EONMETALL GROUP BERHAD
(Company No. 631617-D)
(Incorporated in Malaysia)

SELECTED EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2006

1. Basis of preparation

The interim financial report is unaudited and has been prepared in compliance with FRS 134_{2004}, Interim Financial Reporting and paragraph 9.22 of the Listing Requirement of Bursa Malaysia Securities Berhad.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2005. These explanatory notes attached to the interim financial report provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2005.

2. Changes in accounting policies

This quarterly consolidated financial report has been prepared by applying the accounting policies and methods of computation consistent with those used in the preparation of the most recent audited financial statements of the Group, except for the adoption of the following new/revised Financial Reporting Standards ("FRS") issued by MASB that are effective for the financial period beginning on or after 1 January 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets

The adoption of FRS 3, 102, 108, 110, 116, 121, 127, 132, 133, 136 and 138 does not have significant financial impact on the Group. The principal effects of the changes in accounting policy resulting from the adoption of other new/revised FRSs are as set out below:-

(a) *FRS 2 : Share-based payment*

This FRS requires an entity to recognize share-based payment transactions in its financial statements, including transactions with employee or other parties to be settled in cash, other assets, or equity instruments of the entity.

2. Changes in accounting policies (Cont'd)

The Company operates an equity settled, share-based compensation plan for the employees of the Group, namely the Employee Share Option Scheme ("ESOS"). Prior to 1 January 2006, no compensation expense was recognised in the income statement for share options granted. With the adoption of FRS 2, the compensation expense relating to share options is recognised in income statement over the vesting periods of the grants with a corresponding increase in capital reserve within equity. The total amount to be recognised as compensation expense is determined by reference to the fair value of the share options at the date of the grant and the number of share options to be vested by vesting date. The fair value of the share option is computed using the Binomial Lattice method.

Under the transitional provisions of FRS 2, this FRS must be applied to share options that were granted after 31 December 2004 and had not yet vested on 1 January 2006. The application is retrospective and accordingly, the comparative amounts as at 31 December 2005 are restated and the opening retained earnings as at 1 January 2006 has been adjusted. The financial impact to the Group arising from this change in accounting policy is as follows:-

	At 1.1.2006 RM'000
Decrease in retained earnings	(461)
Increase in capital reserve	461

	3 months ended 31.3.2006 RM'000	 31.3.2005 RM'000
Decrease in profit for the period	220	-

(b) FRS 101 : Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures in the consolidated income statement.

In the consolidated balance sheet, minority interests are now presented within total equity. A similar requirement is also applicable to the statement of changes in equity.

3. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2005 was not qualified.

4. Seasonality of operations

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

5. Unusual items due to their nature, size or incidence

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows during the current quarter and financial period-to-date, except for the changes in accounting policies as disclosed in Note 2.

6. Material changes in estimates

There were no changes in estimates that have had material effect in the current quarter and financial period-to-date results.

7. 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 quarter.

8. Dividends

No dividends have been declared or paid by the Company for the current quarter.

9. Segment revenue and results

Financial data by business segment for the Group:

	3 months ended 31.3.2006	
	Revenue RM'000	Operating (loss)/profit RM'000
Machinery and equipment	338	(756)
Secondary flat steel and related products	13,248	2,381
IT solutions and automation	2	(106)
Investment holding	44	(69)
	13,632	1,450

10. Valuation of property, plant and equipment

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

11. Material events subsequent to the end of the interim period

On 16 May 2006, the Company incorporated a new company known as Eonsteel Sdn. Bhd. ("Eonsteel"). Eonsteel will be a 100% owned subsidiary of the Company. The initial paid-up capital of Eonsteel will be RM2/= with the authorised share capital of RM1,000,000/=. Eonsteel will be principally involved in upstream steel products processing including R & D in processing of steel. The first Directors of Eonsteel will be Mr Goh Cheng Huat and Mr Yeoh Cheng Chye.

12. Changes in the composition of the Group

There were no changes in the composition of the Group during the current quarter.

13. Changes in contingent liabilities or contingent assets

There were no material changes in contingent liabilities or contingent assets since 31 December 2005.

14. Capital commitments

	At 31.3.2006 RM'000
Contracted but not provided for	600

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

Group revenue for the current quarter increased by RM4.9 million or 56% as compared to the corresponding quarter in the previous year due to higher sale of secondary flat steel and related products.

However, the Group's profit before tax dropped RM3.7 million or 83% as compared to the corresponding quarter in the previous year. This corresponds to the lower revenue generated from the sale of machinery and equipment which yields higher profit margin. The decrease in PBT is also partly attributable to the one-off recognition of negative goodwill amounted to RM1.2 million in the previous year's corresponding quarter.

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

The Group’s revenue for the current quarter decreased by RM6.6 million (from RM20.2 million to RM13.6 million) or 33% as compared to the preceding quarter mainly due to the drop in sale of machinery and equipment from RM4.9 million to RM0.3 million.

