
4. INFORMATION ON THE GROUP (Cont'd)

4.2.11 New or Proposed Products/Services
(i) Metalwork Machinery and Equipment

The Group intends to extend the product range of Metalwork Machinery and Equipment to include the followings:-

- Galvanising machine;
- Prepainted galvanising machine;
- Enhanced cold-rolled mill; and
- Auto warehousing system.

Galvanising machine is used to coat a thin layer of zinc on the metal to provide corrosion resistance. There are two (2) types of galvanising machines. Hot-dip galvanising machine allows a continuous length of sheet, wire, rod or shape to pass through molten zinc followed by an air stream that controls the thickness of the zinc finish. The other type of galvanising machine, electro-galvanising uses electrolysis to deposit zinc coating onto the metal sheet, wire, rod or shape.

Prepainted galvanising machine is used to apply a layer of paint onto the metal sheet or coil.

Eonmetall Group intends to increase its product range of cold-rolled coil from its current width of 400 mm to 1,200 mm by end of 2005.

The auto warehousing comprises a computerise loading and unloading system. It is an industrial-strength warehousing application that enables companies to improve customer service, reduce warehousing costs, improve order turnaround time and increase throughput volumes.

The Group intends to commence manufacturing of the new and enhanced machinery and equipment by the following years:-

- Galvanising machine by end of 2005;
- Prepainted galvanising machine by 2006;
- Enhanced cold-rolled mill by end of 2005; and
- Auto warehousing system by 2006.

(ii) Industrial Process Machinery and Equipment

Types of Industrial Process Machinery and Equipment which are planned to be manufactured by the Group include:-

(a) SEP for Palm Fibre

Currently, the Group manufactures Industrial Process Machinery and Equipment for Palm Oil and Oleochemical Industries. In an effort to expand its business to incorporate a wider range of products, Eonmetall Group is currently undertaking R&D in the manufacturing of SEP for palm oil.

The SEP consists of two (2) modules, namely the preparation and solvent extraction modules, is able to reduce the oil in the fibre to approximately 0.5% from the initially processed fibre which contains approximately 35% to 40% moisture, with the use of solvent. The oil extracted from the fibre can have many applications in the Food Industry.

4. INFORMATION ON THE GROUP (Cont'd)

The current solvent processing capability is targeted at 15 tonnes per hour which in future, will be operating at 20 to 30 tonnes per hour.

(b) MDF Plant

As part of the business intention, Eonmetall Group aims to undertake R&D in manufacturing MDF Plant which uses oil palm empty fruit branches instead of wood fibre commonly used in traditional MDF Plant.

The Group plans to venture into developing machineries which have the capability to produce MDF Plant from this alternative material.

Eonmetall Group intends to commence expansion of its SEP and manufacturing of its MDF Plant by 2006.

(iii) Consumer Products

Eonmetall Group is planning to launch the following consumer products:-

(a) DIY Decorative Racking

This racking system is designed for the consumer market to be sold through retails outlets, hardware and departmental stores. The package will come with easy to follow manuals for buyers to install the racking systems themselves.

Manufacturing of this racking system is scheduled to commence by end of 2005.

(b) Entertainment Unit

This elegant type of rack can be used to put television, Hi-Fi, VCR etc in the living hall of the consumer.

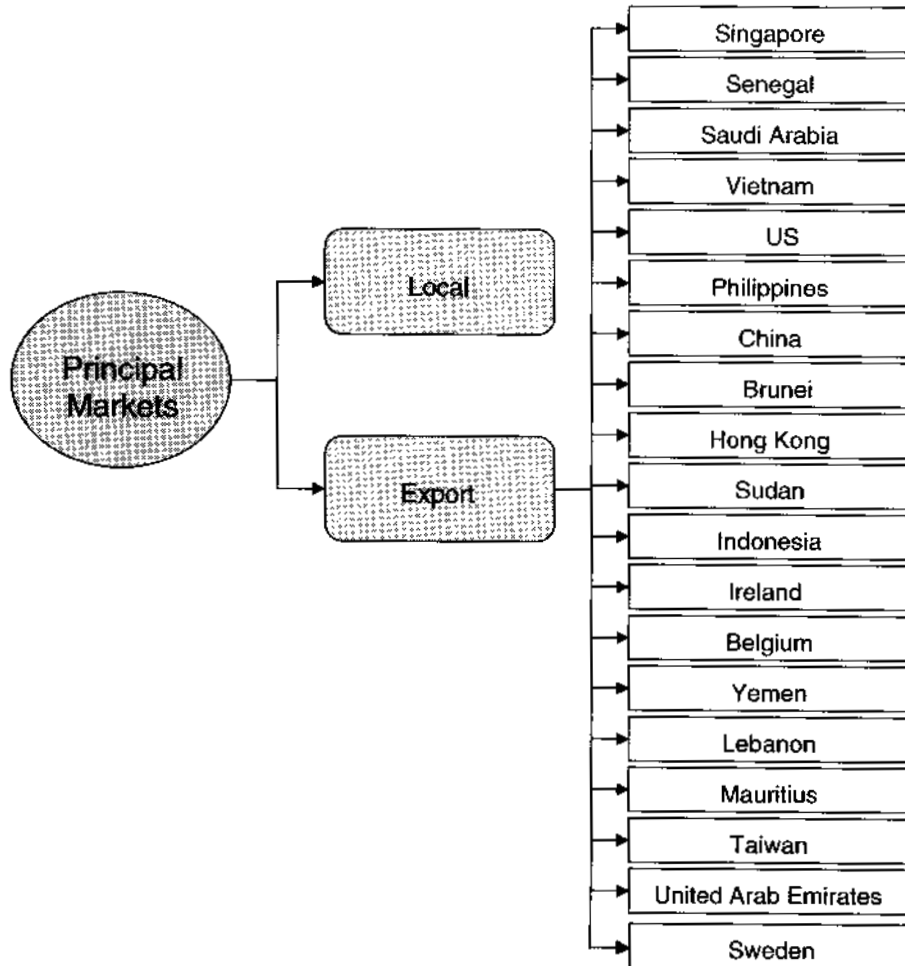
Eonmetall Group intends to commence the manufacturing of this type of rack by end of 2005.

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4. INFORMATION ON THE GROUP (Cont'd)

4.2.12 Principal Markets for Products

For the financial year ended 31 December 2004, the principal markets of Eonmetall Group comprised both local and export markets and is depicted in the diagram below:-



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4. INFORMATION ON THE GROUP (Cont'd)

The breakdown of revenue contribution by local and export markets for the financial year ended 31 December 2004 was as follows:-

| | Proportion of Group Revenue (%) |
|----------------------|--|
| Local Market | 58.4 |
| - Penang | 23.9 |
| - Selangor | 11.6 |
| - Johor | 6.7 |
| - Perak | 3.7 |
| - Kuala Lumpur | 3.2 |
| - Sarawak | 2.9 |
| - Kelantan | 2.0 |
| - Pahang | 1.6 |
| - Kedah | 1.0 |
| - Sabah | 0.7 |
| - Terengganu | 0.5 |
| - Negeri Sembilan | 0.4 |
| - Malacca | 0.2 |
| - Kuantan | # |
| Export Market | 41.6 |
| Saudi Arabia | 9.4 |
| Vietnam | 9.0 |
| Lebanon | 7.7 |
| Philippines | 4.5 |
| US | 2.7 |
| China | 1.7 |
| Indonesia | 1.6 |
| Yemen | 1.3 |
| Singapore | 1.0 |
| United Arab Emirates | 0.9 |
| Hong Kong | 0.5 |
| Ireland | 0.4 |
| Sudan | 0.3 |
| Taiwan | 0.2 |
| Mauritius | 0.2 |
| Belgium | 0.1 |
| Senegal | 0.1 |
| Brunei | # |
| Sweden | # |
| TOTAL | 100.0 |

Note:-

Insignificant revenue contribution.

4. INFORMATION ON THE GROUP (Cont'd)

For the financial year ended 31 December 2004, sales to the local market contributed the bulk of Eonmetall Group's revenue representing approximately 58.4% of total revenue. Exports accounted for the remaining 41.6%.

The Group primarily exports the following steel products and machinery and equipment:-

(i) Secondary Flat Steel Products

- Expanded Metals; and
- Others including bed frames.

(ii) Steel Storage Systems

- Light duty racking system; and
- Heavy duty racking system.

(iii) Metalwork Machinery and Equipment

- Slitting and shearing machines;
- Rolling machine (including angle bar cold-rolling machines, cold-rolling mills and flat bar/square bar/deformed bar machines);
- Forming machine (including cold-rolled forming machines, angle bar cold-rolling machines, pipe line machines, cold-pipe line machines and others); and
- Expanded Metal machines, Expanded Metal flattening machines.

For the financial year ended 31 December 2004, Eonmetall Group directly exports its products to the following countries:-

- | | |
|----------------|------------------------|
| - Singapore | - Senegal |
| - Saudi Arabia | - Vietnam |
| - US | - Philippines |
| - China | - Brunei |
| - Hong Kong | - Sudan |
| - Indonesia | - Ireland |
| - Yemen | - Belgium |
| - Mauritius | - Lebanon |
| - Taiwan | - United Arab Emirates |
| - Sweden | |

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4. INFORMATION ON THE GROUP (Cont'd)**4.2.13 Types, Sources and Availability of Raw Materials/Inputs**

The following are the major types of raw materials and sources of supply utilised by Eonmetall Group in its manufacturing process for the financial year ended 31 December 2004:-

| Raw Materials | Value of Purchases (RM'000) | % of Eonmetall Group's Total Purchases (%) | Sources of Supply | |
|---|--------------------------------|---|-------------------|------------|
| | | | Local (%) | Import (%) |
| Raw Materials for Manufacturing of Steel Products | | | | |
| Galvanised Steel Coils and Sheets | 15,401 | 31.0 | 59 | 41 |
| Hot-rolled Coils and Plates | 8,768 | 17.6 | 72 | 28 |
| Cold-rolled Coils and Sheets | 3,649 | 7.3 | 100 | - |
| Prepainted Coils | 681 | 1.4 | 100 | - |
| Others Metals ⁽¹⁾ | 513 | 1.0 | 100 | - |
| Others ⁽²⁾ | 2,819 | 5.7 | 93 | 7 |
| Raw Materials for Manufacturing of Machinery and Equipment | | | | |
| Mechanical and Hardware Materials | 11,347 | 22.8 | 39 | 61 |
| - Machinery ⁽³⁾ | 4,686 | 9.4 | 26 | 74 |
| - Motor | 1,767 | 3.6 | 39 | 61 |
| - Roller | 1,449 | 2.9 | 46 | 54 |
| - Gear / Pump | 1,297 | 2.6 | 11 | 89 |
| - Transistor Generator | 73 | 0.2 | 100 | - |
| - Others ⁽⁴⁾ | 2,075 | 4.1 | 98 | 2 |
| Materials ⁽⁵⁾ | 3,365 | 6.8 | 69 | 31 |
| Electrical Parts | 192 | 0.4 | 100 | - |
| Others ⁽⁶⁾ | 411 | 0.8 | 100 | - |
| Finished Products for Trading | | | | |
| Machinery Parts | 994 | 2.0 | - | 100 |
| Others ⁽⁷⁾ | 1,434 | 2.9 | 44 | 56 |
| Others ⁽⁸⁾ | 136 | 0.3 | 100 | - |
| Total | 49,710 | 100.0 | 63 | 37 |

4. INFORMATION ON THE GROUP (Cont'd)

Notes:-

- (1) *Other metals include aluminium coils and plates, and wire rod.*
- (2) *Others include screw, bolts and nuts, coating powder, angle bar, solar gas, rivet, packing materials, chemicals, accessories for bed frame, hollow section and others.*
- (3) *The purchases of machinery are mainly for further modification and resale, and also as modules of a complete line as it is not economical for Eonmetall Group to produce them in-house.*
- (4) *Others include cooling towers, hydraulics, bearings, bolts and nuts, grinders, air cylinder, frequency inverters etc.*
- (5) *Materials include mild steel bar, plate, angle bar, pipe, cutter spacer, slitter knives, alloy tool steel and shaft.*
- (6) *Others include machining cost, miscellaneous parts and accessories.*
- (7) *Others include hot-rolled coils, wire rod, commercial quality round bar and rollers.*
- (8) *Others include information technology products such as computer hardware and accessories.*

Manufacturing of steel products constituted approximately 51.3% of total Group revenue for the financial year ended 31 December 2004. The main raw materials used by the Group in the manufacture of steel products are steel and metal sheets, coils and plates. Raw materials used for the manufacture of steel products accounted for approximately 64.0% of total purchases of Eonmetall Group.

