

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

A8. DIVIDENDS PAID

There were no dividends paid during the reporting period.

A9. SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's business segment.

Revenue and Expenses	Investment Holding (RM)	Manufacturing of furniture (RM)	Manufacturing of plastic wares (RM)	Consolidated (RM)
External sales	0	133,156,915	11,707,551	144,864,466

Results	Investment Holding (RM)	Manufacturing of furniture (RM)	Manufacturing of plastic ware (RM)	Consolidated (RM)
Segment Results	9,152,422	2,145,169	876,311	12,173,902
Finance costs	0	(831,644)	(268,541)	(1,100,185)
Finance income	203,940	109,912	74,050	387,902
Profit before tax	9,356,362	1,423,437	681,820	11,461,619
Income tax expenses				(2,391,733)
Profit after tax				9,069,886
Revaluation reserve				9,268,308
Total comprehensive income				18,338,194

A10. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE INTERIM REPORT

No material events subsequent to the period ended 31 August 2017 that have not been reflected in the financial statements for the interim period.

A11. CHANGES IN THE COMPOSITION OF THE GROUP

On 14 July 2017, the Group has completed its disposal and acquisition of subsidiaries as below:

- (i) Acquisition of the additional total 548,310 ordinary shares of RM 1.00 each in Poh Keong Industries Sdn Bhd (PKI) on 28 February 2017, 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 Mdm Lee Geok Kim for a total consideration of RM3,234,000. This transaction resulted that PKI become a 100% subsidiary company of the Group.
- (ii) Acquisition of the entire equity interest of Ee-Lian Enterprise (M) Sdn. Bhd. (ELE) for a total cash consideration of RM36,135,000. This transaction resulted that ELE become a 100% subsidiary company of the Group.
- (iii) Disposal of the entire equity interest in Sin Wee Seng Industries Sdn. Bhd (SWS) to NS Creative Sdn. Bhd. for a cash consideration of RM30,739,866. This transaction resulted that SWS no longer a 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 August 2017, capital commitment is as follows:

Approved and contracted for purchase of property, plant and equipment RM 2,407,860

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	Brother-in-law of Director of PKI	Foreign workers' expenses paid/payable	6,212	49,110
PKI	Envision Enterprise	Brother-in-law of Director of PKI	Purchases of Hardware	29,194	130,432
ELE	Ee Jia Houseware (M) S/B	Director of ELE	Purchases of plastic wares and other household products	1,431,767	1,431,767

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	1,265,457	3,495,563
Other employee benefits	118,080	335,218

PART B - EXPLANATORY NOTES PURSUANT TO CHAPTER 9, APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1. PERFORMANCE REVIEW

	Individual quarter		Changes (%)	Cumulative quarters		Changes (%)
	31-Aug-17 (RM)	31-Aug-16 (RM)		31-Aug-17 (RM)	31-Aug-16 (RM)	
Revenue	31,964,318	33,977,499	(6%)	144,864,466	149,098,472	(3%)
Operating profit	8,921,694	(632,996)	(1509%)	12,511,964	7,047,494	78%
Profit before tax	8,526,470	(864,706)	(1086%)	11,461,619	5,921,802	94%
Profit after tax	6,460,788	(1,055,792)	(712%)	9,069,886	5,906,673	54%
Profit attributable to Owners of the Parent	6,813,085	(5,191,299)	(231%)	8,555,060	4,408,342	94%

The Group's revenue of RM32.0 million for the fourth quarter ended 31 August 2017 ("Q4 2017") decreased by 6% as compared to the revenue in the previous year's corresponding quarter ended 31 August 2016 ("Q4 2016") of RM34.0 million.

In YE2017, the Group's revenue decreased by 3% to RM144.9 million as compared to the revenue in the previous year of RM149.1 million. The revenue of the leather upholstery sofa division has dropped from RM100 million to RM83.8 million (10 months' result). However, the newly-acquired plastic wares division has contributed RM11.7 million (2 months' result) revenue for YE2017.

