

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 2013.

2. Significant accounting policies

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 2013, 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, 12 and 127	Consolidated Financial Statements, Disclosure of Interests in Other Entities and Separate Financial Statements: Investment Entities	1 January 2014
MFRS 132	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
MFRS 136	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
MFRS 139	Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IC Int 21	Levies	1 January 2014
MFRS 119	Defined Benefit Plans: Employee Contributions	1 July 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 2013 was not qualified.

4. **Seasonality or cyclical 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 45,000 new ordinary shares of RM0.10 each pursuant to the Employees Shares Option Scheme ("ESOS") during financial year to date.

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 31.03.14 (RM'000)	3 months ended 31.03.13 (RM'000)
Segment Revenue		
Contract manufacturing	26,287	29,654
Others	774	744
Total revenue including inter-segment sales	<u>27,061</u>	<u>30,398</u>
Elimination of inter-segment sales	(774)	(744)
Total revenue to external customers	<u><u>26,287</u></u>	<u><u>29,654</u></u>

	3 months ended 31.03.14 (RM'000)	3 months ended 31.03.13 (RM'000)
Segment Results		
Contract manufacturing	(579)	1,727
Others	(125)	(76)
Total results	<u>(704)</u>	<u>1,651</u>
Elimination	-	-
(Loss)/Profit before taxation	<u>(704)</u>	<u>1,651</u>
Taxation	(217)	(661)
(Loss)/Profit for the year	<u><u>(921)</u></u>	<u><u>990</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 2013.

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 the acquisition of Pembinaan LSP Jaya Sdn Bhd as announced on 24 February 2014.

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)	(Unaudited)	(Unaudited)	(Unaudited)
	31.03.14	31.03.13	31.03.14	31.03.13
	RM'000	RM'000	RM'000	RM'000
Revenue	26,287	29,111	26,287	29,111
(Loss)/Profit before taxation	(921)	990	(921)	990

Comparison with Corresponding Quarter in Previous Year

The Group revenue has decreased from RM29.1 million in previous year corresponding quarter to RM26.3 million in current quarter under review and this was mainly due to lower sales contributed from consumer electronics sector.

The Group has recorded a loss before taxation (“LBT”) of RM0.9 million in current quarter under review as compared to profit before taxation (“PBT”) of RM1.0 million in previous year corresponding quarter. This was mainly due to the lower sales achieved. The lower capacity utilization has resulted in higher overheads absorbed in relation to sales.

Comparison with Corresponding Financial Period To Date in Previous Year

The Group has recorded a revenue and PBT of RM29.1 million and RM1.0 million respectively in previous year corresponding period as compared to revenue and LBT of RM26.3 million and RM1.4 million in current reporting period. This was mainly due to the lower sales abovementioned.

2. Variation of results against preceding quarter

The sales to consumer electronics customers in current quarter under review was lower than previous quarter. Hence, the Group revenue and PBT decreased from RM32.8 million and RM0.9million respectively in previous quarter to RM26.3 million and LBT of RM0.9 million in current quarter under review.

3. **Prospects**

In 2014, 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 Group will continue its strategy to penetrate into producing plastic parts and components for the automotive and medical industry.

With the certification of ISO TS 16949 and investment in facilities such as Vacuum Metalizing and Sputtering machines, the Group manage to differentiate itself from other injection moulders and obtain new projects from its automotive customers. 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.

Foreseeable consumers electronics sector to recover in the second half of the year, the Group also taking steps to further penetrate into the automotive sector covering a wider range of products. Currently, the major contribution from automotive sector is from the lighting products. The Group is now working with few customers on the car infotainer system. Audit had been carried out and is now at the stage of production & process planning.

Further to the above, the Group is also working with another potential automotive customer on the lighting products.

The Group has been actively looking into the 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. LPE is currently preparing itself to obtain the ISO 13485 certification.

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. The Group had explored into construction business in 2014 and may also look into opportunities to diversify into other businesses. The Board believes that the diversification would stabilize the Group’s future earnings.

In light of the above developments, the Board remains cautiously optimistic of delivering 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 3 Months Ended	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	31.03.14	31.03.13	31.03.14	31.03.13
	RM'000	RM'000	RM'000	RM'000
Income tax	(217)	(661)	(217)	(661)

The Group's effective tax rates differ from statutory tax rate mainly because:

- Certain income and expenses which are not taxable and allowable; and
- Utilization of unabsorbed capital allowances by certain subsidiaries.

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

	Individual Quarter 3 Months Ended		Cumulative Quarter 3 Months Ended	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	31.03.14	31.03.13	31.03.14	31.03.14
	RM'000	RM'000	RM'000	RM'000
(Loss)/Profit before taxation is arrived at after charging/ (crediting):				
Depreciation	1,336	1,122	1,336	1,122
Doubtful debts recovered	(99)	(148)	(99)	(148)
Loss/(Gain) on disposal of property, plant and equipment	(17)	16	(17)	16
Interest expense	69	286	69	286
Interest income	(154)	(76)	(154)	(76)
Realised (gain)/loss on foreign Exchange	(30)	(35)	(30)	(35)
Rental income	(13)	(13)	(13)	(13)
Unrealised (gain)/loss on foreign exchange	46	(19)	46	(19)

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**

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	2,424
Current	1,758
	<u>4,182</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.

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	
	31.03.14	31.03.13	31.03.14	31.03.13
(Loss)/Profit attributable to owners of the parent (RM'000)	(974)	501	(974)	501
Adjusted number of issued ordinary shares of RM0.10 each ('000)	1,386,931	1,088,012	1,386,931	1,088,012
Effect of shares issued pursuant to ESOS ('000)	13	149	13	149
Weighted average number of issued ordinary shares of RM0.10 each ('000)	1,386,944	1,088,161	1,386,944	1,088,161
Basic (loss)/earnings per share (sen)	(0.07)	0.05	(0.07)	0.05

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
	31.03.14	31.03.13	31.03.14	31.03.13
(Loss)/Profit attributable to owners of the parent (RM'000)	(974)	501	(974)	501
Accrued interest	-	224	-	224
Adjusted profit/(loss) attributable to owners of the parent (RM'000)	(974)	725	(974)	725
Weighted average number of issued ordinary shares of RM0.10 each ('000)	1,386,944	1,088,161	1,386,944	1,088,161
Adjustments for dilutive effect on exercise of:				
- ICULS ('000)	188,000	188,000	188,000	188,000
- RCCLS ('000)	-	179,040	-	179,040
- Warrants A ('000)	4,415,950	4,415,950	4,415,950	4,415,950
- Warrants B ('000)	216,000	-	216,000	-
- ESOS options ('000)	768,758	13,218	768,758	13,218
Adjusted weighted average number of issued ordinary shares of RM0.10 each ('000)	5,588,708	5,884,369	5,588,708	5,884,369
Diluted (loss)/earnings per share (sen)	(0.01)	0.01	(0.01)	0.01

12. Realised and unrealised accumulated losses

	31.03.14	31.12.13
	RM'000	RM'000
Total accumulated losses of the Company and its subsidiaries:		
- Realised	(3,252)	(7,266)
- Unrealised	(1,451)	(1,230)
	(4,703)	(8,496)
Less: Consolidation adjustments	(15,669)	(10,902)
Total accumulated losses of the Group	(20,372)	(19,398)

BY ORDER OF THE BOARD

Liang Wooi Gee

Deputy Managing Director

Dated this 29th day of May 2014