LEE SWEE KIAT GROUP BERHAD (Co No: 607583-T)

Condensed Consolidated Statement of Comprehensive Income
For the Period Ended 30 Jun 2022
(The figures have not been audited)

	Individual Period		Changes	Cumulative Period		Changes
	2nd Quarter			YTD		
	30/06/2022	30/6/2021		30/06/2022	30/06/2021	
	RM'000	RM'000	%	RM'000	RM'000	%
Revenue	31,389	26,358	19.1%	61,957	52,627	17.7%
Operating profit	3,035	1,820	66.7%	7,068	5,267	34.2%
Other income	748	365	104.7%	1,188	652	82.2%
Finance Cost	-72	-76	-6.1%	-159	-175	-8.9%
Profit Before Tax	3,711	2,109	75.9%	8,097	5,745	40.9%
Income Tax	-609	-337	80.3%	-1,328	-919	44.5%
Profit after tax and before minority interests	3,103	1,772	75.1%	6,769	4,826	40.3%
Minority interests	15	24	-38.2%	32	41	-20.8%
Profit attributable to Ordinary Equity holders of the parent	3,117	1,796	73.6%	6,801	4,867	39.8%
Earnings per share (sen)						
Basic	*1.93*	*1.11*	73.6%	*4.20*	*3.01*	39.8%
Diluted	*1.93*	*1.11*	73.6%	*4.20*	*3.01*	39.8%
Dividend Per Share (sen)	*0.00*	*0.00*		2.50	*2.50*	

LEE SWEE KIAT GROUP BERHAD (CO NO: 607583-T)

Condensed Consolidated Statement of Financial Position

As at 30 Jun 2022

(The figures have not been audited)

	As at end of current quarter 30/06/2022 RM'000	Audited As at 31/12/2021 RM'000
Property, Plant and Equipment	39,292	39,503
Intangible Assets	5,858	5,858
Goodwill on consolidation	176	176
Right-of-use Assets	4,700	4,132
Trade receivables	2,255	1,218
Deferred Tax Assets	18	18
	52,298	50,905
CURRENT ASSETS		
Inventories	15,375	14,960
Trade receivables	14,909	11,604
Other receivables, deposits and prepayments	2,846	2,598
Taxation	1,013	151
Deposits, cash and bank balances	22,369	21,136
	56,511	50,449
CURRENT LIABILITIES		
Trade payables	19,317	16,448
Other payables, deposits and accruals	5,146	4,890
Short term borrowings	5,364	4,494
Taxation	1,824	437
Short term lease liabilities	2,316	1,978
	33,967	28,247
NET CURRENT ASSETS	22,544	22,203
LONG TERM LIABILITIES		
Long term borrowings	5,359	5,980
Long term lease liabilities	1,852	2,221
Deferred taxation	2,882	2,882
	10,093	11,083
	64,750	62,025
Financed by:		
Share Capital	16,782	16,782
Treasury shares	(2,594)	(2,594)
Capital Reserves	5,410	5,410
Retained Earnings	45,014	42,257
Minority Interest	138	170
TOTAL SHAREHOLDERS' EQUITY	64,750	62,025
Net Assets per Share (RM)	0.40	0.38

LEE SWEE KIAT GROUP BERHAD (CO NO: 607583-T)

Condensed Consolidated Cashflow Statement
For the Period Ended 30 Jun 2022

	Period ended 30/06/2022 RM'000	Period ended 30/06/2021 RM'000
Profit / (loss) before tax	8,097	5,745
Adjustments for:-		
Non-cash items - Depreciation	1,423	1,555
- Depreciation of right-of-use assets	1,380	1,364
Operating profit before changes in working capital	10,901	8,664
Net Change in current assets & receivables	(5,004)	(7,521)
Net Change in current liabilities	3,126	(1,980)
Cash (used in)/generated from operations	9,022	(837)
Net changes in Taxation	(802)	(425)
Net cash generated from operating activities	8,219	(1,262)
Investing Activities		
(Acquisition) / Disposal of property, plant & equipment	(1,212)	(1,817)
Changes in Right-of-use assets	(1,948)	(3,680)
Net cash (used in)/generated from investing activities	(3,160)	(5,497)
Financing Activities		
Drawdown / (Repayment) of lease liabilities	(31)	2,281
Drawdown / (Repayment of bank borrowings)	248	1,692
Cash used in Share buyback	-	-
Payment of Dividend	(4,044)	(4,044)
Net cash generated from / (used in) financing activities	(3,826)	(71)
Net change in cash and cash equivalents	1,233	(6,829)
Cash and cash equivalents b/f	21,136	24,509
Cash and cash equivalents c/f	22,369	17,680