The Group has recorded profit before tax of RM8.53 million for Q4 2017 compared to loss before tax of RM0.86 million recorded in Q4 2016. The increase in profit was mainly due to the negative goodwill recognised upon acquisition for ELE.

In terms of gross profit, it has decreased from 16.7% in YE2016 to 15.1% in YE2017. The decrease in gross profit was mainly due to the shortage in skilled labour which caused the increase of overtime hours and increase of subcontracting work – both resulting in extra costs.

B2. VARIANCE IN PROFIT BEFORE TAX

	Individual quarter		Changes (RM)
	31-Aug-17 (RM)	31-May-17 (RM)	
Revenue	31,964,318	38,420,165	(6,455,847)
Operating profit	8,921,694	1,246,371	7,675,323
Profit before tax	8,526,470	1,024,374	7,502,096
Profit after tax	6,460,788	758,757	5,702,031
Profit attributable to Owners of the Parent	6,813,085	548,363	6,264,722

The Group recorded profit before tax of RM 8.53 million for the quarter under review compared to the profit before tax of RM1.02 million registered in the preceding quarter ended 31 May 2017.

The increase in profit before tax for this quarter was mainly due to the negative goodwill recognised upon completion of the acquisition of ELE.

From the operations side, the gross margin decreased to 11% in Q4 2017 as compared to 19% in Q3 2017. Both dining sets and board lamination divisions incurred higher raw material costs, particularly for boards, solid wood, hardware and finishing materials which have increased substantially over the last few months. The weaker US Dollar has resulted in lower sales proceeds in Malaysia Ringgit. Hence, lower margin for our export products.

B3. PROSPECT FOR THE CURRENT FINANCIAL YEAR

The acquisition of ELE enabled the Group to diversify into the manufacturing and trading of plastic wares, utensils and goods. In view of the favourable prospects of the plastic wares division, the Board believes that the ELE Acquisition is an attractive business venture. The Group is exploring business complementation between dining sets division and plastic wares division for enlargement of products base.

On the other hand, the Board does not anticipate the predicament of the shortage of labour to be resolved rapidly in the near future. The management is in the midst of implementing a project to increase the productivity and investment in machine 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 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	(93,530)	(419,581)
Deferred taxation	(1,972,152)	(1,972,152)
	<u>(2,065,682)</u>	<u>(2,391,733)</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

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 2017 are as follows:

	RM
Secured Short Term Borrowings	
- denominated in Ringgit Malaysia	39,425,388
- denominated in US Dollar	1,168,695
Secured Long Term Borrowings	
- denominated in Ringgit Malaysia	14,305,607
	<u>54,899,690</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 2017 are as follows:-

	Notional Amount As At 31 August 2017	Fair Value As At 31 August 2017
Foreign currency forward contracts Less than 1 year :	2,148,925	2,142,506

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 Aug 2017 (RM)	As at 31 Aug 2016 (RM)
Total accumulated losses of the SWS Capital Berhad and its subsidiaries:		
- Realised	(4,722,372)	(12,734,284)
- Unrealised	3,887,557	2,133,502
Total group accumulated losses as per consolidated accounts	(834,815)	(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	(1,480,646)	(3,740,059)
Fair value adjustment on investment properties	Nil	30,000
Fair value gain on financial instruments	(18,370)	6,419
Gain on disposal of property, plant and equipment	237,245	304,189
Gain / (loss) on foreign exchange		
Realised	83,300	1,532,709
Unrealised	195,984	(234,702)
Impairment loss on receivables	(169,846)	(169,846)
Interest income	129,665	338,060
Inventories written-down value	(21,185)	(21,185)
Finance costs	(395,224)	(1,050,345)
Property, plant and equipment written off	(1,175)	(6,566)
Rental received	38,800	156,400
Gain on disposal of subsidiary company	257,725	257,725
Negative goodwill	10,491,741	10,491,741

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)	6,813,085	8,555,060
Weighted average number of shares	(shares)	145,875,038	145,875,038
Basic earnings per share	(sen)	4.67	5.86

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
31st October 2017