Machinery and equipment represented approximately 38.5% of total Group revenue for the financial year ended 31 December 2004. The main raw materials used in the Group's manufacture of machinery and equipment includes mechanical and hardware materials, electrical parts and some steel parts. The raw materials used by the Group in the manufacture of machinery and equipment accounted for approximately 30.8% of the total purchases of Eonmetall Group for the financial year ended 31 December 2004.

The remaining of approximately 5.2% of the material purchases were mainly finished products for the Group's sales and distribution activities, and peripherals for IT operations such as computer hardware and accessories.

Overall, imports constituted approximately 36.8% of total purchases of raw materials while locally sourced materials accounted for approximately 63.2% for the financial year ended 31 December 2004.

(i) Raw Materials for Manufacturing of Steel Products

As Eonmetall Group is primarily in the manufacturing of steel products, steel and metal sheets, coils and plates are the main materials used in its manufacturing operations including:-

- Galvanised steel coils and sheets;
- Hot rolled coils and plates;
- Cold-rolled coils and sheets;
- Prepainted coils; and
- Other metals include aluminium coils and plates, and wire rod.

4. INFORMATION ON THE GROUP (Cont'd)

Of these, galvanised steel coils and sheets represented the largest raw materials used, accounting for approximately 31.0% of total purchases of Eonmetall Group for the financial year ended 31 December 2004. The next largest raw materials purchased are hot rolled coils and plates, which represented approximately 17.6% of total purchases of Eonmetall Group for the financial year ended 31 December 2004.

Generally, the Group sources approximately 72% of its steel and other materials from local manufacturers and suppliers, whilst the remaining 28% were imported.

Malaysia is a producer of steel and steel related products. Some of the major types of steel plates and coils that are produced locally include:-

- Coated sheets (including galvanised steel sheets, tinplates, other metallic coated sheets);
- Mild steel plates; and
- Cold-rolled coils and sheets.

(Source: Business Overview of Eonmetall Group Berhad, Vital Factor Consulting Sdn Bhd)

The local production of steel and steel related products helps minimise any shortages in these types of raw materials. Thus far, management has not experienced any shortage in the supply of steel and other metal materials.

(ii) Raw Materials for Manufacturing of Machinery and Equipment

Eonmetall Group also involves in manufacturing of machinery and equipment including Metalwork Machinery and Equipment and Industrial Process Machinery and Equipment. As such, mechanical and hardware parts constitute one of the largest forms of materials used in its manufacturing operations.

For the financial year ended 31 December 2004, purchases of mechanical and hardware parts accounted for approximately 22.8% of total Group's purchases.

The remaining 8.0% of materials used for the manufacturing of machinery and equipment including mild steel bar, plate, angle bar, pipe, cutter spacer, slitter knives, alloy tool steel and shaft, and other electrical parts.

For the financial year ended 31 December 2004, the Group sourced approximately 51% of the materials for manufacturing of machinery and equipment from local manufacturers and suppliers. The remaining 49% sourced directly from overseas suppliers.

Thus far, management has not experienced any shortage in the supply of materials for manufacturing of machinery and equipment.

4. INFORMATION ON THE GROUP (Cont'd)**4.2.14 Quality Control Procedures**

Eonmetall Group places significant emphasis on quality. Stringent quality controls are implemented in each and every aspect of its operations.

Essentially, the Group adopts the following approaches to ensure that certain quality standards are maintained internally:-

- (i) At each stage of the production process, quality checks are undertaken to ensure that specifications are met.
- (ii) Final quality checks in the form of inspections and testing are also carried out on the finished products before despatching to customers.

As part of the Group's emphasis on quality, Eonmetall Group has also obtained the following accreditations in quality management system:-

| Companies | Accreditations | Date Obtained | Accredited by |
|-----------|----------------|------------------|--|
| EMT | ISO 9001:2000 | 11 August 2003 | Moody International Certification (Malaysia) Sdn Bhd |
| EMI | ISO 9001:2000 | 11 August 2003 | Moody International Certification (Malaysia) Sdn Bhd |
| EMS | ISO 9001:2000 | 11 August 2003 | Moody International Certification (Malaysia) Sdn Bhd |
| EMT | ISO 9001:2000 | 5 September 2003 | Moody International Certification Ltd |
| EMI | ISO 9001:2000 | 5 September 2003 | Moody International Certification Ltd |
| EMS | ISO 9001:2000 | 5 September 2003 | Moody International Certification Ltd |

As at 31 May 2005 (being the latest practicable date prior to the printing of this Prospectus), the Group has an experienced quality control and assurance team of four (4) personnel that are focused on ensuring that product quality meets with the needs and specifications of customers.

4.2.15 R&D**(i) Policies of R&D**

R&D plays an important role for Eonmetall Group, particularly in creating and sustaining competitive advantages through the following:-

- (a) Continuous improvement in product quality to ensure customer satisfaction;
- (b) increase production effectiveness, efficiency and productivity to minimise costs;
- (c) Continuously enhance existing products to better meet the needs of customers; and
- (d) Creating new products and services to address areas of growth and opportunities.

4. INFORMATION ON THE GROUP (Cont'd)**(ii) Facilities and Personnel**

The Group has in-house R&D facility that allows them to undertake R&D and test products. Some of the testing that is undertaken by the Group includes:-

- (a) **Hardness testing:** Most hardness tests involve indentation, but hardness may be reported as resistance to scratching (file test) or rebound of a projectile bounced off the material (scleroscope hardness). Hardness often is a good indication of tensile and wear properties of a material.
- (b) **Compression test:** Method for determining behaviour of materials under crushing loads. Specimen is compressed and deformation at various loads is recorded. Compressive stress and strain are calculated and plotted as a stress-strain diagram that is used to determine elastic limit, proportional limit, yield point, yield strength and (for some materials) compressive strength.

Compressive strength is calculated by dividing the maximum load by the original cross-sectional area of a specimen in a compression test. The amount of stress required to distort the material is an arbitrary amount.

- (c) **Colour/visual inspection test:** It is an automated system incorporating a camera and sophisticated software for visual detection, such as:-
- Markings;
 - Colour recognition;
 - Co-planarity; and
 - Measurement.

The system enables the equipment to inspect items with a high degree of reliability and accuracy.

- (d) **Load test:** Method to measure load capacity and failure mechanisms.
- (e) **Tensile test:** Method for determining behaviour of materials under axial stretch loading. Data from test are used to determine elastic limit, elongation, modulus of elasticity, proportional limit, reduction in area, tensile strength, yield point, yield strength and other tensile properties.

All these tests are undertaken in the Group's in-house laboratory.

As at 31 May 2005 (being the latest practicable date prior to the printing of this Prospectus), the Group has four (4) quality control and assurance personnel and eleven (11) R&D personnel.

4. INFORMATION ON THE GROUP (Cont'd)

(iii) Achievements in R&D**(a) Development of New Products**

As part of Eonmetall Group's intention to stay ahead of its competitors, it has to continuously develop new products.

Some of the products that have successfully undergone R&D and are currently in full production include:-

Steel Products

The main products under steel products that have been developed in-house and are currently in production includes the following:-

- Secondary Flat Steel Products
 - Roofing Sheets;
 - Expanded Metals;
 - Slotted Angles;
 - C-purlins;
 - Conduit pipes; and
 - Others include bed frames, blank mouth rings, bonding ties, brackets, flange fronts.

- Steel Storage Systems including heavy and light duty racking system as follows:-
 - Drive-in and drive-through racking system;
 - Selective racking system;
 - Double deep racking system;
 - Boltless selective racking system;
 - Rack supported platform; and
 - DIY household racking system.

Machinery and Equipment

The main products under machinery and equipment that have been developed in-house and currently in production includes the following:-

- Metalwork Machinery and Equipment
 - Rolling machine (angle bar cold rolling machine);
 - Forming machine (angle channel forming machine, rollforming machine pipe and hollow section machine);
 - Slitting and shearing machine;
 - Cut-to-length machine;
 - Expanded Metal machine;
 - Rolling mill machinery;
 - Flat bar or square bar machine;
 - Powder coating machine; and
 - Overhead crane.

4. INFORMATION ON THE GROUP (Cont'd)

- Industrial Process Machinery and Equipment
 - Solvent extraction machinery; and
 - Processing machinery and equipment for Palm Oil and Oleochemical Industries.

(b) Improvements in Manufacturing Processes

Eonmetall Group continuously focuses on process improvement. This is critical as it has a direct impact on manufacturing efficiency, effectiveness, productivity and product quality.

The Group's quality assurance team continuously identifies areas for improvement and ensures that quality standards are complied with throughout the manufacturing processes. This is critical to ensure quality products at all times.

(iv) Proposed Future R&D

(a) Process Improvement

Some of the benefits of process improvement are as follows:-

- Minimised wastage;
- Faster turnaround time;
- Improved cost-effectiveness;
- Improved customer satisfaction; and
- Increased product capabilities and capacity.

As such, the Group undertakes R&D through:-

- Selection of process flow best practices locally and abroad;
- Research in new technologies and machineries in improving the effectiveness, efficiencies, productivity and quality in the manufacturing processes;
- Continuous evaluation and improvement of existing processes and procedures to optimise workflow, maximise quality and minimise cost;
- Modification and customisation on existing machinery and equipment to increase efficiencies in the production process; and
- Incorporation of quality control processes.

Thus, R&D in optimising the Group's manufacturing process contributes to the success of the Group's operation and sustaining its competitive advantages.

