Strength in Unity, Success in Perseverance

ANNUAL REPORT 2006

LEADER STEEL
HOLDINGS BERHAD

Contents

NOTICE IS HEREBY GIVEN that the FOURTEENTH 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 Monday, 28 May 2007 at 10:45 a.m. for the following purposes: -

1. To receive and adopt the audited Financial Statements of the Company and the Group for the year ended 31 December 2006 and the Reports of the Directors and Auditors thereon. **Ordinary Resolution 1**

2a. To re-elect the following Directors who retire pursuant to Article 102 of the Company's Articles of Association:-

 i) Dato' Goh Cheng Huat **Ordinary Resolution 2**
 ii) Mr Lim Leng Han **Ordinary Resolution 3**

2b. To re-elect the following Directors who retire pursuant to Section 129 of the Companies Act, 1965:-

 i) Tan Sri Dato' Mohd Desa bin Pachi **Ordinary Resolution 4**
 ii) Tan Sri Dato' Soong Siew Hoong **Ordinary Resolution 5**

3. To declare and approve the payment of a first and final dividend of 2.50sen per share less 27% tax for the year ended 31 December 2006. **Ordinary Resolution 6**

4. To approve Directors' fees for the year ended 31 December 2006. **Ordinary Resolution 7**

5. To re-appoint Messrs. KPMG as Auditors for the ensuing year and to authorise the Directors to fix their remuneration. **Ordinary Resolution 8**

6. As special Business

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

 a) **SECTION 132D OF THE COMPANIES ACT, 1965**

 "THAT pursuant to Section 132D of the Companies Act, 1965 ("the Act") and subject always to the approval of all the relevant regulatory authorities, the Board of Directors of the Company be and is hereby authorized 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 ("Bursa Securities") AND THAT such authority shall continue in force until the conclusion of the next Annual General Meeting ("AGM") of the Company or the expiration of the period within which the next AGM 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 9**

 b) **PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR THE RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE ("Proposed Shareholders' Mandate")**

 "THAT pursuant to Chapter 10.09 of the Listing Requirements of the Bursa Securities, a general mandate of the shareholders be and is hereby granted for the Company and its subsidiaries to enter into recurrent related party transactions with Eonmetall Group Berhad and its subsidiaries as stated in Section 2.4 of the Circular, which are necessary for the Group's day to day operations and are carried out in the ordinary course of business and are on normal commercial terms which are not more favourable to the related parties than those generally available to the public and not detrimental to the minority shareholders; and that the approval shall continue to be in force until the conclusion of the next AGM of the Company at which time it will lapse unless the authority is renewed by a resolution passed at the meeting; or the expiration of the period within which the next AGM after the date it is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or revoked or varied by resolutions passed by the shareholders of the Company in a general meeting; whichever is the earlier." **Ordinary Resolution 10**

c) **PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY**

"THAT the amendments to the Articles of Association of the Company contained in Appendix I be and are hereby approved." **Special Resolution 1**

7. To transact any other business of which due notice shall have been given.

NOTICE OF DIVIDEND ENTITLEMENT

NOTICE IS ALSO HEREBY GIVEN that a first and final dividend of 2.50sen per share less 27% tax for the year ended 31 December 2006, if approved by the shareholders at the AGM, will be paid on 18 July 2007 to the shareholders whose names appear in the Record of Depositors of the Company at the close of business on 2 July 2007.

A depositor shall qualify for entitlement to the dividend only in respect of:

a. Shares transferred into the depositor's securities account before 4:00 p.m. on 2 July 2007 in respect of ordinary transfers; and

b. Shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of the Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD

LAM VOON KEAN
(MIA 4793)
Company Secretary
Penang, 4 May 2007

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 11 to 12 of the Annual Report of the Company.

Explanatory Notes on Special Business :

1. The proposed Resolution 9, 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.

2. The proposed Resolution 10, if passed, will obtain the Shareholders' Mandate for the Company and its subsidiaries to enter into the specified recurrent related party transactions with Eonmetall Group Berhad and its subsidiaries as set out in Section 2.4 of the Circular which are necessary for the Group's day to day operations and are carried out in the ordinary course of business and are on normal commercial terms which are not more favourable to the related party than those generally available to the public and not detrimental to the minority shareholders.

3. The Special Resolution 1, if passed, will amend the Articles of Association of the Company to be in compliance with the recent amendments to Chapter 7 of the Listing Requirements of the Bursa Securities.

"Appendix I"

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY

THAT the Articles of Association of the Company be amended in the following manner:-

1. *(a) Existing Article 2(b), (e) (j), (k) and (m):-*

(b) "Approved Market Place" means a stock exchange which is specified to be an approved market place in the Securities Industry (Central Depositories) Exemption Order, 1998

(e) "Central Depository" means the Malaysian Central Depository Sdn. Bhd.

(j) "Depositor" means a holder of a securities account

(k) "Exchange" means the Kuala Lumpur Stock Exchange

(m) "member/members" means any person/persons whose name is entered in the Company's Register or members including depositors whose names appear on the Record of Depositors except the Malaysian Central Depository Nominees Sdn. Bhd.

(b) (i) The existing Article 2(b) be deleted in its entirety.

(ii) The existing Article 2(e) (j), (k) and (m) be amended to read as follows:-

(e) "Central Depository" means the Bursa Malaysia Depository Sdn. Bhd.

(j) "Depositor" means a holder of a Securities Account established by the Central Depository

(k) "Exchange" means the Bursa Malaysia Securities Berhad

(m) "member/members" means any person/persons whose name is entered in the Company's Register or members including depositors whose names appear on the Record of Depositors except the Bursa Malaysia Depository Nominees Sdn. Bhd.

2. (a) Existing Article 5(a)

"the total nominal value of issued preference shares shall not exceed the total nominal value of the issued ordinary shares at any time;"

(b) The existing Article 5(a) be deleted in its entirety.

3. (a) Existing Article 5A

"The holder of a preference share must be entitled to a return of capital in preference to holders of ordinary shares when the Company is wound up."

(b) The existing Article 5A be deleted in its entirety.

"Appendix I"

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY (Cont'd)

4. *(a) Existing Article 42A(1)*

"Where:-

(a) the securities of a company are listed on an Approved Market Place; and

(b) such company is exempted from compliance with section 14 of the Securities Industry (Central Depositories) Act, 1991 or section 29 of the Securities Industry (Central Depositories) (Amendment) Act, 1998, as the case may be, under the Rules of the Central Depository in respect of such securities,

such company shall, upon request of a securities holder, permit a transmission of securities held by such securities holder from the register of holders maintained by the registrar of the Company in the jurisdiction of the Approved Market Place (hereinafter referred to as "the Foreign Register"), to the register of holders maintained by the registrar of the Company in Malaysia (hereinafter referred to as "the Malaysian Register") provided that there shall be no change in the ownership of such securities."

(b) The existing Article 42A(1) be amended to read as follows:-

"Where:-

(a) the Securities of the Company are listed on another stock exchange; and

(b) the company is exempted from compliance with section 14 of the Securities Industry (Central Depositories) Act, 1991 or section 29 of the Securities Industry (Central Depositories) (Amendment) Act, 1998, as the case may be, under the Rules of the Central Depository in respect of such securities,

the Company shall, upon request of a securities holder, permit a transmission of Securities held by such securities holder from the register of holders maintained by the registrar of the Company in the jurisdiction of the other stock exchange, to the register of holders maintained by the registrar of the Company in Malaysia and vice versa provided that there shall be no change in the ownership of such Securities."

5. *(a) Existing Article 42A(2)*

"For the avoidance of doubt, no company which fulfils the requirements of subparagraphs (1)(a) and (b) above shall allow any transmission of securities from the Malaysian Register into the Foreign Register"

(b) The existing Article 42A(2) be deleted in its entirety.

6. *(a) Existing Article 47*

"The Company must ensure that the period between the making of its announcement of the books closing date is not less than twelve (12) clear Market Days. At least three (3) market days prior notice shall be given to the Central Depository to enable the Central Depository to prepare the appropriate Record of Depositors."

"Appendix I"

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY (Cont'd)

6. (b) The present Article 47 be amended by replacing the word "twelve (12) clear Market Days" with "ten (10) Market Days" to read as follows:-

"The Company must ensure that the period between the making of its announcement of the books closing date is not less than ten (10) Market Days. At least three (3) market days prior notice shall be given to the Central Depository to enable the Central Depository to prepare the appropriate Record of Depositors."

7. (a) Existing Article 67B

"The Company shall also request the Central Depository in accordance with the Rules of the Central Depository, to issue a Record of Depositors, as at a date not less than three (3) market days before the general meeting (hereinafter referred to as "the General Meeting Record of Depositors")."

(b) The existing Article 67B be amended to read as follows:-

"The Company shall also request the Central Depository in accordance with the Rules of the Central Depository, to issue a Record of Depositors, as at the latest date which is reasonably practicable which shall in any event be not less than three (3) Market Days before the general meeting (hereinafter referred to as "the General Meeting Record of Depositors")."

8. (a) Existing 100(2)

"Until otherwise determined by the Company in general meeting the number of Directors shall not be less than two (2) nor more than twelve (12) but in the event of any casual vacancy occurring and reducing the number of Directors below the aforesaid minimum the continuing Directors or Director may act for the purpose of filling up such vacancy or vacancies or of summoning a general meeting of the Company. No one other than a natural person shall be a Director of the Company."

(b) The existing Article 100(2) be amended by deleting the words "No one other than a natural person shall be a Director of the Company." in the last sentence of the Article is to be read as follows:-

"Until otherwise determined by the Company in general meeting the number of Directors shall not be less than two (2) nor more than twelve (12) but in the event of any casual vacancy occurring and reducing the number of Directors below the aforesaid minimum the continuing Directors or Director may act for the purpose of filling up such vacancy or vacancies or of summoning a general meeting of the Company."

"Appendix I"

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY (Cont'd)

9. *(i) (a) Existing Article 112(d)*

"if he is absent from more than fifty percent (50%) of the total Board meeting held during a financial year."

(b) The existing Article 112(d) be deleted in its entirety.

(ii) (a) Existing Article 112(f)

"if he becomes of unsound mind or a person whose person or estate is liable to be dealt with in any way under the law relating to mental disorder;"

(b) The existing Article 112(f) be amended to read as follows :-

"becomes of unsound mind or bankrupt during his term of office;"

(iii) (a) Existing Article 112(g)

"if he has a Receiving Order in Bankruptcy made against him or makes any arrangement or composition with his creditors generally;"

(b) The existing Article 112(g) be deleted in its entirety.

(iv) Accordingly the sub-articles of the Article 112 be renumbered to read as follows:-

"The office of Director shall, ipso facto, be vacated:-

(a) upon his attainment of the age of seventy (70) years;

(b) if he cease to be a Director by virtue of the Act;

(c) if (not being the Chief Executive Officer or the Managing Director holding office as such for a fixed term) he resigns his office by notices in writing under his hand sent to or left at the Office;

(d) if he is removed from his office of Director by resolution of the Company in general meeting of which special notice has been given;

(e) becomes of unsound mind or bankrupt during his term of office; and

(f) if he becomes prohibited from being a Director by reason of any order made under the provisions of the Act or contravenes Section 130 of the Act."

BOARD OF DIRECTORS

Tan Sri Dato' Mohd Desa bin Pachi	*Chairman*
Dato' Goh Cheng Huat	*Deputy Chairman*
Datin Tan Pak Say	*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*
Dato' Goh Cheng Huat	*Member*

NOMINATING COMMITTEE

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

REMUNERATION COMMITTEE

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

REGISTERED OFFICE

Suite 2-1, 2nd Floor
Menara Penang Garden
42A Jalan Sultan Ahamd 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
OCBC Bank (Malaysia) Berhad
Malayan Banking Berhad
RHB Bank Berhad
EON Bank Berhad
AmBank Berhad
United Overseas Bank (Malaysia) Bhd
Alliance Bank Malaysia Berhad
HSBC Bank Malaysia Berhad

100%
Leader Steel Sdn Bhd (167009-X)
Manufacture and trading of steel products

100%
Leader Steel Service Centre Sdn Bhd (381289-U)
Manufacture and trading of steel products

100%
Leader Steel Tubes Sdn Bhd (235526-D)
Dormant Company

100%
Leader Steel Asia Sdn Bhd (405625-V)
Manufacture and sale of steel products

100%
Leader Steel Technology Sdn Bhd (408196-K)
Manufacture and sale of steel product making machinery

100%
Nippon Star Sdn Bhd (671731-D)
Dormant Company

100%
Biostone Tech Sdn Bhd (680990-W)
Dormant Company

100%
Fresh Rewards Sdn Bhd (684771-D)
Dormant Company

LEADER STEEL HOLDINGS BERHAD
267209-K

Financial Highlights

	2002	2003	2004	2005	2006
Turnover (RM million)	87.9	100.4	172.9	160.9	187.1
Profit/(Loss) before tax (RM million)	11.1	14.2	19.3	(1.1)	7.0

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 2006.

