

EONMETALL GROUP BERHAD

(Company No. 631617-D)

(Incorporated in Malaysia)

**SELECTED EXPLANATORY NOTES
TO THE INTERIM FINANCIAL REPORT
FOR THE PERIOD ENDED 31 MARCH 2007**

1. Basis of preparation

The interim financial report is unaudited and has been prepared in compliance with FRS 134₂₀₀₄, 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 2006. 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 2006.

2. Changes in accounting policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2006 except for the adoption of the following new/revised Financial Reporting Standards (“FRS”) effective for the financial period beginning 1 January 2007:

FRS 117 Leases

FRS 124 Related Party Disclosures

The Group and the company plan to apply FRS 139 (which its effective date has yet to be announced), for the annual period beginning 1 January 2008.

The adoption of the abovementioned FRSs does not result in any significant change in the group’s accounting policies.

3. Comparatives

The comparative figures have not been restated.

4. Auditors’ report on preceding annual financial statements

The auditors’ report on the financial statements for the year ended 31 December 2006 was not qualified.

5. Seasonality of operations

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

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6. 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.

7. 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.

8. 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 under review except for the followings:-

- a) On 23 January 2007, the issued and paid up share capital of the Company was increased from 110,000,000 ordinary shares of RM0.50 each to 110,401,000 ordinary shares of RM0.50 each via the allotment of 401,000 ordinary shares issued pursuant to the exercise of Employee Share Option Scheme at the exercise price of RM1.00 per share.
- b) On 14 February 2007, the Company issued Bonus Shares of 55,200,500 new ordinary shares of RM0.50 each on the basis of 1 new ordinary share for every 2 existing ordinary shares held. The issued and paid-up share capital of the Company was increased from 110,401,000 ordinary shares of RM0.50 each to 165,601,500 ordinary shares of RM0.50 each.
- c) On 12 March 2007, the issued and paid up share capital of the Company was increased from 165,601,500 ordinary shares of RM0.50 each to 165,631,500 ordinary shares of RM0.50 each via the allotment of 30,000 ordinary shares issued pursuant to the exercise of Employee Share Option Scheme at the exercise price of RM0.67 (ex-bonus price) per share.

9. Dividends

No dividend was paid by the Company during the current period under review.

The Board of Eonmetall had on 26 April 2007 recommended a first and final dividend of 5% tax exempt in respect of the financial year ended 31 December 2006 which was approved by the shareholders during the fourth annual general meeting on 28 May 2007.

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10. Segment revenue and results

Financial data by business segment for the Group:

	Period ended 31.03.2007	
	Revenue RM'000	Operating profit/(loss) RM'000
Machinery and equipment	10,693	3,692
Secondary flat steel and related products	15,594	849
IT solutions and automation	-	(61)
Investment holding	-	(242)
	<u>26,287</u>	<u>4,238</u>

11. Valuation of property, plant and equipment

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

12. Material events subsequent to the balance sheet date

There were no material events subsequent to the balance sheet date apart from:

On 25 April 2007, the issued and paid up share capital of the Company was increased from 165,631,500 ordinary shares of RM0.50 each to 165,901,500 ordinary shares of RM0.50 each via the allotment of 270,000 ordinary shares issued pursuant to the exercise of Employee Share Option Scheme at the exercise price of RM0.67 per share.

13. Changes in the composition of the Group

On 6 April 2007, the Company incorporated a new company known as Eonmetall Petro-Chem (M) Sdn. Bhd. ("EMPC"). EMPC is a 100% owned subsidiary of the Company. The initial paid-up capital of EMPC is RM2/= with the authorised share capital of RM100,000/=. EMPC will be principally involved in the business of engineering services in oil, gas and chemical industry. The first Directors of EMPC are Dato' Goh Cheng Huat and Mr Yeoh Cheng Chye.

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14. Capital commitments

	As at 31.03.2007 RM'000	As at 31.12.2006 RM'000
Contracted but not provided for	<u>636</u>	<u>1,400</u>

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

The Group's revenue for the current quarter increased by RM12.7million (from RM13.6 million to RM26.3million) or 93% as compared to the corresponding quarter in the previous year mainly attributed by the substantial increase in sales of machinery and equipment.

