

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

These condensed consolidated interim financial statements for the period ended 31 Dec 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**

15,494

**13. Review of Financial Performance**

The revenue of the Group for the current quarter decreased by 15% to RM16.896 million from RM19,871 mil in the previous year corresponding quarter. The profit before tax decreased by 62.9% to RM0.697 million from RM1.875 million in the previous year corresponding quarter.

The lower sales in current quarter is due to slower domestic sales. Nevertheless, the full year turnover reflected a gain of 2.2% from RM61.538 mil to RM62.880 mil.

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

The higher profit before tax in previous year corresponding quarter was due to one-off insurance compensation received of RM1.6 million for loss of profit cover arising from the fire incident which occurred in 2009. Without the one-off insurance gains, the profit before tax of the Group increased by 152% from RM0.275 mil to RM0.694 mil.

**14. Variation of Results Against Preceding Quarter**

The revenue for current quarter increased by 2.65% to RM16.896 mil against preceding quarter's RM16.459 mil. Profit before tax increased by 86% to RM0.694 mil from RM0.373 mil in preceding 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 2013

- 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.

**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 MFRS 112 were as follows: -

	Group RM'000
Tax effect of	
- Excess of capital allowances over accumulated Depreciation on property, plant and equipment	(2,054)
- Recognition of deferred tax assets on adjusted business loss and net balancing charge	1,710
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	<u>(344)</u>

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

**18. 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.

**19. 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	5,681
Long term loans due within twelve months	1,226
Hire purchase creditors	172
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	7,079
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The bankers acceptances and loans of LSKG bear interest at rates ranging from 4.2% to 8.05% per annum and are secured by: -

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

**Long Term Liabilities**

	Group RM'000
Term Loans	9,193
Less : Portion due within twelve months	(1,226)
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Portion due after twelve months	7,967
Hire purchase creditors payable after one year	448
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Total	8,415
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**20. Financial Instruments under MFRS 139**

As at 31 Dec 2012, the unrealized gains or loss for the Group is as follows

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

	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	4,662	4,587	75
	- 1 year to 3 years	-	-	-
	- More than 3 years	-	-	-
2	Trade related balances	3,744	3,781	(37)
	<b>Total</b>	<b>8,406</b>	<b>8,368</b>	<b>38</b>

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.

**21. Breakdown of Realised and Unrealised profits or loss**

The breakdown of the retained earnings / (accumulated loss) of the Group as at 31 Dec 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 Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Total retained profits of the Group	<b><u>RM '000</u></b>
- Realised	23,893
- Unrealised gains / (loss)	<u>38</u>
	23,931
Less: Consolidated adjustments	<u>(19,665)</u>
Retained earnings	<u>4,266</u> -----

**22. Material Litigation**

The Group does not have any material litigation as at 27 Feb 2013.

**23. Dividend**

No dividend has been declared for the quarter under review.

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

**24. 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 31 Dec 2012 RM'000
Profit / (loss) After Taxation	1,103
Number of ordinary shares of RM0.10 each	167,816
Net EPS (sen)	
Basic	0.66
Diluted	0.66

By Order of the Board

**Eric Lee**  
**Managing Director**

27 Feb 2013