

10. ACCOUNTANTS' REPORT

(Prepared for inclusion in the Prospectus)



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The Board of Directors
Eonmetall Group Berhad
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27 June 2005

Dear Sirs,

Accountants' report

1. Introduction

This report has been prepared by Messrs KPMG, an approved company auditor, for inclusion in the Prospectus of Eonmetall Group Berhad ("Eonmetall") (formerly known as "Eoncap Corporation Berhad") to be dated 30 June 2005 in connection with the restructuring and listing of Eonmetall on the Second Board of Bursa Malaysia Securities Berhad ("Bursa Securities").

2. General information

2.1 The Company's background

The Company was incorporated on 16 October 2003 in Malaysia under the Companies Act, 1965 as a private limited company under the name of Eoncap Corporation Sdn Bhd.

Pursuant to a special resolution passed at an Extraordinary General Meeting held on 22 March 2004 and approval given by the Registrar of Companies dated 1 April 2004, the Company was converted to a public limited company and changed its name as Eoncap Corporation Berhad before assuming its present name of Eonmetall Group Berhad on 15 April 2005.

At the date of incorporation, the Company's authorised share capital was RM100,000 comprising 200,000 ordinary shares of RM0.50 each and the Company's issued and paid-up share capital was RM2 comprising 4 ordinary shares of RM0.50 each.

Eonmetall is an investment holding company.



KPMG, KPMG, a partnership established under Malaysian Law, is a member of KPMG International, a Swiss cooperative.

10. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in the Prospectus)



2.2 Details of the proposals

As part of the restructuring and listing, Eonmetall has undertaken/will undertake the following :

I) Acquisition

- (i) Acquisition of the entire issued and paid up capital of EMT comprising 2,500,000 ordinary shares of RM1.00 each for a total consideration of RM25,180,650, satisfied by the issuance of 50,361,300 new ordinary shares of RM0.50 each in Eonmetall at an issue price of RM0.50 per share.

The purchase consideration of EMT of RM25,180,650 was arrived at based on the audited net tangible assets of EMT as at 31 December 2003 and after adjusting for the revaluation surplus of RM7,069,499 (net of deferred tax) based on the open market value as valued by an independent registered valuer, CH Williams, Talhar & Wong in August 2004.

- (ii) Acquisition of the entire issued and paid up capital of EMI comprising 2,500,000 ordinary shares of RM1.00 each for a total consideration of RM9,835,960, satisfied by the issuance of 19,671,920 new ordinary shares of RM0.50 each in Eonmetall at an issue price of RM0.50 per share.
- (iii) Acquisition of the entire issued and paid up capital of EMS comprising 2,500,000 ordinary shares of RM1.00 each for a total consideration of RM5,038,030, satisfied by the issuance of 10,076,060 new ordinary shares of RM0.50 each in Eonmetall at an issue price of RM0.50 per share.
- (iv) Acquisition of the entire issued and paid up capital of EIT comprising 100,000 ordinary shares of RM1.00 each for a total consideration of RM2,718,561, satisfied by the issuance of 5,437,122 new ordinary shares of RM0.50 each in Eonmetall at an issue price of RM0.50 per share.
- (v) Acquisition of the entire issued and paid up capital of ECH comprising 1,000,000 ordinary shares of RM1.00 each for a total consideration of RM1,204,438, satisfied by the issuance of 2,408,876 new ordinary shares of RM0.50 each in Eonmetall at an issue price of RM0.50 per share.

(hereinafter referred to as "the Acquisitions")

The purchase considerations for the acquisition of all subsidiaries as detailed in (ii) to (v) above were based on the audited net tangible assets ("NTA") of the respective companies as at 31 December 2003.

The above acquisitions were completed on 28 February 2005 and resulted in the issued and paid-up share capital of Eonmetall increasing from RM2 to RM43,977,641.

10. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in the Prospectus)



2.2 Details of the proposals

II) Rights Issue

Rights issue of 44,718 new ordinary shares of RM0.50 each in Eonmetall at an issue price of RM0.50 per share on the basis of approximately fifty-one (51) new ordinary shares for every 100,000 existing ordinary shares held, based on the enlarged share capital of 87,955,282 ordinary shares of RM0.50 each in Eonmetall (after "the Acquisitions").

The rights issue was completed on 18 April 2005 and resulted in the issued and paid-up share capital of Eonmetall being further increased to 88,000,000 ordinary shares.

III) Public Issue and Offer for Sale

- a) Public issue of 22,000,000 new ordinary shares of RM0.50 each in Eonmetall at an issue price of RM1.00 per ordinary share; and
- b) Offer for Sale of 28,600,000 ordinary shares of RM0.50 each in Eonmetall at an offer price of RM1.00 per ordinary share.

IV) Listing on the Bursa Securities

Admission to the Official List of the Second Board of Bursa Securities and the listing of and quotation on the Second Board of Bursa Securities for 110,000,000 ordinary shares of RM0.50 each in Eonmetall representing the entire issued and paid-up share capital of Eonmetall after the IPO (hereinafter referred to as "Listing").

V) Employees' Share Option Scheme ("ESOS")

Subsequent to the listing of Eonmetall, the Company will implement ESOS for up to a maximum of 16,500,000 ordinary shares of RM0.50 each, being 15% of the enlarged share capital at an assumed exercise price of RM1.00 per ordinary share.

(Collectively referred to as "the Proposals")

The above restructuring and listing exercises were approved by the Bursa Securities and Securities Commission on 7 October 2004 and 27 January 2005 respectively.

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***2.3 Share capital**

At the date of incorporation, the authorised share capital of Eonmetall was RM100,000 comprising 200,000 ordinary shares of RM0.50 each and its issued and paid up share capital was RM2.00 comprising 4 ordinary shares of RM0.50 each. The authorised share capital was subsequently increased to RM100,000,000 comprising 200,000,000 ordinary shares of RM0.50 each on 28 February 2005.

Pursuant to the restructuring scheme mentioned in section 2.2 above, the issued and paid-up share capital of Eonmetall will be increased to RM55,000,000 comprising 110,000,000 ordinary shares of RM0.50 each as shown below :-

Date of allotment	No. of ordinary shares	Consideration	Total issued and fully paid-up share capital (cumulative)
16/10/03	4	Subscribers' shares	4
28/02/05	87,955,278	Acquisition of subsidiaries as in 2.2 (I) above via issue of shares at par	87,955,282
18/04/05	44,718	Rights issue (Basis : approximately fifty-one (51) shares for every 100,000 existing shares held)	88,000,000
To be allotted	22,000,000	Public issue	110,000,000

2.4 Subsidiaries**EMT**

EMT was incorporated in Malaysia under the Companies Act, 1965 as a private limited company on 17 December 1994 as Eontarr Fasterners Sdn Bhd. It changed its name to Eontarr Technology Sdn Bhd on 10 October 1996 and assumed its present name on 31 May 2000.

EMT is principally engaged as a manufacturer of machinery.

The authorised share capital of EMT is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each, of which RM2,500,000 comprising 2,500,000 ordinary shares have been issued and fully paid-up.

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***2.4 Subsidiaries (Cont'd)****EMT (Cont'd)**

Detailed changes in the issued and paid-up share capital of EMT since its incorporation are as follows :

Date of allotment	No of ordinary shares of RM1.00 each allotted	Consideration	Resultant issued and paid-up share capital (RM)
17/12/94	2	Subscribers' shares	2
28/07/99	1,999,998	Cash	2,000,000
04/08/00	500,000	Bonus issue	2,500,000

EMI

EMI was incorporated in Malaysia under the Companies Act, 1965 as a private limited company on 7 November 1990 as Eontarr Metal Industries Sdn Bhd and changed its name as Eonmetall Industries Sdn Bhd on 5 July 2000.

