

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 2013, 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 2012, the Group prepared its financial statements in accordance with applicable Financial Reporting Standards ("FRS")

2. Audit Report on Financial Statements.

The financial statements of Group for the financial year ended 31 December 2012 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.

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.

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

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

14,753

13. Review of Financial Performance

The revenue of the Group for the current quarter decreased by 5.9% to RM13.880 million from RM14.746 million in the previous year corresponding quarter. The profit before tax decreased by 31% to RM0.193 million from RM0.280 million in the previous year corresponding quarter. The revenue for the 6 months ended 30 Jun 2013 increased by 3.3% from RM29.525 millions to RM30.485 millions. Profit before tax decreased by 5.5% from RM0.775 millions to RM0.732 millions.

The performance in current quarter was affected mainly by the slow domestic demand.

14. Variation of Results Against Preceding Quarter

The revenue for current quarter decreased by 16.4% to RM13.880 million against preceding quarter's RM16.605 million. Profit before tax decreased by 64.2% to RM0.193 million from RM0.539 million in preceding quarter, mainly due to slow domestic demand.

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

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	(925)
- Recognition of deferred tax assets on adjusted business loss and net balancing charge	581

	<u><u>(344)</u></u>

18. Status of the Corporate Proposals

The Group has appointed RHB 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 (MITI).

RHB Investment Bank Berhad had on, 23 July 2013 notified the Equity Compliance Unit of the Securities Commission ("SC") that LSK is deemed to have complied with the Bumiputera equity condition imposed by the SC in relation to the approval granted to LSK for its listing proposal.

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

The deemed compliance takes effect following the expiry of one (1) year from the date of the SC's approval letter dated 16 July 2012 in relation to the Proposed Special Bumiputera Issue for the issuance of new ordinary shares of RM0.10 each in LSK in relation to the Proposed Special Bumiputera Issue ("Special Issue Shares"). The Ministry of International Trade and Industry has vide its letter dated 19 July 2013 stated that there were no interested Bumiputera investors for the Special Issue Shares up to 15 July 2013.

In view that the Proposed Special Bumiputera Issue was undertaken to facilitate the compliance of the Bumiputera equity condition and since LSK is now deemed to have complied with the Bumiputera equity condition, the Proposed Special Bumiputera Issue is no longer required.

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	6,172
Long term loans due within twelve months	1,930
Hire purchase creditors	123

	8,225
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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

<u>Long Term Liabilities</u>	Group RM'000
Term Loans	8,581
Less : Portion due within twelve months	(1,930)

Portion due after twelve months	6,651
Hire purchase creditors payable after one year	398

Total	7,049
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A. NOTES TO THE INTERIM FINANCIAL REPORT (cont'd)

20. Financial Instruments under MFRS 139

As at 30 Jun 2013, 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	4,070	4,107	(37)
	- 1 year to 3 years	-	-	-
	- More than 3 years	-	-	-
2	Trade related balances	228	227	1
	Total	4,298	4,334	(36)

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 30 Jun 2013 into realized and unrealized profit / (loss) is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 Mar 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	<u>RM '000</u>
- Realised	24,753
- Unrealised gains / (loss)	<u>(36)</u>
	24,717
Less: Consolidated adjustments	<u>(19,665)</u>
Retained earnings	<u>5,052</u> -----

22. Material Litigation

The Group does not have any material litigation as at 28 Aug 2013.

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

23. Dividend

No dividend has been declared for the quarter under review.

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 30 Jun 2013 RM'000
Profit / (loss) After Taxation	732
Number of ordinary shares of RM0.10 each	167,816
Net EPS (sen)	
Basic	0.44
Diluted	0.44

By Order of the Board

Eric Lee
Managing Director

28 Aug 2013