



LEADER STEEL HOLDINGS BERHAD

(Company No. 267209 - K)

(Incorporated in Malaysia)

NOTES TO THE INTERIM FINANCIAL REPORT

1 Basis of preparation

The interim financial report is unaudited and has been prepared in compliance with FRS 134, Interim Financial Reporting and the additional disclosure requirements as in Part A of Appendix 9B of the Revised Listing Requirements.

The interim financial report should be read in conjunction with the most recent annual audited financial statements of the Group for the year ended 31 December 2005.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted in the financial statements for the year ended 31 December 2005, except for the accounting policy changes that are expected to be reflected in the 2006 annual financial statements. Details of these changes in accounting policies are set out in Note 2.

2 Changes in accounting policies

The Malaysian Accounting Standards Board ("MASB") has issued a number of new and revised Financial Reporting Standards (FRSs, which term collectively includes the MASB's Issues Committee's Interpretations) that are effective for accounting periods beginning on or after 1 January 2006.

In 2006, the MASB issued another two revised FRSs which are effective for annual periods beginning on or after 1 October 2006.

The board of directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2006 including early adopting the two FRSs issued by the MASB in 2006, on the basis of FRSs currently in issue.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2006 which have been reflected in this interim financial report.

(a) Impact on the results

There was no significant impact to the net profit for the 3 months period ended 31 March 2006 as a result of the adoption of the new and revised FRSs.

(b) Leasehold land held for own use

With the adoption of FRS 117 as from 1 January 2006, the leasehold interest in the land held for own use is accounted for as being held under an operating lease. Such leasehold land will no longer be revalued. Where the leasehold land had been previously revalued, the Group retained the unamortised revalued amount as the surrogate carrying amount of prepaid lease payments as allowed by FRS 117.67A. Such prepaid lease payments are amortised on a straight line basis over the remaining lease term of the land.

(c) Employee share option scheme (FRS 2, Share-based Payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2006, in order to comply with FRS 2, the Group recognises the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised, the related capital reserves transferred directly to retained earnings.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with FRS 2, except that the Group has taken advantage of the transitional provisions set out in paragraph 53 of FRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

- (i) all options granted to employees on or before 31 December 2004; and
- (ii) all options granted to employees on after 31 December 2004 but which had vested before 1 January 2006.

The amount charged to the income statement as a result of the change of policy impact in income statement for current quarter on 31 March 2006 by RM57,485, with the corresponding amounts credited to the capital reserve.

Details of the employee share option scheme can be found in the Company's annual report for the year ended 31 December 2005.

3 Audit report

The audit report of the preceding annual financial statements ended 31 December 2005 was not subject to any qualification.

4 Seasonal or cyclical factors

The business of the Group was not affected by any significant seasonal or cyclical factors in the first quarter ended 31 March 2006.

5 Extraordinary or exceptional items

There were no extraordinary/exceptional items for the financial period ended 31 March 2006.

6 Changes in estimates

There were no material changes in the estimates used for the preparation of this interim financial report.

7 Debts and equity or securities

There were no issuance and repayment of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the current financial period.

8 Dividend paid

No dividend was paid for the financial period under review.