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4. INFORMATION ON THE GROUP (Cont'd)**(b) New Product Development**

Eonmetall Group is currently undertaking R&D in the following new products:-

Manufacture of Enhanced Cold-rolling Mill

Currently, Eonmetall Group primarily focuses on manufacturing the following types of Metalwork Machinery and Equipment:-

- Rolling machine (angle bar cold rolling machine);
- Forming machine (angle channel forming machine, pipe and hollow section machine);
- Slitting and shearing machine;
- Cut-to-length machine;
- Expanded Metal machine;
- Rolling mill machinery;
- Flat bar or square bar machine;
- Powder coating machine; and
- Overhead crane.

The Group intends to extend its product range for Metalwork Machinery and Equipment to manufacture enhanced cold-rolling mill with higher capacity through on-going R&D.

Cold-rolling is a process to further reduce the thickness of the hot-rolled coils, sheets or plates and to adjust its mechanical properties.

Generally, cold-rolling mill consists of four (4) stages. The first is a pickling line whereby the coil runs through a shallow bath pickling using hydrochloric acid. After pickling, the coil will be cold-rolled. The cold-rolled coil will then be annealed in a specially designed high convention hydrogen annealing furnace. The furnace will have 100% hydrogen atmosphere for fast and uniform heating of coils within the furnace. The coil will then be cooled and stored in coil cooling units to prevent rust after annealing.

Manufacture of SEP for Palm Fibre

Currently, the Group manufactures Industrial Process Machinery and Equipment for Palm Oil and Oleochemical Industries. In an effort to expand its business to incorporate a wider range of products, Eonmetall Group is currently undertaking R&D in the manufacturing of SEP for palm oil.

The SEP which consists of two (2) modules, namely the preparation and solvent extraction modules, is able to reduce the oil in the fibre to approximately 0.5% from the initially processed fibre which contains approximately 35% to 40% moisture, with the use of solvent.

The oil extracted from the fibre can have many applications in the Food Industry.

4. INFORMATION ON THE GROUP (Cont'd)**Manufacture of MDF Plant**

As part of its business intention, Eonmetall Group aims to undertake R&D in manufacturing MDF Plant which uses oil palm empty fruit branches instead of wood fibre commonly used in traditional MDF Plant.

The Group plans to venture into developing machineries, which have the capability to produce MDF Plant from this alternative material.

Eonmetall Group intends to commence expansion of its SEP and manufacturing of its MDF Plant by 2006.

(v) R&D Expenditure

The amount spent on R&D for the last three (3) financial years ended 31 December 2002 to 2004 were as follows:-

| | Financial Year Ended 31 December 2002 | Financial Year Ended 31 December 2003 | Financial Year Ended 31 December 2004 |
|---|--|--|--|
| R&D capital expenses (RM) | 21,093 | 31,418 | 9,506 |
| R&D operating expenses (RM) | 62,040 | 1,156,667 | 489,204 |
| TOTAL R&D Expenses (RM) | 83,133 | 1,188,085 | 498,710 |
| Total R&D expenses as a proportion of the Group's total revenue (%) | 0.22% | 2.41% | 0.60% |

4.2.16 Interruptions in Business for the Past Twelve (12) Months

There has never been any interruption in the form of trade disputes or major operational breakdown occurring within and outside the Group that may significantly impair the Group's business performance during the past twelve (12) months preceding the date of this Prospectus.

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4. INFORMATION ON THE GROUP (Cont'd)**4.2.17 Employees**

As at 31 May 2005 (being the latest practicable date prior to the printing of this Prospectus), the Group has a total of two hundred and thirty two (232) employees comprising one hundred and fifty (150) Malaysian and eighty two (82) foreigners. The foreign workers comprised of Myanmar, Bangladeshi, Vietnamese, Nepalese and Indian. The foreign workers are all on contractual basis. The Group's employees are not part of any union.

The Group's employees can be segregated into five (5) categories as follows:-

| Category | No. of Employees (Local) | No. of Employees (Foreign) | Average Years in Service |
|---------------------------------------|--------------------------|----------------------------|--------------------------|
| Management and Professionals | 20 | 1 | 6.6 |
| Sales and Marketing | 5 | - | 1.4 |
| Technical and Supervisory | 27 | 5 | 3.2 |
| Clerical and Administrative | 30 | - | 2.3 |
| Factory Workers | 68 | 76 | |
| - Skilled Workers ^(a) | 11 | - | 5.0 |
| - Semi-Skilled Workers ^(b) | 19 | - | 5.0 |
| - Unskilled Workers ^(c) | 38 | 76 | 2.3 |
| TOTAL | 150 | 82 | - |

Notes:-

- (a) Include senior technicians and line supervisors.
 (b) Include technicians, line leaders, store hands and electricians.
 (c) Include operators of machines.

The management of the Group is of the opinion that its dedicated, efficient and trained employees are instrumental to the Group's success. The management of the Group enjoys a good working relationship with the employees. Save as disclosed below, the Group has not been involved in any industrial dispute with any of its employees as of 31 May 2005 (being the latest practicable date prior to the printing of this Prospectus).

There is a dispute brought to the Industrial Relations Department by a former Purchasing Manager of EMT on the ground of constructive dismissal. The dispute is still at the stage where the Industrial Relations Department is trying to bring both parties into settlement pursuant to Section 19 of the Industrial Relations Act. However, the Board believes that the impact of the dispute to the financials of the Group is minimal as according to the Board, the sum involved does not exceed RM20,000.

The management of Eonmetall Group has from time to time arranged internal and external courses to train their employees. The on-going training and development programmes cover technical and functional courses for the employees.

4. INFORMATION ON THE GROUP (Cont'd)

The following internal and external programmes have been arranged and attended by the employees:-

- (i) Lead Auditor Training;
- (ii) Bengkel Kumpulan Wang Simpanan Pekerja Malaysia;
- (iii) Productivity Improvement Program;
- (iv) Internal Quality Auditor;
- (v) Centurial Programming (Advance);
- (vi) Workshop on Interpretation and Understanding of Letter of Credit and Preparation of Export Documents; and
- (vii) Motivation Course for Sales Personnel.

The Group recognises that its employees play a major role in contributing to the success of the Group's business. The Group is committed to equip its employees with continuous on-the-job training program and development to ensure that all employees gain and develop the necessary knowledge and experience related to their respective area of responsibilities.

4.2.18 Key Achievements, Milestones, Awards and Accreditations

Eonmetall Group has obtained numerous awards and accreditations for its commitment towards quality of its products and services as set out below:-

| Companies | Accreditations | Date Obtained | Accredited by |
|-----------|--|------------------|--|
| EIT | MSC Status | 13 December 1999 | MSC Multimedia Development Corporation |
| EMT | Enterprise 50 Year 2000 (21 st Place) | Year 2000 | Anderson Consulting |
| EMT | ISO 9001:2000 | 11 August 2003 | Moody International Certification (Malaysia) Sdn Bhd |
| EMI | ISO 9001:2000 | 11 August 2003 | Moody International Certification (Malaysia) Sdn Bhd |
| EMS | ISO 9001:2000 | 11 August 2003 | Moody International Certification (Malaysia) Sdn Bhd |
| EMT | ISO 9001:2000 | 5 September 2003 | Moody International Certification Ltd |
| EMI | ISO 9001:2000 | 5 September 2003 | Moody International Certification Ltd |
| EMS | ISO 9001:2000 | 5 September 2003 | Moody International Certification Ltd |

This provides customers with the assurance of quality of Eonmetall Group's products.

4. INFORMATION ON THE GROUP (Cont'd)

4.2.19 Modes of Marketing/Distributions/Sales

Eonmetall Group has gained access to both local and export markets. Eonmetall Group's ability to access to the local market is reflected in its current established local customer base of approximately one hundred and ninety seven (197) companies for the financial year ended 31 December 2004.

The Group's success in gaining access to overseas markets is reflected in its export sales, which accounted for approximately 41.6% of total Group revenue for the financial year ended 31 December 2004. Export sales amounted to approximately RM32.6 million for the financial year ended 31 December 2004.

For the financial year ended 31 December 2004, the Group has about forty six (46) customers in the following nineteen (19) overseas countries:-

| | |
|----------------|------------------------|
| - Singapore | - Senegal |
| - Saudi Arabia | - Vietnam |
| - US | - Philippines |
| - China | - Brunei |
| - Hong Kong | - Sudan |
| - Indonesia | - Ireland |
| - Yemen | - Belgium |
| - Mauritius | - Lebanon |
| - Taiwan | - United Arab Emirates |
| - Sweden | |

(i) Marketing Strategies

The sales and marketing arm of Eonmetall Group utilises the following marketing strategies:-

- (a) Positioning itself as a manufacturer of quality Secondary Flat Steel Products and Steel Storage Systems;
- (b) Positioning itself as a manufacturer of specialised machinery and equipment with full in-house manufacturing facilities and capabilities, including design, manufacturing, research and development, and testing;
- (c) Continually providing excellence in product quality and customer service with the aim of developing long-term business relationship with customers;
- (d) Expanding its market presence overseas and develop new business opportunities by working in close partnership with existing customers and agents;
- (e) Keeping abreast of new technological development to stay ahead of competition as well as to better meet the needs of customers; and
- (f) Promote and market the Group's products through local and international trade fairs and exhibitions.

4. INFORMATION ON THE GROUP (Cont'd)

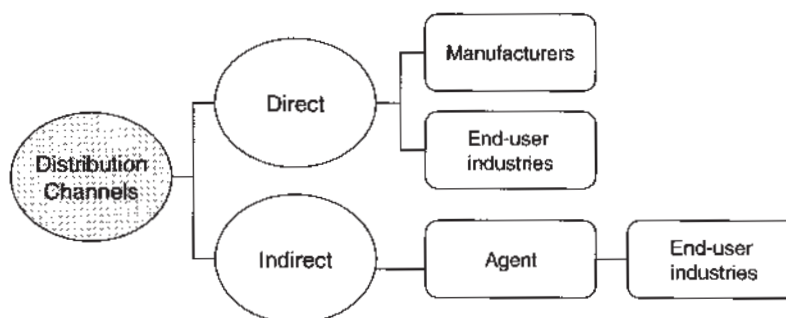
As part of the Group's strategy to promote its products and services to potential customers locally and overseas, the Eonmetall Group also actively participates in the following exhibitions and conventions:-

| Organiser of Exhibitions/ Conventions | Destination | Date |
|---|------------------------|----------------|
| Overseas (Attended) | | |
| ACCI Trade & Investment Mission | Myanmar | June 2002 |
| CeBit Hannover 2003 | Hannover, Germany | March 2003 |
| Africa Asia Business Forum | Dakar and Casablanca | April 2004 |
| Trade Mission | Namibia and Mozambique | July 2004 |
| Local (Participated) | | |
| Malaysian Exhibition Services Sdn Bhd (Industry of Tradefair Malaysia 2000) | Kuala Lumpur | June 2000 |
| Multimedia Development Corporation (MSC Expo 2000) | Kuala Lumpur | September 2000 |
| International Malaysia-Arab Fair (IMAF) | Kuala Lumpur | July 2001 |
| Muar Furniture Association | Johor | March 2003 |
| MAFEX International/Furniture Fair | Kuala Lumpur | March 2003 |
| Malaysia Export Exhibition Centre | Kuala Lumpur | September 2004 |

As at 31 May 2005 (being the latest practicable date prior to the printing of this Prospectus), the Group has eight (8) sales and marketing personnel focusing on cultivating new business development.

