

## message from the chairman



“...the Group continued to perform admirably in strengthening our foundation for further growth.”

The year 2006 is a significant year for Leader Universal Holdings Berhad's ("LEADER" or "the Company") Group of Companies as we have just celebrated our 30th anniversary last year. It gives me pleasure to present to you the Annual Report and Audited Financial Statements of LEADER and its Group of Companies (collectively referred to as "the LEADER Group" or "the Group") for the financial year ended 31 December 2006 (FYE 2006).

### FINANCIAL PERFORMANCE

Despite a challenging environment in the domestic and global cable market, the Group continued to perform well in 2006, as well as in strengthening our foundation for further growth. The Group posted stronger financial results in 2006, by not only maintaining its RM1 billion revenue mark for the sixth consecutive year but by surpassing the RM2 billion revenue mark. The Group achieved total revenue of RM2.37 billion as compared to RM1.60 billion recorded in financial year 2005 (FYE 2005), marking an improvement of 47.6%.

Operating profit continued to rise notably to RM91.54 million, an impressive 22% increase from RM75.09 million reported in the previous year. The results achieved in 2006 are a clear indication that the Group has sound and operational strategies that have served us well to achieve a pre-tax profit of RM65.76 million and a profit attributable to equity holders of RM35.31 million as compared to RM46.11 million and RM21.88 million

respectively in FYE 2005. This marked an outstanding 43% and 61.4% increase respectively from the previous financial year. On the back of improved performance, earning per share (EPS) also improved from 5.01 sen in 2005 to 8.09 sen in 2006, up by 61.5%.

The strong returns recorded were largely due to higher revenue from the Cable and Wire division, which contributed 92.1% of the total revenue, followed by Power Generation division, which contributed 6.5%. Notwithstanding the escalating metal prices, which contributed to higher sales revenue, the cable and wire business improved considerably in its performance as compared to the previous year. The Group's ongoing prudent raw material procurement policy, aggressive marketing strategies, stringent cost management and control measures have effectively contributed toward the Group's overall performance.

The Company also paid an interim dividend of 1.5% less 28% tax for FYE 2006.

### CORPORATE AND OPERATIONAL STRATEGIES

While we are proud to have recorded improved earnings, our achievements go far beyond the financial numbers. The Group's ongoing consolidating and rationalizing exercise has time and again proven to be effective. The Group continued with the plan in optimizing our management and operational

resources by eliminating dormant companies and non-income generating assets and closing down non-viable operations to eliminate the financial strain and adverse impact on the Group's performance. I am pleased to say that the implementation of these strategies has indeed strengthened our position to be a lean and efficient organization and redirected the Group back to profitability.

During the year, Leader Telecommunications Ltd. (BVI), a dormant subsidiary incorporated in the British Virgin Islands, was struck off by the Registry of Companies in BVI. Leader Realty Corporation Ltd in Cambodia and LCI Housing Development Sdn. Bhd. were also disposed of. In March 2007, the Company also disposed of and reduced its equity interest in Leader Universal (Mauritius) Company Limited.

### **Euroconvertible Bonds (ECB)**

During the year, the Company bought back ECB of USD8.40 million and also effected an early redemption of USD25.20 million, in addition to the scheduled repayment of USD9.60 million. The last scheduled repayment will be in May 2007 for the final balance of USD11.30 million. Upon repayment, the Company would have fully repaid and closed the chapter on ECB. The ECB was first issued in 1997 and with original size of issue of USD100 million.

I am particularly pleased to highlight that in spite of the challenging times that the Group faced in the past, especially during the initial years of the tenure of the ECB, resulting from the 1997 regional economic and financial crises followed by a global economic slowdown in 2001 and 2002, the Group has managed to meet each scheduled repayment and also managed to buy back and pre-pay to save on interest cost.

### **REVIEW OF OPERATIONS**

The Group continued to perform well in all aspects of our businesses and this is evident in terms of higher revenue and higher profitability achieved. The various business divisions achieved commendable results, led by the Cable & Wire division. The Power Generation division continued to contribute a strong and consistent return while the Property division also contributed positively towards the Group's bottom line.

