

**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 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

NOTES TO THE INTERIM FINANCIAL REPORT (cont'd)

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 are 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**

	<b>RM' 000</b>
Corporate guarantees issued to licensed banks for credit facilities granted to subsidiaries	9,745

**13. Review of Financial Performance**

The revenue of the Group for the current quarter decreased by 12.2% to RM14.64 million against RM16.66 million in the previous year corresponding quarter. The decrease was mainly due to lower average selling price for latex bedding products and poor domestic sales in the current quarter.

Nevertheless, the profit before tax increased by 47% to RM1.29 million from RM0.88 million in the previous year corresponding quarter mainly due to average lower raw latex cost as well as favourable forex fluctuations.

**14. Variation of Results Against Preceding Quarter**

The revenue for current quarter decreased by 16.2% to RM14.64 million against preceding quarter's RM17.47 million, mainly due to lower average selling price for latex bedding products and poor domestic sales in the current quarter. Nevertheless, profit before tax increased by 19.4% from RM1.08 million to RM1.29 million against preceding quarter mainly due to average lower raw latex cost as well as forex gains.

**NOTES TO THE INTERIM FINANCIAL REPORT (cont'd)**
**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.
- ii) The changes in exchange rate especially the US Dollar which remains the main foreign currency for our export business.
- 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 availability of foreign workers to run the production.

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
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	<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.

**NOTES TO THE INTERIM FINANCIAL REPORT (cont'd)**
**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	-
Long term loans due within twelve months	1,817
Hire purchase creditors	135
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	1,952
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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	9,745
Less : Portion due within twelve months	(1,817)
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Portion due after twelve months	7,928
Hire purchase creditors payable after one year	546
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Total	8,474
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**20. Financial Instruments under MFRS 139**

As at 30 Sep 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	6,382	6,399	-	(17)
	- 1 year to 3 years	-	-	-	-
	- More than 3 years	-	-	-	-
2	Trade related balances	-	450	271	(179)
	Total	6,382	6,849	271	(196)

NOTES TO THE INTERIM FINANCIAL REPORT (cont'd)

**21. Breakdown of Realised and Unrealised profits or loss**

The breakdown of the retained earnings / (accumulated loss) of the Group as at 30 Jun 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	<b><u>RM '000</u></b>
- Realised	48,717
- Unrealised gains / (loss)	<u>(196)</u>
	48,521
Less: Consolidated adjustments	<u>(30,613)</u>
Retained earnings	17,908

**22. Material Litigation**

The Group does not have any material litigation as at 24 Nov 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 30 Sep 2015 RM'000
Profit / (loss) After Taxation	3,102
Number of ordinary shares of RM0.10 each	167,816
Net EPS (sen)	
Basic	1.85
Diluted	1.85

By Order of the Board

**Dato' Eric Lee Kong Sim**  
Managing Director

24 Nov 2016