

EONMETALL GROUP BERHAD

(Company No. 631617-D)

(Incorporated in Malaysia)

SELECTED EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2013

A. DISCLOSURE REQUIREMENTS PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS (“MFRS”) 134 INTERIM FINANCIAL REPORTING

1. Basis of preparation

The condensed consolidated interim financial report is unaudited and has been prepared in compliance with MFRS 134, Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. These condensed consolidated interim financial statements also comply with IAS 34 Interim Financial Reporting issued by the International Accounting Standards Board.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2012. 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 2012.

2. Significant Accounting Policies

The significant accounting policies and methods of computation applied in the unaudited condensed financial statements are consistent with those adopted in the most recent annual financial statements for the year ended 31 December 2012 except for the adoption of the following MFRSs and Amendment to MFRSs and Interpretation:-

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2012

- Amendments to MFRS 101, Presentation of Items of Other Comprehensive Income

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013

- MFRS 10, Consolidated Financial Statements
- MFRS 11, Joint Arrangements
- MFRS 12, Disclosure of Interests in Other Entities
- MFRS 13, Fair Value Measurement
- MFRS 119, Employee Benefits (Revised)
- MFRS 127, Separate Financial Statements
- MFRS 128, Investments in Associates and Joint Ventures
- Amendment to MFRS 1 Government Loans
- Amendment to MFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

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2. Significant Accounting Policies (cont'd)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013 (cont'd)

- Amendment to MFRSs Annual Improvements 2009-2011 Cycle
- Amendment to MFRS 10, MFRS 11 and MFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
- IC Interpretation 20, Stripping Costs in the Production Phase of a Surface Mine

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014

- Amendments to MFRS 132, Offsetting Financial Assets and Financial Liabilities

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015

- MFRS 9 and Transition Disclosures (Mandatory Effective Date on 1 January 2015)
- MFRS 9 Financial Instruments

3. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2012 was not qualified.

4. Seasonality of operations

The business operations of the Group were 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 financial period-to-date.

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6. Material changes in estimates

There were no changes in estimates that have a material effect in the financial period-to-date save as below:-

During the financial period under review, the Group reviewed the estimated useful life of the plant and machinery and had extended the estimated useful life of certain plant and machinery with effect from 1 January 2013. The revisions were accounted for prospectively as changes in accounting estimates and as a result, the depreciation charges of the Group for current period-to-date have been decreased by RM1.5 million.

The principal annual depreciation rates for plant and machinery were changed from 10% to a range from 5% - 10% with effect from 1 January 2013.

7. Issuances and repayment of debt and equity securities

Save as disclosed below, there were no issuance, cancellations, repurchase, resale and repayment of debt and equity securities for the financial period under review.

- 1,000 of its own shares at RM0.345 per share for a total cash consideration of RM345 had been purchased as treasury shares on 28 May 2013

8. Dividends paid

During the financial period, the Company paid a final dividend of 3.5% or 1.75 sen per share (Tax Exempt) totaling RM2,951,516.55 in respect of the financial year ended 31 December 2012 on 15 August 2013.

9. Segment revenue and results

Segmental reporting for the financial period-to-date is as below:-

Period-to-date ended 30-September-13	Machinery and equipment RM'000	Steel product and trading activity RM'000	Property, investment holding and others RM'000	Total RM'000
Total revenue	24,741	42,994	33	67,768
Inter-segment revenue	-	(8,723)	-	(8,723)
External revenue	24,741	34,271	33	59,045
Interest income	1	-	-	1
Interest expense	903	1,261	921	3,085
Depreciation and amortisation	752	3,060	485	4,297
Share of results of associates	-	-	-	-
Segment profit/(loss)	439	(173)	(2,552)	(2,286)

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Period-to-date ended 30-September-12	Machinery and equipment RM'000	Steel product and trading activity RM'000	Property, investment holding and others RM'000	Total of all segments RM'000
Total revenue	45,049	71,415	-	116,464
Inter-segment revenue	(3,188)	(5,541)	-	(8,729)
External revenue	41,861	65,874	-	107,735
Interest income	11	4	4	19
Interest expense	483	1,422	809	2,714
Depreciation and amortisation	670	4,863	411	5,944
Share of results of associates	-	-	(266)	(266)
Segment profit/(loss)	10,949	(3,634)	(1,378)	5,937

10. Material events subsequent to the end of the reporting period

There were no material events subsequent to the end of the quarter under review which has not been reflected in this interim financial report save as below:-

On 18 October 2013, its wholly owned subsidiary, Eonmetall Industries Sdn Bhd received the full purchase price from Jinfast Sdn Bhd. Hence, on even date, the disposal of all that piece of freehold industrial land known as Lot 385, Mukim 12, Daerah Seberang Perai Selatan, with a three storey office building annexed with a single storey factory building erected thereon for a total cash consideration of RM26,000,000.00 was deemed completed. Please kindly refer to Note 21(b) for the updates on the corporate proposal.