#### **Cable and Wire Division**

We accomplished a marked improvement in this division as the Group continues to forge ahead as the frontrunner in the country's cable and wire industry. For FYE 2006, the Cable and Wire division accounted for RM2.18 billion of the

Group's total sales as compared to RM1.44 billion in FYE 2005, registering a growth of 51.4% on the back of improved local and export sales. Operating Profit jumped by 64.6% to RM55.72 million in FYE 2006 as compared to RM33.85 million in FYE 2005.

While our growth in 2006 was impressive, we also made several strategic inroads in successfully improving and upgrading the Group's testing and manufacturing processes, developing & introducing new products such as the 132KV water tight conductor, shipboard cable and high tensile aluminium alloy rod. Efforts were also made in identifying further ways and means to improve operational efficiency and these included the reduction in wastage and scraps, savings on material sourcing, improvements on productivity levels and enhancement of quality management system.

To maintain our leading position in the local and regional cable & wire industry, the Group will continue to pursue and introduce new and value-added products to meet our customers' needs and to keep abreast of the demands of the industry. We have lined up several new products such as Milliken Conductor for 132Kv cable and OPGW, which are expected to commence commercial production sometime in 2007.

For 2007, we are also allocating capital expenditure of approximately RM23.00 million to install new facilities to produce new products as well as to upgrade the existing facilities to increase capacity and improve on production efficiency. A new management information system will also be set up to facilitate better cost control and increase productivity.

Going forward, besides improving further our foothold in the local market, we will also focus on several key export markets with potential for higher cable demand especially countries in the Middle East. The Group's cable products are exported to many countries in the Asia Pacific, South Asia, Middle East, Africa and Europe.

#### **Accolades and Recognition**

Customers locally and around the world that we serve, know and seek LEADER for the products and services that the Group provides. These front-line successes have entrenched our position as one of the leading players among other major cable & wire producers in the world.

Universal Cable (M) Berhad, (Universal Cable) a wholly-owned subsidiary holds the distinction of being the first cable company in Malaysia to receive the Malaysian Business

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Superbrands and also the American Bureau of Shipping (ABS) type approval program in 2006. Another recognition for Universal Cable is the Brand Laureate Award 2006 / 2007 for best brand in Asia Pacific under the Electrical & Electronic Peripherals category.

Leader Cable Industry Berhad (Leader Cable), another wholly-owned subsidiary, was awarded the Product Excellence Award 2006 by the Ministry of International Trade and Industry for developing the water-tight cable.

### Power Generation Division

The Power Generation division continues to deliver strong performance and generated revenue of RM153.56 million in FYE 2006 as compared to RM140.58 million in FYE 2005. Operating Profit was RM39.47 million, a 4.8% increase from FYE 2005 of RM 37.68 million.

In our endeavour to further grow our Power Generation business, the Company has in late 2006 upon the invitation of the Electricite du Cambodge of the Royal Government of Cambodia, participated in the tender for the development of a 200MW coal-fired power project in Sihanoukville, Cambodia for a period of 30 years. Our strong track record in Cambodia and expertise in the business placed us ahead and enabled us to outbid six other international players to secure our second power generation project in Cambodia. This is a joint bid between LEADER and MKCSS Holdings Co. Ltd. (MKCSS), a local Cambodian company. A joint venture company namely Power Synergy Co. Ltd has been formed in Cambodia to undertake the project on a 50:50 sharing basis. Both parties are currently in negotiation with the relevant authorities on the finalization of the Power Purchase Agreement, Implementation Agreement and other project documents. The date of commercial production is expected in year 2011/2012.

The Group also undertook another joint venture undertaking in Pakistan with Gulshan Spinning Mills Limited (GSML) of Pakistan to jointly develop a 200MW heavy fuel oil-fired diesel engine combined cycle power plant in Gujranwala, Pakistan for a period of 25 years. LEADER and GSML will have a 49% and 51% equity interest respectively in the project company namely Gujranwala Energy Limited. The project was accorded on a fast track basis by the Government of Pakistan to address the current acute shortage of power in Pakistan. Negotiations are currently ongoing with the various parties and authorities. The date of commercial production is expected in year 2009.

The total power generation capacity of the Group is projected to increase from the current 35MW to 235MW by 2009 with the operation of the power plant in Pakistan and eventually increased to 435MW by 2011/2012 with the operation of the second power plant in Cambodia.

Power Generation is the Group's second engine of growth. We plan to capitalize on our experience and success in the business for the last 10 years to aggressively grow this business. Apart from the two new projects in Cambodia and Pakistan, the Group intends to continue to pursue other opportunities in the region.

