



LEADER STEEL HOLDINGS BERHAD

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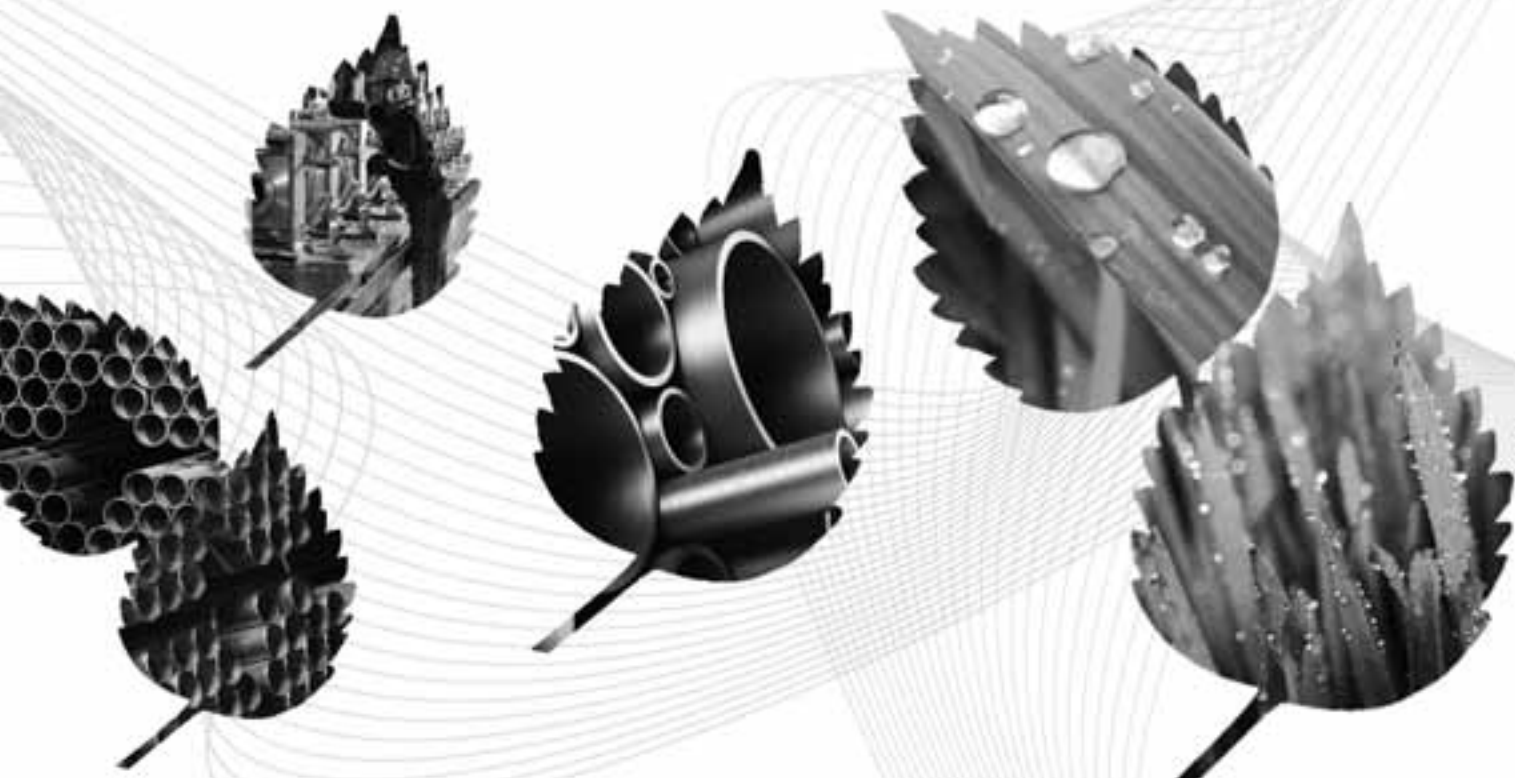
ANNUAL REPORT

2011



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NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the NINETEENTH 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 Thursday, 21 June 2012 at 10.45 am for the following purposes:

As Ordinary Business:

- | | | |
|-----|---|------------------------|
| 1. | To receive the Audited Financial Statements for the year ended 31 December 2011 and the Reports of the Directors and Auditors thereon. | Please refer to Note 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 1 |
| | ii) Datuk Abdullah Bin Kuntom | Ordinary Resolution 2 |
| 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 3 |
| | ii) Tan Sri Dato' Soong Siew Hoong | Ordinary Resolution 4 |
| 3. | To approve the payment of Directors' fees amounting to RM175,000 for the year ended 31 December 2011. | Ordinary Resolution 5 |
| 4. | To appoint Messrs Crowe Horwath as Auditors of the Company for the ensuing year in place of the retiring Auditors, Messrs KPMG to hold office until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration. | Ordinary Resolution 6 |

As Special Business:

- | | | |
|----|---|-----------------------|
| 5. | To consider and if thought fit, to pass the following Ordinary 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 authorised to issue and allot from time to time such number of ordinary shares of the Company upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, PROVIDED ALWAYS THAT the aggregate number of ordinary shares to be issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being AND THAT the Directors are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on the Bursa Malaysia Securities Berhad (“Bursa Securities”) AND THAT such authority shall continue to be 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 7 |
| | b) PROPOSED RENEWAL AND ADDITIONAL SHAREHOLDERS' MANDATE FOR THE RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE (“Proposed Shareholders' Mandate”) | |
| | “THAT pursuant to Paragraph 10.09 of the Bursa Securities Main Market Listing Requirements (“Listing Requirements”), 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 | Ordinary Resolution 8 |

NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

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 resolution passed by the shareholders of the Company in a general meeting; whichever is the earlier.”

c) **PROPOSED AUTHORITY TO BUY-BACK ITS OWN SHARES BY THE COMPANY**

“THAT subject to the Act, rules, regulations and orders made pursuant to the Act, provisions of the Company’s Memorandum and Articles of Association and the requirements of the Bursa Securities and any other relevant authorities, the Directors of the Company be hereby unconditionally and generally authorised to make purchases of ordinary shares of RM0.50 each in the Company’s issued and paid-up capital through the Bursa Securities at anytime and upon such terms and conditions and for such purposes as the Directors may, in their discretion deem fit, subject to the following:

Ordinary Resolution 9

- i) the maximum number of ordinary shares which may be purchased and/or held by the Company shall be ten per centum (10%) of the issued and paid-up ordinary share capital of the Company for the time being (“LSTEEL Shares”);
- ii) the maximum fund to be allocated by the Company for the purpose of purchasing the LSTEEL Shares shall not exceed the aggregate of the retained profits and share premium account RM28,579,000 and RM3,600 respectively of the Company, otherwise available for dividend for the time being, based on the latest Audited Financial Statements as at 31 December 2011;
- iii) the authority conferred by this Resolution will be effective immediately upon the passing of this Resolution and will continue to be in force until:
 - a. the conclusion of the next AGM of the Company, unless by ordinary resolution passed at the meeting, the authority is renewed, either unconditionally or subject to conditions;
 - b. the expiration of the period within which the next AGM is required by law to be held (unless earlier revoked or varied by ordinary resolution of the shareholders of the Company in general meeting) but not so as to prejudice the completion of purchase(s) by the Company made before the aforesaid expiry date and, in any event, in accordance with the Listing Requirements of the Bursa Securities or any other relevant authorities;
- iv) upon completion of the purchase(s) of the LSTEEL Shares by the Company, the Directors of the Company be hereby authorised to deal with the LSTEEL Shares in the following manner:
 - a. to cancel the LSTEEL Shares so purchased; or
 - b. to retain the LSTEEL Shares so purchased as treasury shares for distribution as dividend to the shareholders and/or resell on the market of Bursa Securities and/or for cancellation subsequently; or
 - c. to retain part of the LSTEEL Shares so purchased as treasury shares and cancel the remainder; or
 - d. in such other manner as the Bursa Securities and such other relevant authorities may allow from time to time.

AND THAT the Directors of the Company be and are hereby authorised to take all such actions and steps as are necessary or expedient to implement or to effect the purchase of LSTEEL Shares.”

NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

d) PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION

“THAT the Proposed Amendments to the Company’s Articles of Association as set out in Part C of the Circular to Shareholders dated 30 May 2012, be and are hereby approved and THAT the Directors and Secretary be and are hereby authorised to take all steps as are necessary and expedient in order to implement, finalise and give full effect to the Proposed Amendments to the Company’s Articles of Association.”

Special Resolution 1

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

By Order of the Board

Tai Yit Chan (MAICSA 7009143)
Ong Tze-En (MAICSA 7026537)
Chin Lee Phing (MAICSA 7057836)
Joint Company Secretaries

Penang, 30 May 2012

Notes :

Appointment of Proxy

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. Where a Member of the Company is an exempt authorised nominee which hold ordinary shares in the Company for multiple beneficial owner in one (1) securities account (“omnibus account”), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account its holds.

An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 (“SICDA”) which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.
3. 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.
4. 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.
5. For purpose of determining who shall be entitled to attend this meeting, the Company shall be requesting Bursa Malaysia Depository Sdn. Bhd. to make available to the Company pursuant to Article 61(3) of the Articles of Association of the Company and Paragraph 7.16(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, a Record of Depositors (“ROD”) as at 14 June 2012 and only a Depositor whose name appears on such ROD shall be entitled to attend this meeting or appoint proxy to attend and/or vote in his/her behalf.

NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

Explanatory Note on Ordinary Business:

1. Agenda 1 is meant for discussion only as the provision of Section 169(1) of the Companies Act, 1965 does not require a formal approval of shareholders of the Company and hence, Agenda 1 is not put forward for voting.
2. The proposed Ordinary Resolutions 3 and 4 under Agenda 2b is in accordance with Section 129(6) of the Companies Act, 1965 which requires that a separate resolution be passed to re-appoint Tan Sri Dato' Mohd Desa bin Pachi and Tan Sri Dato' Soong Siew Hoong who are over 70 years of age as Directors of the Company and to hold office until the conclusion of the next AGM of the Company. These resolutions shall be effect if be passed by a majority of not less than three-fourth of such shareholders of the Company as being entitled to vote in person or where proxies are allowed, by proxy at the AGM of the Company.
3. The proposed Ordinary Resolution 6, is to appoint Messrs Crowe Horwath in place of Messrs KPMG whose term expiring at the conclusion of this forthcoming Nineteenth AGM and do not wish to seek re-appointment.

Explanatory Notes on Special Business:

1. The proposed Ordinary Resolution 7, is for the purpose of granting a renewed general mandate ("General Mandate") and if passed, will give authority to the Board of Directors to issued 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 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.

As at the date of this Notice, no new shares in the Company were issued pursuant to the mandate granted to the Directors at the last Annual General Meeting held on 27 June 2011 and which will lapse at the conclusion of the Nineteenth AGM.

The General Mandate will provide flexibility to the Company for any possible fund raising activities, including but not limited to further placing of shares, for purpose of funding future investment project(s), working capital and/or acquisitions.

2. The proposed Resolution 8, 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 proposed Ordinary Resolution 9, if passed, will allow the Company to purchase its own shares. The total number of shares purchased shall not exceed 10% of the issued and paid-up share capital of the Company. This authority will, unless revoked or varied by the Company in general meeting, expires at the next AGM of the Company.
4. The Special Resolution 1, if passed, will amend the Articles of Association of the Company in line with the recent amendments prescribed under the Listing Requirements.

Statement Accompanying Notice of Annual General Meeting

(Pursuant to Paragraph 8.27(2) of the Listing Requirements)

1. No individual is seeking election as a Director at the forthcoming Nineteenth AGM of the Company.
2. The Letter of Nomination dated 21 May 2012, which the Company had received from its shareholder in respect of the appointment of Messrs Crowe Horwath in place of Messrs KPMG (whose term expires at the conclusion of the forthcoming Nineteenth AGM) and at remuneration to be determined by the Directors, is as reproduced on the next page.

NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

Dato' Goh Cheng Huat
168-20-2, Gurney Drive
10250 Georgetown
Penang

21 May 2012

The Board of Directors
Leader Steel Holdings Berhad
Suite 2-1, 2nd Floor
Menara Penang Garden
42A Jalan Sultan Ahmad Shah
10050 Penang

Dear Sir/Madam

NOTICE OF NOMINATION OF MESSRS CROWE HORWATH AS AUDITORS

Pursuant to Section 172(12) of the Companies Act, 1965, I, being a shareholder of the Company, hereby give notice of my intention to nominate Messrs Crowe Horwath of 17.01, Menara Boustead Penang, 39 Jalan Sultan Ahmad Shah, 10050 Penang as Auditors of the Company for the year ending 31 December 2012 in place of Messrs KPMG who have indicated that they do not wish to seek for re-election as Auditors of the Company at the forthcoming Nineteenth Annual General Meeting.