On 19 November 2013, its wholly owned subsidiary, Eonchem Biomass Sdn Bhd had settled the full purchase price and the late payment interest to Astral Dragon Sdn Bhd. Hence, the Acquisition of an industrial land held under title no. GM390, Lot No. 391, Mukim 12, Daerah Seberang Perai Selatan, Pulau Pinang of RM7,673,782.74 was deemed completed on even date. Please kindly refer to Note 21(a) for the updates on the corporate proposal.

On 25 November 2013, its wholly owned subsidiary, Eonmetall Systems Sdn Bhd had received the balance sale price and the late payment interest from Leader Steel Sdn Bhd. Hence, the disposal of a parcel of an industrial land together with an almost completed single-storey detached factory with an office erected thereon held under title no. GRN 77765, Lot 1596, Mukim 12, Daerah Seberang Perai Selatan, Pulau Pinang for a cash consideration of RM12,100,000.00 was deemed completed on even date. Please kindly refer to Note 21(a) for the updates on the corporate proposal.

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11. 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 below:-

On 14 January 2013, the Company had entered into an agreement with Corporate Cosmo Sdn Bhd for the disposal of all its 100% equity interest representing 2 ordinary shares of RM1 each in Eonmetall Petro-Chem (M) Sdn Bhd (EPCSB) for a total cash consideration of RM2,000,002. Following the disposal, EPCSB ceased to be a wholly owned subsidiary of the Company.

12. Changes in contingent liabilities or contingent assets

	As at 30.09.13 RM'000	As at 31.12.2012 RM'000
Corporate guarantees given to licensed banks for credit facilities granted to subsidiaries	<u>193,638</u>	<u>204,252</u>

13. Capital commitments

The capital commitments as at 30 September 2013 was as follows:-

	As at 30.09.2013 RM'000
Contracted but not provided for	<u>7,673</u>

14. Related Party Transactions

Below are transactions with companies in which a Director / his spouse and persons connected to them having controlling interests during the financial period ended 30 September 2013.

	Period ended 30.09.2013 RM'000
Rental of premises	387
Sale of goods	4,071
Purchase of goods	<u>79</u>

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B. ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD

15. Review of performance

The Group's revenue for the third quarter ended 30 September 2013 dropped by 66% from RM39.1 million down to RM13.1 million as compared to the corresponding quarter in the prior financial year. The Group's revenue for the financial period-to-date also recorded a drop of 45% from RM107.7 million down to RM59.0 million as compared to the corresponding financial period-to-date mainly attributed by the lower revenue generated from both machinery and equipment segment as well as steel product and trading activity segment.

The Group's Loss before tax ("LBT") for the current quarter is RM2.3 million. Hence, the Group's results declined by 139% as compared to the Profit before tax ("PBT") of RM5.9 million recorded in preceding year corresponding financial period. The performance of the operating business segment is presented as follows:-

(a) Machinery and equipment segment

This segment recorded revenue of RM3.4 million for the current quarter as compared to RM14.9 million achieved in the previous year corresponding quarter, representing a decrease of 77%. Revenue for the current financial period decreased by 41% to RM24.7 million as compared to RM41.9 million recorded in previous year corresponding period partly due to the drop of palm oil price. PBT earned for the financial period under review dropped from RM10.9 million down to RM0.4 million which was in line with the decrease in revenue.

(b) Steel product and trading activity segment

This segment recorded revenue of RM9.7 million for the current quarter, representing a decrease of RM14.3 million (from RM24.0 million down to RM9.7 million) as compared to the corresponding quarter preceding year. Revenue generated from this segment decreased by 48% to RM34.3 million for the financial period under review as compared to revenue of RM65.9 million reported in the previous year corresponding period. The LBT of RM3.6 million registered in corresponding period previous year reduced to LBT of RM0.2 million mainly contributed by lower raw material costs and positive profit impact of RM1.5 million arising from the change of accounting estimates as mentioned in Note 6 of the explanatory notes.

(c) Property, investment holding and other segment

The income derived from this segment represents rental income derived from the Group's properties offsetting with the operating expenses from all other segments. Gain on disposal of subsidiary of RM0.3 million was also included in this segment.

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16. Variation of results against preceding quarter

	Individual quarter ended	
	30.09.2013	30.06.2013
	RM'000	RM'000
Revenue	13,078	24,501
(Loss)/profit before tax	<u>(2,929)</u>	<u>172</u>

The Group recorded a current quarter LBT of RM2.9 million, a drop of RM3.1 million over the preceding quarter primarily due to lower revenue earned for the current quarter under review.

