



**ANNUAL REPORT**  
**2003**



**LEADER STEEL**  
**HOLDINGS BERHAD**  
267209-K

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# NOTICE OF ANNUAL GENERAL MEETING

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the ELEVENTH ANNUAL GENERAL MEETING of shareholders of the Company will be held at 2nd Floor, Wisma Leader Steel, Plot 85, Lorong Perusahaan Utama, Kawasan Perusahaan Bukit Tengah, 14000 Bukit Tengah, Seberang Prai Tengah, Penang on Wednesday, 23 June 2004 at 11:00 a.m. for the following purposes: -

1. To receive and adopt the audited Financial Statements for the year ended 31 December 2003. **Ordinary Resolution 1**
- 2a. To re-elect Mr Lim Leng Han who retires pursuant to Article 102 of the Company's Articles of Association. **Ordinary Resolution 2**
- 2b. To re-elect Datuk Abdullah bin Kuntom who retires pursuant to Article 109 of the Company's Articles of Association. **Ordinary Resolution 3**
- 2c. To re-elect the following Directors who retire pursuant to Section 129 of the Companies Act, 1965:-
  - i. Dato' Mohd Desa bin Pachi **Ordinary Resolution 4**
  - ii. Tan Sri Dato' Soong Siew Hoong **Ordinary Resolution 5**
3. To approve Directors' fees totalling RM 135,000 for the year ended 31 December 2003. **Ordinary Resolution 6**
4. To re-appoint Messrs. KPMG as Auditors for the ensuing year and to authorise the Directors to fix their remuneration. **Ordinary Resolution 7**
5. As special Business

To consider and if thought fit, to pass the following Resolution:-

### SECTION 132D OF THE COMPANIES ACT, 1965

"THAT pursuant to Section 132D of the Companies Act, 1965 and subject always to the approval of all the relevant regulatory authorities, the Board of Directors of the Company be and is hereby authorised to issue and allot from time to time such number of ordinary shares of the Company upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, PROVIDED ALWAYS THAT the aggregate number of ordinary shares to be issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being AND THAT the Directors are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on the Bursa Malaysia Securities Berhad AND THAT such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the expiration of the period within which the next Annual General Meeting is required by law to be held or revoked/varied by resolution passed by the shareholders in general meeting whichever is the earlier."

**Ordinary Resolution 8**

6. To transact any other business of which due notice shall have been given in accordance with the Companies Act, 1965.

## BY ORDER OF THE BOARD

**LAM VOON KEAN**  
(MIA 4793)  
Company Secretary

Penang, 1 June 2004

### Notes:

1. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy without limitation and the provisions of Section 149(1)(b) of the Act shall not apply to the Company. Where a member appoints more than (1) proxy the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy. Where a member of the Company is an authorised nominee as defined under the Central Depositories Act, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.
3. To be valid, the proxy form must be deposited at the Company's Registered Office at Suite 2-1, 2nd Floor, Menara Penang Garden, 42A Jalan Sultan Ahmad Shah, 10050 Penang, not less than forty eight (48) hours before the time appointed for holding the meeting.
4. The details of the Directors standing for re-election as in Agenda 2 are as more particularly disclosed in Pages 7 to 8 of the Annual Report of the Company.

### Explanatory Note on Special Business:

5. The proposed Resolution 8, if passed, will give authority to the Board of Directors to issue and allot ordinary shares from the unissued capital of the Company at any time in their absolute discretion and that such authority, shall continue in force until the conclusion of the next Annual General Meeting of the Company or the expiration of the period within which the next Annual General Meeting is required by law to be held or revoked/varied by resolution passed by the shareholders in general meeting whichever is the earlier.

## Board Of Directors:

**Dato' Mohd Desa bin Pachi** *Chairman*  
**Goh Cheng Huat** *Group Managing Director*  
**Tan Sri Dato' Soong Siew Hoong**  
**Lim Leng Han**  
**Mohd Arif bin Mastol**  
**Datuk Abdullah bin Kuntom**

## Company Secretary:

**Lam Voon Kean** (MIA 4793)

## Audit Committee:

**Lim Leng Han** *Chairman*  
**Mohd Arif bin Mastol** *Member*  
**Goh Cheng Huat** *Member*

## Nominating Committee:

**Dato' Mohd Desa bin Pachi** *Chairman*  
**Lim Leng Han** *Member*  
**Mohd Arif bin Mastol** *Member*

## Remuneration Committee

**Dato' Mohd Desa bin Pachi** *Chairman*  
**Goh Cheng Huat** *Member*  
**Lim Leng Han** *Member*

## Registered Office:

Suite 2-1, 2nd Floor  
Menara Penang Garden  
42A Jalan Sultan Ahmad Shah  
10050 Penang  
Tel: 04-229 4390 Fax: 04-226 5860

## Registrars:

**AGRITEUM Share Registration Services Sdn. Bhd.**  
2nd Floor, Wisma Penang Garden  
42 Jalan Sultan Ahmad Shah  
10050 Penang  
Tel: 04-228 2321 Fax: 04-227 2391

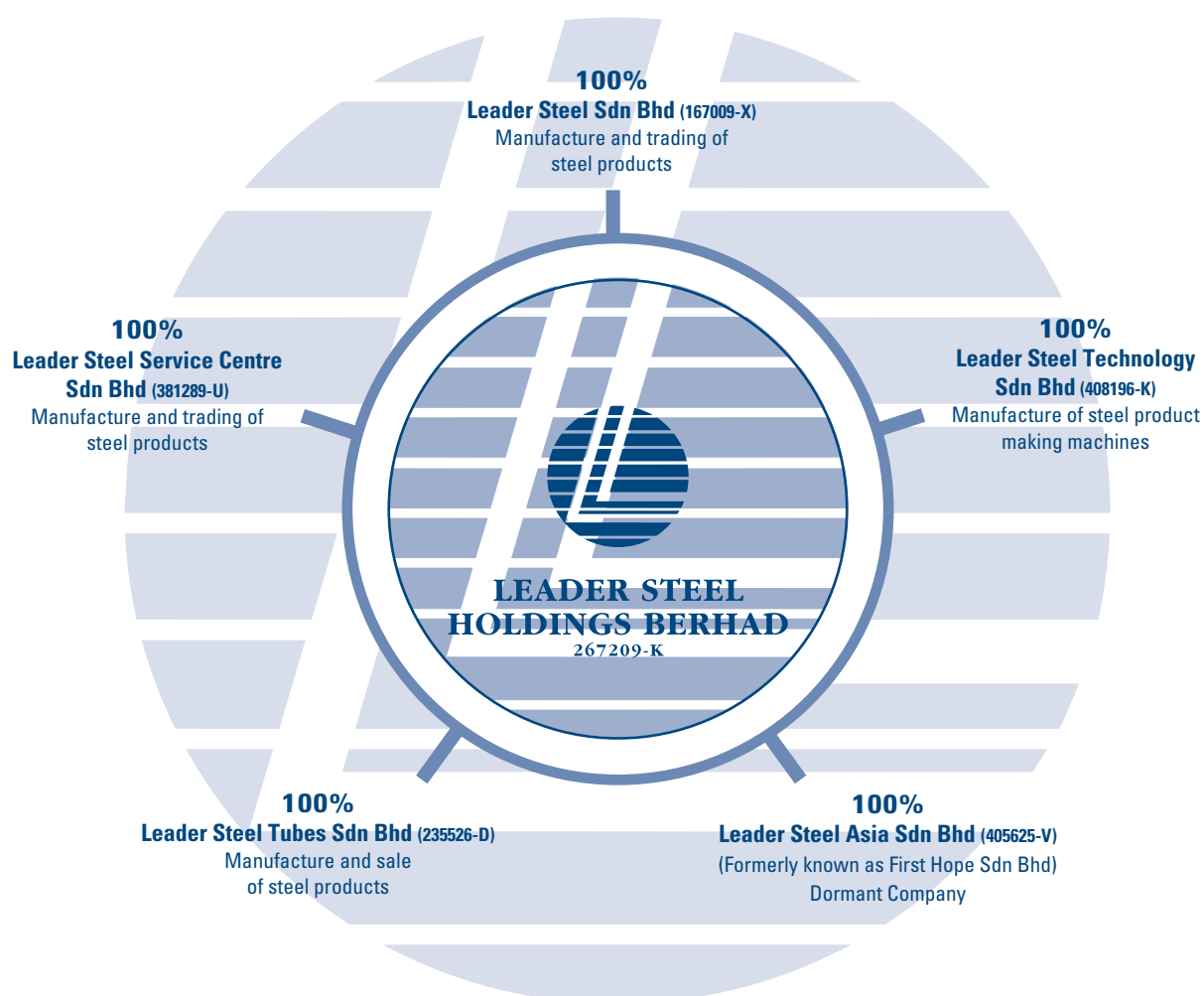
## Auditors:

**KPMG, Penang**

## Major Bankers:

**Hong Leong Bank Berhad**  
**Malayan Banking Berhad**  
**HSBC Bank Malaysia Berhad**  
**EON Bank Berhad**  
**Alliance Bank Malaysia Berhad**  
**RHB Bank Berhad**

## GROUP STRUCTURE AND PRINCIPAL ACTIVITIES



## FINANCIAL HIGHLIGHTS

	1999	2000	2001	2002	2003
<b>Turnover (RM million)</b>	106.0	89.1	63.3	87.9	<b>100.4</b>
<b>Profit/(Loss) before taxation (RM Million)</b>	10.2	1.7	(1.5)	11.1	<b>14.2</b>

# Dear valued shareholders,

On behalf of the Board of Directors of Leader Steel Holdings Berhad, I am pleased to present the Annual Report and Audited Financial Statements of the Group and Company for the year ended 31 December 2003.

## **Brief Description of Industry Trends and Development**

For the year 2003, the steel industry has shown signs of revival as a result of strong demand internationally, in particular from China. In tandem with the improved sentiments globally, demand for local steel products have also improved compared to the fiscal year 2002 when the performance of the steel industry has been a challenging one for the local steel industry. Although growth was moderate in 2001, it declined by 2% in 2002 to 7.0 million metric ton due to the slowdown in domestic demand and weaker external environment.\*

Strong international demand drove the prices of raw materials upwards, in particular cold rolled coils that are primarily the main raw materials used in the operations of the Group. This has corresponded to an increase in the selling price of the Group's steel pipes and tubes. Under these circumstances, with prudent management such as proper inventory control, pricing policy and marketing strategy resulted in the Group to ensure that the Group would continue to enjoy good returns in future despite the fairly competitive market.

## **Outlook**

The local steel market sentiments are invariably influenced by global events and the policy of the Malaysian Government. Barring unforeseen circumstances and based on the current trend, the Group expects its performance for the current year to improve.

## **Analysis of Group Performance and Material Factors**

The Group recorded a higher revenue of RM100.4 million in 2003 compared to RM87.9 million in 2002. Profit after tax and minority interest also improved from RM9.1 million in 2002 to RM12.3 million in 2003.

The Group's improved performance was largely attributed to higher margins realised, resulting from higher selling prices while the cost of materials were maintained due to the timing of purchases of its raw materials. In line with the improved performance, the Group's earnings per share was significantly enhanced from 22.84 sen in 2002 to 30.54 sen in 2003.

## **Dividend**

No dividend is recommended by the Directors for the financial year ended 31 December 2003.

## **Appreciation**

On behalf of the Board of Directors, I would like to express my gratitude and sincere appreciation to the Management and staff of the Group for their continued commitment and dedication. My appreciation and thanks are also extended to our shareholders, bankers, customers and business associates for their unwavering loyalty, patience and continuing support to the Group.

**DATO' MOHD DESA BIN PACHI**  
Chairman

*\* Source: Malaysian Iron & Steel Industries Federation*

**DATO' MOHD DESA BIN PACHI***Non-Independent Non-Executive Director*

DATO' MOHD DESA BIN PACHI, DSPN, KMN, aged 70, Malaysian, was appointed to the Board of Directors of LSH on 10 August 1995. He is the Chairman of the Board of Directors, and also acts as Chairman of the Remuneration Committee and Nominating Committee. He is a Chartered Accountant by profession and is a Fellow of the Institute of Chartered Accountants in Australia. He joined Shell Group of Companies in 1962 and served in various capacities in the Finance Administration. From 1970 to 1976, he was in public practice as a Chartered Accountant and was a partner of Desa Megat & Co and KPMG Peat Marwick. Subsequently, he was appointed as the first CEO of Permodalan Nasional Berhad (PNB) and later served as Chairman/ CEO of Malaysia Mining Corporation Bhd, Executive Chairman of Fleet Group Sdn. Bhd., Chairman/MD of The New Straits Times Press (Malaysia) Berhad and Chairman of Sistem Televisyen Malaysia Berhad (TV3).

He sits on the Board of several private companies and the following public companies:

Lay Hong Berhad, YA Horng Electronic (M) Berhad, Petaling Garden Berhad, Commerce Asset-Holding Berhad (Chairman), Landmarks Berhad, Saujana Consolidated Berhad, Xian Leng Holdings Berhad (Chairman), Amanah Saham Nasional Berhad, Perbadanan Nasional Berhad (Chairman) and Tracoma Holdings Berhad (Chairman).

**Mr. GOH CHENG HUAT***Group Managing Director, Non-Independent Executive Director*

MR. GOH CHENG HUAT, aged 43, Malaysian, was appointed to the Board of Directors of LSH on 10 August 1995. He is a member of the Remuneration Committee and Audit Committee of LSH.

Founder of the Group, Mr. Goh has extensive experience and knowledge in the processing of iron and steel products. With more than 15 years in the industry, he has accumulated invaluable skills, which includes amongst other, the invention and enhancement of steel making machine and its related processes. In recognition of his entrepreneurial skills, Mr. Goh was conferred the 1990 Young Entrepreneur Award by the Ministry of Youth and Sports. His zeal and untiring efforts to improve steel products making processes did not go unnoticed, for in 1999, he was awarded a patent for "Process For The Manufacturing Of Steel Products And Apparatus". Mr. Goh's visionary approach and keen business acumen certainly augur well for the Group especially in its business direction.