Overview

The early part of year 2006 saw escalating fuel prices coupled with rising interest rates which created some concern from the market. This was however stabilised in the later part of the year.

In respect of the steel market, prices of materials and products were averagely on upward trends throughout the year 2006. Demand from China and the gradual reduction of export rebate in China's export policy lead to steady increase of materials prices worldwide.

Despite the challenges faced by the Group during this financial year, it managed to withstand the situations well and emerged even stronger as compared to year 2005. Demand for the Group's products increased during the year 2006. The announcement of 9th Malaysia Plan also further helped to boost domestic consumption and confidence.

Overall, the Group performance in 2006 was significantly improved compared to 2005.

Outlook

Some of the major projects of the 9th Malaysia Plan announced by the Government in 2006 are expected to take off this year. In addition, the Government had recently also announced a series of incentives and projects which are aimed at boosting economic growth.

Despite the bullish outlook at the domestic level, the Group acknowledges the need to remain dynamic and competitive in an ever challenging environment brought by the international front such as impact from the China and India factors.

The Group will continue to strive for excellence and is committed to improve its performance in 2007.

Analysis of Group Performance and Material Factors

The Group recorded revenue of RM187.14 million compared to RM160.95 million in 2005, resulting in an increase of 16.3% In tandem with the increase in revenue, profit before tax improved significantly from loss of RM1.05 million in 2005 to a profit of RM6.98 million. In line with the improved performance, the Group's earnings per ordinary share were significantly enhanced from negative of 1.77 sen in 2005 to positive 4.70 sen in 2007.

The improvement of the Group's performance in 2006 is mainly due to increase in revenue and selling price.

Dividend

During the year, first and final dividend of 1.25 sen per share less 28% tax (based on issued capital of 125,922,000 of RM0.50 each), totaling RM1,133,298 in respect of the year ended 31 December 2005 declared and paid on 31 July 2006.

The Board of Directors is also pleased to recommend a first and final divided of 2.50 sen per share less 27% tax in respect of the financial year ended 31 December 2006, subject to the members' approval at the forthcoming Annual General Meeting.

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 and business associates for their unwavering loyalty, patience and continuing support to the Group.

TAN SRI DATO' MOHD DESA BIN PACHI
(Non-Independent Non-Executive Director)

TAN SRI DATO' MOHD DESA BIN PACHI, PSM, DSPN, KMN, aged 73, 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 studied accountancy in Melbourne, Australia under the Colombo Plan Scholarship. 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 was also Chairman of Bumiputra - Commerce Holding Berhad till July 2006.

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

YA Horng Electronic (M) Berhad, Petaling Garden Berhad, Saujana Consolidated Berhad, Xian Leng Holdings Berhad (Chairman), Amanah Saham Nasional Berhad, Tracoma Holdings Berhad (Chairman), Eonmetall Group Berhad and Mayban Unit Trust Berhad.

DATO' GOH CHENG HUAT
(Deputy Chairman, Non-Independent Non-Executive Director)

DATO' GOH CHENG HUAT, aged 46, 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. He resigned as Managing Director and appointed as Deputy Chairman on 29 April 2005.

Founder of the Group, Dato' 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, Dato' 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". Dato' Goh's visionary approach and keen business acumen certainly augur well for the Group especially in its business direction.

He presently holds directorship in Eonmetall Group Berhad.

He is the spouse of Datin Tan Pak Say.

DATIN TAN PAK SAY
(Managing Director, Non-Independent Executive Director)

DATIN TAN PAK SAY, aged 45, Malaysian, was first appointed to the Board of Directors of LSH on 10 August 1995. She ceased to be a director on 2 January 2004 but was subsequently re-appointed back to the Board on 25 May 2004. She was appointed an Executive Director on 21 February 2005 and subsequently she was appointed as Managing Director on 29 April 2005.

Datin Tan Pak Say has been actively involved in the steel industry since mid 1980's after completing her early years of education. With her many years of experience in the industry, she has helped to lead LSSB to its present status and establishment.

Apart from LSH, she does not hold any other directorship in public companies.

She is the spouse of Dato' Goh Cheng Huat.

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

TAN SRI DATO' SOONG SIEW HOONG PSM, KMN, SMS, DPMS, JSM, aged 81, 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 October 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 President in the Malaysian Iron and Steel Industry Federation (MISIF). He is also the Vice 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, and member of the National Economic Action Council (NEAC), member of Technical Resource Groups in Investment and SMB Development under IMP3.

He presently holds directorship in Unico Desa Plantations Berhad, Eonmetall Group Berhad, Unico Holdings Berhad and Kwan Cheong Holdings Berhad (Group).

MR. LIM LENG HAN
(*Senior Independent Non-Executive Director)*

MR. LIM LENG HAN, aged 46, 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 21 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 until todate. 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 53, 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 capacity including Assistant Manager Finance & Accounts, Finance & Administration Manager, and Company Representative before assuming to his current position as Financial Controller.

He presently holds directorship in SKB Shutters Corporation Bhd.

DATUK ABDULLAH BIN KUNTOM
(*Non-Independent Non-Executive Director)*

DATUK ABDULLAH BIN KUNTOM, aged 63, Malaysian, was appointed to the Board on 2nd October 2003. He holds a Bachelor of 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 directorships in public companies, other than LSH is with Malaysia Building Society Berhad.

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. None of the Directors have any family relationship with any director and/or major shareholder of LSH other than Dato' Goh Cheng Huat who is the spouse of Datin Tan Pak Say.
4. The Directors' shareholdings are as disclosed in page 77 of this report.

The Board of Directors (the "Board") of Leader Steel Holdings Berhad (the "Company") appreciates the importance of adopting high standards of corporate governance within the Group, comprising the Company and its subsidiaries. The Board considers corporate governance in line with three key concepts, namely transparency, accountability and integrity.

The Board endeavours to adopt and apply, where practicable, the Principles and Best Practices as enshrined in Parts 1 and 2 respectively of the Malaysian Code on Corporate Governance (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 duties and responsibilities

The Group acknowledges the pivotal role played by the Board of Directors in the stewardship of its direction and operations, and ultimately the enhancement of long-term shareholder value. To fulfil this role, the Board is responsible for the overall corporate governance of the Group, including the strategic direction, establishing goals for Management, monitoring the achievement of these goals and ensuring that the Group's internal controls and reporting procedures are adequate.

The Board delegates the running of the Group's operations to the Managing Director, who has the relevant experience in the business of the Group.

To streamline Directors' duties and responsibilities, the Board has adopted a Board Charter that formalised, amongst others, the principal responsibilities of the Board as expounded by the Code.

Meetings

The Board is scheduled to meet 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 and budgets, major investments, strategic decisions and direction of the Group, appointment and remuneration of Directors and compliance with the principles of corporate governance.

All the Directors are provided with an agenda and a set of Board papers on matters requiring their consideration in advance of 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 on matters dealt with 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.

All 4 meetings of the Board were fully attended by the Directors during the year under review.

A. BOARD OF DIRECTORS (Cont'd)

Board Committees

The Board of Directors delegates certain responsibilities to the Board Committees, namely the Audit Committee, Nominating Committee and Remuneration Committee, in order to enhance business and operational efficiency as well as efficacy.

All Board Committees have written terms of reference and operating procedures and the Board receives reports of their proceedings and deliberations, where relevant. The Chairman of the various Committees reports to the Board the outcome of the Committee meetings and such reports are normally incorporated in the minutes of the full Board meeting.

Board Balance

At the date of this statement, the Board consists of seven (7) members, comprising two (2) Independent Non-Executive Directors, four (4) Non-Executive Directors and one (1) Executive Directors. 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. A brief profile of each Director is presented on pages 11 and 13 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.

There is a clear division of responsibilities at the head of the Company to ensure a balance of authority and power. The Board of Directors is led by YBhg Tan Sri Dato' Mohd Desa bin Pachi, a non-executive Chairman while the executive management of the Company is led by Datin Tan Pak Say, the Managing Director who was appointed on 29 April 2005.

According to the Board Charter of the Company, the roles of Chairman and Managing Director are formalized and clearly defined with their individual position descriptions. The Chairman is responsible for running the Board and ensures that all Directors receive sufficient and relevant information on financial and non-financial matters to enable them to participate actively in Board decisions. The Managing Director assumes the overall responsibility for the Group's operating units, organisational effectiveness and implementation of Board's policies and decisions.

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 believes that the current composition of members fairly reflects the investment of minority shareholders in the Company.

A. BOARD OF DIRECTORS (Cont'd)

Supply of information

The Chairman ensures that all Directors have full and timely access to information with Board papers distributed in advance of meetings. Every Director has unhindered access to the advice and services of the Company Secretary. The Board believes that the current Company Secretary is capable of carrying out her duties to ensure the effective functioning of the Board. The Articles of Association specify that the removal of the Company Secretary is a matter for the Board as a whole.

Before the meetings of the Board and Board Committees, appropriate documents, which include the agenda and reports relevant to the issues of the meetings covering, where appropriate, the areas of strategic, financial, operational and regulatory compliance matters, are circulated to all the members to obtain further explanations, where necessary, in order to be properly briefed before the meetings.

The Directors meet, review and approve all corporate announcements, including the announcement of the quarterly financial reports, before releasing them to Bursa Malaysia Securities Berhad ("Bursa Securities").

The Board as a whole will determine, whether as a full Board or in their individual capacity, to take independent professional advice, where necessary and under appropriate circumstances, in furtherance of their duties at the Group's expense. However, where necessary and under appropriate circumstances in furtherance of his duties, any Director may do so with the prior consent and approval of the Chairman.

Appointments to the Board

Nominating Committee

The Nominating Committee, during the financial year under review, comprised the following members:

Tan Sri Dato' Mohd Desa bin Pachi	-	Chairman, Non-Independent Non-Executive Director
Mr Lim Leng Han	-	Senior Independent Non-Executive Director
En Mohd. Arif bin Mastol	-	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 at the AGM.

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 Board believes that the current Board's composition brings the required mix of skills and core competencies required for the Board to discharge its duties effectively. Furthermore, the Board reviews its size and composition with particular consideration on its impact on the effective functioning of the Board.

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.

A. BOARD OF DIRECTORS (Cont'd)

Directors' training

The Board, through the Nominating Committee, ensures that it recruits to the Board only individuals of sufficient calibre, knowledge and experience to fulfil the duties of a Director appropriately. As at end of the financial year under review, all Directors have successfully completed the Mandatory Accreditation Programme and have further fulfilled their Continuing Education Programme ("CEP") obligation by accumulating the requisite points by way of attending Bursa Securities accredited CEP courses.

Subsequent to a repeal of the CEP programme in 2006 and inception of the new requirement that the Board identifies and determines the training needs of its members, the Board takes the view that besides the CEP attended during the year, familiarization visits to the various operational sites would equip its members with a thorough understanding of the Group's operations.

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, during the financial year under review, comprised the following members:

Tan Sri Dato' Mohd Desa bin Pachi	-	Chairman, Non-Independent, Non-Executive Director
Dato' Goh Cheng Huat	-	Non-Independent, Non-Executive Director
Mr Lim Leng Han	-	Senior 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 Directors 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.