EMI is principally engaged in the manufacture and sale of roofing sheets, expanded metal, slotted angle, steel furniture and other steel related products.

The authorised share capital of EMI is RM2,500,000 comprising 2,500,000 ordinary shares of RM1.00 each. All the ordinary shares have been issued and fully paid-up.

Detailed changes in the issued and paid-up share capital of EMI since its incorporation are as follows :

Date of allotment	No of ordinary shares of RM1.00 each allotted	Consideration	Resultant issued and paid-up share capital (RM)
07/11/90	2	Subscribers' shares	2
27/08/94	999,998	Cash	1,000,000
04/08/00	1,500,000	Bonus issue	2,500,000

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***2.4 Subsidiaries (Cont'd)****EMS**

EMS was incorporated in Malaysia under the Companies Act, 1965 as a private limited company on 19 September 1995 as Special Acceptance Sdn Bhd. It changed its name to Eontarr Storage System Sdn Bhd on 28 August 1996 and assumed its present name on 5 July 2000.

EMS is principally engaged in the manufacture and sale of steel racking system and other steel related products.

The authorised share capital of EMS is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each, of which RM2,500,000 comprising 2,500,000 ordinary shares have been issued and fully paid-up.

Detailed changes in the issued and paid-up share capital of EMS since its incorporation are as follows :

Date of allotment	No of ordinary shares of RM1.00 each allotted	Consideration	Resultant issued and paid-up share capital (RM)
19/09/95	2	Subscribers' shares	2
08/07/96	99,998	Cash	100,000
06/11/97	400,000	Cash	500,000
22/03/01	2,000,000	Cash	2,500,000

EIT

EIT was incorporated in Malaysia under the Companies Act, 1965 as a private limited company on 6 November 1995 as Tangshan Rongda Sdn Bhd and assumed its present name on 9 November 1999.

EIT is principally engaged in providing enterprise solutions and shop floor automation for manufacturing industry.

The authorised share capital of EIT is RM100,000 comprising 100,000 ordinary shares of RM1.00 each. All the ordinary shares have been issued and fully paid-up.

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***2.4 Subsidiaries (Cont'd)*****EIT (Cont'd)***

Detailed changes in the issued and paid-up share capital of EIT since its incorporation are as follows :

Date of allotment	No of ordinary shares of RM1.00 each allotted	Consideration	Resultant issued and paid-up share capital (RM)
06/11/95	2	Subscribers' shares	2
22/02/00	99,998	Cash	100,000

ECH

ECH was incorporated in Malaysia under the Companies Act, 1965 as a private limited company on 21 March 2001.

ECH is principally engaged in the manufacture and sale of machinery and equipment for edible oils, pharmaceutical, chemical and oleochemical industries.

The authorised share capital of ECH is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each. All the ordinary shares have been issued and fully paid-up.

Detailed changes in the issued and paid-up share capital of ECH since its incorporation are as follows :

Date of allotment	No of ordinary shares of RM1.00 each allotted	Consideration	Resultant issued and paid-up share capital (RM)
21/03/01	2	Subscribers' shares	2
25/09/01	499,998	Cash	500,000
30/04/03	500,000	Cash	1,000,000

3. Financial statements and auditors

We have acted as the auditors of Eonmetali and all the subsidiaries of Eonmetali for all the financial period/years under review which have been reported on without any qualification in the auditors' report.

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***4. Accounting policies and standards**

This report is prepared in accordance with applicable approved accounting standards in Malaysia and consistent with the accounting policies to be adopted by Eonmetall and its subsidiaries ("Eonmetall Group"), a summary of which is set out in Section 9.1 below.

5. Summarised results of Eonmetall Group

5.1 The summarised proforma consolidated results of Eonmetall Group for the past five (5) financial years ended 31 December 2004 have been prepared for illustrative purposes assuming that the Eonmetall Group had been in existence throughout the years under review.

I. Eonmetall Group

	Proforma results				
	for the Years Ended 31 December				
	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	21,449	25,946	37,941	49,360	78,448
Profit before depreciation and interest	7,570	6,708	10,502	15,801	20,077
Depreciation	(744)	(1,003)	(1,516)	(1,880)	(2,585)
Interest expense	(162)	(513)	(840)	(752)	(1,431)
Interest income	1	10	2	3	2
Profit before taxation	6,665	5,202	8,148	13,172	16,063
Taxation	(2,108)	(1,335)	(677)	(1,431)	(2,621)
Profit after taxation	4,557	3,867	7,471	11,741	13,442
No of ordinary shares of RM0.50 each assumed to be in issue ('000)	110,000	110,000	110,000	110,000	110,000
Earnings per share (sen) *					
- Gross	6.06	4.73	7.41	11.97	14.60
- Net	4.14	3.51	6.79	10.67	12.22

* based on the enlarged number of ordinary shares after Listing

10. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in the Prospectus)



5.1.1 Notes to the summarised consolidated results of Eonmetall Group

- i) The proforma consolidated results of Eonmetall Group for the years ended 31 December 2000 to 2004 are prepared for illustrative purposes only and are based on the audited financial statements of the Company, EMT, EMI, EMS, EIT, and ECH.

The financial statements of certain subsidiaries (EMI & EMS) for the years ended 31 December 2000 and 2001 have been restated on the early adoption of MASB 25, Income Taxes during the financial year ended 31 December 2002. Reinvestment allowances in excess of normal capital allowances are treated as temporary differences arising on its initial recognition and as required by MASB 25, Income Taxes, such temporary differences are not accounted for as deferred tax assets in the computation of deferred tax.

- ii) There were no extraordinary or exceptional items for all the years under review.
- iii) The proforma gross earnings per share has been calculated based on the profit before taxation and on the assumption that the issued and paid-up share capital of the Group of 110,000,000 ordinary shares of RM0.50 each had been in issue throughout the years under review.

The proforma net earnings per share has been calculated based on the profit after taxation and on the assumption that the issued and paid-up share capital of the Group of 110,000,000 ordinary shares of RM0.50 each had been in issue throughout the years under review.

- iv) Higher effective tax rate for the financial year 2000 was mainly due to an over provision of income tax for one of the subsidiary, EMI subsequently adjusted in Year 2002. Had the impact of such over provision been excluded, the effective tax rate for Year 2000 would be close to the statutory tax rate of 28%.

Lower effective tax rates of the Group for the financial years ended 31 December 2001 to 2004 were mainly due to certain tax incentives available to certain subsidiaries of the Group.

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***6. Dividends**

No dividend has been paid or declared by Eonmetall since the date of its incorporation.

The dividends paid or declared by the subsidiaries of Eonmetall for the years under review are as follows :

Financial year/ period ended	Type of dividend	Gross dividend rate (%)	Gross dividend RM	Tax rate (%)	Net dividend RM
<u>EMT</u>					
31 December 2000	Interim	480	12,000,000	Tax exempt	12,000,000
31 December 2003	Interim	40	1,000,000	Tax exempt	1,000,000
	Interim	191.11	4,777,750	28	3,440,000
31 December 2004	Interim	202.78	5,069,444	28	3,650,000
<u>EMI</u>					
31 December 2000	Interim	10	250,000	Tax exempt	250,000
	Interim	13.88	347,000	28	249,840

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***7. Summarised balance sheets**

7.1 The proforma consolidated balance sheet of Eonmetall Group as at 31 December 2004 using the acquisition method of accounting for the consolidation of Eonmetall Group resulted in a negative goodwill on consolidation of RM6.778 million as shown in Section 9 below. The goodwill or negative goodwill on consolidation would be different for each of the financial years covered in this report. As such, the proforma consolidated balance sheets of Eonmetall Group for each of the financial years under review were not presented as the information would not be relevant. Accordingly, the proforma consolidated balance sheet of Eonmetall Group has been presented by way of proforma statement of assets and liabilities as at 31 December 2004. The proforma statement of assets and liabilities has been prepared based on the audited balance sheets of Eonmetall and its subsidiaries as at 31 December 2004 after incorporating the effects of the Acquisitions and the Public Issue, as shown in Section 9 below.