Apart from Leader Steel Holdings Berhad, he does not hold any other directorship in public companies.

**TAN SRI DATO' SOONG SIEW HOONG***Non-Independent Non-Executive Director*

TAN SRI DATO' SOONG SIEW HOONG PSM, KMN, SMS, DPMS, JSM, aged 78, Malaysian, was appointed to the Board of Directors of LSH on 25 July 1994. He was conferred Panglima Setia Mahkota (PSM) which carries the title of "Tan Sri" by the Yang DiPertuan Agong on 6th June 1998 and the Darjah Kebesaran Datuk Mahkota (DPMS) which carries the title of Dato' in 1990.

On experiences, Tan Sri Dato' Soong has previously served as a member on the Councils of Standard & Industrial Research Institute of Malaysia (SIRIM) and the Human Resource Development Council. He was also a director in Telekom Malaysia Berhad from Oct 1988 to May 1996.

Tan Sri Dato' Soong is currently the Secretary General of the Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM) and holds various other honorary positions such as Chairman in the Malaysian Iron and Steel Industry Federation (MISIF) and Director of South East Asia Iron & Steel Institute (SEASI). He is also the President of Asian Iron & Steel Industry Federation (AISIF) and a council member of Federation of Malaysian Manufacturers (FMM).

In addition, Tan Sri Dato' Soong is also the director of the Small and Medium Industries Development Corporation (SMIDEC), council member of the Malaysian Business Council, member of the Industrial Co-ordinating Council under the second Industrial Master Plan and member of the National Economic Action Council (NEAC).

His current directorship in public companies is Unico-Desa Plantations Berhad, Kwan Cheong Holdings Berhad, Unico Holdings Berhad and Pacific & Orient Insurance Co. Berhad.



### MR. LIM LENG HAN

*Senior Independent Non-Executive Director*

MR. LIM LENG HAN, aged 43, Malaysian, was appointed to the Board of Directors of LSH on 25 July 1994. He is the Chairman of the Audit Committee in LSH and also acts as a member of the Remuneration Committee and Nominating Committee. Graduated in 1985 with a degree in Bachelor of Law (LL.B) (Hon) from University of Malaya, he was subsequently admitted as Advocate and Solicitor by the High Court of Malaya on 8 February 1986 and became a member of the Bar Council of Malaya.

Mr. Lim has been active in the legal profession for 18 years and gained wide experience in the corporate, conveyancing and civil matters. Mr. Lim was serving with Johari, Goh & Associates, Kadir & Co. and Zaid Ibrahim & Co. for six (6) years before starting his own legal practice under the name of Messrs. Lim Leng Han & Co., in Butterworth, Penang on 8 February 1993. He is also the legal adviser of societies and organizations such as Penang Hardware and Machinery Merchants' Association, Lim Clan Association of Penang, Butterworth Buddhist Association, Thang Hsiang Temple, Bayan Lepas and various others.

His current directorship in public companies is only with LSH.

### EN. MOHD ARIF BIN MASTOL

*Independent Non-Executive Director*

EN. MOHD ARIF BIN MASTOL, aged 50, Malaysian, was appointed to the Board of Directors of LSH on 28 June 2002. He also sits in the Nominating Committee and Audit Committee of LSH as a member. En. Mohd Arif is a member of the Malaysian Institute of Accountants.

He started his career in 1977 as an Executive Accounts Officer. In 1985, he served as an Accountant with the Treasury Department of Kuala Lumpur City Hall after completing his Degree in Accounting from the MARA Institute of Technology. From 1991 to 2001, En. Arif was attached with several companies, including a Japanese-based company in several capacities including Assistant Manager Finance & Accounts, Finance & Administration Manager, and Company Representative before assuming his current position as Financial Controller.

His current directorship in Public companies, other than LSH, is with SKB Shutters Corporation Bhd.

### DATUK ABDULLAH BIN KUNTOM

*Non-Independent Non-Executive Director*

DATUK ABDULLAH BIN KUNTOM, aged 60, Malaysian, was appointed to the Board on 2nd October 2003. He holds a Bachelor of the Arts Degree from the University of Malaya and a Masters in Public Policy and Administration from the University of Wisconsin, Madison, United States of America.

Yang Berbahagia Datuk Abdullah's distinguished career in the civil service has placed him in many Government ministries and departments. Amongst the key positions held over a period of some 36 years were those of Deputy Secretary of the Contract and Supply Division and Senior Assistant Director of the Budget Division, Ministry of Finance. He was also appointed as the State Financial Officer of Selangor, Administrative Officer of the Asian & Pacific Development Centre, Director General of the Registration Department and Deputy Secretary General I of the Home Affairs Ministry. He retired from the civil service in April 1999 as the Senior Deputy Secretary General in the Prime Minister's Department. After his retirement, he was appointed by the Government as the Chief of Protocol of the Ministry of Foreign Affairs, a position he held for 4 years until April 2003.

Yang Berbahagia Datuk Abdullah current directorship in public companies, other than LSH, is with Malaysia Building Society Berhad since 29th September 2003. He was also a director of Amalgamated Industrial Steel Berhad from October 2003 to 9th December 2003.

#### Notes:

1. All the Directors do not have any conflict of interest with the Group.
2. All the Directors have not been convicted for any offences within the past ten years other than for traffic offences, if any.
3. All the Directors have no family relationship with any other or major shareholder of the Group.
4. The Directors' shareholdings are as disclosed in page 61 of this report.

The Board of Directors of Leader Steel Holdings Berhad (the "Board") fully subscribes to and supports the Malaysian Code on Corporate Governance (the "Code") and the Listing Requirements (the "Listing Requirements") of the Bursa Malaysia Securities Berhad ("Bursa Malaysia"). The Board considers corporate governance as synonymous with three key concepts, namely transparency, accountability and integrity.

The Board continuously evaluates the status of the Group's corporate governance practices and procedures with a view to adopt and apply, where practicable, the Principles and Best Practices enshrined in Parts 1 and 2 respectively of the Code in its quest to enhance shareholder value.

The Board is pleased to provide the following statements, which outline the main corporate governance practices that were in place throughout the financial year, unless otherwise stated.

## PRINCIPLES STATEMENT

The following statement sets out how the Company has applied the Principles in Part 1 of the Code. The Principles are dealt with under the headings of Board of Directors, Directors' Remuneration, Shareholders and Accountability and Audit.

### A. BOARD OF DIRECTORS

#### Board responsibilities

The Board fully acknowledges its responsibility for providing stewardship on the Group's business and affairs on behalf of shareholders with a view of enhancing long term shareholders value. To fulfil this responsibility, the Board sets the strategic direction of the Group, establishes goals for Management, monitors the achievement or otherwise of these goals and ensures that the Group's internal controls and reporting procedures are adequate.

The Board delegates the day-to-day operations of the Group to the Group Managing Director, who has vast experience in the business of the Group.

To further enhance the application of the Code, the Board has on 31 May 2003 adopted a Board Charter that formalised, amongst others, the principal responsibilities of the Board as expounded by the Code.

#### Meetings

The Board meets at least four (4) times a year at quarterly intervals with additional meetings convened when urgent and important decisions need to be taken between the scheduled meetings. During the financial year under review, the Board met on four (4) occasions, where it deliberated upon and considered a variety of matters, including the Group's financial results, major investments, strategic decisions and direction of the Group, appointment of Directors and compliance with corporate governance.

Details of Directors' attendance at Board meetings during the financial year ended 31 December 2003 are as follows:

Director	Attendance
<b>Executive</b>	
Mr Goh Cheng Huat	4/4
<b>Non-Executive</b>	
Dato' Mohd Desa bin Pachi (Chairman)	4/4
Tan Sri Dato' Soong Siew Hoong	3/4
Datuk Abdullah bin Kuntom (appointed on 2-10-2003)	1/1
<b>Independent Non-Executive</b>	
Mr Lim Leng Han	4/4
Encik Mohd Arif bin Mastol	4/4

### **Meetings (cont'd)**

All the Directors are provided with an agenda on matters requiring their consideration and a set of Board papers before each Board meeting. The Chairman, with the assistance of the Company Secretary, undertakes the primary responsibility for preparing and organising information necessary for the Board to deal with the agenda and for providing this information to the Directors on a timely basis.

During the meetings, the Board is briefed by the Group Managing Director on matters laid out in the agenda and, where appropriate, additional information is made available to Directors. All proceedings of Board meetings are duly recorded and the minutes thereof are confirmed as correct by the Chairman of the meeting.

### **Board Committees**

The Board delegates appropriate responsibilities to Board Committees, namely an Audit Committee, a Nominating Committee and a Remuneration Committee, in order to enhance business and operational efficiency and efficacy. Terms of reference as well as operating procedures have been established for all Board Committees and the Board receives reports of their proceedings and deliberations. The Chairmen of the Committees report to the Board the outcome of the Committee meetings and such reports are incorporated in the minutes of the full Board meeting.

### **Board Balance**

As at the date of this Statement, the Board consists of six (6) members, comprising two (2) Independent Non-Executive Directors within the meaning of Section 1.01 of the Listing Requirements, three (3) Non-Executive Directors and an Executive Director, who is also the Group Managing Director.

The Directors, with their different backgrounds and specialisation, collectively bring with them a wide range of experience and expertise in areas such as finance, corporate affairs, legal, marketing and operations and governmental affairs. With this mix of expertise, the Group is ably led and guided by an experienced and competent Board. The Board is constituted of individuals who are committed to business integrity and professionalism in all its activities. A brief profile of each Director is presented on pages 7 to 8 of this Annual Report.

The presence of Independent Non-Executive Directors in the Board is essential as they provide an unbiased and independent view, advice and judgment to the decision-making of the Board and provide an appropriate check and balance for the Executive Director, thereby ensuring that no one individual or group dominates the Board's decision-making process.

With the adoption of the Board Charter by the Directors on 31 May 2003, the roles of Chairman and the Group Managing Director are formalised and clearly defined with their individual position description. The Chairman is responsible for the smooth operation and effectiveness of the Board whilst the Group Managing Director assumes the overall responsibility for the Group's operating units, organisational effectiveness and implementation of Board's policies and decisions. As such, a clear division of responsibilities between the Chairman and the Group Managing Director exists to ensure that there is a balance of power and authority.

The Board notes the Code's recommendation that a Senior Independent Non-Executive Director to whom concerns of other Board members may be conveyed be identified and has, accordingly, appointed Mr Lim Leng Han as that Senior Independent Non-Executive Director.

The Board is of the view that its current size is adequate whilst the experience of its members enables it to effectively discharge its responsibilities. In addition, the Board believes that the current composition of members fairly reflects the investment of minority shareholders in the Company.

### **Supply of information**

By distributing Board papers along with the notice of meetings well in advance, the Chairman ensures that all members of the Board have full and timely access to information. The Board papers include the agenda and reports relevant to the issues of a particular meeting, and covers areas of strategy, finance, operations, regulatory compliance and risk management matters. As the Board papers are issued with adequate notice, Board members are able to obtain further explanations, from the Group Managing Director or his management team, in order to be sufficiently briefed and prepared before the meetings.

Every Director has unhindered access to the advice and services of the Company Secretary and the Board believes that she is capable of carrying out her duties to ensure the effective functioning of the Board. The Articles of Association provide that the removal of the Company Secretary is a decision for the Board as a whole.

**Supply of information (cont'd)**

The Board meets, reviews and approves all corporate announcements, including the announcement of the Group's quarterly financial results, prior to releasing them to the Bursa Malaysia.

The Board determines, whether as a full Board or in their individual capacity, to take independent professional advice, where necessary and in appropriate circumstances in furtherance of their duties, at the Group's expense.

**Appointments to the Board****Nominating Committee**

A Nominating Committee was established by the Board on 26 August 2002 and presently consists of the following members:

<b>Dato' Mohd Desa bin Pachi</b>	- Chairman, Non-Executive Director
<b>Mr Lim Leng Han</b>	- Independent Non-Executive Director
<b>Encik Mohd Arif bin Mastol</b>	- Independent Non-Executive Director

The Board appoints its members through a formal and transparent process via the Nominating Committee. The Nominating Committee is entrusted to bring to the Board recommendations on the appointment of new Directors. Additionally, under its terms of reference, the Nominating Committee reviews the Board structure, size and composition and systematically assesses the effectiveness of the Board, its Committees and the contribution of each individual Director on an annual basis. The Nominating Committee is empowered to seek professional advice within or outside the Group as it considers necessary in the discharge of its responsibilities.

During the financial year, the Committee met once, attended by all members, to deliberate on the retirement by rotation of Directors and their eligibility for re-election the Annual General Meeting ("AGM"), adopted the criteria for evaluating Directors and also recommended for the Board's approval the appointment of additional Directors.

At the date of this Statement, the Board, through the Nominating Committee's annual appraisal, has assessed the effectiveness of the Board as a whole, the various Board Committees as well as the contributions of individual Directors.

The Company Secretary will ensure that all the necessary information is obtained and that all legal and regulatory obligations are met before appointments of new Directors are made.

**Directors' training**

The Board, through the Nominating Committee, ensures that it recruits only individuals of sufficient calibre, knowledge and experience to fulfil the duties of a Director appropriately. Although a formal training programme is yet to be in place, all the Directors have attended and completed the Mandatory Accreditation Programme ("MAP") conducted by the KLSE Training Sdn. Bhd. The Directors will continue to undergo other relevant training programmes like the Continuing Education Program as required by the Bursa Malaysia to further enhance their skills, knowledge and capabilities.

**Re-election**

The Articles of Association of the Company provide that an election of Directors shall take place each year and at the AGM, one-third of the Directors for the time being, or if their number is not three (3) or a multiple of three (3), the number nearest to one-third, shall retire from office.

