

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 2006.

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 2006.

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 6 July 2007, the Group need not posted such recognition.

With the adoption of FRS 117, leasehold land previously included within property, plant and equipment, is reclassified as prepaid lease payments in a separate asset category on the balance sheet. The reclassification of prepaid lease payments in the consolidated balance sheet for the comparative period has been restated accordingly.

3. Auditors' qualification

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

4. Seasonality or cyclicity factors

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

5. Exceptional and extraordinary items

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

6. Change in estimates

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

7. Change in debt and equity securities

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

8. Dividends paid

No dividend was paid for the current quarter ended 30 September 2007.

9. 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, rental income, and income from mould modifications and sub-contracted fees.

| | Contract manufacturing | | Waste management | | Trading | | Bulk Packaging | | Inter-segment elimination | | Consolidated | |
|---|------------------------|---------------|------------------|---------------|--------------|--------------|----------------|--------------|---------------------------|-----------------|----------------|----------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | 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 | 85,202 | 81,622 | 15,151 | 27,424 | 6,506 | 7,276 | 7,947 | 5,099 | - | - | 114,806 | 121,421 |
| Inter-segment revenue | 17,027 | 10,492 | 7,227 | - | 2,773 | 1,936 | - | - | (27,027) | (12,428) | - | - |
| Total | 102,229 | 92,114 | 22,378 | 27,424 | 9,279 | 9,212 | 7,947 | 5,099 | (27,027) | (12,428) | 114,806 | 121,421 |
| Segment results (Profit after taxation) | (17,477) | (1,859) | (5,353) | 1,440 | 165 | 94 | (949) | (112) | - | - | (23,614) | (437) |

10. Revaluation of property, plant and equipment

The property, plant and equipment are stated at cost less accumulated depreciation. There was no material write-down in property, plant and equipment during the quarter under review.

11. Material post balance sheet events

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

12. Changes in Group's composition

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

13. Changes in contingent liabilities and assets

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

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

Competitive pricing and aggressive cost down from customers in the audio visual industry, rising purchase parts cost and overhead coupled with complex manufacturing models and initial high development costs contributed to the financial performance during the quarter under review.

The rising petrol price which contributed to the high cost of materials and overhead had affected the demand of mobile garbage bins ("MGB") and waste equipments during this period. The strengthening of Ringgit Malaysia has also affecting the price competitiveness of the MGB.

The Directors had reviewed the current situation and had taken measures to terminate non-viable customers and operations during this period and to streamline and downsize the manufacturing plants in Sungai Petani and to implement measures to strengthen the financial position of the Group.

15. Variation of results against preceding quarter

Net revenue increased by 20% against preceding quarter mainly due to high purchase parts cost were incorporated into the costing structure. The write-off of the initial development costs and the increase of the overall operation costs of the Group business have affected the financial performance of the current quarter under review against preceding quarter.

16. Current year prospects

The operation in Sungai Petani will be downsize and consolidated and non-viable operation and business will be closed to optimize the capacity utilization and hence, improving the profitability and liquidity of Group. Toshiba OEM Project in Mctronic Group, the 80% owned subsidiary of Luster Industries Bhd has started and is expected to contribute positively to the Group. Net revenue from Toshiba OEM Project is expected to reach RM6.0 million per month and for the month of October 2007, the sales for Toshiba OEM Project has touched approximately RM5.1 million.

The Directors will be taking steps to expand the product range and improve technical capability of the waste management unit by looking into the possibility of merging with the market leader in this sector. Currently the waste management unit has been given the distribution right by Plastic Omnium to market and distribute its products in Singapore and Australia. The Directors will also look into the possibility of working together on a win-win basis to strengthen each other position in this industry globally.

17. Variance of profit forecast

Not applicable for this reporting.

18. Tax expense

| | Current year quarter ended 30 September 2007 RM'000 | Previous year quarter ended 30 September 2006 RM'000 |
|-----------------------------------|--|---|
| Current taxation | | |
| - Based on results for the period | 2,717 | (281) |
| - Prior years | - | - |
| Deferred taxation | - | - |
| | <u>2,717</u> | <u>(281)</u> |

The estimated tax credit were derived from Section 108 dividend declared by the subsidiary company.

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:

| | 30 September 2007 RM'000 |
|------------------------|-----------------------------|
| Current Secured | <u>62,921</u> |
| Non-current Secured | <u>25,785</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 30 September 2007.

26. Earnings per share

The calculation of earnings per share for the current quarter and corresponding quarter last year are based on net loss after taxation and after minority interest of RM19.586 million and a net profit after taxation and after minority of RM0.481 million respectively.

Basic earnings per share

Weighted average number of ordinary shares

| Description | Unaudited Current year quarter ended 30-Sep-07 | Unaudited Preceding year quarter ended 30-Sep-06 | Unaudited Current year cumulative quarter ended 30-Sep-07 | Unaudited Preceding year cumulative quarter ended 30-Sep-06 |
|--|---|---|---|---|
| Issued ordinary shares at beginning of the period | 61,183 | 61,183 | 61,183 | 61,183 |
| Effect of ordinary shares Issued | - | - | - | - |
| Weighted average number of ordinary shares | 61,183 | 61,183 | 61,183 | 61,183 |

Diluted earning per share

Weighted average number of ordinary shares (diluted)

| Description | Unaudited Current year quarter ended 30-Sep-07 | Unaudited Preceding year quarter ended 30-Sep-06 | Unaudited Current year cumulative quarter ended 30-Sep-07 | Audited Preceding year cumulative quarter ended 30-Sep-06 |
|--|---|---|---|---|
| Issued ordinary shares at beginning of the period | 61,183 | 61,183 | 61,183 | 61,183 |
| Effect of ESOS | - | - | - | - |
| Weighted average number of ordinary shares | 61,183 | 61,183 | 61,183 | 61,183 |

BY ORDER OF THE BOARD

Lam Voon Kean (MIA4793)

Company Secretary

Dated this 30th day of November 2007