Yours sincerely

Dato' Goh Cheng Huat

CORPORATE INFORMATION

BOARD OF DIRECTORS

Tan Sri Dato' Mohd Desa bin Pachi	<i>(Chairman/Non-Executive Director)</i>
Dato' Goh Cheng Huat	<i>(Deputy Chairman/Non-Executive Director)</i>
Datin Tan Pak Say	<i>(Managing Director)</i>
Tan Sri Dato' Soong Siew Hoong	<i>(Non-Independent Non-Executive Director)</i>
Lim Leng Han	<i>(Senior Non-Independent Non-Executive Director)</i>
Datuk Abdullah bin Kuntom	<i>(Non-Independent Non-Executive Director)</i>
Mohd Arif bin Mastol	<i>(Independent Non-Executive Director)</i>

JOINT COMPANY SECRETARIES

Tai Yit Chan (MAICSA 7009143)
Ong Tze-En (MAICSA 7026537)
Chin Lee Phing (MAICSA 7057836)

AUDIT COMMITTEE

Lim Leng Han	<i>Chairman</i>
Mohd Arif bin Mastol	<i>Member</i>
Dato' Goh Cheng Huat	<i>Member</i>

NOMINATING COMMITTEE

Tan Sri Dato' Mohd Desa bin Pachi	<i>Chairman</i>
Lim Leng Han	<i>Member</i>
Mohd Arif bin Mastol	<i>Member</i>

REMUNERATION COMMITTEE

Tan Sri Dato' Mohd Desa bin Pachi	<i>Chairman</i>
Dato' Goh Cheng Huat	<i>Member</i>
Lim Leng Han	<i>Member</i>

REGISTERED OFFICE

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

REGISTRAR

AGRITEUM Share Registration Services Sdn. Bhd.
2nd Floor, Wisma Penang Garden
42 Jalan Sultan Ahmad Shah
10050 Penang
Tel : 04-228 2321 Fax : 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 (M) Berhad
United Overseas Bank (Malaysia) Bhd
Alliance Bank Malaysia Berhad
HSBC Bank Malaysia Berhad

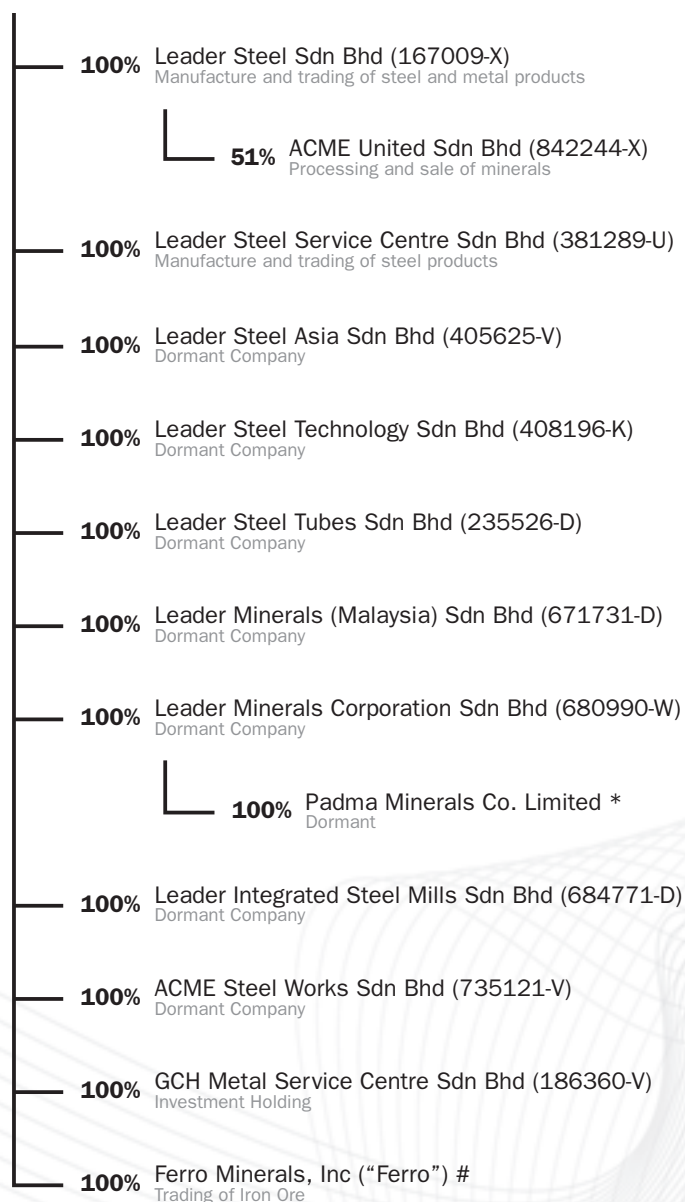
STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad
Stock Code : 9881
Stock Name : LSTEEL

GROUP STRUCTURE AND PRINCIPAL ACTIVITIES

**LEADER STEEL HOLDINGS BERHAD**

267209-K



* Incorporated in Hong Kong

Incorporated in United States of America

FINANCIAL HIGHLIGHTS

	2006	2007	2008	2009	2010	2011
Turnover (RM million)	187.1	185.6	231.6	389.6	216.7	273.5
Profit/(Loss) before tax (RM million)	7.0	7.0	1.2	11.4	4.1	2.9

CHAIRMAN'S STATEMENT

Overview

With a weak demand for steel in Malaysia, financial year 2011 was a challenging year for the Group. The domestic steel finished products price remained at lower level. In addition, the overly high raw materials and production costs depressed the profit margin. The continuous Euro Zone financial crisis, the natural disaster in some countries and political riots in Middle East, given rise to uncertainty in global economy, contributing to surge in energy cost, which in turn resulted in world steel prices to remain volatile. Rigorous government policy in controlling the import of raw materials further added up the burden on the already weak steel industry in Malaysia.

The demand for domestic steel products remained soft in 2011. Hence the steel prices for finished products continued to maintain at lower level, thus giving pressure to Malaysia steel producers, especially the downstream manufacturers. In order to mitigate the impact of the slow demand and lower price, the Group have taken appropriate steps to strengthen and improve management structure and procedures especially in stock and cost control.

It is to be noted that income from the trading and minerals processing division have somewhat managed to cushion the impact on the low profit margin from the steel manufacturing activity. In 2011, the Group managed to increase the sales volume of these 2 divisions by approximately 105% compared to financial year 2010. Apart from being able to maintain impressive profit margin in these divisions, the operating cost was also kept at reasonably low level. The material cost was further pushed downward as the Group was now able to undertake purchasing activity by direct dealing with the miners. All in all, these divisions have contributed significantly to the Group's overall performance.

Financial Performance

The Group achieved a revenue of RM273.5 million for the financial year ended 31 December 2011, an increase of 26% as compared to RM216.7 million in the financial year 2010. It was mainly due to the increase in sales volume of trading and processing segment. However profit before tax for the year of RM2.9 million was lower than profit before tax of RM4.1 million in financial year 2010 under review. The decrease in profit before tax was mainly due to lower profit margin from manufacturing activity and a provision for an allowance of doubtful debts of RM2.5 million.

Dividend

During the financial year, a first and final dividend of 2.5 sen per share less 25% tax amounting to RM2,400,600 for the financial year ended 31 December 2010 was paid on 8 September 2011.

Outlook

Moving forward, the Group expects to face another challenging year in financial year 2012 due to the uncertainty of the global economic environment, prolonged Euro zone debts crisis, tightening monetary policy in China, frequent natural disaster and hikes of steel prices and energy cost. The Malaysian local steel players will continue to face tough and unstable market conditions. The uncertainty of the Malaysian government steel policy as well as the increasing competition from China and the regional steel players, add additional element of difficulty to the 2012 outlook.

However, in the iron ore trade and processing division, the Group expects to achieve an impressive performance in year 2012 as this division is expected to continue providing strong performance with high quality and to obtain consistent supply from the suppliers. New processing line provides high value added products to customers which will greatly improve the profit margin of this division. The contribution from iron ore revenue and profits are expected to rise further in year 2012.

Despite the promising performance in iron ore trade, the Group is cautiously optimistic of achieving a higher profit level in year 2012 bearing in mind uncertainty in the domestic steel market.

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

Tan Sri Dato' Mohd Desa bin Pachi
Chairman

DIRECTORS' PROFILE

TAN SRI DATO' MOHD DESA BIN PACHI

*Non-Independent Non-
Executive Director*

TAN SRI DATO' MOHD DESA BIN PACHI, PSM, DSPN, KMN, aged 78, 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 Holdings Berhad from 1984 to 2006 (now known as CIMB Group Holdings Berhad).

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

YA Horng Electronic (M) Berhad, Saujana Consolidated Berhad (Chairman), Xian Leng Holdings Berhad (Chairman), Amanah Saham Nasional Berhad, Amanah Mutual Berhad (Chairman) and Eonmetall Group Berhad (Chairman).

He is a Fellow Member of the Malaysian Institute of Management.

He has attended all four (4) Board meetings held during the financial year ended 31 December 2011.

DATO' GOH CHENG HUAT

*Deputy Chairman, Non-
Independent Non-Executive
Director*

DATO' GOH CHENG HUAT, aged 51, 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 30 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 is currently pursuing Asia-Pacific Executive MBA(CH) at National University of Singapore.

He presently holds directorship in Eonmetall Group Berhad.

He is the spouse of Datin Tan Pak Say.

He has attended all four (4) Board meetings held during the financial year ended 31 December 2011.

DIRECTORS' PROFILE (CONT'D)**DATIN TAN PAK SAY**

*Managing Director,
Non-Independent Executive
Director*

DATIN TAN PAK SAY, aged 50, 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.

She has attended all four (4) Board meetings held during the financial year ended 31 December 2011.

TAN SRI DATO' SOONG SIEW HOONG

*Non-Independent
Non-Executive Director*

TAN SRI DATO' SOONG SIEW HOONG PSM, KMN, SMS, DPMS, JSM, aged 86, 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 Immediate Past President in the Malaysian Iron and Steel Industry Federation (MISIF) and a council member of Standards Malaysia.

In addition, Tan Sri Dato' Soong is also on the executive council of MASSA (Malaysia South South Association).

He presently holds directorship in Eonmetall Group Berhad.

He has attended all four (4) Board meetings held during the financial year ended 31 December 2011.

MR. LIM LENG HAN

*Senior Independent
Non-Executive Director*

MR. LIM LENG HAN, aged 51, 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 Malaysia. He is also an appointed member of the Disciplinary Committee, Bar Council of Malaysia and also an appointed Notary Public of the Attorney-General's Chambers.

Mr. Lim has been active in the legal profession for 27 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 and thereafter Messrs. Lim Leng Han & SF Tho 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.

He has attended all four (4) Board meetings held during the financial year ended 31 December 2011.

DIRECTORS' PROFILE (CONT'D)

DATUK ABDULLAH BIN KUNTOM

*Non-Independent
Non-Executive Director*

DATUK ABDULLAH BIN KUNTOM, aged 68, 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.

His current directorships in public companies, other than LSH is with Malaysia Building Society Berhad.

He has attended all four (4) Board meeting held during the financial year ended 31 December 2011.

EN. MOHD ARIF BIN MASTOL

*Independent
Non-Executive Director*

EN. MOHD ARIF BIN MASTOL, aged 57, 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, He was attached with several companies, including a Japanese based company in several capacities including Assistant Manager Finance & Accounts, Finance & Administration Manager, and Company Representative before assuming to his current position as Financial Controller.

He presently holds directorship in SKB Shutters Corporation Bhd.

He has attended all four (4) Board meetings held during the financial year ended 31 December 2011.

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 93 of this report.

STATEMENT ON CORPORATE GOVERNANCE

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 prescribed in Parts 1 and 2 respectively of the Malaysian Code on Corporate Governance (the “Code”) (revised 2007) 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 Board of Directors acknowledges the pivotal it plays in the stewardship of the Group relating to the Group’s direction and operations, and ultimately the enhancement of long-term shareholder value. To fulfill 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 formalises, amongst others, the principal responsibilities of the Board as prescribed 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 major investments, strategic decisions and direction of the Group, appointment and remuneration of Directors and compliance with the principles of corporate governance.

The attendance of the Directors during the financial year are as follows:-

Name of Director	No. of meetings	
	Held	Attended
Tan Sri Dato’ Mohd Desa bin Pachi	4	4
Dato’ Goh Cheng Huat	4	4
Datin Tan Pak Say	4	4
Tan Sri Dato’ Soong Siew Hoong	4	4
Lim Leng Han	4	4
Datuk Abdullah bin Kuntom	4	4
Mohd Arif bin Mastol	4	4

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

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.

Board Committees

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

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 each Board Committee reports to the Board on 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 Director. The Directors, with their different profiles, 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 10 and 12 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, the Non-Independent Non-Executive Chairman while the executive management of the Company is led by Datin Tan Pak Say, the Managing Director.

According to the Board Charter of the Company, the roles of the Chairman and the 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.

In accordance with the Code, the Board has identified Mr Lim Leng Han as the Senior Independent Non-Executive Director to whom concerns may be conveyed.

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

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.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

Supply of information (cont'd)

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 areas of strategic, financial, operational and regulatory compliance matters, are circulated to all the members in order for them 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 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 recommend to the Board on the appointment of new directors. In making its recommendations, the Nominating Committee will consider the skills, knowledge, expertise, experience, professionalism and integrity of a candidate.

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 the appointment of new Directors.

Directors' training

All Directors have attended and successfully completed the Mandatory Accreditation Programme prescribed by Bursa Securities. The Directors are encouraged to attend various professional training programmes to keep abreast with the new statutory and regulatory requirements by related authorities.

The Board continually identifies and determines the training needs of its members. The Board also ensures that appointees to the Board are individuals of sufficient caliber, knowledge as well as experience to fulfill their duties as a Director of the Company.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

Directors' training (cont'd)

Training workshops/seminar/conference/education courses attended by Directors are as follows:

1. Khazanah Global Lectures - An Evening with Mary Robison - Former President of IRELAND
2. MIM CEO Luncheon - How the 10th Malaysia Plan could Stimulate the Growth of Private Sector , Speaker - YB Dato Mukhriz Mahathir
3. Seminar on Consequences of Non Compliance with Corporate Laws - Seminar
4. Brainstorming Session - Discussion on Property Development
5. MIM CEO Luncheon - Bilateral Trade Agreement; Business Opportunity in Turbulent Time
6. Yayasan Tun Ismail (YTI) International Lecture Series - Managing Technology in an Uncertain World by Prof. Alan D. Mac Cormack of Havard Business School.
7. MIA Conference / 17 AFA Conference - Converge, Transform Sustain : Towards World Class Excellence
8. Securities Commission - Bursa Corporate Governance Week 2011 "Sustainability : Taking Corporate Governance a Step Further
 - a) Oxford Union Style Debate: Independent Directors are MYTH
 - b) Taking Socially Responsible Investment Practices Forward
 - c) Nurture the Corporation Assure the Stakeholders
9. Directors Duties and Governance Conference 2011 – Organized by Malaysian Institute of Corporate Governance
10. "The Board's Responsibility for Corporate Culture" – Selected Governance Concerns and Tools for Addressing Corporate Culture and Board Performance" – Organized by Bursa Malaysia Berhad.
11. Asia-Pacific Executive MBA (CH) at National University of Singapore

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 has established a Remuneration Committee which comprises 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 own remuneration package. During the financial year, the Committee met once which was attended by all members.

Details of the nature and amount of the remuneration paid to the Directors of the Company, for the financial year, are as follows:

Director	Fees	Salaries	Bonuses	Allowance	Benefits in kind	EPF-Employer Contribution	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Executive Director	25	858	202	3	-	127	1,215
Non-Executive Directors	150	-	-	16	46	-	212
Total	175	858	202	19	46	127	1,427

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

B. DIRECTORS' REMUNERATION (cont'd)

The remuneration of the Directors for the year ended 31 December 2011, analysed into remuneration bands of RM50,000 is as follows:

Range of remuneration	Executive RM'000	Non-executive RM'000
Below RM50,000		5
RM50,001 to RM100,000		1
RM100,001 to RM150,000		
RM150,001 to RM200,000		
RM200,001 to RM250,000		
RM250,001 to RM300,000		
RM300,001 to RM350,000		
RM350,001 to RM400,000		
RM400,001 to RM450,000		
RM450,001 to RM500,000		
RM500,001 to RM550,000		
RM550,001 to RM600,000		
RM600,001 to RM650,000		
RM650,001 to RM700,000		
RM700,001 to RM750,000		
RM750,001 to RM800,000		
RM800,001 to RM850,000		
RM850,001 to RM900,000		
RM900,001 to RM950,000		
RM950,001 to RM1,000,000	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 provides shareholders with information on the financial and operational performance of the Group, the AGM and Extraordinary General Meeting provide platforms for shareholders to seek more information on the audited financial statements and other matters of interest. During general meetings, the Chairman together with members of the Board are prepared to respond to all queries and to clarify 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 welcomes visits by fund managers and analysts as the Board believes that it will give investors and interested parties a better appreciation and understanding of the Group's performance while giving the Board the opportunity to understand their expectations and concerns. Besides, the Company also maintains an official web site at www.leadersteel.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 stress the importance of timely and equal dissemination of information to shareholders and stakeholders at large.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

D. ACCOUNTABILITY AND AUDIT

Financial reporting

The Board strives to provide and present a balanced and meaningful assessment of the Group's financial performance and prospects for 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 this regard, 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 reasonable steps 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 2011, 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 30 April 2012.