(ii) Distribution Channel Strategy

The distribution channel strategy of the Eonmetall Group is mainly based on direct and indirect distribution to local and overseas customers.



Eonmetall Group mainly adopts the direct distribution channel strategy for steel products whereby the steel products are sold directly to the manufacturers.

Eonmetall Group also adopts direct distribution for its Expanded Metal product where they are sold as parts directly to manufacturers.

In addition, for some of its products, for example, steel products like racking systems and machinery and equipment, Eonmetall Group uses direct channel of distribution to sell to the end-users.

The direct distribution strategy also has its advantages in enabling the Group to work closely with its customers to evaluate and attain a better understanding of their requirements, which serves as a feedback mechanism for continuous product and service improvements.

4. INFORMATION ON THE GROUP (Cont'd)

In addition, the Group also adopts indirect distribution for some of its products through distributors or agents. For the financial year ended 31 December 2004, the Group had one hundred and fifty six (156) distributors.

4.2.20 Production/Operating Capacities and Output

For the financial year ended 31 December 2004, the capacity, production and utilisation of Eonmetall Group were as follows:-

| Type of Products | Capacity (Tonnes Per Year) | Production (Tonnes Per Year) | Utilisation (%) |
|-----------------------|-------------------------------|---------------------------------|--------------------|
| Roofing Sheets | 5,000 | 1,300 | 26 |
| Slotted Angles | 3,000 | 1,900 | 63 |
| Expanded Metals | 4,000 | 2,800 | 70 |
| C-purlins | 5,000 | 1,600 | 32 |
| Conduit Pipe | 1,000 | 600 | 60 |
| Steel Storage Systems | 10,400 | 7,400 | 71 |

As at 31 December 2004, Eonmetall Group has invested approximately RM24.1 million in machinery and equipment since it started operations and these include:-

| Types of Machine and Equipment | No. of Units |
|---|--------------|
| Manufacturing of Steel Products | |
| Expanded Metal Machine | 16 |
| Rollforming Machine | 10 |
| Flattening Machine | 7 |
| Rolling Mill | 4 |
| Powder Coating Machine | 3 |
| Levelling Machine | 2 |
| Slotted Angle Machine | 2 |
| Manufacturing of Machinery and Equipment | |
| Lathe Machine | 10 |
| Milling Machine | 8 |
| Drilling Machine | 6 |
| Cutting Machine | 4 |
| Bending and Shaping Machine | 3 |

4. INFORMATION ON THE GROUP (Cont'd)**4.2.21 Location of Business****(i) Principal Assets**

A three (3)-storey corporate office and factory building owned by EMT at Lot 1258 & 1259, MK 12, Jalan Seruling, Kawasan Perusahaan Valdor, 14200 Sungai Bakap, Penang.

(ii) Production Facilities

| Registered Owner | Location | Description | Approximate Built-up Area (m ²) |
|------------------|---|---|---|
| EMT | Lot 1258 & 1259, MK 12, Jalan Seruling, Kawasan Perusahaan Valdor, 14200 Sungai Bakap, Penang | Manufacturing plant including store for raw materials | 28,890 |

(iii) Principal Place of Business, Marketing and Distribution Network

The principal place of business for the Group is located at Lot 1258 & 1259, MK 12, Jalan Seruling, Kawasan Perusahaan Valdor, 14200 Sungai Bakap, Penang. The Group also set up an office at Unit 2.10 of the Mayang Mall Complex, Penang (bearing the address of No. 1-2-10, Jalan Mayang Pasir 1, MK 12, Bandar Bayan Baru, 11950 Penang).

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4. INFORMATION ON THE GROUP (Cont'd)**4.3 SUBSIDIARIES AND ASSOCIATED COMPANIES****4.3.1 EMI****(i) Background/History**

EMI was incorporated in Malaysia under the Act on 7 November 1990 as a private limited company under the name of Eontarr Metal Industries Sdn Bhd. On 5 July 2000 it changed and assumed its present name.

(ii) Principal Activities and Products/Services

EMI is principally engaged in manufacture and distribution of steel products, focusing on Secondary Flat Steel Products.

(iii) Substantial Shareholders

The substantial shareholders of EMI are as follows:-

| Name | No. of Ordinary Shares of RM1.00 Each Held | | | |
|-----------------------------------|--|--------|--------------------------|--------|
| | Direct | (%) | Indirect | (%) |
| Eonmetall | 2,500,000 | 100.00 | - | - |
| ECSB | - | - | ^(a) 2,500,000 | 100.00 |
| Goh Cheng Huat | - | - | ^(b) 2,500,000 | 100.00 |
| Tan Pak Say | - | - | ^(c) 2,500,000 | 100.00 |
| VLSB | - | - | ^(a) 2,500,000 | 100.00 |
| Tan Sri Dato' Mohd Desa bin Pachi | - | - | ^(d) 2,500,000 | 100.00 |
| Mohd Desman Annuar bin Md Desa | - | - | ^(d) 2,500,000 | 100.00 |

Notes:-

- (a) Deemed interested by virtue of its shareholding of not less than 15% in Eonmetall pursuant to Section 6A of the Act.
- (b) Deemed interested by virtue of his shareholding of not less than 15% in ECSB pursuant to Section 6A of the Act.
- (c) Deemed interested by virtue of her spouse's shareholding of not less than 15% in ECSB pursuant to Section 6A of the Act.
- (d) Deemed interested by virtue of their shareholdings of not less than 15% in VLSB pursuant to Section 6A of the Act.

(iv) Share Capital

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

4. INFORMATION ON THE GROUP (Cont'd)

The changes in EMI's issued and paid-up share capital since incorporation are as follows:-

| Date Issued | No. of Shares Allotted | Par Value RM | Type of Issue | Cumulative Issued and Paid-up Share Capital RM |
|-------------|------------------------|--------------|--|--|
| 07.11.1990 | 2 | 1.00 | Subscribers' shares | 2 |
| 27.08.1994 | 999,998 | 1.00 | Cash | 1,000,000 |
| 04.08.2000 | 1,500,000 | 1.00 | Bonus issue on the basis of three (3) new ordinary shares of RM1.00 each for every two (2) ordinary shares of RM1.00 each held | 2,500,000 |

(v) Subsidiary/Associated Company

EMI does not have any subsidiary or associated company.

4.3.2 EMT**(i) Background/History**

EMT was incorporated in Malaysia under the Act on 17 December 1994 as a private limited company under the name of Eontarr Fasteners Sdn Bhd. On 10 October 1996, it changed its name to Eontarr Technology Sdn Bhd. Subsequently, it changed and assumed its present name since 31 May 2000.

(ii) Principal Activities and Products/Services

EMT is principally engaged in the manufacture of Metalwork Machinery and Equipment.

(iii) Substantial Shareholders

The substantial shareholders of EMT are as follows:-

| Name | No. of Ordinary Shares of RM1.00 Each Held | | | |
|-----------------------------------|--|--------|--------------------------|--------|
| | Direct | (%) | Indirect | (%) |
| Eonmetall | 2,500,000 | 100.00 | - | - |
| ECSB | - | - | ^(a) 2,500,000 | 100.00 |
| Goh Cheng Huat | - | - | ^(b) 2,500,000 | 100.00 |
| Tan Pak Say | - | - | ^(c) 2,500,000 | 100.00 |
| VLSB | - | - | ^(a) 2,500,000 | 100.00 |
| Tan Sri Dato' Mohd Desa bin Pachi | - | - | ^(d) 2,500,000 | 100.00 |
| Mohd Desman Annuar bin Md Desa | - | - | ^(c) 2,500,000 | 100.00 |

Notes:-

- (a) Deemed interested by virtue of its shareholding of not less than 15% in Eonmetall pursuant to Section 6A of the Act.
- (b) Deemed interested by virtue of his shareholding of not less than 15% in ECSB pursuant to Section 6A of the Act.
- (c) Deemed interested by virtue of her spouse's shareholding of not less than 15% in ECSB pursuant to Section 6A of the Act.
- (d) Deemed interested by virtue of their shareholdings of not less than 15% in VLSB pursuant to Section 6A of the Act.

4. INFORMATION ON THE GROUP (Cont'd)**(iv) Share Capital**

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

The changes in EMT's issued and paid-up share capital since incorporation are as follows:-

| Date Issued | No. of Shares Allotted | Par Value RM | Type of Issue | Cumulative Issued and Paid-up Share Capital RM |
|-------------|------------------------|--------------|---|--|
| 17.12.1994 | 2 | 1.00 | Subscribers' shares | 2 |
| 28.07.1999 | 1,999,998 | 1.00 | Cash | 2,000,000 |
| 04.08.2000 | 500,000 | 1.00 | Bonus issue on the basis of one (1) new ordinary shares of RM1.00 each for every four (4) ordinary shares of RM1.00 each held | 2,500,000 |

(v) Subsidiary/Associated Company

EMT does not have any subsidiary or associated company.

4.3.3 EMS**(i) Background/History**

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

(ii) Principal Activities and Products/Services

EMS is principally engaged in manufacture of steel products, focusing on Steel Storage Systems.

(iii) Substantial Shareholders

The substantial shareholders of EMS are as follows:-

| Name | No. of Ordinary Shares of RM1.00 Each Held | | | |
|-----------------------------------|--|--------|--------------------------|--------|
| | Direct | (%) | Indirect | (%) |
| Eonmetall | 2,500,000 | 100.00 | - | - |
| ECSB | - | - | ^(a) 2,500,000 | 100.00 |
| Goh Cheng Huat | - | - | ^(b) 2,500,000 | 100.00 |
| Tan Pak Say | - | - | ^(c) 2,500,000 | 100.00 |
| VLSB | - | - | ^(a) 2,500,000 | 100.00 |
| Tan Sri Dato' Mohd Desa bin Pachi | - | - | ^(d) 2,500,000 | 100.00 |
| Mohd Desman Annuar bin Md Desa | - | - | ^(d) 2,500,000 | 100.00 |

4. INFORMATION ON THE GROUP (Cont'd)

Notes:-

- (a) Deemed interested by virtue of its shareholding of not less than 15% in Eonmetall pursuant to Section 6A of the Act.
- (b) Deemed interested by virtue of his shareholding of not less than 15% in ECSB pursuant to Section 6A of the Act.
- (c) Deemed interested by virtue of her spouse's shareholding of not less than 15% in ECSB pursuant to Section 6A of the Act.
- (d) Deemed interested by virtue of their shareholdings of not less than 15% in VLSB pursuant to Section 6A of the Act.

(iv) Share Capital

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

The changes in EMS's issued and paid-up share capital since incorporation are as follows:-

| Date Issued | No. of Shares Allotted | Par Value RM | Type of Issue | Cumulative Issued and Paid-up Share Capital RM |
|-------------|------------------------|--------------|---------------------|--|
| 19.09.1995 | 2 | 1.00 | Subscribers' shares | 2 |
| 08.07.1996 | 99,998 | 1.00 | Cash | 100,000 |
| 06.11.1997 | 400,000 | 1.00 | Cash | 500,000 |
| 22.03.2001 | 2,000,000 | 1.00 | Cash | 2,500,000 |

(v) Subsidiary/Associated Company

EMS does not have any subsidiary or associated company.

