

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 2017, 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 2016, 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 2016 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

The Board does not recommend any dividend for the period under review.

The Board has recommended a maiden First and Final, tax exempt dividend of 10% or 1 sen per ordinary share totaling RM1,678,157, for the financial year ended 31 Dec 2016. The proposed dividend has been approved by shareholders at the Annual General Meeting held on 23 May 2017. The last date of lodgment is 31 May 2017 and date payable is 15 Jun 2017.

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8. Segmental Information for the Current Financial Period

No segmental information is presented, as the Group is principally involved in 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

	RM' 000
Corporate guarantees issued to licensed banks for credit facilities granted to subsidiaries	11,313

13. Review of Financial Performance

The revenue of the Group for the current quarter decreased by 7.8% to RM14.51 million against RM15.73 million in the previous year corresponding quarter. The decrease was mainly due to slower latex export sales especially for the Korea market. The sales is expected to pick up in Quarter 2.

The profit before tax decreased by 51.8% to RM0.47 million from RM0.98 million in the previous year corresponding quarter mainly due to lower sales recorded in the current quarter as well as the rapid increase in the centrifuged latex price, which is the main raw material for our latex production. The average centrifuged latex price in the quarter under review has increased by almost 80% over the average price in the previous year corresponding quarter.

14. Variation of Results Against Preceding Quarter

The revenue for current quarter decreased by 11.3% to RM14.51 from RM16.36 million in the preceding quarter, mainly due to generally higher sales

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recorded in the year end festive season in the preceding quarter. Profit before tax decreased by 81.1% from RM2.35 mil to RM0.47 million against preceding quarter mainly due to lower sales as well as the rapid hike in the centrifuged latex cost.

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 2017 :

- i) Fluctuation in the centrifuged latex price, of which has increased by almost 80% in the quarter under review over the average centrifuged latex price in 2016. Nevertheless, since then the price has softened by approximately 10%.
- 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.

The Group has been investing in automation and expansion to improve efficiencies to counter the above adverse impacts. The Group cautiously expects to deliver satisfactory results for 2017.

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	(1,326)
- Recognition of deferred tax assets on adjusted business loss and net balancing charge	293

	<u>(1,033)</u>

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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
Trade finances	2,496
Long term loans due within twelve months	1,889
Hire purchase creditors	135

	4,520
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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

Long Term Borrowings

	Group RM'000
Term Loans	8,816
Less : Portion due within twelve months	(1,889)

Portion due after twelve months	6,927
Hire purchase creditors payable after one year	973

Total	7,900
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20. Financial Instruments under MFRS 139

As at 31 Mar 2017, 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	6,913	-	7,083	(170)
	- 1 year to 3 years	-	-	-	-
	- More than 3 years	-	-	-	-

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2	Trade related balances	-	(3,615)	(4,025)	(410)
	Total				(580)

21. Breakdown of Realised and Unrealised profits or loss

The breakdown of the retained earnings / (accumulated loss) of the Group as at 31 Mar 2017 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	56,852
- Unrealised gains / (loss)	<u>(580)</u>
	56,272
Less: Consolidated adjustments	<u>(35,787)</u>
Retained earnings	20,485

22. Material Litigation

The Group does not have any material litigation as at 25 May 2017.

23. 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 2017 RM'000
Profit / (loss) After Taxation	445
Number of ordinary shares of RM0.10 each	167,816
Net EPS (sen)	
Basic	0.26
Diluted	0.26

By Order of the Board

Dato' Eric Lee Kong Sim
Managing Director

25 May 2017