



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 Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad and should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2010. These explanatory notes attached to the interim financial report provide an explanation of events and transactions that are significant to the understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2010.

The significant accounting policies adopted for the interim financial statements are consistent with those adopted for the Group's annual Audited Financial Statements for the year ended 31 December 2010, except for the adoption of the following new/revised Financial Reporting Standards (FRSs):-

Effective for financial periods beginning on or after 1 March 2010:-

- Amendments to FRS 132, Financial Instrument: Presentation – Classification of Right Issues

Effective for financial periods beginning on or after 1 July 2010:-

- FRS 1, First-time Adoption of Financial Reporting Standards (revised)
- FRS 3, Business Combinations (Revised)
- FRS 127, Consolidated and Separate Financial Statements (Revised)
- Amendments to FRS 2, Share-based Payments
- Amendments to FRS 5, Non-current Assets Held for Sale and Discontinued Operations
- Amendments to FRS 138, Intangible Assets
- IC Interpretation 12, Service Concession Agreements
- IC Interpretation 16, Hedges of a Net Investment in a Foreign Operation
- IC Interpretation 17, Distributions of Non-cash Assets to Owners
- Amendments to IC Interpretation 9, Reassessment of Embedded Derivatives

Effective for financial periods beginning on or after 1 January 2011:-

- Amendments to FRS 1 Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
- Amendments to FRS 1 Additional Exemptions for First-time Adopters
- Amendments to FRS 2 Group Cash-settle Share based Payment Transactions



Effective for financial periods beginning on or after 1 January 2011:-

- Amendments to FRS 1, First Time adoption of Financial Reporting Standards
- Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
- Additional Exemption for First-time Adopters
- Amendments to FRS 2, Group Cash-settled Share Based Payment Transactions
- Amendments to FRS 7, Financial Instruments: Disclosures – Improving Disclosures
- IC Interpretation 4, Determining whether an arrangement contains a Lease
- IC Interpretation 18, Transfer of Assets from Customers
- Improvements to FRSs (2010)

Effective for financial 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.

Effective for financial periods beginning on or after 1 January 2012:-

- FRS 124, Related Party Disclosures (revised)
- IC Interpretation 15, Agreements for the Construction of Real Estate

The adoption of the above new/revised FRSs does not have significant financial impact on the interim financial statements of the Group.

2. Audit Report

The audit report of the preceding annual financial statements ended 31 December 2010 was qualified and the details of the qualification are as described below:-

“Basis for Qualified Opinion

Recoverability of deposits outstanding for more than one year

As disclosed in Note 9 to the financial statement, the Group has deposits paid to suppliers which have been outstanding without any transactions for more than one year amounting to RM2,764,994. We have not been able to obtain sufficient appropriate audit evidence in support of the recoverability of these deposits in the absence of purchases from these suppliers for the past one year.

Payment of outstanding taxes and penalty

As disclosed in Note 24 to the financial statements, the Group has received notices from Inland Revenue Board requesting settlement of the outstanding taxes and penalty amounting to RM4,810,933. However, this amount has not provided for in the financial statements as at 31 December 2010 as the Directors are of the opinion that they have a reasonable ground to appeal the claim and succeed in its appeal.



Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, 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 2010 and of their financial performance and cash flows for the year then ended. ”

As of date of this announcement, we have collected RM1,293,151 out of the said debt of RM2,764,994 . We are actively continuing to pursue this debt recovery exercise and see no foreseeable problems in collection.

As at the date of this announcement, the directors have obtained further legal opinion from our legal counsel who has expressed their opinion that the company has a strong ground to appeal against the assessment. Thus, the directors are of the opinion that no write down is necessary for the current quarter under review.

3. Seasonal or cyclical factors

The business of the Group was not affected by any significant seasonal or cyclical factors.

4. Unusual items

There were no items of unusual nature, size or incidence which affect assets, liabilities, equity, net income or cash flows during the current period under review.

5. Changes in estimates

There were no changes in estimates of amounts reported in prior year that have a material effect in the current period under review.

6. Debts and equity or securities

There were no issuance and repayment of debts and equity securities, share buy-backs, share cancellation held as treasury shares and resale of treasury shares for the current period under review.

7. Dividend

No dividend was paid or declared for the current quarter under review.



8. Segment information

No segment information by business activities has been prepared as the Group's activities involved are primarily in one sector of operations only.

9. Property, plant and equipment

The valuations of land and buildings have been brought forward, without amendment from the previous annual report.