17. Commentary of prospects

The Board of Directors of Eonmetall foresees a challenging final quarter in respect of the operational performance for the financial quarter ending 31 December 2013 due to the current global business environment. However, the performance of the Group for the financial year 2013 to be maintained.

18. Profit forecast

The Group did not publish any profit forecast in a public documents in the current financial quarter.

19. Notes to the Condensed Consolidated Statement of Comprehensive Income

Save as disclosed below and included in the consolidated income statements, there were no other items applicable to be disclosed pursuant to item 16 of Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia:

	3 months ended 30.09.2013 RM'000	Period ended 30.09.2013 RM'000
Other income	(144)	(425)
Insurance compensation received	(2)	(499)
Interest income	-	(1)
Depreciation of property, plant and equipments	1,301	4,006
Depreciation of investment property	97	291
Gain on disposal of property, plant and equipment	-	(5)
Gain on disposal of subsidiary	-	(338)
Realised gain on foreign exchange	(68)	(91)
Unrealised gain on foreign exchange	<u>-</u>	<u>(13)</u>

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20. Taxation

	3 months ended 30.09.2013 RM'000	Period ended 30.09.2013 RM'000
Current tax expense	(100)	(395)
Deferred tax expense	13	38
	<u>(87)</u>	<u>(357)</u>

The Group's effective tax rate for the current period and financial period to-date are lower than the statutory rate of tax applicable mainly due to utilization of tax incentives by certain subsidiaries of the Group.

21. Status of corporate proposal announced

There are no other corporate proposals announced but not completed as at the date of issue of this announcement save for the followings:

- (a) At an Extraordinary General Meeting of the Company held on 28 December 2012, the shareholders had approved:
- (i) the disposal by Eonmetall Systems Sdn Bhd ("ESSB"), a wholly owned subsidiary, of a parcel of industrial land together with an almost completed single-storey detached factory with an office erected thereon held under Title No. GM 77765, Lot No. 1596, Mukim 12, Daerah Seberang Perai Selatan, Pulau Pinang, for a cash consideration of RM12,100,000.00 ("Disposal") to Leader Steel Sdn Bhd ("LSSB"), a wholly owned subsidiary of Leader Steel Holdings Berhad; and
 - (ii) the acquisition by Eonchem Biomass Sdn Bhd ("EBSB"), a wholly-owned subsidiary, of a parcel of an industrial land held under Title No. GM 390, Lot No. 391, Mukim 12, Daerah Seberang Perai Selatan, Pulau Pinang, but excluding the buildings (which comprise a single-storey factory, a palm fibre oil extraction plant, a single-storey warehouse and a boiler house) and site improvements (which include clearing and levelling of the land, drainage, fencing and gate, paving and etc.) erected thereon for a cash consideration of RM7,673,782.74 ("Acquisition") from Astral Dragon Sdn Bhd ("ADSB").

(Collectively referred to as the "Proposals")

On 5 April 2013, the Company had announced that ESSB and EBSB had, on even date, reached an understanding with LSSB and ADSB respectively, to further extend the Extended Completion Period for the Proposals by three (3) months commencing from the expiry of the Extended Completion Date of 27 April 2013, subject to LSSB and EBSB paying an interest at the rate of 6% per annum on the unpaid balance purchase price calculated on a daily basis.

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

Following the above, the last date for settlement of the balance purchase price pursuant to the Proposals will be on 27 July 2013 ("1st Extended Completion Period"). EBSB and ADSB had also reached an understanding to extend the deadline for the Option (period from 1 November 2012 to 30 April 2013) for a further period of three (3) months from 30 April 2013 ("1st Extension").

On 18 July 2013, the Company had announced that ESSB and LSSB had mutually agreed to further extend the 1st Extended Completion Period for Disposal by a further three (3) months following the expiry of the 1st Extended Completion Period on 27 July 2013 ("LSSB's 2nd Extended Completion Period"). Following the mutual agreement, the last date for settlement of the Disposal will be 27 October 2013.

On 25 July 2013, the Company had announced that EBSB had reached an understanding with ADSB as follows:

- The 1st Extended Completion Period will be further extended for a further period of three (3) months from 28 July 2013 with an additional 10% of the Purchase Price to be paid on or before 27 July 2013 ("ADSB's 2nd Extended Completion Period");
- 1st Extension of Option (expiring 30 July 2013) will be further extended for a further period of three (3) months from the expiry of the 1st Extension;
- A late payment interest of 6% per annum over the unpaid Balance Purchase Price of 90% accruing from 28 March 2013 to 27 July 2013 is to be paid on 27 July 2013; and
- Balance Purchase Price of 80% with the respective late payment interest after 27 July 2013 shall be paid on or before the ADSB's 2nd Extended Completion Date of 27 October 2013.

