

**NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE FIRST QUARTER ENDED 30 NOVEMBER 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 30 November 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 2016 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 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 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 30 November 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 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**

No material events subsequent to the period ended 30 November 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 30 November 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	12,453	12,453
PKI	Envision Enterprise	Director of PKI	Purchases of Hardware	43,325	43,325

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	641,216	641,216
Other employee benefits	57,890	57,890

**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	
	30-Nov-16 (RM)	30-Nov-15 (RM)	30-Nov-16 (RM)	30-Nov-15 (RM)
Revenue	38,062,479	40,173,549	38,062,479	40,173,549
Profit before tax	1,257,003	2,084,482	1,257,003	2,084,482

The Group's revenue of RM38.1 million for the first quarter ended 30 November 2016 ("Q1 2017") decreased by 5.3% as compared to the revenue in the previous year's corresponding quarter ended 30 November 2015 ("Q1 2016") of RM40.2 million.

The Group has recorded profit before taxation of RM1.26 million for Q1 2017 compared to profit before tax of RM2.08 million recorded in Q1 2016. 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.

On the other hand, the profit after taxation of board lamination division and dining sets division has improved by 5% and 4% respectively in Q1 2017 as compared to Q1 2016 due to the effective implementation of business strategy by the management for both divisions. Through the improvement of the production effectiveness and strengthening of the procurement operations, the Group has succeeded to increase its gross margin.

**B2. VARIANCE IN PROFIT / (LOSS) BEFORE TAX**

	Individual quarter		Changes (RM)
	30-Nov-16 (RM)	31-Aug-16 (RM)	
Profit / (loss) before tax	1,257,003	(864,703)	2,121,706

The Group recorded profit before tax of RM 1.26 million for the quarter under review compared to the loss before tax RM0.86 million registered in the preceding quarter ended 31 August 2016.

The increase of profit for this quarter was mainly attributed to better margin achieved by the board lamination division and dining sets division as a result of the newly implemented business strategy.

In addition, the Group had made provision for incentive of RM 0.87 million in leather upholstery sofa division in the previous quarter.

### **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 improve 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.

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	(218,996)	(218,996)
Deferred taxation	Nil	Nil
	<u>(218,996)</u>	<u>(218,996)</u>

The Group's effective tax rate for the quarter under review was lower than the statutory tax rate mainly due to 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 30 November 2016 are as follows:

	RM
Secured Short Term Borrowings	
- denominated in Ringgit Malaysia	9,230,274
- denominated in US Dollar	10,567,101
Secured Long Term Borrowings	
- denominated in Ringgit Malaysia	3,911,064
Total Borrowings	<u>23,708,439</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 30 November 2016 are as follows:-

	Notional Amount As At 30 November 2016	Fair Value As At 30 November 2016
Foreign currency forward contracts		
Less than 1 year :	422,100	448,341

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 30 Nov 2016 (RM)	As at 31 Aug 2016 (RM)
Total accumulated losses of the SWS Capital Berhad and its subsidiaries:		
- Realised	(11,019,894)	(12,734,284)
- Unrealised	1,035,891	2,133,502
Total group accumulated losses as per consolidated accounts	(9,984,003)	(10,600,782)

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
Depreciation of property, plant and equipment	(747,499)	(747,499)
Fair value loss on financial instruments	(26,241)	(26,241)
Gain on disposal of property, plant and equipment	44,635	44,635
Gain / (loss) on foreign exchange		
Realised	809,868	809,868
Unrealised	(140,511)	(140,511)
Interest income	60,884	60,884
Finance costs	(209,797)	(209,797)
Rental received	38,600	38,600

**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)	616,779	616,779
Weighted average number of shares	(shares)	145,875,038	145,875,038
Basic earnings per share	(sen)	0.42	0.42

**Board of Directors  
SWS Capital Berhad  
24<sup>th</sup> January 2017**