

8. DIRECTORS' REPORT



LUSTER INDUSTRIES BHD (156148-P)

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Registered Office
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Menara Penang Garden
42-A, Jalan Sultan Ahmad Shah
10050 Penang

Date: 1 August 2003


The Shareholders
Luster Industries Bhd.

Dear Sir/Madam,

On behalf of the Board of Directors of Luster Industries Bhd. ("Luster"), I report after due inquiry that during the period from 31 March 2003, being the date to which the last audited financial statements of Luster and its subsidiary companies ("Luster Group") have been made up to the date hereof, being the date not earlier than fourteen (14) days before the issue of this Prospectus, that:-

- (a) the business of the Company and its subsidiary companies have, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen since the last audited financial statements of the Company and its subsidiary companies which have adversely affected the trading or the value of the assets of the Company or its subsidiary companies;
- (c) the current assets of the Company and its subsidiary companies appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) save as disclosed in Section 7.4 of this Prospectus, there are no contingent liabilities that have arisen by reason of any guarantees or indemnities given by the Company and its subsidiary companies; and
- (e) save as disclosed in the Accountants' Report as set out in Section 9 of this Prospectus, there have been no change in published reserve nor any unusual factors affecting the profits of the Company and its subsidiary companies.

Yours faithfully,
For and on behalf of the Board of Directors of
LUSTER INDUSTRIES BHD.


Lim See Chea
Managing Director

9. ACCOUNTANTS' REPORT
(Prepared for inclusion in this Prospectus)



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The Board of Directors
Luster Industries Bhd.
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Menara Penang Garden
42-A Jalan Sultan Ahmad Shah
10050 Penang

1 August 2003

Gentlemen

ACCOUNTANTS' REPORT

1. INTRODUCTION

This report has been prepared by an approved company auditor for inclusion in the Prospectus dated 11 August 2003 in connection with Luster Industries Bhd. (hereinafter referred as "Luster" or "the Company"), for the following :-

- i) the Public Issue/Private Placement of 9,920,000 new ordinary shares of RM1.00 each at an issue price of RM1.40 per ordinary share in the Company; and
- ii) the listing of and quotation for Luster's entire enlarged issued and paid-up share capital on the Main Board of the Kuala Lumpur Stock Exchange ("KLSE").

2. GENERAL INFORMATION

2.1 THE COMPANY'S BACKGROUND

Luster was incorporated on 19 September 1986 in Malaysia under the Companies Act, 1965 as a private limited company under the name Luster Industries Sdn Bhd. On 1 October 2002, it was converted into a public limited company and assumed its current name, Luster Industries Bhd..



KPMG, KPMG, a partnership established under Malaysian Law, is a member of KPMG International, a Swiss association



9. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in this Prospectus)



The principal activities of Luster are as follows:

- i) manufacture of precision plastic parts and components, PCBA, sub-assembly and full-assembly of plastic parts and products; and
- ii) investment holding.

Luster is currently the holding company for the following subsidiaries:

- Luster Plastic Industries Sdn Bhd ("LPI")
- Luster Precision Engineering Sdn Bhd ("LPE")
- Luster Manufacturing Sdn Bhd ("LM")
- Luster Electronics (M) Sdn Bhd ("LE")
- Demand Portfolio Sdn Bhd ("DP")
- Luster-Nakazawa R&D Sdn Bhd ("LN")
- Linpower Resources Sdn Bhd ("LPR")
- P.T. Luster Indonesia ("PTLI")
- Luster Chi Wo Sdn Bhd ("LCW")

2.2 SHARE CAPITAL

The present authorised share capital is RM100,000,000 comprising 100,000,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is RM50,080,000 comprising 50,080,000 ordinary shares of RM1.00 each.

Date Issued	No. of Shares Allotted	Par Value RM	Type of Issue	Cumulative Issued and Paid-Up Share Capital RM
19.11.1986	3	1.00	Subscribers' shares	3
02.11.1986	199,997	1.00	Cash	200,000
30.11.1988	200,000	1.00	Cash	400,000
17.09.1990	200,000	1.00	Cash	600,000
01.09.1993	400,000	1.00	Cash	1,000,000
28.02.2001	3,000,000	1.00	Bonus Issue	4,000,000
31.03.2003	26,866	1.00	Acquisition of DP	4,026,866
31.03.2003	151,390	1.00	Acquisition of LE	4,178,256
31.03.2003	321,606	1.00	Acquisition of LPE	4,499,862
31.03.2003	285,162	1.00	Acquisition of LPI	4,785,024
01.04.2003	45,294,976	1.00	Bonus Issue	50,080,000
To be issued pursuant to the Listing of Luster	9,920,000	1.00	Public Issue/Private Placement	60,000,000

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)

**2.3 RESTRUCTURING SCHEME**

In conjunction with and as part of the listing of and quotation for the entire issued and paid-up share capital of Luster on the Main Board of the KLSE, the following restructuring scheme was carried out:-

(I) Acquisitions and Disposal**(a) Acquisition of Luster Precision Engineering Sdn Bhd ("LPE")**

The acquisition by Luster of 10% of the issued and paid up share capital of LPE comprising 150,000 ordinary shares of RM1.00 each for a total consideration of RM1,147,491 satisfied by cash.

(b) Acquisition of Luster Chi Wo Sdn Bhd ("LCW")

The acquisition by Luster of 51% of the issued and paid up share capital of LCW comprising 1,100,000 ordinary shares of RM1.00 each for a total consideration of RM966,780 satisfied by cash.

(c) Acquisition of Luster Precision Engineering Sdn Bhd ("LPE")

The acquisition by Luster of 31.25% of the issued and paid up share capital of LPE comprising 468,750 ordinary shares of RM1.00 each for a total consideration of approximately RM3,585,909 satisfied by share swap of 321,606 ordinary shares of RM1.00 each in Luster at RM11.15 per share.

(d) Acquisition of Luster Plastic Industries Sdn Bhd ("LPI")

The acquisition by Luster of 43.07% of the issued and paid up share capital of LPI comprising 642,695 ordinary shares of RM1.00 each for a total consideration of approximately RM3,179,560 satisfied by share swap of 285,162 ordinary shares of RM1.00 each in Luster at RM11.15 per share.

(e) Acquisition of Demand Portfolio Sdn Bhd ("DP")

The acquisition by Luster of 33.33% of the issued and paid up share capital of DP comprising 52,500 ordinary shares of RM1.00 each for a total consideration of approximately RM299,558 satisfied by share swap of 26,866 ordinary shares of RM1.00 each in Luster at RM11.15 per share.

(f) Acquisition of Luster Electronics Sdn Bhd ("LE")

The acquisition by Luster of the entire issued and paid up share capital of LE comprising 500,000 ordinary shares of RM1.00 each for a total consideration of approximately RM1,688,002 satisfied by share swap of 151,390 ordinary shares of RM1.00 each in Luster at RM11.15 per share.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



(g) Disposal of Luster Mould Sdn Bhd ("LMould")

The disposal by Luster of the entire issued and paid up share capital of LMould comprising 1,100,000 ordinary shares of RM1.00 each for a total cash consideration of RM87,773.

The above acquisitions and disposal were completed on 31 March 2003.

