

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 MFRS 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 2011.

2. Changes in accounting policies

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 2011, 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 2012.

MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards
MFRS 2	Share-based Payment
MFRS 3	Business Combinations
MFRS 4	Insurance Contracts
MFRS 5	Non-current Assets Held for Sale and Discontinued Operations
MFRS 6	Exploration for and Evaluation of Mineral Resources
MFRS 7	Financial Instruments : Disclosures
MFRS 8	Operating Segments
MFRS 101	Presentation of Financial Statements
MFRS 102	Inventories
MFRS 107	Statement of Cash Flows
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
MFRS 110	Events After the Reporting Period
MFRS 111	Construction Contracts
MFRS 112	Income Taxes
MFRS 116	Property, Plant and Equipment
MFRS 117	Leases
MFRS 118	Revenue
MFRS 119	Employee Benefits
MFRS 120	Accounting for Government Grants and Disclosure of Government Assistance
MFRS 121	The Effects of Changes in Foreign Exchange Rates
MFRS 123	Borrowing Costs
MFRS 124	Related Party Disclosures
MFRS 126	Accounting and Reporting by Retirement Benefit Plans
MFRS 127	Consolidated and Separate Financial Statements
MFRS 128	Investments in Associates
MFRS 129	Financial Reporting in Hyperinflationary Economies
MFRS 131	Interests in Joint Ventures
MFRS 132	Financial Instruments : Presentation
MFRS 133	Earnings Per Share
MFRS 134	Interim Financial Reporting
MFRS 136	Impairment of Assets

MFRS 137	Provisions, Contingent Liabilities and Contingent Assets
MFRS 138	Intangible Assets
MFRS 139	Financial Instruments : Recognition and Measurement
MFRS 140	Investment Property
MFRS 141	Agriculture
IC Int 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IC Int 2	Members' Shares in Co-operative Entities and Similar Instruments
IC Int 4	Determining whether an Arrangement contains a Lease
IC Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IC Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
IC Int 7	Applying the Restatement Approach under MFRS 129 Financial Reporting in Hyperinflationary Economies
IC Int 9	Reassessment of Embedded Derivatives
IC Int 10	Interim Financial Reporting and Impairment
IC Int 12	Service Concession Arrangements
IC Int 13	Customer Loyalty Programmes
IC Int 14	MFRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IC Int 15	Agreements for the Construction of Real Estate
IC Int 16	Hedges of a Net Investment in a Foreign Operation
IC Int 17	Distributions of Non-cash Assets to Owners
IC Int 18	Transfers of Assets from Customers
IC Int 19	Extinguishing Financial Liabilities with Equity Instruments
IC Int 107	Introduction of the Euro
IC Int 110	Government Assistance – No Specific Relation to Operating Activities
IC Int 112	Consolidation – Special Purpose Entities
IC Int 113	Jointly Controlled Entities – Non-Monetary Contributions by Venturers
IC Int 115	Operating Leases – Incentives
IC Int 125	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders
IC Int 127	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IC Int 129	Service Concession Arrangements : Disclosures
IC Int 131	Revenue – Barter Transactions Involving Advertising Services
IC Int 132	Intangible Assets – Web Site Costs

The adoption of the above did not have any significant effects on the interim financial report upon their initial application.

3. 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 High Court's approval for the Capital Reduction and Share Premium Reduction and the successful implementation of the proposed Regularisation Plans.

4. Seasonality or cyclicity factors

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

5. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the period under review, other than the followings which is in relation to the Proposed Revised Regularisation Plan (“PRRP”):

- i. issuance of debt & equity securities as disclosed in Note 7; and
- ii. waiver of debts & interests by financial institutions amounting to RM17,588,602 and RM15,357,821 respectively.

