

**LUSTER INDUSTRIES BHD.**  
**(Company No. 156148-P)**  
**(Incorporated in Malaysia)**  
**Notes to the interim financial report**

**1. Basis of preparation**

The interim financial report has been prepared un-audited and in compliance with FRS 134, Interim Financial Reporting and the additional disclosure requirements as in Part A of Appendix 9B of the Revised Listing Requirements.

The interim financial report should be read in conjunction with the most recent annual audited financial statements of the Luster Industries Bhd for the year ended 31 December 2008.

The accounting policies and methods of computation adopted by Luster Industries Bhd and its subsidiaries in this interim financial report are consistent with those adopted in the financial statements for the year ended 31 December 2008.

**2. Changes in accounting policies**

The Company adopted the following new and revised FRSs and IC Interpretations during the financial year ended (“FYE”) 31 December 2008: -

FRS 107, Cash Flow Statements

\*FRS111, Construction Contracts

FRS 112, Income Taxes

FRS 118, Revenue

\*FRS120, Accounting for Government Grants and Disclosure of Government Assistance

Amendment to FRS121, The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation.

FRS 134, Interim Financial Reporting

FRS 137, Provisions, Contingent Liabilities And Contingent Assets

\*IC Interpretation 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities.

\*IC Interpretation 2, Members’ Shares in Co-operative Entities and Similar Instruments.

\*IC Interpretation 5, Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.

\*IC Interpretation 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

\*IC Interpretation 7, Applying the Restatement Approach under FRS129<sup>2004</sup> Financial Reporting in Hyperinflationary Economies

IC Interpretation 8, Scope of FRS 2

The Group and the Company have not early adopted the following FRSs and IC Interpretations which are effective for financial periods beginning on or after 1 July 2009 and 1 January 2010.

Mandatory for financial period beginning on or after 1 July 2009:

FRS 8 Operating Segments

Mandatory for financial period beginning on or after 1 January 2010

\*FRS4 Insurance Contracts

FRS7 Financial Instruments: Disclosures

FRS139 Financial Instruments: Recognition and Measurement

\*IC Interpretation 9 Reassessment of Embedded Derivatives

IC Interpretation 10 Interim Financial Reporting and Impairment

*\* Not applicable to the Group and to the Company*

The impact of applying FRS 139 on the financial statements upon first adoption as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed by virtue of the exemption given in FRS 139.103AB.

The initial application of the other FRSs are not expected to have any material impact on the financial statements of the Group and of the Company.

**3. Auditors' qualification**

The audited report of the preceding annual financial statements of Luster Industries Bhd contained disclaimer of opinion on the uncertainties over its ability to continue as a going concern and the consolidation of Mctronic Industries Sdn Bhd was based on its draft audited financial statements which have yet to be approved by MISB's directors as of the date of the Independent Auditors' report.

**4. Seasonality or cyclicity factors**

The operations of the Group are subjected to seasonal orders throughout the reported period.

**5. Exceptional and extraordinary items**

There were no material exceptional and extraordinary items for the period under review.

**6. Change in estimates**

There was no material change in the estimates used for the preparation of this interim financial report.

**7. Change in debt and equity securities**

There was no change in debts and equity securities for the period under review.

**8. Dividends paid**

No dividend was paid for the current quarter ended 31 December 2009.

**9. Segment revenue and results**

The Company's primary format for reporting segment information is business segments. Revenue from external customers represents the sales value of goods supplied to customers, rental income, and income from mould modifications and sub-contracted fees.

Please refer to Appendix 1.

**10. Revaluation of property, plant and equipment**

The property, plant and equipment are stated at cost less accumulated depreciation.

**11. Material post balance sheet events**

Please refer to Note 22 status of corporate proposals.

## **12. Changes in Group's composition**

On 28 May 2009 Luster Industries Bhd ("LIB") entered into a conditional share transfer agreement ("STA") with Tan Meng Chai and Cherng Chooi Lian ("Transferees") for the disposal of its entire equity interest in Mctronic Industries Sdn Bhd ("MISB"), comprising 1,280,000 ordinary shares of RM1.00 each in MISB ("Said Shares"), representing 80% of the equity interest in MISB for a cash consideration of RM6,355,073 ("Consideration"). Separate announcement has been made on 29 May 2009.

Securities Commission has approved the above disposal.

Other than the above, there was no change in the composition of the Group for the current quarter.

## **13. Changes in contingent liabilities and assets**

There was no change in contingent liabilities and assets as at the date of this announcement.

## **14. Review of performance of the Company and its principal subsidiaries**

The cease of operation for trading and waste equipment segments and the disposal of both MY Flexitank Industries Sdn Bhd ("MYF"), a 60% owned subsidiary and Mctronic Group (Mctronic Industries Sdn Bhd and Mctronic Plastic Sdn Bhd), a 80% owned subsidiary have contributed to the reduction of the turnover from RM174.8 million in 2008 to RM35.9 million in 2009. However, the group recorded a lower loss after taxation of RM7.2 million in 2009 as compared to a loss after taxation of RM19.3 million in 2008. The higher loss after taxation in 2008 is mainly due impairment loss of RM 4.4 million and goodwill on consolidation written off of RM9.0 million.

The gross profit has improved by 2.3% from 6.2% in 2008 to 8.5% in 2009. This is mainly due to the Group's strategy to consolidate the manufacturing operation which has substantially reduced the overheads cost. The strategy has also improved the cash flow position of the Group by RM2.5 million. As at to-date, the company has paid off the overdue creditors of approximately RM13 million.