(II) Bonus Issue

Subsequent to the above Acquisitions and Disposal of LMould, the Company undertook a bonus issue of 45,294,976 new ordinary shares of RM1.00 each on the basis of approximately 9,466 new ordinary shares of RM1 each for every 1,000 existing ordinary shares of RM1.00 each held. The Bonus Issue was completed on 1 April 2003.

(III) Public Issue/Private Placement

In addition to the above, there will be a Public Issue/Private Placement of 9,920,000 new ordinary shares of RM1.00 each at an issue price of RM1.40 per share, payable in full on application. The Public Issue/Private Placement will be allocated in the following manner:-

(i) Malaysian Public

2,167,000 new ordinary shares of RM1.00 each available for application by Malaysian public;

(ii) Eligible Directors and Employees

2,113,000 new ordinary shares of RM1.00 each available for application by eligible Directors and employees of the Luster and its subsidiaries (hereinafter referred to as the "Luster Group") who are Malaysians;

(iii) Bumiputera Investors

1,640,000 new ordinary shares of RM1.00 each Bumiputera Investors approved by MITI; and

(iv) Private Placement

4,000,000 new ordinary shares of RM1.00 each by way of Private Placement.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



2.4 INFORMATION ON SUBSIDIARIES

Details of the subsidiaries of Luster are summarised below: -

Subsidiary Companies	Date and Place of Incorporation	Issued and Paid-up Share Capital	Effective Equity Interest (%)	Principal Activities
DP	10.09.1997 Malaysia	RM157,500	100.00	Trading in plastic resins and materials for the production of plastics products
LCW	12.09.1996 Malaysia	RM2,157,000	51.00	Design and fabrication of moulds, tools and dies, including precision moulds
LM	14.08.1989 Malaysia	RM1,200,000	100.00	Manufacture of precision plastic parts and components and sub-assembly of plastic parts and products
LN	06.02.1999 Malaysia	RM400,000	51.00	Research and development, design and fabrication of moulds
LPE	06.07.1992 Malaysia	RM1,500,000	100.00	Manufacture of high precision plastic parts and components and sub-assembly of plastic parts and products
LPI	31.07.1992 Malaysia	RM1,492,120	100.00	Manufacture of precision plastic parts and components
LE	18.07.2000 Malaysia	RM500,000	100.00	Investment holding
PTLI	20.11.2000 Indonesia	USD1,000,000	*100.00	Printed circuit board assembly and full assembly of complete products
<u>Subsidiary of LPI</u>				
LPR	12.08.1993 Malaysia	RM350,000	100.00	Property investment holding

* 51% held by Luster and 49% held by LE

All the above companies do not have any subsidiary or associated company other than LPI which was as disclosed in above.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



3. AUDITED FINANCIAL STATEMENTS AND AUDITORS

We have been the auditors of Luster and LCW for all the financial years/period covered by this report. The financial statements of DP, LM, LN, LPE, LPI, LPR, PTLI and LE were audited by other firms of auditors.

None of the financial statements of all the companies within the Group for all the financial years/periods under review were subject to any audit qualification.

4. ACCOUNTING POLICIES AND STANDARDS

This report is prepared on a basis consistent with accounting policies normally adopted by Luster and its subsidiaries, and in accordance with applicable approved accounting standards issued by the Malaysian Accounting Standards Board.

5. EVENTS SUBSEQUENT TO BALANCE SHEET DATED 31 MARCH 2003

Based on the audited financial statements for the three months ended 31 March 2003 and other than the bonus issue referred to in Section 2.3, no events have arisen subsequent to the balance sheet date, which required disclosure in this Report.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



6. SUMMARISED PROFORMA CONSOLIDATED RESULTS OF THE GROUP

6.1 The summarised proforma consolidated results of Luster Group for the fourteen (14) months period ended 31 December 1998, four (4) financial years ended 31 December 1999 to 2002 and the three (3) months period ended 31 March 2003 has been prepared for illustrative purposes after making such adjustments that we considered necessary and assuming that Luster Group had been in existence throughout the years/period under review.

Luster Group

	14 months ended 31 December 1998 RM'000	Year ended 31 December 1999 RM'000	Year ended 31 December 2000 RM'000	Year ended 31 December 2001 RM'000	Year ended 31 December 2002 RM'000	3 months ended 31 March 2003 RM'000
Revenue	138,511	110,092	169,858	170,880	130,619	23,129
Profit before depreciation and interest	16,809	15,683	19,664	24,668	23,952	3,221
Depreciation	(5,404)	(4,730)	(5,236)	(8,273)	(9,443)	(2,372)
Interest expense	(1,353)	(1,083)	(2,352)	(2,860)	(2,004)	(472)
Profit/before taxation	10,052	9,870	12,076	13,535	12,505	377
Taxation	1,297	272	(3,162)	(4,469)	(2,586)	253
Minority interest	-	110	21	235	160	144
Profit after taxation	11,349	10,252	8,935	9,301	10,079	774
Number of ordinary shares of RM1 each after bonus issue ('000)	50,080	50,080	50,080	50,080	50,080	50,080
Earnings/ per share (sen)						
- Gross	*17.20	19.93	24.16	27.50	25.29	*4.16
- Net	*19.42	20.47	17.84	18.57	20.13	*6.18
Enlarged number of ordinary shares of RM1 each	60,000	60,000	60,000	60,000	60,000	60,000
Fully diluted earning per share (sen)						
- Gross	*14.36	16.63	20.16	22.95	21.11	*3.47
- Net	*16.26	17.09	14.89	15.50	16.80	*5.16
Gross dividend rate (%)	12.00	24.00	-	270.00	187.50	-

* Annualised

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



Notes:

- i) The proforma consolidated results of Luster Group are prepared for illustrative purposes only and are based on the audited financial statements of Luster, DP, LM, LN, LCW, LPE, LPI, LPR, PTLI and LE.
- ii) There were no extraordinary or exceptional items in the years/period under review.
- iii) Revenue decreased in financial year ended 31 December 1999 was mainly attributed to the change of customers base where sales volume was low at initial stage.

For financial years ended 31 December 2000 to 2001, the Group's revenue improved further with all companies enjoying continuing growth in demand for their products partly due to the recovery of the Asian financial crisis and multinationals awarding more contracts to local companies as part of their cost-containing measures.

Revenue decreased for financial year ended 31 December 2002 was mainly due to slow down in world economic and geopolitical uncertainty.

The lower revenue for the 3 months ended 31 March 2003 is in tandem with the cyclical trend of the industry.

- iv) Profit before tax increased in financial year ended 31 December 2002 despite the reduction in revenue due to the practice of cost reduction measurement.
- v) The low tax charge in financial year ended 31 December 1999 was mainly due to tax waiver on business income earned during the year.

The disproportionate tax charge for the Group for financial years ended 31 December 2000, 2001 and 2002 were mainly due to tax incentives available to the subsidiary companies.

- vi) The gross earnings per share has been calculated based on the profit before taxation but after minority interest and on the assumption that the issued and paid-up share capital of Luster of 50,080,000 (after acquisitions and bonus issue) ordinary shares of RM1 each has been in issue throughout the years under review.

The net earnings per share has been calculated based on the profit after taxation and after minority interest and on the assumption that the issued and paid-up share capital of Luster of 50,080,000 (after acquisition and bonus issue) ordinary shares of RM1 each has been in issue throughout the years under review.