4.3.4 EIT**(i) Background/History**

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

(ii) Principal Activities and Products/Services

EIT is principally engaged in the provision of IT solutions including software development.

4. INFORMATION ON THE GROUP (Cont'd)**(iii) Substantial Shareholders**

The substantial shareholders of EIT are as follows:-

| Name | No. of Ordinary Shares of RM1.00 Each Held | | | |
|-----------------------------------|--|--------|-------------|--------|
| | Direct | (%) | Indirect | (%) |
| Eonmetall | 100,000 | 100.00 | - | - |
| ECSB | - | - | (a) 100,000 | 100.00 |
| Goh Cheng Huat | - | - | (b) 100,000 | 100.00 |
| Tan Pak Say | - | - | (c) 100,000 | 100.00 |
| VLSB | - | - | (a) 100,000 | 100.00 |
| Tan Sri Dato' Mohd Desa bin Pachi | - | - | (d) 100,000 | 100.00 |
| Mohd Desman Annuar bin Md Desa | - | - | (d) 100,000 | 100.00 |

Notes:-

- (a) Deemed interested by virtue of its shareholding of not less than 15% in Eonmetall pursuant to Section 6A of the Act.
- (b) Deemed interested by virtue of his shareholding of not less than 15% in ECSB pursuant to Section 6A of the Act.
- (c) Deemed interested by virtue of her spouse's shareholding of not less than 15% in ECSB pursuant to Section 6A of the Act.
- (d) Deemed interested by virtue of their shareholdings of not less than 15% in VLSB pursuant to Section 6A of the Act.

(iv) Share Capital

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

The changes in EIT's issued and paid-up share capital since incorporation are as follows:-

| Date Issued | No. of Shares Allotted | Par Value RM | Type of Issue | Cumulative Issued and Paid-up Share Capital RM |
|-------------|------------------------|--------------|---------------------|--|
| 06.11.1995 | 2 | 1.00 | Subscribers' shares | 2 |
| 22.02.2000 | 99,998 | 1.00 | Cash | 100,000 |

(v) Subsidiary/Associated Company

EIT does not have any subsidiary or associated company.

4.3.5 ECH**(i) Background/History**

ECH was incorporated in Malaysia under the Act on 21 March 2001 as a private limited company under its present name.

4. INFORMATION ON THE GROUP (Cont'd)**(ii) Principal Activities and Products/Services**

ECH is principally engaged in the manufacture of Industrial Process Machinery and Equipment.

(iii) Substantial Shareholders

The substantial shareholders of ECH are as follows:-

| Name | No. of Ordinary Shares of RM1.00 Each Held | | | |
|-----------------------------------|--|--------|---------------|--------|
| | Direct | (%) | Indirect | (%) |
| Eonmetall | 1,000,000 | 100.00 | - | - |
| ECSB | - | - | (a) 1,000,000 | 100.00 |
| Goh Cheng Huat | - | - | (b) 1,000,000 | 100.00 |
| Tan Pak Say | - | - | (c) 1,000,000 | 100.00 |
| VLSB | - | - | (a) 1,000,000 | 100.00 |
| Tan Sri Dato' Mohd Desa bin Pachi | - | - | (d) 1,000,000 | 100.00 |
| Mohd Desman Annuar bin Md Desa | - | - | (d) 1,000,000 | 100.00 |

Notes:-

- (a) Deemed interested by virtue of its shareholding of not less than 15% in Eonmetall pursuant to Section 6A of the Act.
- (b) Deemed interested by virtue of his shareholding of not less than 15% in ECSB pursuant to Section 6A of the Act.
- (c) Deemed interested by virtue of her spouse's shareholding of not less than 15% in ECSB pursuant to Section 6A of the Act.
- (d) Deemed interested by virtue of their shareholdings of not less than 15% in VLSB pursuant to Section 6A of the Act.

(iv) Share Capital

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

The changes in ECH's issued and paid-up share capital since incorporation are as follows:-

| Date Issued | No. of Shares Allotted | Par Value RM | Type of Issue | Cumulative Issued and Paid-up Share Capital RM |
|-------------|------------------------|--------------|---------------------|--|
| 21.03.2001 | 2 | 1.00 | Subscribers' shares | 2 |
| 25.09.2001 | 499,998 | 1.00 | Cash | 500,000 |
| 30.04.2003 | 500,000 | 1.00 | Cash | 1,000,000 |

(v) Subsidiary/Associated Company

ECH does not have any subsidiary or associated company.

4. INFORMATION ON THE GROUP (Cont'd)

4.4 INDUSTRY OVERVIEW**4.4.1 Overview of the Malaysian Economy**

The Malaysian economy accelerated its growth momentum in the first half of 2004, after a strong take-off in 2003, and is expected to surpass earlier expectations with higher growth of 7% for the whole year. Positive signs of a firm economic recovery at the global front, particularly in the first six months as well as higher commodity prices, reinforced the “feel good” factor that contributed to further improvement in consumer and business sentiments. Growth has become more broad based with all sectors registering positive growth. Domestic demand, particularly private consumption, continued to sustain growth for five consecutive years, while private investments, which picked up in 2003, became more entrenched, resulting in a private sector-led growth.

The broad-based growth is evident of the effective measures implemented by the Government to develop new sources of growth to reduce the nation's vulnerability to the external environment. Expanding at 10.5%, the manufacturing sector, which has become more diversified with higher-end, value-added and new emerging industries and products, remains a major contributor to growth. New growth areas in information and communication technology, strong expansion in financial services and revival in tourism activities supported growth in the services sector, enabling it to maintain its premier position in term of share to gross domestic product (“GDP”) at 57%. Meanwhile, the Government's commitment to revitalise the agriculture sector as the third engine of economic growth, particularly in food production, has resulted in the expansion in output of fruits, aquaculture and livestock.

The synchronised upswing in the global economy and upsurge in electronics demand, as well as high prices for palm oil and crude oil, continued to propel export volume and earnings. Import growth was strong, particularly for intermediate and capital goods, reflecting robust domestic economic activities, fuelled by recovery in private investment and higher disposable income. The trade balance in July 2004, remained in surplus for 81 consecutive months since November 1997. Better export earnings and inflow of foreign funds increased the international reserves to USD54.4 billion as at 14 August 2004, sufficient to finance 7.2 months of retained imports and five times the short-term external debt. The national resource position remains strong with gross national savings at 36.5% of gross national product, providing ample liquidity to finance both public and private sector initiatives.

The robust domestic economic activities, which supported growth in 2002 through to 2004, are further augmented by favourable external environment. Of significance, the domestic sector is buoyed by the expansion in private consumption and investment activities. The manufacturing sector registered a solid growth of 12.3% during the first half of 2004, while the services sector expanded strongly by 6.8% in the same period. With the Leading Index pointing towards further expansion in the second half of the year, both sectors are envisaged to contribute significantly to the economic growth. The build-up in international reserves arising from larger current account surplus and inflows of foreign capital continues to strengthen Malaysia's macroeconomic fundamentals. Given this favourable scenario, the Malaysian economy is set to surpass its earlier estimate of 6.0 – 6.5% and post a stronger growth of 7% in 2004 (2003 : 5.3%).

4. INFORMATION ON THE GROUP (Cont'd)

The outlook for 2005 will generally remain favourable although global growth is expected to moderate on account of high oil prices, inflationary pressures, interest rate hikes and a probable slowdown in China's economy. The emergence of these risks, that became apparent in the second half of 2004 and are expected to continue into 2005, will have a larger impact on growth next year. Global economic growth is projected to moderate to 4.4% in 2005 from 4.6% in 2004. The stronger macroeconomic fundamentals and resilience, backed by sturdy domestic demand and broad-based growth, will however, continue to support Malaysia's GDP growth, forecast at 6% in 2005.

(Source : *Economic Report 2004/2005*)

The prospects for the Malaysian economy in 2005 remain sound. Real GDP is expected to expand by 5 – 6%. The sustained global growth, the modest downturn in the global semiconductor industry as well as relatively favourable prices for primary commodities are expected to provide support to export growth.

In the domestic economy, the private sector would remain as the main driver of growth, as the Government remains committed to optimising expenditure in order to strengthen the fiscal position. In particular, private sector expenditure is projected to sustain a strong expansion of 8.7% (11.1% in 2004). Both household consumption and business outlays are projected to remain resilient, thereby cushioning some of the effects of lower public investment spending arising from the Federal Government's gradual fiscal consolidation programme.

The manufacturing sector, which accounts for about a third of total private sector investment, is projected to record a strong positive growth for the third consecutive year. The strongest growth in capital spending is expected in the services sector, particularly in the utilities and telecommunications sub-sectors. Growth in the services sector is projected to be sustained at 5.7%, reflecting expansion across all sub-sectors.

With the core inflation projected to remain low in 2005 (1.8%), monetary policy is able to remain supportive of the further expansion in private sector activities.

(Source: *Bank Negara Malaysia Report 2004*)

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4. INFORMATION ON THE GROUP (Cont'd)

4.4.2 Overview of the Iron and Steel Industry, and Machinery and Equipment Industry**(i) Iron and Steel Industry**

The Iron and Steel Industry is an important industry as it supplies the critical raw materials and basic inputs that are required by several major industries, including the construction, manufacturing, machinery and engineering, and electronic and electrical industries.

The development of an advanced Iron and Steel Industry is a key step in a nation's industrialisation and development process. Most, if not all, newly industrialised countries regard the development of a strong domestic Steel Industry as a key success factor.

In 2004, sales value output of the Primary and Iron and Steel Industries amounted to RM9.4 billion.

The Iron and Steel Industry in Malaysia is currently geared towards manufacturing output for domestic consumption, particularly for use in the construction and manufacturing industries.

The Iron and Steel Industry also contributes to the Malaysian economy in terms of foreign exchange earnings. This is supported by the fact that exports of iron and steel products amounted to RM7.2 billion in 2004.

(Source : Assessment of the Secondary Flat Steel Products Industry, Vital Factor Consulting Sdn Bhd)

(ii) Machinery and Equipment Industry

The Machinery and Equipment Industry plays an important role in the growth and development of the Malaysian economy. It is a critical supporting industry across a broad cross section of the manufacturing industry. This includes specialised machinery for specific industries, power generating machinery and equipment, metalworking machinery and general industrial machinery, components and parts.

However, the Machinery and Equipment Industry is still a developing industry in Malaysia. The Malaysian Government has identified the Machinery and Equipment Industry, a high value-added and high technology sector, as one of the key areas of growth and development.

As part of the Malaysian Government's intention to nurture the growth and development of the Machinery and Equipment Industry, there are various incentives provided for companies in the manufacture of machinery and machinery components under the Promotion of Investments Act 1986.

