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 cyclicality 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 31 December 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	138,189	106,339	17,818	50,887	8,157	7,877	13,125	3,703	-	-	177,289	168,806
Inter-segment revenue	19,333	16,330	8,139	-	3,421	3,609	-	-	(30,893)	(19,939)	-	-
Total	**157,522**	**122,670**	**25,957**	**50,887**	**11,578**	**11,486**	**13,125**	**3,703**	**(30,893)**	**(19,939)**	**177,289**	**168,806**
Segment results (Profit after taxation)	(32,099)	(7,498)	(12,410)	1,603	105	55	(347)	112			(44,751)	(5,728)

Note: The above figures are unaudited.

10. Revaluation of property, plant and equipment

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

For the current period under review, the Group impaired its' under utilized plant and machinery to reflect its current capacity utilization and future prospect of the business. A total of RM15.16 million was impaired 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

The plastic parts and components manufacturer for the audio industry has been facing with an increase competition from other producing countries such China and Vietnam. In line with the above, the Group's contract manufacturing businesses which depend mostly on the above industry have been adversely affected.

Over and above the onset of keen competition from global competitors, the loss was also due to increasing overhead costs, aggressive cost down from the customers from audio industry and complex manufacturing models.

However, the OEM business in Johor has been contributing positively to the Group earning which operates under Mctronic Group, 80% subsidiary of Luster Industries Bhd. Mctronic Group recorded an un-audited profit before tax of approximately RM3.1 million for financial year 2007. This earning excludes the full year operation of Toshiba Project which the Group has recently secured.

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 affected 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 approximately 39% against preceding quarter mainly due to the kick-off of Toshiba Project in Mctronic Industries Sdn Bhd, 80% owned subsidiary of Luster Industries Bhd. Due to the Group streamlining and consolidation exercise, the Group has make an impairment loss of RM15.16 million on its plant and machinery. A further RM4.6 million was provided during the quarter under review for doubtful debts. Due to the streamlining and consolidation exercise and the contribution from Toshiba Project, the operation loss has reduced from RM21.1 million from the preceding quarter to RM1.8 million for the current quarter under review.

16. Current year prospects

With the downsized and consolidated operation in Sungai Petani and the operation in Johor, the Directors believe that the operations will be able to contribute positively to the bottom line and liquidity of the Group.

The Directors will take steps to expand the business and product range to further enhance the profitability and liquidity of the Group.

17. Variance of profit forecast

Not applicable for this reporting.

18. Tax expense

	Current year quarter ended 31 December 2007 RM’000	Previous year quarter ended 31 December 2006 RM’000
Current taxation		
- Based on results for the period	529	(359)
- Prior years	-	-
Deferred taxation	3,023	(375)
	3,552	(734)

The estimated tax credit was derived from Section 108 dividend declared by the subsidiary company. The current year loss has resulted in the reversal of the deferred tax liabilities.

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 2007 RM'000
Current	
Secured	62,425
Non-current	
Secured	26,525

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 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 RM21.59 million and RM5.6 million respectively.

Basic earnings per share

Weighted average number of ordinary shares

Description	Unaudited Current year quarter ended 31-Dec-07	Unaudited Preceding year quarter ended 31-Dec-06	Unaudited Current year cumulative quarter ended 31-Dec-07	Unaudited Preceding year cumulative quarter ended 31-Dec-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 31-Dec-07	Unaudited Preceding year quarter ended 31-Dec-06	Unaudited Current year cumulative quarter ended 31-Dec-07	Audited Preceding year cumulative quarter ended 31-Dec-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 29th February 2008