- vii) The fully diluted gross earning per share has been calculated based on profit before taxation but after minority interest on the assumption that the issued and paid-up share capital of Luster of 60,000,000 ordinary shares of RM1 each (after acquisitions, bonus issue and public issue/private placement) has been in issue throughout the years under review.

The fully diluted net earning per share has been calculated based on profit after taxation and minority interest and on the assumption that the issued and paid-up share capital of Luster of 60,000,000 ordinary shares of RM1 each (after acquisitions, bonus issue and public issue/private placement) has been in issue throughout the years under review.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



6.2 The summarised results of the companies in Luster Group for the fourteen (14) months period ended 31 December 1998, four (4) financial years ended 31 December 1999 to 2002 and the three (3) months period ended 31 March 2003 are set out below:-

Luster

	14 months ended 31 December 1998 RM'000	Year ended 31 December 1999 RM'000	Year ended 31 December 2000 RM'000	Year ended 31 December 2001 RM'000	Year ended 31 December 2002 RM'000	3 months ended 31 March 2003 RM'000
Revenue	92,955	74,619	79,399	105,617	70,127	15,417
Profit before depreciation and interest	6,153	6,253	7,995	22,876	11,937	2,545
Depreciation	(2,499)	(2,041)	(1,877)	(3,436)	(3,689)	(913)
Interest expense	(503)	(430)	(1,285)	(1,803)	(1,481)	(352)
Profit before taxation	3,151	3,782	4,833	17,636	6,767	1,280
Taxation	2,718	350	(1,138)	(2,339)	(1,077)	(280)
Profit after taxation	5,869	4,132	3,695	15,298	5,690	1,000
Weighted average no. of shares ('000)	4,000	4,000	4,000	4,000	4,000	4,000
Earnings per share (sen)						
- Gross	* 67	95	121	441	169	*128
- Net	* 126	103	92	382	142	*100
Gross dividend rate (%)	12.00	24.00	-	270.00	187.50	-

* Annualised

Notes:

- i) There were no extraordinary or exceptional items in the periods/years under review.
- ii) Increased in revenue for the financial year ended 31 December 2001 as compared to the financial year ended 31 December 2000 was mainly due to higher demand for the production of new model products and higher dividend income received from subsidiary companies.

Decreased in revenue for the financial year ended 31 December 2002 as compared to the financial year ended 31 December 2001 was mainly due to slow down in world economic and geopolitical uncertainty.

The lower revenue for the 3 months ended 31 March 2003 is in tandem with the cyclical trend of the industry.

No dividend income received from subsidiary companies for the financial year ended 31 December 2002.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



The tax liability for financial year ended 31 December 1999 was in respect of dividend income as it was a tax waiver year. The Company entitled to certain tax incentives (Reinvestment Allowance) in financial years ended 31 December 2000 and 2001 as it embarked on its expansion project resulting in only 11.92% and 5.61% effective tax rates recorded respectively. The expansion project undertaken was process diversification to PCBA and SMT and acquisition of new factory building, machinery and equipment for LPE.

Tax expense for the period ended 31 March 2003 was due to tax on dividend income from one of its subsidiaries.

DP

	10.9.1997 (date of incorporation) to 31.12.1998 RM'000	Year ended 31 December 1999 RM'000	Year ended 31 December 2000 RM'000	Year ended 31 December 2001 RM'000	Year ended 31 December 2002 RM'000	3 months ended 31 March 2003 RM'000
Revenue	562	10,631	12,924	9,760	5,218	1,212
Profit/(Loss) before depreciation and interest	(36)	433	566	439	162	(11)
Depreciation	(18)	(34)	(76)	(76)	(51)	(13)
Interest expense	(12)	(40)	(111)	(63)	(95)	(14)
Profit/(Loss) before taxation	(66)	359	379	300	16	(38)
Taxation	-	(6)	(134)	(91)	(13)	7
Profit/(Loss) after taxation	(66)	353	245	209	3	(31)
Weighted average no. of shares ('000)	115	150	158	158	158	158
Earnings per share(sen)						
- Gross	* (43)	239	240	190	10	*(97)
- Net	* (43)	235	155	132	2	*(79)
Gross dividend rate (%)	-	-	-	-	-	-

* Annualised

Notes:

- i) There were no extraordinary or exceptional items in the periods/years under review.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



- ii) Lower sales in financial year ended 31 December 2001 were mainly due to the world economic slow down. Sales dropped from RM12.924 million in financial year ended 31 December 2000 to RM9.760 million in financial year ended 31 December 2001 attributed to the decrease in demand of polyethylene (commodity plastic), which had a lower profit margin.

Sales decreased in financial year ended 31 December 2002 and the financial period ended 31 March 2003 as compared to year 2001 was mainly due to general slow down in world economy.

LCW

	14 Months ended 31 December 1998 RM'000	Year ended 31 December 1999 RM'000	Year ended 31 December 2000 RM'000	Year ended 31 December 2001 RM'000	Year ended 31 December 2002 RM'000	3 months ended 31 March 2003 RM'000
Revenue	-	318	12,084	7,963	6,092	902
Profit before depreciation and interest	-	85	927	159	243	(21)
Depreciation	-	(60)	(462)	(504)	(514)	(129)
Interest expense	-	(68)	(126)	(107)	(56)	(11)
(Loss)/Profit before taxation	-	(43)	339	(452)	(327)	(161)
Taxation	-	-	(105)	-	-	105
(Loss)/Profit after taxation	-	(43)	234	(452)	(327)	(56)
Weighted average no. of shares ('000)	-	225	2,157	2,157	2,157	2,157
Earnings per share(sen)						
- Gross	-	(19)	16	(21)	(15)	*(30)
- Net	-	(19)	11	(21)	(15)	*(10)
Gross dividend rate (%)	-	-	-	-	-	-

* Annualised

Notes :

- i) There were no extraordinary or exceptional items in the periods/years under review.
- ii) LCW commenced its business operations in the financial year 31 December ended 1999.
- iii) Revenue in financial year ended 31 December 2001, 2002 and the financial period ended 31 March 2003 were affected by the world economy slow down.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



- iii) The depreciation charged and interest expense were low in financial year ended 31 December 1999 as the acquisition of property, plant and equipment which was financed mainly by borrowings, were made towards the financial year end of 1999.
- iv) Reduction in interest expense in financial year ended 31 December 2001 was mainly due to early settlement of hire purchase financing.

LM

	14 Months ended 31 December 1998 RM'000	Year ended 31 December 1999 RM'000	Year ended 31 December 2000 RM'000	Year ended 31 December 2001 RM'000	Year ended 31 December 2001 RM'000	3 months ended 31 March 2003 RM'000
Revenue	29,553	19,942	29,113	29,339	17,161	2,677
Profit before depreciation and interest	3,816	2,359	3,267	4,937	2,391	10
Depreciation	(1,269)	(1,108)	(1,071)	(1,037)	(1,116)	(258)
Interest expense	(11)	(46)	(61)	(68)	(22)	(6)
Profit/(Loss) before taxation	2,536	1,205	2,135	3,832	1,253	(254)
Taxation	932	(66)	(312)	(899)	(357)	78
Profit/(Loss) after taxation but before exceptional item	3,468	1,139	1,823	2,933	896	(176)
Exceptional item	-	-	-	-	-	(139)
Profit/(Loss) after taxation	3,468	1,139	1,823	2,933	896	(315)
Weighted average no. of shares ('000)	1,200	1,200	1,200	1,200	1,200	1,200
Earnings per share(sen)						
- Gross	* 181	100	178	319	104	*(59)
- Net	* 248	95	152	244	75	*(105)
Gross dividend rate (%)	68.03	34.01	150.00	545.00	-	83.33

* Annualised

Notes:

- i) There was no extraordinary or exceptional item in the periods/years under review except for the period ended 31 March 2003 whereby LM disposed of all its unquoted investment to Luster which resulted in a loss on disposal. The loss was classified under exceptional item.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



- ii) LM recorded a steady growth in revenue of 7.48% (based on annualised figure) in the financial year ended 31 December 1998. The increase in revenue was due to the increase in export sales. The Asian economic turmoil in 1998 did not have any adverse impact on LM's revenue as more than 95% of its customers are export orientated, e.g. Philips Hong Kong and Philips Sound System.