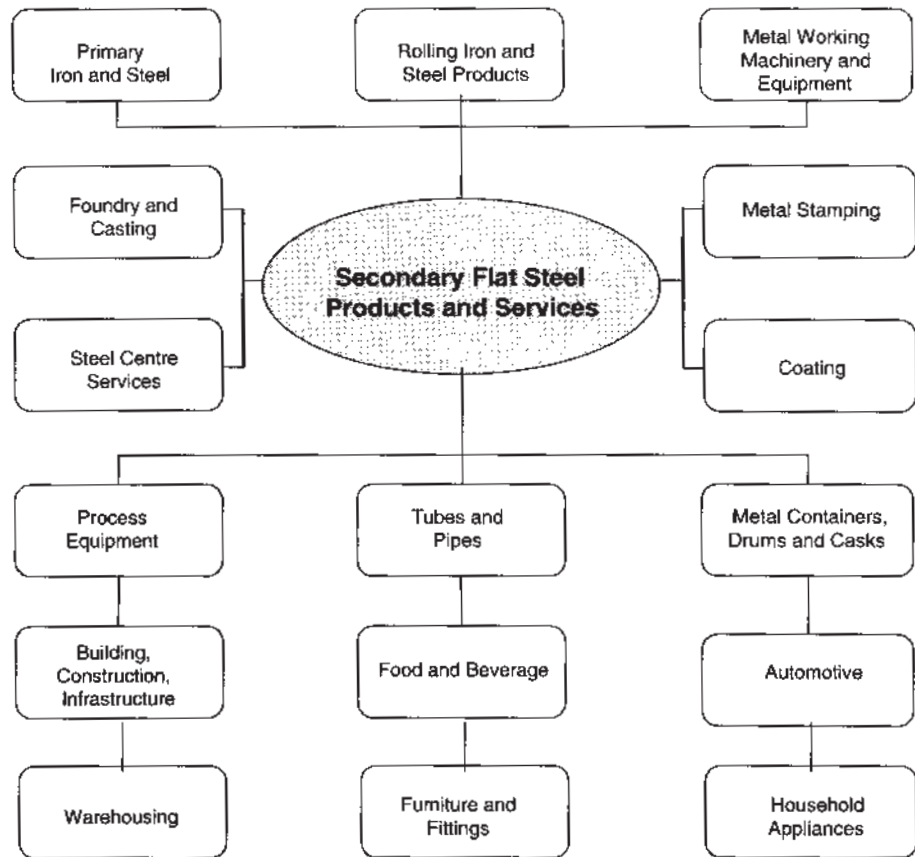
4. INFORMATION ON THE GROUP (Cont'd)

The Machinery and Equipment Industry also contributes to the Malaysian economy in terms of foreign exchange earnings. In 2004, the export value of machinery and equipment reached RM15.6 billion.

(Source : *Prospects and Future Plans of Eonmetall Group Berhad, Vital Factor Consulting Sdn Bhd*)

4.4.3 Performance of the Industry

The Secondary Flat Steel Products Industry has extensive industrial linkages to its upstream, midstream and downstream activities. Some of these linkages are depicted in the figure below:-



The extensive industrial linkages of the Secondary Flat Steel Products Industry illustrate its critical role in supporting the success of many other dependent industries.

The Secondary Flat Steel Products Industry plays a significant role as a catalyst for other economic activities, employment and wealth creation.

4. INFORMATION ON THE GROUP (Cont'd)**4.4.4 Future Growth and Outlook of the Industry**

The outlook for the Secondary Flat Steel Products Industry is favourable. The Secondary Flat Steel Products Industry is expected to grow by approximately 8% per annum for the next five (5) years. This is supported by the following factors:-

(i) Local Production of Primary Iron and Steel

- (a) Sales value of Primary Iron and Steel Industries grew at an average annual rate of 21.0% from 2000 to 2004. In 2004, sales value increased by 61.1% to reach approximately RM9.4 billion; and
- (b) Production of Secondary Flat Steel Products in tonnage terms, grew at an average annual growth rate of 6.4% from 1998 to 2002. In 2002, production of Secondary Flat Steel Products grew by 2.4% to reach 1.4 million tonnes.

(ii) Production of Selected Downstream Products

- (a) The sales value of the manufacture of other fabricated metal products, not elsewhere classified increased at an average annual rate of 8.7% from 2000 to 2004;
- (b) In 2004, sales value of other fabricated metal products, not elsewhere classified grew by 17.7% to reach approximately RM4.2 billion;
- (c) Production of galvanised/coloured steel Roofing Sheets as a sub-sector (Galvanised/coloured) of other fabricated metal products, increased at an average annual rate of 7.2% from 2000 to 2004;
- (d) In 2004, production quantity of Roofing Sheets declined by 9.3% to reach approximately 51,548 tonnes;
- (e) The sales value (ex-factory) production of racks, primary of metal grew at an average annual rate of 27.3% between 2000 and 2002. In 2002, the production of racks, primary of metal amounted to RM31.2 million;
- (f) The sales value of the manufacture of structural metal products increased by an average annual rate of 0.2% from 2000 to 2004. In 2004, the sales value of the manufacture of Structural Metal Products amounted to RM1.2 billion; and
- (g) Between 1997 and 2001, the ex-factory sales value of the manufacture of Machinery for Metallurgy grew at an average annual rate of 5.0% per annum. In 2001, the ex-factory sales value of the Manufacture of Machinery for Metallurgy reached RM24.6 million.

4. INFORMATION ON THE GROUP (Cont'd)

(iii) Export Performance

- (a) In 1998, export volume of Secondary Flat Steel Products amounted to 418,000 tonnes while for 2002 exports amounted to 814,000 tonnes. Between 1998 and 2002, export volume of Secondary Flat Steel Products increased at an average annual rate of 18.1%;
- (b) Between 2000 and 2004, the export of iron and steel bars, angles, shapes and sections (Including Sheet Piling) grew at an average annual growth rate of 30.1%. Exports of iron and steel bars, angles, shapes and sections (including Sheet Piling) grew by 40.1% in 2004 to reach RM772.3 million;
- (c) Between 2000 and 2004, exports of flat-rolled products, of iron or non-alloy steel, clad, plated or coated grew at an average annual growth rate of 7.6%. Exports of flat-rolled products, of iron or non-alloy steel, clad, plated or coated grew by 27.2% in 2004 to reach RM751.2 million; and
- (d) The export value of Metalworking Machinery and Equipment expanded rapidly at an average annual rate of 14.7% from 2000 to 2004. In 2004, export value of Metalwork Machinery and Equipment increased by 11.1% to reach RM798.1 million.

(iv) Steel Consumption

Steel consumption is expected to grow by 10% per annum between 2005 and 2007. Steel consumption is expected to reach 9.8 million tonnes in 2005 and 12.9 million tonnes in 2007.

(Source: Assessment of the Secondary Flat Steel Products Industry, Vital Factor Consulting Sdn Bhd)

Some of the drivers of growth for the Secondary Flat Steel Products Industry are as follows:-

- (i) **Socio-economic growth** such as Gross Domestic Product growth and population growth will increase demand for industrial, commercial and consumer products requiring Secondary Flat Steel Products. This is because of the diverse applications of Secondary Flat Steel Products, particularly in the construction and infrastructure development sector and in producing a wide range of consumer products;
- (ii) **Growth in the Building and Construction Industry** which constitutes a major user of Secondary Flat Steel Producers, will ultimately have a positive impact on the demand for certain Secondary Flat Steel Products;
- (iii) **Increasing affluence of consumers** as reflected in the increase in per capita Gross Domestic Product and disposable income, will increase affordability for consumer goods to further stimulate demand for Secondary Flat Steel Products;
- (iv) **Growth in export market demand** will also continue to generate demand for Secondary Flat Steel Products; and

4. INFORMATION ON THE GROUP (Cont'd)

- (v) **Economic growth and social developments of developing and underdeveloped countries** will provide the next growth impetus as these countries increase their consumption of products requiring Secondary Flat Steel Products as inputs to construction and infrastructure development.

(Source: Assessment of the Secondary Flat Steel Products Industry, Vital Factor Consulting Sdn Bhd)

4.4.5 Players and Competition

(i) Secondary Flat Steel Products

Operators in the Secondary Flat Steel Products Industry face normal competitive conditions.

As with most free enterprise environments, competition is based on a number of factors, including:-

- (a) Quality of products and services;
- (b) Cost competitiveness;
- (c) Prompt delivery schedules;
- (d) Manufacturing capabilities and capacities; and
- (e) Customer convenience.

Generally, competition among operators in the Secondary Flat Steel Products Industry in Malaysia is moderate. This is based on the following observations:-

- (a) In 2004, there were approximately 130 operators manufacturing Secondary Flat Steel Products in Malaysia. These operators manufacture a proliferation of Secondary Flat Steel Products for a diverse range of industries and applications. Therefore the competitive intensity is somewhat moderated by the diversity; and
- (b) Although there were approximately 130 manufacturers of Secondary Flat Steel Products, each of these would produce or specialise in a different range of products. From that perspective, the number of operators within each product category is a smaller sub-set of the total number of manufacturers of the Secondary Flat Steel Products Industry.

(Source: Assessment of the Secondary Flat Steel Products Industry, Vital Factor Consulting Sdn Bhd)

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4. INFORMATION ON THE GROUP (Cont'd)

(ii) Machinery and Equipment

Competition among operators in the Machinery and Equipment Industry focusing on the manufacturing of Industrial Processing Machinery is moderate.

Factors that moderate competitive intensity are:-

- (a) In 2004, there were 20 companies involved in the manufacturing of rubber and palm oil processing machinery and equipment which include raw rubber processing machinery, latex dipped product manufacturing lines, crude palm oil and edible oil processing machinery and equipment.
- (b) In 2004, there were only 6 companies in the manufacturing of Metalworking Machinery.
- (c) Specialised Machinery is customised to meet the needs of specific manufacturing environment. Hence, manufacturers are in a competitive position if they can meet the following:-
 - Conform to international quality standards including ISO accreditation and compliance;
 - Meet the requirements and specifications of customers; and
 - Capability to undertake in-house R&D, engineering design and testing in order to customise and modify machinery and equipment based on varying end-users' requirement.
- (d) Thus, with different degrees of accreditations, specialisations and capabilities, competition is moderated as not all manufacturers have the same skill sets and capabilities.

Whereas the factor that increases competitive intensity is the competition from overseas operators. As Malaysia is still a net importer, in value terms, of machinery and equipment, Malaysia faces significant competition from imported machinery and equipment particularly from Japan, Taiwan, Germany and China.

In 2004, the imports of machinery and equipment amounted to RM32.9 billion whilst export value was RM15.6 billion.

In 2004, the import value of Machinery Specialised for Particular Industries increased by 30.5% to RM10.4 billion over the previous year.

(Source: Business Overview of Eonmetall Group Berhad, Vital Factor Consulting Sdn Bhd)

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4. INFORMATION ON THE GROUP (Cont'd)

4.4.6 Laws and Regulations

(i) Government Laws, Regulations And Policies

(a) Government Regulations

Apart from the normal manufacturing licence, there are no material Government laws, regulations and policies that may impede the performance and growth of Secondary Steel Producers within a free enterprise environment.

According to the Industrial Coordination Act, 1975 which mandates all companies with shareholders' funds of RM2.5 million or above, or engaging 75 or more full-time employees to attain a manufacturing licence.

(Source: Assessment of the Secondary Flat Steel Products Industry, Vital Factor Consulting Sdn Bhd)

(b) Price Control

Certain steel products, for example billets and steel bars of various diameters, are price controlled items. On 14 April 2004, the Ministry of Domestic Trade and Consumer Affairs announced that the ceiling price of billets and steel bars was raised between 27% and 48% due to an increase in the world price of steel scrap, a key steel processing input.

