LUSTER INDUSTRIES BERHAD ("LUSTER" OR "COMPANY")

JOINT VENTURE BETWEEN VENTURIAN MINERALS SDN BHD (722046-D) ("VMSB") AND LINPOWER RESOURCES SDN BHD ("LPR"), A WHOLLY-OWNED SUBSIDIARY OF LUSTER PLASTIC INDUSTRIES SDN BHD ("LPI") WHICH IN TURN IS A WHOLLY OWNED SUBSIDIARY OF THE COMPANY TO ESTABLISH THE JOINT VENTURE COMMITTEE ("JVC") FOR THE PURPOSE OF EXPLORING AND CARRYING OUT THE MINING OF TIN ORE AND ANY OTHER MINERALS IN THE LAND KNOWN AS LOT NO. 4518, KAWASAN SG SENIK, MUKIM TEBAK, DAERAH KEMAMAN HELD UNDER NO. PAJAKAN: ML1/2011

1. **INTRODUCTION**

1.1 The Board of Directors of Luster Industries Berhad ("Board") wishes to announce that Linpower Resources Sdn Bhd ("LPR"), a wholly-owned subsidiary of Luster Plastic Industries Sdn Bhd ("LPI") which in turn is a wholly owned subsidiary of the Company, has on 17 June 2014 entered into a joint venture agreement ("JVA") with Venturian Minerals Sdn Bhd ("VMSB") to establish a Joint Venture Committee ("JVC") for the purpose of exploring and carrying out the mining of tin ore and any other minerals ("Products") ("Joint Venture Activities") in the land known as Lot No. 4518, Kawasan Sg Senik, Mukim Tebak, Daerah Kemaman held under No. Pajakan: ML1/2011 with an approximate area of 40.01 hectares, for a lease period of five (5) years, commencing from 8 May 2011 to 7 May 2016 ("the Land") (the "Joint Venture").

2.1 **DETAILS OF THE JOINT VENTURE**

2.1.1 VMSB is a mining contractor operating and managing mining concessions in Malaysia and has procured the rights from AM Nusa Sdn. Bhd. (Company No.: 718742-A) ("ANSB" or "the Mine Owner") to carry out the Joint Venture Activities pursuant to the Mining Concessions (defined hereafter) vide a Mining Agreement ('Perjanjian Melombong') dated 1 June 2014 ("the Mining Agreement"). Under the Mining Agreement, the Mine Owner shall be entitled to a thirty per centum (30%) payment from the value of the Products derived from the Land.

2.1.2 VMSB and LPR (collectively defined as "the Parties") have entered into an agreement to undertake the Joint Venture Activities.

2.1.3 LPR and VMSB agree the ratio of profit sharing of 60% and 40% respectively.

2.1.4 LPR shall invest a total sum of Ringgit Malaysia Five Million Five Hundred Thousand (RM5,500,000.00) only in cash in the following manner :-

a) Upon execution of the JVA, LPR shall pay a sum of Ringgit Malaysia Three Million Five Hundred Thousand (RM3,500,000.00) whereby Ringgit Malaysia One Million (RM1,000,000.00) only, to be constituted as working capital and and initial capital outlay ("Working Capital"), and shall be deposited into the account of JVC. The remaining Ringgit Malaysia Two Million Five Hundred Thousand (RM2,500,000.00) only (''Deposit") shall constitute payment for mobilisation costs to the Mine Owner or its nominee. The Parties irrevocably appointed Messrs WONG & CHUA Advocates & Solicitors , of Lots 5.02 - 5.04, 5th Floor, Wisma Cosway, Jalan Raja Chulan, 50200 Kuala Lumpur ("the Stakeholder"), to act as the stakeholder for the Deposit, and who shall hereby be authorised to release the Deposit or any part thereof to the Mine Owner or its nominee upon receipt of instruction in writing signed by the joint authorised signatories of the Parties hereto. For the purpose of this Clause, the joint authorised signatories of the Parties shall, subject to any changes which shall be informed in writing to the Stakeholder, be as follows:

(i) For LPR: LIM SEE CHEA (NRIC No: 560408-01-5819), Director of LPR

(ii) For VMSB: CHEE SAN FU (NRIC No: 840111-02-5481), Director of VMSB

b) Within three months from the date of the JVA, LPR shall pay a further sum of Ringgit Malaysia Two Million (RM2,0000,000.00) only into the account of JVC as additional working capital and for further expansion of the production capacity in connection with the Joint Venture Activities ("Additional Working Capital").

c) The Parties agree that any further expenditure incurred after the full utilisation of the Working Capital and the Additional Working Capital for the Joint Venture Activities shall be funded by the accumulation of the 10% of the net proceeds in the account of JVC. In the event the accumulated 10% Fund is insufficient for the purpose of working capital, such additional expenditure shall be proportionately shared between the Parties in accordance to the profit sharing ratio in Clause 2.1.3 above.

2.2 INFORMATION OF LINPOWER RESOURCES SDN BHD

LPR was incorporated as a private limited company in Malaysia under the Companies Act, 1965 on 12 August 1993. LPR is a wholly-owned subsidiary of LPI which in turn is a wholly owned subsidiary of Luster and is dormant.

The authorised share capital of LPR is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each and its issued and paid-up share capital is RM350,000 comprising 350,000 ordinary shares of RM1.00 each.

The Directors of LPR are Lim See Chea and Lim See Hua.

2.3 INFORMATION OF VENTURIAN MINERALS SDN BHD

VMSB was incorporated as a private limited company in Malaysia under the Companies Act, 1965 on 23 January 2006 as Square Formula (M) Sdn Bhd and had on 1 March 2012 changed its name to Venturian Minerals Sdn Bhd. VMSB is principally involved in the business of mining contractor.