However, revenue decreased by 21.27% (based on annualised figure) in the financial year ended 31 December 1999 due to the change of customers base where sales volume was low at the initial stage.

In the financial year ended 31 December 2000, revenue increased by 45.99% due to increase in the sales volume and selling price as a result of the increase in the cost of raw materials.

Revenue for the financial year ended 31 December 2002 recorded a decreased of 41.5% compared to financial year ended 31 December 2001 due to general slow down in world economy.

The lower revenue for the 3 months period ended 31 March 2003 is in tandem with the cyclical trend of the industry.

LN

	6.2.1999 (date of incorporation) to 31.12.1999 RM'000	Year Ended 31 December 2000 RM'000	Year Ended 31 December 2001 RM'000	Year Ended 31 December 2002 RM'000	3 months ended 31 March 2003 RM'000
Revenue	367	2,000	663	318	126
(Loss)/Profit before depreciation and interest	(181)	(184)	(171)	(55)	1
Depreciation	-	(7)	(34)	(29)	-
Interest expense	-	-	-	-	-
Loss before taxation	(181)	(191)	(205)	(84)	1
Taxation	-	-	-	-	-
Loss after taxation	(181)	(191)	(205)	(84)	1
Weighted average no. of shares ('000)	204	400	400	400	400
Earnings per share(Sen)					
- Gross	* (99)	(48)	(51)	(21)	*1
- Net	* (99)	(48)	(51)	(21)	*1
Gross dividend rate (%)	-	-	-	-	-

* Annualised

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)

**Notes:**

- i) There were no extraordinary or exceptional items in the periods/years under review.
- ii) The principal activities of LN were ranging from technical research and development and transfer of technical know-how in injection mouldings. LN also involved in mould/tools modification and repair in order to support its principal activities.

Revenue decreased in the financial year ended 31 December 2002 due to the dropped in mould/tooling modification and repair activities in Luster Group.

LPE

	14 months ended 31 December 1998 RM'000	Year ended 31 December 1999 RM'000	Year ended 31 December 2000 RM'000	Year ended 31 December 2001 RM'000	Year ended 31 December 2002 RM'000	3 months ended 31 March 2003 RM'000
Revenue	25,545	21,145	31,633	22,479	20,159	3,354
Profit before depreciation and interest	5,835	5,747	6,259	3,471	3,579	227
Depreciation	(931)	(848)	(1,114)	(1,685)	(1,729)	(431)
Interest expense	(157)	(97)	(234)	(482)	(358)	(90)
Profit/(Loss) before taxation	4,747	4,802	4,911	1,304	1,492	(294)
Taxation	(1,904)	7	(1,293)	(292)	(98)	53
Profit/(Loss) after taxation	2,843	4,809	3,618	1,012	1,394	(241)
Weighted average no. of shares in issue ('000)	1,500	1,500	1,500	1,500	1,500	1,500
Earnings per share(Sen)						
- Gross	* 271	320	327	87	99	*(78)
- Net	* 162	321	241	67	93	*(64)
Gross dividend rate (%)	-	-	-	660.00	-	-

* Annualised

Notes:

- i) There were no extraordinary or exceptional items in the periods/years under review.
- ii) The Asian economic turmoil in 1998 did not have any significant impact on LPE's revenue as more than 95% of its customers were export orientated. The direct export sales were accounted for more than 50% of LPE's revenue for the year ended 31 December 1998.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



LPE increased its revenue to RM31.6 million in the financial year ended 31 December 2000. The financial year ended 31 December 2001 revenue declined by RM9.1 million mainly due to reduction in demand for electrical & electronic products as a result of the economy crisis in USA. More than 50% of revenue was derived from Philips Hong Kong for the financial year ended 31 December 1998 before Sony Electronic (Malaysia) Sdn Bhd became the major customer of LPE from financial years ended 1999 to 2001.

The revenue decreased to RM20.2 million in the financial year ended 31 December 2002 mainly due to world economy slow down and geopolitical uncertainty.

The lower revenue for the 3 months period ended 31 March 2003 is in tandem with the cyclical trend of the industry.

Depreciation charges increased from 1998 to 2001 by 89% due to continuous business expansion to cater for and venture into new industry, particularly in 2000.

The interest expense gradually reduced from financial period ended 1998 to financial year ended 1999 arising from effective control on financing cost and better cash management. However in the financial year ended 31 December 2000, the interest cost from hire purchase and term loan has increased substantially due to increase in borrowings to finance the expansion. The interest expense has decreased in the financial year ended 31 December 2002 due to reduction in bankers acceptance interest.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



LPI

	14 months ended 31 December 1998 RM'000	Year ended 31 December 1999 RM'000	Year ended 31 December 2000 RM'000	Year ended 31 December 2001 RM'000	Year ended 31 December 2002 RM'000	3 months ended 31 March 2003 RM'000
Revenue	14,324	12,326	27,720	23,954	20,111	1,754
Profit before depreciation and interest	1,302	1,048	2,471	4,722	4,223	174
Depreciation	(642)	(593)	(583)	(721)	(754)	(183)
Interest expense	(556)	(328)	(353)	(170)	(37)	(8)
Profit/(Loss) before taxation	104	127	1,535	3,831	3,432	(17)
Taxation	(440)	(13)	(180)	(676)	(801)	8
Profit/(Loss) after taxation	(336)	114	1,355	3,155	2,631	(9)
Weighted average no. of shares in issue ('000)	1,093	1,247	1,272	1,492	1,492	1,492
Earnings per share (Sen)						
- Gross	* 8	10	121	257	230	*(5)
- Net	*(26)	9	107	211	176	*(2)
Gross dividend rate (%)	-	-	-	-	-	-

* Annualised

Notes:

- i) There were no extraordinary or exceptional items in the periods/years under review.
- ii) The Asian economic turmoil in the financial period ended 1998 did not have any significant negative impact on LPI's revenue as more than 95% of its customers are export orientated.

Revenue improved in the financial year ended 2000 due to increase in selling price as a result of increase in cost of raw material and better foreign exchange rates as the sales were denominated in USD.

Revenue has decreased substantially in the financial year ended 2001 and financial year ended 2002 due to the global economic slow down and the geopolitical uncertainty.