ADDITIONAL INFORMATION

1. Share Buybacks

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

2. Options or Convertible Securities

During the financial year ended 31 December 2011, no options or convertible securities were exercised.

Employees' Share Option Scheme ("ESOS")

The Company's ESOS was implemented on 18 August 2002 based on the terms and conditions set out in the existing By-Laws for a duration of ten (10) years expiring on 17 August 2012. Currently there is only one (1) ESOS in existence. The details of the said ESOS during the financial year ended 31 December 2011 and since the commencement of the scheme are as follows:-

	During the FY2011	Since the commencement of ESOS
Total number of options granted	-	9,828,000
Total number of options exercised or vested	-	1,015,000
Total number of options outstanding	-	8,813,000

Options Granted to Executive Directors in Office	During the FY2011	Since the commencement of ESOS
Total number of options granted	-	800,000
Total number of options exercised or vested	-	-
Total number of options outstanding	-	800,000

Options Granted to Executive Directors and Senior Management in office	During the FY2011 (%)	Since the commencement of ESOS (%)
Aggregate maximum allocation in percentage	-	8.33
Actual percentage granted	-	8.33

3. Depository Receipt Programme

During the financial year, the Company did not sponsor any depository receipt 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 RM33,200 were paid to the external auditors for the financial year ended 31 December 2011.

6. Variation in Results

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

ADDITIONAL INFORMATION (CONT'D)

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. Recurrent Related Party Transactions of a Revenue or Trading Nature for the Year Ended 31 December 2011

Details of recurrent related party transactions made during the financial year ended 31 December 2011 pursuant to the shareholders' mandate obtained by the Company at the Annual General Meeting held on 27 June 2011 were as follows:

Company within the Group involved	Related Party	Amount (RM'000)	Nature of transactions	Interested Related Party
Leader Steel Sdn Bhd ("LSSB")	Eonmetall Industries Sdn Bhd	136	Sale and servicing of steel products	Interested Director and Major Shareholder Dato' Goh Cheng Huat Datin Tan Pak Say
		592	Purchase of steel products	
	Eonmetall Technology Sdn Bhd	244	Purchase of steel products	
		115	Sale of steel products	
	Eonmetall System Sdn Bhd	3	Sale of steel products	
		516	Rent of factory building	
	Eonsteel Sdn Bhd	69	Sale of steel products	Interested Major Shareholder Bischart Sdn Bhd
Leader Steel Service Centre Sdn Bhd ("LSSC")	Eonmetall Industries Sdn Bhd	1,675	Sale of steel products	
		55,377	Purchase and servicing of steel products	
	Eonmetall Technology Sdn Bhd	94	Sale of steel products	
		437	Purchase of machinery	
	Eonsteel Sdn Bhd	1,051	Sale of steel product	

AUDIT COMMITTEE REPORT

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 2011, the Committee met five (5) 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.

During the financial year under review, the Committee met twice with the external auditors without presence of Executive Directors which complies to the requirement of the Best Practices in Corporate Governance in Part 2 of the Code.

Details of Directors’ attendance at the meetings of the Audit Committee during the financial year are as follows:-

Name of Director	No. of meetings	
	Held	Attended
Lim Leng Han	5	5
Mohd Arif bin Mastol	5	5
Dato’ Goh Cheng Huat	5	5

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 General Manager 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;

AUDIT COMMITTEE REPORT (CONT'D)

Summary of activities during the financial year (cont'd)

- 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 2011, the internal audit function carried out follow-up reviews on the implementation of recommendations of the previous internal audits and assisted the Management in updating the risk profile of the Group. 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.

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

Objective

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling the following oversight objectives on the Group 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 their numbers, comprising no fewer than three (3) Directors, all must be non-executive Directors, with a majority of them being independent Directors.

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

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

AUDIT COMMITTEE REPORT (CONT'D)

Composition (cont'd)

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 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 as a member of the Committee.

Quorum and Committee's procedures

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

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

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

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

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

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

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

Authority

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

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

The Committee shall have direct communication channels with the internal and external auditors and with senior management of the Group and shall be able to convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other directors and employees of the Company, 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.

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 Bursa Securities Listing Requirements, the Committee shall promptly report such matter to the Bursa Securities.

AUDIT COMMITTEE REPORT (CONT'D)

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, competency and resources of the internal audit functions 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 the Internal Audit Charter, 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 the 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 integrity.
- Prepare reports, if the circumstances arise or at least once (1) a year, to the Board summarizing 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.
- Any other activities, as authorized by the Board.

STATEMENT ON INTERNAL CONTROL

Paragraph 15.26(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”. In this regard, the Board 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 2011.

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 requirements 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 Group has established an enterprise risk management framework. The framework 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 evaluated 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;
- The Management of each major business unit has been entrusted to prepare action plans, with implementation time line, to address principal risks and control issues;
- Update of risk profile of the Group at periodically 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 outsources 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 systems of internal control.

The internal audit function reviews the internal controls in the key activities of the Group’s businesses based on an annual internal audit plan which have been approved by the Audit Committee. The internal audit function adopts a risk-based approach and prepares its audit 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 the Management formulates relevant action plans to address issues noted on a periodic basis.

STATEMENT ON INTERNAL CONTROL (CONT'D)

Internal audit function (cont'd)

During the financial year ended 31 December 2011, the internal audit function carried out the following activities:

- Presented the internal audit plan to the Audit Committee;
- Carried out an internal audit review on certain business cycles;
- Performed follow up review on the implementation of recommendations of previous internal audits; and
- Presented the internal audit reports to the Audit Committee.

Other risk and control process

Apart from risk management and internal audit, the Board has put in place the following measures to provide assurance on 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, ultimately, 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 2011 as a result of weaknesses in internal controls. The Board, together with Management, continues to take measures to strengthen the control environment, as appropriate.

Pursuant to paragraph 15.23 of the Listing Requirements, the external auditor has reviewed this statement for inclusion in the Annual Report for the financial year ended 31 December 2011 and reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and integrity of the system of internal controls.

The total costs incurred in managing the internal audit function for the financial year ended 31 December 2011 were approximately RM20,067.

This statement is issued in accordance with a resolution of the Directors dated 30 April 2012.

CORPORATE SOCIAL RESPONSIBILITY

Leader Steel Holdings Berhad and its subsidiaries (“the Group”) have been actively playing its role in maintaining the corporate social responsibility in business operation. Scrap metals are collected and sent to melt shop for recycling purposes. Water mixed with chemicals which serves as coolant in the production process is not disposed of but reused after being treated. These environment-friendly measures have significantly reduced wastage on materials and water consumption to minimum level. The Group also ensures compliance with all environmental regulations and laws at all times.

In support of lifelong learning, the Group provided training programs in the area of financial, IT, health and safety and job-related courses to all staff in 2011. At the same time, the Group also gave sponsorships to in-house sport activities as an effort to enhance work-life balance among the staff.

As a responsible corporate citizen, the Group also provided assistance to local charitable organizations and schools. In 2011, donation in term of money and in-kind amounted to RM87,130 was given out for their development programs and activities which brought benefits to local community.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

The Directors hereby to submit their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2011.

Principal activities

The Company is principally engaged as an investment holding company.

The principal activities of its subsidiaries are as stated in Note 6 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
(Loss)/Profit for the year attributable to :		
Owners of the Company	(1,572,988)	(362,980)
Non-controlling interests	81,680	-
	<u>(1,491,308)</u>	<u>(362,980)</u>

Reserves and provisions

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

Dividend

Since the end of the previous financial year, the Company paid a first and final dividend of 2.50 sen per share less 25% tax totalling RM2,400,600 in respect of the financial year ended 31 December 2010 on 8 September 2011. The Directors do not recommend any final dividend to be paid for the financial year under review.

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' REPORT (CONT'D)

FOR THE YEAR ENDED 31 DECEMBER 2011

Directors' interests in shares

The interests and deemed interests in the shares and options of the Company and of its related companies (other than wholly-owned subsidiaries) of those who were Directors at year end (including the interest of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows :

Name of Director	Number of ordinary shares of RM0.50 each			Balance at 31.12.2011
	Balance at 1.1.2011	Bought	(Sold)	
The Company				
Direct interest				
Dato' Goh Cheng Huat	10,530,594	-	-	10,530,594
Datin Tan Pak Say	1,150,006	-	-	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	55,185,874	-	-	55,185,874
Datin Tan Pak Say	64,566,462	-	-	64,566,462
The Company				
Tan Sri Dato' Mohd Desa bin Pachi	450,000	-	-	450,000
Dato' Goh Cheng Huat	450,000	-	-	450,000
Datin Tan Pak Say	800,000	-	-	800,000
Tan Sri Dato' Soong Siew Hoong	350,000	-	-	350,000
Lim Leng Han	350,000	-	-	350,000
Mohd Arif bin Mastol	350,000	-	-	350,000
Datuk Abdullah bin Kuntom	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 interested in the shares of all the subsidiaries during the financial year 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 certain Directors who may be deemed to derive a benefit from transactions entered into in the ordinary course of business between certain companies in the Group and companies in which certain Directors of the Company have substantial financial interests as disclosed in Note 27 to the financial statements.

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.

DIRECTORS' REPORT (CONT'D)

FOR THE YEAR ENDED 31 DECEMBER 2011

Issue of shares and debentures

There were no changes in the authorised, issued and paid-up capital of the Company and no debentures were in issue 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.

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 :

Date of offer	Option price RM	Number of options over ordinary shares of RM0.50 each			Balance at 31.12.2011
		Balance at 1.1.2011	Granted	(Lapsed)	
20 June 2002	0.50	501,000	-	(37,000)	464,000
18 May 2005	0.74	9,022,000	-	(673,000)	8,349,000

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 fifteen per centum (15%) 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 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, contributions and commitment of the eligible 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 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 Director or employees who, either singly or collectively through persons connected with the Director or employees, holds twenty per centum (20%) or more in the issued and paid-up share capital of the Company.
- c) ESOS shall continue to be in force for a period of ten (10) years from 12 August 2002.
- d) The price of each of the option share granted shall be set based on the 5-day weighted average market price of the Company's shares as quoted on the Bursa Malaysia Securities Berhad ("Bursa Securities") 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 Bursa Securities 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.

DIRECTORS' REPORT (CONT'D)

FOR THE YEAR ENDED 31 DECEMBER 2011

Other statutory information

Before the statements of financial position and statements of comprehensive income 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) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

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.

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 gain on disposal of a subsidiary as disclosed in Note 18 to the financial statements, the financial performance of the Group and of the Company for the financial year ended 31 December 2011 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.

Significant events

Details of such events are disclosed in Note 32 to the financial statements.

DIRECTORS' REPORT (CONT'D) FOR THE YEAR ENDED 31 DECEMBER 2011

Auditors

The auditors, Messrs KPMG, do not wish to seek 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 : 30 April 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	Note	2011 RM	2010 RM
Assets			
Property, plant and equipment	3	97,027,464	85,352,493
Prepaid lease payments	4	3,733,564	3,824,992
Investment property	5	-	416,508
Other investments	7	316,000	400,000
Goodwill on consolidation	8	-	1,164,147
Total non-current assets		<u>101,077,028</u>	<u>91,158,140</u>
Trade and other receivables	9	76,996,534	48,486,654
Inventories	10	53,923,601	80,671,305
Current tax assets		381,346	629,730
Cash and bank balances		2,614,092	3,494,847
Assets classified as held for sale	11	-	207,793
Total current assets		<u>133,915,573</u>	<u>133,490,329</u>
Total assets		<u>234,992,601</u>	<u>224,648,469</u>
Equity			
Share capital	12	64,016,000	64,016,000
Reserves	13	30,967,044	35,065,603
Total equity attributable to the owners of the Company		<u>94,983,044</u>	<u>99,081,603</u>
Non-controlling interests		81,680	-
Total equity		<u>95,064,724</u>	<u>99,081,603</u>
Liabilities			
Loans and borrowings	14	19,295,824	7,515,807
Deferred tax liabilities	15	6,725,000	7,305,000
Total non-current liabilities		<u>26,020,824</u>	<u>14,820,807</u>
Trade and other payables	16	23,211,803	15,950,951
Loans and borrowings	14	87,735,589	94,710,916
Current tax liabilities		2,959,661	84,192
Total current liabilities		<u>113,907,053</u>	<u>110,746,059</u>
Total liabilities		<u>139,927,877</u>	<u>125,566,866</u>
Total equity and liabilities		<u>234,992,601</u>	<u>224,648,469</u>

The notes on pages 43 to 88 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 RM	2010 RM
Continuing operations			
Revenue	19	273,447,600	216,712,714
Changes in manufactured inventories and work-in-progress		8,130,990	(302,826)
Raw materials and trading inventories used		(185,970,432)	(160,079,879)
Staff costs		(6,719,122)	(5,619,645)
Depreciation and amortisation expenses	3,4,5	(8,488,988)	(8,316,454)
Other operating expenses		(74,710,186)	(36,821,266)
Other operating income		1,927,394	1,289,735
Results from operating activities		<u>7,617,256</u>	<u>6,862,379</u>
Finance costs	22	(4,740,812)	(2,749,775)
Profit before tax	20	<u>2,876,444</u>	<u>4,112,604</u>
Income tax expense	23	(4,367,752)	1,152,237
(Loss)/Profit for the year		<u>(1,491,308)</u>	<u>5,264,841</u>
Other comprehensive (expense)/income, net of tax			
Fair value of available-for-sale financial assets		(84,000)	-
Foreign currency translation differences for foreign operations		-	40,971
Total other comprehensive expense for the year, net of tax		<u>(84,000)</u>	<u>40,971</u>
Total comprehensive (expense)/income for the year		<u>(1,575,308)</u>	<u>5,305,812</u>
(Loss)/Profit attributable to :			
Owners of the Company		(1,572,988)	5,303,068
Non-controlling interests		81,680	(38,227)
(Loss)/Profit for the year		<u>(1,491,308)</u>	<u>5,264,841</u>
Total comprehensive (expense)/income attributable to :			
Owners of the Company		(1,656,988)	5,344,039
Non-controlling interests		81,680	(38,227)
Total comprehensive (expense)/income for the year		<u>(1,575,308)</u>	<u>5,305,812</u>
Basic (loss)/earnings per ordinary share (sen)	24	<u>(1.23)</u>	<u>4.14</u>
Diluted earnings per ordinary share (sen)	24	<u>-</u>	<u>-</u>

