

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

Part A - Explanatory Notes Pursuant To MFRS 134

1. Basis of preparation

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.

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 2012.

2. Significant accounting policies

2.1 Application of MFRS 1

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”).

MFRSs, Amendments to MFRSs and IC Interpretation		Effective date
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

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

3. Auditors' qualification of preceding annual financial statements

The auditors' report on the financial statements for the financial year ended 31 December 2012 was not qualified.

4. Seasonality or cyclicity factors

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

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 current quarter under review and financial year to date other than the issuance of 415,000 new ordinary shares of RM0.10 each pursuant to the Employees Shares Option Scheme ("ESOS") in current quarter.

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.

	3 months ended 31.03.13 (RM'000)	3 months ended 31.03.12 (RM'000)
Segment Revenue		
Contract manufacturing	29,654	8,882
Others	744	813
Total revenue including inter-segment sales	<u>30,398</u>	<u>9,695</u>
Elimination of inter-segment sales	<u>(744)</u>	<u>(738)</u>
Total revenue to external customers	<u>29,654</u>	<u>8,957</u>
Segment Results		
Contract manufacturing	1,727	(2,403)
Others	(76)	(632)
Total results	<u>1,651</u>	<u>(3,035)</u>
Elimination	<u>-</u>	<u>-</u>
Profit/(Loss) before taxation	<u>1,651</u>	<u>(3,035)</u>
Taxation	<u>(661)</u>	<u>-</u>
Profit/(Loss) for the year	<u>990</u>	<u>(3,035)</u>

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 2012.

11. Material subsequent events

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

The Board of Directors had on 9 May 2013 announced that the Company has just received notification from the Registrar of Companies on the struck off of the name of YTS Industries Sdn Bhd.

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 contingent liabilities and assets as at the date of this Report.

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 3 Months Ended	
	(Unaudited) 31.03.13 RM'000	(Unaudited) 31.03.12 RM'000	(Unaudited) 31.03.13 RM'000	(Unaudited) 31.03.12 RM'000
Revenue	29,654	8,957	29,654	8,957
Profit/(Loss) before Taxation	1,651	(3,035)	1,651	(3,035)

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”), 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 RM29.7 million for the current quarter under review as compared to RM9.0 million in previous year corresponding quarter.

The enlarged Group had also recorded higher profit before taxation (“PBT”) of RM1.7 million for the current quarter under review as compared to loss before taxation (“LBT”) of RM3.0 million in previous year corresponding quarter.

The Group strategy to penetrate into the automotive industry has also contributed positively to the revenue and profitability.

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 231.1% from RM9.0 million in preceding year’s corresponding period to RM29.7 million in current reporting period. The increase in PBT as compared to a LBT of RM3.0 million recorded in the previous year corresponding period was mainly due to the contributions from the new subsidiaries and the automotive products.

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

The revenue had decreased from RM33.8 million in preceding quarter to RM29.7 million in current quarter under review mainly due to the seasonal factor.

The Group achieved higher PBT in the current quarter under review of RM1.7 million as compared to RM1.4 million in the preceding quarter mainly due to start off cost for the new projects charged out in preceding quarter.

3. **Prospects**

After the capital reconstruction and the acquisition of new production facilities in FYE2012, the Group financial position, engineering and production capabilities are enhanced. These had provided the Group the competitive edge in securing new projects in 2012. Among the projects that were secured were hygiene products and sputtering process for automotive lamp. The production of the hygiene products are expected to commence end of May 2013. The capacity requirement for sputtering process has increased whereby Luster Precision Engineering Sdn Bhd, a wholly owned subsidiary of LIB, has invested in a unit of vacuum metalizing machine to metalising the automotive lamp. These projects are expected to contribute significantly to the Group revenue and profitability.

Moving forward, apart from the automotive industry, the Group is currently carrying out a feasibility study on micro-injection moulding and double injection moulding to penetrate into the market of medical, life science and precision instrument. With these strategies in place, the Group will be able to broaden and tap into the bigger business opportunity in these sectors.

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 couple with the new production facilities, the Group will be in a better platform to take advantage of the business opportunities in these regions.

In light of the above developments, the Board expects the Group to deliver better performance in financial year 2013.

4. **Variance of profit forecast**

No profit forecast was published for the current quarter and financial period to date.

5. Taxation

	Individual Quarter		Cumulative Quarter	
	3 Months Ended		3 Months Ended	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	31.03.13	31.03.12	31.03.13	31.03.12
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax: Based on results for the period:				
- Current tax	(661)	-	(661)	-
- Deferred tax relating to the origination and reversal of temporary differences	-	-	-	-
	(661)	-	(661)	-
Over provision in prior year:				
- Current tax	-	-	-	-
- Deferred tax	-	-	-	-
	(661)	-	(661)	-

The Group's effective tax rate for the current quarter and cumulative quarter ended 31 March 2013 was higher than the statutory tax rate of 25% due to losses in certain subsidiaries.