The lower revenue for the 3 months period ended 31 March 2003 is in tandem with the cyclical trend of the industry.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



LPR

	14 months ended 31 December 1998 RM'000	Year ended 31 December 1999 RM'000	Year ended 31 December 2000 RM'000	Year ended 31 December 2001 RM'000	Year ended 31 December 2002 RM'000	3 months ended 31 March 2003 RM'000
Revenue	180	180	180	240	240	60
Profit before depreciation and interest	156	147	162	221	218	57
Depreciation	(46)	(46)	(46)	(46)	(46)	(12)
Interest expense	(114)	(74)	(181)	(167)	(150)	(32)
Profit/(Loss) before taxation	(4)	27	(65)	8	22	13
Taxation	(9)	-	-	(2)	(9)	1
Profit/(Loss) after taxation	(13)	27	(65)	6	13	14
Weighted average no. of shares in issue ('000)	350	350	350	350	350	350
Earnings per share(Sen)						
- Gross	* (1)	8	(19)	2	6	*15
- Net	* (3)	8	(19)	2	4	*16
Gross dividend rate (%)	-	-	-	-	-	-

* Annualised

Notes:

- i) There were no extraordinary or exceptional items in the periods/years under review.
- ii) Revenue for the financial period ended 31 October 1998 to financial year ended 31 December 2002 represent rental received from holding company.

Interest expense reduced gradually from the financial year ended 31 October 1998 to financial year ended 31 December 1999. However, interest expense increased in the financial year ended 31 December 2000 due to additional interest charge from holding company. The decrease in interest expense in the financial year ended 31 December 2002 was due to full settlement of outstanding term loan during the year.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



PTLI

	20.11.2000 (date of incorporation) 31 December 2001 RM'000	Year ended 31 December 2002 RM'000	3 months ended 31 March 2003 RM'000
Revenue	4,189	4,257	1,032
Profit before depreciation and interest expense	1,377	2,382	394
Depreciation	(743)	(1,505)	(434)
Interest expense	-	(33)	(5)
Profit/(Loss) before taxation	634	843	(45)
Taxation	(175)	(429)	-
Profit/(Loss) after taxation	459	415	(45)
Weighted average no. of shares in issue ('000)	1,000	1,000	1,000
Earnings per share (sen)			
- Gross	* 57	84	*(18)
- Net	* 41	61	*(18)
Gross dividend rate (%)	-	-	-

* Annualised

Notes:

- i) There were no extraordinary or exceptional items in the periods/year under review.
- ii) Higher interest expense in the financial year ended 2002 was due to the hire purchase financing of motor vehicle.

Increase in depreciation was due to the additions of factory equipments and plant and machinery.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



LE

	18.7.2000 (date of incorporation) to 31 December 2001 RM'000	Year ended 31 December 2002 RM'000	3 months ended 31 March 2003 RM'000
Revenue	-	-	-
Loss before depreciation and interest	(7)	(3)	(1)
Depreciation	-	-	-
Interest expense	-	-	-
Loss before taxation	(7)	(3)	(1)
Taxation	-	-	-
Loss after taxation	(7)	(3)	(1)
Weighted average no. of shares in issue ('000)	84	500	500
Earnings per share (sen)			
- Gross	* (6)	(0.6)	(0.8)
- Net	* (6)	(0.6)	(0.8)
Gross dividend rate (%)	-	-	-

* Annualised

Notes:

- i) There was no extraordinary or exceptional items in the periods/year under review.
- ii) There was no revenue generated during the financial periods/year. Expenses were mainly in respect of preliminary expenses incurred, secretary fee, stamp duty and administrative expenses.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



7. SUMMARISED BALANCE SHEETS

The summarised balance sheets of the companies in the Luster Group based on the audited financial statements are set out below:

7.1 Luster

	As at 31 December 1998 RM'000	As at 31 December 1999 RM'000	As at 31 December 2000 RM'000	As at 31 December 2001 RM'000	As at 31 December 2002 RM'000	As at 31 March 2003 RM'000
Property, plant and equipment	15,049	13,753	20,293	31,326	33,139	33,062
Investment in subsidiaries	3,964	12,467	12,467	24,183	24,183	34,962
Current assets	29,890	27,264	30,420	31,449	32,855	34,837
Current liabilities	(25,012)	(25,665)	(28,392)	(24,342)	(32,088)	(36,508)
Net current assets/(liabilities)	4,878	1,599	2,028	7,107	767	(1,671)
	23,891	27,819	34,788	62,616	58,089	66,353
Financed by :						
Share capital	1,000	1,000	1,000	4,000	4,000	4,785
Share premium	-	-	-	-	-	7,968
Revaluation reserve	-	-	-	9,771	9,771	9,771
Retained profits	21,994	25,885	29,580	31,078	29,268	30,267
Shareholders' funds	22,994	26,885	30,580	44,849	43,039	52,791
Long term liabilities	665	689	3,401	15,616	12,454	10,966
Deferred taxation	232	245	807	2,151	2,596	2,596
	23,891	27,819	34,788	62,616	58,089	66,353
Net tangible assets per ordinary share of RM1 each(RM)	22.99	26.89	30.58	11.21	10.76	10.82

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



7.2 DP

	As at 31 December 1998 RM'000	As at 31 December 1999 RM'000	As at 31 December 2000 RM'000	As at 31 December 2001 RM'000	As at 31 December 2002 RM'000	As at 31 March 2003 RM'000
Property, plant and equipment	100	130	265	191	104	91
Current assets	188	3,443	3,714	2,832	2,514	2,710
Current liabilities	(170)	(3,128)	(3,210)	(2,114)	(1,710)	(1,930)
Net current assets/ (liabilities)	(18)	315	504	718	804	780
	118	445	769	909	908	871
Financed by :						
Share capital	150	150	158	158	158	158
Retained profits/(Accumulated losses)	(66)	287	532	741	743	713
Shareholders' funds	84	437	690	899	901	871
Long term liabilities	34	2	60	-	-	-
Deferred taxation	-	6	19	10	7	-
	118	445	769	909	908	871
Net tangible assets per ordinary share of RM1 each(RM)	0.56	2.91	4.37	5.69	5.70	5.51

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



7.3 LCW

	As at 31 December 1998 RM'000	As at 31 December 1999 RM'000	As at 31 December 2000 RM'000	As at 31 December 2001 RM'000	As at 31 December 2002 RM'000	As at 31 March 2003 RM'000
Property, plant and equipment	-	4,293	4,188	3,783	3,309	3,183
Current assets	*	3,578	4,665	4,365	2,744	1,810
Current liabilities	(6)	(4,765)	(5,711)	(5,694)	(4,138)	(3,292)
Net current liabilities	(6)	(1,187)	(1,046)	(1,329)	(1,394)	(1,482)
Expenditure carried forward	6	-	-	-	-	-
	*	3,106	3,142	2,454	1,915	1,701
Financed by :						
Share capital	*	2,157	2,157	2,157	2,157	2,157
Accumulated losses	-	(43)	190	(261)	(588)	(644)
Shareholders' funds	*	2,114	2,347	1,896	1,569	1,513
Long term liabilities	-	992	690	453	241	188
Deferred taxation	-	-	105	105	105	-
	*	3,106	3,142	2,454	1,915	1,701
Net tangible assets per ordinary share of RM1 each(RM)	(3)	0.98	1.09	0.88	0.73	0.70

* These denote cash in hand and share capital of RM2 each respectively.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



