

**SWS CAPITAL BERHAD (502246-P)**  
**Condensed Consolidated Statement of Financial Position**  
**As At 28 February 2017**

	Unaudited As At 28.02.2017	Audited As At 31.08.2016
	RM	RM
<b>ASSETS</b>		
<b>Non-current Assets</b>		
Property, plant and equipment	44,427,807	44,739,226
Investment properties	4,938,000	4,938,000
Deferred tax assets	<u>1,565,260</u>	<u>1,565,260</u>
Sub-total	<u>50,931,067</u>	<u>51,242,486</u>
<b>Current Assets</b>		
Inventories	30,011,142	31,451,637
Trade and other receivables	16,883,076	18,488,034
Other current assets	4,233,570	1,978,030
Tax Recoverable	729,778	283,266
Cash and bank balances	16,939,221	22,043,351
Fixed deposits with licensed bank	<u>1,424,163</u>	<u>1,728,221</u>
Sub-total	<u>70,220,950</u>	<u>75,972,539</u>
<b>TOTAL ASSETS</b>	<b><u>121,152,017</u></b>	<b><u>127,215,025</u></b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to owners of the Parent</b>		
Share capital	72,937,519	72,937,519
Share premium	18,305,398	18,305,398
Revaluation reserve	239,000	239,000
Accumulated losses	<u>(8,974,176)</u>	<u>(10,600,782)</u>
Sub-total	<u>82,507,741</u>	<u>80,881,135</u>
Non-controlling interest	<u>4,118,994</u>	<u>6,051,260</u>
<b>Total Equity</b>	<b><u>86,626,735</u></b>	<b><u>86,932,395</u></b>
<b>LIABILITIES</b>		
<b>Non-current Liabilities</b>		
Loans and borrowings	3,723,467	4,176,606
Deferred tax liabilities	<u>362,623</u>	<u>362,623</u>
Sub-total	<u>4,086,090</u>	<u>4,539,229</u>
<b>Current Liabilities</b>		
Trade and other payables	13,030,443	13,096,014
Loans and borrowings	<u>17,408,749</u>	<u>22,647,387</u>
Sub-total	<u>30,439,192</u>	<u>35,743,401</u>
Net Current Assets	39,781,758	40,229,138
Total Liabilities	<u>34,525,282</u>	<u>40,282,630</u>
<b>Net Assets</b>	<b><u>86,626,735</u></b>	<b><u>86,932,395</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b><u>121,152,017</u></b>	<b><u>127,215,025</u></b>
<b>Net asset per share attributable to Owners of the Parent (In RM)</b>	<b>0.5656</b>	<b>0.5545</b>

(The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Annual Financial Report for the year ended 31 Aug 2016)

**SWS CAPITAL BERHAD (502246-P)**  
**Condensed Consolidated Statement of Comprehensive Income**  
**For the quarter ended 28 February 2017**  
**(Unaudited)**

	INDIVIDUAL QUARTER		CUMULATIVE QUARTERS	
	28.02.2017	29.02.2016	28.02.2017	29.02.2016
	RM	RM	RM	RM
Revenue	36,417,506	38,357,799	74,479,984	78,531,348
Cost of Sales	(31,106,752)	(28,473,547)	(63,236,179)	(61,766,707)
<b>Gross Profit</b>	<b>5,310,754</b>	<b>9,884,252</b>	<b>11,243,805</b>	<b>16,764,641</b>
Administration expenses	(3,673,073)	(4,796,920)	(6,479,682)	(7,466,123)
Selling and distribution expenses	(1,428,408)	(1,781,285)	(3,763,587)	(4,126,069)
Finance costs	(223,326)	(351,150)	(433,124)	(628,432)
Other income / (expenses)	667,823	(110,600)	1,343,362	384,762
<b>Profit before tax</b>	<b>653,770</b>	<b>2,844,297</b>	<b>1,910,774</b>	<b>4,928,779</b>
Income tax expense	158,562	(298,048)	(60,434)	(643,352)
<b>Profit for the period</b>	<b>812,332</b>	<b>2,546,249</b>	<b>1,850,340</b>	<b>4,285,427</b>
Profit attributable to :				
Owners of the Parent	576,832	1,939,650	1,193,611	3,305,648
Non-Controlling Interest	235,500	606,599	656,729	979,779
	<b>812,332</b>	<b>2,546,249</b>	<b>1,850,340</b>	<b>4,285,427</b>
Total Comprehensive Income attributable to :				
Owners of the Parent	576,832	1,939,650	1,193,611	3,305,648
Non-Controlling Interest	235,500	606,599	656,729	979,779
	<b>812,332</b>	<b>2,546,249</b>	<b>1,850,340</b>	<b>4,285,427</b>
Basic earnings per share (in sen)	0.40	1.38	0.82	2.35
Fully diluted earnings per share (in sen)	0.40	1.38	0.82	2.35

(The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Annual Financial Report for the year ended 31 Aug 2016)

