

**EONMETALL GROUP BERHAD**  
**(Formerly known as Eoncap Corporation Berhad)**  
**(Company No. 631617-D)**  
**(Incorporated in Malaysia)**

**SELECTED EXPLANATORY NOTES**  
**TO THE INTERIM FINANCIAL REPORT**  
**FOR THE PERIOD ENDED 31 DECEMBER 2005**

**1. Basis of preparation**

The interim financial report is unaudited and has been prepared in compliance with FRS 134<sub>2004</sub>, Interim Financial Reporting and the additional disclosure requirements as in Part A of Appendix 9B of the Revised Listing Requirements.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with the most recent annual audited financial statements of the Company and its subsidiaries for the year ended 31 December 2004 except for the accounting policy on goodwill on consolidation. Goodwill on consolidation will be amortised over a period of 25 years whilst negative goodwill will be recognised in the income statement in the year of acquisition of subsidiary.

There are no comparative figures presented as this is the fourth quarterly report made by the Company, and the Group was only in existence on 28 February 2005.

**2. Auditors' Qualification**

There was no auditors' report of the Group for the preceding financial year as this is the first set of consolidated financial statements prepared. However, the auditors' report of the Company and of its subsidiaries for the financial year ended 31 December 2004 were not qualified.

**3. Seasonal and cyclical factors**

The business operations of the Group are not significantly affected by any seasonal or cyclical factors.

**4. Unusual nature and amounts of items affecting assets, liabilities, equity, net income or cash flows**

The negative goodwill of RM3.6 million and RM11.9 million has been recognised in the income statement for the current quarter and cumulative quarters to-date respectively. The negative goodwill which represents the excess of the fair value of net identifiable assets over cost, arising from the acquisition of subsidiaries is exceptional in nature and is not likely to recur.

Apart from this, there were no items of unusual nature and amounts of items affecting assets, liabilities, equity, net income or cash flows during the current period under review.

**5. Material changes in estimates**

There were no material changes in estimates of amounts reported in the current period under review.

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**6. Issuances and repayment of debt and equity securities**

There were no issuance, cancellations, repurchase, resale and repayment of debt and equity securities for the current period under review other than the following:

- (a) On 28 February 2005, the Company issued a total of 87,955,278 shares as consideration for the acquisition of the subsidiaries as detailed in Note 11,
- (b) On 18 April 2005, the issued and paid up share capital of the Company was further increased to RM44,000,000 comprising 88,000,000 ordinary shares of RM0.50 each by way of Rights Issues of approximately fifty-one (51) shares for every 100,000 existing shares held, based on the enlarged share capital of the Company (after the acquisitions mentioned above),
- (c) On 27 July 2005, the Company completed the following transactions:
  - i) Public issue of 22,000,000 new ordinary shares of RM 0.50 each to Malaysian public, identified investors by way of private placement, eligible directors, employees and business associates of the Company and its subsidiaries and Bumiputera investors approved by Ministry of International Trade and Industry (“MITI”) at an issue price of RM1.00 per ordinary share; and
  - ii) Offer for sale by Offerors of 28,600,000 ordinary shares of RM0.50 each in the Company to Bumiputera investors approved by MITI at an offer price of RM1.00 per ordinary share.

The above exercise was in conjunction with and as part of the listing of and quotation for the entire issued and paid-up share capital of Eonmetall Group Berhad on the Second Board of the Bursa Malaysia Securities Berhad (“BMSB”) on 3 August 2005.

**7. Dividends paid**

During the financial period, the Company paid a first interim dividend of 5% less 28% tax and a special interim dividend of 5 % less 28% tax, totaling RM3,960,000 in respect of the financial year ended 31 December on 29 November 2005.

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**8. Segment revenue and results**

Financial data by business segment for the Group:

	<b>Current year to-date</b>	
	<b>31 December 2005</b>	
	Revenue RM'000	Operating profit RM'000
Machinery and equipment	22,555	8,960
Secondary flat steel and related products	44,519	4,807
IT solutions	2,800	2,697
	69,874	16,464

**9. Valuation of property, plant and equipment**

Not applicable. No valuation policy was adopted for property, plant and equipment of the Group.

**10. Material events subsequent to the end of the interim period**

There were no material events subsequent to 31 December 2005 up to the date of this report.