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, other than the issuance of followings pursuant to the PRRP:

Ordinary Shares

Date of allotment	Transactions	Par value RM	No. of securities allotted ‘000	Cumulative ‘000
Balance b/f		1.00	61,183	61,183
05.04.2012	Capital reduction	(0.60)		
15.05.2012	Share split	0.10	244,732	244,732
05.06.2012	Debt settlement	0.10	289,229	533,961
05.06.2012	Rights issue	0.10	34,962	568,923
05.06.2012	Placement	0.10	39,878	608,801
05.06.2012	Winco Precision Engineering (Melaka) Sdn Bhd (“WPE”) acquisition	0.10	140,000	748,801
05.06.2012	Winco Precision Technologies Sdn Bhd (“WPT”) acquisition	0.10	30,000	778,801
05.06.2012	Exzone Plastics Manufacturers Sdn Bhd (“EPM”) acquisition	0.10	140,000	918,801
05.06.2012	Property, plant and equipment acquisition	0.10	160,000	1,078,801
26.06.2012	Exercise of ESOS	0.10	471	1,079,272

Warrants

Date of allotment	Transactions	Par value RM	No. of securities allotted ‘000	Cumulative ‘000
05.06.2012	Debt settlement	0.10	131,915	131,915
05.06.2012	Rights issue	0.10	69,923	201,838
05.06.2012	Placement	0.10	79,757	281,595
05.06.2012	Property, plant and equipment acquisition	0.10	160,000	441,595

Irredeemable convertible unsecured loan stocks (“ICULS”)

Date of allotment	Transactions	Par value	No. of securities allotted	Cumulative
		RM	‘000	‘000
05.06.2012	WPE acquisition	0.10	72,800	72,800
05.06.2012	WPT acquisition	0.10	28,200	101,000
05.06.2012	EPM acquisition	0.10	87,000	188,000

Redeemable convertible secured loan stocks (“RCSLS”)

Date of allotment	Transactions	Par value	No. of securities allotted	Cumulative
		RM	‘000	‘000
12.06.2012	Debt settlement	0.10	179,044	179,044

8. Dividends paid

No dividend was paid for in the current quarter under review.

9. Segment information

The segment information for the current period and corresponding period in preceding year were as follows:

	Contract manufacturing		Others		Inter-segment elimination		Consolidated adjustments		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000
Revenue from external customers	66,255	20,040	1,734	77	(1,494)	-	(37,619)	-	28,876	20,117
Segment results (Profit after taxation)	9,940	(1,439)	23,105	(1,834)	-	-	(3,705)	-	29,340	(3,273)

10. Revaluation of property, plant and equipment

The valuation of property, plant and equipment stated in the previous annual financial statements have been brought forward without amendment.

11. Material post balance sheet events

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

12. Changes in Group's composition

There were no changes in the composition of the Group for the current quarter except the followings:

The Company had on 05 June 2012 acquired the followings pursuant to the PRRP:

- i. 100% equity interest in WPE comprising 800,000 ordinary shares of RM1.00 each for a total purchase consideration of RM21,280,000 satisfied by issuance of 140,000,000 ordinary shares of RM0.10 each and 72,800,000 ICULS of RM0.10 each;
- ii. 80% equity interest in WPT comprising 703,168 ordinary shares of RM1.00 each for a total purchase consideration of RM5,820,000 satisfied by issuance of 30,000,000 ordinary shares of RM0.10 each and 28,200,000 ICULS of RM0.10 each; and
- iii. 59.13% equity interest in EPM comprising 3,725,000 ordinary shares of RM1.00 each for a total purchase consideration of RM22,700,000 satisfied by issuance of 140,000,000 ordinary shares of RM0.10 each and 87,000,000 ICULS of RM0.10 each.

13. Changes in contingent liabilities and assets

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

14. Capital commitments

There was no commitment for the purchase of property, plant and equipment incurred or known to be incurred for in the current quarter under review.

15. Review of performance of the Company and its principal subsidiaries

For the current quarter ended 30 June 2012, the Group recorded a consolidated profit after taxation of RM32.4 million as compared to a consolidated loss after taxation of RM1.3 million in previous year corresponding quarter, on a revenue of RM20.0 million and RM10.6 million respectively. The higher revenue is mainly due to the acquisition of Exzone and Winco in June 2012. The higher consolidated profit after taxation in current quarter under review is mainly due to the waiver of debts and interests pursuant to the PRRP amounting to RM17.6 million and RM15.3 million respectively. Exzone and Winco had recorded a post-acquisition profit after taxation of RM1.2 million and RM0.3 million respectively which had also contributed to the higher consolidated profit after taxation for the current quarter under review.

Luster's revenue for current quarter was RM11.6 million as compared to RM10.6 million for the previous year corresponding period. The profit after taxation was RM30.8 million in current quarter under review as compared to a loss after taxation of RM1.3 million in previous year corresponding quarter which was mainly due to the waiver of debts and interests abovementioned.