B. DIRECTORS' REMUNERATION (Cont'd)

Details of the nature and amount of each major element of the remuneration of Directors of the Company, for the financial year, are as follows:

Director	Fees	Salary and bonus	Other emoluments
	RM'000	RM'000	RM'000
Executive Director	25	598	2
Non-Executive Directors	100	–	54
Independent Non-Executive Directors	50	–	4
	175	598	60

The remuneration of Directors, analysed into bands of RM50,000 each for the year ended 31 December 2006, is summarised as follows:

Range of remuneration	Number of Directors	
	Executive	Non-Executive
Below RM50,000	–	5
RM50,001 to RM100,000	–	1
RM300,001 to RM350,000	–	–
RM500,001 to RM550,000	1	–

C. SHAREHOLDERS

The Company recognizes the importance of accountability to its shareholders and investors through proper communication. The Board acknowledges that shareholders should be informed of all material business matters which influence the Group. Timely release of quarterly financial results to Bursa Securities and other information and corporate actions taken by the Group that warrant an announcement to Bursa Securities under the Listing Requirements provide shareholders with a current overview of the Group's performance.

Whilst the Annual Report gives shareholders a quick run through of the financial and operational performance of the Group, the AGM and Extraordinary General Meeting provide a platform for shareholders to seek more information on the audited financial statements and other matters of interest. During general meetings, the Chairman thereof and members of the Board are prepared to respond to all queries and undertake to provide sufficient clarification on concerns raised by shareholders. The Company's practice is to send out the notice of AGM and related papers to shareholders at least twenty-one (21) working days before the meeting.

In addition, the Board and Management welcome any form of visit by fund managers and analysts as the Board believes that this will give investors and interested parties on one hand, a better appreciation and understanding of the Group's performance and on the other, awareness of the expectations and concerns of investors and such interested parties. Besides, the Company also maintains an official web site at www.leadersteel.com.my that provides background information of the Group to the public. 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 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 25 to 26 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 22 to 24 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 21 to 22 of this Annual Report.

Compliance Statement

The Group has complied, throughout the financial year ended 31 December 2006, with all the Best Practices of corporate governance set out in Part 2 of the Code.

This statement is issued in accordance with a resolution of the Directors dated 16 April 2007.

1. **Share Buybacks**
   During the financial year, there were no share share buybacks by the Company.

2. **Options, Warrants or Convertible Securities**
   No options, warrants or convertible securities were exercised by the Company during the year.

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 RM52,250 were paid to the external auditors for the financial year ended 31 December 2006.

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.

Membership

The Directors who have served as members of the Audit Committee (the “Committee”) during the financial year under review and as at the date of this report are:

Mr Lim Leng Han	- Chairman, Senior Independent Non-Executive Director
En Mohd. Arif bin Mastol	- Member, Independent Non-Executive Director (Member of Malaysian Institute of Accountants)
Dato’ Goh Cheng Huat	- Member, Non-Independent, Non-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 22 to 24 of this Annual Report.

Meetings

During the financial year ended 31 December 2006, the Committee met four (4) times, attended by all the members, to discuss matters relating to the accounting and reporting practices of the Company and its subsidiaries.

The meetings were appropriately structured through the use of agenda, which was 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 and internal auditors 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 and internal auditors the scope of their 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 render 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 Securities, applicable approved accounting standards of the Malaysian Accounting Standards Board and other relevant legal and statutory requirements;
- 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 a professional firm of consultants to carry out internal audit for the Group. The principal role of the internal audit function is to undertake independent and regular reviews of the system of internal control so as 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 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.

During the financial year ended 31 December 2006, the internal audit function carried out 2 cycles of internal audit to test the effectiveness of the internal control system of the Group. The areas audited were based on results of the Enterprise Risk Management review and were approved by the Committee prior to commencement of internal audit. The opportunities for improvement noted, together with the recommendations thereof and agreed management action plans, were presented to the Audit Committee for consideration.

Further details on the internal audit function and its activities are set out in the Statement on Internal Control on pages 25 to 26 of this Annual Report.

Audit Committee Terms of Reference

Objectives

The primary function of 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 members, 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 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 internal auditors 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 Securities, the Committee shall promptly report such matter to the Bursa Securities.

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 department;
- 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;
- 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 Securities 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's 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;
- Review and verify the allocation of shares to employees under the Employees' Share Option Scheme; and
- Any other activities, as authorised by the Board.

Paragraph 15.27(b) of the Listing Requirements of Bursa Securities stipulates that the Board of Directors of public listed companies should 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 2006.

Board responsibility

The Board affirms its ultimate responsibility 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 corporate objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or loss. The system of internal control covers financial, operational and compliance controls as well as risk management procedures.

The Board is aware of the publication on the Statement on Internal Control: Guidance for Directors of Public Listed Companies (the "Internal Control Guidance") and has established a process for identifying, evaluating and managing significant risks faced by the Group. The process has been in place throughout the financial year.

Enterprise risk management framework

The Board appointed a professional firm of consultants to assist in establishing a risk management framework for the Group. Besides strengthening risk management functions, the Enterprise Risk Management project was carried out to sensitise all employees within the Group more strongly to risk identification, evaluation, control, ongoing monitoring and reporting.

The formalisation of the enterprise risk management framework of the Group encompasses the following key initiatives:

- The issuance of a Risk Management Policy and Procedure document, which outlines the risk management framework for the Group and offers practical guidance to all employees on risk management issues;
- Workshops and interviews were conducted with the Managing Director, Senior Management and line management personnel and operational managers from the major business units in the Group. A database of all principal business risks and controls has been created, with the information filtered to produce a detailed risk register, and individual risk profiles for the major business units in the Group. Key risks to each major business unit's objectives, aligned with the Group's strategic objectives, were identified and scored for likelihood of the risks occurring and magnitude of the impact;
- A risk profile of the Group was developed which, together with a summary of the key findings, was discussed at the Audit Committee meeting before being presented to the Board for consideration;
- Key Management of each major business unit has been entrusted to prepare action plans, with implementation time scales, to address any risk and control issues;
- Update of risk profile of the Group at periodic intervals; and
- Periodic cycles of internal audit were carried out by a professional firm of consultants which highlighted areas of concerns, including improvement opportunities for Management to strengthen internal control.

Internal audit function

The Group outsourced its internal audit function to a professional 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 updated risk profiles of the major business units of the Group. Opportunities for improvements to the system of internal control are identified and presented to the Audit Committee via internal audit reports whilst Management formulates the relevant action plans to address the issues noted on a periodic basis.

During the financial year ended 31 December 2006, the internal audit function carried out 2 cycles of internal audit to test the adequacy and integrity of the system of internal control of the Group. The findings by the internal audit function, including recommendations and Management's responses, were reported to the Audit Committee. In addition, follow-up on the implementation of recommendations of the previous internal audits was carried out to update the Audit Committee on status of implementation of Management-agreed action plan.

Other risk and control process

Apart from risk management and internal audit, the Board has put in place the following pertinent measures to provide assurance as to the operation and validity of 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;
- The close involvement of the Managing Director in the running of the Group's operations. The 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 organizational structure with formally defined lines of responsibility and delegation of authority has been put in place. 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 on 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 2006 as a result of weaknesses in internal control. The Board, together with Management, continues to take measures to strengthen the control environment, as appropriate.

This statement is issued in accordance with a resolution of the Directors dated 16 April 2007.

Financial Statements

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 2006.

Principal activities

The Company is an investment holding company.

The principal activities of its subsidiaries are set out in Note 5 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

Results

	Group RM	Company RM
Profit for the year	**5,915,041**	**3,800,219**

Reserves and provisions

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

Dividends

Since the end of the previous financial year, the Company paid a first and final dividend of 1.25 sen per ordinary share less 28% tax, totalling RM1,133,298 in respect of the year ended 31 December 2005 on 3 July 2006.

The first and final dividend recommended by the Directors in respect of the year ended 31 December 2006 is 2.50 sen per ordinary share less 27% tax, subject to the approval of shareholders at the forthcoming Annual General Meeting.

Directors of the Company

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

Tan Sri Dato' Mohd Desa bin Pachi
Dato' Goh Cheng Huat
Datin Tan Pak Say
Tan Sri Dato' Soong Siew Hoong
Lim Leng Han
Mohd Arif bin Mastol
Datuk Abdullah Bin Kuntom

Directors of the Company (Cont'd)

The holdings and deemed holdings in the ordinary shares of the Company and of its related companies (other than wholly-owned subsidiaries) of those who were Directors at year end as recorded in the Register of Directors' Shareholdings are as follows :-

	← Number of ordinary shares of RM0.50 each →			
	Balance at 1.1.2006	Bought	(Sold)	Balance at 31.12.2006
Name of Director				
The Company				
Direct interest				
Dato' Goh Cheng Huat	10,530,594	–	–	10,530,594
Datin Tan Pak Say	6	1,150,000	–	1,150,006
Tan Sri Dato' Soong Siew Hoong	150,000	–	–	150,000
Lim Leng Han	18,000	–	–	18,000
Deemed interest				
Dato' Goh Cheng Huat	54,035,874	1,150,000	–	55,185,874
Datin Tan Pak Say	64,566,462	–	–	64,566,462

		Number of options over ordinary shares of RM0.50 each			
	Option price	Balance at 1.1.2006	Granted	(Exercised)	Balance at 31.12.2006
Name of Director					
The Company					
Tan Sri Dato' Mohd Desa bin Pachi	0.74	450,000	–	–	450,000
Dato' Goh Cheng Huat	0.74	450,000	–	–	450,000
Datin Tan Pak Say	0.74	800,000			800,000
Tan Sri Dato' Soong Siew Hoong	0.74	350,000	–	–	350,000
Lim Leng Han	0.74	350,000	–	–	350,000
Mohd Arif bin Mastol	0.74	350,000	–	–	350,000
Datuk Abdullah Bin Kuntom	0.74	350,000	–	–	350,000

By virtue of their interests of more than 15% in the shares of the Company, Dato' Goh Cheng Huat and Datin Tan Pak Say are also deemed to have interests in the shares of all the subsidiaries to the extent the Company has an interest.

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 company 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 advisory fees paid by a subsidiary to a Director 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") of the Company.

Issue of shares and debentures

There were no 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 options offered to take up unissued ordinary shares of RM0.50 each and the exercise price are as follows :

		Number of options over ordinary shares of RM0.50 each				
Date of offer	**Exercise price**	**Balance at 1.1.2006**	**Granted**	**(Exercised)**	**(Lapsed due to resignation)**	**Balance at 31.12.2006**
20 June 2002	0.50	2,892,000	–	–	(129,000)	2,763,000
18 May 2005	0.74	12,436,000	–	–	(514,000)	11,922,000

The persons to whom the options have been granted have no right to participate by virtue of the options in any shares issue of any other company.

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.

Options granted over unissued shares (Cont'd)

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 Bursa Malaysia Securities 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.

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. 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.

Other statutory information

Before the balance sheets and income 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 financial statements of the Group and of the Company 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.

Other statutory information (Cont'd)

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 effects arising from the change in accounting policies as disclosed in Note 28 to the financial statements, the results of the operations of the Group and of the Company for the financial year ended 31 December 2006 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.

Subsequent event

Details of such event are disclosed in Note 27 to the financial statements.

Auditors

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

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors :

....
Datin Tan Pak Say

....
Tan Sri Dato' Mohd Desa bin Pachi

Penang,
Date : 16 April 2007

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 35 to 75 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2006 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 :

....

Datin Tan Pak Say

....

Tan Sri Dato' Mohd Desa bin Pachi

Penang,
Date : 16 April 2007

Statutory Declaration

pursuant to Section 169(16) of the Companies Act, 1965

I, **Datin Tan Pak Say**, 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 35 to 75 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 at Georgetown in the State of Penang on 16 April 2007.

....

Datin Tan Pak Say

Before me :
Chai Choon Kiat, PJM
Pesuruhjaya Sumpah
(Commissioner for Oaths)
Penang

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 35 to 75. The preparation of the financial statements is the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. 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 for entities other than private entities issued by the Malaysian Accounting Standards Board 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 2006 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 and did not include any comment made under sub-section (3) of Section 174 of the Act.