The notes on pages 43 to 88 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Attributable to owners of the Company				Distributable				Total equity RM	
	Share capital RM	Share premium RM	Share option reserve RM	Fair value reserve RM	Translation reserve RM	Capital reserve RM	Retained earnings RM	Total RM		Non-controlling interests RM
At 1 January 2010	64,016,000	3,600	2,185,000	-	-	283,606	27,249,358	93,737,564	38,227	93,775,791
Foreign currency translation differences for foreign operations	-	-	-	-	40,971	-	-	40,971	-	40,971
Total other comprehensive income for the year	-	-	-	-	40,971	-	-	40,971	-	40,971
Profit/(Loss) for the year	-	-	-	-	-	-	5,303,068	5,303,068	(38,227)	5,264,841
Total comprehensive income/(expense) for the year	-	-	-	-	40,971	-	5,303,068	5,344,039	(38,227)	5,305,812
At 31 December 2010	64,016,000	3,600	2,185,000	-	40,971	283,606	32,552,426	99,081,603	-	99,081,603
At 1 January 2011	64,016,000	3,600	2,185,000	-	40,971	283,606	32,552,426	99,081,603	-	99,081,603
Fair value of available-for-sale financial assets	-	-	-	(84,000)	-	-	-	(84,000)	-	(84,000)
Total other comprehensive expense for the year	-	-	-	(84,000)	-	-	-	(84,000)	-	(84,000)
(Loss)/Profit for the year	-	-	-	-	-	-	(1,572,988)	(1,572,988)	81,680	(1,491,308)
Total comprehensive (expense)/income for the year	-	-	-	(84,000)	-	-	(1,572,988)	(1,656,988)	81,680	(1,575,308)
Disposal of a subsidiary (Note 18)	-	-	-	-	(40,971)	-	-	(40,971)	-	(40,971)
- Dividend (Note 25)	-	-	-	-	-	-	(2,400,600)	(2,400,600)	-	(2,400,600)
Total transactions with owners	-	-	-	-	(40,971)	-	(2,400,600)	(2,441,571)	-	(2,441,571)
At 31 December 2011	64,016,000	3,600	2,185,000	(84,000)	-	283,606	28,578,838	94,983,044	81,680	95,064,724

The notes on pages 43 to 88 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 RM	2010 RM
Cash flows from operating activities			
Profit before tax from continuing operations		2,876,444	4,112,604
Adjustments for :			
Amortisation of prepaid lease payments	4	91,428	114,181
Depreciation			
- Property, plant and equipment	3	8,397,560	8,192,407
- Investment property	5	-	9,866
Gain on disposal of :			
- property, plant and equipment		(78,464)	(244,405)
- prepaid lease payments		-	(200,803)
- assets held for sale		(77,207)	(19,764)
Plant and equipment written off		100,000	-
Impairment loss on other investments		-	116,000
Interest expense	22	4,740,812	2,749,775
Interest income		(416,930)	(38,625)
Gain on disposal of a subsidiary	18,20	(1,169,612)	-
Operating profit before changes in working capital		14,464,031	14,791,236
Changes in working capital:			
Inventories		26,747,704	(27,754,366)
Trade and other receivables		(40,912,805)	(2,307,905)
Trade and other payables		22,368,565	(7,698,274)
Cash generated from/(used in) operations		22,667,495	(22,969,309)
Interest paid		(4,740,812)	(2,749,775)
Interest received		416,930	38,625
Income tax paid		(1,739,300)	(715,582)
Net cash from/(used in) operating activities		16,604,313	(26,396,041)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 RM	2010 RM
Cash flows from investing activities			
Acquisition of property, plant and equipment	A	(19,932,392)	(13,468,341)
Proceeds from disposal of property, plant and equipment		199,056	2,648,610
Proceeds from disposal of prepaid lease payments		-	2,176,088
Proceeds from disposal of assets held for sale		285,000	320,000
Acquisition of a subsidiary, net of cash acquired	C	-	83,938
Proceeds from disposal of subsidiary, net of cash and cash equivalents	18	151,678	-
Net cash used in investing activities		(19,296,658)	(8,239,705)
Cash flows from financing activities			
Repayment of term loans		(1,464,833)	(2,319,663)
Drawdown of term loans		-	6,497,871
Repayment of finance lease obligations		(1,289,454)	(1,661,761)
Dividend paid to owners of the Company	25	(2,400,600)	-
Bank borrowings, net		7,421,574	22,839,123
Net cash from financing activities		2,266,687	25,355,570
Net decrease in cash and cash equivalents		(425,658)	(9,280,176)
Effect of exchange rate fluctuation on cash held		-	(3,442)
Cash and cash equivalents at 1 January		(982,826)	8,300,792
Cash and cash equivalents at 31 December	B	(1,408,484)	(982,826)

NOTESA. *Acquisition of property, plant and equipment*

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RM20,524,892 (2010: RM14,774,518) of which RM592,500 (2010: RM1,306,177) was acquired by means of finance lease. The remaining balance of RM19,932,392 (2010: RM13,468,341) was settled in cash.

B. *Cash and cash equivalents*

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following consolidated statement of financial position amounts:

	Note	2011 RM	2010 RM
Cash and bank balances		2,614,092	3,494,847
Bank overdrafts	14	(4,022,576)	(4,477,673)
		(1,408,484)	(982,826)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)

FOR THE YEAR ENDED 31 DECEMBER 2011

C. Acquisition of a subsidiary

During the previous financial year, the Company's wholly-owned subsidiaries, Leader Steel Sdn. Bhd. and Leader Steel Minerals Corporation Sdn. Bhd. acquired 40% and 60% of the equity interest in Padma Yesshe ("Padma") for total cash consideration of RM12,800.

The acquisition of the subsidiary has the following effect on the cash flows of the Group:

	2010 RM
Statement of cash flows	
Property, plant and equipment	97,308
Inventories	1,097,229
Trade and other receivables	6,258,092
Cash and bank balances	96,738
Trade and other payables	(8,700,714)
Net liabilities assumed	<u>(1,151,347)</u>
Goodwill on acquisition (Note 8)	1,164,147
Purchase consideration, satisfied in cash	<u>12,800</u>
Less : Cash and cash equivalents at the date of acquisition	(96,738)
Net cash acquired	<u><u>(83,938)</u></u>

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	Note	2011 RM	2010 RM
Assets			
Investment in subsidiaries	6	36,273,412	26,273,409
Other investments	7	316,000	400,000
Total non-current assets		<u>36,589,412</u>	<u>26,673,409</u>
Trade and other receivables	9	68,697,554	74,284,988
Current tax assets		9,269	9,269
Cash and bank balances		54,887	13,545
Total current assets		<u>68,761,710</u>	<u>74,307,802</u>
Total assets		<u>105,351,122</u>	<u>100,981,211</u>
Equity			
Share capital	12	64,016,000	64,016,000
Reserves	13	3,033,692	5,881,272
Total equity attributable to owners of the Company		<u>67,049,692</u>	<u>69,897,272</u>
Trade and other payables	16	38,301,430	31,083,939
Total current liabilities		<u>38,301,430</u>	<u>31,083,939</u>
Total equity and liabilities		<u>105,351,122</u>	<u>100,981,211</u>

The notes on pages 43 to 88 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 RM	2010 RM
Continuing operations			
Revenue	19	-	-
Operating expenses		(362,980)	(447,219)
Other operating income		-	510
Loss before tax	20	<u>(362,980)</u>	<u>(446,709)</u>
Income tax expense	23	-	-
Loss for the year		<u>(362,980)</u>	<u>(446,709)</u>
Other comprehensive income, net of tax			
Fair value of available-for-sale financial assets		(84,000)	-
Total other comprehensive expense for the year		<u>(84,000)</u>	<u>-</u>
Total comprehensive expense for the year		<u>(446,980)</u>	<u>(446,709)</u>

The notes on pages 43 to 88 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Attributable to owners of the Company					Total equity RM
	Share capital RM	Non-distributable		Fair value reserve RM	Distributable Retained earnings RM	
Share premium RM		Share option reserve RM				
At 1 January 2010	64,016,000	3,600	2,185,000	-	4,139,381	70,343,981
Total comprehensive expense for the year						
- Loss for the year	-	-	-	-	(446,709)	(446,709)
At 31 December 2010	64,016,000	3,600	2,185,000	-	3,692,672	69,897,272
Fair value of available-for-sale financial assets	-	-	-	(84,000)	-	(84,000)
Total other comprehensive expense for the year	-	-	-	(84,000)	-	(84,000)
Loss for the year	-	-	-	-	(362,980)	(362,980)
Total comprehensive expense for the year	-	-	-	(84,000)	(362,980)	(446,980)
Transaction with owners :						
- Dividend (Note 25)	-	-	-	-	(2,400,600)	(2,400,600)
At 31 December 2011	64,016,000	3,600	2,185,000	(84,000)	929,092	67,049,692

The notes on pages 43 to 88 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 RM	2010 RM
Cash flows from operating activities			
Loss before tax from continuing operations		(362,980)	(446,709)
Adjustment for:			
Impairment loss on other investments		-	116,000
Operating loss before changes in working capital		(362,980)	(330,709)
Changes in working capital :			
Trade and other receivables		5,587,434	3,593,698
Trade and other payables		7,217,491	(3,391,792)
Cash generated from/(used in) operations		12,441,945	(128,803)
Income tax refunded		-	126,166
Net cash from/(used in) operating activities		12,441,945	(2,637)
Cash flows from investing activity			
Investment in subsidiaries		(10,000,003)	-
Net cash used in investing activity		(10,000,003)	-
Cash flows from financing activity			
Dividend paid to owners of the Company	25	(2,400,600)	-
Net cash used in financing activity		(2,400,600)	-
Net increase/(decrease) in cash and cash equivalents		41,342	(2,637)
Cash and cash equivalents at 1 January		13,545	16,182
Cash and cash equivalents at 31 December	A	54,887	13,545

Note

A. *Cash and cash equivalents*

Cash and cash equivalents included in the statement of cash flows comprise cash and bank balances as stated in the statement of financial position.

The notes on pages 43 to 88 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Leader Steel Holdings Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market 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 of the Company as at and for the financial year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities"). The financial statements of the Company as at and for the year ended 31 December 2011 do not include other entities.

The Company is principally engaged as an investment holding company. The principal activities of its subsidiaries are as stated in Note 6 to the financial statements.

The financial statements were authorised for issue by the Board of Directors on 30 April 2012.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards (FRSs), generally accepted accounting principles and the Companies Act, 1965 in Malaysia.

The following are accounting standards, amendments and interpretations of the FRS framework that have been issued by the Malaysian Accounting Standards Board (MASB), but have not been adopted by the Group and the Company :

Interpretation and amendments effective for annual periods beginning on or after 1 July 2011

- IC Interpretation 19, Extinguishing Financial Liabilities with Equity Instruments
- Amendments to IC Interpretation 14, Prepayments of a Minimum Funding Requirement

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2012

- FRS 124, Related Party Disclosures (revised)
- Amendments to FRS 1, First-time Adoption of Financial Reporting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- Amendments to FRS 7, Financial Instruments: Disclosures - Transfers of Financial Assets
- Amendments to FRS 112, Income Taxes - Deferred Tax: Recovery of Underlying Assets

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2012

- Amendments to FRS 101, Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

1. Basis of preparation (cont'd)

(a) Statement of compliance (cont'd)

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013

- FRS 10, Consolidated Financial Statements
- FRS 11, Joint Arrangements
- FRS 12, Disclosure of Interests in Other Entities
- FRS 13, Fair Value Measurement
- FRS 119, Employee Benefits (2011)
- FRS 127, Separate Financial Statements (2011)
- FRS 128, Investments in Associates and Joint Ventures (2011)
- IC Interpretation 20, Stripping Costs in the Production Phase of a Surface Mine
- Amendments to FRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014

- Amendments to FRS 132, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015

- FRS 9, Financial Instruments (2009)
- FRS 9, Financial Instruments (2010)
- Amendments to FRS 7, Financial Instruments: Disclosures - Mandatory Date of FRS 9 and Transition Disclosures

The Group's financial statements for annual period beginning on 1 January 2012 will be prepared in accordance with the Malaysian Financial Reporting Standards (MFRSs) issued by the MASB and International Financial Reporting Standards (IFRSs). As a result, the Group will not be adopting the above FRSs, Interpretations and amendments.

(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 in conformity with FRSs 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.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than as disclosed in the following notes:

- Note 3.1 - impairment loss assessment
- Note 9 - recoverability of other receivables

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2. Significant accounting policies

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

(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 purchase method of accounting except for Leader Steel Sdn. Bhd. which are accounted for using the pooling-of-interests method of accounting.

Under the purchase method of accounting, the financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Under the pooling-of-interests method of accounting, the results of entities or businesses under common control are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. The assets and liabilities acquired were recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The difference between the cost of acquisition and the nominal value of the shares acquired together with share premium are taken to merger reserve (or adjusted against any suitable reserve in the case of debit differences). The other components of equity of the acquired entities are added to the same components within Group equity.

Investments in subsidiaries are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transaction costs.

The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by the Group.

(ii) Accounting for business combinations

The Group has changed its accounting policy with respect to accounting for business combinations.

From 1 January 2011 the Group has applied FRS 3, *Business Combinations* (revised) in accounting for business combinations. The change in accounting policy has been applied prospectively in accordance with the transitional provisions provided by the standard and does not have impact on earnings per share.

Acquisitions on or after 1 January 2011

For acquisitions on or after 1 January 2011, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2. Significant accounting policies (cont'd)

(a) Basis of consolidation (cont'd)

(ii) Accounting for business combinations (cont'd)

Acquisitions on or after 1 January 2011 (cont'd)

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions between 1 January 2006 and 1 January 2011

For acquisitions between 1 January 2006 and 1 January 2011, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Acquisitions prior to 1 January 2006

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.

(iii) Accounting for acquisitions of non-controlling interests

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. 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.

(iv) Loss of control

The Group applied FRS 127, Consolidated and Separate Financial Statement (revised) since the beginning of the reporting period in accordance with the transitional provisions provided by the standard and does not have impact on earnings per share. Upon the loss of control of a subsidiary, the Group derecognised the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2. Significant accounting policies (cont'd)

(a) Basis of consolidation (cont'd)

(iv) Loss of control (cont'd)

In the previous years, if the Group retained any interest in the previous subsidiary, such interest was measured at the carrying amount at the date that control was lost and this carrying amount would be regarded as cost on initial measurement of the investment.

(v) Jointly-controlled operation and assets

The interest of the Company or of the Group in unincorporated joint ventures and jointly-controlled assets are brought to account by recognising in its financial statements the assets it controls and the liabilities that it incurs, and the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

(vi) Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Company, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group is presented in the consolidated statement of comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and the owners of the Company.

Since the beginning of the reporting period, the Group has applied FRS 127, Consolidated and Separate Financial Statements (revised) where losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. This change in accounting policy is applied prospectively in accordance with the transitional provisions of the standard and does not have impact on earnings per share.