7.4 LM

	As at 31 December 1998 RM'000	As at 31 December 1999 RM'000	As at 31 December 2000 RM'000	As at 31 December 2001 RM'000	As at 31 December 2002 RM'000	As at 31 March 2003 RM'000
Property, plant and equipment	6,329	5,800	5,305	4,515	3,429	3,184
Unquoted investment	100	1,667	1,667	1,667	1,667	-
Current assets	12,628	13,046	14,289	8,788	9,858	10,580
Current liabilities	(7,031)	(6,075)	(6,503)	(3,414)	(2,753)	(3,057)
Net current assets	5,597	6,971	7,786	5,374	7,105	7,523
	12,026	14,438	14,758	11,556	12,201	10,707
Financed by :						
Share capital	1,200	1,200	1,200	1,200	1,200	1,200
Capital reserve	-	1,567	1,567	1,567	1,567	-
Retained profits	10,199	11,044	11,572	8,440	9,335	9,487
Shareholders' funds	11,399	13,811	14,339	11,207	12,102	10,687
Long term liabilities	-	-	187	89	-	-
Deferred taxation	627	627	232	260	99	20
	12,026	14,438	14,758	11,556	12,201	10,707
Net tangible assets per ordinary share of RM1 each(RM)	9.50	11.51	11.95	9.34	10.09	8.90

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



7.5 LN

	As at 31 December 1999 RM'000	As at 31 December 2000 RM'000	As at 31 December 2001 RM'000	As at 31 December 2002 RM'000	As at 31 March 2003 RM'000
Property, plant and equipment	5	325	299	-	-
Current assets	314	604	196	288	176
Current liabilities	(100)	(901)	(672)	(549)	(436)
Net current assets/ (liabilities)	214	(297)	(476)	(261)	(260)
	219	28	(177)	(261)	(260)
Financed by :					
Share capital	400	400	400	400	400
Accumulated losses	(181)	(372)	(577)	(661)	(660)
Shareholders' funds	219	28	(177)	(261)	(260)
Net tangible assets per ordinary share of RM1 each(RM)	0.55	0.07	(0.44)	(0.65)	(0.65)

Note : LN was incorporated on 6 February 1999 and its first set of audited financial statements was for the period ended 31 December 1999.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



7.6 LPE

	As at 31 December 1998 RM'000	As at 31 December 1999 RM'000	As at 31 December 2000 RM'000	As at 31 December 2001 RM'000	As at 31 December 2002 RM'000	As at 31 March 2003 RM'000
Property, plant and equipment	6,853	9,659	16,434	15,516	14,183	13,768
Current assets	12,489	13,735	18,711	7,951	7,744	7,042
Current liabilities	(7,056)	(6,019)	(9,529)	(8,054)	(6,532)	(5,981)
Net current assets/ (liabilities)	5,433	7,716	9,182	(103)	1,212	1,061
	12,286	17,375	25,616	15,413	15,395	14,829
Financed by :						
Share capital	1,000	1,000	1,500	1,500	1,500	1,500
Retained profits	10,823	15,633	18,750	9,975	11,369	11,128
Shareholders' funds	11,823	16,633	20,250	11,475	12,869	12,628
Long term liabilities						
	14	293	4,346	2,805	1,414	1,144
Deferred taxation	449	449	1,020	1,133	1,112	1,057
	12,286	17,375	25,616	15,413	15,395	14,829
Net tangible assets per ordinary share of RM1 each(RM)	11.82	16.63	13.50	7.65	8.58	8.42

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



7.7 LPI

	As at 31 December 1998 RM'000	As at 31 December 1999 RM'000	As at 31 December 2000 RM'000	As at 31 December 2001 RM'000	As at 31 December 2002 RM'000	As at 31 March 2003 RM'000
Property, plant and equipment	4,356	4,144	3,836	4,291	4,073	3,929
Investment in subsidiaries	2,461	2,263	2,463	1,917	2,109	2,090
Current assets	2,797	3,302	7,065	4,986	7,866	8,152
Current liabilities	(7,015)	(7,049)	(8,750)	(3,422)	(3,148)	(3,338)
Net current (liabilities)/assets	(4,218)	(3,747)	(1,685)	1,564	4,718	4,814
	2,599	2,660	4,614	7,772	10,900	10,833
Financed by :						
Share capital	1,247	1,247	1,492	1,492	1,492	1,492
Share premium	229	229	594	594	594	594
Retained profits	708	822	2,177	5,333	7,964	7,955
Shareholders' funds	2,184	2,298	4,263	7,419	10,050	10,041
Long term liabilities	132	79	69	-	523	485
Deferred taxation	283	283	282	353	327	307
	2,599	2,660	4,614	7,772	10,900	10,833
Net tangible assets per ordinary share of RM1 each(RM)	1.75	1.84	2.86	4.97	6.73	6.73

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



7.8 LPR

	As at 31 December 1998 RM'000	As at 31 December 1999 RM'000	As at 31 December 2000 RM'000	As at 31 December 2001 RM'000	As at 31 December 2002 RM'000	As at 31 March 2003 RM'000
Property, plant and equipment	2,224	2,178	2,133	2,086	2,065	2,053
Current assets	308	310	329	334	38	43
Current liabilities	(1,380)	(1,423)	(1,577)	(1,641)	(1,719)	(1,698)
Net current liabilities	(1,072)	(1,113)	(1,248)	(1,307)	(1,681)	(1,655)
	1,152	1,065	885	779	384	398
Financed by :						
Share capital	350	350	350	350	350	350
Retained profits	38	65	-	6	19	33
Shareholders' funds	388	415	350	356	369	383
Long term liabilities	764	650	535	417	-	-
Deferred taxation	-	-	-	6	15	15
	1,152	1,065	885	779	384	398
Net tangible assets per ordinary share of RM1 each(RM)	1.11	1.19	1.00	1.01	1.05	1.09

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



7.9 PTLI

	As at 31 December 2001 RM'000	As at 31 December 2002 RM'000	As at 31 March 2003 RM'000
Property, plant and equipment	12,472	13,448	14,474
Current assets	2,553	1,718	2,034
Current liabilities	(11,566)	(10,570)	(11,962)
Net current liabilities	(9,013)	(8,852)	(9,928)
	<u>3,459</u>	<u>4,596</u>	<u>4,546</u>
Financed by :			
Share capital	3,800	3,800	3,800
Retained profits	459	1,072	1,004
Exchange fluctuation reserve	(800)	(288)	(265)
Shareholders' funds	<u>3,459</u>	<u>4,584</u>	<u>4,539</u>
Long term liabilities	-	12	7
	<u>3,459</u>	<u>4,596</u>	<u>4,546</u>
Net tangible assets per ordinary share of USD1 each(RM)	3.46	4.58	4.54

Note : PTLI was incorporated on 30 November 2000 and its first set of audited financial statements was for the period ended 31 December 2001.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



7.10 LE

	As at 31 December 2001 RM'000	As at 31 December 2002 RM'000	As at 31 March 2003 RM'000
Interest in an associate company	1,862	1,862	1,862
Current assets	-	-	-
Current liabilities	(7)	(10)	(11)
Net current liabilities	(7)	(10)	(11)
	<u>1,855</u>	<u>1,852</u>	<u>1,851</u>
Financed by :			
Share capital	500	500	500
Share premium	1,362	1,362	1,362
Accumulated losses	(7)	(10)	(11)
Shareholders' funds	<u>1,855</u>	<u>1,852</u>	<u>1,851</u>
Net tangible assets per ordinary share of RM1 each (RM)	3.71	3.70	3.70