KPMG
Firm Number : AF 0758
Chartered Accountants

Lee Kean Teong
Partner
Approval Number : 1857/02/08 (J)

Penang,
Date : 16 April 2007

	Note	2006 RM	2005 RM (Restated)
Assets			
Property, plant and equipment	3	**64,760,796**	60,538,873
Prepaid lease payments	4	**4,190,704**	4,282,132
Other investments	6	**214,000**	49,000
Total non-current assets		**69,165,500**	64,870,005
Receivables, deposits and prepayments	7	**34,266,661**	21,705,788
Inventories	8	**40,014,549**	47,919,351
Current tax assets		**290,377**	596,701
Cash and bank balances		**1,446,119**	346,878
Total current assets		**76,017,706**	70,568,718
Total assets		**145,183,206**	135,438,723
Equity			
Share capital	9	**62,961,000**	62,961,000
Reserves	10	**22,132,040**	16,551,297
Total equity		**85,093,040**	79,512,297
Liabilities			
Borrowings	11	**4,990,237**	6,326,339
Deferred tax liabilities	12	**8,374,000**	8,179,960
Total non-current liabilities		**13,364,237**	14,506,299
Payables and accruals	13	**13,026,665**	10,237,036
Borrowings	11	**33,586,735**	31,100,386
Current tax liabilities		**112,529**	82,705
Total current liabilities		**46,725,929**	41,420,127
Total liabilities		**60,090,166**	55,926,426
Total equity and liabilities		**145,183,206**	135,438,723

The notes on pages 44 to 75 are an integral part of these financial statements.

	Note	2006 RM	2005 RM (Restated)
Continuing operations			
Revenue	15	**187,144,599**	160,951,766
Changes in manufactured inventories and work-in-progress		**(1,785,058)**	(3,790,184)
Raw materials and trading inventories used		**(154,498,296)**	(130,923,669)
Staff costs		**(4,334,142)**	(4,131,590)
Depreciation and amortisation expenses		**(5,338,204)**	(5,298,180)
Other operating expenses		**(13,760,883)**	(17,004,146)
Other operating income		**1,530,175**	1,162,802
Operating profit	16	**8,958,191**	966,799
Financing costs	18	**(1,977,766)**	(2,017,171)
Profit/(Loss) before tax		**6,980,425**	(1,050,372)
Tax expense	19	**(1,065,384)**	(1,174,803)
Profit/(Loss) for the year		**5,915,041**	(2,225,175)
Attributable to :			
Shareholders of the Company		**5,915,041**	(2,225,175)
Basic earnings/(loss) per ordinary share (sen)	20	**4.70**	(1.77)
Diluted earnings/(loss) per ordinary share (sen)	20	**4.70**	(1.77)
Dividend per ordinary share (sen) - net	21	**1.83**	0.90

The notes on pages 44 to 75 are an integral part of these financial statements.

	Note	Attributable to shareholders of the Company				
			Non-distributable	Distributable		
		Share capital RM	Share option reserve RM	Capital reserve RM	Retained earnings RM	Total equity RM
At 1 January 2005		62,961,000	–	283,606	20,050,462	83,295,068
Loss for the year						
As previously reported		–	–	–	(1,516,175)	(1,516,175)
Effect of adopting FRS 2	28	–	709,000	–	(709,000)	–
As restated		–	709,000	–	(2,225,175)	(1,516,175)
Dividend	21	–	–	–	(2,266,596)	(2,266,596)
At 31 December 2005, restated		62,961,000	709,000	283,606	15,558,691	79,512,297
Profit for the year		–	–	–	5,915,041	5,915,041
Share-based payments	14	–	799,000	–	–	799,000
Dividend	21	–	–	–	(1,133,298)	(1,133,298)
At 31 December 2006		62,961,000	1,508,000	283,606	20,340,434	85,093,040

The notes on pages 44 to 75 are an integral part of these financial statements.

	Note	2006 RM	2005 RM (Restated)
Cash flows from operating activities			
Profit/(Loss) before tax		**6,980,425**	(1,050,372)
Adjustments for :			
Depreciation of property, plant and equipment	3	**5,246,776**	5,206,752
Amortisation of prepaid lease payments	4	**91,428**	91,428
(Reversal of)/Allowance for diminution in value of other investments		**(80,475)**	111,000
Interest expense		**1,977,766**	2,017,171
Interest income		**(32,842)**	(36,497)
Share-based payments	14	**799,000**	709,000
Dividend income		**(10,000)**	–
Property, plant and equipment			
- Write off		**28,704**	13,562
- (Gain)/Loss on disposal		**(61,145)**	12,793
- Impairment loss		**–**	795,784
Loss on disposal of other investments	6	**–**	469,568
Operating profit before working capital changes		**14,939,637**	8,340,189
Decrease/(Increase) in :			
Inventories		**7,904,802**	357,401
Receivables, deposits and prepayments		**(12,560,873)**	(2,385,856)
Increase in :			
Payables and accruals		**2,789,629**	5,482,345
Cash generated from operations		**13,073,195**	11,794,079
Tax paid		**(532,396)**	(759,710)
Interest paid		**(1,977,766)**	(2,017,171)
Interest received		**32,842**	36,497
Dividend received		**7,200**	–
Net cash generated from operating activities		**10,603,075**	9,053,695

The notes on pages 44 to 75 are an integral part of these financial statements.

	Note	2006 RM	2005 RM (Restated)
Cash flows from investing activities			
Purchase of property, plant and equipment	A	**(9,493,855)**	(4,948,192)
Proceeds from disposal of other investments	6	**–**	866,589
Proceeds from disposal of plant and equipment		**145,797**	1,442,361
Purchase of other investments		**(84,525)**	–
Net cash used in investing activities		**(9,432,583)**	(2,639,242)
Cash flows from financing activities			
Short term borrowings, net		**7,624,918**	(15,964,422)
Drawdown of term loans		**298,901**	–
Repayment of term loans		**(891,415)**	(915,951)
Repayment of finance lease liabilities		**(766,306)**	(246,670)
Dividend paid to shareholders of the Company	21	**(1,133,298)**	(2,266,596)
Net cash generated from/(used in) financing activities		**5,132,800**	(19,393,639)
Net increase/(decrease) in cash and cash equivalents		**6,303,292**	(12,979,186)
Cash and cash equivalents at 1 January		**(6,760,321)**	6,218,865
Cash and cash equivalents at 31 December	B	**(457,029)**	(6,760,321)

NOTES

A. *Purchase of property, plant and equipment*

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM9,582,055 (2005 : RM8,728,192) of which RM88,200 (2005 : RM3,780,000) was acquired by means of finance lease. The balance of RM9,493,855 (2005 : RM4,948,192) was made by cash payments.

B. *Cash and cash equivalents*

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

	Note	2006 RM	2005 RM
Cash and bank balances		**1,446,119**	346,878
Bank overdrafts	11	**(1,903,148)**	(7,107,199)
		(457,029)	(6,760,321)

The notes on pages 44 to 75 are an integral part of these financial statements.

Balance Sheet
at 31 December 2006

	Note	2006 RM	2005 RM (Restated)
Assets			
Investment in subsidiaries	5	**24,836,598**	24,214,693
Other investments	6	**214,000**	49,000
Total non-current assets		**25,050,598**	24,263,693
Receivables, deposits and prepayments	7	**60,469,876**	65,984,165
Current tax assets		**15,723**	12,122
Cash and bank balances		**7,044**	7,879
Total current assets		**60,492,643**	66,004,166
Total assets		**85,543,241**	90,267,859
Equity			
Share capital	9	**62,961,000**	62,961,000
Reserves	10	**5,159,044**	1,693,123
Total equity		**68,120,044**	64,654,123
Payables and accruals	13	**17,423,197**	25,613,736
Total current liabilities		**17,423,197**	25,613,736
Total equity and liabilities		**85,543,241**	90,267,859

The notes on pages 44 to 75 are an integral part of these financial statements.

	Note	2006 RM	2005 RM (Restated)
Continuing operations			
Revenue	15	**4,560,300**	5,300,828
Staff costs		**(177,095)**	(151,082)
Operating expenses		**(383,500)**	(1,074,642)
Other operating income		**80,476**	106
Profit before tax	16	**4,080,181**	4,075,210
Tax expense	19	**(279,962)**	(1,484,232)
Profit for the year		**3,800,219**	2,590,978

The notes on pages 44 to 75 are an integral part of these financial statements.

	Note	Share capital RM	Non-distributable Share option reserve RM	Distributable Retained earnings RM	Total equity RM
At 1 January 2005		62,961,000	–	659,741	63,620,741
Profit for the year					
As previously reported		–	–	2,742,060	2,742,060
Effect of adopting FRS 2	28	–	709,000	(151,082)	557,918
As restated		–	709,000	2,590,978	3,299,978
Dividend	21	–	–	(2,266,596)	(2,266,596)
At 31 December 2005, restated		62,961,000	709,000	984,123	64,654,123
Profit for the year		–	–	3,800,219	3,800,219
Share-based payments	14	–	799,000	–	799,000
Dividend	21	–	–	(1,133,298)	(1,133,298)
At 31 December 2006		62,961,000	1,508,000	3,651,044	68,120,044

The notes on pages 44 to 75 are an integral part of these financial statements.

	Note	2006 RM	2005 RM (Restated)
Cash flows from operating activities			
Profit before tax		**4,080,181**	4,075,210
Adjustments for :			
(Reversal of)/Allowance for diminution in value of other investments		**(80,475)**	111,000
Dividend income		**(4,560,300)**	(5,300,828)
Loss on disposal of other investments	6	**–**	469,568
Share-based payments	14	**177,095**	151,082
Operating loss before working capital changes		**(383,499)**	(493,968)
Decrease/(Increase) in receivables, deposits and prepayments		**5,514,289**	(16,659,196)
(Decrease)/Increase in payables and accruals		**(8,190,539)**	15,702,519
Cash used in operations		**(3,059,749)**	(1,450,645)
Tax refunded		**9,348**	11,519
Dividend received		**4,267,389**	3,816,596
Net cash generated from operating activities		**1,216,988**	2,377,470
Cash flows from investing activities			
Purchase of investment in subsidiaries		**–**	(1,000,000)
Purchase of other investments		**(84,525)**	–
Proceeds from disposal of other investments	6	**–**	866,589
Net cash used in investing activities		**(84,525)**	(133,411)
Cash flows from financing activity			
Dividend paid to shareholders of the Company	21	**(1,133,298)**	(2,266,596)
Net cash used in financing activity		**(1,133,298)**	(2,266,596)
Net decrease in cash and cash equivalents		**(835)**	(22,537)
Cash and cash equivalents at 1 January		**7,879**	30,416
Cash and cash equivalents at 31 December		**7,044**	7,879

Note

Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the cash and bank balances in the balance sheet.

The notes on pages 44 to 75 are an integral part of these financial statements.

Leader Steel Holdings Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Board of the Bursa Malaysia Securities Berhad. The addresses of its registered office and principal place of business are as follows:

Registered office

Suite 2 - 1, 2nd Floor
Menara Penang Garden
42A Jalan Sultan Ahmad Shah
10050 Penang

Principal place of business

Plot 85, Lorong Perusahaan Utama
Kawasan Perusahaan Bukit Tengah
14000 Bukit Tengah
Penang

The consolidated financial statements as at and for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the Group).

The Company is principally engaged as an investment holding company. The principal activities of its subsidiaries are disclosed in Note 5 to the financial statements.

1. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board (MASB), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965.

The MASB has issued the following Financial Reporting Standards ("FRSs") and Interpretations that are effective for annual periods beginning after 1 January 2006, and that have not been applied in preparing these financial statements :

Standard/Interpretation	**Effective date**
FRS 139, Financial Instruments : Recognition and Measurement	To be announced
Amendment to FRS 119_{2004}, Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2007
FRS 6, Exploration for and Evaluation of Mineral Resources	1 January 2007
Amendment to FRS 121, The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation	1 July 2007
IC Interpretation 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities	1 July 2007
IC Interpretation 2, Members' Shares in Co-operative Entities and Similar Instruments	1 July 2007
IC Interpretation 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 July 2007
IC Interpretation 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	1 July 2007
IC Interpretation 7, Applying the Restatement Approach under FRS 129_{2004} Financial Reporting in Hyperinflationary Economies	1 July 2007
IC Interpretation 8, Scope of FRS 2	1 July 2007

1. BASIS OF PREPARATION (Cont'd)

(a) Statement of compliance (Cont'd)

In this set of financial statements, the Group and the Company have chosen to early adopt FRS 117, Leases and FRS 124, Related Party Disclosures which are effective for annual periods beginning on or after 1 October 2006.

