

LUSTER INDUSTRIES BHD.
(Company No. 156148-P)
(Incorporated in Malaysia)
Notes to the interim financial report

1. Basis of preparation

The interim financial report has been prepared un-audited and in compliance with FRS 134, Interim Financial Reporting and the additional disclosure requirements as in Part A of Appendix 9B of the Revised Listing Requirements.

The interim financial report should be read in conjunction with the most recent annual audited financial statements of the Luster Industries Bhd for the year ended 31 December 2005.

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 2005.

2. Changes in accounting policies

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company.

With effect from 1 January 2006, in order to comply with FRS 2, the Group recognises the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within equity. However, fair value recognition will only be done only if an employee became entitled to the options and met vesting conditions.

In view of fair value of shares (using market value as basis) was lower than offered price as at 31 March 2006, the Group need not posted such recognition.

3. FRS117 – Leases

The group has not opted for early adoption the above FRS, where lease payments shall be treated as Prepayment in the account upon adoption. The above FRS will only take effect from 1 October 2006.

4. Auditors' qualification

No qualification on the audit report of the preceding annual financial statements of Luster Industries Bhd.

5. Seasonality or cyclicity factors

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

6. Exceptional and extraordinary items

There were no material exceptional and extraordinary items for the period under review.

7. Change in estimates

There was no material change in the estimates used for the preparation of this interim financial report.

8. Change in debt and equity securities

There was no change in debts and equity securities for the period under review.

9. Dividends paid

No dividend was paid for the current quarter ended 31 December 2006.

10. Segment revenue and results

The Company's primary format for reporting segment information is business segments. Revenue from external customers represents the sales value of goods supplied to customers, income from mould fabrication and modifications and sub-contracted fees.

	Contract manufacturing		Waste management		Trading		Bulk Packaging		Inter-segment elimination		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue from external customers	106,339	105,250	50,887	25,900	7,877	12,408	3,703	-	-	-	168,806	143,558
Inter-segment revenue	16,330	20,522	-	-	3,609	-	-	-	(19,939)	(20,522)	-	-
Total	122,670	125,772	50,887	25,890	11,486	12,408	3,703	-	(19,939)	(20,522)	168,806	143,558
Segment results	(7,498)	(4,516)	1,603	3,276	55	275	112	-	-	-	(5,728)	(965)

11. Revaluation of property, plant and equipment

The property, plant and equipment are stated at cost less accumulated depreciation.

There was an impairment of assets in Luster Seweon Sdn Bhd, a 70% subsidiary of Luster Precision Engineering Sdn Bhd which is a wholly owned subsidiary of Luster Industries Bhd, as explained in note 15 below.

12. Material post balance sheet events

There was no material post balance sheet event subsequent to the period under review.

13. Changes in Group's composition

There was no change in the composition of the Group for the current quarter.

14. Changes in contingent liabilities and assets

There was no change in contingent liabilities and assets as at the date of this announcement.

15. Review of performance of the Company and its principal subsidiaries

For the period ended 31 December 2006, the loss after taxation of RM5.728 million was mainly contributed by the impairment of assets of RM3.537 million in Luster Seweon Sdn Bhd, a 70% owned subsidiary of Luster Precision Engineering Sdn Bhd and the writing off a trade debtor amounting to RM0.881 million.

A prior year adjustment was made for Deferred Taxation amounting to RM4.101 million for Luster Industries Bhd in line with the requirement of FRS112.

There is an unutilized amount of re-investment allowance amounting to RM9.9 million in Luster Industries Bhd which can be utilized to off-set future tax liability.

16. Variation of results against preceding quarter

The results of the current quarter under review presented a loss compared to the preceding quarter mainly due the impairment of assets of a subsidiary company and the writing off of a trade debtor of the Group as explained in Note 15 above.

17. Current year prospects

The Directors expect the Contract Manufacturing Business Segment to improve after the consolidation exercise. On the current year prospects, Mctronic Industries Sdn Bhd ('MISB') a 80% owned subsidiary, has signed a Memorandum of Understanding with Toshiba Corporation, Japan on 1 October 2006 appointing MISB to be their Original Equipment Manufacturer (OEM). The initial project will be to manufacture and assemble the complete Toshiba PABX Telephone System and the project is expected to commence in financial year 2007.

The waste management and bulk packaging business segment, the Directors expect both segments to continue their growth trend and will contribute favourably to the group revenue.

18. Tax expense

	Current year quarter ended 31 December 2006 RM'000	Previous year quarter ended 31 December 2005 RM'000
Current taxation		
- Based on results for the period	(359)	(132)
- Prior years		-
Deferred taxation		
- Based on results for the period	(375)	1,294
- Prior years		
	<u>(734)</u>	<u>1,162</u>

Deferred taxation amounting to RM0.418 million was provided for Luster Industries Bhd in line with the requirement of FRS112.

There is an unutilized amount of re-investment allowance amounting to RM9.9 million in Luster Industries Bhd which can be utilized to off-set future tax liability.

19. Profit/(Loss) on sale of unquoted investments and/or properties for current quarter and financial year-to-date

There was no sale of any unquoted investments and properties for the current quarter under review.

20. Purchase or disposal of quoted securities

There was no material purchase or disposals of quoted shares for the period under review.

21. Status of corporate proposals

There was no new corporate proposal during quarter under review.

22. Group borrowings and debts securities

There was no debt security for the current financial period to date.

The Group borrowings as at end of the current quarter end are as follows:

	31 December 2006 RM'000
Current Secured	<u>62,155</u>
Non-current Secured	<u>28,503</u>

The above borrowings are denominated in Ringgit Malaysia.

23. Off balance sheet financial instruments

The group did not enter into any contracts involving off balance sheet financial instruments as at the date of this report.

24. Changes in material litigation

The Group was not engaged in any material litigation for the current financial period to date.

25. Proposed dividend

No dividend was proposed for the quarter ended 31 December 2006.

26. Earnings per share

The calculation of loss per share for the current quarter and corresponding quarter last year are based on net loss after taxation and after minority interest of RM4,535,000 and RM3,812,000 respectively.

Basic earnings per share

Weighted average number of ordinary shares

Description	Unaudited Current year quarter ended 31 December 2006	Unaudited Preceding year quarter ended 31 December 2005	Unaudited Current year cumulative quarter ended 31 December 2006	Unaudited Preceding year cumulative quarter ended 31 December 2005
Issued ordinary shares at beginning of the period	61,183	61,183	61,183	61,023
Effect of ordinary shares Issued	-	-	-	110
Weighted average number of ordinary shares	61,183	61,183	61,183	61,133

Diluted earning per share

Weighted average number of ordinary shares (diluted)

Description	Unaudited Current year quarter ended 31 December 2006	Unaudited Preceding year quarter ended 31 December 2005	Unaudited Current year cumulative quarter ended 31 December 2006	Unaudited Preceding year cumulative quarter ended 31 December 2005
Issued ordinary shares at beginning of the period	61,183	61,183	61,183	61,133
Effect of ESOS	-	-	-	-
Weighted average number of ordinary shares	61,183	61,183	61,183	61,133

BY ORDER OF THE BOARD

Lam Voon Kean (MIA4793)

Company Secretary

Dated this 28th day of February 2007