Cash and cash equivalents included in the cash flows comprise the following balance sheet amounts:-

	30/06/2022 RM'000	**30/06/2021** RM'000
Deposits, cash and bank balances	22,369	17,680
Bank overdrafts	-	-
	22,369	17,680

LEE SWEE KIAT GROUP BERHAD (Co No: 607583-T)

Consolidated Statement of Changes in Equity
For the Period Ended 30 Jun 2022

Period ended 30/06/2022	Share capital RM'000	Treasury shares RM' 000	Capital Reserves RM'000	Retained earnings RM'000	Minority Interest RM'000	Total RM'000
Balance b/f	16,782	(2,594)	5,410	42,257	170	62,025
Movement during the period						
Profit for the year as per Income Statement				6,801	(32)	6,769
Acquisition of new subsidiary						-
Acquistion of treasury shares						-
Dividend Payment				(4,044)		(4,044)
Net Movement During the year	-	-	-	2,757	(32)	2,725
Balance c/f	16,782	(2,594)	5,410	45,014	138	64,750

Period ended 30/06/2021	Share capital RM'000	Treasury shares RM' 000	Capital Reserves RM'000	Capital Reserves RM'000	Minority Interest RM'000	Total RM'000
Balance b/f	16,782	(2,594)	5,410	38,703	250	58,550
Movement during the period						
Profit for the year as per Income Statement			-	4,826	(41)	4,785
Acquisition of new subsidiary						-
Acquistion of treasury shares		-				-
Dividend Payment				(4,044)		(4,044)
Net Movement During the year	-	-	-	782	(41)	741
Balance c/f	16,782	(2,594)	5,410	39,485	209	59,291

Notes to Quarterly Report

1. Basis of Accounting and Accounting Policies.

These condensed consolidated interim financial statements for the period ended 30 Jun 2022, 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 2021, the Group prepared its financial statements in accordance with applicable Malaysian Financial Reporting Standards ("MFRS")

2. Audit Report on Financial Statements.

The financial statements of the Group for the financial year ended 31 December 2021 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. Segmental Information for the Current Financial Period

No segmental information is presented, as the Group is principally involved in latex bedding business with operations in Malaysia and no overseas plant or office.

8. Valuation of Property, Plant & Equipment

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

9. Effect of Changes in the Composition of the Group

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

10. Status of the Corporate Proposals

There is no corporate proposal being undertaken by the Group as at the reporting date.

11. Profit Forecast / Guarantee

Not applicable.

12. Discussion and Analysis on Group's Financial Performance

a) Financial review for current quarter and financial year to date

The revenue of the Group for the current quarter increased by 19.1% to RM31.389 million against RM26.358 million in the previous year corresponding quarter. The profit before tax for the current quarter increased by 75.9% to RM3.711 million from RM2.109 million in the previous year corresponding quarter.

The main factors affecting the financial performances are as follow

i) The market condition – The domestic sales in Q2 of 2022 remained robust with broad-base improvement in various sales channels. Export division remain challenging amid high freight cost.

ii) Level of operating activities – The Group was operating at satisfactory level in Q2 of 2022 without much limitation.

iii) Key factors affecting revenue, costs and profit margin

a. The average latex price was higher by approximately 19% in Q2 compared to Q1 of 2022.

b. Staff cost was higher due to the implementation of minimum wages since May 2022.

c. The finance cost is expected to increase slightly with the recent rate hike as announced by Bank Negara Malaysia. The overall impact to the Group is not expected to be material.

iv) Unusual or one-off issue – There is no unusual or one-off issue for the period under review.

v) Diversification or penetration into new market – there is no diversification or new market penetration for the period under review

vi) Merger and acquisition exercises – There is no Merger and acquisition exercise during the period under review.

The Group entered into an asset purchase agreement on 27 Jun 2019 to acquire the business of Italhouse furniture retail group through a 70:30 joint venture with the vendor, for a total purchase consideration of approximately RM4.9 million. However, the vendor was unable to fulfill certain conditions precedent and thus the operations was not consolidated into the Group's account. The operation of Italhouse which was based mainly in Johor, remained extremely challenging with the closedown of border with Singapore since 2020. With more than 50% market depending on Singaporean buyers as well as Malaysian working in Singapore, the closedown of border is disastrous to Italhouse's operation. For the 18 months ended 31 Dec 21, Italhouse was forced to close down some stores with heavy write down of renovation assets. These have resulted in the hefty impairment of RM2.7 million impairment charge for the investment in Italhouse in Q4 of 2021.