The impact of applying FRS 139 on the financial statements upon first adoption of this standard as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed by virtue of the exemptions given in the respective standards.

FRS 6, the Amendment to FRS 119_{2004}, the Amendment to FRS 121 and the Interpretations listed above are not applicable to the Group and the Company. Hence, no further disclosure is warranted.

The effects of adopting the new / revised FRS in 2006 are set out in Note 28.

The financial statements were approved by the Board of Directors on 16 April 2007.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except as disclosed in the notes to the financial statements.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in financial statements is described in the Note 7 - Measurement of allowance for doubtful debts.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities, unless otherwise stated.

Certain comparative amounts have been reclassified to conform to the current year's presentation (see Note 29).

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including unincorporated entities controlled by the Group. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Subsidiaries are consolidated using the acquisition method of accounting except for Leader Steel Sdn. Bhd. which is consolidated using the merger method of accounting.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(a) Basis of consolidation (Cont'd)

(i) Subsidiaries (cont'd)

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are stated in the Company's balance sheet at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(ii) Changes in Group composition

Where a subsidiary issues new equity shares to minority interest for cash consideration and the issue price has been established at fair value, the reduction in the Group's interests in the subsidiary is accounted for as a disposal of equity interest with the corresponding gain or loss recognised in the income statement.

When a group purchases a subsidiary's equity shares from minority interest for cash consideration and the purchase price has been established at fair value, the accretion of the Group's interests in the subsidiary is accounted for as a purchase of equity interest for which the acquisition method of accounting is applied.

The Group treats all other changes in group composition as equity transactions between the Group and its minority shareholders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Property, plant and equipment

(i) Recognition and measurement

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

The Group has availed itself to the transitional provision when the MASB first adopted IAS 16, Property, Plant and Equipment in 1998. Certain short term leasehold land and factory buildings were revalued in 1995 and no later valuation has been recorded for these properties (except in the case of impairment adjustments based on a valuation).

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets includes the cost of materials and direct labour. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(b) Property, plant and equipment (Cont'd)

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of those parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:

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

The depreciable amount is determined after deducting the residual value.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(c) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted for as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

The Group had previously classified a lease of land as finance lease and had recognised the amount of prepaid lease payments as property within its property, plant and equipment. On early adoption of FRS 117, Leases, the Group treats such a lease as an operating lease, with the unamortised carrying amount classified as prepaid lease payments in accordance with the transitional provisions in FRS 117.67A.

The Group had previously revalued its leasehold land and has retained the unamortised revalued amount as the surrogate carrying amount of prepaid lease payments in accordance with the transitional provisions in FRS 117.67A. Such prepaid lease payments is amortised over the lease term.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(d) Impairment of assets

The carrying amount of assets, other than inventories and financial assets (other than investments in subsidiaries), are reviewed at each balance sheet date to determine whether there is any indication of impairment.

If any such indication exists then the asset's recoverable amount is estimated. For goodwill that has indefinite useful life, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(e) Investments in debt and equity securities

Investments in debt and equity securities are recognised initially at fair value plus attributable transaction costs.

Subsequent to initial recognition, investments in non-current equity securities other than investments in subsidiaries are stated at cost less allowance for diminution in value.

Where in the opinion of the Directors, there is a decline other than temporary in the value of non-current equity securities and non-current debt securities other than investment in subsidiaries, the allowance for diminution in value is recognised as an expense in the financial year in which the decline is identified.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in the income statement.

All investments in debt and equity securities are accounted for using settlement date accounting. Settlement date accounting refers to :

a) the recognition of an asset on the day it is received by the entity, and

b) the derecognition on an asset and recognition of any gain or loss on disposal on the date it is delivered.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(f) Goodwill

Goodwill arises on the acquisition of subsidiaries.

For acquisitions prior to 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities.

With the adoption of FRS 3 beginning 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Before the adoption of FRS 3, goodwill was measured at cost less accumulated amortisation and impairment losses. Goodwill was amortised from the date of initial recognition over its estimated useful life of 25 years. Impairment tests on goodwill were performed when there were indications of impairment.

Following the adoption of FRS 3, goodwill is measured at cost and is no longer amortised but tested for impairment at least annually or more frequently when there is objective evidence of impairment.

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. The entire carrying amount of the investment is tested for impairment when there is objective evidence of impairment.

Acquisition of minority interest

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of work-in-progress and manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Prior to 1 January 2006, the raw materials, work-in-progress, manufactured inventories were valued at first-in, first-out basis. The Group have changed its accounting policy from first-in, first-out basis to weighted average basis. The change in accounting policy has no material effect to the profit before tax of the Group.

(h) Receivables

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts.

Receivables are not held for the purpose of trading.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(i) 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.

(j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(k) Payables

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

(l) Loans and borrowings

Loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the loans and borrowings using the effective interest method.

(m) Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(n) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(n) Foreign currency transactions (Cont'd)

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

	2006 RM	2005 RM
USD 1	**3.53**	3.80
SGD 1	**2.30**	2.22

(o) Revenue

(i) Goods sold

Revenue from the sale of goods is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(ii) Dividend income

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

(p) Interest income and borrowing costs

Interest income is recognised as it accrues, using the effective interest method.

All borrowing costs are recognised in the income statement using the effective interest method, in the period in which they are incurred except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to be prepared for its intended use.

(q) Tax expense

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit (tax loss). Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(r) Employee benefits

i) Short term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group's contribution to the Employee's Provident Fund is charged to the income statements in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

ii) Share-based payment transactions

The share option programme allows Group employees to acquire shares of the Company. In the previous year, share options granted to employees is not recognised as an employee cost. Following the adoption of FRS 2, Share-based Payment, the grant date fair value of share options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The change in accounting policy is applied retrospectively only for those shares options granted after 31 December 2004 and have not vested as of 1 January 2006 as provided in the transitional provision of FRS 2. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of employee stock options is measured using a binomial lattice model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(s) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3. PROPERTY, PLANT AND EQUIPMENT - GROUP

	Land and buildings RM	Plant and machinery RM	Furniture, fittings and office equipment RM	Electrical and other installations RM	Tools and equipment RM	Motor vehicles RM	Capital work-in-progress RM	Total RM
Valuation/Cost								
At 1 January 2005	32,316,173	62,063,219	2,682,856	2,892,327	2,079,921	1,910,369	1,593,178	105,538,043
Effect of adopting FRS 117	(5,323,306)	–	–	–	–	–	–	(5,323,306)
At 1 January 2005, restated	26,992,867	62,063,219	2,682,856	2,892,327	2,079,921	1,910,369	1,593,178	100,214,737
Additions	35,340	6,734,438	143,217	–	1,043	1,567,428	246,726	8,728,192
Disposals	–	(1,712,663)	(6,900)	–	–	(732,144)	–	(2,451,707)
Write off	–	–	(14,892)	–	–	–	–	(14,892)
At 31 December 2005/ At 1 January 2006, restated	27,028,207	67,084,994	2,804,281	2,892,327	2,080,964	2,745,653	1,839,904	106,476,330
Additions	324,500	8,530,068	186,288	–	1,300	98,070	441,829	9,582,055
Disposals	–	(197,478)	(148,935)	–	(114,200)	(234,703)	–	(695,316)
Write off	–	–	(281,491)	(87,270)	–	–	–	(368,761)
At 31 December 2006	27,352,707	75,417,584	2,560,143	2,805,057	1,968,064	2,609,020	2,281,733	114,994,308

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

	Land and buildings RM	Plant and machinery RM	Furniture, fittings and office equipment RM	Electrical and other installations RM	Tools and equipment RM	Motor vehicles RM	Capital work-in-progress RM	Total RM
Depreciation and impairment losses								
At 1 January 2005								
- Accumulated depreciation	4,326,304	29,906,743	1,837,080	1,791,014	1,884,913	1,337,902	–	41,083,956
- Effect of adopting FRS 117	(949,746)	–	–	–	–	–	–	(949,746)
- Accumulated depreciation, restated	3,376,558	29,906,743	1,837,080	1,791,014	1,884,913	1,337,902	–	40,134,210
- Accumulated impairment losses	–	–	–	–	–	–	798,594	798,594
	3,376,558	29,906,743	1,837,080	1,791,014	1,884,913	1,337,902	798,594	40,932,804
Depreciation for the year, restated	392,773	4,357,939	212,277	20,293	52,072	171,398	–	5,206,752
Impairment loss	–	–	–	–	–	–	795,784	795,784
Disposals	–	(682,115)	(3,494)	–	–	(310,944)	–	(996,553)
Write off	–	–	(1,330)	–	–	–	–	(1,330)
At 31 December 2005/ At 1 January 2006, restated								
- Accumulated depreciation	3,769,331	33,582,567	2,044,533	1,811,307	1,936,985	1,198,356	–	44,343,079
- Accumulated impairment losses	–	–	–	–	–	–	1,594,378	1,594,378
	3,769,331	33,582,567	2,044,533	1,811,307	1,936,985	1,198,356	1,594,378	45,937,457

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

	Land and buildings RM	Plant and machinery RM	Furniture, fittings and office equipment RM	Electrical and other installations RM	Tools and equipment RM	Motor vehicles RM	Capital work-in-progress RM	Total RM
Depreciation and impairment losses (Cont'd)								
Depreciation for the year	393,635	4,358,724	190,460	15,705	49,067	239,185	–	5,246,776
Disposals	–	(146,662)	(148,028)		(81,271)	(234,703)	–	(610,664)
Write off	–		(259,400)	(80,657)				(340,057)
At 31 December 2006								
- Accumulated depreciation	4,162,966	37,794,629	1,827,565	1,746,355	1,904,781	1,202,838	–	48,639,134
- Accumulated impairment losses	–	–	–	–	–	–	1,594,378	1,594,378
	4,162,966	37,794,629	1,827,565	1,746,355	1,904,781	1,202,838	1,594,378	50,233,512
Carrying amounts								
At 1 January 2005, restated	23,616,309	32,156,476	845,776	1,101,313	195,008	572,467	794,584	59,281,933
At 31 December 2005/ At 1 January 2006, restated	23,258,876	33,502,427	759,748	1,081,020	143,979	1,547,297	245,526	60,538,873
At 31 December 2006	23,189,741	37,622,955	732,578	1,058,702	63,283	1,406,182	687,355	64,760,796

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

Land and buildings comprise :

	Valuation/Cost		Net Book Value	
	2006 RM	2005 RM (Restated)	2006 RM	2005 RM (Restated)
At valuation				
Factory buildings	**3,805,000**	3,805,000	**2,874,109**	2,950,217
At cost				
Freehold land	**7,627,269**	7,367,700	**7,627,269**	7,367,700
Factory buildings	**15,676,562**	15,611,631	**12,496,514**	12,744,233
Staff quarters	**243,876**	243,876	**191,849**	196,726
	27,352,707	27,028,207	**23,189,741**	23,258,876

Security

Certain property, plant and equipment of the Group with the net book value of RM7,767,310 (2005 : RM7,519,881) are charged to banks as securities for term loan facilities granted to a subsidiary of the Company (refer Note 11).

