

**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 2009.

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 2009, except for the adoption of the following Financial Reporting Standards (“FRS”), amendments to FRSs and Issues Committee Interpretations (“IC Interpretations”) with effect from 1 January 2010.

Effective for financial periods beginning on or after 1 July 2009

FRS 8	Operating Segments
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Effective for financial periods beginning on or after 1 January 2010

Amendment to FRS 1	First-time Adoption of Financial Reporting Standards and FRS 127 Consolidated and Separate Financial Statements : Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
* Amendment to FRS 2	Share-based Payment. Amendments relating to vesting conditions and cancellations
* FRS 4	Insurance Contracts
Amendment to FRS 5	Non-current Assets Held for Sale and Discontinued Operations. Amendment relating to disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations
FRS 7	Financial Instruments : Disclosures
Amendment to FRS 7	Financial Instruments : Disclosures. Amendments relating to financial assets
Amendment to FRS 8	Operating Segments. Amendment relating to disclosure information about segment assets
FRS 101 (Revised 2010)	Presentation of Financial Statements
Amendment to FRS 107	Statement of Cash Flows. Amendment relating to classification of expenditures on unrecognised assets
Amendment to FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors. Amendment relating to selection and application of accounting policies
Amendment to FRS 110	Events After the Reporting Period. Amendment relating to reason for dividend not recognised as a liability at the end of the reporting period

Effective for financial periods beginning on or after 1 January 2010 (cont'd)

	Amendment to FRS 116	Property, Plant and Equipment. Amendment relating to derecognition of asset
	Amendment to FRS 117	Leases. Amendment relating to classification of leases
	Amendment to FRS 118	Revenue. Amendment relating to Appendix of this standard and recognition and measurement
	Amendment to FRS 119	Employee Benefits. Amendment relating to definition, curtailment and settlements
*	Amendment to FRS 120	Accounting for Government Grants and Disclosure of Government Assistance. Amendment relating to definition and government loan with a below market rate of interest
	FRS 123 (Revised 2010)	Borrowing Costs
	Amendment to FRS 123	Borrowing Costs. Amendment relating to components of borrowing costs
	Amendment FRS 127	Consolidated and Separate Financial Statements. Amendment relating to cost of an investment in a subsidiary, jointly controlled entity or associate
*	Amendment to FRS 128	Investment in Associates. Amendment relating to impairment losses in application of the equity method and the scope of this standard
*	Amendment to FRS 129	Financial Reporting in Hyperinflationary Economies. Amendment relating to changing of terms used
*	Amendment to FRS 131	Interests in Joint Ventures. Amendment relating to additional disclosure required for joint venture that does not apply FRS 131
	Amendment to FRS 132	Financial Instruments : Presentation. Amendment relating to puttable financial instruments
	Amendment to FRS 134	Interim Financial Reporting. Amendment relating to disclosure of earnings per share
	Amendment to FRS 136	Impairment of Assets. Amendment relating to the disclosure of recoverable amount
*	Amendment to FRS 138	Intangible Assets. Amendment relating to recognition of an expense
	FRS 139	Financial Instruments : Recognition and Measurement
	Amendments to FRS 139	Financial Instruments : Recognition and Measurements. Amendments relating to eligible hedged items, reclassification of financial assets and embedded derivatives
*	Amendment to FRS 140	Investment Property. Amendment relating to inability to determine fair value reliably
*	IC Interpretation 9	Reassessment of Embedded Derivatives
	IC Interpretation 10	Interim Financial Reporting and Impairment

Effective for financial periods beginning on or after 1 January 2010 (cont'd)

* IC Interpretation 11	FRS 2 - Group and Treasury Share Transactions
* IC Interpretation 13	Customer Loyalty Programmes
* IC Interpretation 14	FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

\* Not relevant to the Group and to the Company as at the reporting date.

The existing FRS 1, FRS 3 and FRS 127 will be withdrawn upon the adoption of the revised Standards which will take effect on 1 July 2010. FRS 201<sub>2004</sub> Property Development Activities shall be withdrawn on application of IC Interpretation 15. The effects of FRS 7 and FRS 139, if any, upon their initial recognition are exempted from disclosure.

