COMPOSITION OF THE GROUP

- (1) On 28 February 2017, the Group entered into a Share Purchase Agreement to acquire additional total 548,310 ordinary shares of RM 1.00 each in Poh Keong Industries Sdn Bhd (PKI), its 70.6% owned subsidiary, representing an equity interest of 29.40% shares in the issued and paid up capital of PKI from Mr. Gan Poh Keong and Ms Lee Geok Kim for a total consideration of RM3,234,000. The shareholders of the Company had at the Extra General Meeting held on 14 June 2017, passed the resolution of the above acquisition. This transaction was completed on 14 July 2017, resulted in PKI become a 100% subsidiary company of the Group.
- (2) On 28 February 2017, the Group has entered into the Share Purchase agreement with NS Creative Sdn. Bhd. for the proposed disposal by the Group of its entire equity interest in Sin Wee Seng Industries Sdn. Bhd. (“SWSISB”) for a cash consideration of RM30,739,866. The shareholders of the Company had at the Extra General Meeting held on 14 June 2017, passed the resolution of the above disposal. This transaction was completed on 14 July 2017, resulted in SWSISB ceased as a subsidiary company of the Group. And
- (3) On 28 February 2017, the Group has entered into Share Purchase agreement with the Ee-Lian Enterprise (M) Sdn Bhd’s (“ELE”) shareholders for the proposed acquisition of the entire equity interest of ELE for a total cash consideration of RM36,135,000. The shareholders of the Company had at the Extra General Meeting held on 14 June 2017, passed the resolution of the above acquisition. This transaction was completed on 14 July 2017, resulted in ELE become a 100% subsidiary company of the Group.

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 May 2017, capital commitment is as follows:

Approved and contracted for purchase of property, plant and equipment 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	14,188	42,898
PKI	Envision Enterprise	Director of PKI	Purchases of Hardware	30,707	101,238

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	746,074	2,230,106
Other employee benefits	75,093	217,138

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-May-17 (RM)	31-May-16 (RM)	31-May-17 (RM)	31-May-16 (RM)
Revenue	38,420,165	36,589,625	112,900,149	115,120,973
Profit before tax	1,024,374	1,857,730	2,935,149	6,786,508

The Group's revenue of RM38.4 million for the third quarter ended 31 May 2017 ("Q3 2017") decreased by 4.9% as compared to the revenue in the previous year's corresponding quarter ended 31 May 2016 ("Q3 2016") of RM36.6 million.

The Group has recorded profit before taxation of RM1.02 million for Q3 2017 compared to profit before tax of RM1.86 million recorded in Q3 2016. The decrease in profit was mainly due to the adverse performance in the leather upholstery sofa division as a result of shortage in foreign workers as well as the increase of price in raw materials.

Besides, dining sets division also has adverse performance in Q3 2017 as a result of the lower sales, whereby it decreased by 16% from RM6.3 million in Q3 2016 to RM5.3 million in Q3 2017. The decline in revenue was due to the shortage of raw materials which resulted the productivity slow down.

B2. VARIANCE IN PROFIT BEFORE TAX

	Individual quarter		Changes (RM)
	31-May-17 (RM)	28-Feb-17 (RM)	
Profit before tax	1,024,374	653,770	370,604

The Group recorded profit before tax of RM 1.02 million for the quarter under review compared to the profit before tax RM0.65 million registered in the preceding quarter ended 28 February 2017.

The increase of profit for this quarter was mainly due to the improvement of the production effectiveness especially the wastage control, the Group has succeeded to increase its gross margin from 16.6% in Q3 2016 to 19.1% in Q3 2017.

B3. PROSPECT FOR THE CURRENT FINANCIAL YEAR

Shortage of workers had resulted extra cost to the Group especially in the leather upholstery sofa division which is labour intensive. The leather upholstery sofa division has been recording a declining trend in gross profit margin. The Board notes these economic challenges and does not anticipate the predicament of the shortage of labour to be resolved rapidly in the near future. With the completion of the disposal of SWSISB, this will soften the issue of shortage of workers facing by the Group.

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. With the acquisition of ELE, the Group has been diversified to plastic manufacturing industry with a better prospect.

Barring unforeseen circumstances, the Board believes that the Group would continue to be profitable in the current financial year ending 31 August 2017.

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	(265,617)	(326,051)
Deferred taxation	Nil	Nil
	<u>(265,617)</u>	<u>(326,051)</u>

The Group's effective tax rate for the quarter under review was lower than the statutory tax rate mainly due to over provision of taxation in respect of previous financial year, the utilisation of unabsorbed business losses and tax credits i.e. allowances for increased in exports and reinvestment allowances.

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

On 28 February 2017, the Group has entered into the following:-

- (i) Share Purchase agreement with NS Creative Sdn. Bhd. for the proposed disposal by the Group of its entire equity interest in Sin Wee Seng Industries Sdn. Bhd. for a cash consideration of RM30,739,866;
- (ii) Share Purchase agreement with the PKI minority shareholders for the proposed acquisition of the remaining 29.40% equity interest in PKI for a total cash consideration of RM3,234,000; and
- (iii) Share Purchase agreement with the Ee-Lian Enterprise (M) Sdn Bhd's ("ELE") shareholders for the proposed acquisition of the entire equity interest of ELE for a total cash consideration of RM36,135,000.

Details of the proposals can be obtained from the website of Bursa Malaysia Berhad.

The above proposals have been passed by way of poll by shareholders in the Extra General Meeting held on 14 June 2017 and completed on 14 July 2017.

B9. GROUP'S BORROWINGS

The Group's borrowings as at 31 May 2017 are as follows:

	RM
Secured Short Term Borrowings	
- denominated in Ringgit Malaysia	10,205,569
- denominated in US Dollar	8,686,250
Secured Long Term Borrowings	
- denominated in Ringgit Malaysia	3,597,306
Total Borrowings	<u>22,489,125</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 2017 are as follows:-

	Notional Amount As At 31 May 2017	Fair Value As At 31 May 2017
Foreign currency forward contracts Less than 1 year :	2,624,834	2,600,044

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

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 2017 (RM)	As at 31 Aug 2016 (RM)
Total accumulated losses of the SWS Capital Berhad and its subsidiaries:		
- Realised	(9,252,553)	(12,734,284)
- Unrealised	826,740	2,133,502
Total group accumulated losses as per consolidated accounts	(8,425,813)	(10,600,782)

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
Depreciation of property, plant and equipment	(756,841)	(2,259,413)
Fair value adjustment on investment properties	30,000	30,000
Fair value gain on financial instruments	24,790	24,790
Gain on disposal of property, plant and equipment	21,809	66,944
Gain / (loss) on foreign exchange		
Realised	75,557	1,449,409
Unrealised	(268,059)	(430,686)
Interest income	47,758	208,395
Finance costs	(221,997)	(655,121)
Property, plant and equipment written off	Nil	(5,392)
Rental received	38,900	117,600

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)	548,363	1,741,974
Weighted average number of shares	(shares)	145,875,038	145,875,038
Basic earnings per share	(sen)	0.38	1.19

Diluted earnings per share

There is no dilutive effect of the potential ordinary shares convertible under warrants issued during the financial quarter.

Board of Directors
SWS Capital Berhad
28th July 2017