Note : LE was incorporated on 18 July 2000 and its first set of audited financial statements was for the period ended 31 December 2001.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



8. STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2003

The statements of assets and liabilities of Luster Group based on the audited financial statements as at 31 March 2003 are as follows:

	Note	Group Audited RM'000	Group Proforma RM'000
PROPERTY, PLANT AND EQUIPMENT	8.2	73,746	78,596
CURRENT ASSETS			
Inventories	8.3	15,522	15,522
Trade and other receivables	8.4	20,061	20,061
Tax refundable		1,447	1,447
Cash and cash equivalents	8.5	4,314	8,128
		<u>41,344</u>	<u>45,158</u>
CURRENT LIABILITIES			
Trade and other payables	8.6	24,810	26,510
Borrowings	8.7	15,645	10,421
Taxation		14	14
		<u>40,469</u>	<u>36,945</u>
NET CURRENT ASSETS		875	8,213
		<u>74,621</u>	<u>86,809</u>
Financed by:			
SHARE CAPITAL	8.8	4,785	60,000
RETAINED PROFITS		42,904	5,577
SHARE PREMIUM	8.9	7,968	2,268
EXCHANGE FLUCTUATION RESERVE		(135)	(135)
SHAREHOLDERS' FUNDS		<u>55,522</u>	<u>67,710</u>
LONG TERM AND DEFERRED LIABILITIES			
NEGATIVE GOODWILL		1,572	1,572
BORROWINGS	8.7	12,791	12,791
MINORITY INTERESTS		741	741
DEFERRED TAXATION		3,995	3,995
		<u>74,621</u>	<u>86,809</u>
NTA per ordinary share (RM)		11.60	1.15

The statement of assets and liabilities has been prepared to show the effects of Bonus Issue of 45,294,976 ordinary shares of RM1.00 each, the Public Issue/Private Placement of 9,920,000 ordinary shares of RM1.00 each at an issue price of RM1.40 per share and the utilisation of proceed from the Public Issue/Private Placement on the assumption that the respective transactions had been completed on 31 March 2003.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



8.1. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES
– 31 MARCH 2003

8.1.1 Summary of Significant Accounting Policies

The following accounting policies are adopted by the Group and the Company and are consistent with those adopted in previous years except for the adoption of the following:

- i) MASB 25, Income Taxes; and
- ii) MASB 29, Employees Benefits.

which are applied retrospectively.

The adoption of MASB 29 resulted in the making provision for obligation in respect of short term benefits in the form of accumulated compensated absences.

Apart from the inclusion of the new policies and extended disclosures as required by these standards, the adoption of these standards has no material impact on the financial statements.

8.1.2 Basis of Accounting

The financial statements of the Group and of the Company are prepared on the historical cost basis except as disclosed in the notes to the financial statements in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

8.1.3 Basis of Consolidation

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiaries are consolidated using the acquisition method of accounting.

A subsidiary is excluded from consolidation when control is intended to be temporary as the subsidiary is acquired and held exclusively with a view of its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company. Subsidiaries excluded on these grounds are accounted for as investments.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed during the period are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Group financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or reserve on consolidation as appropriate.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



8.1.3 Basis of Consolidation (Cont'd)

Intragroup transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

8.1.4 Goodwill

Goodwill represents the excess of the cost of acquisition on consolidation is stated at cost less accumulated amortisation and accumulated impairment losses. Goodwill is written off to income statement in the year of acquisition.

Negative goodwill represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition. Negative goodwill is recognised as income during the year.

8.1.5 Investments

Long term investments other than in subsidiaries, are stated at cost. An allowance is made when the directors are of the view that there is a diminution in their value which is other than temporary.

Long term investments in subsidiaries and associates are stated at valuation/at cost, less impairment loss where applicable.

The Group revalues its long term investment in subsidiaries every five years and at shorter intervals whenever the fair value of the revalued investments is expected to differ materially from their carrying value.

Any surplus arising from revaluation is dealt with in the revaluation reserve. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase from the same investment. In all other cases, a decrease in the carrying amount is charged to the income statements.

Capital work-in-progress are stated at cost.

All other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment retired from active use and held for disposal are stated at the carrying amount at the date when the assets is retired from active use, less impairment losses, if any.

9. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in this Prospectus)



8.1.6 Property, Plant and Equipment (Cont'd)

Depreciation

Leasehold land is amortised over the respective lease periods ranging from 60 to 94 years.

Other property, plant and equipment, depreciation is calculated to write-off their costs on a straight line basis over the expected useful lives of the assets concerned at the following annual rates :

Buildings	2%
Plant and machinery	8 - 20%
Furniture, fittings and office equipment	10 - 20%
Motor vehicles	10 - 20%
Electrical installations	10%
Moulds	50%

8.1.7 Inventories

Inventories are stated at the lower of cost and net realisable value. For work-in-progress and manufactured inventories, cost consists of materials, direct labour and an appropriate proportion of fixed and variable production overheads and is determined on a weighted average basis. The cost of raw materials and trading inventories is determined on the first-in, first-out basis.

8.1.8 Trade and Other Receivables

Trade and other receivables are stated at cost less allowance for doubtful debts.

8.1.9 Provisions

A provision is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation (legal or constructive) as a result of a past event and a reliable estimate can be made of the amount.

8.1.10 Liabilities

Borrowings and trade and other payables are stated at cost.

8.1.11 Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statements, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)

**8.1.12 Accounting for Hire Purchase**

The assets and obligations arising from finance leases and hire purchase plans are recorded at the fair value of the assets at the beginning of the duration of the leases and hire purchase. The amount of the assets are depreciated over their expected useful lives consistent with the depreciation rates the Group adopts for depreciable assets that are owned.

The difference between the total minimum lease payments and hire purchase obligations over the duration of the hire purchase and the initial recorded liability which represents interest cost, is expensed off over the accounting periods covered by the duration of the borrowing using the "sum-of-digits" method.

8.1.13 Employee Benefits

Wages, salaries, short term benefits, bonuses and several security contribution are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised. When services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

8.1.14 Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

9. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in this Prospectus)



8.1.15 Foreign Currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Ringgit Malaysia at the foreign exchange rates ruling at the date of the transactions.

ii) Financial statements of foreign operations

The Group's foreign operations are not considered an integral part of the Company's operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Ringgit Malaysia at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Ringgit Malaysia at average exchange rates applicable throughout the period. Foreign exchange differences arising from retranslating the opening net investments in the foreign subsidiaries at the closing exchange rate are recognised directly to the Exchange Fluctuation Reserve.

The closing rates used in the translation of foreign currency monetary assets and liabilities and the financial statements of foreign operations are as follows :

	RM
1 USD	3.8000
1 SGD	2.2000
1000 Indonesian Rupiah	0.39

8.1.16 Revenue

i) Goods sold

Revenue from sale of goods is measured at the fair value of the consideration receivable and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

ii) Dividend income

Dividend income is recognised when the right to receive payment is established.

iii) Interest income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)

**8.1.17 Finance Costs**

All interest and other costs incurred in connection with borrowings are expensed as incurred.

8.1.18 Impairment

The carrying amount of the Company's assets, other than inventories and financial assets (other than investment in subsidiaries), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and it is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The reversal is recognised in the income statement.