## **15. Variation of results against preceding quarter**

The Group revenue had marginally increased by approximately 2.3% from RM9.0 million in the preceding quarter to RM9.2 million in current quarter under review. However, the Group recorded a higher loss after tax of RM2.4 million as compared to RM2.0 million in the preceding period. This is mainly due to the higher finance costs of RM0.5 million in current quarter under review as a result of under provision in the preceding period.

## **16. Prospects**

The Board of Directors is optimistic and confident that, with the measures taken and the strategies put in place, the company is now on a stronger footing to face the business challenges and future ahead and achieving its target set. However, the approval of the restructuring scheme is crucial to further strengthen the financial position of the company.

## **17. Discontinued operation and disposal group classified as held for sale**

Major classes of assets and liabilities of disposal operation classified as held for sale on the consolidated balance sheet as at 31 December 2009 are as follows:

	Carrying Amount as at 31 Dec 2009		
	MYF#	MISB Group*	Total
	RM'000	RM'000	RM'000
<b>Assets</b>			
Property, plant and equipment	888	20,144	21,032
Intangible assets	1,595	-	1,595
Inventories	2,094	4,126	6,220
Trade and other receivables	4,324	13,032	17,356
Tax recoverable	73	-	73
Cash and bank balances	434	3,710	4,144
Assets of disposal group classified as held for sale	9,408	40,179	50,420
<b>Liabilities</b>			
Trade and other payables	6,412	17,048	23,460
Provision for taxation	-	1,085	1,085
Borrowings	2,447	13,769	16,216
Deferred taxation	-	796	796
Liabilities of disposal group classified as held for sale	8,859	32,698	41,557

# MYF: MY Flexitank Industries Sdn Bhd, a 60% owned subsidiary of Luster Precision Engineering Sdn Bhd which is a wholly owned subsidiary of Luster Industries Bhd ("LIB").

\* MISB Group: Mctronic Industries Sdn Bhd ("MISB") and its wholly owned subsidiary, Mctronic Plastic Sdn Bhd ("MPSB"). MISB is 80% owned subsidiary of LIB.

#### 18. Variance of profit forecast

Not applicable for this reporting.

#### 19. Tax expense

	Current year quarter ended 31 Dec 2009 RM'000	Previous year quarter ended 31 Dec 2008 RM'000
Current taxation		
- Based on results for the period	(91)	(936)
- Prior years	-	-
Deferred taxation	140	-
	<u>49</u>	<u>(936)</u>

#### 20. Profit/(Loss) on sale of unquoted investments and/or properties for current quarter and financial year-to-date

There was no sale of any unquoted investments and properties for the current quarter under review.

#### 21. Purchase or disposal of quoted securities

There was no material purchase or disposals of quoted shares for the period under review.

## 22. Status of corporate proposals

On 11 February 2010, the board of directors had announced that Bursa Malaysia Securities Berhad (“Bursa Securities”) had via its letter dated 10 February 2010, which was received on 11 February 2010, decided to reject the Proposals based on the reasons which are summarised as follows:

- (i) concerns on LIB’s ability to turnaround its financial results and operations in view that the Proposals involve LIB maintaining similar business activities;
- (ii) concerns on achievability of forecast in view of uncertain assumptions; and
- (iii) uncertainty on the Group’s ability to compete, increase and sustain revenue growth in the long term in view of the highly competitive industry.

The Board is of the opinion that the Proposals is in the best interest of the Company and its existing shareholders, and LIB would have no concerns over the reasons as mentioned above and would be providing additional justifications to Bursa Securities with an appeal.

## 23. Group borrowings and debts securities

There was no debt security for the current financial period to date.

The Group borrowings as at end of the current quarter end are as follows:

	31 Dec 2009 RM’000
Current	69,609
Non-current	2,497

The above borrowings are denominated in Ringgit Malaysia.

## 24. Off balance sheet financial instruments

The group did not enter into any contracts involving off balance sheet financial instruments as at the date of this report.

## 25. Changes in material litigation

Save as disclosed below, there is no pending or threatened litigation or any fact likely to give rise to the proceedings which might materially and adversely affect the business of LIB.

- **Tan Meng Chai & Cherng Chooi Lian (Plaintiffs) v. Luster Industries Bhd & Mctronic Industries Sdn Bhd (Defendants) - Muar High Court Civil Suit No: 22-71-2008**

The Plaintiffs have sought via the above suit that they are the beneficial owners of the disputed shares in Mctronic Industries Sdn Bhd.

Meanwhile, the Parties had on 28 May 2009 entered into an Agreement wherein upon completion of the Agreement, the parties shall instruct their solicitors to concurrently and/or jointly take all necessary actions to discontinue and/or withdraw the suit. The plaintiffs had on 8 February 2010 via their letter instructed their solicitor to discontinue the suit.

## 26. Proposed dividend

No dividend was proposed for the quarter ended 31 December 2009.

## 27. Earnings per share

The calculation of earnings per share for the current quarter and corresponding quarter last year are based on net loss after taxation and after minority interest of RM2.4 million and net loss after taxation and after minority interest of RM17.6 million respectively.

Basic earnings per share

Weighted average number of ordinary shares

Description	Unaudited Current year quarter ended 31-Dec-09	Unaudited Preceding year quarter ended 31-Dec -08	Unaudited Current year cumulative quarter ended 31-Dec -09	Unaudited Preceding year cumulative quarter ended 31-Dec -08
Issued ordinary shares at beginning of the period	61,183	61,183	61,183	61,183
Effect of ordinary shares Issued	-	-	-	-
Weighted average number of ordinary shares	61,183	61,183	61,183	61,183

**BY ORDER OF THE BOARD**

**Lam Voon Kean (MIA4793)**

Company Secretary

**Dated this 25th day of February 2010**