**SWS CAPITAL BERHAD (502246-P)**  
**Condensed Consolidated Statement of Changes in Equity**  
**For the quarter ended 28 February 2017**  
**(Unaudited)**

	← Attributable to Owners of the Parent →					Non-Controlling Interest RM	Total Equity RM
	Share Capital RM	Share Premium RM	Revaluation reserve RM	Accumulated Losses RM	Total RM		
Balance as at 1 September 2016	72,937,519	18,305,398	239,000	(10,600,782)	80,881,135	6,051,260	86,932,395
<b><u>Transactions with owners</u></b>							
Acquisition of non-controlling interest	-	-	-	432,995	432,995	(2,588,995)	(2,156,000)
Total Comprehensive Income for the period	-	-	-	1,193,611	1,193,611	656,729	1,850,340
<b>Balance as at 28 February 2017</b>	<b>72,937,519</b>	<b>18,305,398</b>	<b>239,000</b>	<b>(8,974,176)</b>	<b>82,507,741</b>	<b>4,118,994</b>	<b>86,626,735</b>
Balance as at 1 September 2015	63,252,750	12,494,536	239,000	(13,550,374)	62,435,912	4,846,929	67,282,841
Conversion of warrants	9,684,769	5,810,862	-	-	15,495,631	-	15,495,631
Total Comprehensive Income for the year	-	-	-	3,305,648	3,305,648	979,779	4,285,427
<b>Balance as at 29 February 2016</b>	<b>72,937,519</b>	<b>18,305,398</b>	<b>239,000</b>	<b>(10,244,726)</b>	<b>81,237,191</b>	<b>5,826,708</b>	<b>87,063,899</b>

(The Condensed Consolidated Statement of Change In Equity should be read in conjunction with the Annual Financial Report for the year ended 31 Aug 2016)

**SWS CAPITAL BERHAD (502246-P)**  
**Condensed Consolidated Cash Flows Statement**  
**For the quarter ended 28 February 2017**  
**(Unaudited)**

	<b>CUMULATIVE QUARTERS</b>	
	<b>28.02.2017</b>	<b>29.02.2016</b>
	<b>RM</b>	<b>RM</b>
<b><u>Cash flows from operating activities</u></b>		
Profit before taxation	1,910,774	4,928,779
Adjustments for :		
Bad debts recovered	-	(49,548)
Depreciation of property, plant and equipment	1,502,572	1,443,163
Fair value loss / (gain) on financial instruments measured at fair value	-	(109)
Gain on disposal of property, plant & equipments	(45,135)	13,530
Finance costs	433,124	628,432
Interest income	(160,637)	(61,686)
Property, plant and equipment written off	5,392	-
Unrealised foreign exchange loss	162,626	334,911
Operating cash flows before changes in working capital	<u>3,808,716</u>	<u>7,237,472</u>
Decrease / (increase) in inventories	1,440,495	(3,251,540)
Decrease in trade and other receivables	1,604,965	2,099,395
Increase/ (decrease) in other current assets	1,681,360	(1,714,756)
Decrease in trade and other payables	(65,571)	(4,808,767)
<b>Cash flows from / (used in) operations</b>	<u>8,469,965</u>	<u>(438,196)</u>
Income tax paid	(506,947)	(348,374)
Interest paid	(433,124)	(628,432)
<b>Net cash flows from / (used in) operating activities</b>	<u>7,529,894</u>	<u>(1,415,002)</u>
<b><u>Cash flows from investing activities</u></b>		
Purchase of property, plant and equipment	(1,189,843)	(4,725,688)
Proceeds from disposal of property, plant and equipment	38,434	70,094
Deposits paid on proposed acquisition	(3,613,500)	-
Deposits paid on proposed acquisition of non-controlling interest	(323,400)	-
Acquisition of non-controlling interest	(2,156,000)	-
Interest received	160,637	61,686
Withdrawal / (placement) of deposits with licensed banks	314,373	(197,164)
<b>Net cash flows used in investing activities</b>	<u>(6,769,299)</u>	<u>(4,791,072)</u>
<b><u>Cash flows from financing activities</u></b>		
(Decrease) / increase in borrowings	(368,061)	4,666,095
(Repayment) / drawdown of term loans	(5,873,733)	2,261,462
(Repayment) / addition of obligations under finance lease	(435,242)	147,627
Proceeds from conversion of warrants	-	15,495,630
<b>Net cash flows (used in) / from financing activities</b>	<u>(6,677,036)</u>	<u>22,570,814</u>
Net (decrease) / increase in cash and cash equivalents	(5,916,441)	16,364,740
Effect of exchange rate changes on cash and cash equivalents	(162,626)	(334,911)
Cash and cash equivalents at beginning of financial period	22,369,635	4,577,596
<b>Cash and cash equivalents at end of financial period</b>	<u>16,290,568</u>	<u>20,607,425</u>
Cash and cash equivalents included in the cash flow statements comprise the followings:		
Bank and cash balances	18,363,384	21,404,973
Less: Deposits pledged with banks	(605,958)	-
Less: Bank Overdrafts	(1,466,858)	(797,548)
	<u>16,290,568</u>	<u>20,607,425</u>

(The Condensed Consolidated Cash Flow Statement should be read in conjunction with the Annual Financial Report for the year ended 31 Aug 2016)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE SECOND QUARTER ENDED 28 FEBRUARY 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 28 February 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 (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 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 28 February 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**

No material events subsequent to the period ended 28 February 2017 that have not been reflected in the financial statements for the interim period.