Simultaneously, the Group's profit before tax for the current quarter has also increased by RM2.9 million (from RM0.8 million to RM3.7 million) or 363% as compared to the corresponding quarter in the previous year.

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

The Group's profit before tax decreased by RM2.4million (from RM6.1million to RM3.7 million), 39% as compared to the preceding quarter mainly due to the lower sales of machinery and equipment in the current quarter which yielded a higher profit margin than other segment of business.

17. Commentary of Prospects

Barring any unforeseen circumstances, the Board of Directors of Eonmetall anticipates the performance of the group for the financial year 2007 to be further improved.

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18. Variance of actual and forecast profit

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

19. Taxation

	3 months ended 31.03.07 RM'000	Period to date ended 31.03.07 RM'000
Current tax expense	172	172
Deferred tax expense	166	166
	<hr/> <hr/>	<hr/> <hr/>
	338	338

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.

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22. 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.

On 19 July 2006, SC had informed that it will only consider the application for the proposed transfer of listing after fulfillment of the following:-

- a) Eonmetall is to provide the SC with the Company’s latest financial results after the first full anniversary year of the Company’s listing on the Second Board of Bursa Malaysia Securities Berhad; and
- b) The above financial results shall be accompanied by the directors’ report in relation to the latest financial position of the Eonmetall Group and forecast financial position for the financial year ending 31 December 2006.

On 13 October 2006, the Company has furnished the requested information to the SC for their further review.

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22. Status of corporate proposal announced (Cont'd)

On 7 December 2006, MIMB on behalf of the Board announced the SC's approval for the Proposed Transfer of Listing vide its letter dated 5 December 2006 subject to the following condition:-

- (i) MIMB should confirm to the SC that Eonmetall has complied with the term and condition of approval and all other relevant requirements in relation to the proposal as stipulated in the Policies and Guidelines on Issue/Offer of Securities.

MIMB on behalf of the company announced that Bursa Securities has, vide its letter dated 25 January 2007 approved-in-principal the following:-

- a) Listing of up to 63,250,000 new ordinary shares of RM0.50 each to be issued pursuant to the Proposed Bonus Issue; and
b) The transfer of Eonmetall's entire enlarged issued and paid-up share capital of up to RM94, 875,000 comprising up to 189,780,000 ordinary shares of RM0.50 each (after the Proposed Bonus Issue) from the Second Board to the Main Board of Bursa Securities.

The Bonus Issue was approved by the shareholders of the Company at an EGM held on 12 January 2007 and 55,200,500 new shares were issued and allotted pursuant to the Bonus Issue on 14 February 2007.

The entire enlarged issued and paid-up share capital of RM82,800,750 comprising 65,601,500 ordinary shares of RM0.50 each of the Company was transferred from the Second Board to the Main Board of Bursa Malaysia Securities Berhad on 2 March 2007.

23. 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
RM denominated borrowings		
<u>Secured</u>		
Term loans	2,095	14,738
Hire purchases	56	196
	2,151	14,934
<u>Unsecured</u>		
Bank overdrafts	3,721	-
Bankers' acceptances	21,644	-
	25,365	-
Total RM denominated borrowing	27,516	14,934

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24. Changes in material litigation

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

25. 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 31.03.07	Period to date ended 31.03.07
Net profit (RM'000)	3,363	3,363
Basic :		
Weighted average number of shares in issue ('000)	165,460	165,460
Basic earnings per share (sen)	<u>2.03</u>	<u>2.03</u>
Diluted :		
Weighted average number of shares ('000):		
- In issue	165,460	165,460
- Effect of ESOS	<u>1,763</u>	<u>1,763</u>
	<u>167,223</u>	<u>167,223</u>
Diluted earnings per share (sen)	<u>2.01</u>	<u>2.01</u>

By order of the Board

Dato' Goh Cheng Huat
Group Managing Director

DATED THIS 28th May 2007