The Group entered into a settlement agreement with the vendor of Italhouse furniture retail group on 18 July 2022. Pursuant to the agreement, the vendor would transfer his remaining 30% shareholdings in LSK Italhouse Sdn Bhd to the Group for a nominal consideration of RM10. In return the Group would not pursue the profit guarantee provided by the vendor for failing to achieve the agreed guaranteed profit after tax of RM1 million. All the amount owing to and from both parties would be waived pursuant to the settlement agreement. LSK Italhouse Sdn Bhd will become a wholly-owned subsidiary of the Group.

vii) New contracts / termination of existing contract – there is no significant new contract or termination of existing contract for the period under review, save for item vi) above.

viii) Impairment of Assets or receivables – there is no impairment of Assets or receivables for the period under review.

ix) Fair value gain / loss on investment – there is no fair value gain or loss on investment for the period under review, except the Italhouse impairment as disclosed in item vi) above.

x) Foreign labour issue – the Group is facing increasing minimum wage issue. The Group is actively taking steps to mechanize and automate its operations to mitigate the issue and increase productivity and efficiencies

13. Financial Review for current quarter compared with immediate preceding quarter

	Current Quarter	Immediate Preceding Quarter	Changes %
	30/06/2022	31/03/2022	
	RM' 000	RM' 000	
Revenue	31,389	30,567	+ 2.7%
Operating Profit	3,035	4,033	-24.7%
Other Income	748	440	+ 70.0%
Finance cost	(72)	(88)	- 18.2%
Profit Before Tax	3,711	4,385	- 15.4%
Profit After Tax	3,103	3,666	-15.4%
Profit Attributable to Ordinary Equity Holders of the Parent	3,117	3,684	- 15.4%

The revenue for current quarter increased by 2.7% to RM31.389 million from RM30.567 million in the preceding quarter. Profit before tax decreased by 15.4% from RM4.385 million to RM3.711 million against preceding quarter mainly due to higher raw material cost as well as increase in minimum wages.

14. Other Income / Expenses

	Current Quarter	Preceding year Corresp'g quarter
	RM' 000	RM' 000
Interest income	37.8	48.6
Other income	710.4	316.8
Changes in (Provision for)/recovery of doubtful debts	-	-
Gain/ (loss) on disposal of Fixed assets	-	-
Changes in (Provision for)/recovery of Stocks	-	-

The other income in current quarter includes transportation charge for certain retail customers and sale of scraps.

15. Deferred Taxation

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

	YTD ended 30 Jun 2022
Tax effect of	RM' 000
Excess of capital allowance over accumulated depreciation on property, plant & equipments	(2,882.1)
Recognition of deferred tax assets on adjusted business loss and net balancing charge	17.7
	(2,864.4)

16. Group Borrowings

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

	As at 2nd Quarter ended 2022					
	Long Term		Short Term		Total Borrowings	
	Foreign deno' RM' 000	RM deno'n RM' 000	Foreign deno' RM' 000	RM deno'n RM' 000	Foreign deno' RM' 000	RM deno'n RM' 000
Secured	-	5,359		5,364	-	10,723
Unsecured	-	-	-	-	-	-

	As at 2nd Quarter ended 2021					
	Long Term		Short Term		Total Borrowings	
	Foreign deno RM' 000	RM deno'n RM' 000	Foreign deno RM' 000	RM deno'n RM' 000	Foreign deno RM' 000	RM deno'n RM' 000
Secured	-	6,460	-	2,747	-	9,207
Unsecured	-	-	-	-	-	

b) Group net gearing or net cash position

	Current Quarter	Preceding year Corresp'g quarter
	RM' 000	RM' 000
Total borrowings	(10,723)	(9,207)
Cash	22,369	17,680
Net (Borrowings)/ Cash	11,646	8,473
Net Assets	64,750	59,332
Net Gearing Ratio	Net cash	Net cash

Commentaries on Group Borrowings and Debt Securities

i) Total borrowings increased from RM9.207 million to RM10.723 million against previous year corresponding quarter due higher trade receivables and stock holdings, mainly resulting from the Cuckoo Napure mattress collaboration.

ii) The net cash position increased to RM11.646 million in Q2 of 2022 from RM8.473 million in previous year corresponding quarter due to improved cashflows from our direct cash sales channels.

iii) The interest rates are on the upward trend for period under review, though the impact is not expected to be material to the Group.

iv) The Group occasionally financed certain import purchase denominated in USD using Foreign Currency Trade Loan (FCTL). The Group is having more USD proceeds from export than USD imports thus is practicing natural hedging for USD imports as well as settlement of FCTL.

