NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

Part A - Explanatory Notes Pursuant To MFRS 134

1. First-time Adoption of Malaysian Financial Reporting Standards ("MFRS")

The condensed consolidated interim financial statements ("Report") are unaudited and have been prepared in accordance with MFRS 134: Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. For the periods up to and including the financial year ended 31 December 2011, the Group prepared its financial statements in accordance with Financial Reporting Standards ("FRSs").

The interim financial report should be read in conjunction with the most recent annual audited financial statements of the Group for the financial year ended 31 December 2011.

The explanatory notes attached to this Report provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2011.

In preparing the opening MFRS Statement of Financial Position as at 1 January 2011 (which is also the date of transition), the Group has adjusted certain amounts previously reported in financial statements prepared in accordance with FRS. An explanation of how the transition from FRS to MFRS has affected the Group's financial position is set out in Note 2.1 below.

2. Significant accounting policies

2.1 Application of MFRS 1

The audited financial statements of the Group for the financial year ended 31 December 2011 were prepared in accordance with FRS. As the requirements under FRS and MFRS are similar, the significant accounting policies adopted in preparing this Report are consistent with those of the audited financial statements for the financial year ended 31 December 2011 except as discussed below:

Foreign currency translation reserve

Under FRS, the Group recognised translation differences on foreign operations as a separate component of equity. Cumulative foreign currency translation differences for all foreign operations are deemed to be nil as at the date of transition to MFRS.

Accordingly, at the date of transition to MFRS, the cumulative foreign currency translation differences of RM30,007 as at 1 January 2011 was adjusted to accumulated losses as at that date as well as at 30 September 2011 and 31 December 2011.

The reconciliations of equity for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS are provided as below:

Reconciliation of equity as at 1 January 2011

RM'000	**FRS as at 1.1.11**	**Reclassifications**	**MFRS as at 1.1.11**
Equity			
Foreign currency translation reserve	(30)	30	-
Accumulated losses	(83,172)	(30)	(83,202)

Reconciliation of equity as at 30 September 2011

RM'000	**FRS as at 30.9.11**	**Reclassifications**	**MFRS as at 30.9.11**
Equity			
Foreign currency translation reserve	(24)	30	6
Accumulated losses	(87,678)	(30)	(87,708)

Reconciliation of equity as at 31 December 2011

RM'000	**FRS as at 31.12.11**	**Reclassifications**	**MFRS as at 31.12.11**
Equity			
Foreign currency translation reserve	(22)	30	8
Accumulated losses	(89,667)	(30)	(89,697)

2.2 **Standards issued but not yet effective**

At the date of authorisation of this Report, the following Malaysian Financial Reporting Standards ("MFRSs"), Amendments to MFRSs and IC Interpretation ("IC Int") were issued but not yet effective and have not been applied by the Group:

MFRSs, Amendments to MFRSs and IC Interpretation		**Effective date**
Amendments to MFRS 101	Presentation of Financial Statements. Amendments in Relation to Presentation of Items of Other Comprehensive Income	1 July 2012
MFRS 10	Consolidated Financial Statements	1 January 2013
MFRS 11	Joint Arrangements	1 January 2013
MFRS 12	Disclosure of Interests in Other Entities	1 January 2013
MFRS 13	Fair Value Measurement	1 January 2013
MFRS 119	Employee Benefits (International Accounting Standard ("IAS") 19 as amended by IASB in June 2011)	1 January 2013
MFRS 127	Separate Financial Statements	1 January 2013
MFRS 128	Investments in Associates and Joint Ventures	1 January 2013
Amendments to MFRS 1	Government Loans	1 January 2013
Amendments to MFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
IC Int 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities	1 January 2014
MFRS 9	Financial Instruments (IFRS 9 issued by IASB in November 2009 and October 2010)	1 January 2015

3. **Auditors' qualification of preceding annual financial statements**

The auditors' report on the financial statements for the financial year ended 31 December 2011 contained an emphasis of matter on the uncertainties which may cast significant doubt about the Group's ability to continue as a going concern which is dependent on the High Court's approval for the Capital Reduction and Share Premium Reduction and the successful implementation of the Proposed Revised Regularisation Plan.