In the previous financial years, where losses applicable to the non-controlling interests exceed their interests in the equity of a subsidiary, the excess, and any further losses applicable to the non-controlling interests, were charged against the Group's interest except to the extent that the non-controlling interests had a binding obligation to, and was able to, make additional investment to cover the losses. If the subsidiary subsequently reported profits, the Group's interest was allocated with all such profits until the non-controlling interests' share of losses previously absorbed by the Group had been recovered.

(vii) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) 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 transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting period are retranslated to the functional currency at the exchange rate at that date.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2. Significant accounting policies (cont'd)

(b) Foreign currency (cont'd)

(i) Foreign currency transactions (cont'd)

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those 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 profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

(ii) Operations denominated in functional currencies other than Ringgit Malaysia

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period, except for goodwill and fair value adjustments arising from business combinations before 1 January 2006 which are reported using the exchange rates at the dates of the acquisitions. The income and expenses of foreign operations, excluding operations in hyperinflationary economies, are translated to RM at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve (FCTR) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the FCTR related to that foreign operation is reclassified to profit or loss as part of the profit or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the FCTR within equity.

(c) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2. Significant accounting policies (cont'd)

(c) Financial instruments (cont'd)

(ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

Financial assets

(a) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(b) Held-to-maturity investments

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the Group or the Company has the positive intention and ability to hold them to maturity.

Financial assets categorised as held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

(c) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

(d) Available-for-sale financial assets

Available-for-sale category comprises investment in equity securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment are subject to review for impairment (see note 2(g)(i)).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2. Significant accounting policies (cont'd)

(c) Financial instruments (cont'd)

(ii) Financial instrument categories and subsequent measurement (cont'd)

Financial liabilities

All financial liabilities are subsequently measured at amortised cost.

Fair value through profit or loss category comprises financial liabilities that are held for trading, derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are classified as deferred income and are amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

(iv) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

- (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and
- (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

(v) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2. Significant accounting policies (cont'd)

(c) Financial instruments (cont'd)

(v) Derecognition (cont'd)

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(d) Property, plant and equipment

(i) Recognition and measurement

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

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 and, for qualifying assets, borrowing costs are capitalised in accordance with the Group's accounting policy. 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 available and replacement cost when appropriate.

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.

The gains or losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other operating income" or "other operating expenses" respectively in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

(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 the replaced parts is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2. Significant accounting policies (cont'd)

(d) Property, plant and equipment (cont'd)

(iii) Depreciation (cont'd)

Depreciation is recognised in profit or loss 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 unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The depreciation rates for the current and comparative periods based on the estimated useful lives of the assets concerned 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

Depreciation method, useful lives and residual values are reviewed, and adjusted as appropriated at the end of the reporting period.

(e) Leased assets

(i) Finance lease

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition of 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.

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.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment.

(ii) Operating lease

Leases, where the Group does not assume substantially all the risks and rewards of the ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the Group's statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred. Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2. Significant accounting policies (cont'd)

(f) Intangible assets

(i) Goodwill

Goodwill arises on business combinations is measured at cost less any accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

(ii) Amortisation

Goodwill with indefinite useful lives are not amortised but are tested for impairment annually and whenever there is an indication that they may be impaired.

(g) Impairment

(i) Financial assets

All financial assets (except for investments in subsidiaries) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in the other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity and recognised to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(ii) Other assets

The carrying amounts of other assets (except for inventories) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2. Significant accounting policies (cont'd)

(g) Impairment (cont'd)

(ii) Other assets (cont'd)

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets (known as cash-generating unit). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a cash-generating unit or a group of cash-generating unit or a group of cash-generating units that are expected to benefit from the synergies of the combination.

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 or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units or the group of cash generating units and then to reduce the carrying amount of the other assets in the cash generating unit (or a group of cash generating units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period 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 since the last impairment loss was recognised. 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 profit or loss in the year in which the reversals are recognised.

(h) Investment properties

Investment properties carried at cost

Investment properties are properties which are owned to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. These include land held for a currently undetermined future use, if any. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties.

Investment properties are stated at cost less any accumulated depreciation and any accumulated impairment losses, consistent with the accounting policy for property, plant and equipment as stated in accounting policy Note 2(d).

Transfer between investment property and property, plant and equipment do not change the carrying amount of the property transferred.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of 50 years for buildings. Freehold land is not depreciated.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2. Significant accounting policies (cont'd)

(h) Investment properties (cont'd)

Investment properties carried at cost (cont'd)

The Directors estimate the fair values of the Group's investment property without involvement of independent valuers. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is measured based on the weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in 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 the estimated costs necessary to make the sales.

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(j) Non-current assets held for sale

Non-current assets, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution.

Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(k) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and fixed deposits pledged to financial institution and highly liquid investments which have an insignificant risk of changes in value with original maturities of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

(l) 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. The unwinding of the discount is recognised as finance cost.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2. Significant accounting policies (cont'd)

(m) 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.

(n) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not re-measured subsequently.

Issue expenses

Costs directly attributable to issue of instruments classified as equity are recognised as a deduction from equity.

(o) Revenue and other income

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discount and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, 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, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the end of the reporting period. The stage of completion is assessed by reference to surveys of work performed.

(iii) Dividend income

Dividend income is recognised in profit or loss on the date that the Group's or the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(iv) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from subleased property is recognised as other income.

(v) Interest income

Interest income is recognised as it accrues, using the effective interest method in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2. Significant accounting policies (cont'd)

(p) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(q) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. 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 or 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 end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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 the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A tax incentive that is not a tax base of an asset is recognised as a reduction of tax expense in profit or loss as and when it is granted and claimed. Any unutilised portion of the tax incentive is recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the unutilised tax incentive can be utilised.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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 liability 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 contributions to the statutory pension funds are charged to profit or loss 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 grant date fair value of share-based payment awards to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of employee share 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 ordinary share

The Group presents basic and diluted earnings per share data for its ordinary shares (EPS).

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, adjust for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to owners of the Company and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(t) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the Managing Director of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

The Group has identified the business of manufacturing and trading of steel products and trading sales of iron ore as its sole operating segment.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. Property, plant and equipment - Group

Valuation/Cost	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	Under construction RM	Total RM
At 1 January 2010	33,724,136	93,644,348	3,057,309	3,370,196	1,993,635	3,081,211	10,756,212	149,627,047
Additions	2,575,164	2,799,809	1,054,883	-	439	1,434,725	6,909,498	14,774,518
Acquisition through business combination	-	-	8,374	-	-	88,934	-	97,308
Disposals	-	-	-	-	-	-	(2,404,205)	(2,404,205)
Reclassification	130,300	78,950	-	-	-	-	(209,250)	-
Effect of movements in exchange rates	-	-	(298)	-	-	(3,164)	-	(3,462)
At 31 December 2010/ 1 January 2011	36,429,600	96,523,107	4,120,268	3,370,196	1,994,074	4,601,706	15,052,255	162,091,206
Additions	147,514	1,959,462	142,460	-	3,324	854,204	17,417,928	20,524,892
Write off	-	-	-	-	-	-	(100,000)	(100,000)
Disposals	-	(159,023)	(13,797)	-	-	-	-	(172,820)
Disposal of a subsidiary (Note 18)	-	(605,681)	(12,929)	-	-	(85,770)	-	(704,380)
Transfer from investment property (Note 5)	434,826	-	-	-	-	-	-	434,826
At 31 December 2011	37,011,940	97,717,865	4,236,002	3,370,196	1,997,398	5,370,140	32,370,183	182,073,724

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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	Under construction RM	Total RM
Depreciation and impairment losses								
At 1 January 2010								
- Accumulated depreciation	5,366,731	53,132,576	2,274,718	2,159,951	1,969,152	2,048,800	-	66,951,928
- Accumulated impairment losses	-	-	-	-	-	-	1,594,378	1,594,378
Depreciation for the year	592,307	6,730,627	189,467	243,357	3,606	433,043	-	8,192,407
At 31 December 2010/1 January 2011								
- Accumulated depreciation	5,959,038	59,863,203	2,464,185	2,403,308	1,972,758	2,481,843	-	75,144,335
- Accumulated impairment losses	-	-	-	-	-	-	1,594,378	1,594,378
Depreciation for the year	5,959,038	59,863,203	2,464,185	2,403,308	1,972,758	2,481,843	1,594,378	76,738,713
Depreciation for the year	661,664	6,640,060	242,002	243,357	3,616	606,861	-	8,397,560
Disposals	-	(38,431)	(13,797)	-	-	-	-	(52,228)
Disposal of a subsidiary (Note 18)	-	(31,507)	(2,293)	-	-	(22,303)	-	(56,103)
Transfer from investment property (Note 5)	18,318	-	-	-	-	-	-	18,318
At 31 December 2011								
- Accumulated depreciation	6,639,020	66,433,325	2,690,097	2,646,665	1,976,374	3,066,401	-	83,451,882
- Accumulated impairment losses	-	-	-	-	-	-	1,594,378	1,594,378
Carrying amounts								
At 1 January 2010	28,357,405	40,511,772	782,591	1,210,245	24,483	1,032,411	9,161,834	81,080,741
At 31 December 2010/1 January 2011	30,470,562	36,659,904	1,656,083	966,888	21,316	2,119,863	13,457,877	85,352,493
At 31 December 2011	30,372,920	31,284,540	1,545,905	723,531	21,024	2,303,739	30,775,805	97,027,464

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. Property, plant and equipment - Group (cont'd)

Land and buildings comprise:

	Valuation/Cost		Carrying amounts	
	2011 RM	2010 RM	2011 RM	2010 RM
At valuation				
Factory buildings	3,805,000	3,805,000	2,493,129	2,569,325
At cost				
Freehold land	7,736,669	7,630,269	7,736,669	7,630,269
Factory buildings	24,283,845	23,829,612	19,074,890	19,193,842
Staff quarters	1,186,426	1,164,719	1,068,232	1,077,126
	<u>37,011,940</u>	<u>36,429,600</u>	<u>30,372,920</u>	<u>30,470,562</u>

3.1 Impairment loss assessment

During the financial year, the Group carried out a review of the recoverable amount of its plant and machinery for one of the subsidiaries due to the low utilisation. The recoverable amount of the plant and machinery was based on its value in use and the pre-tax discount rate used was 5%.

However, no impairment loss was recognised in the profit or loss for the financial year ended 31 December 2011 in view that the estimated recoverable amount is still higher than the carrying value of these machinery of approximately RM20 million at year end. The management expects to optimise the utilisation of the plant and machine when its new billet operation commences its commercial production in September 2012. This is, however, dependent on the commissioning and successful implementation of the billet project to the planned utilisation which hinges heavily on the assumption that the Group will have constant supply of scrap iron at the right price, achievability of the targeted output and demand for deformed bar to achieve the forecasted/projected results.

3.2 Security

The freehold land, certain factory buildings and assets under construction of the Group are charged to banks as securities for loan facilities granted to the Group (refer Note 14).

3.3 Assets under finance lease

The carrying amount of plant and equipment of the Group acquired under finance leases are as follows:

	2011 RM	2010 RM
Plant and machinery	2,483,750	3,948,949
Motor vehicles	<u>1,736,377</u>	<u>1,656,017</u>

3.4 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. Property, plant and equipment - Group (cont'd)

3.4 Revaluation (cont'd)

Had the factory buildings been carried at historical cost less accumulated depreciation, the carrying amounts 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	Carrying amounts RM
2011			
Factory buildings	2,152,495	776,749	1,375,746
2010			
Factory buildings	2,152,495	733,699	1,418,796

4. Prepaid lease payments - Group

Leasehold land - Unexpired period less than 50 years

	RM
Cost	
At 1 January 2010	7,394,926
Disposal	(2,071,620)
At 31 December 2010/1 January 2011/31 December 2011	<u>5,323,306</u>
Amortisation	
At 1 January 2010	1,480,468
Amortisation for the year	114,181
Disposal	(96,335)
At 31 December 2010/1 January 2011	<u>1,498,314</u>
Amortisation for the year	91,428
At 31 December 2011	<u>1,589,742</u>
Carrying amounts	
At 1 January 2010	<u>5,914,458</u>
At 31 December 2010/1 January 2011	<u>3,824,992</u>
At 31 December 2011	<u>3,733,564</u>

Security

The leasehold land of the Group with carrying amount of RM721,373 (2010: Nil) is charged to a bank as security for loan facility granted to a subsidiary of the Company (refer Note 14).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

5. Investment property - Group

	Freehold land RM	Buildings RM	Total RM
Cost			
At 1 January 2010	159,600	493,817	653,417
Transfer to assets held for sale (Note 11)	(53,200)	(165,391)	(218,591)
At 31 December 2010/1 January 2011	106,400	328,426	434,826
Transfer to property, plant and equipment (Note 3)	(106,400)	(328,426)	(434,826)
At 31 December 2011	-	-	-
Accumulated depreciation			
At 1 January 2010	-	19,250	19,250
Depreciation for the year	-	9,866	9,866
Transfer to asset held for sale (Note 11)	-	(10,798)	(10,798)
At 31 December 2010/1 January 2011	-	18,318	18,318
Transfer to property, plant and equipment (Note 3)	-	(18,318)	(18,318)
At 31 December 2011	-	-	-
Carrying amounts			
At 1 January 2010	159,600	474,567	634,167
At 31 December 2010/1 January 2011	106,400	310,108	416,508
At 31 December 2011	-	-	-

Investment property comprises residential properties that are either vacant or leased to third parties. The Directors estimate that the fair values of the investment property approximate their carrying amounts.

The following are recognised in profit or loss in respect of investment property:

	2011 RM	2010 RM
Rental income	-	4,700
Direct operating expenses	-	565
- income generating investment property	-	565

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

6. Investment in subsidiaries - Company

	2011 RM	2010 RM
Unquoted shares, at cost	34,736,876	24,736,873
Add : Effect of adopting FRS 2 - share-based payments allocated to subsidiaries	1,684,535	1,684,535
Less : Impairment losses	(147,999)	(147,999)
	36,273,412	26,273,409

Details of the subsidiaries are as follows:

Name of subsidiaries	Country of incorporation	Principal activities	Effective ownership interest held	
			2011	2010
Leader Steel Sdn. Bhd.	Malaysia	Manufacture and trading of steel and metal products	100%	100%
Leader Steel Service Centre Sdn. Bhd.	Malaysia	Manufacture and trading of steel products	100%	100%
Leader Steel Technology Sdn. Bhd.	Malaysia	Dormant	100%	100%
Leader Steel Asia Sdn. Bhd.	Malaysia	Dormant	100%	100%
Leader Steel Tubes Sdn. Bhd.	Malaysia	Dormant	100%	100%
Leader Minerals (Malaysia) Sdn. Bhd.	Malaysia	Dormant	100%	100%
Leader Minerals Corporation Sdn. Bhd.	Malaysia	Dormant	100%	100%
Leader Integrated Steel Mills Sdn. Bhd.	Malaysia	Dormant	100%	100%
ACME Steel Works Sdn. Bhd.	Malaysia	Dormant	100%	100%
GCH Metal Service Centre Sdn. Bhd.	Malaysia	Investment holding	100%	100%
Padma Yesshe S. De RL. De. C.V ("Padma Yesshe") #	Mexico	Trading of iron ore	-	100%
Ferro Minerals, Inc ("Ferro")*	United States of America	Trading of iron ore	100%	-
<i>Subsidiary of Leader Steel Sdn. Bhd.</i>				
ACME United Sdn. Bhd.	Malaysia	Processing and sale of minerals	51%	51%
<i>Subsidiary of Leader Minerals Corporation Sdn. Bhd.</i>				
Padma Minerals Co. Limited ^	Hong Kong	Dormant	100%	100%

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

6. Investment in subsidiaries - Company (cont'd)

- # Not audited by KPMG
- * Newly incorporated on 19 October 2011 and not audited by member firms of KPMG International. The unaudited management accounts were consolidated in the Group's financial statements as the subsidiary's financial statements have yet to be audited.
- ^ The unaudited management accounts were consolidated in the Group's financial statements as the subsidiary's financial statements have yet to be audited.