Every Director shall retire from office once at least every three (3) years, but he or she shall be eligible for re-election. Such a provision gives an opportunity to shareholders to renew or extinguish their mandate. The election of each Director is voted on separately. In order to assist shareholders in their decision, pertinent information such as personal profile, meeting attendance and the shareholdings in the Group of each Director standing for election are furnished in the Annual Report accompanying the Notice of AGM.

In accordance with Section 129 (6) of the Companies Act, 1965, Directors who are over seventy (70) years of age are required to submit themselves for re-appointment on an annual basis.

**B. DIRECTORS' REMUNERATION**

The fees payable to Directors are approved annually by shareholders at the Company's AGM. The Board established a Remuneration Committee on 26 August 2002, and its members are:

<b>Dato' Mohd Desa bin Pachi</b>	- Chairman, Non-Executive Director
<b>Mr Goh Cheng Huat</b>	- Executive Director
<b>Mr Lim Leng Han</b>	- Independent Non-Executive Director

The Remuneration Committee's responsibilities include developing and recommending a remuneration framework for Directors as well as the remuneration package for the Executive Director of the Company. The adoption of remuneration packages for Directors, however, is a matter for the Board as a whole, with individual Directors abstaining from decision-making in respect of his or her remuneration package. During the financial year, the Committee met once attended by all members.

Details of the nature and amount of each major element of the remuneration of Directors of the Company (including those who resigned during and after the financial year), during the financial year, are as follows:

Director	Fees RM	Salary and bonus RM	Other emoluments RM
<b>Executive</b>	<b>20,000</b>	<b>455,000</b>	<b>56,600</b>
<b>Non-Executive</b>	<b>75,000</b>	–	<b>130,428</b>
<b>Independent Non-Executive</b>	<b>40,000</b>	–	<b>4,000</b>
	<b>135,000</b>	<b>455,000</b>	<b>191,028</b>

The remuneration of Directors, analysed into bands of RM50,000 each for the year ended 31 December 2003, is summarised as follows:

Range of remuneration	Number of Directors	
	Executive	Non-Executive
Below RM50,000	–	6
RM50,001 to RM100,000	–	2
RM100,001 to RM150,000	–	–
RM150,001 to RM200,000	–	–
RM200,001 to RM250,000	–	–
RM250,001 to RM300,000	–	–
RM300,001 to RM350,000	–	–
RM350,001 to RM400,000	–	–
RM400,001 to RM450,000	–	–
RM450,001 to RM500,000	–	–
RM500,001 to RM550,000	1	–

**C. SHAREHOLDERS**

The importance of continuous communication with shareholders of the Company cannot be overstated. The primary avenues for such communication is through the Annual Report, the Company's AGM and Extraordinary General Meetings. Whilst the Annual Report provides a comprehensive source of information on the Group's financial and operational performance, the AGM provides a platform to shareholders to seek more information and clarification on the audited financial statements, operational issues and other matters of interest. The Directors readily avail themselves to answer any such questions that may arise as shareholders may seek more information than what is available in the Annual Report and/ or circulars. The Company's practice is to send out the notice of AGM and related papers to shareholders at least twenty-one (21) days before the meeting.

In addition, quarterly financial results, information about corporate exercises undertaken by the Group, and other information that warrants an announcement under the Listing Requirements are released on a timely basis to continuously provide shareholders with an update of the Group's performance.

However, in any circumstances, the Directors are cautious not to provide undisclosed material information about the Group and frequently stress the importance of timely and equal dissemination of information to shareholders and stakeholders at large.

**D. ACCOUNTABILITY AND AUDIT****Financial reporting**

The Board aims to provide and present a balanced and meaningful assessment of the Group's financial performance and prospects at the end of the financial year, primarily through the annual financial statements and quarterly announcement of the results to shareholders as well as the Chairman's statement and review of operations in the Annual Report. The Board is assisted by the Audit Committee to oversee the Group's financial reporting processes and the quality of its financial reporting.

**Directors' responsibility statement in respect of the preparation of the audited financial statements**

The Board is responsible for ensuring that the financial statements of the Group and Company give a true and fair view of the state of affairs of the Group and of the Company as at the end of the financial year and of their results and cash flows for the year then ended. In preparing the financial statements, the Directors have ensured that applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 have been applied.

In preparing the financial statements, the Directors have selected and applied consistently suitable accounting policies and made reasonable and prudent judgments and estimates.

The Directors also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

**State of internal controls**

The Statement on Internal Control, furnished on pages 21 to 22 of this Annual Report, provides an overview on the state of internal controls within the Group.

**Relationship with the Auditors**

Key features underlying the relationship of the Audit Committee with the external auditors are included in the Audit Committee's terms of reference as detailed on pages 18 to 20 of this Annual Report.

A summary of the activities of the Audit Committee during the year, including the evaluation of the independent audit process, are set out in the Audit Committee Report on pages 16 to 17 of this Annual Report.

### COMPLIANCE STATEMENT

The Group has complied, throughout the financial year ended 31 December 2003, with all the Best Practices of corporate governance set out in Part 2 of the Code except for the following:

- With the adoption of the Board Charter on 31 May 2003, the Board has in place a formal schedule of matters specifically reserved to it for decision. Before this, it was the practice for the Board to deliberate on matters that involve overall Group strategy and direction, acquisition and divestment, approval of major capital expenditure, consideration of significant financial matters and the review of financial and operating performance of the Group; and
- The Board Charter as mentioned above explicitly formalises and delineates the rules and functions of the Board, the Chairman of the Board, the Group Managing Director and the various Board Committees. The Board Charter also formalises the procedures for Directors to take independent professional advice at the Company's expense in furtherance of their duties as well as the induction process for newly appointed Directors.

**1. Share Buybacks**

During the financial year, there were no share buybacks by the Company.

**2. Options, Warrants or Convertible Securities**

During the financial year, 823,000 new ordinary shares of RM1 each were issued by the Company for cash by virtue of the exercise of options pursuant to the Company's Employee Share Option Scheme 2002.

**3. American Depository Receipt (ADR) Global Depository Receipt (GDR) Programme**

During the financial year, the Company did not sponsor any ADR and GDR programme.

**4. Sanctions and Penalties**

There were no sanctions or penalties imposed on the Company and its subsidiaries, Directors or management by any relevant bodies during the financial year.

**5. Non-audit fees**

Non-audit fees amounting to RM 22,100 for the Group and RM 59,250 for the Company were paid to the external auditors for the financial year ended 31 December 2003.

**6. Variation in Results**

There was no significant variance between the results for the financial year and the unaudited results previously announced.

**7. Profit Guarantee**

No profit guarantee was given by the Company in respect of the financial year.

**8. Material Contracts**

During the financial year, there were no material contracts with the Company and its subsidiaries involving Directors' and major shareholders' interest.

**9. Revaluation Policy**

The Company has not adopted any revaluation policy on landed properties for the financial year.



# AUDIT COMMITTEE REPORT

## MEMBERSHIP

The present members of the Audit Committee (the "Committee") comprise:

<b>Mr Lim Leng Han</b>	- Chairman, Independent Non-Executive Director
<b>Encik Mohd Arif bin Mastol</b>	- Member, Independent Non-Executive Director (Member of Malaysian Institute of Accountants)
<b>Mr Goh Cheng Huat</b>	- Member, Executive Director

## TERMS OF REFERENCE

The Audit Committee was established on 14 August 1995 to act as a Committee of the Board, with terms of reference set out on pages 18 to 20 of the Annual Report.

## MEETINGS

During the financial year ended 31 December 2003, the Committee met four (4) times to discuss matters relating to the accounting and reporting practices of the Company and its subsidiary companies. Details of attendance of each Audit Committee member are as follows:

Director	Attendance
Mr Lim Leng Han	4/4
Encik Mohd Arif bin Mastol	4/4
Mr Goh Cheng Huat	4/4

The meetings were appropriately structured through the use of agenda, which were distributed to members with sufficient notification.

The Company Secretary or her representative was present by invitation at all the meetings. The Group's Senior Management, representatives of the external auditors, as well as representatives from the firm of consultants on the Group's Enterprise Risk Management and outsourced internal audit also attended the meetings upon invitation.

## SUMMARY OF ACTIVITIES DURING THE FINANCIAL YEAR

The Committee carried out its duties in accordance with its terms of reference during the year. The main activities undertaken by the Committee were as follows:

- Reviewed with the external auditors, the scope of their audit work and audit plan;
- Reviewed with the external auditors the results and findings of the audit, the audit report and management letter;
- Reviewed the annual financial statements of the Group and Company with the external auditors, prior to submission to the Board for its consideration and approval;
- Reviewed the quarterly unaudited financial results announcements before recommending them for the Board's approval. The Senior Manager of Finance and Administration was invited to attend the meetings and rendered the relevant explanations on questions raised during the review;
- Reviewed the Company's compliance, in particular, the quarterly and year-end financial statements with the Listing Requirements of Bursa Malaysia, approved accounting standards of the Malaysian Accounting Standards Board and other relevant legal and statutory requirements;

**SUMMARY OF ACTIVITIES DURING THE FINANCIAL YEAR (cont'd)**

- Reviewed the results of the Enterprise Risk Management assignment carried out by a firm of consultants;
- Reviewed and approved the internal audit strategy and plan for the internal audit function to execute risk-based internal audit;
- Reviewed the internal audit report, which highlighted the audit issues and findings, recommendations and Management's response thereto; and
- Reviewed pertinent issues, which had significant impact on the results of the Group, including bank borrowings, investments and divestments and strategic operations of subsidiaries.

**INTERNAL AUDIT FUNCTION**

The Group outsourced its internal audit function to an independent firm of consultants to carry out internal audit of the Group in order to assist the Committee in discharging its duties and responsibilities. The principal role of the internal audit function is to undertake independent, regular and systematic reviews of the system of internal control to provide reasonable assurance that such system continues to operate satisfactorily and effectively. It is the responsibility of the internal audit function to provide the Audit Committee with independent and objective reports on the state of internal control of the various operating units within the Group and the extent of compliance of the units with the Group's established policies and procedures as well as relevant statutory requirements.

The areas audited were based upon the results of the Enterprise Risk Management assignment and were approved by the Committee prior to the commencement of the internal audit. During the financial year ended 31 December 2003, 2 cycles of risk-based internal audit were carried out.

# AUDIT COMMITTEE TERMS OF REFERENCE

## OBJECTIVES

The primary function of the Audit Committee (the "Committee") is to assist the Board of Directors in fulfilling the following oversight objectives on the Group's activities:

- assess the Group's processes relating to its risks and control environment;
- oversee financial reporting; and
- evaluate the internal and external audit processes.

## COMPOSITION

The Board shall elect and appoint Committee members from amongst its numbers, comprising no fewer than three (3) Directors, the majority of whom shall be independent non-executive Directors of the Company.

The Board shall at all times ensure that at least one (1) member of the Committee shall be:

- a member of the Malaysian Institute of Accountants ("MIA"); or
- if he/she is not a member of MIA, he/she must have at least three (3) years of working experience and:
  - he/she must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
  - he/she must be a member of the associations of accountants specified in Part II of the Accountants Act 1967.

If a member of the Committee resigns, dies or for any reason ceases to be a member with the result that the number of members is reduced to below three (3), the Board shall within three (3) months of the event appoint such number of new members as may be required to fill the vacancy.

The Chairman of the Committee shall be an independent non-executive Director. No alternate Director of the Board shall be appointed a member of the Committee.

## QUORUM AND COMMITTEE'S PROCEDURES

Meetings shall be conducted at least four (4) times annually, or more frequently as circumstances dictate.

In order to form a quorum for the meeting, the majority of the members present must be independent non-executive Directors. In the absence of the Chairman, the members present shall elect a Chairman for the meeting from amongst the members present.

The Company Secretary shall be appointed Secretary of the Committee (the "Secretary"). The Secretary, in conjunction with the Chairman, shall draw up an agenda, which shall be circulated together with the relevant support papers, at least one (1) week prior to each meeting to the members of the Committee. The minutes shall be circulated to members of the Board.

The Committee may, as and when deemed necessary, invite other Board members and senior management members, including external and internal auditors, to attend the meetings.

The Chairman shall submit a report to the Board summarising the Committee's activities during the year and the related significant results and findings.

The Committee shall meet at least annually with the Management, and at least once every year with the Head of Internal Audit and external auditors in separate sessions to discuss any matters with the Committee without the presence of any executive member of the Board.

The Committee shall regulate the manner of proceedings of its meetings, having regard to normal conventions on such matter.

### **AUTHORITY**

The Committee is authorised to seek any information it requires from employees, who are required to co-operate with any request made by the Committee.

The Committee shall have full and unlimited access to any information pertaining to the Group.

The Committee shall have direct communication channels with the internal and external auditors and with senior management of the Group and shall be able to convene meetings with the external auditors whenever deemed necessary.

The Committee shall have the resources that are required to perform its duties. The Committee can obtain, at the expense of the Company, outside legal or other independent professional advice it considers necessary in the discharge of its duties.

Where the Committee is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements of Bursa Malaysia, the Committee shall promptly report such matter to the Bursa Malaysia.

### **RESPONSIBILITIES AND DUTIES**

In fulfilling its primary objectives, the Committee shall undertake the following responsibilities and duties:

- Review with the external auditor, the audit scope and plan, including any changes to the planned scope of the audit plan;
- Review the adequacy of the internal audit scope and plan, functions and resources of the internal audit function and that it has the necessary authority to carry out its work;
- Review the external and internal audit reports to ensure that appropriate and prompt remedial action is taken by Management on major deficiencies in controls or procedures that are identified;
- Review major audit findings and the Management's response during the year with Management, external auditors and internal auditors, including the status of previous audit recommendations;
- Review the assistance given by the Group's officers to the auditors, and any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information;
- Review the independence and objectivity of the external auditors and their services, including non-audit services and the professional fees, so as to ensure a proper balance between objectivity and value for money;
- Review the appointment and performance of external auditors, the audit fee and any question of resignation or dismissal before making recommendations to the Board;
- Review budget and staffing of the internal audit function;
- Review the adequacy and integrity of internal control systems, including enterprise risk management, management information system, and the internal auditors' and/or external auditors' evaluation of the said systems;
- Direct and, where appropriate, supervise any special projects or investigation considered necessary, and review investigation reports on any major defalcations, frauds and thefts;

### RESPONSIBILITIES AND DUTIES (cont'd)

- Review the quarterly results and the year-end financial statements, prior to approval by the Board focusing particularly on:
  - changes in or implementation of major accounting policy changes;
  - significant or unusual events; and
  - compliance with accounting standards and other legal requirements;
- Review procedures in place to ensure that the Group is in compliance with the Companies Act 1965, Bursa Malaysia Listing Requirements and other legislative and reporting requirements;
- Review any related party transaction and conflict of interest situation that may arise within the Company or the Group, including any transaction, procedure or course of conduct that raises question on management integrity;
- Prepare reports, if the circumstances arise or at least once (1) a year, to the Board summarising the work performed in fulfilling the Committee's primary responsibilities; and
- Any other activities, as authorised by the Board.

