

# **EONMETALL GROUP BERHAD**

(Company No. 631617-D)  
(Incorporated in Malaysia)

## **SELECTED EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2011**

### **1. Basis of preparation**

The interim financial report is unaudited and has been prepared in compliance with FRS 134, 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 2010. These explanatory notes attached to the interim financial report provide an explanation of events and transactions that are significant to the understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2010.

### **2. Significant Accounting Policies**

The significant accounting policies adopted for the interim financial statements are consistent with those adopted for the Group's annual Audited Financial Statements for the year ended 31 December 2010 except for the adoption of the following new/revised Financial Reporting Standards (FRSs):-

#### **Effective for financial periods beginning on or after 1 March 2010:-**

Amendments to FRS 132 Classification of Rights Issues

#### **Effective for financial periods beginning on or after 1 July 2010:-**

FRS 1	First-time Adoption of Financial Reporting Standards (Revised)
FRS 3	Business Combinations (Revised)
FRS 127	Consolidated and Separate Financial Statements (Revised)
Amendments to FRS 2	Share-based Payments
Amendments to FRS 5	Non-current Assets Held for Sale and Discontinued Operations
Amendments to FRS 138	Intangible Assets
IC Interpretation 17	Distributions of Non-cash Assets to Owners
Amendments to IC Interpretation 9,	Reassessment of Embedded Derivatives

#### **Effective for financial periods beginning on or after 1 January 2011:-**

Amendments to FRS 1	Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
Amendments to FRS 1	Additional Exemptions for First-time Adopters
Amendments to FRS 2	Group Cash-settle Share Based Payment Transactions

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**2. Significant Accounting Policies (cont'd)**

**Effective for financial periods beginning on or after 1 January 2011 (cont'd):-**

Amendments to FRS 7	Improving Disclosures about Financial Instruments
IC Interpretation 4	Determining Whether an Arrangement contains a Lease
IC Interpretation 18	Transfers of Assets from Customers
Improvements to FRSs (2010)	

The adoption of the above new/revised FRSs does not have significant financial impact on the interim financial statements of the Group.

**3. Auditors' report on preceding annual financial statements**

The auditors' report on the financial statements for the year ended 31 December 2010 was qualified and the details of the qualification are as described below:-

***Basis for Qualified Opinion***

"The work-in-progress and manufactured inventories of the Group include certain slow-moving metalwork machinery amounting to RM13.2 million that are without secured orders on hand. Out of this amount, a sum of RM2.9 million is under negotiation with potential buyers. The directors are of the opinion that these slow-moving inventories can be realised at above their carrying amounts and accordingly, no write-down is necessary.

We have not been able to establish the net realisable value of these inventories in view of the specialised nature of the inventories involved and the lack of comparable machinery costs in the market. Consequently, we were unable to determine whether any adjustments to these values of inventories were necessary."

As at the date of this announcement, out of the slow-moving inventories of RM13.2 million, a sum of RM0.4 million was written off, RM7.0 million was realized above their carrying amounts and RM2.8 million is under negotiation with potential buyers which is also expected to be realized at above their carrying amounts. Thus, the directors are of the opinion that no write-down is necessary for the current quarter under review. The directors shall monitor closely the slow-moving inventories and will do the necessary adjustment if there is a need to do so.

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**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 under review.

**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 under review.

**8. Dividends paid**

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

**9. Segment revenue and results**

Financial data by business segment for the Group:

	Period ended 30.09.2011	
	Revenue RM'000	Operating profit RM'000
Machinery and equipment	21,697	4,487
Steel product and trading activity	97,456	6,839
All other segments	7	1,423
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	119,160	12,749

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**10. Revaluation 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 reporting period**

There were no material events subsequent to the end of third quarter apart from the fact that the Company had purchased 1,010,000 of its own shares at RM0.29 per share for a total cash consideration of RM292,900 as treasury shares on 03 October 2011.

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

There were no changes in the composition of the Group during the financial period-to-date save as:

a) On 30 March 2011, the Board announced that its wholly owned subsidiary, Eonmetall International Limited (“EIL”) has established PT. Eonmetall Investment (PT. Eonmetall”) in Indonesia. The intended paid-up share capital of PT. Eonmetall will be USD1.0 million of which EIL holds 95% and the remaining 5% is being held by an individual party of Indonesian nationality. PT. Eonmetall will be principally involved in the industry of crude palm oil and essential oil, oil palm and jatropha plantation, trading, consultancy and management.

**13. Changes in contingent liabilities or contingent assets**

	As at 30.09.2011 RM'000	As at 31.12.2010 RM'000
Corporate guarantees given to licensed banks for credit facilities granted to subsidiaries	241,946	206,946

**14. Capital commitments**

The capital commitments as at 30 September 2011 were as follows:-

	As at 30.09.2011 RM'000
Contracted but not provided for	4,027

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

For the third quarter ended September 30, 2011, the Group achieved revenue of RM42.8 million, representing an increase of RM15.8 million (from RM27.0 million to RM42.8 million) as compared to the corresponding quarter preceding year. The Group's revenue for the financial period-to-date also recorded a growth of 50% as compare to the corresponding financial period-to-date primarily driven by higher demand in steel product and trading activity segment.

