

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
		1 January 2015

MFRS 9 Financial Instruments (IFRS 9 issued by
IASB in November 2009 and October
2010)

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, other than the issuance of equity securities and redemption of Redeemable Convertible Secured Loan Stocks ("RCSLS") as disclosed in Note 7.

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 followings:

- i) issuance of 28,919,000 new ordinary shares of RM0.10 each pursuant to the Employees Shares Option Scheme ("ESOS") during financial year to date;
- ii) issuance of 270,000,000 new ordinary shares of RM0.10 each and 216,000,000 free detachable warrants pursuant to the private placement; and
- iii) redemption of 179,043,710 RCSLS of RM0.10 each.

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.

	12 months ended 31.12.13 (RM'000)	12 months ended 31.12.12 (RM'000)
Segment Revenue		
Contract manufacturing	148,026	101,094
Others	2,259	3,814
Total revenue including inter-segment sales	<u>150,285</u>	<u>104,908</u>
Elimination of inter-segment sales	(2,259)	(6,510)
Total revenue to external customers	<u><u>148,026</u></u>	<u><u>98,398</u></u>
Segment Results		
Contract manufacturing	11,192	10,127
Others	(2,018)	24,311
Total results	<u>9,174</u>	<u>34,438</u>
Elimination	(140)	(401)
Profit before taxation	<u>9,034</u>	<u>34,037</u>
Taxation	(2,982)	(2,277)
Profit for the year	<u><u>6,052</u></u>	<u><u>31,760</u></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.

12. Changes in Group's composition

There were no changes in the composition of the Group for the current quarter under review other than as mentioned below:

- i) Demand Portfolio Sdn Bhd was dissolved on 8 November 2013; and
- ii) Millennium Environment (Asia Pacific) Pte Ltd, Luster Electronic (M) Sdn Bhd and YTS Industries Sdn Bhd are in the process of striking off.

13. Changes in contingent liabilities and contingent assets

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.

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 12 Months Ended	
	(Unaudited) 31.12.13 RM'000	(Unaudited) 31.12.12 RM'000	(Unaudited) 31.12.13 RM'000	(Unaudited) 31.12.12 RM'000
Revenue	32,841	33,660	148,026	98,398
Profit before taxation	948	2,014	9,034	34,037

Comparison with Corresponding Quarter in Previous Year

The Group revenue had decreased marginally from RM33.7 million in previous year corresponding quarter to RM32.8 million in current quarter under review.

The Group had recorded a lower profit before taxation (“PBT”) of RM0.9 million in current quarter under review as compared to RM2.0 million in previous year corresponding quarter mainly due to lower sales and impairment loss of RM0.8 million on receivables.

Comparison with Corresponding Financial Period To Date 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 RM148.0 million in current reporting period as compared to RM98.4 million in previous year corresponding period.

The PBT in current reporting year is RM9.0 million. The higher PBT of RM34.0 million recorded in the previous year corresponding period was mainly due to waiver of debts and interests pursuant to the successful implementation of the Proposed Revised Regularisation Plan.

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

The revenue and PBT had decreased from RM42.5 million and RM3.0 million respectively in preceding quarter to RM32.8 million and RM0.9 million respectively in current quarter under review mainly due to seasonal factor and impairment loss of RM0.8 million on receivables.

3. **Prospects**

After the recapitalisation and the acquisition of new production facilities in FYE2012, the Group's financial position, engineering and production capabilities are significantly enhanced. These had provided the Group with the competitive edge to secure new projects.

The strategic plan to move into the automotive industry has shown positive result. The position of the Group in the automotive sector is further strengthened with the certification of ISO TS 16949 in year 2012. The investment in the Vacuum Metalizing and Sputtering machines has given the Group the technology and competitive edge to further differentiate itself from other injection moulding companies. The automotive sector has contributed about 11% of the total sales of the Group in year 2013 with an increase of about 70% compared to 2012. With these facilities in place and the strength and dedication of its employees, the Group will be able to broaden and tap into bigger business opportunities in this sector.

The Group has been actively looking into the business opportunities in producing plastic parts and components for the medical sector. The Group via its wholly owned subsidiary, Luster Precision Engineering Sdn Bhd ("LPE"), has been able to penetrate into this sector whereby this sector has been able to contribute about 3% of LPE's total revenue. LPE is currently preparing itself to obtain the ISO 13485 certification.

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 coupled with the new production facilities, the Group will be on a better platform to take advantage of the various business opportunities.