Paragraph 15.27(b) of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”) requires that the Board of Directors of public listed companies include in its annual report a “statement about the state of internal control of the listed issuer as a group”. As the Board is committed to maintaining a sound system of internal control in the Group, it is pleased to provide the following statement, which outlines the nature and scope of internal control of the Group during the financial year ended 31 December 2003.

### BOARD RESPONSIBILITY

The Board acknowledges that it is ultimately responsible for the Group’s system of internal control, which includes the establishment of an appropriate control environment and framework as well as reviewing its adequacy and integrity. In view of the limitations that are inherent in any system of internal control, this system is designed to manage, rather than eliminate, the risk of failure to achieve the Group’s corporate objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or loss. Risk management, financial, organisational, operational and compliance controls are integral parts of the Group’s system of internal control.

### RISK MANAGEMENT FRAMEWORK

The Board fully supports the contents of the publication on “Statement on Internal Control - A Guidance for Directors of Public Listed Companies” and, accordingly, appointed a firm of consultants to carry out an Enterprise Risk Management (“ERM”) review of the Group. The main objective of this review is to formalise and embed a risk management process across the Group in order to sensitise all employees within the Group to risk identification, evaluation, control, ongoing monitoring and reporting. The ERM review was completed in February 2003. The formalisation of the Group’s Enterprise Risk Management framework encompasses the following initiatives, which were taken during the financial year:

- The issuance of a Risk Register, which is a compilation of principal business risks and controls of the Group. Within each principal business risk is a description of the risk, its causes, the likelihood of it occurring and the severity of impact upon such a risk occurring. These were obtained through interviews and workshops conducted with the Group Managing Director and operational managers/executives from the major business units in the Group;
- The development of a Group risk profile, which highlighted the top risk areas and summarised key findings;
- The issuance of a risk management policy and procedure document, which outlines the risk framework for the Group, specifying the reporting structure, and offering practical guidance to all employees on how to conduct risk assessment;
- The formation of a Group Risk Management Committee (“GRMC”), headed by the Group Managing Director was authorised by the Board during the year. The GRMC’s primary responsibility is to identify and communicate to the Board, on an ongoing basis, the critical risks the Group faces, their changes and action plans formulated by Management to manage the risks. At the date of this statement, the terms of reference for the GRMC and the appointment of additional members have yet to be formalised; and
- The execution of risk-based internal audit by an external firm of consultants to review the adequacy and integrity of the system of internal control in managing the risks faced by the Group.

Following the establishment of the Group’s enterprise risk management framework, the next steps in the risk management process are as follows:

- Nominate key management in each business unit to prepare action plans, with implementation time-scales to address the risk and control issues;
- Appoint a dedicated Risk Officer or outsource to consultants, as appropriate, to update the risk assessment of the Group; and
- Submit quarterly risk management reports prepared by individual business units to the Group Risk Management Committee for onward tabling before the Board.

### INTERNAL AUDIT FUNCTION

The Group outsourced its internal audit function to an independent firm of consultants, which provides the Board with much of the assurance it requires regarding the adequacy and integrity of the Group's system of internal control.

The internal audit function reviews the internal controls in the key activities of the Group's businesses based on a 3-year internal audit strategy and a detailed annual internal audit plan approved by the Audit Committee. The internal audit function adopts a risk-based approach and prepares its audit strategy and plan based on the risk profiles of the major business units of the Group. Recommendations for improvements noted by the internal audit function are followed up for implementation by Management.

During the financial year ended 31 December 2003, the internal audit function carried out 2 cycles of internal audit to test the existence and effectiveness of the system of internal control of the Group.

The Audit Committee considers reports from internal audit and management before reporting and making recommendations to the Board in strengthening risk management, internal control and governance systems.

### OTHER RISK AND CONTROL PROCESS

Apart from risk management and internal audit, the Board has put in place the following control processes to enhance the system of internal control:

- Diligent review of the quarterly financial results and reports and evaluating the reasons given for any unusual variances noted thereof by the Board and Audit Committee;
- Close involvement of the Group Managing Director in the running of the Group's operations. The Group Managing Director reports to the Board on significant changes in the business and external environmental factors that may impact the Group's operations; and
- An organisational structure with formally defined lines of responsibility and delegation of authority. A process of hierarchical reporting has been established, which provides for a documented and auditable trail of accountability. Policies and procedures in place and enforced in the Group include health and safety, training and development, equality of opportunity, staff performance and actions upon serious misconduct. These policies and procedures provide for continuous assurance to be given at increasingly higher levels of Management and, finally, to the Board.

### WEAKNESSES IN INTERNAL CONTROLS THAT RESULTED IN MATERIAL LOSSES

There were no material losses incurred during the financial year ended 31 December 2003 as a result of weaknesses in internal control. The Board, together with Management, continue to take measures to strengthen the control environment, as appropriate.

This statement is issued in accordance with a resolution of the Directors dated 22 April 2004.

# Financial Statements

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# DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003

The directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2003.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company.

The principal activities of its subsidiaries are set out in Note 3 to the financial statements.

There has been no significant change in the nature of these activities during the financial year other than as disclosed in Note 3 to the financial statements.

## RESULTS

	GROUP RM	COMPANY RM
Net profit for the year	12,305,981	15,600,091

## RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the year except as disclosed in the financial statements.

## DIVIDEND

Since the end of the previous financial year, the Company paid a first and final tax exempt dividend of 5 sen per share in respect of the financial year ended 31 December 2002 on 8 August 2003.

No final dividend in respect of the year ended 31 December 2003 has been recommended by the directors.

## DIRECTORS OF THE COMPANY

Directors who served since the date of the last report are:-

Dato' Mohd Desa bin Pachi	
Goh Cheng Huat	
Tan Sri Dato' Soong Siew Hoong	
Lim Leng Han	
Mohd Arif bin Mastol	
Datuk Abdullah Bin Kuntom	(Appointed on 2.10.2003)
Mohd Nizam bin Zainordin	(Resigned on 29.8.2003)
Tan Pak Say	(Ceased on 2.1.2004)
Goh Kee Seng	(Alternate directors to Tan Pak Say; ceased on 2.1.2004)

The holdings and deemed holdings in the ordinary shares of the Company and of its related company of those who were directors at year end as recorded in the Register of Directors' Shareholdings are as follows:-

The Company Name of Director	Ordinary shares of RM1 each					
	Balance at 1.1.2003	Direct Interest		Balance at 31.12.2003	Deemed Interest	
		Bought	(Sold)		Balance at 1.1.2003	Balance at 31.12.2003
Goh Cheng Huat	3,395,198	–	(20,000)	3,375,198	18,011,958	18,011,958
Tan Sri Dato' Soong Siew Hoong	50,000	–	–	50,000	–	–
Lim Leng Han	6,000	–	–	6,000	–	–

The Company Name of Director	Number of options over ordinary shares of RM1 each at an option price of RM1 each			
	Balance at 1.1.2003	Direct Interest		Balance at 31.12.2003
		Granted	Exercised	
Goh Cheng Huat	395,000	–	–	395,000

By virtue of his interests of more than 15% in the shares of the Company, Mr Goh Cheng Huat is also deemed to have interests in the shares of all the subsidiaries to the extent the Company has an interest.

None of the other directors holding office at 31 December 2003 had any interest in the ordinary shares of the Company and of its related companies during the financial year.

#### DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors as shown in the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest other than:

- i) Certain directors who may be deemed to derive benefits from those transactions entered in the ordinary course of business between certain subsidiaries and companies in which they have substantial financial interests;
- ii) Advisory fees paid by certain subsidiaries to certain directors in the ordinary course of business.

There were no arrangements during and at the end of the financial year which had the object of enabling directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate apart from the Employees' Share Option Scheme ("ESOS").

#### ISSUE OF SHARES AND DEBENTURES

During the financial year, the issued and paid-up share capital of the Company was increased from RM40,001,000 ordinary shares of RM1 each to RM40,824,000 ordinary shares of RM1 each by way of the issue of 823,000 ordinary shares of RM1 each at option price of RM1.00 per share exercised by the eligible employees pursuant to the ESOS.

There were no other changes in the issued and paid-up capital of the Company during the financial year.

**OPTIONS GRANTED OVER UNISSUED SHARES**

No options were granted to any person to take up unissued shares of the Company during the year apart from the issue of options pursuant to the ESOS.

The Company's ESOS was approved by the shareholders at the Extraordinary General Meeting held on 20 June 2002.

The salient features of ESOS are summarised as follows:

- a) The maximum number of shares of the Company which may be subscribed on the exercise of options granted under ESOS shall not, in aggregate, exceed ten per centum (10%) of the issued and paid-up share capital of the Company or such maximum percentage as allowable by the relevant authorities at any point of time during the existence of ESOS.
- b) The number of new shares that may be offered and allotted to any of the eligible Executive Directors and employees of the Group shall be at the discretion of the option committee after taking into consideration the performance, seniority and length of service of the eligible Executive Directors and employees in the Group under ESOS and such other factors that the option committee may deem relevant subject to the following:
  - i) not more than fifty per centum (50%) of the shares available under ESOS should be allocated, in aggregate, to Executive Directors and senior management of the Group; and
  - ii) not more than ten per centum (10%) of the shares available under ESOS should be allocated to any individual Executive Director or employee who, either singly or collectively through his/her associates, holds twenty per centum (20%) or more in the issued and paid-up share capital of the Company.
- c) ESOS shall continue to be in force for a period of ten (10) years from 12 August 2002.
- d) The price of each of the option share granted shall be set based on the 5-day weighted average market price of the Company's shares as quoted on the Malaysia Securities Exchange Berhad immediately preceding the date of offer with a discount of not more than ten per centum (10%), if deemed appropriate, or such lower or higher limit in accordance with any prevailing guidelines issued by the Securities Commission or any other relevant authorities as amended from time to time, or at the par value of each of the share of the Company, whichever is higher; and
- e) The new shares to be allotted and issued upon exercise of any option shall upon allotment rank pari passu in all respects with the existing issued and paid-up share capital of the Company except the new shares so allotted shall not be entitled to any dividend, rights, allotment or other distribution unless the shares so allotted have been credited into the relevant securities accounts maintained by Malaysian Central Depository Sdn. Bhd. ("MCD") before the entitlement date of the dividend, rights, allotment or other distribution, and will be subject to all the provision of the Articles of Association of the Company relating to the transfer, transmission or otherwise of the shares of the Company.

The options offered to take up unissued ordinary shares of RM1 each at the option price of RM1 each are as follows:

Date of offer	Number of Options over Ordinary Shares of RM1 each				Balance at 31.12.2003
	Balance at 1.1.2003	Granted	Exercised	Lapsed due to resignation	
20 June 2002	3,252,000	-	(823,000)	(57,000)	2,372,000

## OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps to ascertain that:

- i) all known bad debts have been written off and adequate provision made for doubtful debts; and
- ii) all current assets have been stated at the lower of cost and net realisable value.

At the date of this report, the directors are not aware of any circumstances:

- i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts in the Group and in the Company inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the Group and in the Company financial statements misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

- i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the directors, except for the changes in accounting policies as disclosed in Note 27 to the financial statements, the results of the operations of the Group and of the Company for the financial year ended 31 December 2003 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

## AUDITORS

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed in accordance with a resolution of the directors:

### **DATO' MOHD DESA BIN PACHI**

*Director*

### **GOH CHENG HUAT**

*Director*

Penang,  
Date: 19 April 2004

## STATEMENT BY DIRECTORS

PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

In the opinion of the directors, the financial statements set out on pages 30 to 59, are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2003 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the directors:

**DATO' MOHD DESA BIN PACHI**

*Director*

**GOH CHENG HUAT**

*Director*

Penang,

Date: 19 April 2004

## STATUTORY DECLARATION

PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, GOH CHENG HUAT, the director primarily responsible for the financial management of LEADER STEEL HOLDINGS BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 30 to 59 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by )  
the abovenamed GOH CHENG HUAT at )  
Georgetown in the State of Penang )  
on 19 April 2004. )

BEFORE ME:

**CHAI CHOON KIAT, PJM**

(No.P073)

COMMISSIONER FOR OATHS

# REPORT OF THE AUDITORS TO THE MEMBERS

OF LEADER STEEL HOLDINGS BERHAD (Company No. 267209 - K)

(Incorporated in Malaysia)

We have audited the financial statements set out on pages 30 to 59. The preparation of the financial statements is the responsibility of the Company's directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

- a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
  - i) the state of affairs of the Group and of the Company at 31 December 2003 and the results of their operations and cash flows for the year ended on that date; and
  - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company;

and

- b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The audit reports on the financial statements of the subsidiaries were not subject to any qualification nor included any comment made under sub-section (3) of Section 174 of the Act.