Assets under finance lease

Plant and equipment of the Group acquired under finance lease agreements are as follows :

	2006 RM	2005 RM
At net book value		
Plant and machinery	**3,776,355**	5,114,591
Motor vehicles	**959,827**	1,022,628

Revaluation

The 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 buildings been carried at historical cost less accumulated depreciation, the carrying amount of the 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
2006			
Factory buildings	2,152,495	561,403	1,591,092
2005			
Factory buildings	2,152,495	518,257	1,634,238

4. PREPAID LEASE PAYMENTS - GROUP

Leasehold land - Unexpired period less than 50 years

	RM
Cost/Valuation	
At 1 January 2005	–
Effect of adopting FRS 117	5,323,306
At 1 January 2005, restated/At 31 December 2005	5,323,306
At 1 January 2006/31 December 2006	5,323,306
Amortisation	
At 1 January 2005	–
Effect of adopting FRS 117	949,746
At 1 January 2005, restated	949,746
Amortisation for the year	91,428
At 31 December 2005/1 January 2006	1,041,174
Amortisation for the year	91,428
At 31 December 2006	1,132,602
Carrying amounts	
At 1 January 2005, restated	4,373,560
At 31 December 2005/1 January 2006	4,282,132
At 31 December 2006	4,190,704

Included in prepaid lease payments of the Group are leasehold land stated at valuation with cost and net book value of RM 4,295,000 (2005: RM4,295,000) and RM3,382,452 (2005: RM3,456,503), respectively.

5. INVESTMENT IN SUBSIDIARIES

		Company	
	Note	2006 RM	2005 RM
Unquoted shares, at cost		**23,656,875**	23,656,875
Add : Effect of adopting FRS 2 - share-based payment, allocated to subsidiaries	28	**1,179,823**	557,918
Less : Impairment losses		**(100)**	(100)
		24,836,598	24,214,693

5. INVESTMENT IN SUBSIDIARIES (Cont'd)

Details of the subsidiaries are as follows :

Name of Subsidiary	Principal Activities	Effective interest held	
		2006	**2005**
Leader Steel Sdn. Bhd.	Manufacture and trading of steel products	**100%**	100%
Leader Steel Service Centre Sdn. Bhd.	Manufacture and trading of steel products	**100%**	100%
Leader Steel Technology Sdn. Bhd.	Manufacture and sale of steel product making machinery	**100%**	100%
Leader Steel Asia Sdn. Bhd.	Manufacture and sale of steel products	**100%**	100%
Leader Steel Tubes Sdn. Bhd.	Ceased operation during the year	**100%**	100%
Nippon Star Sdn. Bhd.	Dormant	**100%**	100%
Biostone Tech Sdn. Bhd.	Dormant	**100%**	100%
Fresh Rewards Sdn. Bhd.	Dormant	**100%**	100%

All the above subsidiaries are incorporated in Malaysia.

6. OTHER INVESTMENTS

	Group/Company	
	2006 RM	**2005 RM**
Quoted shares, at cost	**244,525**	160,000
Less : Allowance for diminution in value	**(30,525)**	(111,000)
	214,000	49,000
Market value - Quoted shares	**214,000**	49,000

Details of disposed investments are as follows :

	2006 RM	**2005 RM**
Proceeds from disposal	–	866,589
Carrying amount of investments disposed	–	(1,336,157)
Loss on disposal of investments	–	(469,568)

7. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Note	Group 2006 RM	Group 2005 RM	Company 2006 RM	Company 2005 RM
Trade					
Amount due from companies in which a Director has substantial financial interest	a	**117,334**	–	**–**	–
Trade receivables	b	**24,493,832**	19,265,431	**–**	–
		24,611,166	19,265,431	**–**	–
Non-trade					
Amount due from subsidiaries	c	**–**	–	**60,468,876**	65,984,165
Other receivables		**8,920,841**	1,770,736	**–**	–
Deposits		**286,841**	229,903	**–**	–
Prepayments		**447,813**	439,718	**1,000**	–
		9,655,495	2,440,357	**60,469,876**	65,984,165
		34,266,661	21,705,788	**60,469,876**	65,984,165

Note a

The trade receivable due from a company in which a Director has substantial financial interest is subject to the normal trade terms.

Note b

Trade receivables denominated in currencies other than the functional currency are as follows :

- RM13,175,614 (2005 : RM15,781,656) denominated in US Dollar
- RM16,672 (2005 : RM42,185) denominated in Singapore Dollar
- RM7,169,041 (2005 : RM Nil) denominated in Euro Dollar

Trade receivables which are outstanding more than 1 year amounted to RM4,169,525 (2005 : RM184,465). The Directors are of the opinion that those debts are recoverable.

Note c

The non-trade amount due from subsidiaries is unsecured, interest-free and repayable on demand.

8. INVENTORIES - GROUP

	2006 RM	2005 RM
At cost		
Raw materials	**31,838,987**	36,828,135
Work-in-progress	**508,503**	559,280
Manufactured inventories	**6,777,356**	8,511,637
Trading inventories	**889,703**	2,020,299
	40,014,549	47,919,351

9. SHARE CAPITAL - Group / Company

	2006 RM	2005 RM
Authorised		
1,000,000,000 ordinary shares of RM0.50 each	**500,000,000**	500,000,000
Issued and fully paid		
125,922,000 ordinary shares of RM0.50 each	**62,961,000**	62,961,000

10. RESERVES

	Group		Company	
	2006 RM	2005 RM (Restated)	2006 RM	2005 RM (Restated)
Non-distributable				
Share option reserve	**1,508,000**	709,000	**1,508,000**	709,000
Distributable				
Capital reserve	**283,606**	283,606	**–**	–
Retained earnings	**20,340,434**	15,558,691	**3,651,044**	984,123
	22,132,040	16,551,297	**5,159,044**	1,693,123

Share option reserve

The share option reserve comprises the cumulative value of employee services received for the issue of share options. When the option is exercised, the amount from the share option reserve is transferred to share premium. When the share options expire, the amount from the share option reserve is transferred to retained earnings.

Capital reserve

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

11. BORROWINGS - GROUP

	2006 RM	2005 RM
Non-current :		
Finance lease liabilities	**2,115,952**	2,859,540
Term loans - secured	**2,874,285**	3,466,799
	4,990,237	6,326,339
Current :		
Bank overdrafts - unsecured	**1,903,148**	7,107,199
Bankers' acceptances - unsecured	**26,258,000**	19,255,000
Discounting bills - unsecured	**3,786,496**	3,164,578
Finance lease liabilities	**739,272**	673,790
Term loans - secured	**899,819**	899,819
	33,586,735	31,100,386
	38,576,972	37,426,725

Term and debt repayment schedule

The bank overdrafts, bankers' acceptances and discounting bills are subject to interest rates ranging from 3.68% to 8.75% (2005 : 3.47% to 8.75%) per annum.

Term loans

One of the secured term loans is subject to interest at 7% (2005 : 7%) per annum whilst the other secured term loans are subject to interest rates as follows :

		Term loan 1	Term loan 2
First year	-	4.25% per annum	3.50% per annum
Second year	-	5.50% per annum	0% + lending bank's base lending rate
Third year onwards	-	8.00% per annum	0.33% + lending bank's base lending rate

The term loans are secured against first fixed charge over certain property, plant and machinery (see Note 3) of the Group by way of debenture and corporate guarantees executed by the Company.

11. BORROWINGS - GROUP (Cont'd)

Secured term loans are repayable as follows :

	Year of maturity	Total RM	Under 1 year RM	1 - 2 years RM	2 - 5 years RM	Over 5 years RM
At 31 December 2006						
- secured	2007-2017	3,774,104	899,819	1,070,836	1,400,000	403,449
At 31 December 2005						
- secured	2007-2011	4,366,618	899,819	899,819	1,525,532	1,041,448

Finance lease liabilities

The finance lease liabilities are repayable as follows :

	2006			2005		
	Payments RM	Interest RM	Principal RM	Payments RM	Interest RM	Principal RM
Less than one year	**900,906**	**161,634**	**739,272**	880,968	207,178	673,790
Between one and five years	**2,618,134**	**502,182**	**2,115,952**	3,236,210	376,670	2,859,540
	3,519,040	**663,816**	**2,855,224**	4,117,178	583,848	3,533,330

The finance lease liabilities are subject to fixed interest rates ranging from 2.28% to 3.55% (2005 : 2.28% to 3.55%) per annum.

12. DEFERRED TAX LIABILITIES - GROUP

Recognised deferred tax liabilities

	2006 RM	2005 RM
Deferred tax liabilities		
Property, plant and equipment (including prepaid lease payments)		
- capital allowances	**7,564,040**	7,370,000
- revaluation	**809,960**	809,960
	8,374,000	8,179,960

12. DEFERRED TAX LIABILITIES - GROUP (Cont'd)

Recognised deferred tax liabilities (Cont'd)

The component and movement of deferred tax (assets)/liabilities during the year are as follows :

	At 1 January 2005 RM	Recognised in the income statement RM	At 31 December 2005 RM	Recognised in the income statement RM	At 31 December 2006 RM
Deferred tax liabilities					
Property, plant and equipment (including prepaid lease payments)					
- Capital allowances	6,779,000	591,000	7,370,000	194,040	7,564,040
- Revaluation	809,960	–	809,960	–	809,960
Deferred tax assets					
Tax loss carry-forward	(381,000)	381,000	–	–	–
Taxable temporary differences	56,000	(56,000)	–	–	–
	7,263,960	916,000	8,179,960	194,040	8,374,000

Unrecognised deferred tax assets

No deferred tax has been recognised for the following items :

	2006 RM	2005 RM
Tax loss carry-forwards	**1,125,000**	502,000
Unabsorbed capital allowances	**479,000**	80,000
Taxable temporary differences	**(700,000)**	(421,000)
	904,000	161,000

The tax loss carry-forwards and unabsorbed capital allowances do not expire under current tax legislation unless there is substantial change in shareholders (more than 50%). If there is substantial change in shareholders, tax loss carry-forwards and unabsorbed capital allowances amounting to RM1,125,000 and RM479,000 respectively will not be available to the Group. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilise the benefits there from.

The comparative figures have been restated to reflect the revised tax loss carry-forwards and unabsorbed capital allowances available to the Group.

13. PAYABLES AND ACCRUALS

		Group		Company	
	Note	2006 RM	2005 RM	2006 RM	2005 RM
Trade					
Trade payables	a	7,382,079	7,045,762	–	–
Non-trade					
Amount due to subsidiaries	b	–	–	17,238,197	25,417,524
Other payables	c	4,868,761	2,174,487	–	–
Accrued expenses		775,825	1,016,787	185,000	196,212
		5,644,586	3,191,274	17,423,197	25,613,736
		13,026,665	10,237,036	17,423,197	25,613,736

Note a

Trade payables denominated in currencies other than the functional currency are as follows :

- RM6,227,606 (2005 : RM6,760,091) denominated in US Dollar
- RM7,346 (2005 : RM Nil) denominated in Euro Dollar

Note b

The amount due to subsidiaries is unsecured, interest-free and repayable on demand.

Note c

Other payables denominated in currency other than the functional currency are RM2,872,000 (2005: RM nil) denominated in US Dollar.

14. EMPLOYEE BENEFITS - GROUP

Equity compensation benefits

Share option plan

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

Date of offer	Exercise price RM	Balance as at 1.1.2005 '000	Options granted '000	Options lapsed '000	Balance as at 31.12.2005 '000	Options lapsed '000	Balance as at 31.12.2006 '000	Exercisable option 31.12.2006 '000	Exercisable option 31.12.2005 '000
20 June 2002 *	0.50	3,558	–	(666)	2,892	(129)	2,763	2,763	2,892
18 May 2005	0.74	–	12,645	(209)	12,436	(514)	11,922	4,840	2,526
		3,558	12,645	(875)	15,328	(643)	14,685	7,603	5,418

* The recognition and measurement principles in FRS 2 have not been applied to these grants as they were granted prior to the effective date of FRS 2.