4. **Seasonality or cyclicality factors**

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

5. **Unusual items**

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period under review.

6. **Changes in accounting estimates**

There were no material changes in estimates of amounts reported in the prior financial year that have a material effect in the current quarter and financial period to date results.

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

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the quarter under review other than the issuance of 8,405,000 new ordinary shares of RM0.10 each pursuant to the Employees Shares Option Scheme ("ESOS").

8. **Dividend paid**

No dividend was paid during the current quarter under review.

9. **Segmental information**

Segmental information is presented in respect of the Group's business segments.

	9 months ended 30.9.12 (RM'000)	**9 months ended 30.9.11 (RM'000)**
Segment Revenue		
Contract manufacturing	64,588	33,927
Others	2,620	2,562
Total revenue including inter-segment sales	67,208	36,489
Elimination of inter-segment sales	(2,470)	(2,206)
Total revenue to external customers	64,738	34,283

	9 months ended 30.9.12 (RM'000)	9 months ended 30.9.11 (RM'000)
Segment Results		
Contract manufacturing	12,465	(2,278)
Others	23,703	(2,208)
Total results	36,168	(4,486)
Elimination	(4,145)	-
Profit/(Loss) before taxation	32,023	(4,486)
Taxation	(780)	(20)
Profit/(Loss) for the period	31,243	(4,506)

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

There were no changes in the valuation of property, plant and equipment since the last audited financial statements for the financial year ended 31 December 2011.

11. **Material subsequent events**

There were no material events subsequent to the quarter under review other than the following:

On 7 November 2012, the Board of Directors had announced that its two dormant wholly-owned subsidiaries, Luster Electronics (M) Sdn. Bhd. ("LE") and YTS Industries (M) Sdn. Bhd. ("YTS"), have submitted the strike off application ("Strike Off") to Suruhanjaya Syarikat Malaysia pursuant to Section 308 of the Companies Act, 1965.

The purpose of the Strike Off is to rationalise and streamline the Group's structure. It is not expected to have any material impact on the earnings and net assets of the Group for the financial year ending 31 December 2012.

Barring any unforeseen circumstances, the Strike Off is expected to be completed by the fourth quarter of financial year ending 31 December 2013.

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

There were no changes in the composition of the Group for the current quarter under review.

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

There were no changes in contingent liabilities and assets as at the date of this Report.

14. **Capital commitments**

The outstanding capital commitment as at the end of the current quarter is as follows:

	RM'000
Contracted but not provided for:	
- Property, plant and equipment	3,251

Part B - Explanatory Notes Pursuant To Appendix 9B Of The Listing Requirements Of Bursa Malaysia Securities Berhad

1. **Review of performance**

	Individual Quarter 3 Months Ended		Cumulative Quarter 9 Months Ended	
	(Unaudited) 30.9.12 RM'000	**(Unaudited) 30.9.11 RM'000**	**(Unaudited) 30.9.12 RM'000**	**(Unaudited) 30.9.11 RM'000**
Revenue	35,862	14,166	64,738	34,283
Profit/(Loss) before taxation	2,198	(1,226)	32,023	(4,486)

Comparison with Corresponding Quarter in Previous Year

Subsequent to the corporate exercise involving the acquisition of Exzone Plastics Manufacturers Sdn. Bhd. ("EPM") and Imetron (M) Sdn. Bhd. (collectively refer to as "Exzone"), and Winco Precision Engineering (Melaka) Sdn. Bhd. ("WPE") and Winco Precision Technologies Sdn. Bhd. ("WPT") (collectively refer to as "Winco"), the Group had recorded higher revenue of RM35.9 million for the current quarter under review as compared to RM14.2 million in previous year corresponding quarter.

The enlarged Group had also recorded higher PBT of RM2.2 million for the current quarter under review as compared to LBT of RM1.2 million in previous year corresponding quarter.