On 25 October 2013, the Company had announced that EBSB via its solicitor's letter reached an understanding, with ADSB on the completion Period pursuant to Clause 2A.1 of the Purchase Agreement. It shall be extended accordingly by the number of days delayed after the expiry of the fourteen (14) Business Days from the date of request by EBSB's solicitors (ie 13 September 2013) to procure the redemption statement and letter of undertaking ("Documents") from ADSB (ie 3 October 2013) until EBSB's solicitors' receipt of the Documents. EBSB shall not be liable to ADSB for any late payment interest during such extended period.

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

On 25 October 2013, ESSB also reached an understanding with LSSB to further extend the Extended Completion Period for the Disposal by one (1) month following the expiry of the 2nd Extended Completion Date commencing 28 October 2013 subject to the payment of late payment interest of 6% per annum on the unpaid Sale Balance Purchase Price calculated on a daily basis. Following the mutual agreement, the last date for settlement of the Disposal will be 27 November 2013. In the event ESSB takes more than fourteen (14) Business Day's to deliver to LSSB's solicitors the Documents and all other relevant documents for discharge of charge, LSSB shall be entitled to such extension of time which corresponds with any delay in time on the part of ESSB in delivering the Documents free of interest.

On 19 November 2013, EBSB had settled the full purchase price and the late payment interest to ADSB. Hence, the Acquisition was deemed completed on the even date.

On 25 November 2013, ESSB had received balance sale price and the late payment interest from LSSB. Hence, the Disposal was deemed completed on the even date.

- (b) On 7 May 2012 the Company announced that Eonmetall Industries Sdn Bhd ("EISB"), a wholly-owned subsidiary, had entered into a Sale and Purchase Agreement ("SPA") with Jinfast Industries Sdn. Bhd. to dispose all that piece of freehold industrial land known as Lot No. 385, Mukim 12, Daerah Seberang Perai Selatan, Penang comprised in Geran No. 33124 measuring approximately 57,508.66 square metres together with a three storey office building annexed with a single storey factory building erected thereon at a the total gross floor area of approximately 29,236.50 square metres, bearing assessment address Lot No. 385, Mukim 12, Kawasan Perusahaan Valdor, 14200 Sungai Bakap, Seberang Perai Selatan, Penang for a total consideration of Ringgit Malaysia Twenty Six Million (RM26,000,000) only ("Disposal of Lot 385").

On 29 May 2013 the Company announced a Supplemental SPA between EISB and Jinfast Industries Sdn. Bhd. in relation to the above Disposal of Lot 385 to vary the conditions precedent of the SPA.

On 18 October 2013, the Disposal of Lot 385 was deemed completed on receipt of full purchase price by the EISB's solicitors.

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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	7,047	28,605
Hire purchases	409	777
	7,456	29,382
<u>Unsecured</u>		
Bank overdrafts	3,226	-
Bankers' acceptances	18,616	-
Bill discounting	4,340	-
Revolving credit	9,500	-
	35,682	-
Total RM denominated borrowings	43,138	29,382
USD denominated borrowings		
<u>Unsecured</u>		
Trade loan	614	-
Total borrowings	43,752	29,382

23. Changes in material litigation

There was no material litigation as at the date of the interim financial statements.

24. Dividends

The Board of Directors does not recommend any dividend for the time being this financial year.

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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 30.09.2013 RM'000	As at 31.12.2012 RM'000
Total retained profits of Eonmetall Group Berhad and its subsidiaries:		
- Realized	106,625	112,016
- Unrealized	(2,293)	(2,327)
Total share of retained profits from associated companies:		
- Realized	-	913
- Unrealized	-	-
Total share of retained profits from jointly controlled entities:		
- Realized	-	-
- Unrealized	-	-
Less: Consolidation adjustments	(53,654)	(54,340)
Total Group retained profits as per consolidation accounts	<u><u>50,678</u></u>	<u><u>56,262</u></u>

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26. (Loss)/earnings per share

The (loss)/earnings per share were computed based on the net (loss)/profit divided by the weighted average number of shares in issue net of treasury shares:

	Three months ended 30.09.2013	Period ended 30.09.2013
(Loss)/Earnings after tax attributable to owners of the Company (RM'000)	(3,015)	(2,632)
Basic :		
Weighted average number of shares in issue ('000)	168,658	168,659
Basic earnings per share (sen)	<u>(1.79)</u>	<u>(1.56)</u>
Diluted :		
Diluted earnings per share (sen)	<u>(1.79)</u>	<u>(1.56)</u>

The Group does not have any dilutive potential ordinary shares as the market price of the shares was lower than the exercise price. As a result, these share options are anti-dilutive in nature and have not been considered in the computation of diluted earnings per share.

By order of the Board

Yeoh Cheng Chye
Managing Director and Chief Executive Officer

DATED THIS 29th NOVEMBER 2013