## **KPMG**

Firm No: AF: 0758

*Chartered Accountants*

## **NG SWEE WENG**

*Partner*

Approval No: 1414/03/06 (J/PH)

Penang,

Date: 19 April 2004

# CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2003

	NOTE	2003 RM	2002 RM (Restated)
<b>PROPERTY, PLANT AND EQUIPMENT</b>	2	<b>58,838,329</b>	57,822,645
<b>OTHER INVESTMENT</b>	4	<b>1,736,157</b>	1,736,157
<b>GOODWILL ON CONSOLIDATION</b>	5	–	–
<b>CURRENT ASSETS</b>			
Inventories	6	<b>28,384,993</b>	22,457,971
Trade and other receivables	7	<b>14,767,814</b>	7,267,386
Tax refundable		<b>598,744</b>	255
Cash and cash equivalents	8	<b>3,336,371</b>	1,159,813
		<b>47,087,922</b>	30,885,425
<b>CURRENT LIABILITIES</b>			
Trade and other payables	9	<b>6,819,741</b>	3,381,832
Borrowings	10	<b>26,030,286</b>	21,593,105
Taxation		–	2,461,572
		<b>32,850,027</b>	27,436,509
<b>NET CURRENT ASSETS</b>		<b>14,237,895</b>	3,448,916
		<b>74,812,381</b>	63,007,718
Financed by:			
<b>SHARE CAPITAL</b>	11	<b>40,824,000</b>	40,001,000
<b>RESERVES</b>	12	<b>26,566,189</b>	16,574,540
<b>SHAREHOLDERS' FUNDS</b>		<b>67,390,189</b>	56,575,540
<b>BORROWINGS</b>	10	<b>822,232</b>	1,119,218
<b>DEFERRED TAX LIABILITIES</b>	13	<b>6,599,960</b>	5,312,960
		<b>74,812,381</b>	63,007,718

The financial statements were approved and authorised for issue by the Board of Directors on 19 April 2004.  
The notes set out on pages 39 to 59 form an integral part of, and should be read in conjunction with, these financial statements.

# CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003

	NOTE	2003 RM	2002 RM
Revenue	15	<b>100,382,702</b>	87,894,116
Changes in manufactured inventories and work-in-progress		<b>(581,737)</b>	1,881,740
Raw materials and trading inventories used		<b>(75,621,402)</b>	(59,861,167)
Staff costs	16	<b>(2,949,999)</b>	(3,656,108)
Depreciation and amortisation expenses		<b>(4,321,428)</b>	(4,053,540)
Operating expenses		<b>(6,818,653)</b>	(11,394,308)
Other operating income		<b>4,929,037</b>	2,148,622
Operating profit	17	<b>15,018,520</b>	12,959,355
Financing costs	18	<b>(838,409)</b>	(1,817,484)
Profit before taxation		<b>14,180,111</b>	11,141,871
Tax expense	19	<b>(1,874,130)</b>	(4,539,425)
Profit after taxation		<b>12,305,981</b>	6,602,446
Minority interest		–	2,533,229
Net profit for the year		<b>12,305,981</b>	9,135,675
Basic earnings per ordinary share (sen)	20	<b>30.54</b>	22.84
Diluted earnings per ordinary share (sen)	20	<b>30.03</b>	22.77
Dividend per ordinary share (sen) - net	21	–	5

The notes set out on pages 39 to 59 form an integral part of, and should be read in conjunction with, these financial statements.



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2003

	← Non-distributable →			← Distributable →		Total RM
	Share Capital RM	Share Premium RM	Exchange Fluctuation Reserve RM	Capital Reserve RM	Retained Profits RM	
<b>At 1 January 2002</b>						
- As previously reported	39,996,000	3,660,003	310,332	283,606	3,994,884	48,244,825
- Effect of adopting MASB 25 (Note 27)	—	—	—	—	(809,960)	(809,960)
- As restated	39,996,000	3,660,003	310,332	283,606	3,184,924	47,434,865
Issue of shares	5,000	—	—	—	—	5,000
Net profit for the year	—	—	—	—	9,135,675	9,135,675
<b>At 31 December 2002</b>	<b>40,001,000</b>	<b>3,660,003</b>	<b>310,332</b>	<b>283,606</b>	<b>12,320,599</b>	<b>56,575,540</b>
<b>At 1 January 2003</b>						
- As previously reported	40,001,000	3,660,003	310,332	283,606	13,130,559	57,385,500
- Effect of adopting MASB 25 (Note 27)	—	—	—	—	(809,960)	(809,960)
- As restated	40,001,000	3,660,003	310,332	283,606	12,320,599	56,575,540
Liquidation of subsidiaries	—	—	(310,332)	—	—	(310,332)
Issue of shares	823,000	—	—	—	—	823,000
Net profit for the year	—	—	—	—	12,305,981	12,305,981
Dividend (Note 21)	—	—	—	—	(2,004,000)	(2,004,000)
<b>At 31 December 2003</b>	<b>40,824,000</b>	<b>3,660,003</b>	<b>—</b>	<b>283,606</b>	<b>22,622,580</b>	<b>67,390,189</b>

The notes set out on pages 39 to 59 form an integral part of, and should be read in conjunction with, these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 RM	2002 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	14,180,111	11,141,871
Adjustments for:		
Amortisation of goodwill	–	11,983
Impairment loss on goodwill	–	225,244
Gain on liquidation/disposal of subsidiaries	(132,154)	(797,284)
Depreciation	4,321,428	4,041,557
Impairment loss on - plant and equipment	200,000	3,898,594
- other investment	–	578,719
Gain on disposal of plant and equipment	–	(87,819)
Interest expense	838,409	1,817,484
Interest income	(31,974)	(62,156)
Impairment loss on plant and equipment written back	(3,500,000)	–
Operating profit before working capital changes	15,875,820	20,768,193
(Increase)/Decrease in:		
Inventories	(5,927,022)	(3,906,046)
Trade and other receivables	(7,756,076)	49,545
Increase in:		
Trade and other payables	3,695,138	2,549,995
Cash generated from operations	5,887,860	19,461,687
Income tax paid	(3,647,191)	(2,245,726)
Interest paid	(838,409)	(1,817,484)
Interest received	31,974	62,156
Net cash generated from operating activities	1,434,234	15,460,633
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(2,099,337)	(1,080,874)
Proceeds from disposal of plant and equipment	62,225	400,438
Increase in equity interest in an existing subsidiary	–	(490,000)
Net (outflow)/inflow on liquidation/disposal of subsidiaries (Note A)	(179,759)	559,992
Net cash used in investing activities	(2,216,871)	(610,444)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings, net	12,882,264	(5,892,002)
Draw down of term loans	–	1,189,787
Repayment of term loans	(3,881,107)	(6,443,327)
Proceeds from issue of shares	823,000	5,000
Dividend paid	(2,004,000)	–
Net cash generated from/(used in) financing activities	7,820,157	(11,140,542)
Net increase in cash and cash equivalents	7,037,520	3,709,647
Cash and cash equivalents at beginning of year	(3,701,149)	(7,410,796)
Cash and cash equivalents at end of year (Note B)	3,336,371	(3,701,149)

# CONSOLIDATED CASH FLOW STATEMENT CONT'D

FOR THE YEAR ENDED 31 DECEMBER 2003

## NOTES TO CONSOLIDATED CASH FLOW STATEMENT

### A. Analysis of liquidation/disposal of subsidiaries

The fair value of assets disposed and liabilities relieved are as follows:

	2003 RM	2002 RM
Non-current assets		
Property, plant and equipment	–	2,813,028
Investment in associate	–	157,500
Goodwill on consolidation	–	227,676
	–	3,198,204
Current assets	435,407	2,313,847
Current liabilities	(257,229)	(3,819,151)
Long term liabilities	–	(1,873,115)
Net assets/(liabilities)	178,178	(180,215)
Exchange fluctuation reserve realised	(310,332)	–
Gain on liquidation/disposal	132,154	797,284
Consideration received	–	617,069
Cash and cash equivalents disposed of	(179,759)	(57,077)
Net (outflow)/inflow	(179,759)	559,992

### B. Cash and Cash Equivalents

Cash and cash equivalents included in the consolidated cash flow statement comprise the following balance sheet amounts:

	2003 RM	2002 RM
Short term deposits with a licensed bank	2,050,000	–
Cash and bank balances	1,286,371	1,159,813
Bank overdrafts	–	(4,860,962)
	3,336,371	(3,701,149)

The notes set out on pages 39 to 59 form an integral part of, and should be read in conjunction with, these financial statements.

# BALANCE SHEET

AT 31 DECEMBER 2003

	NOTE	2003 RM	2002 RM
<b>INVESTMENT IN SUBSIDIARIES</b>	3	<b>22,656,773</b>	22,656,773
<b>OTHER INVESTMENT</b>	4	<b>1,736,157</b>	1,736,157
<b>CURRENT ASSETS</b>			
Other receivables	7	<b>41,294,331</b>	24,937,451
Tax refundable		<b>19,946</b>	255
Cash and cash equivalents	8	<b>14,220</b>	262
		<b>41,328,497</b>	24,937,968
<b>CURRENT LIABILITIES</b>			
Other payables	9	<b>2,673,802</b>	702,364
		<b>2,673,802</b>	702,364
<b>NET CURRENT ASSETS</b>			
		<b>38,654,695</b>	24,235,604
		<b>63,047,625</b>	48,628,534
Financed by:			
<b>SHARE CAPITAL</b>	11	<b>40,824,000</b>	40,001,000
<b>RESERVES</b>	12	<b>22,223,625</b>	8,627,534
<b>SHAREHOLDERS' FUNDS</b>		<b>63,047,625</b>	48,628,534

The notes set out on pages 39 to 59 form an integral part of, and should be read in conjunction with, these financial statements.

# INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003

	NOTE	2003 RM	2002 RM
Revenue	15	20,077,777	7,558,000
Operating expenses		(480,316)	(2,627,216)
Other operating income		260,716	–
Profit before taxation	17	19,858,177	4,930,784
Tax expense	19	(4,258,086)	(394,240)
Net profit for the year		<b>15,600,091</b>	4,536,544
Dividend per ordinary share (sen) - net	21	–	5

The notes set out on pages 39 to 59 form an integral part of, and should be read in conjunction with, these financial statements.

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2003

	Share Capital RM	Share Premium RM	Retained Profits RM	Total RM
<b>At 1 January 2002</b>	39,996,000	3,660,003	430,987	44,086,990
Issue of shares	5,000	–	–	5,000
Net profit for the year	–	–	4,536,544	4,536,544
<b>At 31 December 2002</b>	40,001,000	3,660,003	4,967,531	48,628,534
Issue of shares	823,000	–	–	823,000
Net profit for the year	–	–	15,600,091	15,600,091
Dividend (Note 21)	–	–	(2,004,000)	(2,004,000)
<b>At 31 December 2003</b>	<b>40,824,000</b>	<b>3,660,003</b>	<b>18,563,622</b>	<b>63,047,625</b>

The notes set out on pages 39 to 59 form an integral part of, and should be read in conjunction with, these financial statements.

# CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 RM	2002 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	19,858,177	4,930,784
Adjustments for:		
Loss on liquidation of a subsidiary	–	199,570
Impairment loss on investment in subsidiaries	–	882,825
Allowance for diminution in value of investments	–	578,719
Dividend income	(20,077,777)	(7,558,000)
Operating loss before working capital changes	(219,600)	(966,102)
Increase in other receivables	(16,356,880)	(5,952,201)
Increase in other payables	1,971,438	121,926
Cash used in operations	(14,605,042)	(6,796,377)
Dividend received	15,800,000	7,163,760
Net cash generated from operating activities	1,194,958	367,383
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in equity interest in an existing subsidiary	–	(490,000)
Proceeds from liquidation of subsidiaries	–	100,430
Proceeds from disposal of subsidiary	–	2
Net cash used in investing activities	–	(389,568)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	823,000	5,000
Dividend paid	(2,004,000)	–
Net cash (used in)/generated from financing activities	(1,181,000)	5,000
Net increase/(decrease) in cash and cash equivalents	13,958	(17,185)
Cash and cash equivalents at beginning of year	262	17,447
Cash and cash equivalents at end of year (Note 8)	14,220	262

The notes set out on pages 39 to 59 form an integral part of, and should be read in conjunction with, these financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies are adopted by the Group and the Company and are consistent with those adopted in previous years, except for the adoption of the following :

- i) MASB 25, Income Taxes;
- ii) MASB 27, Borrowing Costs; and
- iii) MASB 29, Employee Benefits.

Apart from the inclusion of the new policies and extended disclosures where required by the standard, the effects of the changes in the above accounting policies are disclosed in Note 27 to these financial statements.

### 1.1 Basis of Accounting

The financial statements of the Group and of the Company are prepared on the historical cost basis except as disclosed in the notes to the financial statements and in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

### 1.2 Basis of Consolidation

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiaries are consolidated using the acquisition method of accounting except for Leader Steel Sdn. Bhd. which is consolidated using the merger method of accounting. Merger method of accounting for the consolidation of Leader Steel Sdn. Bhd. is continued to be applied in line with the transition provision of MASB 21 Business Combination which allows the Group to apply the standard prospectively.

A subsidiary is excluded from consolidation when control is intended to be temporary if the subsidiary is acquired and held exclusively with a view of its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company. Subsidiaries excluded on these grounds are accounted for as investments.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Group financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or negative goodwill as appropriate.

Under the merger method of accounting, the results of the subsidiaries are presented as if the companies had been combined throughout the current and previous financial years. The difference between the cost of acquisition and the nominal value of the share capital and reserves of the merged subsidiaries is taken to merger reserve.

Intragroup transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

### 1.3 Property, Plant and Equipment

Property, plant and equipment are stated at cost/valuation less accumulated depreciation and accumulated impairment losses.

It is the Group's policy to state property, plant and equipment at cost. The revaluation of the properties as shown in Note 2 was carried out primarily for the purpose of the listing exercise carried out by the Company then and was not intended to effect a change in accounting policy to one of revaluation of properties. Hence, in accordance with the transitional provisions issued by Malaysian Accounting Standards Board ("MASB") upon adoption of International Accounting Standards No. 16 (Revised) on Property, Plant and Equipment, the valuation of these properties has not been updated and they continue to be stated at their existing carrying amounts less accumulated depreciation and impairment losses. The directors are of the opinion that the current market values of the revalued properties are not less than their net book values as at 31 December 2003.