The Group’s profit before tax (excluding negative goodwill) dropped by RM3.6 million (from RM4.4 million (restated due to change of accounting standard) to RM0.8 million) or 82% as compared to the preceding quarter mainly due to the drop in the revenue of machinery and equipment which yields higher profit margin.

17. Commentary of Prospects

Barring any unforeseen circumstances, the Board of Directors of Eonmetall anticipates the performance of the group for the financial year to remain profitable.

18. Variance of actual and forecast profit

Not applicable. The Group did not publish any profit forecast for the financial year under review.

19. Taxation

	3 months ended 31.03.06 RM’000	Year to date ended 31.03.06 RM’000
Current tax expense	(200)	(200)
Deferred tax expense	(17)	(17)
	(217)	(217)

20. Unquoted investments and/or properties

There was no sale of unquoted investments and/or properties for the current quarter.

21. Purchase or disposal of quoted securities

There were no purchases or disposals of quoted securities for the current quarter.

22. Utilisation of proceeds

The Company was listed on the Second Board of Bursa Malaysia Securities Berhad ("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:

	Timeframe of utilisation from IPO	As per prospectus dated 30.06.05	Utilised as at 31.03.06	Balance unutilised as at 31.03.06
		RM'000	RM'000	RM'000
Construction of factory building	Within 18 Months	4,000	-	4,000 #
Manufacturing of new machinery and equipment for expansion	Within 12 months	8,000	6,271	1,729
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 *
	TOTAL	**22,022**	**16,293**	**5,729**

\# Expected to start utilising the fund when construction works commence by next quarter. The proceeds are expected to be fully utilised by end of year 2006. This fund is currently set aside and placed as REPO with a licensed financial institution.

* The actual listing expenses were lower than the estimated amount. As such, the unutilised balance of proceeds of RM 99,958.88 allocated for share issue expenses was utilised for working capital purposes of the Group.

23. Status of corporate proposal announced

As announced to the Bursa Securities on 8 May 2006, the Company proposed to undertake the following corporate exercises:-

a) Bonus issue of up to 63,250,000 new ordinary shares of RM0.50 each in Eonmetall to be credited as fully paid-up, on the basis of one (1) Bonus Share for every two (2) existing ordinary shares held in Eonmetall on the entitlement date to be determined later ("Proposed Bonus Issue"); and
b) Transfer of the listing of and quotation for the entire enlarged issued and paid-up share capital of Eonmetall from the Second Board to the Main Board of Bursa Securities ("Proposed Transfer of Listing").

The proposals are conditional upon approval being obtained from the following parties:

a) the Securities Commission ("SC") for the Proposed Transfer of Listing;
b) the shareholders of Eonmetall at an extraordinary general meeting to be convened for the proposed Bonus Issue; and
c) the Bursa Securities for the following:-
    (i) the listing of and quotation for the Bonus Shares pursuant to the Proposed Bonus Issue; and
    (ii) transfer of the listing of and quotation for the entire enlarged issued and paid up share capital of Eonmetall after the proposed Bonus Issue from the Second Board to the Main Board of Bursa Securities.

The Proposed Bonus Issue and Proposed Transfer of Listing are inter-conditional upon each other.

On 9 May 2006, the Company has submitted the application in relation to the Proposed Transfer of Listing to the SC.

24. Group borrowings

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

RM denominated borrowings	Payable within 12 months RM' 000	Payable after 12 months RM' 000
Secured		
Bank overdrafts	813	-
Bankers' acceptances	1,440	-
Term loan	795	3,362
Hire purchase	46	164
	3,094	3,526
Unsecured		
Bank overdrafts	1,649	-
Bankers' acceptances	6,232	-
Term Loan	1,932	-
	9,813	-
Total RM denominated borrowing	12,907	3,526

25. Foreign Currency Contracts

As at 18 May 2006, the Group has entered into the following outstanding Foreign Currency Contracts to hedge its confirmed sales in foreign currencies:

Foreign Currency	Outstanding Contract (‘000)	Equivalent Amount (RM’000)	Expiry Dates
US Dollar	907	3,282	Different maturity dates up to August 2006

FCCs are entered into to hedge the Group’s confirmed sales in foreign currency. The contracted rates will be used to convert the foreign currency amounts into Ringgit Malaysia. The purpose of the hedging is to mitigate the Group’s exposure to foreign currency risk.

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

The Group does not foresee any significant credit and market risk associated with the above foreign currency contracts as these were entered into with creditworthy financial institutions.

There is no cash outlay requirement for these contracts.

26. Changes in material litigation

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

27. Earnings per share

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

	Three months ended 31.03.06	Year to date ended 31.03.06
Net profit (RM’000)	551	551
Basic :		
Weighted average number of shares in issue (’000)	110,000	110,000
Basic earnings per share (sen)	0.50	0.50
Diluted earnings per share (sen)	NA	NA

27. Earnings per share (Cont'd)

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

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Goh Cheng Huat
Group Managing Director

DATED THIS 25 MAY 2006