

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 2014, 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 2013, 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 2013 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

11,275

13. Review of Financial Performance

The revenue of the Group for the current quarter increased by 28.2% to RM17.790 million against RM13.880 million in the previous year corresponding quarter. The increase was mainly due to lackluster performance in Q2 2013 caused by poor market sentiment.

The profit before tax increased by 275% to RM0.532 million from RM0.193 million in the previous year corresponding quarter, mainly due to improved sales in the current quarter.

14. Variation of Results Against Preceding Quarter

The revenue for current quarter increased by 5.4% to RM17.790 million against preceding quarter's RM16.875 million. Profit before tax was lower at RM0.532 million against RM0.601 million in preceding quarter. The current quarter was affected by the hike in gas prices as well as adverse forex changes.

15. Prospects for the Current Financial Year

In view of the current uncertainties in the world economy, the Board expects

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

challenging times ahead in the coming months. The changes in any of the following factors may have a direct impact on the performance of the Group in 2014

- 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) Changes in tariff including electricity and natural gas.

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	(1,393)
- Recognition of deferred tax assets on adjusted business loss and net balancing charge	577

	<u>(816)</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	3,423
Long term loans due within twelve months	1,924
Hire purchase creditors	165

	5,512

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

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 Borrowings

	Group RM'000
Term Loans	7,287
Less : Portion due within twelve months	(1,924)

Portion due after twelve months	5,363
Hire purchase creditors payable after one year	400

Total	5,763

20. Financial Instruments under MFRS 139

As at 30 Jun 2014, the unrealized gains or loss for the Group is as follows

	Derivatives / year end balances	Contract value (RM' 000)	Balance Sheet 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	-	3,428	3,409	(19)
	Total	-	3,428	3,409	(19)

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 contracts (if any) 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 Jun 2014 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	26,510
- Unrealised gains / (loss)	<u>(19)</u>
	26,491
Less: Consolidated adjustments	<u>(19,665)</u>
Retained earnings	6,826

22. Material Litigation

The Group does not have any material litigation as at 28 Aug 2014.

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 2014 RM'000
Profit / (loss) After Taxation	1,132
Number of ordinary shares of RM0.10 each	167,816
Net EPS (sen)	
Basic	0.67
Diluted	0.67

By Order of the Board

Eric Lee
Managing Director

28 Aug 2014