17. Contingent Liabilities

	RM' 000
Corporate guarantees issued to licensed banks for credit facilities granted to subsidiaries	10,723

18. Financial Instruments under MFRS 139

As at 30 Jun 2022, the unrealized gains or loss for the Group is as follows

	Derivatives / year end balances	Contract value (RM' 000)	Balance Shee value (RM' 000)	Fair Value (RM' 000)	Unrealised Gain (loss) (RM' 000)

1	Foreign Exchange Contracts				
	- Less than 1 year	-	-	-	-
	- 1 year to 3 years	-	-	-	-
	- More than 3 years	-	-	-	-
2	Trade related balances	-	90.4	64.1	(26.3)
	Total		90.4	64.1	(26.3)

19. Foreign Exchange Exposure / Hedging Policy

The main export currency is USD. The Group has imports in USD for certain of its raw materials and trading goods. The Group practices natural hedging for export proceeds with import payments and may occasionally hedge some of the expected excess USD proceeds.

20. Trade Receivables

The Group practices prudent credit control with average debtor days of within 1-2 months. The increase in total trade receivables compared to previous year corresponding quarter was mainly due to the financing of Cuckoo Napure mattress collaboration under the rental model. Under this rental sharing model, the collection would be spread over up to 60 months and the Group would recognize profit spreading over the period.

During the period under review, there is no material provision and write-off of trade receivables.

21. Related Party Transactions

There is no significant related party transactions during the period under review, save for some tenancy agreements.

22. Material Impairment of Assets

There is no material impairment of Assets during the period under review.

23. Prospects for the Current Financial Year

The Board expects that the changes in any of the following factors may have a direct impact on the performance of the Group in 2022 :

i) Any resurgence of The Covid 19 or other pandemic that may result in lockdowns of operations by the Government.

ii) Key Raw Material – The fluctuation of the centrifuged latex price which is the main raw materials for the Group's operation. For the period under review, the average latex price was higher by approximately 19%, which has since softened in Q3 of 2022.

iii) The Cuckoo Napure mattress collaboration – this is expected to be a strong growth pillar for the Group. Any increase in sales under this collaboration is expected to bring in significant income for the group in the following 3 to 5 years. With increased sales, the Group is expected to channel substantial working capital to finance this which would put our excess cash in hand into profitable use.

iv) Foreign Exchange - The changes in exchange rate especially the US Dollar which remains the main foreign currency for our export business, would impact on the Group's operations and margins. Nevertheless, the Group is reasonably well balanced in exposure to foreign currency fluctuation due to the following reasons

a. Reasonably well balanced of export and local sales.
b. The natural hedging of USD by matching majority of imports and exports in same currency.

v) Consumer sentiment and confidence level in spending.

vi) Property sector - The health of the property sector will have direct impact on furnishing requirements, any recovery in the residential property sector would have positive impact on the Group performance.

vii) Foreign workers – The imposition of the revised minimum wages to RM1,500 would cost extra operation cost to the Group. Nevertheless, the Group is well positioned at the premium bedding segment to absorb or pass on the cost increase.

24. Material Litigation

The Group does not have any material litigation as at 22 Aug 2022.

25. Dividend

The interim tax-exempt dividend of 2.5 sen per ordinary shares for FY 2021 amounting to approximately RM4.04 million was paid on 31 Mar 2022.

The interim tax-exempt dividend of 2.5 sen per ordinary shares for FY 2020 amounting to approximately RM4.04 million was paid on 31 Mar 2021.

26. Significant Subsequent Events

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

27. 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 161,755,304 in issue (net of treasury shares).

	YTD ended 30 Jun 2022
	RM' 000
Profit attributable to ordinary equity holders of the parent	6,801
No of Ordinary shares of RM0.10 each (net of treasury shares)	161,755
Net EPS - Basic (sen)	4.20
Net EPS – Diluted (sen)	4.20

By Order of the Board

Dato' Eric Lee
Managing Director

22 Aug 2022