The financial statements of certain subsidiaries (EMI & EMS) for the years ended 31 December 2000 and 2001 have been restated on the early adoption of MASB 25, Income Taxes during the financial year ended 31 December 2002. Reinvestment allowances in excess of normal capital allowances are treated as temporary differences arising on its initial recognition and as required by MASB 25, Income Taxes, such temporary differences are not accounted for as deferred tax assets in the computation of deferred tax.

Eonmetall

	31.12.03 RM'000	31.12.04 RM'000
Current assets	*	*
Current liabilities	(12)	(2)
Net current liabilities	(12)	(2)
	<u>(12)</u>	<u>(2)</u>
Financed by :		
Share capital	*	*
Accumulated losses	(12)	(5)
Shareholders' funds	(12)	(5)
Sundry payable	-	3
	<u>(12)</u>	<u>(2)</u>

* Represents RM2

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***7. Summarised balance sheets (Cont'd)****EMT**

	31.12.00	31.12.01	31.12.02	31.12.03	31.12.04
	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	12,283	12,679	12,826	12,762	12,979
Current assets	18,551	25,434	28,694	19,280	33,800
Current liabilities	(19,309)	(22,492)	(24,005)	(12,372)	(17,394)
Net current (liabilities)/assets	(758)	2,942	4,689	6,908	16,406
	<u>11,525</u>	<u>15,621</u>	<u>17,515</u>	<u>19,670</u>	<u>29,385</u>
Financed by :					
Share capital	2,500	2,500	2,500	2,500	2,500
Retained profits	8,622	11,087	13,284	15,611	25,926
Shareholders' funds	<u>11,122</u>	<u>13,587</u>	<u>15,784</u>	<u>18,111</u>	<u>28,426</u>
Borrowings	-	2,034	1,731	963	382
Deferred taxation	403	-	-	596	577
	<u>11,525</u>	<u>15,621</u>	<u>17,515</u>	<u>19,670</u>	<u>29,385</u>

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***7. Summarised balance sheets (Cont'd)****EMI**

	(Restated) 31.12.00 RM'000	(Restated) 31.12.01 RM'000	31.12.02 RM'000	31.12.03 RM'000	31.12.04 RM'000
Property, plant and equipment	5,408	4,957	10,544	17,981	25,234
Other investment	-	-	-	-	32
Current assets	7,007	11,117	13,686	13,463	18,217
Current liabilities	(9,187)	(12,273)	(16,202)	(16,703)	(27,299)
Net current liabilities	(2,180)	(1,156)	(2,516)	(3,240)	(9,082)
	<u>3,228</u>	<u>3,801</u>	<u>8,028</u>	<u>14,741</u>	<u>16,184</u>
Financed by :					
Share capital	2,500	2,500	2,500	2,500	2,500
Retained profits	229	725	4,376	7,336	8,711
Shareholders' funds	<u>2,729</u>	<u>3,225</u>	<u>6,876</u>	<u>9,836</u>	<u>11,211</u>
Bank borrowings	-	-	-	3,320	2,840
Deferred taxation	499	576	1,152	1,585	2,133
	<u>3,228</u>	<u>3,801</u>	<u>8,028</u>	<u>14,741</u>	<u>16,184</u>

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***7. Summarised balance sheets (Cont'd)****EMS**

	(Restated) 31.12.00 RM'000	(Restated) 31.12.01 RM'000	31.12.02 RM'000	31.12.03 RM'000	31.12.04 RM'000
Property, plant and equipment	2,750	2,472	2,211	2,352	2,922
Investment in a subsidiary	18	18	-	-	-
Current assets	2,912	4,730	6,429	5,225	9,235
Current liabilities	(4,590)	(3,681)	(4,315)	(2,108)	(5,242)
Net current (liabilities)/assets	(1,678)	1,049	2,114	3,117	3,993
	<u>1,090</u>	<u>3,539</u>	<u>4,325</u>	<u>5,469</u>	<u>6,915</u>
Financed by :					
Share capital	500	2,500	2,500	2,500	2,500
Retained profits	431	755	1,457	2,538	3,893
Shareholders' funds	<u>931</u>	<u>3,255</u>	<u>3,957</u>	<u>5,038</u>	<u>6,393</u>
Deferred taxation	159	284	368	431	522
	<u>1,090</u>	<u>3,539</u>	<u>4,325</u>	<u>5,469</u>	<u>6,915</u>

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***7. Summarised balance sheets (Cont'd)****EIT**

	31.12.00 RM'000	31.12.01 RM'000	31.12.02 RM'000	31.12.03 RM'000	31.12.04 RM'000
Property, plant and equipment	141	111	89	65	39
Current assets	244	800	1,420	2,735	2,722
Current liabilities	(252)	(456)	(110)	(74)	(139)
Net current (liabilities)/assets	(8)	344	1,310	2,661	2,583
	<u>133</u>	<u>455</u>	<u>1,399</u>	<u>2,726</u>	<u>2,622</u>
Financed by :					
Share capital	100	100	100	100	100
Retained profits	(33)	305	1,275	2,618	2,522
Shareholders' funds	<u>67</u>	<u>405</u>	<u>1,375</u>	<u>2,718</u>	<u>2,622</u>
Hire purchase obligations	66	42	16	-	-
Deferred taxation	-	8	8	8	-
	<u>133</u>	<u>455</u>	<u>1,399</u>	<u>2,726</u>	<u>2,622</u>

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***7. Summarised balance sheets (Cont'd)****ECH**

	31.12.01 RM'000	31.12.02 RM'000	31.12.03 RM'000	31.12.04 RM'000
Property, plant and equipment	205	185	164	149
Current assets	747	1,546	6,305	5,780
Current liabilities	(451)	(1,096)	(5,250)	(6,397)
Net current assets/(liabilities)	296	450	1,055	(617)
	<u>501</u>	<u>635</u>	<u>1,219</u>	<u>(468)</u>
Financed by :				
Share capital	500	500	1,000	1,000
Retained profits/(Accumulated loss)	1	122	204	(1,468)
Shareholders' funds	<u>501</u>	<u>622</u>	<u>1,204</u>	<u>(468)</u>
Deferred taxation	-	13	15	-
	<u>501</u>	<u>635</u>	<u>1,219</u>	<u>(468)</u>

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***8. Proforma consolidated cash flow statement**

The proforma consolidated cash flow statement of Eonmetall Group for the year ended 31 December 2004 set out below, is based on the audited financial statements of the Company, EMT, EMI, EMS, EIT and ECH. The proforma consolidated cash flow statement is provided for illustrative purposes only, and has been presented on the basis that the Acquisitions had been in effect throughout the financial year under review.

