

EONMETALL GROUP BERHAD

(Company No. 631617-D)

(Incorporated in Malaysia)

SELECTED EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 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

EONMETALL GROUP BERHAD

(Company No. 631617-D)

(Incorporated in Malaysia)

**SELECTED EXPLANATORY NOTES
TO THE INTERIM FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013**

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 quarter and financial year apart from the gain on disposal of property, plant and equipments of RM15.2 million and impairment loss on property, plant and equipments of RM2.1 million under current quarter and financial year. (See note 19).

EONMETALL GROUP BERHAD

(Company No. 631617-D)

(Incorporated in Malaysia)

SELECTED EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

6. Material changes in estimates

There were no changes in estimates that have a material effect in the financial year 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 year have been decreased by RM2.0million.

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 year 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
- 1,000 of its own shares at RM0.31 per share for a total cash consideration of RM310 had been purchased as treasury shares on 2 December 2013

8. Dividends paid

During the financial year, 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.

EONMETALL GROUP BERHAD

(Company No. 631617-D)

(Incorporated in Malaysia)

**SELECTED EXPLANATORY NOTES
TO THE INTERIM FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013****9. Segment revenue and results**

Segmental reporting for the financial year is as below:-

Year ended	Machinery and equipment	Steel product and trading activity	Property, investment holding and others	Total
31 December 2013	RM'000	RM'000	RM'000	RM'000
Total revenue	34,116	56,014	5,165	95,295
Inter-segment revenue	(1,056)	(12,923)	(5,057)	(19,036)
External revenue	33,060	43,091	108	76,259
Interest income	1	11	-	12
Interest expense	1,341	1,337	1,142	3,820
Depreciation and amortisation	998	3,998	636	5,632
Share of results of associates	-	-	-	-
Segment profit/(loss)	(2,497)	(2,557)	12,466	7,412
Year ended				
31 December 2012 (Restated)				
Total revenue	65,279	91,510	5,372	162,161
Inter-segment revenue	(3,188)	(9,043)	(5,057)	(17,288)
External revenue	62,091	82,467	315	144,873
Interest income	11	5	4	20
Interest expense	671	1,891	982	3,544
Depreciation and amortisation	914	6,326	365	7,605
Share of results of associates	-	-	(471)	(471)
Segment profit/(loss)	14,043	(6,082)	(2,349)	5,612

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

There were no material events subsequent to the end of the year under review which has not been reflected in this interim financial report.

EONMETALL GROUP BERHAD

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

**SELECTED EXPLANATORY NOTES
TO THE INTERIM FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013**

11. Changes in the composition of the Group

There were no changes in the composition of the Group during the financial year 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 31.12.13 RM'000	As at 31.12.2012 RM'000
Corporate guarantees given to licensed banks for credit facilities granted to subsidiaries	<u>212,324</u>	<u>204,252</u>

13. Capital commitments

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

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 year ended 31 December 2013.

	Year ended 31.12.2013 RM'000
Rental of premises	466
Sale of goods	4,411
Purchase of goods	<u>604</u>

EONMETALL GROUP BERHAD

(Company No. 631617-D)

(Incorporated in Malaysia)

SELECTED EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

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

15. Review of performance

For the current year quarter ended 31 December 2013, the Group recorded consolidated revenue of approximately RM17.2 million. This represents a reduction of 54% as compared to RM37.1 million recorded in corresponding quarter in the prior financial year. The Group's revenue for the current financial year also recorded a drop of 47% from RM144.9 million down to RM76.3 million as compared to the corresponding financial year mainly attributed by the lower revenue generated from steel product and trading activity segment as well as machinery and equipment segment.

The Group's Profit before tax ("PBT") for the current year is RM7.4 million, an increase of 32% as compared to the PBT of RM5.6 million recorded in preceding year. The performance of the operating business segment is presented as follows:-

(a) Machinery and equipment segment

This segment recorded a revenue of RM8.3 million for the current quarter as compared to RM20.2 million achieved in the previous year corresponding quarter, representing a decrease of 59%. Revenue for the current financial year decreased by 47% to RM33.1 million as compared to RM62.1 million recorded in previous year partly due to the drop of palm oil price which affected the sales of palm oil related machinery. PBT earned for the financial year under review dropped from RM14.0 million down to a Loss Before Tax ("LBT") of RM2.5 million which was in line with the decrease in revenue. It was also due to the inventories written down and written off amounting to RM1.8 million and allowance for doubtful debts of RM0.9 million during current year under review.

(b) Steel product and trading activity segment

This segment recorded a revenue of RM8.8 million for the current quarter, representing a decrease of RM7.8 million (from RM16.6 million down to RM8.8 million) as compared to the corresponding quarter preceding year. Revenue generated from this segment decreased by 48% to RM43.1 million for the financial year under review as compared to revenue of RM82.5 million reported in previous year. This segment would show a LBT (excluding impairment loss on property, plant and equipments of RM2.1 million) of RM0.5 million, a reduction of LBT from RM6.1 million to RM0.5 million as explained in the table below. The improved margin is mainly contributed by lower raw material and operating costs as well as positive profit impact of RM2.0 million arising from the change of accounting estimates as mentioned in Note 6 of the explanatory notes.