#### A11. CHANGES IN THE COMPOSITION OF THE GROUP

On 29 November 2016, the Group entered into a Share Purchase Agreement to acquire additional total 365,540 ordinary shares of RM 1.00 each in Poh Keong Industries Sdn Bhd (PKI), its 51% owned subsidiary, representing an equity interest of 19.60% shares in the issued and paid up capital of PKI from Mr. Lee Yew Chye and Ms Yeo Siew Gek for a total consideration of RM2,156,000. This transaction was completed on 30 December 2016, resulted in PKI become a 70.60% 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 28 February 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	16,257	28,711
PKI	Envision Enterprise	Director of PKI	Purchases of Hardware	27,206	70,531

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	842,816	1,484,033
Other employee benefits	84,155	142,045

**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	
	28-Feb-17 (RM)	29-Feb-16 (RM)	28-Feb-17 (RM)	29-Feb-16 (RM)
Revenue	36,417,506	38,357,799	74,479,984	78,531,348
Profit before tax	653,770	2,844,297	1,910,774	4,928,779

The Group's revenue of RM36.4 million for the second quarter ended 28 February 2017 ("Q2 2017") decreased by 5.2% as compared to the revenue in the previous year's corresponding quarter ended 28 February 2016 ("Q2 2016") of RM38.4 million.

The Group has recorded profit before taxation of RM0.65 million for Q2 2017 compared to profit before tax of RM2.84 million recorded in Q2 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.

The shortage in skilled labour has lengthened lead times, affected delivery of product orders on time as well as lowered production output. The Group has to increase overtime hours and increase subcontracting work – both resulting in extra costs.

Besides, local board lamination division and dining sets division also having adverse performance in Q2 2017 as a result of shortage of raw materials i.e. rubberwood and MDF board.

**B2. VARIANCE IN PROFIT BEFORE TAX**

	Individual quarter		Changes (RM)
	28-Feb-17 (RM)	30-Nov-16 (RM)	
Profit before tax	653,770	1,257,004	(603,234)

The Group recorded profit before tax of RM 0.65 million for the quarter under review compared to the profit before tax RM1.26 million registered in the preceding quarter ended 30 November 2016.

The decrease of profit for this quarter was mainly due to the bonus pay-out during the Chinese New Year and exhibition costs incurred in Malaysia International Furniture Fair (MIFF).

Besides, shorter working days due to Chinese New Year celebration and month of February also affected the total output of second quarter and further impact the profit for the quarter.



**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.

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	158,562	(60,434)
Deferred taxation	Nil	Nil
	<u>158,562</u>	<u>(60,434)</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.

These corporate proposals announced on 28 February 2017 are pending approval by shareholders pursuant to the Listing Requirements as at the date of this report.

## B9. GROUP'S BORROWINGS

The Group's borrowings as at 28 February 2017 are as follows:

	RM
Secured Short Term Borrowings	
- denominated in Ringgit Malaysia	9,752,700
- denominated in US Dollar	7,656,049
Secured Long Term Borrowings	
- denominated in Ringgit Malaysia	3,723,467
Total Borrowings	<u>21,132,216</u>

## B10. FINANCIAL INSTRUMENTS - DERIVATIVES

The Group did not enter any foreign currency forward contracts during the financial quarter.

## 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 28 Feb 2017 (RM)	As at 31 Aug 2016 (RM)
Total accumulated losses of the SWS Capital Berhad and its subsidiaries:		
- Realised	(10,014,186)	(12,734,284)
- Unrealised	1,040,010	2,133,502
Total group accumulated losses as per consolidated accounts	(8,974,176)	(10,600,782)

**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	(755,073)	(1,502,572)
Fair value gain on financial instruments	26,241	Nil
Gain on disposal of property, plant and equipment	500	45,135
Gain / (loss) on foreign exchange		
Realised	563,984	1,373,852
Unrealised	(22,116)	(162,626)
Interest income	99,753	160,637
Finance costs	(223,326)	(433,124)
Property, plant and equipment written off	(5,392)	(5,392)
Rental received	40,100	78,700

## 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)	576,832	1,193,611
Weighted average number of shares	(shares)	145,875,038	145,875,038
Basic earnings per share	(sen)	0.40	0.82

### ***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  
26<sup>th</sup> April 2017**