7. Other investments - Group/Company

	Quoted shares in Malaysia RM
2011	
Non-current	
Available-for-sale financial assets	<u>316,000</u>
Representing items At fair value	<u>316,000</u>
Market value of quoted shares	<u>316,000</u>
2010	
Non-current	
Available-for-sale financial assets	<u>400,000</u>
Representing items At fair value	<u>400,000</u>
Market value of quoted shares	<u>400,000</u>

8. Goodwill on consolidation - Group

	2011 RM	2010 RM
At 1 January	1,164,147	-
Acquisition of a subsidiary	-	1,164,147
Disposal of a subsidiary (Note 18)	(1,164,147)	-
At 31 December	<u>-</u>	<u>1,164,147</u>

The Group had determined the recoverable amount of the goodwill based on value in use calculations. The calculations were determined using the 2010 cash flows projection from its iron ore business based on actual sales and the management's estimate of market demand for iron ore.

The key assumptions on which the cash flow projections were based on iron ore market prices, the estimated sales and the discount rate.

In determining the recoverable amount of the goodwill, the projected cash flows were discounted using a pre-tax discount rate of 5%.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

9. Trade and other receivables

	Note	Group		Company	
		2011 RM	2010 RM	2011 RM	2010 RM
Trade					
A company in which certain Directors have substantial financial interests	9.1	1,129,527	33,823	-	-
Others		35,444,103	30,330,011	-	-
		36,573,630	30,363,834	-	-
Non-trade					
Subsidiaries	9.2	-	-	68,680,054	74,267,488
Other receivables	9.3	17,110,815	7,693,084	-	-
Deposits	9.4	19,027,369	8,298,471	1,000	1,000
Prepayments		4,284,720	2,131,265	16,500	16,500
		40,422,904	18,122,820	68,697,554	74,284,988
		76,996,534	48,486,654	68,697,554	74,284,988

9.1 Trade receivables

The trade receivables due from a company in which certain Directors have substantial financial interest are subject to the normal trade terms.

9.2 Amount due from subsidiaries

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

9.3 Other receivables

Included in other receivables is an amount of RM15,117,682 (2010: Nil) representing the amount owing by the purchaser of Padma Yesshe for the Group's advances to Padma Yesshe. The Directors are of the opinion that the amount is recoverable.

9.4 Deposits outstanding for more than one year

Deposits paid to suppliers which are outstanding for more than one year without any transactions amounted to Nil (2010: RM2,764,994).

10. Inventories - Group

	2011 RM	2010 RM
Raw materials	28,884,921	49,912,896
Work-in-progress	2,539,450	775,833
Manufactured inventories	14,433,389	8,066,016
Trading inventories	8,065,841	21,916,560
	53,923,601	80,671,305

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

11. Assets classified as held for sale - Group

In the previous financial year, the following assets were classified as held for sales as the Company had entered into Sale and Purchase Agreement to dispose of the assets for a total cash consideration of RM285,000. The sales was completed during the financial year ended 31 December 2011.

Staff quarters	2011 RM	2010 RM
At 1 January	207,793	300,236
Transfer from investment property (Note 5)	-	207,793
Disposal	(207,793)	(300,236)
At 31 December	<u>-</u>	<u>207,793</u>
Investment property held for sale comprised the following:		
Cost	-	218,591
Accumulated depreciation	-	(10,798)
	<u>-</u>	<u>207,793</u>

12. Share capital - Group/Company

	Amount RM	Number of shares
Ordinary shares of RM0.50 each		
Authorised :		
At 1 January/31 December 2010	<u>500,000,000</u>	<u>1,000,000,000</u>
At 1 January/31 December 2011	<u>500,000,000</u>	<u>1,000,000,000</u>
Issued and fully paid :		
At 1 January/31 December 2010	<u>64,016,000</u>	<u>128,032,000</u>
At 1 January/31 December 2011	<u>64,016,000</u>	<u>128,032,000</u>

13. Reserves

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Non-distributable				
Share premium	3,600	3,600	3,600	3,600
Share option reserve	2,185,000	2,185,000	2,185,000	2,185,000
Foreign currency translation reserve	-	40,971	-	-
Fair value reserve	(84,000)	-	(84,000)	-

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

13. Reserves (cont'd)

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Distributable				
Capital reserve	283,606	283,606	-	-
Retained earnings	28,578,838	32,552,426	929,092	3,692,672
	<u>30,967,044</u>	<u>35,065,603</u>	<u>3,033,692</u>	<u>5,881,272</u>

Movements in reserves are shown in statements of changes in equity.

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.

Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of the Group entities with functional currencies other than RM, as well as from the translation of liabilities that hedge the Company's net investment in a foreign operation.

Capital reserve

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

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised.

14. Loans and borrowings - Group

	2011 RM	2010 RM
Non-current :		
Term loans - secured	4,165,412	5,536,026
Finance lease liabilities	1,220,846	1,979,781
Commodity financing - secured	13,909,566	-
	<u>19,295,824</u>	<u>7,515,807</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

14. Loans and borrowings - Group (cont'd)

	2011 RM	2010 RM
Current :		
Bank overdrafts - unsecured	4,022,576	4,477,673
Bankers' acceptances - unsecured	76,141,225	68,906,936
Term loans - secured	1,302,710	1,396,929
Finance lease liabilities	1,269,078	1,207,097
Commodity financing - unsecured	-	10,187,069
Revolving loan - unsecured	5,000,000	-
Other borrowings - unsecured	-	8,535,212
	87,735,589	94,710,916
	<u>107,031,413</u>	<u>102,226,723</u>

The secured term loans and commodity financing are secured by legal charges over certain property, plant and equipment (refer Note 3) and leasehold land (refer Note 4) of the Group.

Finance lease liabilities

The finance lease liabilities are repayable as follows:

	← 2011 →			← 2010 →		
	Future minimum lease payments RM	Interest RM	Present value of minimum lease payments RM	Future minimum lease payments RM	Interest RM	Present value of minimum lease payments RM
Less than one year	1,385,234	116,156	1,269,078	1,374,398	167,301	1,207,097
Between one and five years	1,262,048	41,202	1,220,846	2,100,574	120,793	1,979,781
	<u>2,647,282</u>	<u>157,358</u>	<u>2,489,924</u>	<u>3,474,972</u>	<u>288,094</u>	<u>3,186,878</u>

15. Deferred tax liabilities - Group

Recognised deferred tax liabilities

	2011 RM	2010 RM
Deferred tax liabilities		
Property, plant and equipment (including prepaid lease payments)		
- capital allowances	7,039,000	7,137,000
- revaluation	280,000	288,000
Others	(594,000)	(120,000)
	<u>6,725,000</u>	<u>7,305,000</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

15. Deferred tax liabilities - Group (cont'd)

The component and movement of deferred tax liabilities during the year are as follows:

	At 1 January 2010 RM	Recognised in profit or loss (Note 23) RM	At 31 December 2010 RM	Recognised in profit or loss (Note 23) RM	At 31 December 2011 RM
Deferred tax liabilities					
Property, plant and equipment (including prepaid lease payments)					
- capital allowances	7,172,000	(35,000)	7,137,000	(98,000)	7,039,000
- revaluation	296,000	(8,000)	288,000	(8,000)	280,000
Others	-	(120,000)	(120,000)	(474,000)	(594,000)
	7,468,000	(163,000)	7,305,000	(580,000)	6,725,000

16. Trade and other payables

Trade	Note	Group		Company	
		2011 RM	2010 RM	2011 RM	2010 RM
Companies in which certain Directors have substantial financial interest	16.1	1,562,262	206,457	-	-
Others		3,331,196	2,554,647	-	-
		4,893,458	2,761,104	-	-
Non-trade					
Companies in which certain Directors have substantial financial interest	16.1	427,277	671,088	-	-
Subsidiaries	16.1	-	-	38,067,283	30,893,187
Other payables		12,844,058	10,004,744	-	-
Accrued expenses	16.2	5,047,010	2,514,015	234,147	190,752
		18,318,345	13,189,847	38,301,430	31,083,939
		23,211,803	15,950,951	38,301,430	31,083,939

16.1 Amounts due to companies in which certain Directors have substantial financial interest and subsidiaries

The trade amounts due to companies in which certain Directors have substantial financial interest are subject to the normal trade terms.

The non-trade amounts due to companies in which certain Directors have substantial financial interest and subsidiaries are unsecured, interest-free and repayable on demand.

16.2 Accrued expenses

Included in accrued expenses is an amount of RM1,600,381 (2010: Nil) representing the late payment penalties on prior years' taxes.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

17. 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	Options	Balance	Options	Balance	Exercisable option	
		as at 1.1.2010 '000	lapsed '000	as at 31.12.2010 '000	lapsed '000	as at 31.12.2011 '000	31.12.2011 '000	31.12.2010 '000
20 June 2002 *	0.50	504	(3)	501	(37)	464	464	501
18 May 2005	0.74	9,353	(331)	9,022	(673)	8,349	8,349	9,022
		9,857	(334)	9,523	(710)	8,813	8,813	9,523

During the year, no shares options were exercised. The weighted average share price for the year was RM0.44 (2010: RM0.46).

* 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.

18. Disposal of a subsidiary

During the year, the Group disposed of its entire equity interest in Padma Yesshe S.De R.L De C.V ("Padma Yesshe") (held indirectly through two wholly-owned subsidiaries, Leader Steel Sdn Bhd and Leader Minerals Corporation Sdn Bhd) for a total cash consideration of RM200,000. The disposal has the following profit and loss effect:

	2011 RM
Revenue	27,729,086
Raw material and trading inventories used	(21,370,436)
Staff costs	(468,987)
Other operating expenses	(5,974,006)
Other operating income	416,930
Operating profit	332,587
Finance costs	(9,636)
Profit before tax	322,951
Income tax expense	(116,780)
Profit after tax	206,171
Profit on disposal of a subsidiary	1,169,612
Profit for the year	1,375,783

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

18. Disposal of a subsidiary (cont'd)

The assets disposed of and liabilities relieved are as below:

	2011 RM
Goodwill on acquisition	1,164,147
Property, plant and equipment	648,277
Trade and other receivables	12,402,925
Cash and cash equivalents	7,351
Amount due to holding company	(15,107,713)
Current tax liabilities	(84,599)
Net liabilities	<u>(969,612)</u>
Gain on disposal of a subsidiary	1,169,612
Consideration received, satisfied in cash	<u>200,000</u>
Cash and cash equivalents disposed of	(7,351)
Foreign currency translation reserve	(40,971)
Net cash inflow	<u><u>151,678</u></u>

19. Revenue

Revenue comprises the following:

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Invoiced value of goods sold and services rendered less discounts and returns	<u>273,447,600</u>	<u>216,712,714</u>	-	-

20. Profit/(Loss) before tax

Profit/(Loss) before tax is arrived at :

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
after charging :				
Auditors' remuneration				
- Statutory audit				
- KPMG				
- current year	107,000	84,000	25,000	17,000
- prior year	-	11,000	8,000	-
- Other auditors	-	22,370	-	-
- Other services by				
- KPMG	6,000	6,500	6,000	6,500
- Affiliates of KPMG	27,200	23,000	3,000	3,000

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

20. Profit/(Loss) before tax (cont'd)

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Bad debt written off	115,000	393,770	-	-
Directors' emoluments				
- Directors of the Company				
- fees	175,000	175,000	175,000	175,000
- remunerations	1,205,760	1,079,702	18,500	13,500
- advisory fees	46,000	36,000	-	-
Depreciation of property, plant and equipment (Note 3)	8,397,560	8,192,407	-	-
Amortisation of prepaid lease payments (Note 4)	91,428	114,181	-	-
Depreciation on investment property (Note 5)	-	9,866	-	-
Deposits written off	2,504,571	-	-	-
Net foreign exchange loss	-	1,796,106	-	-
Plant and equipment written off	100,000	-	-	-
Rental of equipment	28,224	132,589	-	-
Rental of premises	516,000	797,475	-	-
Personnel expenses (excluding key management personnel)				
- Wages, salaries and others	6,143,144	4,842,235	-	-
- Contributions to statutory pension funds	575,978	473,149	-	-
and after crediting :				
Interest income	416,930	38,625	-	-
Rental of equipment	-	107,000	-	-
Gain on disposal of:				
- assets held for sale	77,207	19,764	-	-
- property, plant and equipment	78,464	244,405	-	-
- prepaid lease payments	-	200,803	-	-
- a subsidiary (Note 18)	1,169,612	-	-	-
Net foreign exchange gain	368,605	-	-	-

21. Key management personnel compensations

The key management personnel compensations are as follows:

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Directors of the Company				
- Fees	175,000	175,000	175,000	175,000
- Remunerations	1,205,760	1,079,702	18,500	13,500
	1,380,760	1,254,702	193,500	188,500

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

22. Finance costs - Group

	2011 RM	2010 RM
Interest expense of financial liabilities that are not at fair value through profit or loss		
Term loans	551,781	185,619
Bank overdrafts	285,717	255,601
Finance lease liabilities	189,579	252,299
Other borrowings	3,713,735	2,100,414
	<u>4,740,812</u>	<u>2,793,933</u>
Recognised in profit or loss	4,740,812	2,749,775
Capitalised on qualifying assets : - property, plant and equipment	-	44,158
	<u>4,740,812</u>	<u>2,793,933</u>

23. Income tax expense

Recognised in profit or loss

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Current income tax expense				
Malaysia				
- Current	1,373,000	487,000	-	-
- Prior years	3,457,972	(1,560,429)	-	-
	<u>4,830,972</u>	<u>(1,073,429)</u>	-	-
Overseas - current	116,780	84,192	-	-
Total current tax recognised in profit or loss	<u>4,947,752</u>	<u>(989,237)</u>	-	-
Deferred tax expense				
- Current	(635,000)	(359,000)	-	-
- Prior years	63,000	204,000	-	-
- Reversal of deferred tax on revaluation surplus	(8,000)	(8,000)	-	-
Total deferred tax recognised in profit or loss	<u>(580,000)</u>	<u>(163,000)</u>	-	-
Total income tax expense	<u>4,367,752</u>	<u>(1,152,237)</u>	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

23. Income tax expense (cont'd)

Reconciliation of effective tax expense

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Profit/(Loss) before tax from continuing operations	2,876,444	4,112,604	(362,980)	(446,709)
Tax at Malaysian tax rate of 25%	719,111	1,028,151	(90,745)	(111,677)
Non-deductible expenses	547,962	641,494	90,745	111,677
Effect of tax rates in foreign jurisdictions	35,235	(63,657)	-	-
Tax incentives	(446,459)	(101,678)	-	-
Deferred tax assets recognised	-	(1,291,506)	-	-
Other items	(1,069)	(612)	-	-
Reversal of deferred tax on revaluation surplus	(8,000)	(8,000)	-	-
Under/(Over) provided in prior years	3,520,972	(1,356,429)	-	-
	4,367,752	(1,152,237)	-	-

During the financial year, a subsidiary of the Company, Leader Steel Sdn. Bhd. ("LSSB") has agreed to settle the prior years' outstanding taxes amounted to RM3,083,770. As at the end of reporting date, the taxes together with the penalties of RM1,600,381 (see Note 16) have been accrued for in the financial statements. Payments are to be made in 6 equal monthly installments commencing January 2012.