Billets are primary steel products whose price ultimately influences the price of steel products.

(Source: Assessment of the Secondary Flat Steel Products Industry, Vital Factor Consulting Sdn Bhd)

(c) Import Regulations

(aa) Import Licences

In order to afford temporary protection to local manufacturers, the import of certain steel products are prohibited except under an import license.

The MITI is the ministry responsible for issuing import licenses for iron and steel products.

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4. INFORMATION ON THE GROUP (Cont'd)

The Iron and Steel products that are included in this order include:-

- Billets of iron or steel;
- Bars and rods (including wire rods);
- Coated and uncoated hot-rolled flat products of iron and non-alloy steel;
- Coated and uncoated cold-rolled flat products of iron and non-alloy steel;
- Tubes, pipes and hollow profiles, of cast iron or steel; and
- Other tubes and pipes (for example, welded, riveted or similarly closed) of iron or steel.

(Source: *Assessment of the Secondary Flat Steel Products Industry, Vital Factor Consulting Sdn Bhd*)

(bb) Import Duties

In March 2002, import duties were imposed on certain iron and steel products while selected categories were raised to 50% to protect domestic iron and steel producers from potentially unfair competition from foreign producers particularly from anti-dumping perspective. These duties were imposed in response to safeguard measures imposed by the US, the European Union and other countries.

Some of the selected iron and steel products that were raised to 50% included:-

- Coated and uncoated hot-rolled flat products of iron and non-alloy steel;
- Coated and uncoated cold-rolled flat products of iron and non-alloy steel; and
- Tubes, pipes and hollow profiles, seamless, of iron (other than cast iron) or steel for use in applications other than as high pressure hydro-electric conduits.

Full import duty exemption on iron and steel is considered for the following seven (7) selected categories of manufacturing activities:-

- Automotive and components;
- Electrical and electronics;
- Shipping;
- Petroleum and gas;
- Steel furniture;
- Licensed Manufacturer Warehouse/ Free Trade Zone companies; and
- Exporters.

(Source: *Assessment of the Secondary Flat Steel Products Industry, Vital Factor Consulting Sdn Bhd*)

4. INFORMATION ON THE GROUP (Cont'd)

(ii) Government Incentives

The major incentives for companies investing in the manufacturing sector are:-

- Pioneer Status;
- Investment Tax Allowance; and
- Reinvestment Allowance.

Eligibility for incentives under Pioneer Status and Investment Tax Allowance will be determined according to the priorities termed as "promoted activities" or "promoted products". In addition, the level of value-added, technology and industrial linkages will also be taken into consideration.

Some of the steel products which is under the list of promoted products/activities includes:-

- Blooms or slabs of steel;
- Shapes or sections of steel of height more than 200 mm;
- Plates, sheets, coils, hoops or strip of steel:-
 - Hot rolled plates, sheets, coils, hoops or strips; and
 - Cold-rolled/cold reduced plates, sheets, coils, hoops or strips;
- Seamless steel pipes;
- Seamless high pressure gas cylinders;
- Steel tyre cord and high pressure reinforced hose wire;
- Ferromanganese, silicon manganese or ferrosilicon;
- Electrolytic galvanised steel sheet in coil;
- Welded steel pipes or pipe fittings*;
- Bars or wire rods (except those of mild steel), angles, shapes or sections of all grades of steel either hot rolled, cold-rolled or cold finished*;
- Wire and wire products of iron and steel*; and
- Steel fabricated products*.

*(*Under the list of Promoted Products/Activities but only applies to promoted areas for example Sabah, Sarawak, Terengganu, Pahang and district of Mersing in Johor)*

In addition, the list of Promoted Activities and Products for small-scale companies for some of the steel products includes:-

- Wire and wire products of iron and steel; and
- Steel fabricated products.

As for some of the manufacture of machinery and equipment under the list of Promoted Activities and Products includes:-

- Specialised/Process machinery or equipment for specific industry including agricultural, machinery or equipment, mining or mineral extraction/processing machinery or equipment, construction machinery and equipment, waste water/sewerage treatment equipment, industrial sewing machines; and
- Machine tools (metalworking, woodworking and others) including welding/soldering equipment.

All manufacturing companies that have been in operation for at least twelve (12) months and incur qualifying capital expenditure to expand production capacity, modernise and upgrade production facilities, diversify into related product and automate its production facilities can obtain a Reinvestment Allowance.

4. INFORMATION ON THE GROUP (Cont'd)

Eligible manufacturers for Reinvestment Allowance are entitled to the following:-

- The Reinvestment Allowance is 60% of qualifying capital expenditure incurred by the company and can be offset against 70% of its statutory income for the year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.
- The Reinvestment Allowance will be given for a period of 15 consecutive years beginning from the year the first reinvestment is made. Companies can only claim upon completion of the qualifying project, for example after the building is completed or when the plant/machinery is put to operational use. Assets acquired for the reinvestment cannot be disposed during two (2) years from the time of reinvestment.

Eonmetall Group is currently enjoying Pioneer Status incentive with full exemption on tax for ten (10) years for the manufacturing of the following products for "Metal Surface Treatment/Coating Industry":-

- Powder coating line machine;
- Galvanising line machine; and
- Prepainted galvanising line machine.

The Group is also enjoying Pioneer Status incentive with full exemption on tax for ten (10) years for the manufacturing of rolling mill machinery and parts for the Iron and Steel Industry, recovery of residual palm oil from palm fibre plant and medium density fibreboard machine.

Currently the Group also enjoys 70% tax exemption for the manufacture of machinery and equipment for Edible Oils, Pharmaceutical, Chemical and Oleochemical Industries.

- The Group obtained MSC status for EIT in 1999 and thus enjoys full tax exemption on its IT software on shop floor automation related systems.

(Source: Business Overview of Eonmetall Group Berhad, Vital Factor Consulting Sdn Bhd)

(iii) Environmental Regulations

The main bulk of waste generated from the manufacturing of steel products is in the form of metal and steel scrap. All of the scrap materials that cannot be reused in the manufacturing process are then sold to an external scrap collecting company. Eonmetall Group disposes its scrap through Iron Hi-Tech Metal Sdn Bhd and Precision Valves & Fittings Sdn Bhd. As such, there is no significant environmental issue in relation to the Secondary Flat Steel Products Industry.

In the process of manufacturing machinery and equipment, the main waste material generally produced by the Machinery and Equipment Industry is waste oil.

4. INFORMATION ON THE GROUP *(Cont'd)*

The waste oil is created during the following production process:-

- Change of machine lubricating oil; and
- Change of degreaser during degreasing.

The disposal of waste oil is regulated under 'spent oil or grease used for lubricating industrial machines' of scheduled wastes from non specific sources in Environmental Quality Act 1974 and Environmental Quality (Scheduled Wastes) Regulations 1989.

The disposal of wastes and sludge resulting from powder coating of racking and waste of solvents used in removing oil and rust in the metal sheets fall under the Environmental Quality (Scheduled Wastes) Regulations 1989. The wastes generated by Eonmetall Group through the process are collected and disposed by Iron Hi-Tech Metal Sdn Bhd and Precision Valves & Fittings Sdn Bhd.

In addition, waste solvents created by the Group, used in removing oil and rust in the metal sheets falls under the Environmental Quality (Scheduled Wastes) Regulations 1989.

(Source: Business Overview of Eonmetall Group Berhad, Vital Factor Consulting Sdn Bhd)

4.4.7 Demand and Supply

(i) Demand Dependencies

The usage and applications of Secondary Flat Steel Products are extensive and diverse. Some of the user industries include:-

- **Building, construction and infrastructure** such as piping, steel structures, roofing and wall-cladding materials, sections, beams, angles, shapes and others;
- **Consumer electronics and appliances** such as refrigerators, ovens, washing machines, air-conditioning, computer casing and others;
- **Fabricated metal products** such as metal furniture, boxes, cast drums, portable gas containers and others;
- **Processed Equipment** such as heat exchangers, pressure vessels, storage tanks, separators, mounted bullets, boilers and others; and
- **Automotive** including passenger and commercial vehicles.

The performance of user industries will have an impact on the demand for Secondary Flat Steel Products Industry.

(Source: Assessment of the Secondary Flat Steel Products Industry, Vital Factor Consulting Sdn Bhd)

4. INFORMATION ON THE GROUP (Cont'd)**(ii) Supply Dependencies**

The main raw materials used in the manufacture of downstream steel products are primarily steel and metal sheets, coils and plates.

(a) Local Supply of Flat Rolling Products

In 2002, the rated capacity of flat rolling products in Malaysia was approximately 3.2 million tonnes.

The number of local establishments producing flat rolling products is small. In 2002, there was only 1 producer of hot-rolled coils, 2 producers of cold-rolled sheets and 2 producers of hot-rolled plates. In 2002, production capacity and capacity utilisation rates of flat rolling/finished products manufacturers were as follows:-

| Product | Installed Capacity ('000 tonnes) | Production ('000 tonnes) | % Utilisation of Capacity |
|-------------------|----------------------------------|--------------------------|---------------------------|
| Hot-rolled Plates | 450 | 109 | 24% |
| Hot-rolled Coils | 2,000 | 1,400 | 70% |
| Cold-rolled Coils | 730 | 551 | 75% |
| Total | 3,180 | 2,060 | 65% |

Based on the utilisation rate, there is ample capacity for the local production of flat rolling products. As such, shortages in the production of this type of feedstock are minimised.

(b) Import of Flat Rolling Products

Steel is produced in over 80 countries in every continent except Antarctica. The global steel trade is well established, with 38.9% of global finished steel production exported in 2003. The diversity of sources available from overseas is unlikely to render any significant or prolonged interruptions of supply.

(Source: Assessment of the Secondary Flat Steel Products Industry, Vital Factor Consulting Sdn Bhd)

4.4.8 Substitute Products/Services

There are substitutes for Secondary Flat Steel Products and Steel Storage Systems such as wood and aluminium. However, wood based substitute is not a cost effective alternative. In addition, the strength of wood is not a comparable alternative to steel. Aluminium is the next closest alternative to steel products for some applications. However, it is not as hard or strong compared to steel.

There are no other substitutes for specialised machinery such as metalworking machinery, palm oil and oleochemical processing machinery. The only other alternative is to use manual labour. However, this can only be restricted to certain processes.

4. INFORMATION ON THE GROUP (Cont'd)

4.4.9 Reliance on and Vulnerability to Import

As Eonmetall Group is primarily involved in the manufacturing of steel products and machinery and equipment, steel and metals sheets, coils and plates, mechanical and hardware parts are the main materials used in its manufacturing process.

For the financial year ended 31 December 2004, imports constituted approximately 36.8% of Eonmetall Group's total purchases of raw materials. Eonmetall Group is not overly dependent on imports.

Malaysia is a producer of steel and steel related products. Some of the major types of steel plates and coils are produced locally. The local production of steel and steel related products helps to minimise any shortages in these types of raw materials.

Thus far, the Group has not experienced any shortages in the supply of steel, other metal materials, materials for manufacturing of machinery and equipment.