8.1 Eonmetall Group

	<i>Proforma I</i> RM'000	<i>Proforma II</i> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	16,063	16,063
Adjustments for :		
Depreciation	2,585	2,585
Interest expense	1,431	1,431
Loss on disposal of plant and equipment	2	2
Interest income	(2)	(2)
Operating profit before working capital changes	20,079	20,079
(Increase)/Decrease in :		
Inventories	(4,228)	(4,228)
Trade and other receivables	11,962	11,962
Decrease in :		
Trade and other payables	(11,314)	(11,314)
Cash generated from operations	16,499	16,499
Income taxes paid	(1,585)	(1,585)
Net cash generated from operating activities	14,914	14,914
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(8,535)	(20,535)
Increase in pledged deposits placed with licensed banks	(916)	(916)
Interest received	2	2
Proceeds from disposal of plant and equipment	2	2
Purchase of other investment	(32)	(32)
Net cash used in investing activities	(9,479)	(21,479)

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***8. Proforma consolidated cash flow statement (Cont'd)****8.1 Eonmetall Group (Cont'd)**

	<i>Proforma I</i> RM'000	<i>Proforma II</i> RM'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds raised from Rights and Public Issue	-	22,022
Payment of estimated share issue expenses	-	(1,900)
Dividends paid to shareholders	(3,650)	(3,650)
Interest paid	(1,431)	(1,431)
Short term borrowings, net	2,740	(1,260)
Repayment of hire purchase obligations	(17)	(17)
Repayment of term loan	(2,582)	(2,582)
Net cash (used in)/generated from financing activities	(4,940)	11,182
Net increase in cash and cash equivalents	495	4,617
Cash and cash equivalents at beginning of year	(3,175)	(3,175)
Cash and cash equivalents at end of year	(2,680)	1,442

A. Cash and cash equivalents

Cash and cash equivalents comprise the following amounts:

	<i>Proforma I</i> RM'000	<i>Proforma II</i> RM'000
Cash and bank balances	2,079	6,201
Bank overdraft	(4,759)	(4,759)
	(2,680)	1,442

The net cash flow from financing activities would increase by RM16,500,000 assuming the full exercise of Employees' Share Options ("ESO") under the ESOS. The cash and cash equivalents at end of the year after the assumed full exercise of ESO is RM17,942,000.

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***9. Statement of assets and liabilities**

- a) The detailed statement of assets and liabilities have been prepared for illustrative purposes only and is based on the audited balance sheet of the Company, EMT, EMI, EMS, EIT and ECH as at 31 December 2004.

The proforma statement of assets and liabilities have been prepared on the assumption that the Listing scheme of Eonmetall as stated in Section 2.2 had been effective as of 31 December 2004 and should be read in conjunction with the notes thereon.

All significant inter-company balances and transactions have been eliminated from the proforma consolidated balance sheets.

- b) Proforma I reflects the acquisition of the entire issued and paid-up share capital of EMT, EMI, EMS, EIT and ECH for a total consideration of RM43,977,639 satisfied by the issuance of 87,955,278 new Eonmetall shares of RM0.50 each at par.

The purchase consideration of RM43,977,639 was arrived at based on the net tangible assets of all the subsidiaries, after adjusting for the revaluation surplus of RM7,069,499 of EMT (net of deferred tax) based on the open market value as valued by an independent registered valuer, CH Williams, Talhar & Wong in August 2004.

The acquisition of subsidiaries was completed on 28 February 2005 with a total negative goodwill on consolidation of RM6,778,000 as at 31 December 2004. Details to the acquisition of subsidiaries are as set out in Section 2.2 (I) above.

- c) Proforma II reflects the rights issue of 44,718 new ordinary shares of RM0.50 each at par per ordinary share (the "Rights Issue") and the public issue of 22,000,000 new ordinary shares of RM0.50 each at an issue price of RM1.00 per ordinary share (the "Public Issue"). The Public Issue will give rise to a share premium of RM11,000,000.

- i) The gross proceeds from the Public Issue will be utilised as follows :

	RM'000
Construction of factory building	4,000
Manufacture of plant and machinery for expansion purposes	8,000
Repayment of bank borrowings	4,000
Estimated share issue expenses	1,900
Working capital	4,100
	<u>22,000</u>

- ii) Share issue expenses estimated to be at RM1,900,000 will be settled and applied against the share premium account.

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***9. Statement of assets and liabilities (Cont'd)**

- d) Proforma III reflects the effects of the implementation and the assumed exercise of Employees Share Option Scheme ("ESOS") of 16,500,000 new ordinary shares of RM0.50 each at an issue price of RM1.00 per share.
- e) The proforma consolidated balance sheets of Eonmetall Group have been prepared under the acquisition method of accounting.

	Note	Audited at 31 December 2004 RM'000	Acquisition of subsidiaries Proforma I RM'000	Proforma Group After Rights Issue & Public Issue Proforma II RM'000	After the Exercise of ESOS Proforma III RM'000
PROPERTY, PLANT AND EQUIPMENT	9.2	-	44,602	56,602	56,602
OTHER INVESTMENT	9.3	-	32	32	32
CURRENT ASSETS					
Inventories	9.4	-	21,562	21,562	21,562
Trade and other receivables	9.5	-	24,618	24,618	24,618
Tax refundable		-	446	446	446
Cash and cash equivalents	9.6	*	3,154	7,276	23,776
		*	49,780	53,902	70,402
CURRENT LIABILITIES					
Trade and other payables	9.7	12	18,073	18,073	18,073
Borrowings	9.8	-	17,335	13,335	13,335
Taxation		-	1,100	1,100	1,100
		12	36,508	32,508	32,508
NET CURRENT (LIABILITIES)/ASSETS		(12)	13,272	21,394	37,894
		(12)	57,906	78,028	94,528
<i>Financed by:</i>					
SHARE CAPITAL	9.9	*	43,978	55,000	63,250
SHARE PREMIUM	9.10	-	-	9,100	17,350
ACCUMULATED LOSSES		(12)	(12)	(12)	(12)
SHAREHOLDERS' FUNDS		(12)	43,966	64,088	80,588
NEGATIVE GOODWILL	9.11		6,778	6,778	6,778
DEFERRED TAX LIABILITIES	9.12	-	3,940	3,940	3,940
BORROWINGS	9.8	-	3,222	3,222	3,222
		(12)	57,906	78,028	94,528

* Represents RM2

10. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in the Prospectus)



9. Statement of assets and liabilities (Cont'd)

Notes to the Statement of assets and liabilities

9.1 Summary of significant accounting policies

The following accounting policies are adopted by the Proforma Eonmetall Group and are consistently applied throughout the year.

a) Basis of accounting

The Proforma Consolidated Statement of Assets and Liabilities of Eonmetall Group has been prepared under the historical cost convention, unless otherwise indicated in the significant accounting policies, and comply with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

b) Basis of consolidation

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

The Proforma Consolidated Statement of Assets and Liabilities include the audited financial statements of the subsidiaries made up to 31 December 2004 on the assumption that the restructuring of Eonmetall Group as stated in Section 2.2 had been effected as at 31 December 2004. The financial statements of the subsidiaries are consolidated using the acquisition method of accounting.

A subsidiary is excluded from consolidation when control is intended to be temporary if the subsidiary is acquired and held exclusively with a view of its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company. Subsidiaries excluded on these grounds are accounted for as investments.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the financial statements of the Group. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or negative goodwill as appropriate.

Intra-group transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intra-group transactions are also eliminated unless cost cannot be recovered.

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***c) Goodwill on consolidation**

Goodwill represents the excess of the cost of acquisition over the fair values of the net identifiable assets acquired and is stated at cost. Negative goodwill represents the excess of the fair value of the net identifiable assets acquired (net of inter-company unrealised profits) over the cost of acquisition.

Goodwill is amortised from the date of initial recognition over its estimated useful life of 25 years whilst negative goodwill will be taken up in the income statement immediately.

d) Property, plant and equipment

Freehold land and capital work-in-progress are stated at cost. All other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Property, plant and equipment retired from active use and held for disposal, if any, are stated at the carrying amount at the date when the asset is retired from active use, less impairment losses, if any.

e) Depreciation

Freehold land and capital work-in-progress are not amortised.

The straight line method is used to write off the cost of the other assets over the term of their estimated useful lives at the following principal annual rates :

	%
Factory building	2
Electrical installation	10
Plant and machinery, moulds, tools and equipment	10
Furniture, fittings and office equipment	10 - 20
Motor vehicles	20
Renovation	10
Computer software	20

10. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in the Prospectus)



f) Research and development expenditure

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is expensed to the income statement as incurred.