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 retained earnings at 31 December 2011 if paid out as dividends.

The Finance Act, 2007 introduced a single tier company income tax system with effect from year of assessment 2008. As such, the Section 108 tax credit as at 31 December 2011 will be available to the Company until such time the credit is fully utilised or upon expiry of the transitional period on 31 December 2013, whichever is earlier.

24. Earnings per ordinary share - Group

Basic (loss)/earnings per ordinary share

The calculation of basic (loss)/earnings per ordinary share is based on the net loss attributable to owners of the Company of RM1,572,988 (2010: profit of RM5,303,068) and on the weighted average number of ordinary shares outstanding at the end of the reporting date of 128,032,000 (2010: 128,032,000).

Diluted earnings per ordinary share

For financial years ended 2011 and 2010, diluted earnings per ordinary share was not computed and presented as the effect of the Employees' Share Options is anti-dilutive.

25. Dividend - Group/Company

	Sen Per share (net of tax)	Total amount RM	Date of payment
2011			
First and final 2010 dividend less 25% tax	1.875	2,400,600	8 September 2011

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

26. Contingent liabilities, unsecured - Company

- i) Corporate guarantees

	2011 RM'000	2010 RM'000
- Amount of corporate guarantees given to licensed banks for credit facilities granted to certain subsidiaries	<u>251,038</u>	<u>236,638</u>

The amount of credit facilities utilised as at the end of the reporting date was RM105.7 million (2010: RM93.69 million).

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

27. Related parties - Group/Company

For the purposes of these financial statements, parties are considered to be related to the Group or the Company if the Group or the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities and include the following:

- i) Subsidiaries as disclosed in Note 6 to the financial statements
- ii) Companies in which certain Directors, Dato' Goh Cheng Huat and Datin Tan Pak Say, are deemed to have substantial financial interests:
- Eonmetall Group Berhad and its subsidiaries
- iii) Key management personnel of the Group

Key management personnel are defined as those having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. Key management personnel include certain Directors of the Group.

Significant transactions with related parties

- i) There were no transactions with the key management personnel and Directors other than the following:
- a) advisory fees of RM46,000 (2010 : RM36,000) 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 as disclosed in Note 21.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**27. Related parties - Group/Company (cont'd)**

- ii) Transactions with companies in which certain Directors, Dato' Goh Cheng Huat and Datin Tan Pak Say, are deemed to have substantial financial interests.

	Group	
	2011	2010
	RM	RM
Sales	3,143,052	2,056,313
Purchases	56,212,537	18,308,439
Purchase of equipment	437,077	895,630
Rental payable	516,000	678,000
Services charge	-	568,118

The Directors are of the opinion that the above transactions were entered into the normal course of business and the terms of which have been established on a negotiated basis.

Non-trade balances with related companies are disclosed in Notes 9 and 16 to the financial statements. All outstanding balances are to be settled in cash.

28. Capital commitments - Group

	Group	
	2011	2010
	RM'000	RM'000
Property, plant and equipment		
Contracted but not provided for and payable within 1 year	-	5,000

29. Operating segments - Group

Operating segments are presented in respect of the Group's business and geographical segments. The business segment is based on the Group's management and internal reporting structure.

Business segments

The Group reportable segment mainly consists of the manufacturing and trading of steel products and trading sales of iron ore.

Reportable segment has not been prepared as all 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.

Operating segments are components in which separate financial information is available that is evaluated regularly by the Managing Director in deciding how to allocate resources and in assessing performance of the Group. The Group has identified the business of manufacturing and trading of steel products and trading sales of iron ore as its sole operating segment.

Performance is measured based on revenue derived from the various products sold and consolidated profit before income tax of the Group as included in the internal management reports that are reviewed by the Managing Director, who is the Group's chief operating decision maker. The Group's segment assets and liabilities, as disclosed in the Group's statement of financial position, are also reviewed regularly by the Managing Director.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

29. Operating segments - Group (cont'd)

Business segments (cont'd)

Geographical segments

In presenting geographical information, segment revenue is based on the geographical location of customers. Segment assets are also based on the geographical location of assets. The amount of non-current assets does not include financial instruments.

	Revenue from external customers by location of customers RM'000	Non-current assets RM'000
2011		
Malaysia	142,916	100,761
China	120,918	-
Hong Kong	9,614	-
Total	<u>273,448</u>	<u>100,761</u>
2010		
Malaysia	130,502	90,679
China	80,152	-
Hong Kong	6,059	-
Mexico	-	79
Total	<u>216,713</u>	<u>90,758</u>

30. Financial instruments

30.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

- Loans and receivables (L&R);
- Available-for-sale financial assets (AFS); and
- Other financial liabilities measured at amortised cost (OL).

2011	Carrying amount RM	L&R RM	AFS RM
Financial assets			
Group			
Other investments	316,000	-	316,000
Trade and other receivables	53,684,445	53,684,445	-
Cash and bank balances	2,614,092	2,614,092	-
	<u>56,614,537</u>	<u>56,298,537</u>	<u>316,000</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

30. Financial instruments (cont'd)

30.1 Categories of financial instruments (cont'd)

2011	Carrying amount RM	L&R RM	AFS RM
Company			
Other investments	316,000	-	316,000
Trade and other receivables	68,680,054	68,680,054	-
Cash and bank balances	54,887	54,887	-
	<u>69,050,941</u>	<u>68,734,941</u>	<u>316,000</u>
2010			
Financial assets			
Group			
Other investments	400,000	-	400,000
Trade and other receivables	38,056,918	38,056,918	-
Cash and bank balances	3,494,847	3,494,847	-
	<u>41,951,765</u>	<u>41,551,765</u>	<u>400,000</u>
Company			
Other investments	400,000	-	400,000
Trade and other receivables	74,267,488	74,267,488	-
Cash and bank balances	13,545	13,545	-
	<u>74,681,033</u>	<u>74,281,033</u>	<u>400,000</u>
2011			
Financial liabilities			
Group			
Loan and borrowings	107,031,413	107,031,413	
Trade and other payables	23,211,803	23,211,803	
	<u>130,243,216</u>	<u>130,243,216</u>	
Company			
Trade and other payables	38,301,430	38,301,430	

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

30. Financial instruments (cont'd)

30.1 Categories of financial instruments (cont'd)

2010	Carrying amount RM	OL RM
Financial liabilities		
Group		
Loan and borrowings	102,226,723	102,226,723
Trade and other payables	15,950,951	15,950,951
	<u>118,177,674</u>	<u>118,177,674</u>
Company		
Trade and other payables	<u>31,083,939</u>	<u>31,083,939</u>

31.2 Net gains and losses arising from financial instruments

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Net gains/(losses) on:				
Available-for-sale financial assets				
- recognised in other comprehensive income	(84,000)	-	(84,000)	-
Loans and receivables	(115,000)	-	-	-
	<u>(199,000)</u>	<u>-</u>	<u>(84,000)</u>	<u>-</u>

30.2 Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

30.3 Credit risk

At reporting period, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables from customers and investment securities. The Company's exposure to credit risk arises principally from loans and advances to subsidiaries.

Receivables

Risk management objectives, policies and processes for managing the risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**30. Financial instruments (cont'd)****30.3 Credit risk (cont'd)****Receivables (cont'd)***Exposure to credit risk, credit quality and collateral*

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. The Group uses ageing analysis to monitor the credit quality of the receivables and the risk is also mitigated by the deposits collected from customers.

The exposure of credit risk for trade receivables as at the end of the reporting period by geographic region was :

	Group	
	2011	2010
	RM	RM
Domestic	18,012,195	8,092,017
Republic of China	16,187,247	21,115,636
Others	2,374,188	1,156,181
	36,573,630	30,363,834

Impairment losses

The ageing of trade receivables as at the end of the reporting period was :

Group	Gross	Individual	Net
	RM	impairment	RM
		RM	
2011			
Not past due	31,612,104	-	31,612,104
Past due 1 - 30 days	582,560	-	582,560
Past due 31 - 120 days	1,128,127	-	1,128,127
Past due more than 120 days	3,250,839	-	3,250,839
	36,573,630	-	36,573,630
2010			
Not past due	3,968,262	-	3,968,262
Past due 1 - 30 days	18,700,464	-	18,700,464
Past due 31 - 120 days	3,555,931	-	3,555,931
Past due more than 120 days	4,139,177	-	4,139,177
	30,363,834	-	30,363,834

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

30. Financial instruments (cont'd)

30.3 Credit risk (cont'd)

Investments and other financial assets

Exposure to credit risk and credit quality

As at the end of the reporting period, the Group has only invested in domestic equity securities. The maximum exposure to credit risk is represented by the carrying amounts in the statement of financial position.

The investments and other financial assets are unsecured.

Financial guarantees

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured financial guarantees to banks in respect of banking facilities granted to certain subsidiaries. The Company monitors on an ongoing basis the results of the subsidiaries and repayments made by the subsidiaries.

Exposure to credit risk, credit quality and collateral

The maximum exposure to credit risk amounts to RM105.7 million (2010: RM93.69 million) representing the outstanding banking facilities of the subsidiaries as at the end of the reporting period. As at the end of the reporting period, there was no indication that any subsidiary would default on repayment.

The financial guarantees have not been recognised since the fair value on initial recognition was not material.

Inter company balances

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured advances to subsidiaries. The Company monitors the results of the subsidiaries regularly.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

Advances are only provided to subsidiaries which are wholly owned by the Company.

Impairment losses

As at the end of the reporting period, there was no indication that the loans and advances to the subsidiaries are not recoverable. The Company does not specifically monitor the ageing of the advances to the subsidiaries. Nevertheless, these advances are repayable on demand.

30.4 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's exposure to liquidity risk arises principally from its various payables, loans and borrowings.

The Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

30. Financial instruments (cont'd)

30.4 Liquidity risk (cont'd)

Maturity analysis

The table below summarises the maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments :

Group	Carrying amount RM	Contractual interest rate %	Contractual cash flows RM	Under 1 year RM	1 - 2 years RM	2 - 5 years RM	More than 5 years RM
<i>Non-derivative financial liabilities</i>							
Bank overdrafts	4,022,576	7.30 - 8.35	4,022,576	4,022,576	-	-	-
Bankers' acceptances	76,141,225	3.75 - 6.11	76,141,225	76,141,225	-	-	-
Other borrowings	13,909,566	5.17	13,909,566	13,909,566	-	-	-
Revolving loan	5,000,000	5.13	5,000,000	5,000,000	-	-	-
Term loans	5,468,122	7.10 - 7.55	6,309,904	1,670,305	2,969,294	-	-
Finance lease liabilities	2,489,924	2.58 - 4.05	2,647,282	1,385,234	1,128,902	133,146	-
Trade and other payables	23,211,803	-	23,211,803	23,211,803	-	-	-
	<u>130,243,216</u>		<u>131,242,356</u>	<u>125,340,709</u>	<u>2,799,207</u>	<u>3,102,440</u>	<u>-</u>
2010							
<i>Non-derivative financial liabilities</i>							
Bank overdrafts	4,477,673	7.30 - 8.05	4,477,673	4,477,673	-	-	-
Bankers' acceptances	68,906,936	2.97 - 4.50	68,906,936	68,906,936	-	-	-
Other borrowings	18,722,281	1.50 - 5.69	18,722,281	18,722,281	-	-	-
Term loans	6,932,955	6.75 - 7.30	8,199,312	1,889,020	1,736,798	4,523,362	50,132
Finance lease liabilities	3,186,878	2.28 - 4.05	3,474,972	1,374,398	1,172,186	928,388	-
Trade and other payables	15,950,951	-	15,950,951	15,950,951	-	-	-
	<u>118,177,674</u>		<u>119,732,125</u>	<u>111,321,259</u>	<u>2,908,984</u>	<u>5,451,750</u>	<u>50,132</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

30. Financial instruments (cont'd)**30.5 Market risk**

Market risk is the risk that changes in market prices, such as interest rates and other prices will affect the Group's financial position or cash flows.

30.5.1 Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily U.S. Dollar (USD).

Exposure to foreign currency risk

The Group's exposure to foreign currency (a currency which is other than the currency of the Group entities) risk, based on carrying amounts as at the end of the reporting period was :

	Denominated in USD	
	2011	2010
Group	RM'000	RM'000
Trade receivables	29,132	21,956
Trade and other payables	(8,514)	(8,869)
Other bank borrowings	-	(8,535)
Net exposure	<u>20,618</u>	<u>4,552</u>

Currency risk sensitivity analysis

A 10% strengthening of the RM against USD at the end of the reporting period would have increased/(decreased) post-tax profit or loss by the amount shown below. This analysis assumes that all other variables remained constant and ignores any impact of forecasted sales and purchases.

	Profit or loss	
	2011	2010
Group	RM'000	RM'000
USD	<u>(1,546)</u>	<u>(341)</u>

A 10% weakening of RM against USD at the end of the reporting period would have had equal but opposite effect to the amount shown above, on the basis that all other variables remained constant.

30.5.2 Interest rate risk

The Group's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

Risk management objectives, policies and processes for managing the risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risks that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company's interest-earning financial assets are mainly short term in nature and are mostly placed in fixed deposits.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

30. Financial instruments (cont'd)**30.5.2 Interest rate risk (cont'd)***Exposure to interest rate risk*

The interest rate profile of the Group's and the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was :

	Group	
	2011	2010
	RM'000	RM'000
Fixed rate instruments		
Financial liabilities	2,490	3,187
	<hr/>	<hr/>
Floating rate instruments		
Financial liabilities	104,541	99,040
	<hr/>	<hr/>

*Interest rate risk sensitivity analysis**(a) Fair value sensitivity analysis for fixed rate instruments*

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedged accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

(b) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bp) in interest rates at the end of the reporting period would have increased/(decreased) post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remained constant.

