

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 followings:

- i. issuance of 50,000 and 4,290,000 new ordinary shares of RM0.10 each pursuant to the Employees Shares Option Scheme ("ESOS") during the current quarter under review and financial year to date respectively; and
- ii. issuance of 42,700 and 183,101,500 new ordinary shares of RM0.10 each pursuant to the conversion of Irredeemable Convertible Unsecured Loan Stocks ("ICULS") during the current quarter under review and financial year to date respectively.

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 31.12.14 (RM'000)	12 months ended 31.12.13 (RM'000)
Segment Revenue		
Contract manufacturing	101,583	143,463
Others	2,820	2,259
Total revenue including inter-segment sales	<u>104,403</u>	<u>145,722</u>
Elimination of inter-segment sales	<u>(2,820)</u>	<u>(2,259)</u>
Total revenue to external customers	<u><u>101,583</u></u>	<u><u>143,463</u></u>
	12 months ended 31.12.14 (RM'000)	12 months ended 31.12.13 (RM'000)
Segment Results		
Contract manufacturing	(249)	10,976
Others	(4,835)	(2,017)
Total results	<u>(5,084)</u>	<u>8,959</u>
Elimination	<u>7,000</u>	<u>(143)</u>
Profit before taxation	1,916	8,816
Taxation	<u>(1,192)</u>	<u>(3,307)</u>
Profit for the year	<u><u>724</u></u>	<u><u>5,509</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.

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 12 Months Ended	
	(Unaudited) 31.12.14 RM'000	(Unaudited) 31.12.13 RM'000	(Unaudited) 31.12.14 RM'000	(Unaudited) 31.12.13 RM'000
	Revenue	23,568	28,278	101,583
(Loss)/Profit before taxation	(708)	731	1,916	8,817

Comparison with Corresponding Quarter in Previous Year

The Group revenue has decreased from RM28.3 million in previous year corresponding quarter to RM23.6 million in current quarter under review and this was mainly due to lower sales contributed from a customer in the electronics sector.

The Group has recorded a loss before taxation (“LBT”) of RM0.7 million in current quarter under review as compared to profit before taxation (“PBT”) of RM0.7 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 RM143.5 million and RM8.8 million respectively in previous year corresponding period as compared to revenue and PBT of RM101.6 million and RM1.9 million in current reporting period. This was mainly due to the lower sales abovementioned.

2. Variation of results against preceding quarter

The Group has recorded a revenue and LBT of RM23.6 million and RM0.7 million respectively in current quarter under review as compared to revenue and PBT of RM25.0 million and RM3.3 million respectively in previous quarter. This was mainly due to the gain on disposal of property, plant and equipment of RM3.3 million in previous quarter under review.

3. **Prospects**

In 2015, 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.

The outlook of consumers electronics sector is still uncertain, the Group has taken 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. Besides the automotive sector, the Group has been actively looking into the opportunities in producing plastic parts and components for the medical sector. LPE has been able to penetrate into this sector.

In the mining sector, the Group has started its initial works and completed the construction of the mining assets.

As for the construction sector, the Group is still awaiting for Koperasi Hartanah Malaysia Berhad's approval to start the work.

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 and mining 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 is cautiously optimistic to be able to deliver positive performance in financial year 2015.

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		12 Months Ended	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	31.12.14	31.12.13	31.12.14	31.12.13
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax: Based on results for the period:				
- Current tax	(124)	(49)	(1,185)	(2,631)
- Deferred tax relating to the origination and reversal of temporary differences	(98)	(310)	(98)	(310)
	(222)	(359)	(1,283)	(2,941)
(Under)/ over provision in prior year:				
- Current tax	(32)	(311)	(32)	(311)
- Deferred tax	123	(56)	123	(56)
	91	(367)	91	(367)
	(131)	(726)	(1,192)	(3,308)

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		Cumulative Quarter	
	3 Months Ended		12 Months Ended	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	31.12.14	31.12.13	31.12.14	31.12.13
	RM'000	RM'000	RM'000	RM'000
Profit/(loss) before taxation is arrived at after charging/ (crediting):				
Deemed gain on deconsolidation of a subsidiary	-	(13)	-	(13)
Depreciation	1,416	1,417	5,550	5,100
Doubtful debts recovered	-	(49)	(204)	(197)
Impairment loss on receivables	-	802	-	802
Interest expense	63	52	252	631
Interest income	(33)	(178)	(501)	(506)

	Individual Quarter		Cumulative Quarter	
	3 Months Ended		12 Months Ended	
	(Unaudited) 31.12.14 RM'000	(Unaudited) 31.12.13 RM'000	(Unaudited) 31.12.14 RM'000	(Unaudited) 31.12.13 RM'000
Loss/(Gain) on disposal of property, plant and equipment	4	(59)	(3,324)	(52)
Property, plant and equipment written off	-	59	-	59
Realised loss/(gain) on foreign exchange	74	13	144	(9)
Rental income	(58)	(48)	(128)	(104)
Unrealised gain on foreign exchange	(532)	(120)	(540)	(175)
Waiver of debts	(102)	-	(102)	-

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

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 12 December 2014 announced that the shareholders of the Company had approved the resolution as set out in the Notice of Extraordinary General Meeting ("EGM") dated 27 November 2014 at the EGM of the Company held on 12 December 2014.

The Board of Directors had on 26 February 2015 announced that an application for an extension of time for further two (2) months period from 26 February 2015 to complete the implementation of the Proposed Private Placement has been submitted today to Bursa Securities for their consideration and approval.

8. Borrowings and debts securities

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

	RM'000
Non-current	1,544
Current	2,843
	<u>4,387</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		12 Months Ended	
	31.12.14	31.12.13	31.12.14	31.12.13
(Loss)/Profit attributable to owners of the parent (RM'000)	(957)	(59)	557	3,091
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 private placement ('000)	-	158,607	-	158,607
Effect of shares issued pursuant to ESOS ('000)	1,514	15,781	1,514	15,781
Effect of shares issued pursuant to ICULS conversion ('000)	94,317	-	94,317	-
Weighted average number of issued ordinary shares of RM0.10 each ('000)	1,482,762	1,262,400	1,482,762	1,262,400
Basic (loss)/earnings per share (sen)	(0.06)	0.00	0.04	0.24

Based on the 30-days weighted average market price of share of Luster Industries Bhd. up to 31 December 2014, 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**

	31.12.14	31.12.13
	RM'000	RM'000
Total accumulated losses of the Company and its subsidiaries:		
- Realised	(8,788)	(7,266)
- Unrealised	(840)	(1,230)
	<u>(9,628)</u>	<u>(8,496)</u>
Less: Consolidation adjustments	(9,213)	(10,902)
Total accumulated losses of the Group	<u>(18,841)</u>	<u>(19,398)</u>

BY ORDER OF THE BOARD

Liang Wooi Gee
Deputy Managing Director

Dated this 27th day of February 2014