The authorised share capital of VMSB is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each and its issued and paid-up share capital is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each.

2.4 **INFORMATION OF AM NUSA SDN BHD**

AM Nusa Sdn Bhd was incorporated as a private limited company in Malaysia under the Companies Act, 1965 on 20 December 2005. ANSB is principally involved in the business of mines, land and estate developer.

The authorised share capital of ANSB is RM100,000 comprising 100,000 ordinary shares of RM1.00 each and its issued and paid-up share capital is RM100,000 comprising 100,000 ordinary shares of RM1.00 each.

2.5 **THE CONSIDERATION**

LPR shall invest a total sum of Ringgit Malaysia Five Million Five Hundred Thousand (RM5,500,000.00) only in cash in the manner as stated in 2.1.4.

3. **SOURCE OF FUNDING**

The Consideration shall be financed through a combination of internally generated funds and bank borrowings. The final composition of the funding will be determined by the management of Luster at a later stage depending on the cost of funding and cash requirements of the Luster Group's business operations.

4. **LIABILITIES, INCLUDING CONTINGENT LIABILITIES AND GUARANTEES TO BE ASSUMED**

There are no liabilities including contingent liabilities and guarantees that would be assumed pursuant to the Joint Venture other than financing for the completion of the Joint Venture.

5. **EFFECTS OF THE JOINT VENTURE**

The Joint Venture will not have any material effect on Luster Group's earnings per share ("EPS"), net assets per share, gearings, share capital and substantial shareholdings structure for the year ending 31 December 2014.

Barring any unforeseen circumstances, the Joint Venture will not have any immediate material effect on the consolidated earnings and EPS of Luster for the financial year ending 31 December 2014.

6. **RATIONALE FOR THE PROPOSALS**

The Joint Venture would provide Luster Group a new business opportunity to diversify into a new income stream in order to reduce its dependence on the subsisting business of the Luster Group. The Joint Venture is intended to initiate Luster's operations as a contractor for the mining, extraction and production of the Products by providing Luster an attractive opportunity to venture into the mining industry.

7. **RISK FACTORS**

The risk factors (which may not be exhaustive) in relation to the Joint Venture are set out below:-

7.1 Completion risk

The Joint Venture is conditional upon fulfilment of the conditions precedent to the JVA. There is no assurance that the JVA can be completed within the respective time period permitted under the JVA. In the event that the conditions precedent to the JVA are not fulfilled within the stipulated time period or in the event any approvals shall contain terms which are not acceptable to the parties to the JVA, the completion of the Joint Venture may be affected.

In this regard, the Board shall endeavour to ensure that there is no delay in fulfilling all the conditions precedent to the JVA by the parties concerned and should there be any delay beyond the agreed time period, the Board shall negotiate with the relevant parties to the JVA to mutually extend the said period prior to its expiry.

7.2 Joint venture risk

The Joint Venture may potentially expose the Company to new risk including but not limited to those associated with the assimilation of operations and personnel, the diversion of financial management resources from existing operations and the inability to successfully integrate the Joint Venture with its current business. There is also no assurance that the anticipated benefits from the Joint Venture will be realised and that Luster will be able to generate sufficient returns from the Joint Venture to offset the associated joint venture cost.

Nevertheless, the Board has exercised and will continue to exercise due care in considering the risks and benefits associated with the Joint Venture and will take appropriate measures in planning for the integration of the Joint Venture with its current business operations. Further, the Company is committed towards the close monitoring of the development of the Joint Venture.

7.3 Political, economic and regulatory considerations

As with any type of businesses, mining is closely linked to the economic fundamentals and political stability in the country. Any adverse development in the political, economic and regulatory environment, and uncertainties could negatively affect the operation and performance of the Joint Venture. These include but not limited to the risk of war, terrorist attacks, riots, changes in political leadership, global economic downturn and unfavourable changes in the governmental policies such as changes in the methods of taxation, interest rates, licensing or introduction of new regulations.

Although the Group together with its joint venture partner would seek to mitigate such risks through implementing prudent management policies and maintaining cordial relationship with the relevant authorities, there can be no assurance that any change to the political and/or economic environment will not materially and adversely impact the operation and performance of the Joint Venture and hence, the financial performance and business operations of the Group.

7.4 Financing risk

The consideration of the Joint Venture will be funded through a combination of internally generated funds and/or bank borrowings where the quantum has not been ascertained at this junction.

There were no absolute assurance can be given that Luster will be able to repay all its borrowings and service its interest in the future when they fall due, the Board will continuously monitor and adjust development and market strategies in response to changes in interest rates, economic conditions and market demand.

7.5 Lack of past track record

The Company has not been involved in the business of mining. Hence, the Company may be subject to new challenges and risks arising from the mining operation in which the Company does not have any track record to ensure the success of this venture. Nevertheless, the Company intends to bring in key personnel with sufficient experience for this mining joint venture,

8. HIGHEST PERCENTAGE RATIO

The highest percentage ratio applicable to the Proposals pursuant to the Paragraph 10.02(g) of the Main Market Listing Requirements is approximately 3.64% based on the latest consolidated audited financial statements of the Group for the FYE 31 December 2013.

9. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

None of the Directors and/or major shareholders of Luster and/or persons connected to them have any interest, direct or indirect, in the Joint Venture.

10. DOCUMENT AVAILABLE FOR INSPECTION

The JVA is made available for inspection at the Registered Office of Luster at 51-13-A Menara BHL Bank, Jalan Sultan Ahmad Shah 10050 Penang, during normal business hours from Monday to Friday (except public holidays) for a period of 3 months from the date of this announcement.