6. Profit/(Loss) before taxation

	Individual Quarter		Cumulative Quarter	
	3 Months Ended		3 Months Ended	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	31.03.13	31.03.12	31.03.13	31.03.12
	RM'000	RM'000	RM'000	RM'000
Profit/(Loss) before taxation is arrived at after charging/ (crediting):				
Depreciation	1,122	405	1,122	405
Doubtful debts recovered	(148)	-	(148)	-
Loss/(Gain) on disposal of property, plant and Equipment	16	(153)	16	(153)
Interest expense	286	-	286	-

	Individual Quarter		Cumulative Quarter	
	3 Months Ended		3 Months Ended	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	31.03.13	31.03.12	31.03.13	31.03.12
	RM'000	RM'000	RM'000	RM'000
Interest income	(76)	(7)	(76)	(7)
Realised gain on foreign Exchange	(35)	(13)	(35)	(13)
Rental income	(13)	(94)	(13)	(94)
Unrealised (gain)/ loss on foreign exchange	(19)	129	(19)	129

Other than the above items, there are no impairment of receivables, no impairment of inventories, gain or loss on disposal of quoted or unquoted investments or properties, 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

Save as disclosed below, there were no corporate proposals announced or not completed as at the date of this report:

The Board of Directors had on 15 March 2013 announced that Bursa Securities had vide its letter dated 15 March 2013 approved the Upliftment Application. The Company will be uplifted from the classification as a PN17 company effective 18 March 2013.

The Board of Directors had on 18 March 2013 announced that the shareholders of the Company have approved the Proposed Private Placement with Warrants as prescribed in the Notice of the EGM contained in the Circular dated 1 March 2013 of the Company.

On 15 May 2013, the Company announced that the Board has fixed the issue price for the placement of 270,000,000 new LIB Shares at RM0.10 per Placement Share.

On 28 May 2013, the Company announced that will be granted listing and quotation with effect from 9.00 a.m., Thursday, 30 May 2013.

On 30 May 2013, the Company announced that the Company's additional 270,000,000 new ordinary shares of RM0.10 each issued pursuant to the Private Placement with Warrants has been completed on the even date.

8. Borrowings and debts securities

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

	RM'000
Non-current	14,347
Current	5,433
	<u>19,780</u>

The above borrowings are secured and 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 other than the following:

A former employee of a subsidiary, Winco Precision Engineering (Melaka) Sdn. Bhd. ("WPESB") filed a claim against WPESB for wrongful dismissal on 30 March 2009. The estimated payout is RM236,775 should the claim be successful. As at the date of this report, both parties have filed their Written Submissions and are awaiting the Court's Award. The legal counsel of WPESB is of the opinion that based on the authorities which have been previously decided by the Court, WPESB has a fair chance in this matter and accordingly no provision for any liability has been made in the financial statements during the financial year.

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		Cumulative Quarter	
	3 Months Ended		3 Months Ended	
	31.03.13	31.03.12	31.03.13	31.03.12
Profit/(Loss) attributable to owners of the parent (RM'000)	501	(3,035)	501	(3,035)

	Individual Quarter		Cumulative Quarter	
	3 Months Ended	3 Months Ended	3 Months Ended	3 Months Ended
	31.03.13	31.03.12	31.03.13	31.03.12
Adjusted number of issued ordinary shares of RM0.10 each ('000)	1,088,012	244,732	1,088,012	244,732
Effect of shares issued pursuant to ESOS ('000)	149	-	149	-
Weighted average number of issued ordinary shares of RM0.10 each ('000)	1,088,161	244,732	1,088,161	244,732
Basic earnings/(loss) per share (sen)	0.05	(1.24)	0.05	(1.24)

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

	Individual Quarter		Cumulative Quarter	
	3 Months Ended	3 Months Ended	3 Months Ended	3 Months Ended
	31.03.13	31.03.12	31.03.13	31.03.12
Profit/(Loss) attributable to owners of the parent (RM'000)	501	(3,035)	501	(3,035)
Accrued interest	224	-	224	-
Adjusted profit/(loss) attributable to owners of the parent (RM'000)	725	(3,035)	725	(3,035)
Weighted average number of issued ordinary shares of RM0.10 each ('000)	1,088,161	244,732	1,088,161	244,732
Adjustments for dilutive effect on exercise of:				
- ICULS ('000)	188,000	-	188,000	-
- RCSLS ('000)	179,040	-	179,040	-
- Warrants ('000)	4,415,950	-	4,415,950	-
- ESOS options ('000)	13,218	-	13,218	-
Adjusted weighted average number of issued ordinary shares of RM0.10 each ('000)	5,884,369	244,732	5,884,369	244,732
Diluted earnings/(loss) per share (sen)	0.01	- *	0.01	- *

* Anti-dilutive in nature.

12. Realised and unrealised accumulated losses

	31.03.13	31.12.12
	RM'000	RM'000
Total accumulated losses of the Company and its subsidiaries:		
- Realised	(8,841)	(7,882)
- Unrealised	(1,205)	(1,529)
	<u>(10,046)</u>	<u>(9,411)</u>
Less: Consolidation adjustments	(11,942)	(13,078)
Total accumulated losses of the Group	<u>(21,988)</u>	<u>(22,489)</u>

BY ORDER OF THE BOARD

Liang Wooi Gee

Executive Director

Dated this 31st day of May 2013