8.1.19 Research and Development Expenditure

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is expensed to the income statement.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is expensed in the income statement as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



8.2 PROPERTY, PLANT AND EQUIPMENT

Audited

	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
Long term leasehold land	6,526	519	6,007
Short term leasehold land	420	23	397
Buildings	26,444	3,331	23,113
Plant and machinery	82,160	44,275	37,885
Furniture, fittings and office equipment	6,142	3,568	2,574
Motor vehicles	3,916	2,785	1,131
Electrical installations	3,398	1,495	1,903
Moulds	555	395	160
Capital work-in-progress	576	-	576
	<u>130,137</u>	<u>56,391</u>	<u>73,746</u>

Proforma

	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
Long term leasehold land	6,526	519	6,007
Short term leasehold land	420	23	397
Buildings	26,444	3,331	23,113
Plant and machinery	87,010	44,275	42,735
Furniture, fittings and office equipment	6,142	3,568	2,574
Motor vehicles	3,916	2,785	1,131
Electrical installations	3,398	1,495	1,903
Moulds	555	395	160
Capital work-in-progress	576	-	576
	<u>134,987</u>	<u>56,391</u>	<u>78,596</u>

Included in the cost of property, plant and equipment are those assets acquired under hire purchase and lease instalment plans amounting to RM2,153,112.

Certain property, plant and equipment with net book value of RM45,174,541 are charged to banks for facilities granted to the Group.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



8.3 INVENTORIES, at cost

	Audited/ Proforma
	RM'000
Raw materials	8,551
Work-in-progress	2,071
Manufactured inventories	4,823
Trading inventories	77
	<u>15,522</u>

8.4 TRADE AND OTHER RECEIVABLES

	Audited/ Proforma
	RM'000
Trade receivables	16,277
Other receivables, deposits and prepayments	3,784
	<u>20,061</u>

Included in other receivables, deposits and prepayments is an amount of RM 476,148 represent expenditure incurred in relation to the listing Exercise of the Company. These expenses are to be set-off against the share premium account upon successful listing of the Company's shares on the Main Board of the Kuala Lumpur Stock Exchange.

8.5 CASH AND CASH EQUIVALENTS

	Audited	Proforma
	RM'000	RM'000
Deposit with licence bank	1,821	1,821
Cash and bank balances	2,493	6,307
	<u>4,314</u>	<u>8,128</u>

Included in the deposits with licensed banks is an amount of RM1,000,000 pledged as collateral for banking facilities granted to certain subsidiaries.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



8.6 TRADE AND OTHER PAYABLES

	Audited	Proforma
	RM'000	RM'000
Trade payables	10,945	10,945
Dividend payable	7,500	7,500
Other payables and accruals	6,365	8,065
	<u>24,810</u>	<u>26,510</u>

8.7 BORROWINGS, secured

	Audited	Proforma
	RM'000	RM'000
Current		
Bank overdrafts	3,925	3,925
Bankers' acceptances	5,494	5,494
Term loans	5,780	556
Hire purchase obligations	446	446
	<u>15,645</u>	<u>10,421</u>
Non-Current		
Term loans	12,551	12,551
Hire purchase obligations	240	240
	<u>12,791</u>	<u>12,791</u>

8.7.1 Terms and conditions

The above bank borrowings are secured by way of fixed deposits of RM1.0 million and fixed and floating charges over the entire assets and are guaranteed jointly and severally by certain directors.

Interest is charged at rates ranging from 1.25% to 2.5% per annum above the respective banks' prevailing base lending rates.

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



8.7 BORROWINGS, secured

8.7.2 Repayment analysis

Lease/Hire purchase obligations – Audited/Proforma

	RM'000
Gross amount payable	815
Less : Interest-in-suspense	(129)
	<u>686</u>
Less : Amount payable within 12 months	(446)
	<u><u>240</u></u>

Interest is charged at flat rates varying between 4.70% to 6.25% per annum based on the principal sums financed over the periods of the obligations of up to 60 months.

	Audited RM'000	Proforma RM'000
Term loans	<u>18,331</u>	<u>13,107</u>
Analysis of repayments		
Within 1 year	5,780	556
From 1 to 2 years	5,198	5,198
From 2 to 5 years	7,353	7,353
	<u><u>18,331</u></u>	<u><u>13,107</u></u>

8.8 SHARE CAPITAL

	Audited RM'000	Proforma RM'000
Ordinary shares of RM1.00 each		
Authorised	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
Balance at 31 March 2003	4,785	4,785
Bonus issue	-	45,295
	<u>4,785</u>	<u>50,080</u>
Public issue/Private placement	-	9,920
	<u><u>4,785</u></u>	<u><u>60,000</u></u>

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



8.9 SHARE PREMIUM (Non-distributable)

	Audited RM'000	Proforma RM'000
Balance at 31 March 2003	7,968	7,968
Bonus issue	-	(7,968)
	<u>7,968</u>	<u>-</u>
Public issue/Private placement	-	2,268
	<u>7,968</u>	<u>2,268</u>

8.10 PROFORMA NET TANGIBLE ASSETS COVER

Based on the statement of assets and liabilities of the Luster Group as at 31 March 2003, the net tangible assets per share after bonus issue and public issue/private placement is calculated as follows: -

	RM '000
Net tangible assets as per the proforma Group's statement of assets and liabilities	<u>67,710</u>
Number of ordinary shares of RM1.00 each in issue ('000)	<u>60,000</u>
Net tangible assets per ordinary share of RM1.00 each (RM)	<u>1.15</u>

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



**9. CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED
31 MARCH 2003**

The consolidated cashflow of the Group for the three months ended 31 March 2003 is as follows:-

	Audited RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before taxation	376
Adjustments for :	
Depreciation	2,372
Interest expense	472
Interest income	-
Gain on disposal of plant and equipment	(15)
Gain on disposal of a subsidiary	(8)
Operating profit before working capital changes	3,197
Decrease/(Increase) in :	
Inventories	(3,916)
Trade and other receivables	3,945
Increase in :	
Trade and other payables	947
Cash generated from operating activities	4,173
Income tax paid	(642)
Interest paid	(472)
Net cash generated from operations	3,059
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	-
Purchase of property, plant and equipment	(2,368)
Proceeds from disposal of plant and equipment	15
Proceeds from disposal of a subsidiary	(432)
Net cash used in investing activities	(2,785)

9. ACCOUNTANTS' REPORT (Cont'd)
 (Prepared for inclusion in this Prospectus)



**9. CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED
 31 MARCH 2003 (Cont'd)**

	Audited RM'000
CASH FLOWS FROM FINANCING ACTIVITIES	
Bank borrowings, net	329
Repayment of lease and hire purchase obligations	(214)
Draw down of term loans	-
Repayment of term loans	(1,079)
Net cash generated from financing activities	(964)
Net decrease in cash and cash equivalents	(690)
Cash and cash equivalents at beginning of period	79
Cash and cash equivalents at end of period	(611)

Cash and cash equivalents comprise the following amounts :-

	RM'000
Short term deposits with licensed banks	820
Cash and bank balances	2,493
Bank overdrafts	(3,925)
	(611)

9. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in this Prospectus)



10. AUDITED FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to 31 March 2003.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'Jr' or similar.

KPMG
Firm No. AF 0758
Chartered Accountants

A large, stylized handwritten signature in black ink, appearing to be 'Ng Swee Weng'.

Ng Swee Weng
Partner
Approval Number : 1414/03/04 (J/PH)