Expenditure on development activities where research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred.

g) Trade and other receivables

Trade and other receivables are stated at cost net of allowance for doubtful debts.

h) Employee benefits

(i) Short term employee benefits

Wages, salaries and bonuses are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increases their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

i) Provisions

A provision is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation (legal or constructive) as a result of a past event and a reliable estimate can be made of the amount.

j) Liabilities

Borrowings and trade and other payables are stated at cost.

10. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in the Prospectus)



k) Inventories

Raw materials, work-in-progress and manufactured inventories are stated at the lower of cost and net realisable value with first-in, first-out cost being the main basis for cost. For work-in-progress and manufactured inventories, cost consists of materials, direct labour and an appropriate proportion of fixed and variable production overheads.

l) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

m) Impairment

The carrying amount of the Group's assets, other than inventories and financial assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The reversal is recognised in the income statement.

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***n) Income Tax**

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

o) Foreign Currency Transactions

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to Ringgit Malaysia at the foreign exchange rates ruling at the date of the transactions.

The closing rates at 31 December 2004 used in the translation of foreign currency monetary assets and liabilities are as follows :

	RM
1 USD	3.80
1 SGD	2.10
1 EUR	4.28

10. ACCOUNTANTS' REPORT (Cont'd)
(Prepared for inclusion in the Prospectus)



p) Revenue

i) Goods sold and service rendered

Revenue from sale of goods is measured at the fair value of the consideration receivable and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue for services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. Where the outcome of the transaction cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

ii) Interest income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

q) Financing Cost

All interest and other costs incurred in connection with borrowings are expensed as incurred.

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***9.2 Property, plant and equipment - Proforma Group**

	Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
Freehold land	9,777	-	9,777
Factory building	16,028	150	15,878
Electrical installation and renovation	504	260	244
Plant, machinery, moulds, tools and equipment	24,133	6,253	17,880
Computer software, furniture, fittings and office equipment	1,252	683	569
Motor vehicles	759	543	216
Capital work-in-progress	38	-	38
Proforma I	52,491	7,889	44,602
<i>Additions of property, plant and equipment using the proceeds raised through public issue</i>			
Factory building	4,000	-	4,000
Plant and machinery	8,000	-	8,000
Proforma II and III	64,491	7,889	56,602

The freehold land and factory building are charged to bank for facilities granted to a subsidiary company (see Note 9.8).

The freehold land and factory building of the Proforma Group as at 31 December 2004 has been stated after incorporating the upward fair value adjustment of RM9,526,000 based on the open market value as valued by an independent registered valuer, CH Williams, Talhar & Wong in August 2004.

9.3 Other investment

	Proforma Group RM'000
Quoted shares in Malaysia, at cost	<u>32</u>
Market value	<u>42</u>

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***9.4 Inventories, at cost**

	Proforma Group RM'000
Raw materials	10,663
Work in progress	6,913
Manufactured inventories	3,956
Trading inventories	30
	<u>21,562</u>

9.5 Trade and other receivables

	Proforma Group RM'000
Trade receivables	23,956
Other receivables, deposits and prepayments	662
	<u>24,618</u>

9.6 Cash and cash equivalents

	Company RM'000	Proforma Group I RM'000	Proforma Group II RM'000	Proforma Group III RM'000
Fixed deposits with licensed banks	-	1,075	1,075	1,075
Cash and bank balances	*	2,079	6,201	22,701
	<u>*</u>	<u>3,154</u>	<u>7,276</u>	<u>23,776</u>

* Represents cash of RM2.

The entire fixed deposits of RM1,075,000 were pledged to the licensed banks for banking facilities granted to certain subsidiaries of the Proforma Group.

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***9.7 Trade and other payables**

	Company RM'000	Proforma Group RM'000
Trade payables	-	10,654
Other payables and accruals	12	7,352
Amount due to a director	-	67
	<u>12</u>	<u>18,073</u>

9.8 Borrowings

	Company RM'000	Proforma Group I RM'000	Proforma Group II RM'000	Proforma Group III RM'000
Current				
<i>Secured</i>				
Bank overdraft	-	2,276	2,276	2,276
Bankers' acceptances	-	1,115	1,115	1,115
Term loan	-	1,153	1,153	1,153
Trust receipts	-	36	36	36
	-	4,580	4,580	4,580
<i>Unsecured</i>				
Bankers' acceptances	-	10,272	6,272	6,272
Bank overdraft	-	2,483	2,483	2,483
	-	12,755	8,755	8,755
	-	<u>17,335</u>	<u>13,335</u>	<u>13,335</u>
Non-current				
Term loan	-	3,222	3,222	3,222

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***9.8 Borrowings (Cont'd)***9.8.1 Terms and conditions*Security

The secured bank borrowings are secured by way of fixed charges over the Group's freehold land and factory buildings.

Interest rates

The bank overdrafts are subject to interest rates ranging from 1.5% to 2.5% per annum above the bankers' base lending rate. Bankers' acceptances and trust receipts are subject to interests at 1.25% to 2.0% per annum above the bankers' cost of funds.

One of the term loans is subject to an interest rate of 1.25% per annum above the bank's prevailing base lending rate whilst the other is subject to interest rates as follows :

First year	8.25% per annum
Second year	8.50% per annum
Third year onwards	9.00% per annum

9.9 Share capital

	Company RM'000	Proforma Group I RM'000	Proforma Group II RM'000	Proforma Group III RM'000
<i>Ordinary shares of RM0.50 each</i>				
<i>Authorised</i>	<u>100</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
<i>Issued and fully paid :</i>				
Balance at 31 December 2004	*	*	*	*
Issued as consideration for the acquisition of subsidiaries	-	43,978	43,978	43,978
Rights issue	-	-	22	22
Public issue	-	-	11,000	11,000
ESOS	-	-	-	8,250
	<u>-</u>	<u>43,978</u>	<u>55,000</u>	<u>63,250</u>

* Represents RM2 comprising 4 ordinary shares of RM0.50 each.

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***9.10 Share premium, non-distributable**

The share premium account arose from the public issue and ESOS, and is stated net of estimated share issue expenses of RM1.9 million.

9.11 Negative goodwill

The negative goodwill arises from the acquisition of subsidiaries as detailed in Section 2.2 (I) above.

9.12 Deferred tax liabilities

The recognised deferred tax liabilities are in respect of :-

	Proforma Group RM'000
Excess of capital allowance over depreciation	1,483
Revaluation surplus	2,457
	3,940

9.13 Financial instruments**Financial risk management objective and policies**

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. The Group's risk management is basically guided and monitored by the Board of Directors of the Group as summarised below :

Credit risk

The Group has no significant concentration of credit risk. Credit risks are minimised through the close monitoring by the Directors. The maximum exposures to credit risk are represented by the carrying amount of each financial asset.

Interest rate risk

In the current low interest rate scenario, the Group borrows for operations at variable rates using its overdrafts, trust receipts and bankers' acceptances facilities, whilst using the fixed rate term loan to finance its capital expenditure. The Group is not exposed to major long term financial commitments or obligations apart from the fixed rate term loan.

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***9.13 Financial instruments (Cont'd)****Currency risk**

The Group incurs foreign currency risk on sales and purchases that are denominated in a currency other than Ringgit Malaysia. The currencies giving rise to this risk are primarily US Dollars, Singapore Dollars and Euro. As the Ringgit Malaysia is pegged against the US Dollars, foreign currency risk is assessed to be minimal. However, the Directors monitor the risk on an ongoing basis, and forward exchange contracts will be taken to hedge the risk if deemed necessary.

Fair values***Recognised financial instruments***

Cash and cash equivalents, Trade and other receivables, Trade and other payables, Short term borrowings

The carrying amounts approximate fair value due to the relatively short term nature of these financial instruments.

Other investment

The fair value of quoted shares held under Other Investment is determined by reference to stock exchange quoted market bid price at the close of the business on the balance sheet date as disclosed in Note 9.3 above.