10. Events subsequent to the balance sheet date

There is no change in the events subsequent to the balance sheet date.

11. Changes in the composition of the Group

There were no changes in the composition of the Group for the current quarter under review.

12. Changes in contingent liabilities

	30 Sep 2011 RM'000
Amount of corporate guarantees given to licensed banks for credit facilities to subsidiaries	230,527

13. Review of the performance

The Group recorded total revenue of RM80 million for the current quarter under review, an increase of 132% from RM34.4 million profit in the preceding year's corresponding quarter. Profit before tax recorded for the current quarter of RM0.07 million was higher than RM0.03 million profit recorded in the preceding year's corresponding quarter. Increase in profit before tax for the current quarter was mainly due to higher trading sales in current quarter.



14. Variation of results against preceding quarter

During the current quarter under review, the Group recorded total revenue of RM80 million, a decrease of RM8.9 million or 10% with RM88.9 million recorded in the preceding quarter. Profit before tax for current quarter recorded at RM0.07 million compared with the preceding quarter of RM1.95 million. The decrease in profit was mainly due to the lower profit margin arising from higher cost of sales in current quarter under review.

15. Prospects

The directors are optimistic that the Group's performance for the coming quarter will continue to be profitable.

16. Profit forecast

Not applicable as no profits forecast was issued.

17. Tax expense

	Current Quarter 3 months ended 30 Sep		Cumulative Quarter 6 months ended 30 Sep	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Malaysian tax				
- Current	38	1,757	113	600
- Prior year	-	-	485	-
Total tax expense/(reversal)	38	1,757	598	600

18. Unquoted investment and properties

There were no disposals of unquoted investment and properties during the current quarter under review.



19. Investment in quoted securities (Financial assets available-for-sale)

There are no purchases or disposals of quoted securities for the current quarter under review.

Movement and balances of investment in quoted securities as at 30 September 2011 is as below:

Movement	RM'000
Balance at 1 January 2011	400
Less: Fair value changes	22
Balance at 30 Sep 2011	<u>378</u>

	As at 30 Sep 2011 RM'000
Cost	1,160
Carrying value	378
Market value	378

20. Status of corporate proposal announced

There were no corporate proposals announced but not completed as at the date of issue of this announcement.

21. Borrowings

	As at 30 Sep 2011 RM'000
Short term borrowings	
Secured	2,415
Unsecured	131,749
	<u>134,164</u>
Long term borrowings	
Secured	<u>6,059</u>

All borrowings are denominated in Ringgit Malaysia.



22. Changes in material litigation

There were no outstanding material litigations as at the date of this announcement.

23. Realized and Unrealized Profits/Losses

The following analysis of realized and unrealized retained profits/(accumulated losses) is prepared pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Securities Berhad Listing Requirements and in accordance with the Guidance on Special Matter No. 1 - Determination of Realized and Unrealized Profits or Losses as issued by the Malaysian Institute of Accountants. This disclosure is based on the format prescribed by Bursa Malaysia Securities Berhad.

	As at 30 Sep 2011 RM'000	As at 31 Dec 2010 RM'000
Total retained profits of Leader Steel Holdings Berhad and its subsidiaries:	38,162	37,819
- Realized		
- Unrealized	(7,305)	(7,305)
Less: Consolidation adjustments	2,038	2,038
Total group retained profits as per consolidation accounts	<u>32,895</u>	<u>32,552</u>

24. Earnings per ordinary share

Basic earnings per ordinary share

	Current Quarter	Cumulative Quarter
Net profit attributable to ordinary equity holders of the Company (RM'000)	<u>36</u>	<u>2,780</u>
Weighted average number of ordinary shares ('000)	<u>128,032</u>	<u>128,032</u>
Basic earnings per share (sen)	<u>0.03</u>	<u>2.17</u>



Diluted earnings per ordinary share

For current quarter ended 30 Sep 2011, diluted earnings per ordinary share was not computed and presented as the effect of the Employees' Share Option is anti-dilutive

25. Capital Management

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

26. Related party transactions

		9 months ended 30 Sep 2011 RM'000
Eonmetall Group Berhad and its subsidiaries	Companies in which certain directors have substantial financial interests	
Sales of goods		1,478
Purchase of goods		42,153
Purchase of machinery parts		236
Rental expense		387

By the order of the Board

Lam Voon Kean (MIA 4793)
Company Secretary
Penang
19 Aug 2011