Despite of higher revenue recorded during current financial period, the Group profit before tax did not increase in tandem with revenue over prior year corresponding financial period mainly due to lower sales of machinery which normally yields a higher profit margin than other segment of business.

There were no material factors affecting the earnings and/or revenue of the Group for the current quarter under review.

#### 16. Material change in Profit before Taxation reported on as compared with the immediate preceding quarter.

	Individual quarter ended	
	30.09.2011 RM'000	30.06.2011 RM'000
Revenue	42,817	50,458
Profit before tax ("PBT")	3,878	4,559

The Group registered lower revenue as compared with the immediate preceding quarter due to the lower demand in steel product and trading activity segment. In tandem with the lower revenue, the Group achieved a lower PBT in the quarter under review.

#### 17. Commentary of Prospects

Barring any unforeseen circumstances, the Board of Directors of Eonmetall anticipates the performance of the Group for the financial year 2011 **to be improved**.

#### 18. Variance of actual and forecast profit

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

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**19. Taxation**

	3 months ended 30.09.2011 RM'000	Period to date ended 30.09.2011 RM'000
Current taxation	31	(121)

**20. Unquoted investments and/or properties**

There were no material purchases or disposals of unquoted investment and/or properties in the current quarter and financial period-to-date.

**21. Quoted investments**

There were no material purchases or disposals of quoted investment during the current quarter and financial period-to-date.

**22. Status of corporate proposal announced**

There were no corporate proposals announced but not completed as at the date of this announcement.

**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
<b>RM denominated borrowings</b>		
<b><u>Secured</u></b>		
Term loans	7,941	24,752
Hire purchases	222	711
	8,163	25,463

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**23. Group borrowings (cont'd)**

**Unsecured**

Bank overdrafts	4,257	-
Bankers' acceptances	46,518	-
	50,775	-
Total RM denominated borrowing	58,938	25,463

**USD denominated borrowings**

**Unsecured**

Trade loan	2,183	-
<b>Total borrowings</b>	<b>61,121</b>	<b>25,463</b>

**24. Off balance sheet financial instrument**

There were no financial instrument negotiated with off balance sheet risk at the date of issuance of this report.

**25. Changes in material litigation**

There was no material litigation as at the date of the interim financial statements apart from:

Eonmetall Industries Sdn Bhd vs (1) Lai Chin Yang (2) Megasteel Sdn Bhd (Transferred and registered in Kuala Lumpur High Court as Civil Suit No. 22NCVC-513-2011)

Eonmetall Industries Sdn. Bhd. ("EMI"), a wholly-owned subsidiary of the Company had via its solicitors filed a Writ of Summons in the High Court in Pulau Pinang ("Court") against Mr. Lai Chin Yang and Megasteel Sdn. Bhd. ("Defendants").

In the Writ, EMI has claimed for general damages and exemplary damages amounting to RM20 million to be paid jointly and severally by the Defendants over the slander or defamatory statement made against EMI. Details of the claims are as follows:

- i) General damages of RM10 million;
- ii) Exemplary damages of RM10 million;
- iii) Interest rate of 8% per annum from 22 April 2010;
- iv) Defendants to pay EMI's cost of the legal proceeding on indemnity basis; and
- v) Other relief deemed fair by the Court.

The defendants have counter-claimed on the basis that the defamation suit is an abuse of the court process.

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#### 26. Dividends

The Board of Eonmetall had on 21 February 2011 recommended a final dividend of 5.0% tax exempt in respect of the financial year ended 31 December 2010 which was approved by the shareholders at the Annual General Meeting on 27 June 2011. The final dividend was paid on 8 September 2011 to the shareholders whose names appeared in the Record of Depositors of the Company at the close of business on 12 August 2011.

#### 27. Realized and Unrealized Profits/Losses

The following analysis of realized and unrealized retained profits/(accumulated losses) is prepared pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Securities Berhad Listing Requirements and in accordance with the Guidance on Special Matter No. 1 - Determination of Realized and Unrealized Profits or Losses as issued by the Malaysian Institute of Accountants. This disclosure is based on the format prescribed by Bursa Malaysia Securities Berhad.

	As at 30.09.2011 RM'000	As at 31.12.2010 RM'000
Total retained profits of Eonmetall Group Berhad and its subsidiaries:		
- Realized	93,334	83,962
- Unrealized	1,616	1,042
Total share of retained profits from associated companies:		
- Realized	1,892	1,895
- Unrealized	-	-
Total share of retained profits from jointly controlled entities:		
- Realized	-	-
- Unrealized	-	-
Less: Consolidation adjustments	(48,781)	(44,633)
Total Group retained profits as per consolidation accounts	<b><u>48,061</u></b>	<b><u>42,266</u></b>



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**28. 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 30.09.2011	Period to date ended 30.09.2011
Profit after tax attributable to owners of the Company (RM'000)	3,909	10,074
<b>Basic :</b>		
Weighted average number of shares in issue ('000)	171,171	171,171
Basic earnings per share (sen)	<u>2.28</u>	<u>5.89</u>
<b>Diluted :</b>		
Diluted earnings per share (sen)	<u>NA</u>	<u>NA</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

Dato Goh Cheng Huat  
 Managing Director

**DATED THIS 21<sup>st</sup> November 2011**