The adoption of these new/revised FRS, amendments to FRS and IC Interpretations will have no material impact on the financial statements of the Group and of the Company in the period for initial application except for the following :

#### FRS 3 Business Combinations

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. All payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

#### FRS 7 Financial Instruments : Disclosures

FRS 7 and the consequential amendment to FRS 101 Presentation of Financial Statements require disclosure of information about the significance of financial instruments for the Group's and the Company's financial position and performance, the nature and extent of risks arising from financial instruments and the objectives, policies and processes for managing capital.

#### FRS 8 Operating Segments

FRS 8, which replaces FRS 114<sub>2004</sub> Segment Reporting, requires the identification of operating segments based on internal reports that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segments and to assess their performance. Currently, the Group presents segment information in respect of its business segments, which is also the basis of presenting its monthly internal management reports.

#### FRS 117 Leases

The amendments clarify that the classification of lease of land and require entities with existing leases of land and buildings to reassess the classification of land as finance or operating lease. Leasehold land which in substance is a finance lease will be reclassified to property, plant and equipment. The adoption of these amendments will result in a change in accounting policy which will be applied retrospectively in accordance with the transitional provisions.

As a result, certain comparatives of the statement of financial position as of 31 December 2009 have been restated as follows:

	<b>Balance Sheet As previously reported RM'000</b>	<b>Adjustments RM'000</b>	<b>Statement of Financial Position As restated RM'000</b>
Property, plant and equipment	37,265	4,677	41,942
Prepaid interest in leased land	4,677	(4,677)	-

#### FRS 123 Borrowing Costs (Revised)

FRS 123 (Revised) eliminates the option available under the previous version of FRS 123 to recognise all borrowing costs immediately as an expense. The Group and the Company shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

#### FRS 127 Consolidated and Separate Financial Statements

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. Losses are required to allocate to non-controlling interests, even if it results in the non-controlling interest to be in a deficit position.

#### FRS 139 Financial Instruments : Recognition and Measurement

FRS 139 establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. By virtue of the exemption in paragraph 103AB of FRS 139, the impact on the financial statements upon first adoption of this standard as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed, if any.

The following new and revised Financial Reporting Standards (“FRSs”) and Interpretations were issued but not yet effective and have not been early adopted by the Group and the Company :

Effective for financial periods beginning on or after 1 July 2010

	FRS 1 (Revised 2010)	First-time Adoption of Financial Reporting Standards
	Amendments to FRS 2	Share-based Payment. Amendments relating to the scope of the Standard
	FRS 3	Business Combinations
*	Amendments to FRS 5	Non-current Assets Held for Sale and Discontinued Operations. Amendment relating to the inclusion of non-current assets as held for distribution to owners in the standards
	FRS127	Consolidated and Separate Financial Statements
*	Amendments to FRS 138	Intangible Assets. Amendments relating to the revision to FRS 3
*	Amendments to IC Interpretation 9	Reassessment of Embedded Derivatives. Amendments relating to the scope of the IC and revision to FRS 3
*	IC Interpretation 12	Service Concession Arrangements

Effective for financial periods beginning on or after 1 July 2010 (cont'd)

*	IC Interpretation 15	Agreements for the Construction of Real Estate
*	IC Interpretation 16	Hedges of a Net Investment in a Foreign Operation
*	IC Interpretation 17	Distributions of Non-cash Assets to Owners

\* Not relevant to the Group and to the Company as at the reporting date.

## 2. Auditors' qualification

The audited report of the preceding annual financial statements of Luster Industries Bhd contained an emphasis of matter on the uncertainties over its ability to continue as a going concern. The going concern of the Group is dependent on the approval and successful implementation of the proposed Regularisation Plans.

## 3. Seasonality or cyclical factors

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

## 4. Exceptional and extraordinary items

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

## 5. Change in estimates

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

## 6. Change in debt and equity securities

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

## 7. Dividends paid

No dividend was paid for the current quarter ended 31 March 2010.

## 8. 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.

	Contract manufacturing		Others		Inter-segment elimination		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue from external customers	9,098	7,132	45	68	-	-	9,143	7,200
Inter-segment revenue	(111)	-	-	-	-	-	(111)	-
<b>Total</b>	<b>8,987</b>	<b>7,132</b>	<b>45</b>	<b>68</b>	<b>-</b>	<b>-</b>	<b>9,032</b>	<b>7,200</b>
Segment results (Profit after taxation)	(1,231)	(790)	(1,124)	63	-	-	(2,355)	(727)

#### **9. Revaluation of property, plant and equipment**

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

#### **10. Material post balance sheet events**

There was no material post balance sheet event subsequent to the period under review.