Comparison with Corresponding Financial Period To Date in Previous Year

With the acquisition of the new subsidiaries as stated above, Group's revenue had increased by 88.8% from RM34.3 million in preceding year's corresponding period to RM64.74 million in current reporting period. The substantial increase in PBT as compared to a loss of RM4.5 million recorded in the previous year corresponding period is due mainly to the waiver of debts and interest pursuant to the successful implementation of the Proposed Revised Regularisation Plan and the positive contributions from Exzone and Winco.

2. **Variation of results against preceding quarter**

In the preceding quarter, the newly acquired subsidiaries, Exzone and Winco, contributed only one month of revenue to the Group as compared to a full three months contribution in the current quarter under review. This has resulted in the increase in revenue from RM19.9 million in preceding quarter to RM35.9 million in current quarter under review. .

However the Group achieved much higher PBT in the preceding quarter of RM32.9 million as compared to RM2.2 million in the current quarter under review mainly due to waiver of debts and interest pursuant to the successful implementation of the Proposed Revised Regularisation Plan.

3. **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, could impact the Group's future business condition to remain challenging in the next 12 months. The Group will carry on with its effort in managing costs and increasing operational efficiency, as well as rationalising its operations in order to stay competitive in the market. While the global economy still presents with much uncertainties, the Group had managed to obtain a few business enquiries in year 2012 of which if materialise will augur well for the Group's future growth.

The management continues to take steps in differentiating the Group from its competitors in order to command a stronger and leading position in the market. The Board believes that with the successful implementation of the Group's Regularisation Plan, it is in a better position to take advantage of the burgeoning opportunities in these regions.

The acquisitions of new subsidiaries, Exzone and Winco, provide the Group a synergistic platform which will further enhance the Group's engineering and manufacturing capabilities. This will also augur well for the Group's future growth. As both the Group and the newly acquired subsidiaries service the key sub-sectors and supporting industries to the Electronic and Engineering industry, a broader range of products and value-added services can be provided proficiently to better service the Group's customers in the industry. In addition, the enlarged Group will also be able to leverage on the shared technological expertise, network and customer base of the newly acquired subsidiaries.

The acquisitions of machineries and equipment, and construction costs incurred to expand the existing facilities of the Group's existing subsidiaries, Luster Precision Engineering Sdn. Bhd. and Luster Plastic Industries Sdn. Bhd., as announced on 30 December 2011 were undertaken to enable the Group to move towards higher value added manufacturing activities for the automotive and medical instruments and devices sectors to be in line with the Group's future plans. Consequently, the Group will be able to generate better returns and differentiate itself from other plastic injection players in the market. Indeed, its differentiation position would strengthen customers' loyalty as similar services provided by the Group can hardly be obtainable from other competitors in the market. In addition, with the participations 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 the Group. KPSB could also provide an in-road into the Japanese market, thus further strengthen the Group's relationship with its existing Japanese customers.

In light of the above developments, the Board expects the Group to deliver better performance for the last quarter of the financial year.

4. **Variance of profit forecast**

No profit forecast was published for the current quarter and financial year to date, except for the profit guarantees provided by the vendors of EPM, WPE and WPT of RM4.8 million, RM2.7 million and RM0.9 million respectively for the financial year ended 2011 and financial year ending 2012 which was announced in the Circular to shareholders dated 31 January 2012. The profit guarantees for financial year ended 2011 had been met.

5. **Taxation**

	Individual Quarter 3 Months Ended		**Cumulative Quarter 9 Months Ended**	
	(Unaudited) 30.9.12 RM'000	**(Unaudited) 30.9.11 RM'000**	**(Unaudited) 30.9.12 RM'000**	**(Unaudited) 30.9.11 RM'000**
Current taxation				
- Based on results for the period	(295)	(7)	(780)	(20)
Deferred taxation	-	-	-	-
	(295)	(7)	(780)	(20)

The Group's effective tax rate for the current quarter and cumulative quarter ended 30 September 2012 was lower than the statutory tax rate of 25% due to utilisation of unabsorbed tax losses, capital allowances,, reinvestment allowance and increase in export allowance.