Non-current term loans

	Proforma Group	
	Carrying amount RM'000	Fair value RM'000
Fixed rate term loans	382	*
Floating rate term loans	2,840	2,840
Term loans	3,222	*

* the fair value information pertaining to the fixed rate term loan is not disclosed as it is not practicable due to timeliness or cost to determine the fair value with sufficient reliability. Alternatively, the principal characteristics, namely the terms and conditions of the instruments have been disclosed in 9.8.1 above.

10. ACCOUNTANTS' REPORT (Cont'd)*(Prepared for inclusion in the Prospectus)***10. Proforma net tangible assets per ordinary share**

Based on the statement of assets and liabilities of the proforma Eonmetall Group as at 31 December 2004, the proforma net tangible asset per ordinary share after the Acquisitions, Rights Issue, Public Issue and ESOS is calculated as follows :-

	Acquisition of subsidiaries Proforma Group I RM'000	Proforma Group After Rights Issue & Public Issue Proforma Group II RM'000	After the Exercise of ESOS Proforma Group III RM'000
Shareholders' funds	43,966	64,088	80,588
Add : Negative goodwill	6,778	6,778	6,778
Net Tangible Assets ("NTA")	50,744	70,866	87,366
Total no. of ordinary shares in issue ('000)	87,956	110,000	126,500
NTA per share (sen)	57.69	64.42	69.06

[^] *The NTA per share above has been computed including the negative goodwill that is to be recognised in the income statement in the year of acquisition of the subsidiaries.*

11. Significant events subsequent to balance sheet date*(a) Acquisition of the equity interest in EMT*

On 30 August 2004, Eonmetall entered into a Conditional Share Sale Agreement with ECSB as vendor and Eonmetall as purchaser for the acquisition of the entire issued and paid up share capital of EMT comprising 2,500,000 ordinary shares of RM1.00 each for a purchase consideration of RM25,180,650 satisfied wholly by the issuance of 50,361,300 new shares at an issue price of RM0.50 per share.

The purchase consideration of EMT of RM25,180,650 was arrived at based on the audited net tangible assets of EMT as at 31 December 2003 and after adjusting for the revaluation surplus of RM7,069,499 (net of deferred tax) based on the open market value as valued by an independent registered valuer, CH Williams, Talhar & Wong in August 2004.

The acquisition of the equity interest in EMT was completed on 28 February 2005, thereby making EMT a wholly-owned subsidiary of Eonmetall.

10. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in the Prospectus)



11. Significant events subsequent to balance sheet date (Cont'd)

(b) Acquisition of the equity interest in EMI

On 30 August 2004, Eonmetall entered into a Conditional Share Sale Agreement with ECSB as vendor and Eonmetall as purchaser for the acquisition of the entire issued and paid up share capital of EMI comprising 2,500,000 ordinary shares of RM1.00 each for a purchase consideration of RM9,835,960 satisfied wholly by the issuance of 19,671,920 new shares at an issue price of RM0.50 per share.

The acquisition of the equity interest in EMI was completed on 28 February 2005, thereby making EMI a wholly-owned subsidiary of Eonmetall.

(c) Acquisition of the equity interest in EMS

On 30 August 2004, Eonmetall entered into a Conditional Share Sale Agreement with ECSB as vendor and Eonmetall as purchaser for the acquisition of the entire issued and paid up share capital of EMS comprising 2,500,000 ordinary shares of RM1.00 each for a purchase consideration of RM5,038,030 satisfied wholly by the issuance of 10,076,060 new shares at an issue price of RM0.50 per share.

The acquisition of the equity interest in EMS was completed on 28 February 2005, thereby making EMS a wholly-owned subsidiary of Eonmetall.

(d) Acquisition of the equity interest in EIT

On 30 August 2004, a Conditional Share Sale Agreement was made between ECSB, Goh Kee Seng and Yeoh Cheng Chye as vendors and Eonmetall as purchaser for the acquisition of the entire issued and paid up share capital of EIT comprising 100,000 ordinary shares of RM1.00 each for a purchase consideration of RM2,718,561 satisfied wholly by the issuance of 5,437,122 new shares at an issue price of RM0.50 per share.

The acquisition of the equity interest in EIT was completed on 28 February 2005, thereby making EIT a wholly-owned subsidiary of Eonmetall.

(e) Acquisition of the equity interest in ECH

On 30 August 2004, a Conditional Share Sale Agreement was made between ECSB, Goh Kee Seng, Lee Liang, Ng Chee Heong, V&M Mixtec Asia Sdn Bhd, Profina Teknik Sdn Bhd and Taran Tej Singh as vendors and Eonmetall as purchaser for the acquisition of the entire issued and paid up share capital of ECH comprising of 1,000,000 ordinary shares of RM1.00 each for a purchase consideration of RM1,204,438 satisfied wholly by the issuance of 2,408,876 new shares at an issue price of RM0.50 per share.

The acquisition of the equity interest in ECH was completed on 28 February 2005, thereby making ECH a wholly-owned subsidiary of Eonmetall.

10. ACCOUNTANTS' REPORT (Cont'd)

(Prepared for inclusion in the Prospectus)



11. Significant events subsequent to balance sheet date (Cont'd)

(f) Increase in authorised share capital of Eonmetall

On 28 February 2005, Eonmetall increased its :-

- (i) authorised share capital to RM100,000,000 comprising 200,000,000 ordinary shares of RM0.50 each; and
- (ii) issued and paid-up share capital from RM2 comprising 4 ordinary shares of RM0.50 each to RM43,977,641 comprising 87,955,282 ordinary shares of RM0.50 each as consideration for the acquisitions of EMT, EMI, EMS, EIT and ECH.

(g) Rights issue by Eonmetall

On 18 April 2005, the issued and paid up share capital of Eonmetall was further increased to RM44,000,000 comprising 88,000,000 ordinary shares of RM0.50 each by way of Rights Issue of approximately fifty-one (51) shares for every 100,000 existing shares held, based on the enlarged share capital of Eonmetall (after the acquisitions mentioned above).

(h) Change in shareholdings

Following the completion of the acquisition of subsidiaries and the rights issue as mentioned above, ECSB became the holding company of Eonmetall subsequent to year end.

12. Financial statements

No audited financial statements have been prepared in respect of any period subsequent to 31 December 2004.

Yours faithfully,

KPMG
Firm No : AF : 0758
Chartered Accountants

Ng Swee Weng
Partner
Approval Number : 1414/03/06 (J/PH)

11. VALUATION CERTIFICATE
(Prepared for inclusion in the Prospectus)

C H Williams Talhar & Wong

C H Williams Talhar & Wong Sdn Bhd (18149-U)

Juruukur Berkanun Perunding Harta Antarabangsa
Chartered Surveyors International Property Consultants

Our Ref : BV04.1359/TL/sh

Date : 27 June 2005

The Board of Directors
Eonmetall Group Berhad
(formerly known as Eoncap Corporation Berhad)
Suite 2-1, 2nd Floor
Menara Penang Garden
42A, Jalan Sultan Ahmad Shah
10050 Penang

Dear Sirs,

**RE : LOT NOS. 1258 AND 1259, MUKIM 12,
SEBERANG PERAI SELATAN, PULAU PINANG
(A FACTORY COMPLEX IN VALDOR INDUSTRIAL ESTATE,
SUNGAI BAKAP)**

This certificate has been prepared for inclusion in the Prospectus of Eonmetall Group Berhad *(formerly known as Eoncap Corporation Berhad)* ("**Eonmetall**") to be dated 30 June 2005 in relation to the public issue of 22,000,000 new ordinary shares of RM0.50 each at an issue price of RM1.00 per ordinary share payable in full on application and offer for sale of 28,600,000 ordinary shares of RM0.50 each to identified investors at an offer price of RM1.00 per ordinary share payable in full on application by way of private placement.