The Board continues to explore the opportunities present in the market place either locally or abroad, from within its core business or other business sectors, to enhance its revenue and profitability.

In light of the above developments, the Board expects the Group to deliver better performance in financial year 2014.

4. **Variance of profit forecast**

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

5. Taxation

	Individual Quarter 3 Months Ended		Cumulative Quarter 12 Months Ended	
	(Unaudited) 31.12.13 RM'000	(Unaudited) 31.12.12 RM'000	(Unaudited) 31.12.13 RM'000	(Unaudited) 31.12.12 RM'000
Malaysian income tax: Based on results for the period:				
- Current tax	(58)	(1,346)	(2,594)	(2,126)
- Deferred tax relating to the origination and reversal of temporary differences	(46)	(191)	(46)	(191)
	(104)	(1,537)	(2,640)	(2,317)
(Under)/ over provision in prior year:				
- Current tax	(266)	16	(312)	16
- Deferred tax	(30)	24	(30)	24
	(296)	40	(342)	40
	(400)	(1,497)	(2,982)	(2,277)

The Group's effective tax rate for the cumulative quarter ended 31 December 2013 was higher than the statutory tax rate of 25% due to non-allowable expenses in certain subsidiaries.

6. Profit/(Loss) before taxation

	Individual Quarter 3 Months Ended		Cumulative Quarter 12 Months Ended	
	(Unaudited) 31.12.13 RM'000	(Unaudited) 31.12.12 RM'000	(Unaudited) 31.12.13 RM'000	(Unaudited) 31.12.12 RM'000
Profit/(loss) before taxation is arrived at after charging/ (crediting):				
Depreciation	1,416	1,215	5,100	3,284
Impairment loss on inventory	-	(64)	-	563
Impairment loss on receivables	799	(589)	799	647
Impairment loss on inventory no longer required	-	-	(563)	-

	Individual Quarter		Cumulative Quarter	
	3 Months Ended		12 Months Ended	
	(Unaudited) 31.12.13 RM'000	(Unaudited) 31.12.12 RM'000	(Unaudited) 31.12.13 RM'000	(Unaudited) 31.12.12 RM'000
Interest expense	52	2,780	631	3,075
Interest income	(178)	(53)	(506)	(141)
(Gain)/loss on disposal of property, plant and equipment	(133)	212	(127)	(109)
Gain on disposal of non- current assets held for sale	-	(144)	-	(144)
Realised (gain)/loss on foreign exchange	(65)	126	(87)	231
Rental income	(13)	107	(69)	(185)
Unrealised (gain)/loss on foreign exchange	(135)	(221)	(190)	304
Waiver of debts	-	-	-	(17,589)
Waiver of interests	-	(2,479)	-	(17,837)

Other than the above items, there are 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

There were no corporate proposals announced or not completed as at the date of this report.

8. Borrowings and debts securities

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

	RM'000
Non-current	2,708
Current	1,678
	4,386

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.

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		12 Months Ended	
	31.12.13	31.12.12	31.12.13	31.12.12
Profit attributable to owners of the parent (RM'000)	414	740	3,564	30,226
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 Regularisation Plan ('000)	-	476,286	-	476,286
Effect of shares issued pursuant to private placement ('000)	159,041	-	159,041	-
Effect of shares issued pursuant to ESOS ('000)	15,824	3,442	15,824	3,442
Weighted average number of issued ordinary shares of RM0.10 each ('000)	1,262,877	724,460	1,262,877	724,460
Basic earnings per share (sen)	0.03	0.10	0.28	4.17

Based on the 30-days weighted average market price of share of Luster Industries Bhd. up to 31 December 2013, the Irredeemable Convertible Unsecured Loan Stocks ("ICULS"), ESOS options granted to employees and warrants issued are anti-dilutive. Therefore, there is no calculation of diluted earnings per share for the current period based on the assumption of non-exercise of the above securities.

12. **Realised and unrealised accumulated losses**

	31.12.13	31.12.12
	RM'000	RM'000
Total accumulated losses of the Company and its subsidiaries:		
- Realised	(1,208)	(7,882)
- Unrealised	(1,722)	(1,529)
	<u>(2,930)</u>	<u>(9,411)</u>
Less: Consolidation adjustments	(15,995)	(13,078)
Total accumulated losses of the Group	<u>(18,925)</u>	<u>(22,489)</u>

BY ORDER OF THE BOARD

Liang Wooi Gee

Deputy Managing Director

Dated this 27th day of February 2014