The revenue in Exzone and Winco were RM6.1 million and RM2.2 million respectively in current quarter. The profit after taxation for Exzone and Winco were RM1.3 million and RM0.3 million respectively in current quarter.

16. Variation of results against preceding quarter

The revenue for current quarter was RM20.0 million as compared to RM9.0 million in preceding quarter. The higher revenue is mainly due to the inclusion of post-acquisition revenue of Exzone and Winco in June 2012. The profit after taxation was RM32.4 million in current quarter as compared to loss after taxation of RM3.0 million in preceding quarter was mainly due to the waiver of debts and interests and post-acquisition profit from Exzone and Winco.

Luster's revenue for current quarter was RM11.6 million as compared to RM9.0 million in preceding quarter due to the seasonal factor. The profit after taxation was RM30.8 million in current quarter under review as compared to a loss after taxation of RM3.0 million in previous year corresponding quarter which was mainly due to the waiver of debts and interests.

17. Prospects

Notwithstanding the challenging global and domestic economic outlook over the past few years and the Company's position as a PN17 company, the Group has been able to maintain its existing customers, which comprise brand owners including multinational companies. As the Group's products are ultimately exported, the uncertainties of the Global economy especially in the European Union, United States of America and Japan, our future business condition remains challenging in the next 12 months. The Group will continue its effort to manage costs and increase operational efficiency and continue to rationalise its operations in order to stay competitive. While the Global economy still presents with much uncertainties, the Group had managed to obtain few business enquiries in 2012 which if materialise will augur well for the Group's future growth.

The management continues to take steps to differentiate the Group from its competitors in order to command a stronger and leading position in the market. The Board believes that with the corporate exercises completed, the Group is in a better position to take advantage of the burgeoning opportunities in these regions.

The acquisition of WPE, WPT and EPM provides the Group a synergistic platform which will further enhance the Group's engineering and manufacturing capabilities. These will augur well for the Group's future growth. As both LIB and the Acquiree Companies service the key sub-sectors and supporting industries to the E&E industry, the enlarged Group will be able to provide a broader range of products and value-added services to better service the Group's customers in the E&E industry. In addition, the enlarged Group will also be able to leverage on the shared technological expertise, network and customer base of the Acquiree Companies.

The acquisition of the machinery and equipment and construction costs to expand the existing facilities of Luster Precision Engineering Sdn Bhd and Luster Plastic Industries Sdn Bhd as announced on 30 December 2011 are undertaken to enable the Group to move into higher value added manufacturing in the automotive market and high-end medical instruments, devices and parts, in line with the Group's future plans. By moving into the higher value added manufacturing, LIB will be able to generate better returns and differentiate itself from other plastic injection players. This would also strengthen customer loyalty, as it will be more difficult for customers to find other companies which are able to provide similar service as the Group. In addition, with the participation of Koike Precision Sdn Bhd ("KPSB") and LIMA Corporation Sdn Bhd ("LCSB"), the Group will be able to tap into the business networks of KPSB and LCSB that require the manufacturing services of LIB Group. KPSB will also be able to provide an in-road into the Japanese market and also to further strengthen LIB's relationship with its existing Japanese customers.

The Group is expected to start the production of the new projects in FYE2012 and with the strategies taken above, the Board expects that the Group will be able to deliver better results.

18. Variance of profit forecast

No profit forecast was published for the current quarter and financial year-to-date except for the vendors of EPM, WPE and WPT had provided a profit guarantee of RM4.8 million, RM2.7 million and RM0.9 million respectively for the FYE 2011 and FYE 2012.

The profit guarantee for FYE 2011 had been met.

19. Tax expense

	Current year period ended 30.06.2012 RM'000	Previous year period ended 30.06.2011 RM'000
Current taxation		
- Based on results for the period	485	13
- Prior years	-	-
Deferred taxation	-	-
	<u>485</u>	<u>13</u>

20. Status of corporate proposals

The board of directors had on 01 August 2012 announced that the PRRP had been completed on 12 June 2012. Please refer to the announcement dated 12 June 2012 for further information.

The Company will make an application to Bursa Malaysia Securities Berhad for an upliftment from its PN17 status upon recording a net profit in two (2) consecutive quarters immediately after the completion and implementation of the PRRP.

21. Group borrowings and debts securities

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

	30.06.2012 RM'000
Non-current	<u>14,444</u>
Current	<u>7,768</u>

The above borrowings are denominated in Ringgit Malaysia.