### Property Division

The Property division registered revenue of RM32.00 million in FYE 2006 as compared to RM21.68 million in FYE 2005, contributing an increase of 47.6%. The current Phase B project in Tanjung Bungah, Penang, comprising a mixture of 3-storey and 2-storey terrace houses and bungalow unit has been completed.

The Mayfair super condominium project along Jalan Sultan Ahmad Shah (dubbed the "Millionaires' Row") in Penang is near completion. Marketing efforts locally and abroad are in progress and sales have been satisfactory. The retail lots at Kompleks Pulau Mutiara at Gat Lebu Macallum, Penang are also selling well.

### Employees Development Activities

We believe that having a strong and efficient workforce is crucial to our success. During the year, in-house training programs were held to enhance our staffs' core competencies, skills and knowledge to perform their task effectively. Technical staffs were also sent overseas to upgrade their skills and knowledge to keep abreast of changing technologies and developments.

We also ensure that our employees constantly undergo positive work culture programs to promote teamwork. Beyond work, a spectrum of activities that range from social get-togethers to self-improvement courses and sports events were organized throughout the year to foster closer relationships and build a strong team spirit among employees.



In-house training in progress



Presentation of cheque to LEADER-Rotary Haemodialysis Centre witnessed by TYT Tun Hj Abdul Rahman Abbas, Yang Di-Pertua Negeri Pulau Pinang



Presentation of cheque to Starwalk Carnival Charity Concert

### Giving Back to the Community

At LEADER, we are dedicated to making a positive influence in the communities where we operate, live and work. This is part of our long-term commitment to help the less privileged. During the year, the Group made several cash donations as well as gift items to old folks' homes and continued with its yearly RM50,000 contribution to support the LEADER Rotary Haemodialysis Centre. The Group also made yearly contribution to the Starwalk Carnival Charity Concert Fund and Lions Club of Penang where funds collected were channelled to worthy and needy causes. To help the flood victims in the recent floods in Johor, the Group donated basic necessities and food supplies to the flood relief centres that were nearby to Universal Cable's factory. Staff who were affected by the floods were also given financial aid and other assistance. In demonstrating our Malaysian caring spirit overseas, the Group through its subsidiary, Cambodia Utilities Pte Ltd, in Cambodia continued with its donation of rice to help the poor and provided financial support for the construction of school buildings to provide better facilities for students especially in the rural areas of Cambodia.

Besides monetary gifts, Universal Cable also participated in talks organized by institution of higher learning to help undergraduates gain in-depth knowledge and a better understanding on the practical aspects in relation to their field of study which would be helpful in their future career.

### Prospects and Outlook

The Malaysian government has reported a Gross Domestic Product growth of 5.9% for 2006 and it is projected that economic growth would remain favourable in 2007 with a slight projected increase in the growth rate to 6%.

Apart from the allocation of RM27.50 billion under Budget 2007 for the construction of roads, quarters, and other infrastructure facilities, several mega infrastructure projects have been announced and are expected to speed up in its implementation. Among the projects announced are the development of the multi-billion ringgit Northern Economic Corridor, the East Coast Corridor, Southern Johor Corridor, the Sabah Development Corridor, the revived double rail track and the Bakun submarine cable interconnection project. In addition, an extra RM2.60 billion has been allocated under the 9th Malaysian Plan to develop schools and the infrastructure facilities in the rural areas. Another positive indicator is the second bridge, the outer ring road and a monorail system in Penang which are expected to pick up pace on the construction.

All these augur well for the Group, as it would translate into a better demand for the Group's cables and wires products.

Coupled with the Group's robust order book of approximately RM700 million excluding recurring orders as at the start of the year 2007, the prospects and outlook for 2007 are good and promising.

With the Group's strategy to develop Power Generation as the second engine of growth and with the implementation of the two new power generation projects in Cambodia and Pakistan



AGM 2006 in progress

in the next 2 - 4 years, the Group's long-term prospects is set to be very promising.

### Note of Appreciation

In closing, I would like to thank our shareholders, customers, business associates, bankers, regulatory & governmental authorities and board of directors for their continued confidence and support. I would also like to extend a special note of appreciation to our management team & staff for their dedication and for the impressive progress and financial performance in 2006.

- Tan Sri Razali Ismail  
Chairman  
20 April 2007