

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

These condensed consolidated interim financial statements for the period ended 30 Sep 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

14,643

13. Review of Financial Performance

The revenue of the Group for the current quarter decreased by 7.9% to RM15.164 million from RM16.459 million in the previous year corresponding quarter. The reduction is mainly due to slower domestic demand for the period under review.

The profit before tax increased by 41% to RM0.526 million from RM0.373 million in the previous year corresponding quarter, mainly due to better product mix and lower raw latex cost for the period under review.

The revenue for the 9 months ended 30 Sep 2013 remained fairly stable at about RM45.6 million against RM45.9 million in preceding year corresponding period. Profit before tax increased by 9.7% from RM1.147 million to RM1.258 million, mainly due to better product mix and lower raw latex cost for the period under review.

14. Variation of Results Against Preceding Quarter

The revenue for current quarter increased by 9.3% to RM15.164 million against preceding quarter's RM13.880 million, due to slight improvement in demand after the sluggish domestic sentiment in the preceding quarter. Profit before tax increased by 172.5% to RM0.526 million from RM0.193 million in preceding quarter, mainly due to better product mix and lower raw latex price.

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	(1,026)
- Recognition of deferred tax assets on adjusted business loss and net balancing charge	581

	<u><u>(445)</u></u>

18. Status of the Corporate Proposals

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

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	1,930

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

Hire purchase creditors	118

	7,729
	=====

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	8,268
Less : Portion due within twelve months	(1,930)

Portion due after twelve months	6,338
Hire purchase creditors payable after one year	576

Total	6,914
	=====

20. Financial Instruments under MFRS 139

As at 30 Sep 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	3,326	3,415	(89)
	- 1 year to 3 years	-	-	-
	- More than 3 years	-	-	-
2	Trade related balances	2,083	1,983	100
	Total	5,409	5,398	11

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

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

30 Sep 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	25,132
- Unrealised gains / (loss)	<u>11</u>
	25,143
Less: Consolidated adjustments	<u>(19,665)</u>
Retained earnings	5,478

22. Material Litigation

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

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 Sep 2013 RM'000
Profit / (loss) After Taxation	1,158
Number of ordinary shares of RM0.10 each	167,816
Net EPS (sen)	
Basic	0.69
Diluted	0.69

By Order of the Board

Eric Lee
Managing Director

28 Nov 2013