

NOTES TO THE INTERIM FINANCIAL REPORT**1. Basis of Accounting and Accounting Policies.**

These condensed consolidated interim financial statements for the period ended 30 Jun 2012, have been prepared in accordance with MRFS 134, Interim Financial Reporting and Paragraph 9.22 of the Bursa Malaysia Securities Berhad (Bursa Securities) Listing Requirements. For the periods up to and including the year ended 31 Dec 2011, the Group prepared its financial statements in accordance with applicable Financial Reporting Standards ("FRS")

This is the first year MFRS is applied to the Group for the condensed consolidated interim financial statements for the year ending 31 Dec 2012. MFRS 1 First time adoption of Malaysia Financial Reporting Standards ("MFRS 1") has been applied.

The transition from FRS to MFRS has not affected the Group's financial performance, and thus no reconciliation to the statement of comprehensive income is prepared. The transition from FRS to MFRS has not had a material impact on the statement of cash flows

2. Audit Report on Financial Statements.

The financial statements of Group for the financial year ended 31 December 2011 have been reported without any audit qualification.

3. Seasonal or Cyclical Factors

The business activities of the Group tend to have higher sales near the year end festive season but are not significantly affected by any cyclical factors.

4. Unusual Items Affecting the Assets, Liabilities, Equity, Net Income or Cash Flows

There is no unusual item affecting the assets, liabilities, equity, net income or cash flows of the Group for the period under review.

5. Material changes in estimates

There is no material change in estimates for the period under review.

6. Issuance and Repayment of Debt and Equity Securities

There is no issuance or repayment of any debt and equity securities during the period under review.

A. NOTES TO THE INTERIM FINANCIAL REPORT (cont'd)

7. Dividend

LSKG has not declared or paid any dividends in respect of the financial period under review.

8. Segmental Information for the Current Financial Period

No segmental information is presented, as the Group is principally involved in the foam, latex and bedding businesses.

9. Valuation of Property, Plant & Equipment

All assets under the Group have not been revalued and are carried at historical cost.

10. Significant Subsequent Events

There is no material events subsequent to the end of the period under review which have not been reflected in this interim financial report.

11. Effect of Changes in the Composition of the Group

There is no change in the composition of the Group during the period under review.

12. Contingent Liabilities

Corporate guarantees issued to licensed banks
for credit facilities granted to subsidiaries

RM' 000

14,845

13. Review of Financial Performance

The revenue of the Group for the current quarter increased by 7.3% to RM14,746 million from RM13.745 mil in the previous year corresponding quarter. The profit before tax decreased by 56% to RM0.280 million from RM0.641 million in the previous year corresponding quarter. The decrease is mainly due to an exceptional gain of RM0.5 million being insurance compensation received in previous year corresponding quarter.

Excluding the one-off insurance gain, the profit before tax for the Group increased by 98.5%. The downward trend of raw latex price has resulted in

A. NOTES TO THE INTERIM FINANCIAL REPORT (cont'd)

higher operating profit for the current quarter.

The continued branding exercise for our bedding brands also contributed positively to the improved operating margin for the Group for the current quarter under review.

14. Variation of Results Against Preceding Quarter

The revenue for current quarter compared against preceding quarter remain fairly stable at RM14.746 mil and RM14.779 mil respectively. Profit before tax decreased from RM0.494 mil to RM0.280 mil for the respective quarters.

The decrease in profit before tax is mainly due to capital gains of RM0.073 million in previous quarter as well as higher interest cost reported in the current quarter.

15. Current Year Prospects

In view of the current uncertainties in the world economy, the Board expects challenging times ahead in the coming months. In addition to the effect of the minimum wage policy, the changes in any of the following factors may have a direct impact on the performance of the Group in 2012

- i) Fluctuation in the raw latex price.
- ii) The changes in exchange rate especially the US Dollar which remains the main foreign currency for our export business. Nevertheless, the Group has implemented forex hedging to mitigate extreme fluctuations in the exchange rate.
- iii) The availability of additional foreign labour. Currently the Government has temporarily stopped Malaysian companies from importing new foreign labour. As a result the Group is unable to obtain new labour to replace those who had returned after completion of their contract. This may affect the capacity of the Group to continue meeting its demand.