EONMETALL GROUP BERHAD

(Company No. 631617-D)

(Incorporated in Malaysia)

SELECTED EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

15. Review of performance (Cont'd)

(b) Steel product and trading activity segment (Cont'd)

	Year ended	
	31.12.2013	31.12.2012
	RM'000	RM'000
Loss before tax before impairment loss on property, plant and equipments	(493)	(6,082)
Less : Impairment loss on property, plant and equipments	(2,064)	-
Loss before tax	<u>(2,557)</u>	<u>(6,082)</u>

(c) Property, investment holding and other segment

The income derived from this segment represents rental income and gain on disposal 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.

16. Variation of results against preceding quarter

	Individual quarter ended	
	31.12.2013	30.09.2013
	RM'000	RM'000
Revenue	17,214	13,078
Profit/(loss) before tax	<u>9,698</u>	<u>(2,929)</u>

The Group recorded a current quarter PBT of RM9.7 million, an increase of RM12.6 million over the preceding quarter. During the current quarter under review, the Group recognized a gain on disposal of property, plant and equipments of RM15.2 million and was partially setoff with the impairment loss on property, plant and equipments of RM2.1 million which contributed to the increase of PBT in the current quarter.

17. Commentary of prospects

Barring any unforeseen changes in global business environment, the Board of Directors of Eonmetall anticipates the performance of the Group for the financial year 2014 to be improved.

EONMETALL GROUP BERHAD

(Company No. 631617-D)

(Incorporated in Malaysia)

**SELECTED EXPLANATORY NOTES
TO THE INTERIM FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013****18. Profit forecast**

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

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 31.12.2013 RM'000	Year ended 31.12.2013 RM'000
Other income	(534)	(959)
Insurance compensation received	(3)	(502)
Interest income	(11)	(12)
Depreciation of property, plant and equipments	1,237	5,243
Depreciation of investment property	98	389
Gain on disposal of property, plant and equipments	(15,160)	(15,165)
Gain on disposal of subsidiary	-	(338)
Impairment loss on trade receivables	876	893
Impairment loss on other receivables	321	321
Impairment loss on property, plant and equipments	2,064	2,064
Inventories written down	1,416	1,416
Inventories written off	440	440
Realised gain on foreign exchange	(23)	(114)
Unrealised gain on foreign exchange	(201)	(214)

20. Taxation

	3 months ended 31.12.2013 RM'000	Year ended 31.12.2013 RM'000
Current tax expense	(487)	(882)
Deferred tax expense	101	139

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

EONMETALL GROUP BERHAD

(Company No. 631617-D)

(Incorporated in Malaysia)

SELECTED EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

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.

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.

EONMETALL GROUP BERHAD

(Company No. 631617-D)

(Incorporated in Malaysia)

SELECTED EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

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

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.

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.

EONMETALL GROUP BERHAD

(Company No. 631617-D)

(Incorporated in Malaysia)

**SELECTED EXPLANATORY NOTES
TO THE INTERIM FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013**

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

- (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.

(The remaining of this page is intentionally left blank)

EONMETALL GROUP BERHAD

(Company No. 631617-D)

(Incorporated in Malaysia)

**SELECTED EXPLANATORY NOTES
TO THE INTERIM FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013****22. Group borrowings**

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

	Payable within 12 months RM'000	Payable after 12 months RM'000
RM denominated borrowings		
<u>Secured</u>		
Term loans	6,353	26,839
Hire purchases	430	650
	6,783	27,489
<u>Unsecured</u>		
Bank overdrafts	2,473	-
Bankers' acceptances	7,158	-
Bill discounting	-	-
Revolving credit	9,500	-
	19,131	-
Total RM denominated borrowings	25,914	27,489
USD denominated borrowings		
<u>Unsecured</u>		
Trade loan	863	-
Total borrowings	26,777	27,489

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.

EONMETALL GROUP BERHAD

(Company No. 631617-D)

(Incorporated in Malaysia)

**SELECTED EXPLANATORY NOTES
TO THE INTERIM FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013****25. 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 31.12.2013 RM'000	As at 31.12.2012 RM'000
Total retained profits of Eonmetall Group Berhad and its subsidiaries:		
- Realized	106,464	112,016
- Unrealized	(1,985)	(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	(44,484)	(54,340)
Total Group retained profits as per consolidation accounts	<u><u>59,995</u></u>	<u><u>56,262</u></u>

EONMETALL GROUP BERHAD

(Company No. 631617-D)

(Incorporated in Malaysia)

**SELECTED EXPLANATORY NOTES
TO THE INTERIM FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013**

26. Earnings per share

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

	Three months ended 31.12.2013	Year ended 31.12.2013
Earnings after tax attributable to owners of the Company (RM'000)	9,313	6,681
Basic :		
Weighted average number of shares in issue ('000)	168,658	168,658
Basic earnings per share (sen)	<u>5.52</u>	<u>3.96</u>
Diluted :		
Diluted earnings per share (sen)	<u>5.52</u>	<u>3.96</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 28th February 2014