(Source: Business Overview of Eonmetall Group Berhad, Vital Factor Consulting Sdn Bhd)

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4. INFORMATION ON THE GROUP (Cont'd)**4.5 MAJOR CUSTOMERS**

The top ten (10) customers of Eonmetall Group for the financial year ended 31 December 2004 are as depicted in the table below:-

| | Customer Name | Products Sold | % of Eonmetall Group's Total Revenue | Length of Relationship (No. of Years) |
|----|---|---|---|--|
| 1 | Eontarr Resources Sdn Bhd | Machines for flat bar, angle bar, Expanded Metals, slitting line, powder coating line and machinery parts | 16.6% | 2 |
| 2 | Zeenni Steel Industries and Trading S.A., Lebanon | Machines for flat bar, angle bar, slitting line, pipe and hollow section, cold-rolling mill and machinery parts | 7.7% | 1 |
| 3 | Vinda Steel Co Ltd, Vietnam | Machines for pipe and hollow section, cold-rolling mill, and machinery parts | 5.6% | 1 |
| 4 | Alesayi Storage Systems, Saudi Arabia | Expanded Metals, heavy and light duty racking | 5.5% | 4 |
| 5 | Joyland Industries Corporation, Philippines | Machines angle bar, pipe and hollow section, cold-rolling mill, forming and machinery parts | 4.5% | 2 |
| 6 | Yong Eng Seng Storage System Sdn Bhd | Heavy and light duty racking and Expanded Metals | 3.9% | 5 |
| 7 | Universal Bed Frame Inc, USA | Expanded Metals, bed frame products | 2.6% | 4 |
| 8 | Synstech Sdn Bhd | Heavy and light duty racking, Expanded Metals, C-purlin, roofing sheet and conduit pipe | 2.2% | 4 |
| 9 | American Air Filter Manufacturing Sdn Bhd | Heavy and light duty racking, Expanded Metals, blank mouth ring, vertical flange and header channel | 2.2% | 3 |
| 10 | Machinery and Spare Part Company, Vietnam | Machines for cold-rolling mill and machinery parts | 2.0% | 2 |
| | Total | | 52.8% | |

Note:- Total revenue of Eonmetall Group for the financial year ended 31 December 2004 amounted to approximately RM78.45 million.

The combined total of the top three (3) customers of Eonmetall Group only accounted for approximately 29.9% of the total revenue of the Group for the financial year ended 31 December 2004.

Eonmetall Group's emphasis has always been in cultivating a stable business relationship with its customers. This is demonstrated by the fact that 50% of its top ten (10) customers have been dealing with the Group for three (3) or more years.

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4. INFORMATION ON THE GROUP (Cont'd)**4.6 MAJOR SUPPLIERS**

The top ten (10) suppliers of the Group for the financial year ended 31 December 2004 are as follows:-

| | Supplier Name | Products Purchased | % of Eonmetall Group's Total Purchases | Length of Relationship (No. of Years) |
|----|---------------------------------------|--|---|--|
| 1 | Group Steel Corporation (M) Sdn Bhd | Galvanised steel coils | 13.6 | 5 |
| 2 | Tong Yong Steel Industries Sdn Bhd | Cold-rolled coils, hot-rolled coils and plates, galvanised steel coils, angle bar and flat bar | 12.8 | 4 |
| 3 | Minmetals Germany GMBH | Galvanised steel coils, and hot-rolled coils | 12.2 | 1 |
| 4 | Ornasteel Enterprise Corp (M) Sdn Bhd | Cold-rolled coils and galvanised steel coils | 6.3 | 4 |
| 5 | Kawamin Pacific Pte Ltd | Galvanised steel coils | 5.2 | 2 |
| 6 | Union Steel Machinery Co Ltd | Machinery, motor and rollers | 5.2 | 3 |
| 7 | Kwang Shen Hardware Trading Sdn Bhd | Galvanised steel coils and hot-rolled coils | 4.4 | 4 |
| 8 | Jotun Powder Coatings (M) Sdn Bhd | Powder coatings and paint | 2.3 | 6 |
| 9 | Vinda Steel Co Ltd | Installation and commissioning charges | 2.1 | 1 |
| 10 | Hisen Enterprise Co Ltd | Machinery parts | 1.9 | 3 |
| | Total | | 66.0 | |

Note:- Total purchases of Eonmetall Group for the financial year ended 31 December 2004 amounted to approximately RM49.71 million.

Eonmetall Group is not overly dependent on any one supplier, even though its largest supplier, Group Steel Corporation (M) Sdn Bhd, was responsible for approximately 13.6% of the overall purchases for the financial year ended 31 December 2004. This is because the major raw material of the Group, galvanised steel coil is a commodity that is available from alternative suppliers locally and overseas. As such, if the supply of galvanised steel coil from any particular major supplier is interrupted, Eonmetall Group will be able to source alternative supplies from other sources.

This is further reflected by the fact that Eonmetall Group purchases its major raw materials from a number of different suppliers within its top ten (10) suppliers:-

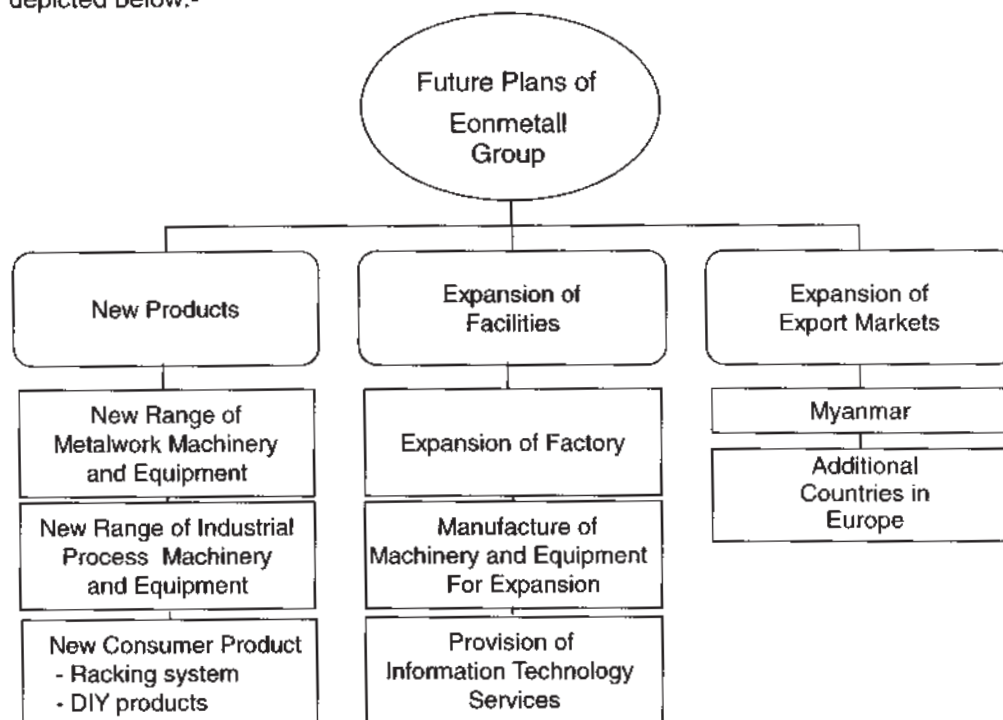
- Six (6) different suppliers for galvanised steel coils;
- Three (3) different suppliers for hot-rolled coils; and
- Two (2) different suppliers for cold-rolled coils.

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4. INFORMATION ON THE GROUP (Cont'd)

4.7 FUTURE PLANS, STRATEGIES AND PROSPECTS

The future plans of Eonmetall Group are focused in the three (3) key areas as depicted below:-



(i) New Products

Eonmetall Group plans to expand on its existing range of products to include new products and applications.

(a) Metalwork Machinery and Equipment

Currently, Eonmetall Group manufactures the following types of Metalwork Machinery and Equipment:-

- Rolling machine (angle bar cold rolling machine);
- Forming machine (angle channel forming machine, pipe and hollow section machine);
- Slitting and shearing machine;
- Cut-to-length machine;
- Expanded Metal machine;
- Rolling mill machinery;
- Flat bar or square bar machine;
- Powder coating machine; and
- Overhead crane.

The Group intends to extend the product range of Metalwork Machinery and Equipment to include the following:-

- Galvanising machine;
- Prepainted galvanising machine;
- Enhanced cold-rolled mill; and
- Auto warehousing system.

Details of the Metalwork Machinery and Equipment which the Group planned to manufacture are set out in Section 4.2.11 of this Prospectus.

4. INFORMATION ON THE GROUP (Cont'd)

(b) Industrial Process Machinery and Equipment

One of Eonmetall Group's plans is to extend its range of Industrial Process Machinery and Equipment.

Types of Industrial Process Machinery and Equipment which the Group planned to manufacture include:-

- SEP for palm fibre; and
- MDF Plant.

Details of the Industrial Process Machinery and Equipment which the Group planned to manufacture are set out in Section 4.2.11 of this Prospectus.

(c) Consumer Products

Eonmetall Group is planning to launch the following consumer products:-

- DIY decorative racking; and
- Entertainment unit.

Details of the consumer products which the Group planned to manufacture are set out in Section 4.2.11 of this Prospectus.

(ii) Expansion of Facilities

(a) Expansion of Factory

In view of its overall expansion plan, Eonmetall Group has acquired a piece of land with an approximate land area of 30 acres to build a new production plant.

The new production plant will be mainly focused on the expansion for the manufacturing of steel products activities as well as Metalwork and Industrial Process Machinery and Equipment activities.

Construction of the production plant is scheduled to commence by end of year 2005 and expected to complete by end of year 2006.

Upon completion of the Group's expansion plan, the production capacity (mainly for Secondary Flat Steel Products) of the Group is expected to be increased from 28,400 tonnes per year to 36,400 tonnes per year.

(b) Manufacture of New Machinery and Equipment for Expansion

Part of the Group's plans also includes manufacture of new machinery and equipment for its expansion plan. This is to cater for future business growth and expansion of the Group including the production of a new range of products.

The Group expects to manufacture the new machinery and equipment by end of year 2005.

4. INFORMATION ON THE GROUP (Cont'd)

(c) Provision of IT Services

Eonmetall Group intends to launch shop floor control system to cater for the manufacturing sector by year 2005.

In the manufacturing environment, improved productivity means shipping more products without adding personnel, equipment or space. Productivity and cost savings can be critical to a successful operation. Manual manufacturing floor system processes are being replaced with automation technology today. Eonmetall Group intends to address these opportunities through development of the shop floor control system.

(iii) Expansion of Export Markets

For the financial year ended 31 December 2004, exports constituted approximately 41.6% of Eonmetall Group's total revenue.

The Group plans to expand its export coverage to other countries including:-

- Myanmar by year 2005; and
- Additional countries in Europe by year 2005.

(iv) Growth and Opportunities

With the implementation of AFTA and World Trade Organisation, competition has become global. As such, manufacturers that are able to address export markets are in a significantly better position to sustain business growth and success. Opportunities exist for Malaysia manufacturers to service overseas based customers. This will open up a significantly larger market and reduce the dependencies on companies who are based in Malaysia.

Flat steel is a versatile material that can be used in many downstream applications particularly in consumer-based products. As such, operators that are already in the manufacture of downstream Secondary Flat Steel Products would find opportunities for diversification and expansion into other consumer based products.

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