**11. Changes in the composition of the Group**

There were no changes in the composition of the Group during the current period under review except for:-

*(a) Acquisition of the equity interest in Eonmetall Technology Sdn Bhd ("EMT")*

On 30 August 2004, Eonmetall entered into a Conditional Share Sale Agreement with Eonmetall Corporation Sdn Bhd ("ECSB") to acquire 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 acquisition of the equity interest in EMT was completed on 28 February 2005, thereby making EMT a wholly-owned subsidiary of Eonmetall.

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**11. Changes in the composition of the Group (Con'd)**

*(b) Acquisition of the equity interest in Eonmetall Industries Sdn Bhd ("EMI")*

On 30 August 2004, Eonmetall entered into a Conditional Share Sale Agreement with ECSB to acquire 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 Eonmetall Systems Sdn Bhd ("EMS")*

On 30 August 2004, Eonmetall entered into a Conditional Share Sale Agreement with ECSB to acquire 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 Eontarr IT Solutions Sdn Bhd ("EIT")*

On 30 August 2004, a Conditional Share Sale Agreement was made between ECSB, Goh Kee Seng and Yeoh Cheng Chye to acquire 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 Eonchem Technology Sdn Bhd ("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 to acquire the entire issued and paid up share capital of ECH comprising 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.

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**12. Capital commitments**

As at the date of this announcement, the Group has no material capital commitments.

**13. Review of earnings and/or revenue of the Company and its subsidiaries for current quarter and financial year-to-date**

For the current quarter and cumulative quarters to date, the Group recorded a revenue of RM20.2 million and RM69.9 million respectively whilst profit after tax and after the recognition of negative goodwill amounted to RM8.6 million and RM26.6 million respectively.

For the cumulative quarters, 64% of the revenue was mainly generated from secondary flat steel and related products, 32% from machinery and equipment segment and the remaining 4% was contributed from IT solutions. However on segmental performance, 55% of the operating profit was mainly generated from the machinery and equipment sector. Secondary steel and related products contributed 29% of the total operating profit while the remaining 16% was derived from IT solutions segment.

The earnings for the current quarter and cumulative to-date have been exceptionally high due to the recognition of negative goodwill. The negative goodwill which represents the excess of the fair value of net identifiable assets over costs, arising from the acquisition of subsidiaries is taken up in the income statement in the year of acquisition.

**14. Material change in Profit Before Taxation (“PBT”) reported on as compared with the immediate preceding quarter.**

The marginal decrease of about RM2 million in revenue recorded in the current quarter was attributable to the decrease in the sale of metalwork machinery and equipment. However, IT solutions business has shown greater contributions to the Group in the current quarter.

The Group reported a PBT of RM4.7 million, representing a decrease of 6% over the preceding quarter’s PBT of RM5.0 million as a result of the decrease in sales.

**15. Commentary of Prospects**

Barring any unforeseen circumstances, the Board of Directors of Eonmetall anticipates the performance of the Group in terms of profit after tax (before negative goodwill) for the next financial year to be better.

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**16. Variance of actual and forecast profit**

In conjunction with the IPO exercise on the Second Board of Bursa Securities, the directors forecasted that the consolidated profit after tax before negative goodwill of the Group for the financial year ended 31 December 2005 to be RM14.1 million in the Prospectus dated 30 June 2005. The actual Group's profit after tax before negative goodwill for the financial year ended 31 December 2005 was RM14.8 million, a slightly better than expected performance compared to forecast.

Variation between Actual (Unaudited Figures) and Forecasted Profit

Financial year ended 31 December	<b>Actual 2005 RM 000</b>	<b>Forecast* 2005 RM 000</b>	<b>Variance 2005 RM 000</b>
Revenue	79,421	80,850	(1,429)
Proforma consolidated profit before tax	16,323	16,830	(507)
Taxation	(655)	(1,453)	798
Proforma consolidated profit after tax ("PAT")	15,668	15,377	291
Less : Pre-acquisition profits	(894)	(1,281)	387
Consolidated PAT before negative goodwill	14,774	14,096	678

\* As set out in the Prospectus of Eonmetall Group Berhad dated 30 June 2005.

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**17. Taxation**

	Current year quarter ended 31 Dec 05 RM'000	Cumulative quarters ended 31 Dec 05 RM'000
Current tax expense		
- based on results for the period	(132)	917
- prior year	-	(546)
	(132)	371
Deferred tax expense		
- based on results for the period	(126)	(108)
- prior year	(37)	(37)
	(163)	(145)
	(295)	(226)

The lower effective tax rate for the period under review is mainly due to the tax incentives enjoyed by subsidiaries of the Company.