In accordance with your instructions, we have assessed the Market Value of the above mentioned property in conjunction with the listing of Eonmetall on the Second Board of Bursa Malaysia Securities Berhad.

We have inspected the property on 3rd August, 2004 and this date is taken as the valuation date.

The basis of the valuation is the market value of the subject property. The market value is the estimated amount for which an asset should exchange on the date of 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, prudently and without compulsion.

The valuation has been prepared in accordance with the requirements as set out in the Guidelines on Asset Valuation for Submission to the Securities Commission, Malaysia and the Malaysian Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia.

We have valued the property using the Comparison and Investment Methods of Valuation vide our Report and Valuation Ref. No. BV04.1359/TL/sh dated 30th August, 2004.



WTW
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11. VALUATION CERTIFICATE (Cont'd)
(Prepared for inclusion in the Prospectus)

C H Williams Taihar & Wong



C H Williams Taihar & Wong Sdn Bhd (16149-U)

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Our Ref : BV04.1359/TL/sh

A brief description of the subject property is as follows: -

Property held for owner occupation

Property (Title Details, Address)	Description, Age and Tenure	Market Value
<p><u>Lot No. :-</u> 1258, Mukim 12, Seberang Perai Selatan, Pulau Pinang</p> <p><u>Title No. :-</u> Grant No. 64234</p> <p><u>Surveyed Land Area :-</u> 4.787 hectares</p> <p><u>Registered Proprietor :-</u> Eon Metall Technology Sdn Bhd</p> <p><u>Category of Land Use :-</u> Nil</p> <p><u>Tenure :-</u> In Perpetuity</p> <p><u>Express Conditions :-</u> The land comprised in this title :-</p> <p>a) shall not be affected by any provision of the National Land Code limiting the compensation payable on the exercise by the State Authority of a right of access or use conferred by Chapter 3 of Part Three of the Code or on the creation of a Collector's right of way; and</p> <p>b) subject to the implied condition that land is liable to be re-entered if it is abandoned for more than 3 years, shall revert to the State only if the proprietor for the time being dies without heirs;</p> <p>and the title shall confer the absolute right to all forest produce and to all oil, mineral and other natural deposits on or below the surface of the land (including the right to work or extract any such produce or deposit and remove it beyond the boundaries of the land).</p> <p><u>Restrictions-In-Interest :-</u> Nil</p> <p><u>Encumbrances :-</u> Two (2) charges to RHB Bank Berhad by virtue of Gadaian Perserahan Nos. 686/2001 and 687/2001 Jilid No. 888 Folio Nos. 171 and 172, both registered on 18th January, 2001.</p>	<p><u>General :-</u> The subject property is a factory complex in Valdor Industrial Estate, Sungai Bakap and is identified as Lots 1258 and 1259, Mukim 12, Jalan Seruling, Sungai Bakap.</p> <p><u>Land :-</u> The subject site comprises two (2) contiguous parcels of industrial land with a total nett land area of 5.0357hectares (12.4435 acres).</p> <p>Together they form a regular shaped site with a frontage of approximately 115.19 metres onto a metalled service road which is paralalled to Jalan Seruling and an average depth of approximately 333.24 metres. The rear perimeter is wider than the front perimeter.</p> <p>The front service road occupies an approximate area of 1,775 square metres.</p> <p>The land is flat and lies at about the same level of the existing frontage metalled road.</p> <p>The perimeter of the site are enclosed at the front with decorative plastered brickwalls with metal grille panels while the sides and rear are fenced partly with metal sheets and partly with chain link fencing. Two metal sliding gates are installed at the front entrances.</p> <p>The internal driveways are metalled.</p> <p>The north eastern perimeter abuts the North - South Expressway. The north-eastern portion of these subject lots (approximately 0.7317 hectare) is also affected by the Tenaga Nasional Berhad (TNB) High Voltage overhead rentice.</p> <p><u>Buildings :-</u> Erected on the subject land are four (4) units factory buildings, a three (3) storey office block and a few ancillary buildings identified as follows :-</p> <p>a) Single storey factory annexed with 2-storey office - Unit 1 b) Single storey factory - Unit 2 c) Single storey factory - Unit 3 d) Single storey factory - Unit 4 e) Three storey office block f) Ancillary Buildings comprising - Two guard houses - Canteen - Parking sheds</p> <p>A brief description of these buildings are as follows :-</p> <p>a) <u>Factory Unit 1</u> This single storey factory is constructed of steel portal framework clad with metal decking walls and a metal framed pitched roof covered with metal roofing sheets. The eaves height is approximately 8.95 metres. The floor is of reinforced concrete throughout.</p>	<p>RM20,230,000/-</p>

11. VALUATION CERTIFICATE (Cont'd)
(Prepared for inclusion in the Prospectus)

C H Williams Talhar & Wong



C H Williams Talhar & Wong Sdn Bhd (16149-U)

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Our Ref : BV04.1359/TL/sh

Property (Title Details, Address)	Description, Age and Tenure	Market Value
<p>Endorsement :- Pengambilan sebahagian tanah - Borang K Perserahan No. P07654/2002 Jilid : 5 Folio : 18 seluas : 2.1525 ekar Didaftarkan pada : 22 Januari, 1991.</p> <p>Note :- The nett land area of subject Lot 1258 adopted for the purpose of this Report and Valuation is 3.9159 hectares (9.6764 acres).</p> <p>Lot No. :- 1259, Mukim 12, Seberang Perai Selatan, Pulau Pinang</p> <p>Title No. :- Mukim Grant No. 302</p> <p>Surveyed Land Area :- 1.415 hectares</p> <p>Registered Proprietor :- Enonmetall Technology Sdn Bhd</p> <p>Category of Land Use :- Nil</p> <p>Tenure :- In Perpetuity</p> <p>Express Conditions :- (FIRST GRADE) The land comprised in this title :-</p> <p>a) shall not be affected by any provision of the National Land Code limiting the compensation payable on the exercise by the State Authority of a right of access or use conferred by Chapter 3 of Part Three of the Code or on the creation of a Collector's right of way; and</p> <p>b) subject to the implied condition that land is liable to be re-entered if it is abandoned for more than 3 years, shall revert to the State only if the proprietor for the time being dies without heirs;</p> <p>and the title shall confer the absolute right to all forest produce and to all oil, mineral and other natural deposits on or below the surface of the land (including the right to work or extract any such produce or deposit and remove it beyond the boundaries of the land).</p>	<p>a) Factory Unit 1 (cont'd)</p> <p>The accommodation provided within this factory area are production area, TNB substation, switch/gen-set room, male toilets and female toilets.</p> <p>There is a double storey office section within the front portion of the factory. It is constructed of reinforced concrete framework with plastered brickwalls.</p> <p>The floors are of concrete and finished with ceramic tiles throughout whilst the ceiling on the first floor is of plain ceiling boards.</p> <p>The doors are of glass panels and flush timber whilst the windows are of aluminium casement type. Access to the first floor is by means of a reinforced concrete staircase finished with ceramic tiles.</p> <p>This Factory Unit 1 has gross floor areas as follows :- Factory Area : 3,901.82 square metres 2-Storey Office : 222.96 square metres</p> <p>The layout plan of this factory unit was approved on 11th September, 1998 vide (21A)d/m. MPSP/70/20-72/29 Bah.1 whilst the building plan was approved on 13th July, 1999 vide Plan 1 (A-I) d/m. MPSP/40/5-72/256.</p> <p>b) Factory Unit 2</p> <p>This factory unit is of similar construction and design as Factory Unit 1. However, the double storey office as shown in the approved plan had been omitted.</p> <p>This factory unit has a gross floor area of approximately 6,228.95 square metres.</p> <p>The reference and date of approval of the layout plan and building plan for this factory unit is the same as factory Unit 1.</p> <p>c) Factory Unit 3</p> <p>This factory unit is also of similar construction as Factory Unit 1 and 2.</p> <p>It has a gross floor area of approximately 5,016.8 square metres. The layout plan of this factory unit was approved on 22nd February, 1999 vide (22A) d/m.MPSP/70/20-72/29 B.2 and the building plan was approved on 13th July, 1999 vide Plan 1 (A-E) d/m.MPSP/40/5-72/291.</p> <p>d) Factory Unit 4</p> <p>This factory unit is also of similar construction to the other 3 units.</p> <p>It has a gross floor area of approximately 5,016.76 square metres.</p> <p>There is an extension at one side which is partly clad with metal decking walls and has a gross floor area of 1,254.19 square metres. The floor of this extension is partly of reinforced concrete and partly of gravel.</p> <p>The layout plan of this factory unit was approved on 22nd February, 1999 vide (22A)d/m. MPSP/70/20-72/29 B.2 whilst the building plan was approved on 13th July, 1999 vide Plan 1 (A-E) d/m.MPSP/40/5/5-72/291 B.1.</p> <p>The extension was approved on 26th June 2000 vide Plan 10 (A-E) d/m MPSP 40/5-72/291B.1.</p>	