16. Profit Forecast / Guarantee

Not applicable.

17. Taxation

The deferred tax liabilities on deductible temporary differences recognised in the financial statements as required under the FRS 112 were as follows: -

A. NOTES TO THE INTERIM FINANCIAL REPORT (cont'd)

	Group RM'000
Tax effect of	
- Excess of capital allowances over accumulated Depreciation on property, plant and equipment	(1,456)
- Recognition of deferred tax assets on adjusted business loss and net balancing charge	1,728

	272
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18. Sale of Unquoted Investments and Properties

No profit/loss has been recognized on any sale of unquoted investments and/or properties during the current quarter and financial year to date.

19. Purchase / Disposal of Quoted Securities

There was no purchase or disposal of quoted securities for the quarter under review.

20. Status of the Corporate Proposals

The Group has appointed OSK Investment Bank, to arrange for a proposed special Bumiputera issue of 18,000,000 new ordinary shares of RM0.10 each in Lee Swee Kiat Group Bhd at an issue price to be determined later, to the Bumiputera Investors to be identified and / or approved by the Ministry of International Trade and Industry. The main purpose of this proposal is to meet the requirements by Securities Commission of an additional 9.69% of Bumiputera equity. As at the latest practical date of this report, no suitable Bumiputera investors have been identified.

21. Group Borrowings

The Group borrowings as at the end of the reporting quarter are as follows:

<u>Short Term Borrowings</u>	Group RM'000
Bankers' acceptances	4,864
Long term loans due within twelve months	1,265
Hire purchase creditors	111

	6,240
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The bankers acceptances and loans of LSKG bear interest at rates ranging

A. NOTES TO THE INTERIM FINANCIAL REPORT (cont'd)

from 4.2% to 8.05% per annum and are secured by: -

- (i) Fixed charge on land and building of a subsidiary company
- (ii) Fixed deposits

Long Term Liabilities

	Group RM'000
Term Loans	9,680
Less : Portion due within twelve months	(1,265)

Portion due after twelve months	8,415
Hire purchase creditors payable after one year	190

Total	8,605
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22. Financial Instruments under FRS 139

As at 30 Jun 2012, the unrealized gains or loss for the Group is as follows

	Derivatives / year end balances	Contract value (RM' 000)	Fair Value (RM' 000)	Unrealised Gain / (loss) (RM' 000)
1	Foreign Exchange Contracts			
	- Less than 1 year	1,707	1,667	(40)
	- 1 year to 3 years	-	-	-
	- More than 3 years	-	-	-
2	Trade related balances	141	141	(0)
	Total	1,848	1,808	(40)

Foreign Exchange contracts are part of the Group's strategy to ensure stable conversion of export proceeds to Malaysian Ringgit and to minimise the impact of currency exchange rate fluctuation to our margin. The above contracts were entered into without any upfront cash requirements. The gains or loss arising from the fair value adjustment is reflected in the interim report as necessary.

23. Breakdown of Realised and Unrealised profits or loss

The breakdown of the retained earnings / (accumulated loss) of the Group as at 30 Jun 2012 into realized and unrealized profit / (loss) is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared in accordance with Guidance of

A. NOTES TO THE INTERIM FINANCIAL REPORT (cont'd)

Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Total retained profits / (accumulated losses) Of the Group	<u>RM '000</u>
- Realised	23,643
- Unrealised gains / (loss)	<u>(40)</u>
	23,603
Less: Consolidated adjustments	<u>(19,665)</u>
Retained earnings / (accumulated losses)	<u>3,938</u> -----

24. Material Litigation

The Group does not have any material litigation as at 27 Aug 2012.

25. Dividend

No dividend has been declared for the quarter under review.

25. Net Earnings Per Ordinary Share

The earnings per ordinary share is calculated based on the Group's profit after taxation on the number of ordinary shares of RM0.10 each of 167,815,704 in issue.

	YTD ended 30 Jun 2012 RM'000
Profit / (loss) After Taxation	775
Number of ordinary shares of RM0.10 each	167,816
Net EPS (sen)	
Basic	0.46
Diluted	0.46

By Order of the Board

Eric Lee
Managing Director

28 Aug 2012