### 1.3 Property, Plant and Equipment (Cont'd)

Surpluses arising from the above revaluation are dealt with in the property revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statement.

Property, plant and equipment retired from active use and held for disposal are stated at the carrying amount at the date when the asset is retired from active use, less impairment losses, if any.

#### Depreciation

Leasehold land is amortised in equal instalments over the period of the lease of 60 years. On other property, plant and equipment, depreciation is calculated to write off the cost or valuation of the assets concerned on a straight line basis over their expected useful lives at the following principal annual rates:

	%
Factory buildings	2
Staff quarters	2
Plant and machinery	7 - 33 1/3
Furniture, fittings and office equipment	8 - 10
Electrical and other installations	14
Tools and equipment	7 - 10
Renovation	10
Motor vehicles	14

### 1.4 Impairment

The carrying amount of assets, other than inventories and financial assets (other than investment in subsidiaries), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to equity.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The reversal is recognised in the income statement, unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

### 1.5 Investments

Long term investment other than in subsidiaries, is stated at cost. An allowance is made when the directors are of the view that there is a diminution in their value which is other than temporary.

Long term investment in subsidiaries is stated at cost in the Company, less impairment loss where applicable.

### 1.6 Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair values of the net identifiable assets acquired and is stated at cost less accumulated amortisation and accumulated impairment losses (refer Note 1.4).

Goodwill is amortised from the date of initial recognition over its estimated useful life of 25 years.

### 1.7 Inventories

Inventories are stated at the lower of cost and net realisable value with first-in, first-out cost being the main basis for cost.

For work-in-progress and manufactured inventories, cost consists of materials, direct labour and an appropriate proportion of fixed and variable production overheads.

### 1.8 Trade and Other Receivables

Trade and other receivables are stated at cost less allowance for doubtful debts.

### 1.9 Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

### 1.10 Provisions

A provision is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation (legal or constructive) as a result of a past event and a reliable estimate can be made of the amount.

### 1.11 Liabilities

Borrowings and trade and other payables are stated at cost.

### 1.12 Income Recognition

#### i) Goods and services rendered

Revenue from sale of goods is measured at the fair value of the consideration receivable and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue from services rendered is recognised in the income statement upon the rendering of services.

#### ii) Dividend income

Dividend income is recognised when the right to receive payment is established.

#### iii) Interest income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

### 1.13 Financing Costs

All interest and other costs incurred in connection with borrowings are expensed as incurred.

#### 1.14 Income Tax

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting or taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

#### 1.15 Foreign Currency

##### i) Foreign currency transactions

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies which are stated at historical cost, are translated to Ringgit Malaysia at the foreign exchange rates ruling at the date of the transactions.

##### ii) Financial statements of foreign operations

The Group's foreign operations are not considered an integral part of the Company's operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Ringgit Malaysia at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Ringgit Malaysia at average rates applicable throughout the year. Foreign exchange differences arising on translation are recognised directly in equity.

The closing rates used in the translation of foreign currency monetary assets and liabilities and the financial statements of foreign operations are as follows :

	2003 RM	2002 RM
USD 1	3.80	3.80
SGD 1	2.17	2.16

#### 1.16 Employee Benefits

##### i) Defined contribution plans

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

##### ii) Equity and equity-related compensation benefits

The share option programme allows Group employees to acquire shares of the Company. When the options are exercised, equity is increased by the amount of the proceeds received.

2. PROPERTY, PLANT AND EQUIPMENT - GROUP

Valuation/Cost	Land and buildings RM	Plant and machinery RM	Furniture and fittings and office equipment RM	Electrical and other installations RM	Tools and equipment RM	Renovation RM	Motor vehicles RM	Capital work-in-progress RM	Total RM
At 1 January 2003	24,910,861	60,337,316	2,533,903	2,892,327	2,074,721	-	1,573,446	1,594,378	95,916,952
Additions	-	1,541,223	32,114	-	5,200	-	42,000	478,800	2,099,337
Disposals	-	(67,331)	-	-	-	-	-	-	(67,331)
<b>At 31 December 2003</b>	<b>24,910,861</b>	<b>61,811,208</b>	<b>2,566,017</b>	<b>2,892,327</b>	<b>2,079,921</b>	<b>-</b>	<b>1,615,446</b>	<b>2,073,178</b>	<b>97,948,958</b>
Accumulated Depreciation and Accumulated Impairment Losses									
At 1 January 2003	3,359,989	24,576,375	1,409,313	1,648,642	1,736,069	-	1,465,325	-	34,195,713
- Accumulated depreciation	-	3,500,000	-	-	-	-	-	398,594	3,898,594
- Accumulated impairment losses	3,359,989	28,076,375	1,409,313	1,648,642	1,736,069	-	1,465,325	398,594	38,094,307
Depreciation charge for the year	483,110	3,362,939	212,687	106,776	82,938	-	72,978	-	4,321,428
Impairment loss for the year	-	-	-	-	-	-	-	200,000	200,000
Disposals	-	(5,106)	-	-	-	-	-	-	(5,106)
Impairment loss written back	-	(3,500,000)	-	-	-	-	-	-	(3,500,000)
At 31 December 2003	3,843,099	27,934,208	1,622,000	1,755,418	1,819,007	-	1,538,303	-	38,512,035
- Accumulated depreciation	-	-	-	-	-	-	-	598,594	598,594
- Accumulated impairment losses	3,843,099	27,934,208	1,622,000	1,755,418	1,819,007	-	1,538,303	598,594	39,110,629
<b>Net Book Value</b>									
<b>At 31 December 2003</b>	<b>21,067,762</b>	<b>33,877,000</b>	<b>944,017</b>	<b>1,136,909</b>	<b>260,914</b>	<b>-</b>	<b>77,143</b>	<b>1,474,584</b>	<b>58,838,329</b>
At 31 December 2002	21,550,872	32,260,941	1,124,590	1,243,685	338,652	-	108,121	1,195,784	57,822,645
For The Year Ended 31 December 2002									
- Depreciation charge	482,492	2,954,174	228,784	124,045	91,039	11,048	139,975	-	4,041,557
- Impairment losses	-	3,500,000	-	-	-	-	-	398,594	3,898,594

## 2. PROPERTY, PLANT AND EQUIPMENT - GROUP (Cont'd)

Land and buildings comprise:

	Valuation/Cost		Net Book Value	
	2003 RM	2002 RM	2003 RM	2002 RM
<b>At valuation</b>				
Long term leasehold land	4,295,000	4,295,000	3,604,607	3,678,659
Factory buildings	3,805,000	3,805,000	3,102,417	3,178,517
<b>At cost</b>				
Long term leasehold land	1,028,306	1,028,306	860,381	877,757
Factory buildings	15,538,679	15,538,679	13,293,876	13,604,580
Staff quarters	243,876	243,876	206,481	211,359
	<b>24,910,861</b>	<b>24,910,861</b>	<b>21,067,762</b>	<b>21,550,872</b>

### Security

Certain plant and machinery of the Group with the net book value of RM10,038,114 (2002 : RM9,768,405) are charged to a bank as security for term loan facility (refer Note 10).

### Revaluation

The long term leasehold land and factory buildings are shown at Directors' valuation based on a valuation exercise carried out in 1995 by a firm of professional valuers on an open market value basis, modified by Government valuers as approved by the Securities Commission. Subsequent additions are shown at cost while deletions are at valuation or cost as appropriate.

Had the land and building been carried at historical cost less accumulated depreciation, the carrying amount of revalued assets that would have been included in the financial statements at the end of the year would be as follows:

	Cost RM	Accumulated Depreciation RM	Net Book Value RM
<b>2003</b>			
Long term leasehold land	2,916,669	576,850	2,339,819
Factory buildings	2,152,495	432,157	1,720,338
	<b>5,069,164</b>	<b>1,009,007</b>	<b>4,060,157</b>
<b>2002</b>			
Long term leasehold land	2,916,669	528,239	2,388,430
Factory buildings	2,152,495	389,107	1,763,388
	<b>5,069,164</b>	<b>917,346</b>	<b>4,151,818</b>

The title deed to a piece of leasehold land with a net book value of RM860,381 (2002 : RM877,757) belonging to a subsidiary has yet to be issued by the relevant authority pending the settlement of the land premium.

Plant and equipment with a net book value of RM13,739,888 (2002 : RM10,560,986) and retired from active use in the previous financial year has, in the current financial year resumed its production activity. Accordingly, RM3,500,000 of the initially recognised impairment loss was written back during the year.

### 3. INVESTMENT IN SUBSIDIARIES

	COMPANY	
	2003 RM	2002 RM
Unquoted shares, at cost	22,656,803	24,989,598
Less: Impairment losses	(30)	(2,332,825)
	<b>22,656,773</b>	<b>22,656,773</b>

Details of the subsidiaries are as follows:

Name of Subsidiary	Principal Activities	Effective interest held by the Group	
		2003	2002
<b>Held by the Company</b>			
Leader Steel Sdn. Bhd.	Manufacture and trading of steel products	100%	100%
Leader Steel Marketing Sdn. Bhd.	Commission agent	–	100%
Leader Steel Tubes Sdn. Bhd.	Manufacture and sale of steel products	100%	100%
Leader Steel Service Centre Sdn. Bhd.	Manufacture and trading of steel products	100%	100%
Leader Steel Australia Pty Ltd	Trading and distribution of steel products	–	99%
Leader Steel Technology Sdn. Bhd.	Manufacture and sale of steel product making machinery	100%	100%
Leader Steel Asia Sdn. Bhd. (Formerly known as First Hope Sdn. Bhd.)	Dormant	100%	100%

All the above subsidiaries are incorporated in Malaysia except for Leader Steel Australia Pty Ltd which is incorporated in Australia.

#### Liquidation

- i) On 21 March 2003, one of the subsidiaries, Leader Steel Marketing Sdn. Bhd. ("LSM") was placed under the members' voluntary winding up. LSM contributed loss of RM11,700 to the consolidated results for the year ended 31 December 2003 and profit of RM39,000 to the consolidated results for the year ended 31 December 2002.
- ii) On 4 May 2003, one of the subsidiaries, Leader Steel Australia Pty Ltd has been officially deregistered. There was no contribution from this subsidiary during the year and for the year ended 31 December 2002.

### 4. OTHER INVESTMENT

	GROUP/COMPANY	
	2003 RM	2002 RM
Unquoted shares, at cost	2,564,876	2,564,876
Less: Allowance for diminution in value	(828,719)	(828,719)
	<b>1,736,157</b>	<b>1,736,157</b>

5. GOODWILL ON CONSOLIDATION

	GROUP	
	2003 RM	2002 RM
<b>Cost</b>		
Balance at 1 January	225,244	299,574
Acquisition of a subsidiary	–	225,244
Disposal of subsidiaries	–	(299,574)
Balance at 31 December	225,244	225,244
Less: Accumulated amortisation and impairment losses		
Balance at 1 January	(225,244)	(59,915)
Amortisation charge for the year (Note 17)	–	(11,983)
Impairment loss for the year (Note 17)	–	(225,244)
Disposal of subsidiaries	–	71,898
Balance at 31 December	(225,244)	(225,244)
Net book value at 31 December	–	–

6. INVENTORIES

	GROUP	
	2003 RM	2002 RM
Raw materials	22,746,354	16,336,992
Work-in-progress	537,959	357,565
Manufactured inventories	4,675,870	5,438,001
Trading inventories	424,810	323,630
Consumables	–	1,783
	<b>28,384,993</b>	<b>22,457,971</b>

The following inventories are carried at net realisable value:

	2003 RM	2002 RM
Raw materials	270,893	353,920
Work-in-progress	186,461	86,416
Manufactured inventories	256,275	57,142
Trading inventories	186,106	1,955
	<b>899,735</b>	<b>499,433</b>

During the year ended 31 December 2003, there was a reversal of write down of inventories of RM467,939. The reversal arose from an increase in net realisable value of the inventories.

**7. TRADE AND OTHER RECEIVABLES**

	GROUP		COMPANY	
	2003 RM	2002 RM	2003 RM	2002 RM
Trade receivables	13,624,466	6,738,393	–	–
Amount due from companies in which certain directors have substantial financial interests	2,005	4,886	–	–
	<b>13,626,471</b>	<b>6,743,279</b>	<b>–</b>	<b>–</b>
Other receivables				
Amount due from subsidiaries	–	–	41,293,331	24,936,451
Other receivables, deposits and prepayments	1,141,343	524,107	1,000	1,000
	<b>14,767,814</b>	<b>7,267,386</b>	<b>41,294,331</b>	<b>24,937,451</b>

**8. CASH AND CASH EQUIVALENTS**

	GROUP		COMPANY	
	2003 RM	2002 RM	2003 RM	2002 RM
Short term deposits with a licensed bank	2,050,000	–	–	–
Cash and bank balances	1,286,371	1,159,813	14,220	262
	<b>3,336,371</b>	<b>1,159,813</b>	<b>14,220</b>	<b>262</b>

**9. TRADE AND OTHER PAYABLES**

	GROUP		COMPANY	
	2003 RM	2002 RM	2003 RM	2002 RM
Trade payables	5,140,903	2,091,977	–	–
Amount due to subsidiaries	–	–	2,430,875	670,373
Other payables	1,678,838	1,289,855	242,927	31,991
	<b>6,819,741</b>	<b>3,381,832</b>	<b>2,673,802</b>	<b>702,364</b>

The amount due to subsidiaries is unsecured, interest-free and has no fixed terms of repayment.



