

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

These condensed consolidated interim financial statements for the period ended 31 Mar 2016, 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 2015, the Group prepared its financial statements in accordance with applicable Financial Reporting Standards (“FRS”)

2. Audit Report on Financial Statements.

The financial statements of the Group for the financial year ended 31 December 2015 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

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the latex, foam 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
10,916

13. Review of Financial Performance

The revenue of the Group for the current quarter decreased by 30.4% to RM15.73 million against RM22.6 million in the previous year corresponding quarter. The decrease was mainly due to exceptional good sales in the previous year corresponding quarter prior to the implementation of the Goods and Services Tax (GST).

Correspondingly, the profit before tax decreased by 31.9% to RM0.98 million from RM1.43 million in the previous year corresponding quarter mainly due to lower sales.

14. Variation of Results Against Preceding Quarter

The revenue for current quarter decreased by 17.3% to RM15.73 million against preceding quarter's RM19.02 million, mainly due to traditionally higher sales during the year end festive season. Profit before tax was lower by 59.5% from RM2.41 mil to RM0.98 million mainly due to lower sales and seasonally higher overhead cost in the first quarter.

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15. Prospects for the Current Financial Year

In view of the current uncertainties in the world economy and poor consumer sentiment, the Board expects 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 2016 :

- i) Fluctuation in the raw latex price, which recently is on rising trend.
- ii) The changes in exchange rate especially the US Dollar which remains the main foreign currency for our export business. The recent weakening of the US Dollar is having negative impact on the Group's performance.
- iii) Consumer sentiment and confidence level in spending.
- iv) The health of the property sector which will have direct impact on furnishing requirements.
- v) The implementation of higher levy for foreign workers, and the impending increase in minimum wages from RM900 to RM1,000 from July 2016.

However, the Board cautiously expects to deliver satisfactory results for the full year.

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	(1,450)
- Recognition of deferred tax assets on adjusted business loss and net balancing charge	379

	<u><u>(1,071)</u></u>

18. Status of the Corporate Proposals

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

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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
Trade finances	304
Long term loans due within twelve months	1,817
Hire purchase creditors	135

	2,256
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The trade finances and loans of LSKG bear interest at rates ranging from 1.7% to 5.85% per annum and are secured by: -

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

<u>Long Term Borrowings</u>	Group RM'000
Term Loans	10,612
Less : Portion due within twelve months	(1,817)

Portion due after twelve months	8,795
Hire purchase creditors payable after one year	637

Total	9,432
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20. Financial Instruments under MFRS 139

As at 31 Mar 2016, 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	-	4,389	4,070	(319)
	Total	-	4,389	4,070	(319)

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21. Breakdown of Realised and Unrealised profits or loss

The breakdown of the retained earnings / (accumulated loss) of the Group as at 31 Mar 2016 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	46,673
- Unrealised gains / (loss)	<u>(319)</u>
	46,354
Less: Consolidated adjustments	<u>(30,613)</u>
Retained earnings	15,741

22. Material Litigation

The Group does not have any material litigation as at 24 May 2016.

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 31 Mar 2015 RM'000
Profit / (loss) After Taxation	935
Number of ordinary shares of RM0.10 each	167,816
Net EPS (sen)	
Basic	0.56
Diluted	0.56

By Order of the Board

Dato' Eric Lee Kong Sim
Managing Director

24 May 2016