6. **Profit/(Loss) before taxation**

	Individual Quarter 3 Months Ended		Cumulative Quarter 9 Months Ended	
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
	30.9.12	**30.9.11**	**30.9.12**	**30.9.11**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Profit/(Loss) before taxation is arrived at after charging/ (crediting):				
Bad debts	-	-	9	-
Depreciation	1,050	510	2,069	1,616
Impairment loss on inventories	-	-	627	-
Impairment loss on receivables	-	-	1,236	-
Interest expense	271	1,480	2,748	4,269
Interest expense waived	-	-	(2,453)	-
Interest income	(54)	(4)	(88)	(15)
Loss/(Gain) on disposal of property, plant and equipment	25	-	(321)	(70)
Realised loss/(gain) on foreign exchange	108	(6)	105	96
Rental income	23	-	13	-
Unrealised loss/(gain) on foreign exchange	260	(520)	525	(520)
Waiver of debt	-	-	(17,589)	-
Waiver of interest	-	-	(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 as well as other exceptional items incurred for the current quarter under review.

7. **Status of corporate proposals**

The Board of Directors ("Board") had on 12 June 2012 announced that the Group's Proposed Revised Regularisation Plan ("PRRP") had been completed.

On 2 July 2012, the Board had announced that the Group will make an application to Bursa Malaysia Securities Berhad for an upliftment from its PN17 status upon recording a net profit in two consecutive quarters immediately after the completion and implementation of the PRRP.

8. **Borrowings and debts securities**

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

	RM'000
Secured:	
Short term	
Bank overdraft	679
Bankers acceptance	301
Finance lease liabilities	660
Redeemable convertible secured loan stocks	4,646
Term loans	128
	6,414
Secured:	
Long term	
Finance lease liabilities	1,341
Redeemable convertible secured loan stocks	12,739
Term loans	552
	14,632

The above borrowings are denominated in Ringgit Malaysia.

9. **Material litigation**

There were no pending or threatened litigations or any facts likely to give rise to the proceedings which might materially and adversely affect the business of the Group.

10. **Proposed dividend**

No dividend was proposed for the current quarter under review.

11. **Earnings per share**

The basic earnings per share for the current quarter and cumulative period to date are computed as below:

	Individual Quarter 3 Months Ended		Cumulative Quarter 9 Months Ended	
	30.9.12	**30.9.11**	**30.9.12**	**30.9.11**
Profit/(Loss) attributable to owners of the parent (RM'000)	628	(1,233)	29,486	(4,506)
Number of issued ordinary shares of RM1.00 each at beginning (‘000)	61,183	61,183	61,183	61,183
Effect of share split of RM0.10 each ('000)	183,549	183,549	183,549	183,549
Adjusted number of issued ordinary shares of RM0.10 each ('000)	244,732	244,732	244,732	244,732
Effect of shares issued pursuant to PRRP ('000)	356,154	-	356,154	-
Effect of shares issued pursuant to ESOS ('000)	2,869	-	2,869	-
Weighted average number of issued ordinary shares of RM0.10 each ('000)	603,755	244,732	603,755	244,732
Basic earnings/(loss) per share (sen)	0.10	(0.50)	4.88	(1.84)

Based on the 30-days weighted average market price of share of Luster Industries Bhd. up to 28 September 2012, the Irredeemable Convertible Unsecured Loan Stocks (“ICULS”), Redeemable Convertible Secured Loan Stocks (“RCSLS”), ESOS options granted to employees and warrants issued are anti-dilutive. Therefore, there is no calculation of diluted earnings/(loss) per share for the current period based on the assumption of non-exercise of the above securities.

12. **Realised and unrealised accumulated losses**

	30.9.12 (RM’000)	**31.12.11 (RM’000)**
Total accumulated losses of the Company and its subsidiaries		
- Realised	(14,001)	(105,413)
- Unrealised	(3,324)	(69)
	(17,325)	(105,482)
Less: Consolidation adjustments	(6,176)	15,785
Total accumulated losses of the Group	(23,501)	(89,697)

BY ORDER OF THE BOARD
Liang Wooi Gee
Executive Director
Dated this 26th day of November 2012