14. EMPLOYEE BENEFITS - GROUP (Cont'd)

Equity compensation benefits (Cont'd)

Share option plan (Cont'd)

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using a binomial lattice model, with the following inputs:

	Directors and Employees	
	2006	**2005 (Restated)**
Fair value of share options and assumptions		
Fair value at grant date based on the following vesting date		
- 18 May 2005	–	RM0.18
- 18 May 2006	–	RM0.23
- 18 May 2007	–	RM0.25
- 18 May 2008	–	RM0.26
- 18 May 2009	–	RM0.27
Share price at grant date	–	RM0.83
Exercise price	–	RM0.74
Expected volatility (weighted average volatility)	–	40%
Option life (expected weighted average life)	–	5.5 years
Expected dividends	–	4.4%
Risk-free interest rate (based on Malaysian government bonds)	–	3.7%

Value of employee services received for issue of share option

	Group		Company	
	2006 RM'000	**2005 RM'000 (Restated)**	**2006 RM'000**	**2005 RM'000 (Restated)**
Share options granted in 2005/ Total expenses recognised as share-based payments	**799**	709	**177**	151

15. REVENUE

Revenue comprises the following :

	Group		Company	
	2006 RM	**2005 RM**	**2006 RM**	**2005 RM**
Invoiced value of goods sold less discounts and returns	**187,134,599**	160,951,766	**–**	–
Gross dividend received				
- subsidiaries	**–**	–	**4,550,300**	5,300,828
- other investments	**10,000**	–	**10,000**	–
	187,144,599	160,951,766	**4,560,300**	5,300,828

16. OPERATING PROFIT/PROFIT BEFORE TAX

Operating profit/Profit before tax is arrived at after charging :

	Group		Company	
	2006 RM	2005 RM (Restated)	2006 RM	2005 RM (Restated)
Auditors' remuneration				
- current year				
- audit services	**55,600**	55,600	**10,000**	10,000
- other services	**52,250**	64,250	**52,250**	64,250
- prior year				
- audit services	**–**	8,000	**–**	2,000
Bad debt written off	**–**	5,548	**–**	–
Directors' emoluments				
- Director of the Company				
- fees	**175,000**	175,000	**175,000**	175,000
- remuneration	**828,532**	855,537	**13,500**	14,000
- share-based payments	**153,705**	131,128	**153,705**	131,128
- other Directors				
- remuneration	**286,352**	307,422	**–**	–
- share-based payments	**87,545**	73,578	**23,390**	19,954
Depreciation of property, plant and equipment (Note 3)	**5,246,776**	5,206,752	**–**	–
Amortisation of prepaid lease payments (Note 4)	**91,428**	91,428	**–**	–
Property, plant and equipment				
- Impairment loss	**–**	795,784	**–**	–
- Written off	**28,704**	13,562	**–**	–
- Disposal	**–**	12,793	**–**	–
Allowance for diminution in value of other investments	**–**	111,000	**–**	111,000
Loss on foreign exchange (realised)	**–**	181,813	**–**	–
Rental of equipment	**–**	1,925	**–**	–
Loss on disposal of other investment	**–**	469,568	**–**	469,568
Rental of premises	**375**	39,740	**–**	–
Personnel expenses (including key management personnel):				
- Contributions to Employees Provident Fund	**405,650**	368,445	**–**	–
- Share-based payments (Note 14)	**799,000**	709,000	**177,095**	151,082
- Wages, salaries and others	**3,129,492**	3,054,145	**–**	–
and crediting :				
Gain on foreign exchange (realised)	**110,012**	–	**–**	–
Interest income	**32,842**	36,497	**–**	–
Gain on disposal of plant and equipment	**61,145**	–	**–**	–
Gross dividend income				
- subsidiaries	**–**	–	**4,550,300**	5,300,828
- other investments	**10,000**	–	**10,000**	–
Rental of equipment	**73,900**	–	**–**	–
Reversal of allowance for diminution in value of other investments	**80,475**	–	**80,475**	–
Allowance for doubtful debts written back	**29,861**	–	**–**	–

17. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensations is as follows :

	Group		Company	
	2006 RM	2005 RM (Restated)	2006 RM	2005 RM (Restated)
Director				
- Fees	**25,000**	25,000	**25,000**	25,000
- Remuneration	**770,532**	490,801	**1,500**	2,000
- Share-based payments	**53,463**	44,856	**–**	**–**
Other Directors				
- short term employee benefits	**282,006**	307,422	**–**	–
- share-based payments	**64,155**	53,924	**–**	–
Other key management personnel				
- Short term employee benefits	**522,000**	489,000	**–**	**–**
- Share-based payments	**102,916**	86,612	**–**	–

Other key management personnel comprises persons other than the directors of Group entities, having authority and responsibility for planning, directing and controlling the activities of the Group entities, either directly or indirectly.

18. FINANCING COSTS - GROUP

	2006 RM	2005 RM
Interest payable :		
Term loans	**276,555**	232,981
Bank overdrafts	**327,151**	252,006
Finance lease liabilities	**126,345**	40,932
Other borrowings	**1,247,715**	1,491,252
	1,977,766	2,017,171

19. TAX EXPENSE

Major components of tax expense include

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Current tax expense				
- Current	949,512	217,226	292,911	1,481,458
- Prior years	(78,168)	41,577	(12,949)	2,774
Total current tax	871,344	258,803	279,962	1,484,232
Deferred tax expense				
- Origination and reversal of temporary differences	253,000	217,000	–	–
- Prior years	(58,960)	699,000	–	–
Total deferred tax	194,040	916,000	–	–
Total tax expense on continuing operation	1,065,384	1,174,803	279,962	1,484,232

19. TAX EXPENSE (Cont'd)

Reconciliation of effective tax expense

	Group		Company	
	2006 RM	**2005 RM (Restated)**	**2006 RM**	**2005 RM (Restated)**
Profit/(Loss) before tax	**6,980,425**	(1,050,372)	**4,080,181**	4,075,210
Tax at Malaysian tax rate at 28%	**1,954,519**	(294,104)	**1,142,451**	1,141,059
Non-deductible expenses	**327,822**	759,706	**134,433**	340,399
Effect of lower tax rate for certain subsidiaries*	**12,635**	4,506	**–**	–
Income not subject to tax	**(72,701)**	–	**–**	–
Tax exempt income	**–**	–	**(983,973)**	–
Tax incentives	**(1,228,225)**	(153,845)	**–**	–
Deferred tax assets not recognised	**208,040**	109,196	**–**	–
Losses not available for set off	**–**	8,107	**–**	–
Other items	**422**	660	**–**	–
(Over)/Under provided in prior years	**(137,128)**	740,577	**(12,949)**	2,774
Tax expense	**1,065,384**	1,174,803	**279,962**	1,484,232

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank/distribute its entire distributable reserves at 31 December 2006 if paid out as dividends.

* With effect from year of assessment 2004, companies with paid-up capital at RM2.5 million and below at the beginning of the basic period for a year of assessment are subject to corporate tax at 20% on chargeable income up to RM500,000.

20. EARNINGS/(LOSS) PER ORDINARY SHARE - GROUP

Basic earnings/(loss) per ordinary share

The calculation of basic earnings/(loss) per ordinary share is based on the profit/(loss) attributable to ordinary shareholders of RM5,915,041 (2005 : loss of RM2,225,175) and on the weighted average number of ordinary shares outstanding during the year of 125,922,000 (2005 : 125,922,000).

Diluted earnings/(loss) per ordinary share

Diluted earnings/(loss) per ordinary share is the same as the basic earnings/(loss) per ordinary share as the effect of anti-dilutive potential ordinary shares are ignored in calculating diluted earnings/(loss) per ordinary share in accordance with the FRS133 on earnings per share.

21. DIVIDEND - GROUP/COMPANY

	2006 RM	2005 RM
Dividend paid :		
- first and final dividend of 1.25 sen (2004 : 2.5 sen) per ordinary share less 28% tax	**1,133,298**	2,266,596

The proposed first and final dividend of 2.50 sen per ordinary share less 27% tax in respect of the year ended 31 December 2006 has not been accounted for in the financial statements. The dividend is subject to the approval of shareholders at the forthcoming Annual General Meeting. This dividend will be recognised in subsequent financial reports upon approval by the shareholders.

22. CONTINGENT LIABILITIES, UNSECURED - COMPANY

(i) Corporate guarantees

	2006 RM'000	2005 RM'000
- Amount of corporate guarantees given to licensed banks for credit facilities granted to certain subsidiaries	**194,511**	194,511
- Amount of corporate guarantee given to a third party for credit facilities granted to a subsidiary	**5,000**	–

The amount of credit facilities utilised as at balance sheet date was RM37.41 million (2005 : RM36.60 million).

(ii) The Company also provides financial support to certain subsidiaries to enable them to continue operating as a going concern.

23. SIGNIFICANT RELATED PARTY TRANSACTIONS

23.1 Controlling related party relationships are as follows :

(i) Subsidiaries as disclosed in Note 5

(ii) Companies in which the Director, Dato' Goh Cheng Huat, is deemed to have substantial financial interests :

- Eonmetall Group Berhad and its subsidiaries

(iii) Key management personnel of the Group :

- Datin Tan Pak Say
- Tan Yew Teong
- Lee Tian Soon
- Low Tze Herng
- Goh Li Li
- Cheah Khoon Hong

23. SIGNIFICANT RELATED PARTY TRANSACTIONS (Cont'd)

23.2 Significant transactions with related parties (Cont'd)

i) There were no transactions with the key management personnel and Directors other than the following :

a) advisory fees of RM46,000 paid by a subsidiary to a Director of the Company, Tan Sri Dato' Mohd Desa bin Pachi, in the ordinary course of business.

b) the remuneration package paid in accordance with the terms and conditions of their appointment.

ii) Transactions with subsidiaries

	Company	
	2006 RM	**2005 RM**
Dividend income		
- Leader Steel Service Centre Sdn. Bhd.	**3,052,885**	5,300,828
- Leader Steel Tubes Sdn. Bhd.	**1,497,415**	–

iii) Transactions with companies in which the Director, Dato' Goh Cheng Huat is deemed to have substantial financial interests.

	Company	
	2006 RM	**2005 RM**
Sales		
Eonmetall Systems Sdn. Bhd.	**47,856**	–
Eonmetall Asia Sdn. Bhd.	**20,549**	–
Eonmetall Industries Sdn. Bhd.	**306,397**	–
Sales of equipment		
Eonmetall Technology Sdn. Bhd.	**40,000**	–

The above transactions are priced on an arm's length basis.

Non-trade balances with subsidiaries are disclosed in Note 7 and 13.

24. CAPITAL COMMITMENTS - GROUP

	2006 RM'000	**2005 RM'000**
Property		
Approved but not contracted for	**–**	612
Contracted but not provided for and payable within 1 year	**261**	–

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.

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 investments and related revenue, loans and borrowings and related expenses, corporate assets and head office expenses, and tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment and prepaid lease payments that are expected to be used for more than one period.

Inter-segment pricing is determined on an arm's length basis.

Business segments

The Group is principally engaged in the manufacture and sale of steel products. Business segmental information has not been prepared as the Group's revenue, operating profit, assets employed, liabilities, capital expenditure, depreciation and amortisation and non cash expenses are mainly confined to one business 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
2006			
Malaysia	**114,453,137**	**144,892,829**	**9,582,055**
Indonesia	**25,705,725**	**–**	**–**
South Africa	**19,748,072**	**–**	**–**
Vietnam	**12,060,146**	**–**	**–**
Others	**15,177,519**	**–**	**–**
Total	**187,144,599**	**144,892,829**	**9,582,055**
2005			
Malaysia	93,442,770	134,842,022	8,728,192
Indonesia	20,707,973	–	–
Vietnam	35,358,200	–	–
Others	11,442,823	–	–
Total	160,951,766	134,842,022	8,728,192

26. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

Exposure to credit, interest rate, liquidity 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

The Group has no significant concentrations of credit risk at the balance sheet date other than the amount due from Vietnam customers of RM7,249,760 (2005: RM10,941).

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

The Group borrows for operations at variable rates using their bankers' acceptances, overdrafts and discounting bills facilities to finance the working capital and term loans and finance lease facilities at fixed rates to finance capital expenditure.

Effective interest rates and repricing analysis

In respect of 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 per annum %	Total RM	Within 1 year RM	1 - 5 years RM	Over 5 years RM
2006					
Group					
Financial liabilities					
Unsecured bank overdrafts	**8.50**	**1,903,148**	**1,903,148**	**–**	**–**
Unsecured bankers' acceptances	**4.28**	**26,258,000**	**26,258,000**	**–**	**–**
Unsecured discounting bills	**3.68**	**3,786,496**	**3,786,496**	**–**	**–**
Secured fixed rate term loan	**7.00**	**271,754**	**199,819**	**71,935**	**–**
Secured housing loans	**3.50**	**298,901**	**–**	**298,901**	**–**
2005					
Group					
Financial liabilities					
Unsecured bank overdrafts	7.95	7,107,199	7,107,199	–	–
Unsecured bankers' acceptances	3.48	19,255,000	19,255,000	–	–
Unsecured discounting bills	7.77	3,164,578	3,164,578	–	–
Secured fixed rate term loan	7.00	525,170	199,819	325,351	–

26. FINANCIAL INSTRUMENTS (Cont'd)

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 the US dollars. At any point in time, the Group also hedges its currency exposure by booking forward its sales and purchase. There are no outstanding forward contracts as at balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity at market rates.