11. VALUATION CERTIFICATE (Cont'd)
(Prepared for inclusion in the Prospectus)

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Property (Title Details, Address)	Description, Age and Tenure	Market Value
<p><u>Restrictions-in-Interest</u> :- Nil</p> <p><u>Encumbrances</u> :- Two (2) charges to RHB Bank Berhad by virtue of Gadaian Perserahan Nos. 60/2001 and 61/2001 Jilid No. 63 Folio Nos. 54 and 55, both registered on 18th January 2001.</p> <p><u>Endorsement</u> :- Pengambilan sebahagian tanah - Borang K Perserahan No. P01782/2001 Jilid : 5 Folio : 12 seluas : 0.7294 ekar Didaftarkan pada : 27 Disember, 1990.</p> <p><u>Note</u> :- The nett land area of subject Lot 1259 adopted for the purpose of this Report and Valuation is 1.1198 hectares (2.7671 acres).</p> <p><u>Address</u> Lot 1258 & 1259, Mukim 12, Jalan Seruling, Kawasan Perusahaan Valdor, 14200 Sungai Bakap, Pulau Pinang</p> <p><u>Existing Use</u> :- The current "industrial" use is in compliance with the recommended zoning and approved use.</p>	<p>e) <u>Three Storey Office Block</u></p> <p>This three storey office block is constructed of reinforced concrete framework with plastered brickwalls and framed glass panels and a metal framed roof covered with metal roofing sheets. Internal partitioning are mainly of half glass gypsum boards or timber partitionings.</p> <p>The floors are of reinforced concrete. The ceilings are of plaster glass as well as suspended ceiling boards.</p> <p>The main entrance is of frameless swing glass type while other doors are of half glass, timber or metal types. Windows are of aluminium framed glass type.</p> <p>A reinforced concrete staircase with stainless steel balustrade leads to the upper floors.</p> <p>The floor finishes are mainly of ceramic tiles on the ground and first floor and carpeting on the second floor.</p> <p>The accommodation provided are as follows :-</p> <p><u>Ground Floor</u> A Porch, Lobby, 2 Meetings Rooms, 6 Office Rooms, Open Office, Pantry and Two Toilets.</p> <p><u>First Floor</u> IT Room, Training Room, Manager's Room, Computer Room, Store, Special Project Room, Accounts Room, Accountant Room, Meeting Room and Two Toilets.</p> <p><u>Second Floor</u> R&D Office, Store, Meeting Room, Director's Room, Company Secretary's Room, President's Room, Store, Open Office and Two Toilets.</p> <p>The gross floor area of this building is approximately 1,393.54 square metres.</p> <p>The original 3 storey office block was approved with extensions to Factory Unit 1 & 2 on 7th September 2000 vide Plan 25 (A-J) dlm MPSP/40/5-72/256.</p> <p>Further approval was obtained for amendments to the 3 storey office block, extension to Unit 4 and a canteen on 13th February 2004 vide Plan 36 (A-G) dlm MPSP/40/5-72/256.</p> <p>The areas between all the four factory units as well as the space between factory unit 1 and the 3 storey office block have been roofed over providing a covered area of 5,378.53 square metres.</p> <p>This has been approved by Majlis Perbandaran Seberang Perai on 17th May 2000 vide Plan No. 20 (A) dlm MPSP/40/5-72/291.</p>	

11. VALUATION CERTIFICATE (Cont'd)
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	<p>f) <u>Ancillary Buildings</u></p> <p><u>Guard Houses</u> There are two guard houses erected one each at each of the main entrances. One is of reinforced concrete framework with metal deck roofing while the other is metal frame with metal decking walls on a raised floor.</p> <p>The gross floor areas are 7.85 square metres and 3.34 square metres respectively.</p> <p><u>Canteen</u> This is an open sided structure of metal framework with a metal decking roof. The flooring is of tarmac. It has a covered area of 132.66 square metres.</p> <p><u>Parking Sheds</u> There are two parkings sheds of metal frame with metal decking roof. The floor is of tarmac.</p> <p>The covered area is 332.95 square metres.</p> <p><u>Age and Condition of Buildings :-</u> The factory Unit 1 and 2 were built in early 1998 whilst the factory Unit 3 was built in early 1999. Unit 4 was built in 1999 whilst the three storey office block was constructed in 2000.</p> <p>They are all in good state of repairs.</p> <p>The Certificate of Fitness for Occupation has been issued by Majlis Perbandaran Seberang Perai vide Ref. No. 88/S/2004 dated 20th July, 2004.</p> <p><u>Occupation</u> The property is let out as follows :-</p> <table border="1" style="width: 100%;"> <thead> <tr> <th>Tenant</th> <th>Area (sq.m.)</th> <th>Rental (RM)</th> <th>Tenancy Start</th> <th>Period Expiry</th> </tr> </thead> <tbody> <tr> <td>Eonchem Technology Sdn Bhd *</td> <td>4,810</td> <td>9,620</td> <td>1.7.03</td> <td>1.1.08</td> </tr> <tr> <td>Eontarr IT Solutions Sdn Bhd</td> <td>540</td> <td>540</td> <td>1.1.03</td> <td>1.1.08</td> </tr> <tr> <td>Eonmetall Industries Sdn Bhd</td> <td>4,200</td> <td>8,400</td> <td>1.1.03</td> <td>1.1.08</td> </tr> <tr> <td>Eonmetall Systems Sdn Bhd</td> <td>3,950</td> <td>7,900</td> <td>1.1.03</td> <td>1.1.08</td> </tr> </tbody> </table> <p>Note :- * The tenancy has been terminated with immediate effect as of 31st December 2004</p>	Tenant	Area (sq.m.)	Rental (RM)	Tenancy Start	Period Expiry	Eonchem Technology Sdn Bhd *	4,810	9,620	1.7.03	1.1.08	Eontarr IT Solutions Sdn Bhd	540	540	1.1.03	1.1.08	Eonmetall Industries Sdn Bhd	4,200	8,400	1.1.03	1.1.08	Eonmetall Systems Sdn Bhd	3,950	7,900	1.1.03	1.1.08	
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In our opinion, the market value of the subject property free from all encumbrances is **RM20,230,000/-** (Ringgit Malaysia : Twenty Million Two Hundred And Thirty Thousand Only).

Yours faithfully,
 for and on behalf of
C H Williams Talhar & Wong Sdn Bhd

LEE ENG KOW

B. Sc. (Hons) Estate Management, MISM,
 Registered Valuer (V-412)