## 10. BORROWINGS

	GROUP	
	2003 RM	2002 RM
Current:		
Bank overdrafts - unsecured	–	4,860,962
Other borrowings		
Term loans - secured	199,819	199,819
Term loans - unsecured	16,467	3,600,588
Bankers' acceptances - unsecured	24,664,000	11,182,000
Revolving credit - unsecured	1,150,000	1,749,736
	<b>26,030,286</b>	16,732,143
	<b>26,030,286</b>	21,593,105
Non-current:		
Term loans - secured	783,532	989,968
Term loans - unsecured	38,700	129,250
	<b>822,232</b>	1,119,218
	<b>26,852,518</b>	22,712,323

### Term and debt repayment schedule

The above unsecured bank borrowings are subject to interest rates ranging from 3.72% to 8.10% (2002 : 3.65% to 8.90%) per annum. These borrowings are guaranteed by the Company.

The secured term loan is subject to interest at 7% (2002 : 7%) per annum and is repayable in equal instalments for a period of 6 years. The term loan facility is secured against first fixed charge over certain plant and machinery (see Note 2) of the Group by way of debenture and a corporate guarantee executed by the Company.

	Total RM	Under 1 year RM	1 - 2 years RM	2 - 5 years RM	Over 5 years RM
<b>Term loans</b>					
<b>2003</b>					
- secured	983,351	199,819	199,819	583,713	–
- unsecured	55,167	16,467	16,468	22,232	–
<b>2002</b>					
- secured	1,189,787	199,819	199,819	599,458	190,691
- unsecured	3,729,838	3,600,588	81,490	47,760	–

## 11. SHARE CAPITAL

	GROUP	
	2003 RM	2002 RM
Ordinary shares of RM1 each		
Authorised	100,000,000	100,000,000
Issued and fully paid:		
Balance at beginning of year	40,001,000	39,996,000
Exercise of ESOS	823,000	5,000
Balance at end of year	<b>40,824,000</b>	40,001,000

## 12. RESERVES

	GROUP		COMPANY	
	2003 RM	2002 RM (Restated)	2003 RM	2002 RM
Non-distributable				
Share premium	3,660,003	3,660,003	3,660,003	3,660,003
Exchange fluctuation reserve	–	310,332	–	–
	<b>3,660,003</b>	<b>3,970,335</b>	<b>3,660,003</b>	<b>3,660,003</b>
Distributable				
Capital reserve	283,606	283,606	–	–
Retained profits	22,622,580	12,320,599	18,563,622	4,967,531
	<b>22,906,186</b>	<b>12,604,205</b>	<b>18,563,622</b>	<b>4,967,531</b>
	<b>26,566,189</b>	<b>16,574,540</b>	<b>22,223,625</b>	<b>8,627,534</b>

Capital reserve of the Group represents gain on disposal of freehold land by a subsidiary.

## 13. DEFERRED TAX LIABILITIES

The recognised deferred tax liabilities are as follows:

	GROUP	
	2003 RM	2002 RM (Restated)
Property, plant and equipment		
- capital allowances	5,790,000	4,503,000
- revaluation	809,960	809,960
	<b>6,599,960</b>	<b>5,312,960</b>

The unrecognised deferred tax assets are as follows:

	GROUP	
	2003 RM	2002 RM
Deductible temporary differences	230,000	1,857,000
Unutilised tax losses	(1,698,000)	(1,698,000)
Unabsorbed capital allowances	(1,102,000)	(2,593,000)
	<b>(2,570,000)</b>	<b>(2,434,000)</b>

The unutilised tax losses, unabsorbed capital allowances and deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

The Group has unutilised tax losses carried forward of RM6,066,000 (2002 : RM6,066,000) which give rise to the unrecognised deferred tax assets in respect of unutilised tax losses above.

#### 14. EMPLOYEE BENEFITS

##### Equity compensation benefits

##### Share option plan

The Group offers vested share options over ordinary shares to Executive Directors and other senior employees with more than one year service. Movements in the number of share options held by employees are as follows:

	GROUP AND COMPANY	
	2003	2002
Outstanding at 1 January	3,252,000	–
Issued	–	3,267,000
Exercised	(823,000)	(5,000)
Lapsed due to resignation	(57,000)	(10,000)
Outstanding at 31 December	2,372,000	3,252,000

Details of share options exercised during the year:

Expiry date	Exercise price per ordinary share (RM)	Aggregate issue proceeds	Fair value at date of issue
11 August 2011	1.00	823,000	1,393,000

Terms of the options outstanding at 31 December:

Expiry date	Exercise price	Number
11 August 2011	RM1.00	2,372,000

#### 15. REVENUE

Revenue comprises the following:

	GROUP		COMPANY	
	2003 RM	2002 RM	2003 RM	2002 RM
Manufacturing	100,382,702	87,894,116	–	–
Dividends	–	–	20,077,777	7,558,000
	100,382,702	87,894,116	20,077,777	7,558,000

## 16. EMPLOYEE INFORMATION

	GROUP		COMPANY	
	2003 RM	2002 RM	2003 RM	2002 RM
Salaries and wages	2,249,054	2,200,877	–	–
EPF contribution	315,106	293,883	–	–
Socso contribution	26,936	27,601	–	–
Other staff related expenses	358,903	1,133,747	–	–
Staff costs	2,949,999	3,656,108	–	–

The number of employees of the Group and of the Company (including executive directors) at the end of the year was 126 (2002 : 107) and NIL (2002 : NIL) respectively.

## 17. OPERATING PROFIT

Operating profit is arrived at after charging:

	GROUP		COMPANY	
	2003 RM	2002 RM	2003 RM	2002 RM
Auditors' remuneration				
- current year	39,500	49,000	3,000	5,000
- prior year	3,000	–	8,000	–
Bad debts written off	–	725,941	–	725,941
Depreciation (Note 2)	4,321,428	4,041,557	–	–
Impairment loss on plant and equipment	200,000	3,898,594	–	–
Directors' emoluments				
- Directors of the Company				
- fees	135,000	21,000	135,000	21,000
- others	646,028	595,828	12,500	11,500
- Other directors				
- others	145,870	275,925	–	–
Goodwill (Note 5)				
- Amortisation	–	11,983	–	–
- Impairment loss	–	225,244	–	–
Inventory written down	–	1,148,485	–	–
Impairment loss on investment in subsidiaries	–	–	–	882,825
Allowance for diminution in value for other investment	–	578,719	–	578,719
Loss on liquidation of a subsidiary	–	–	–	199,570
Loss on foreign exchange (realised)	4,660	31,396	–	–
and crediting:				
Impairment loss on plant and equipment written back	3,500,000	–	–	–
Interest income	31,974	62,156	–	–
Gain on disposal of plant and equipment	–	87,819	–	–
Dividend income (gross) from subsidiaries	–	–	20,077,777	7,558,000
Reversal of write down of inventories (Note 6)	467,939	–	–	–
Gain on liquidation/disposal of subsidiaries	132,154	797,284	–	–

**18. FINANCING COSTS**

	GROUP		COMPANY	
	2003 RM	2002 RM	2003 RM	2002 RM
Interest expense on:				
Term loans	165,109	818,290	–	–
Bank overdrafts	75,684	428,728	–	–
Other borrowings	597,616	570,466	–	–
	<b>838,409</b>	<b>1,817,484</b>	<b>–</b>	<b>–</b>

**19. TAX EXPENSE**

	GROUP		COMPANY	
	2003 RM	2002 RM	2003 RM	2002 RM
Current tax expense				
- Current year	1,010,843	4,542,181	4,260,444	394,240
- Prior year	(423,713)	(1,756)	(2,358)	–
	<b>587,130</b>	<b>4,540,425</b>	<b>4,258,086</b>	<b>394,240</b>
Deferred tax expense				
- Origination and reversal of temporary differences	1,177,226	(14,000)	–	–
- Prior year	109,774	13,000	–	–
	<b>1,287,000</b>	<b>(1,000)</b>	<b>–</b>	<b>–</b>
	<b>1,874,130</b>	<b>4,539,425</b>	<b>4,258,086</b>	<b>394,240</b>

**19. TAX EXPENSE ( Cont'd)**

Reconciliation of effective tax rate

GROUP	2003		2002	
	%	RM	%	RM
Profit before taxation		<b>14,180,111</b>		11,141,871
Income tax using Malaysian tax rate	<b>28.00</b>	<b>3,970,431</b>	28.00	3,119,724
Non-deductible expenses	<b>1.39</b>	<b>197,905</b>	1.05	116,854
Tax exempt income	–	–	(0.15)	(16,613)
Tax incentives	<b>(14.23)</b>	<b>(2,017,884)</b>	(1.50)	(167,629)
Deferred tax asset not recognised	<b>0.94</b>	<b>133,062</b>	13.37	1,490,096
Other items	<b>(0.67)</b>	<b>(95,445)</b>	(0.13)	(14,251)
	<b>15.43</b>	<b>2,188,069</b>	40.64	4,528,181
(Over)/Under provision in prior years	<b>(2.21)</b>	<b>(313,939)</b>	0.10	11,244
Tax expense	<b>13.22</b>	<b>1,874,130</b>	40.74	4,539,425
<b>COMPANY</b>				
Profit before taxation		<b>19,858,177</b>		4,930,784
Income tax using Malaysian tax rate	<b>28.00</b>	<b>5,560,290</b>	28.00	1,380,620
Non-deductible expenses	<b>0.22</b>	<b>44,416</b>	14.92	735,620
Tax exempt income	<b>(6.77)</b>	<b>(1,344,000)</b>	(34.92)	(1,722,000)
Other items	–	<b>(262)</b>	–	–
	<b>21.45</b>	<b>4,260,444</b>	8.00	394,240
Over provision in prior years	<b>(0.01)</b>	<b>(2,358)</b>	–	–
Tax expense	<b>21.44</b>	<b>4,258,086</b>	8.00	394,240

Subject to agreement with the Inland Revenue Board, the Company has sufficient:

- i) Section 108 tax credit to frank approximately RM13,143,000 of its distributable reserves; and
- ii) tax exempt income to distribute its entire distributable reserves at 31 December 2003 if paid out as dividends.

## 20. EARNINGS PER ORDINARY SHARE - GROUP

### Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the net profit attributable to ordinary shareholders of RM12,305,981 (2002 : RM9,135,675) and the weighted average number of ordinary shares outstanding during the year of 40,297,000 (2002 : 39,997,000) calculated as follows:

	2003 '000	2002 '000
Issued ordinary shares at beginning of year	40,001	39,996
Effect of shares issued in September 2002	–	1
Effect of shares issued in June 2003	36	–
Effect of shares issued in July 2003	93	–
Effect of shares issued in August 2003	106	–
Effect of shares issued in September 2003	45	–
Effect of shares issued in October 2003	8	–
Effect of shares issued in November 2003	7	–
Effect of shares issued in December 2003	1	–
	<hr/>	<hr/>
Weighted average number of ordinary shares	40,297	39,997

### Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share is based on the net profit attributable to ordinary shareholders of RM12,305,981 (2002 : RM9,135,675) and the weighted average number of ordinary shares outstanding during the year of 40,975,000 (2002 : 40,123,000) calculated as follows:

	2003 '000	2002 '000
Weighted average number of ordinary shares	40,297	39,997
Effect of share options	678	126
	<hr/>	<hr/>
Weighted average number of ordinary shares (diluted)	40,975	40,123

## 21. DIVIDEND - GROUP/COMPANY

	2003 RM	2002 RM
First and final dividend paid:		
- 5 sen (2002 : Nil) per share tax exempt	2,004,000	–

**22. CONTINGENT LIABILITIES, unsecured**

	2003 RM'000	2002 RM'000
<b>GROUP</b>		
Bills discounted	–	29
<b>COMPANY</b>		
i) Corporate guarantees Amount of corporate guarantees given to licensed banks for credit facilities granted to certain subsidiaries	<b>113,620</b>	<b>147,040</b>

The amount of credit facilities utilised as at balance sheet date was RM25.32 million (2002 : RM23.99 million).

- ii) The Company has undertaken to provide financial support to certain subsidiaries to enable them to continue operating as a going concern.

**23. RELATED PARTIES**

**23.1 Related Party Relationships**

- i) Subsidiaries as disclosed in Note 3.
- ii) Companies in which a director, Mr. Goh Cheng Huat is deemed to have substantial financial interests:
- Eonmetall Corporation Sdn. Bhd and its subsidiaries
  - Foremost Score Sdn. Bhd.
  - G. P. Jaya Sdn. Bhd.
- iii) Key management personnel of the Group:
- Mr. Goh Cheng Huat
  - Mr. Tan Yew Teong
  - Mr. Lee Tian Soon
  - Mr. Low Tze Herng

**23.2 Transactions with related parties**

i) Transactions by the Group with Foremost Score Sdn. Bhd.:	2003 RM'000	2002 RM'000
- Sales	–	61
ii) Transactions by the Group with G.P. Jaya Sdn. Bhd.:	2003 RM'000	2002 RM'000
- Sales	–	679
iii) There were no transactions with the key management personnel and directors other than the remuneration package paid to them in accordance with the terms and conditions of their appointment.		

The transactions with related parties were entered into in the normal course of business and have been established under negotiated terms.



## 24. CAPITAL COMMITMENTS - GROUP

	2003 RM'000	2002 RM'000
Property, plant and equipment		
- Contracted but not provided for in the financial statements	6,214	-

## 25. SEGMENTAL INFORMATION - GROUP

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure. Inter-segment pricing is determined based on negotiated terms.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

### Business segments

The Group is principally engaged in the manufacturing and sale of steel products. Business segmental information has not been prepared as the Group's revenue, operating profit, assets employed, capital expenditure, depreciation and amortisation and non cash expenses are mainly confined to one industry segment.

### Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are also based on the geographical location of assets.

	Revenue from external customers by location of customers RM	← By location of assets → Segment assets RM	Capital expenditure RM
<b>2003</b>			
Malaysia	94,627,431	107,063,664	2,099,337
Others	5,755,271	-	-
Total	<b>100,382,702</b>	<b>107,063,664</b>	<b>2,099,337</b>
<b>2002</b>			
Malaysia	85,381,318	90,443,972	1,080,874
Others	2,512,798	-	-
Total	<b>87,894,116</b>	<b>90,443,972</b>	<b>1,080,874</b>

## 26. FINANCIAL INSTRUMENTS

### Financial risk management objectives and policies

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. The Board reviews and agrees policies for managing each of these risks and they are summarised below:

#### Credit risk

Management monitors the credit risk on an ongoing basis. Credit evaluations are performed on all customers where sales are transacted on credit terms.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk.