#### **11. 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.

As at 27 May 2010, the Company has received the balance cash consideration of RM4.0 million and the shares has been transferred to transferees.

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

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

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

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

The Group has recorded revenue of RM7.2 million and loss after taxation of RM0.7 million in previous year corresponding quarter. The revenue in current quarter under review was RM9.0 million and the loss after taxation was RM2.4 million. The different between the loss after taxation for current quarter under review and preceding year corresponding quarter were mainly due to the unrealised loss on foreign exchange incurred in current year under review of approximately RM0.4 million as compared to a gain of approximately RM0.4 million in preceding year corresponding quarter. Interest was also higher by approximately RM0.3 million as compared to current quarter under review due to the lower provision in 2009. The 2009 provision was based on a computation before confirmation from the banks. As announced last year, the valuation of the stock has also contributed to a lower loss in preceding year corresponding quarter.

In addition, the interest charged and provided for in the accounts for the FYE 2009 until the period of full compromise settlement of the debt as per the agreed debt restructuring scheme ( DRS ) will be waived by the Banks in line with their approvals of the DRS. This will improve our financial performance moving forward.

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

Revenue in current quarter under review was RM9.0 million as compared to RM9.2 million in preceding quarter. However, there was no variation in the loss recorded by the Group in both quarters.

## 15. Prospects

Even though the global economy has gradually shown positive signs of recovering in 2009, there are still many industries trying to find a way out of the global economic slowdown. For those industries that had managed to ride through the tough and turbulent economic conditions, many are still facing very challenging and competitive business environments.

Realizing the challenging and competitive business environment that the Group is in, we have and will be continuously taking steps to innovate and differentiate ourselves in order to stay competitive. This coupled with the strategies taken and the experiences gained over the past 23 years in the plastic industry and proven technical capabilities, the Group has been able to secure contracts from both local and MNC customers. This should augur well for the Group's future growth.

The Board believes that with its restructuring and strategies in place and barring any unforeseen circumstances, is cautiously optimistic that the Group will be able to deliver a better result in 2010.

## 16. 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 March 2010 are as follows:

	<b>MISB Group*</b>
	<b>RM'000</b>
<b>Assets</b>	
Property, plant and equipment	20,144
Intangible assets	-
Inventories	4,126
Trade and other receivables	13,032
Tax recoverable	-
Cash and bank balances	3,710
Assets of disposal group classified as held for sale	40,179
<b>Liabilities</b>	
Trade and other payables	17,048
Provision for taxation	1,085
Borrowings	13,769
Deferred taxation	796
Liabilities of disposal group classified as held for sale	32,698

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

## 17. Variance of profit forecast

Not applicable for this reporting.

## 18. Tax expense

	Current year quarter ended 31 Mar 2010 RM'000	Previous year quarter ended 31 Mar 2009 RM'000
Current taxation		
- Based on results for the period	7	29
- Prior years	-	-
Deferred taxation	-	-
	<u>7</u>	<u>29</u>

## 19. 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.

## 20. Purchase or disposal of quoted securities

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

## 21. Status of corporate proposals

The decision from Bursa Malaysia Securities Berhad pertaining to the appeal which was submitted by the Company on 4 March 2010 is still pending. Any further development will be announced in due course.

## 22. 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 Mar 2010 RM'000
Current	72,609
Non-current	<u>861</u>

The above borrowings are denominated in Ringgit Malaysia.

## 23. 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.

## 24. 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 (MISB).

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 26 May 2010 via their letter instructed their solicitor to discontinue the suit on 30 June 2010 when the case up for mention.

The shares of MISB have been transferred to the plaintiff and the balance cash consideration has been received on 27 May 2010.

## 25. Proposed dividend

No dividend was proposed for the quarter ended 31 March 2010.

## 26. 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 RM0.7 million respectively.

Basic earnings per share

Weighted average number of ordinary shares

Description	Unaudited Current year quarter ended 31-Mar-10	Unaudited Preceding year quarter ended 31-Mar-09	Unaudited Current year cumulative quarter ended 31-Mar-10	Unaudited Preceding year cumulative quarter ended 31-Mar-09
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 31st day of May 2010**