Fair values

Recognised financial instruments

In respect of cash and bank balances, receivables, deposits and prepayments, payables and accruals and short term borrowings, the carrying amounts approximate fair value due to the relatively short term nature of these financial instruments.

The Company provides financial guarantees to banks for credit facilities extended to certain subsidiaries. The fair value of such financial guarantees is not expected to be material as the probability of the subsidiaries defaulting on the credit lines is remote.

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.

	2006		2005	
	Carrying amount RM	Fair value RM	Carrying amount RM	Fair value RM
Group				
Financial assets				
Quoted investment	**214,000**	**214,000**	49,000	49,000
Financial liabilities				
Secured term loans				
- fixed rate loan	**271,754**	**#**	525,170	#
- housing loans	**298,901**	**#**	–	–

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.

There is no disclosure of fair value for long term loan procured under Islamic banking principles as FRS132, Financial Instruments: Disclosure and Presentation does not apply to the recognition, measurement and disclosure of transactions and events conducted on the basis of Islamic banking principles.

It was not practicable to estimate the fair value of the secured housing 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 value of the term loan.

There were no unrecognised financial instruments at balance sheet date.

27. SUBSEQUENT EVENT

Subsequent to the balance sheet date, the issued and paid-up capital of the Company was increased from 125,922,000 ordinary share of RM0.50 each to 126,788,000 ordinary shares at RM0.50 each via the allotment of additional 866,000 new ordinary shares pursuant to the ESOS.

28. CHANGES IN ACCOUNTING POLICIES

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended 31 December 2006.

The changes in accounting policies arising from the adoption of FRS 2, Share-based Payment are summarised below:

In accordance with the transitional provisions, FRS 2 has been applied to all grants after 1 January 2005. The adoption of FRS 2 has resulted in a change in the Group's accounting policy for share-based payments, whereby the Group charges the cost of share options to the income statement. The change in accounting policy is made in accordance with their transitional provisions.

The adoption of FRS 2 resulted in :

	Group		Company	
	2006 RM	2005 RM (Restated)	2006 RM	2005 RM (Restated)
Income statement for the year ended 31 December				
Increase in staff costs	**799,000**	709,000	**177,095**	151,082
Balance sheet at 31 December				
Cumulative increase in investment in subsidiaries	**–**	**–**	**1,179,823**	557,918
Cumulative decrease in retained earnings	**1,508,000**	709,000	**328,177**	151,082
Cumulative increase in share option reserve	**1,508,000**	709,000	**1,508,000**	709,000

Earnings/(Loss) per ordinary share (in sen)

	Group		Company	
	2006	2005 (Restated)	2006	2005 (Restated)
Decrease/(Increase) in basic earnings/(loss) per ordinary share (sen)	**0.63**	(0.57)	**–**	–
Decrease/(Increase) in diluted earnings/(loss) per ordinary share (sen)	**0.63**	(0.57)	**–**	–

29. COMPARATIVE FIGURES

Certain comparative figures have been reclassified as a result of changes in accounting policies as stated in note 28 and to conform with the presentation requirements of FRS 101.

	Group		Company	
	As restated	As previously stated	As restated	As previously stated
	RM	RM	RM	RM
Balance sheet				
Property, plant and equipment	60,538,873	64,821,005	–	–
Prepaid lease payments	4,282,132	–	–	–
Investment in subsidiaries	–	–	24,214,693	23,656,775
Reserves	–	–	1,693,123	1,135,205
Income statements				
Staff costs	4,131,590	3,422,590	151,082	–
(Loss)/Profit before tax	(1,050,372)	(341,372)	4,075,210	4,226,292
(Loss)/Profit for the year	(2,225,175)	(1,516,175)	2,590,978	2,742,060
Basic loss per ordinary share (sen)	(1.77)	(1.20)	–	–
Diluted loss per ordinary share (sen)	(1.77)	(1.20)	–	–
Statements of changes in equity				
Share option reserve at 31 December 2005	709,000	–	709,000	–
Retained earnings at 31 December 2005	15,558,691	16,267,691	984,123	1,135,205

Leasehold land amounting to RM4,282,132 as at December 2005 was reclassified from property, plant and equipment to prepaid lease payments to comply with the requirements of FRS 117, Leases.

Location	Date of *Revaluation/ Acquisition	Tenure	Approximate Age of Building	Area (Square metres)	Description	Net book Value at 31 December 2006 RM'000
Leader Steel Sdn. Bhd.						
Plot 85 Lorong Perusahaan Utama Kawasan Perusahaan Bukit Tengah Pulau Pinang, Malaysia	*8.7.94	Leasehold 60 years, expiring 21.12.2052	14 years	34,000	Factory	12,352
6 Lorong Limau Manis 1 Taman Limau Manis 14000 Bukit Tengah Pulau Pinang, Malaysia	17.2.95	Freehold Double storey Terrace house	10 years	111	Residential premise for factory workers	98
8 Lorong Limau Manis 1 Taman Limau Manis 14000 Bukit Tengah Pulau Pinang, Malaysia	17.2.95	Freehold Double storey Terrace house	10 years	111	Residential premise for factory workers	98
Lot 841 Block 7 MTLD Sejingkat Industrial Park 93050 Kuching Sarawak, Malaysia	11.11.93	Leasehold 60 years, expiring 10.11.2053	12 years	33,600	Factory	7,206
Leader Steel Service Centre Sdn. Bhd.						
Geran 43145, Lot No. 6483 Kapar, Klang Selangor Darul Ehsan	15.1.04	Freehold	–	52,483	–	7,627

Authorised share capital	: RM500,000,000.00
Issued and fully paid-up share capital	: RM63,394,000.00
Class of share	: Ordinary shares of RM0.50 each fully paid
Voting rights	: On a show of hands one vote for every shareholder
	: On a poll one vote for every ordinary share held

ANALYSIS OF DEPOSITORS 16.04.2007

Size of holdings	No. of Depositors	No. of Shares held	% of Issued capital
Less than 100	3	106	0.00
100 – 1,000	168	152,900	0.12
1,001 – 10,000	1.391	7,086,300	5.59
10,001 – 100,000	589	16,230,426	12.80
100,001 – 6,339,399	66	23,459,788	18.50
6,339,400 – 126,788,000	3	79,858,480	62.99
TOTAL	2,220	126,788,000	100.00

DIRECTORS SHAREHOLDINGS

No.	Name	Direct Interest		Deemed Interest	
		No. of Shares	%	No. of Shares	%
1	#Tan Sri Dato' Mohd Desa bin Pachi	–	–	–	–
2	#Dato' Goh Cheng Huat	10,530,594	8.31	55,185,874	43.53
3	^Datin Tan Pak Say	1,150,006	0.91	64,566,462	50.92
4	*Lim Leng Han	18,000	0.01	–	–
5	*Datuk Abdullah bin Kuntom	–	–	–	–
6	*Mohd Arif bin Mastol	–	–	–	–
7	*Tan Sri Dato' Soong Siew Hoong	150,000	0.12	–	–

By virtue of their interests of more than 15% in the shares of the Company, Dato' Goh Cheng Huat and Datin Tan Pak Say are also deemed to have interests in the shares of all the subsidiaries to the extent the Company has an interest.

^ Option to subscribe for 800,000 shares in the Company pursuant to Employee Share Option Scheme 2002.
# Option to subscribe for 450,000 shares in the Company pursuant to Employee Share Option Scheme 2002.
* Option to subscribe for 350,000 shares in the Company pursuant to Employee Share Option Scheme 2002.

SUBSTANTIAL SHAREHOLDER

No.	Name	Direct Interest		Deemed Interest	
		No. of Shares	%	No. of Shares	%
1	Dato' Goh Cheng Huat	10,530,594	8.31	55,185,874	43.53
2	Datin Tan Pak Say	1,150,006	0.91	64,566,462	50.92
4	Bischart Sdn. Bhd.	54,035,868	42.62	–	–
3	Amanah Raya Nominees (Tempatan) Sdn. Bhd. -Skim Amanah Saham Bumiputera	18,224,300	14.37	–	–

LIST OF TOP 30 DEPOSITORS

	NAME AND ADDRESS	No. of Shares	Holdings %
1	Southern Nominees (Tempatan) Sdn Bhd Bischart Sdn Bhd	52,013,868	41.02
2	Amanah Raya Nominees (Tempatan) Sdn Bhd Skim Amanah Saham Bumiputera	18,224,300	14.37
3	Goh Cheng Huat	9,620,312	7.59
4	Bischart Sdn. Bhd.	2,022,000	1.59
5	A.A. Anthony Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Kock Nai Suan	1,680,200	1.33
6	Tan Pak Say	1,150,006	0.91
7	Ng Yoon Peng	970,200	0.77
8	Husnah Binti Abdul Latiff	920,000	0.73
9	Southern Nominees (Tempatan) Sdn Bhd Goh Cheng Huat	910,282	0.72
10	Chuah Choon Imm	847,700	0.67
11	Tan Yew Teong	846,000	0.67
12	Kong Kok Leong	657,900	0.52
13	Tan Phaik Hoon	615,900	0.49
14	Tan Kheng Hwa	550,000	0.43
15	Goh Khang Leng	540,700	0.43
16	Citigroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Tee Cheng Teok (474305)	516,000	0.41
17	Kueh Song Joo	420,000	0.33
18	Goh Li Li	414,000	0.33
19	Citigroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Yeap Soon Thong (474161)	397,300	0.31
20	PRB Nominees (Tempatan) Sdn. Bhd. Rubber Industry Smallholders Development Authority	390,000	0.31
21	HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Kasi A/L K L Palaniappan	361,600	0.29
22	CIMB Group Nominees (Tempatan) Sdn Bhd Pledged Securities Account For A.A. Anthony Securities Sdn Bhd. (2555 PENG)	341,000	0.27
23	Sim Choh Sang @ Sim Choh Shan	336,000	0.27
24	Eng Hoo @ Ng Kok Hoo	332,000	0.26
25	Cheah Suan Lee	330,000	0.26
26	Lim Shiu Ho	306,100	0.24
27	Kenanga Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Goh Kim Sin	306,000	0.24
28	Chan Mei Yee	300,600	0.24
29	Ang Hock Heng	294,000	0.23
30	Kenanga Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Bong Siew Kiaw	280,000	0.22
		96,893,968	76.42

I/We,.. (Full name in block letters)
of...(Address)
being a member / members of Leader Steel Holdings Berhad hereby appoint ....
....(Full name in block letters)
of ....(Address)
or failing him the CHAIRMAN OF THE MEETING as my/our proxy, to vote for me/us and on my/our behalf at the FOURTEENTH 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 Monday, 28 May 2007 at 10:45 a.m. and at any adjournment thereof.

NO.	RESOLUTIONS	FOR	AGAINST
1.	Ordinary Resolution 1		
2a(i).	Ordinary Resolution 2		
2a(ii).	Ordinary Resolution 3		
2b(i).	Ordinary Resolution 4		
2b(ii).	Ordinary Resolution 5		
3.	Ordinary Resolution 6		
4.	Ordinary Resolution 7		
5.	Ordinary Resolution 8		
6a.	Ordinary Resolution 9		
6b.	Ordinary Resolution 10		
6c.	Special Resolution 1		

(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 May, 2007.

....
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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STAMP
HERE

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

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LEADER STEEL HOLDINGS BERHAD (267209-K)

Wisma Leader Steel
Plot 85, Lorong Perusahaan Utama,
Kawasan Perusahaan Bukit Tengah,
14000 Bukit Tengah, Seberang Perai Tengah,
Pulau Pinang, Malaysia.
Tel: 604-507 1515 (Hunting Line)
Fax: 604-507 9527 & 507 9537