	Profit or loss	
	100bp	100bp
	increase	decrease
	RM'000	RM'000
Group		
2011		
Floating rate instruments	(784)	784
	<hr/>	<hr/>
2010		
Floating rate instruments	(743)	743
	<hr/>	<hr/>

30.5.3 Other price risk

Equity price risk arises from the Group's investments in equity securities.

Risk management objectives, policies and processes for managing the risk

Management of the Group monitors the equity investments on a portfolio basis.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

30. Financial instruments (cont'd)**30.5.3 Other price risk (cont'd)***Equity price risk sensitivity analysis*

As at the end of the reporting period, the maximum exposure to other price risk is represented by their carrying amounts in the statement of financial position.

30.6 Fair values

The carrying amounts of cash and bank balances, short term receivables and payables and short term borrowings approximate fair values due to the relatively short term nature of these financial instruments.

The fair values of other financial assets and liabilities together with the carrying amounts shown in the statement of financial position, as at 31 December are as follows :

	2011		2010	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial assets				
Quoted investments	316	316	400	400
Financial liabilities				
Finance lease liabilities	2,490	#2,490	3,187	# 3,187

The fair values of quoted investments are determined by reference to their quoted closing bid price at the end of the reporting period.

- # The fair value of fixed rate financial instruments are determined by discounting the relevant cash flows using current interest rates for similar financial instruments at the end of the reporting period. Since the current interest rates do not significantly differ from the intrinsic rate of these financial instruments, the fair values of these financial instruments therefore, closely approximate their carrying values as at the end of the reporting period.

30.6.1 Fair value hierarchy

Comparative figures have not been presented for 31 December 2010 by virtue of paragraph 44G of FRS 7.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows :

- Level 1 : Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 : Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 : Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Group 2011				
Financial assets				
Investment in quoted shares	316	-	-	316

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31. Capital management

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business. There were no charges to the Group's approach to capital management during the year.

Under the requirement of Bursa Malaysia Practice Note No. 17/2005, the Company is required to maintain a consolidated shareholders' equity equal to or not less than the 25 percent of the issued and paid-up capital and such shareholders' equity is not less than RM40 million. The Company has complied with this requirement.

32. Significant events

During the year,

- (i) The Group disposed of its entire equity interest in Padma Yesshe S.De R.L De C.V ("Padma Yesshe")(held indirectly through two wholly-owned subsidiaries, Leader Steel Sdn Bhd and Leader Minerals Corporation Sdn Bhd) for a total cash consideration of RM200,000.
- (ii) A wholly-owned subsidiary, Leader Steel Sdn Bhd, increased its authorised share capital from RM10 million to RM25 million by the creation of an additional 15 million shares of RM1 each. It also increased its paid-up capital from RM7,040,425 to RM17,040,425 by the allotment of 10,000,000 ordinary shares of RM1 each at par for cash to the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

33. Supplementary information on the breakdown of realised and unrealised profits or losses

The breakdown of the retained earnings/(accumulated losses) of the Group and of the Company as at 31 December, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows :

	2011		2010	
	Group RM'000	Company RM'000	Group RM'000	Company RM'000
Total retained earnings of the Company and its subsidiaries				
- realised	34,454	929	37,819	3,693
- unrealised	(6,725)	-	(7,305)	-
Add: consolidation adjustments	850	-	2,038	-
Total retained earnings	<u>28,579</u>	<u>929</u>	<u>32,552</u>	<u>3,693</u>

The determination of realised and unrealised profits or losses is based on the Guidance of Special Matter No. 1, Determination of Realised and Unrealised Profit or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by Malaysian Institute of Accountants on 20 December 2010.

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 33 to 87 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2011 and of their financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 33 on page 88 to the financial statements has been compiled in accordance with the Guidance on Special Matter No. 1 Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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: 30 April 2012

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 33 to 88 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 30 April 2012.

Datin Tan Pak Say

Before me :

Cheah Beng Sun, DJN, AMN, PKT, PJK, PJM, PK
(No. P103)
Commissioner for Oaths
Penang

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LEADER STEEL HOLDINGS BERHAD (COMPANY NO. 267209 - K) (INCORPORATED IN MALAYSIA)

Report on the Financial Statements

We have audited the financial statements of Leader Steel Holdings Berhad, which comprise the statements of financial position as at 31 December 2011 of the Group and of the Company, and the statements of comprehensive income, changes in equity and cash flow statements of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 33 to 87.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2011 and of their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- a) In our opinion, the accounting and other records and the registers required by the Act 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 Act.
- b) We have considered the accounts and the auditors' report of the subsidiaries of which we have not acted as auditors, which are indicated in Note 6 to the financial statements.
- c) We are satisfied that the accounts 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 financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- d) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LEADER STEEL HOLDINGS BERHAD (COMPANY NO. 267209 - K) (INCORPORATED IN MALAYSIA) (CONT'D)

Other Reporting Responsibilities

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 33 on page 88 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance of Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG
AF 0758
Chartered Accountants

Date : 30 April 2012

Penang

Ng Swee Weng
1414/03/14 (J/PH)
Chartered Accountant

PROPERTIES OF THE GROUP

Location	Date of *Revaluation/ Acquisition	Tenure	Approximate Age of Building	Area (Square Meters)	Description	Net Book Value as at 31 December 2011 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	18 years	34,000	Factory	10,826
6 Lorong Limau Manis 1 Taman Limau Manis 14000 Bukit Tengah Pulau Pinang, Malaysia	17.2.95	Freehold Double Storey Terrace house	17 years	111	Residential premise for factory workers	84
8 Lorong Limau Manis 1 Taman Limau Manis 14000 Bukit Tengah Pulau Pinang, Malaysia	17.2.95	Freehold Double Storey Terrace house	17 years	111	Residential premise for factory workers	84
Lot 841 Block 7 MTLD Sejangkat Industrial Park 93050 Kuching Sarawak, Malaysia	11.11.93	Leasehold 60 years, expiring 10.11.2053	19 years	33,600	Factory	6,756
Leader Steel Service Centre Sdn. Bhd.						
Geran 43145, Lot No. 6483 Kapar, Klang Selangor, Malaysia	15.1.04	Freehold	8 years	52,483	-	7,631
Lot 6483, Jalan Sungai Puloh, KU5 42100 Klang, Selangor	23.12.09	Freehold Building	3 year	17,000	Factory	7,030
42A, Lorong Bayu Mutiara 8 Taman Bayu Mutiara 14000 Bukit Mertajam Pulau Pinang, Malaysia	1.11.07	Freehold Double Storey Terrace house	5 years	130	Residential premise for factory workers	203
48, Lorong Bayu Mutiara 8 Taman Bayu Mutiara 14000 Bukit Mertajam Pulau Pinang, Malaysia	1.11.07	Freehold Double Storey Terrace house	5 years	130	Residential premise for factory workers	205
53, Jalan Setia Impian, U13/4D Sek U13, Setia Alam 40170 Shah Alam Selangor	24.4.08	Freehold Double Storey Terrace house	4 year	130	Residential premise for factory workers	244
32A, Jalan Setia Impian, U13/5F Sek U13 Setia Alam 40170 Shah Alam Selangor	7.10.08	Freehold Double Storey Terrace house	4 year	130	Residential premise for factory workers	251
32, Klang Central Industrial Park, Lorong 5 Di Lorong Sg. Puloh, Batu 5 ¾, Jln Kapar 41400 Klang, Selangor	7.04.10	Shophouse	2 year	186	Residential premise for factory workers	382
No.8, Jln Setia Impian U13/8G, Setia Alam Seksyen U13, Setia Alam, 40170 Shah Alam	13.10.09	Freehold Double Storey Terrace house	3 year	130	Residential premise for factory workers	411

ANALYSIS OF SHAREHOLDINGS

AS AT 4 MAY 2012

Authorised share capital	: RM500,000,000.00
Issued and fully paid-up share capital	: RM64,016,000.00
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 by Size of Shareholdings

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Shares Held
Less than 100	3	0.12	107	0.00
100 - 1,000	181	7.39	158,897	0.12
1,001 - 10,000	1,484	60.62	8,211,796	6.42
10,001 - 100,000	712	29.09	20,204,032	15.78
100,001 - 6,401,599	65	2.66	16,666,406	13.02
6,401,600 - 128,032,000	3	0.12	82,790,762	64.66
TOTAL	2,448	100.00	128,032,000	100.00

Substantial Shareholders

No. Name	Direct Interest		Deemed Interest	
	No. of Shares	%	No. of Shares	%
1 Dato' Goh Cheng Huat	10,530,594	8.22	▲ 55,185,874	43.10
2 Datin Tan Pak Say	1,150,006	0.90	● 64,566,462	50.43
3 Bischart Sdn. Bhd.	54,035,868	42.20	-	-
4 Amanahraya Trustees Berhad - Skim Amanah Saham Bumiputera	18,224,300	14.23	-	-

- ▲ Deemed interested by virtue of his shareholding in Bischart Sdn. Bhd. pursuant to Section 6A of the Companies Act, 1965 and shares held by his spouse, Datin Tan Pak Say.
- Deemed interested by virtue of her spouse's shareholding in Bischart Sdn. Bhd. pursuant to Section 6A of the Companies Act, 1965 and her spouse's direct shareholding in Leader Steel Holdings Berhad

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	8.22	▲ 55,185,874	43.10
3 ^ Datin Tan Pak Say	1,150,006	0.90	● 64,566,462	50.43
4 * Tan Sri Dato' Soong Siew Hoong	150,000	0.12	-	-
5 * Lim Leng Han	18,000	0.01	-	-
6 * Datuk Abdullah bin Kuntom	-	-	-	-
7 * Mohd Arif bin Mastol	-	-	-	-

- ▲ Deemed interested by virtue of his shareholding in Bischart Sdn. Bhd. pursuant to Section 6A of the Companies Act, 1965 and shares held by his spouse, Datin Tan Pak Say.
- Deemed interested by virtue of her spouse's shareholding in Bischart Sdn. Bhd. pursuant to Section 6A of the Companies Act, 1965 and her spouse's direct shareholding in Leader Steel Holdings Berhad

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 interest 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.

ANALYSIS OF SHAREHOLDINGS (CONT'D)

AS AT 4 MAY 2012

THIRTY LARGEST SHAREHOLDERS

Name	No. of Shares	% of Issued Share Capital
1 Amanahraya Trustees Berhad - Skim Amanah Saham Bumiputera	18,224,300	14.23
2 Bischart Sdn. Bhd.	18,035,868	14.09
3 Bischart Sdn. Bhd.	18,000,000	14.06
4 Bischart Sdn. Bhd.	18,000,000	14.06
5 Goh Cheng Huat	10,500,000	8.20
6 Chuah Choon Imm	1,212,100	0.95
7 Tan Pak Say	1,150,006	0.90
8 Cheang Beng Chee	847,000	0.66
9 Citigroup Nominees (Tempatan) Sdn. Bhd. <i>Pledged Securities Account for Tee Cheng Teok (474305)</i>	646,400	0.50
10 Tan Phaik Hoon	620,000	0.48
11 Tan Kheng Hwa	500,000	0.39
12 Kueh Song Joo	420,000	0.33
13 Lim Kian Huat	419,500	0.33
14 Public Nominees (Tempatan) Sdn. Bhd. <i>Pledged Securities Account for Yap Chi Keong (E-TAI/TIN)</i>	397,600	0.31
15 Sim Choh Sang @ Sim Choh Shan	336,000	0.26
16 Kenanga Nominees (Tempatan) Sdn. Bhd. <i>Pledged Securities Account for Bong Siew Kiaw</i>	320,000	0.25
17 Goh Chin Lim	319,000	0.25
18 Lim Peng Kah	309,400	0.24
19 Kenanga Nominees (Tempatan) Sdn. Bhd. <i>Pledged Securities Account for Goh Kim Sin</i>	306,000	0.24
20 Lim Khuan Eng	300,000	0.23
21 Goh Khang Leng	300,000	0.23
22 Ang Hock Heng	289,000	0.23
23 Chan Mei Yee	261,100	0.20
24 Cheah Suan Lee	250,000	0.20
25 Loo Chee Lain	243,500	0.19
26 Citigroup Nominees (Tempatan) Sdn. Bhd. <i>Pledged Securities Account for Tan King Tai @ Tan Khoon Hai (471821)</i>	235,200	0.18
27 Cimsec Nominees (Tempatan) Sdn. Bhd. <i>Pledged Securities Account for Chan Thye Thian (J DEDAP-CL)</i>	235,200	0.18
28 Tee Ching Haa	233,000	0.18
29 Kong Kok Leong	220,000	0.17
30 Lim Choon Yeak	216,900	0.17
	93,347,074	72.91

PROXY FORM



I/We, _____
(Full name in block letters)

of _____
(Address)

being a member of Leader Steel Holdings Berhad hereby appoint _____
(Full name in block letters)

of _____
(Address)

or failing him, _____
(Full name in block letters)

of _____
(Address)

as my/our proxy, to vote for me/us and on my/our behalf at the NINETEENTH 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 Thursday, 21 June 2012 at 10.45 am and at any adjournment thereof.

RESOLUTIONS	FOR	AGAINST
Ordinary Resolution 1		
Ordinary Resolution 2		
Ordinary Resolution 3		
Ordinary Resolution 4		
Ordinary Resolution 5		
Ordinary Resolution 6		
Ordinary Resolution 7		
Ordinary Resolution 8		
Ordinary Resolution 9		
Special Resolution 1		

(Please indicate with "X" in the appropriate space 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)

* Strike out whichever is not desired.

Signed this _____ day of June 2012.

For appointment of two (2) proxies, no. of shares and percentage of shareholdings to be represented by the each proxy:-

	No. of shares	Percentage
Proxy 1		
Proxy 2		
Total		100%

Signature of Shareholder(s)/ Common Seal

Notes :
Appointment of Proxy

- 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.
- Where a Member of the Company is an exempt authorised nominee which hold ordinary shares in the Company for multiple beneficial owner in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account its holds.

An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 ("SICDA") which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.
- 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.
- 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.
- For purpose of determining who shall be entitled to attend this meeting, the Company shall be requesting Bursa Malaysia Depository Sdn. Bhd. to make available to the Company pursuant to Article 61(3) of the Articles of Association of the Company and Paragraph 7.16(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, a Record of Depositors ("ROD") as at 14 June 2012 and only a Depositor whose name appears on such ROD shall be entitled to attend this meeting or appoint proxy to attend and/or vote in his/her behalf.

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Affix
stamp

Joint Company Secretaries
LEADER STEEL HOLDINGS BERHAD (267209-K)
Suite 2-1, 2nd Floor
Menara Penang Garden
42A, Jalan Sultan Ahmad Shah
10050 Penang

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LEADER STEEL HOLDINGS BERHAD (267209-K)

Wisma Leader Steel, Plot 85, Lorong Perusahaan Utama, Kawasan Perusahaan Bukit Tengah,
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