**18. Profit/(Loss) on sale of unquoted investments and/or properties**

There were no profit/(loss) on sale of unquoted investments and/or properties for the current period under review.

**19. Purchase or disposal of quoted securities**

There were no material purchases or disposals of quoted shares during the current period under review.

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**20. Utilisation of proceeds**

The Company was listed on the Second Board of Bursa Securities on 3 August 2005 and the total gross proceeds of RM0.02 million and RM22.0 million raised from the Rights Issue and Public Issue respectively have been utilised in the following manner:

	<b>Timeframe of utilisation from IPO</b>	<b>As per prospectus dated 30 Jun 2005</b>	<b>Utilised as at 31 Dec 2005</b>	<b>Balance unutilised as at 31 Dec 2005</b>
		RM'000	RM'000	RM'000
Construction of factory building	Within 18 Months	4,000	-	4,000 <sup>#</sup>
Manufacturing of new machinery and equipment for expansion	Within 12 months	8,000	3,646	4,354 <sup>#</sup>
Repayment of bank borrowings	Within 6 months	4,000	4,000	-
Working capital	Within 12 months	4,122	4,222	(100)*
Estimated share issue expenses	Within 3 months	1,900	1,800	100*
	<b>TOTAL</b>	<b>22,022</b>	<b>13,668</b>	<b>8,354</b>

<sup>#</sup> Expected to start utilizing the fund when construction works commence within the next few months. The proceeds are expected to be fully utilised by the end of year 2006. These funds are currently placed as REPO with a licensed financial institution.

- The actual listing expenses were lower than estimated. As such, the unutilised balance of proceeds of RM 99,958.88 allocated for listing expenses will be utilised for working capital purposes of the Group.

**21. Status of corporate proposal announced**

There is no corporate proposal announced but not completed as at the date of this announcement.



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**22. Group borrowings**

The Group's borrowings as at the end of the current reporting period are as follows:-

	Payable within 12 months RM' 000	Payable after 12 months RM' 000
<b>RM denominated borrowings</b>		
<b><u>Secured</u></b>		
Bank overdrafts	676	-
Bankers' acceptances	2,016	-
Term loan	981	2,533
Hire purchase	46	173
	3,719	2,706
<b><u>Unsecured</u></b>		
Bank overdrafts	45	-
Bankers' acceptances	10,174	-
Term Loan	2,658	-
	12,877	-
Total RM denominated borrowing	<u>16,596</u>	<u>2,706</u>

**23. Foreign Currency Contracts**

As at 28 February 2006, the Group has entered into the following outstanding Foreign Currency Contracts ("FCC") to hedge its confirmed sales in foreign currencies:

<u>Foreign Currency</u>	<u>Outstanding Contract ('000)</u>	<u>Equivalent Amount (RM'000)</u>	<u>Expiry Date</u>
US Dollar	306	1,147	April 2006

FCC were entered into to hedge the Group's confirmed sales in foreign currency. As the exchange rates are pre-determined under such contracts, the Group is not exposed to any market risk. Given that the contracts are entered into with licensed financial institution, the credit risk is assessed to be minimal.

As at balance sheet date, no adjustment has been made for the above forward contracts to account for the difference between the contracted rate and the prevailing market rate as the amount is immaterial.

There is no cash outlay requirement for these contracts.

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**24. Changes in material litigation**

There are no material litigation involving the Group as at the date of this report.

**25. Earnings per share**

The earnings per share is computed based on the net profit divided by the weighted average number of shares in issue.

	Current year Quarter 31 Dec 2005 (Unaudited)	Cumulative quarters Current year to-date 31 Dec 2005 (Unaudited)
Profit after tax and negative goodwill (RM'000)	8,576	26,626
<b>Basic :</b>		
Weighted average number of shares in issue ('000)	110,000	83,534
Basic earnings per share (sen)	<u>7.80</u>	<u>31.87</u>

Fully diluted earnings per share has not been calculated and presented as the effect of the employees' share options is anti-dilutive.

By order of the Board

Goh Cheng Huat  
Group Managing Director

**Dated this 28<sup>th</sup> day of February 2006.**