#### Interest rate risk

In the current low interest rate scenario, the Group borrows for operations at variable rates using their bankers' acceptances, overdrafts and revolving credit facilities to finance the working capital and term loan facilities at fixed rates to finance capital expenditure.

#### Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

#### Foreign currency risk

The Group incurs foreign currency risk on sales and purchases that are denominated in a currency other than Ringgit Malaysia. The currency giving rise to this risk is primarily US dollars.

Approximately 30% of the Group's purchases are priced in US dollars. The Group does not hedge these exposures by purchasing forward currency contract at present given the Government's "peg". However, the Board keeps this policy under review.

#### Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or mature, whichever is earlier.

	Effective interest rate %	Total RM	Within 1 year RM	1 - 5 years RM	After 5 years RM
<b>GROUP</b>					
<b>Financial asset</b>					
Short term deposits with a licensed bank	2.35	2,050,000	2,050,000	—	—
<b>Financial liabilities</b>					
Unsecured bankers' acceptances	4.04	24,664,000	24,664,000	—	—
Unsecured revolving credits	6.41	1,150,000	1,150,000	—	—
Unsecured term loans	8.10	55,167	55,167	—	—
Secured term loans	7.00	983,351	199,819	783,532	—

**26. FINANCIAL INSTRUMENTS (Cont'd)**

2002	Effective interest rate %	Total RM	Within 1 year RM	1 - 5 years RM	After 5 years RM
<b>Financial liabilities</b>					
Unsecured bank overdrafts	8.21	4,860,962	4,860,962	–	–
Unsecured bankers' acceptances	4.25	11,182,000	11,182,000	–	–
Unsecured revolving credits	6.40	1,749,736	1,749,736	–	–
Unsecured term loans	8.90	3,729,838	3,729,838	–	–
Secured term loan	7.00	1,189,787	199,819	799,277	190,691

**Fair values**

The carrying amount of cash and cash equivalents, trade and other receivables, trade and other payables, long term and short term borrowings approximate fair value.

The aggregate fair values of the other financial assets and liabilities carried on the balance sheet as at 31 December are represented in the following table.

	2003		2002	
	Carrying amount RM	Fair value RM	Carrying amount RM	Fair value RM
<b>GROUP</b>				
<b>Financial assets</b>				
Unquoted investments	1,736,157	*	1,736,157	*
<b>Financial liabilities</b>				
Unsecured term loans				
- variable rate loans	55,167	55,167	3,729,838	3,729,838
Secured term loans				
- fixed rate loan	983,351	#	1,189,787	#

The fair value of the term loans is estimated based on the borrowing rates currently available to the Group for bank loans with similar terms and average maturities.

\* It was not practicable to estimate the fair value of the unquoted shares due to the lack of quoted market prices and the inability to estimate the fair value without incurring excessive costs.

# It was not practicable to estimate the fair value of the secured fixed rate term loans due to the lack of information on discount rate and the inability to estimate the fair value without incurring excessive costs. However, the directors believe that there is no significant difference between the fair value and the book values of the term loan.

## 27. CHANGES IN ACCOUNTING POLICIES

In the current financial year, the Group and the Company adopted three new MASB Standards. The adoption of these new standards resulted in changes in accounting policies as follows:-

- i) MASB 25, Income Taxes which has been adopted retrospectively. Comparative figures have been adjusted to reflect the change in this accounting policy;
- ii) MASB 27, Borrowing Costs which is applied retrospectively. Comparative figures have not been restated as the previous accounting policy was in line with the accounting standard; and
- iii) MASB 29, Employee Benefits which has been adopted retrospectively. The adoption of this standard has no material impact on the financial statements.

The adoption of MASB 25 has resulted in the recognition in full of all taxable temporary differences. Previously, deferred tax liabilities were not provided if no liability was expected to arise in the foreseeable future and there were no indications the timing differences would reverse thereafter. Deferred tax assets are now recognised when it is probable that taxable profits will be available against which the deferred tax asset can be utilised (previously only recognised where there was a reasonable expectation of realisation in the near future).

The change in accounting policies due to the adoption of MASB 25 has been accounted for by restating comparatives and adjusting the opening balance of retained profits at 1 January 2003 as disclosed in Note 28 and the statement of changes in equity respectively.

## 28. COMPARATIVE FIGURES

The following comparatives have been restated to reflect the change in accounting policy as explained in Note 27:

	<b>GROUP</b>	
	<b>As restated</b>	<b>As previously stated</b>
	<b>RM</b>	<b>RM</b>
Balance Sheets		
Deferred tax liabilities	5,312,960	4,503,000
Statements of Changes in Equity		
Retained profits - 1 January 2002	3,184,924	3,994,884
- 31 December 2002	12,320,599	13,130,559

## 29. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

Subsequent to balance sheet date, the issued and paid-up share capital of the Company was increased to 41,064,000 ordinary shares of RM1 each by the issue of 240,000 ordinary shares of RM1 each at option price of RM1.00 per share exercised by eligible employees pursuant to the Employees' Share Option Scheme of the Company.

## LIST OF PROPERTIES OWNED BY THE GROUP

Location	Date of *Revaluation/ Acquisition	Tenure	Approximate Age of Building	Area (Square metres)	Description	Net book Value at 31 December 2003 RM'000
<b>LEADER STEEL SDN BHD</b>						
Plot 85, Lorong Perusahaan Utama Kawasan Perusahaan Bukit Tengah Pulau Pinang, Malaysia	*8.7.94	Leasehold 60 years, expiring 21.12.2052	11 years	34,000	Factory	13,140
6 Lorong Limau Manis 1 Taman Limau Manis 14000 Bukit Tengah Pulau Pinang, Malaysia	17.2.95	Freehold Double storey Terrace house	9 years	111	Residential premise for factory workers	103
8 Lorong Limau Manis 1 Taman Limau Manis 14000 Bukit Tengah Pulau Pinang, Malaysia	17.2.95	Freehold Double storey Terrace house	9 years	111	Residential premise for factory workers	103
Lot 841 Block 7 MTLD Sejingkat Industrial Park 93050 Kuching Sarawak, Malaysia	11.11.93	Leasehold 60 years, expiring 10.11.2053	11 years	33,600	Factory	7,721

**AUTHORISED SHARE CAPITAL** : RM100,000,000

**ISSUED AND FULLY PAID-UP CAPITAL** : RM41,207,000

**CLASS OF SHARE** : Ordinary shares of RM 1 each fully paid

**VOTING RIGHT** : On a show of hands one vote for every shareholder  
On a poll one vote for every ordinary share held

**ANALYSIS BY SIZE OF SHAREHOLDINGS**

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
Less than 100	5	0.326	202	0.001
100 - 1,000	220	14.342	211,300	0.513
1,001 - 10,000	1,121	73.077	4,008,800	9.728
10,001 - 100,000	169	11.017	4,548,444	11.038
100,001 - 2,060,349	16	1.043	3,747,194	9.094
2,060,350 - 41,207,000	3	0.196	28,691,060	69.627
<b>TOTAL</b>	<b>1,534</b>	<b>100.00</b>	<b>41,207,000</b>	<b>100.00</b>

**DIRECTORS' SHAREHOLDINGS**

No	Name	Direct Interest		Deemed Interest	
		No of Shares	%	No of Shares	%
1.	Dato' Mohd Desa bin Pachi	–	–	–	–
2.	Goh Cheng Huat *	3,275,198	7.95	18,011,958	43.71
3.	Tan Sri Dato' Soong Siew Hoong	50,000	0.12	–	–
4.	Lim Leng Han	6,000	0.01	–	–
5.	Mohd Arif bin Mastol	–	–	–	–
6.	Datuk Abdullah bin Kuntom	–	–	–	–

By virtue of his interests in the shares of the Company, Mr Goh Cheng Huat is also deemed to have interest in the shares of all the subsidiaries to the extent the Company has an interest.

\* Option to subscribe for 395,000 shares in the Company pursuant to Employee Share Option Scheme 2002.

**SUBSTANTIAL SHAREHOLDERS**

No	Name	Direct Interest		Direct Interest	
		No of Shares	%	No of Shares	%
1.	Goh Cheng Huat	3,275,198	7.95	18,011,958	43.71
2.	Bischart Sdn.Bhd	18,011,956	43.71	–	–
3.	Amanah Raya Berhad – Skim Amanah Saham Bumiputera	9,188,000	22.30	–	–

# SHAREHOLDINGS STATISTICS CONT'D

AS AT 28 APRIL 2004

## THIRTY LARGEST SHAREHOLDERS

	Name	No. of Shares	% of Issued Share Capital
1	Southern Nominees (Tempatan) Sdn. Bhd. - Bischart Sdn. Bhd.	17,337,956	42.0753
2	Amanah Raya Nominees (Tempatan) Sdn. Bhd. - Skim Amanah Saham Bumiputra	9,188,000	22.2972
3	Goh Cheng Huat	2,165,104	5.2542
4	Southern Nominees (Tempatan) Sdn. Bhd. - Goh Cheng Huat	1,110,094	2.6939
5	Bischart Sdn. Bhd.	674,000	1.6356
6	JB Nominess (Tempatan) Sdn. Bhd. - Pledged Securities Account for Kock Nai Suan	278,600	0.6761
7	Kenanga Nominees (Tempatan) Sdn. Bhd. - Pledged Securities Account for Tee Cheng Teok	251,000	0.6091
8	Tan Tiam Aik	172,000	0.4174
9	Kueh Song Joo	140,000	0.3397
10	JB Nominess (Tempatan) Sdn. Bhd. - Pledged Securities Account for Lee Ah Chai	131,200	0.3184
11	PRB Nominees (Tempatan) Sdn. Bhd. Rubber Industry Smallholders Development Authority	130,000	0.3155
12	Husnah Binti Abdul Latiff	114,000	0.2766
13	Sim Choh Sang @ Sim Choh Shan	112,000	0.2718
14	Kew Che Wat @ Khoo Che Wat	111,000	0.2694
15	Cheah Suan Lee	110,000	0.2669
16	Goh Li Li	109,000	0.2645
17	Kenanga Nominees (Tempatan) Sdn. Bhd. - Pledged Securities Account for Goh Kim Sin	102,000	0.2475
18	Lim Kean Hwa	101,600	0.2466
19	Citicorp Nominees (Tempatan) Sdn. Bhd. - Pledged Securities Account for Ma Eng Yau	100,700	0.2444
20	Chan Mei Cheng	89,700	0.2177
21	AmFinance Berhad - Pledged Securities Account For Ong Hock Soon	82,200	0.1995
22	Tan Yew Teong	82,000	0.199
23	Kenanga Nominees (Tempatan) Sdn. Bhd. - Pledged Securities Account For Bong Siew Kiaw	78,000	0.1893
24	Chong Chun Siong	77,200	0.1873
25	Ooi Kwi Wa	70,500	0.1711
26	Tang Sew Ching	66,100	0.1604
27	HDM Nominees (Tempatan) Sdn. Bhd. - Pledged Securities Account For Lee Yew	65,000	0.1577
28	Yeap Soon Thong	64,000	0.1553
29	Goh Ming Hui	64,000	0.1553
30	Chan Mei Yee	59,300	0.1439
	<b>Total</b>	<b>33,236,254</b>	<b>80.6566</b>

**PROXY**

I/We,.....

of.....

being a member / members of Leader Steel Holdings Berhad hereby appoint .....

of .....

or failing him the CHAIRMAN OF THE MEETING as my/our proxy, to vote for me/us and on my/our behalf at the ELEVENTH ANNUAL GENERAL MEETING of the Company to be held at 2nd Floor, Wisma Leader Steel, Plot 85, Lorong Perusahaan Utama, Kawasan Perusahaan Bukit Tengah, 14000 Bukit Tengah, Seberang Prai Tengah, Penang on Wednesday, 23 June 2004 at 11:00 a.m. and at any adjournment thereof.

NO.	ORDINARY RESOLUTIONS		FOR	AGAINST
1.	To receive and adopt the audited Financial Statements for the year ended 31 December 2003.	Resolution 1		
2a.	To re-elect Mr Lim Leng Han who retires pursuant to Article 102 of the Company's Articles of Association.	Resolution 2		
2b.	To re-elect Datuk Abdullah bin Kuntom who retires pursuant to Article 109 of the Company's Articles of Association.	Resolution 3		
2c.	To re-elect the following Directors who retire pursuant to Section 129 of the Companies Act, 1965:- i) Dato' Mohd Desa bin Pachi ii) Tan Sri Dato' Soong Siew Hoong	Resolution 4 Resolution 5		
3.	To approve the Directors' fees.	Resolution 6		
4.	To re-appoint Messrs. KPMG as Auditors.	Resolution 7		
5.	Authority to issue shares pursuant to Section 132D of the Companies Act, 1965.	Resolution 8		

(Please indicate with "X" how you wish your vote to be cast. If no specific direction as to voting is given, the proxy will vote or abstain at his discretion).

No. of Ordinary Shares Held

Signed this ..... day of June, 2004

..... Signature of Shareholder

**Notes:**

1. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy without limitation and the provisions of Section 149(1)(b) of the Act shall not apply to the Company. Where a member appoints more than (1) proxy the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy. Where a member of the Company is an authorised nominee as defined under the Central Depositories Act, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.
3. To be valid, the proxy form must be deposited at the Company's Registered Office at Suite 2-1, 2nd Floor, Menara Penang Garden, 42A Jalan Sultan Ahmad Shah, 10050 Penang, not less than forty eight (48) hours before the time appointed for holding the meeting.



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The Company Secretary  
**LEADER STEEL HOLDINGS BERHAD** (267209-K)  
Suit 2-1, 2nd Floor, Menara Penang Garden  
42A, Jalan Sultan Ahmad Shah  
10050 Penang, Malaysia

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