22. Changes in material litigation

There was no pending or threatened litigation or any fact likely to give rise to the proceedings which might materially and adversely affect the business of the Company.

23. Proposed dividend

No dividend was proposed for in the current quarter under review.

24. Earnings/(Losses) per share

	Current year quarter ended 30.06.2012	Previous year quarter ended 30.06.2011	Current year period ended 30.06.2012	Previous year period ended 30.06.2011
<u>Earnings</u>				
Profit attributable to owners of the parent (RM'000)	31,899	(1,313)	28,867	(3,268)
<u>Basic</u>				
Number of Ordinary Shares b/f @RM1.00 each ('000)	61,183	61,183	61,183	61,183
Capital reduction @RM0.40 each ('000)	-	-	-	-
Share split @RM0.10 each ('000)	244,732	-	244,732	-
Number of Ordinary Shares b/f @RM0.10 each (2012)/ @RM1.00 each (2011) ('000)	244,732	61,183	244,732	61,183
Issuance of shares pursuant to PRRP @RM0.10 each ('000)	114,570	-	114,570	-
Issuance of shares pursuant to ESOS @RM0.10 each ('000)	3	-	3	-
Weighted average number of Ordinary Shares @RM0.10 each (2012)/ @RM1.00 each (2011) ('000)	359,305	61,183	35,930	61,183
Basic earning per share (sen)	8.88	(2.15)	8.03	(5.35)
	Current year quarter ended 30.06.2012	Previous year quarter ended 30.06.2011	Current year period ended 30.06.2012	Previous year period ended 30.06.2011
<u>Diluted</u>				
Weighted average number of Ordinary Shares @RM0.10 each (2012)/ @RM1.00 each (2011) ('000)	35,930	61,183	35,930	61,183
ICULS	2,582	-	2,582	-
RCSLS	1,771	-	1,771	-
Warrants	60,659	-	60,659	-
ESOS	3,368	-	3,368	-
Adjusted average number of Ordinary Shares @RM0.10 each (2012)/ @RM1.00 each (2011) ('000)	104,310	61,183	104,310	61,183
Diluted earning per share (sen)	3.06	(2.15)	2.77	(5.35)

25. Profit before tax

	Current year quarter ended 30.06.2012 RM'000	Previous year quarter ended 30.06.2011 RM'000	Current year period ended 30.06.2012 RM'000	Previous year period ended 30.06.2011 RM'000
Profit before tax is arrived at after charging/(crediting):				
Bad debts	9	-	9	-
Depreciation of property, plant and equipment	614	533	1,019	1,106
Impairment loss on inventories	627	-	627	-
Impairment loss on receivables	1,236	-	1,236	-
Interest expense	1,006	1,402	2,477	2,789
Interest expense waived (current year)	(2,453)	-	(2,453)	-
Interest income	(27)	(3)	(34)	(11)
Loss/(gain) on disposal of property, plant and equipment	(193)	(70)	(346)	(70)
Realised loss/(gain) on foreign exchange	10	45	(3)	102
Rental income	(10)	-	(10)	-
Unrealised loss/(gain) on foreign exchange	136	(54)	265	-
Waiver of debt	(17,589)	-	(17,589)	-
Waiver of interest	(15,358)	-	(15,358)	-

Other than the above items, there were no gain or loss on disposal of quoted or unquoted investments, impairment of assets, gain or loss on derivatives and exceptional items for the current quarter.

26. Breakdown of realised and unrealised profits/(losses)

The breakdown of accumulated profit/(losses) of the Group as at the reporting date, into realised and unrealised losses, as disclosed pursuant to the directive issued by Bursa Malaysia Securities Berhad ("Bursa Malaysia") on 25 March 2010, is as follows :

	Unaudited 30.06.2012 RM'000	Audited 31.12.2011 RM'000
Accumulated losses of the Group		
- Realised	(19,372)	(105,382)
- Unrealised	(265)	(69)
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	(19,637)	(105,452)
Less : Consolidation adjustments	(4,462)	15,785
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Accumulated losses	(24,099)	(89,667)
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The determination of realised and unrealised profits is based on the Guidance of Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised losses above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

BY ORDER OF THE BOARD

Liang Wooi Gee

Executive Director

Dated this 27th day of August 2012