

EONMETALL GROUP BERHAD

(Company No. 631617-D)

(Incorporated in Malaysia)

SELECTED EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2015

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 statements have been reviewed by the external auditors.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2014. 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 2014.

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 2014 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 January 2015

- Amendments to MFRS 119 Defined Benefit Plans: Employee Contributions
- Annual Improvements to MFRSs 2010 – 2012 Cycle
- Annual Improvements to MFRSs 2011 – 2013 Cycle

The adoption of the above pronouncements did not have any impact on the financial statements of the Group.

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2. Significant Accounting Policies (cont'd)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 JANUARY 2016

- MFRS 14 Regulatory Deferral Accounts
- Amendments to MFRS 11 Accounting for Acquisitions of Interests in Joint Operations
- Amendments to MFRS 101 Disclosure Initiative
- Amendments to MFRS 127 Equity Method in Separate Financial Statements
- Amendments to MFRS 10 and MFRS 128 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to MFRS 116 and MFRS 138 Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to MFRS 116 and MFRS 141 Agriculture: Bearer Plants
- Amendments to MFRS 10, MFRS 12 and MFRS 128 Investment Entities: Applying the Consolidation Exception
- Annual Improvements to MFRSs 2012 - 2014 Cycle

The Group will adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are not expected to have any material impact to the financial statements of the Group upon their initial application.

3. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2014 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.

6. Material changes in estimates

There were no changes in estimates that have a material effect in the current financial period-to-date.

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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

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

| Period-to-date ended | Machinery and equipment RM'000 | Steel product and trading activity RM'000 | Property, investment holding and others RM'000 | Total RM'000 |
|-------------------------------|---|--|---|-------------------------|
| 30-September-15 | | | | |
| Total revenue | 13,660 | 78,481 | 13,816 | 105,957 |
| Inter-segment revenue | (2,084) | (32,062) | (12,804) | (46,950) |
| External revenue | 11,576 | 46,419 | 1,012 | 59,007 |
| Interest income | 1 | 7 | - | 8 |
| Interest expense | 1,132 | 986 | 414 | 2,532 |
| Depreciation and amortisation | 717 | 2,005 | 448 | 3,170 |
| Segment (loss)/profit | 88 | 4,170 | (216) | 4,042 |
| 30-September-14 | | | | |
| Total revenue | 11,967 | 60,005 | 21 | 71,993 |
| Inter-segment revenue | (2,800) | (21,432) | - | (24,232) |
| External revenue | 9,167 | 38,573 | 21 | 47,761 |
| Interest income | 1 | 2 | - | 3 |
| Interest expense | 1,152 | 605 | 694 | 2,451 |
| Depreciation and amortisation | 732 | 2,150 | 440 | 3,322 |
| Segment (loss)/profit | (2,114) | 2,246 | (2,209) | (2,077) |

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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.

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:

- On 27 February 2015, the Board announced that its wholly owned subsidiary, Eonmetall International Limited (“EIL”) has established PT. Kelapa Agro Jaya in Indonesia. The intended paid-up share capital of PT. Eonmetall will be USD0.25 million of which EIL holds 95% and the remaining 5% is being held by an individual party of Indonesian nationality. PT. Kelapa Agro Jaya will be principally involved in the industry of manufacturing basic organic chemical from agriculture waste and by-products from coconut.
- On 30 September 2015, Eonmetall Agro Sdn Bhd had made application to Suruhanjaya Syarikat Malaysia to strike off the Company since the Company is dormant.

12. Changes in contingent liabilities or contingent assets

| | As at 30.09.2015 RM'000 | As at 31.12.2014 RM'000 |
|--|-------------------------------|-------------------------------|
| Corporate guarantees given to licensed banks for credit facilities granted to subsidiaries | <u>194,124</u> | <u>191,624</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 period ended 30 September 2015.

| | Period ended 30.09.2015 RM'000 |
|--------------------|--------------------------------------|
| Rental of premises | 234 |
| Sale of goods | 8,519 |
| Purchase of goods | <u>1,030</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 2015 increased by 99% from RM13.1 million up to RM26.1 million as compared to the corresponding quarter in the prior financial year. The Group's revenue for the financial period-to-date increased 23% from RM47.8 million up to RM59 million as compared to the corresponding financial period-to-date mainly attributed by the significant increase from both the machinery and equipment and steel product and trading activity segments.

The Group's Profit before tax ("PBT") of RM4 million, improved by 290% as compared to the Loss before tax ("LBT") of RM2.1 million recorded in preceding year corresponding period-to-date. The performance of the operating business segment for the third quarter as compared to the preceding year corresponding quarter is presented as follows:-

(a) Machinery and equipment segment

This segment recorded revenue of RM7.8 million for the current quarter as compared to RM1.3 million achieved in the previous year corresponding quarter, representing an increase of 500%. Revenue for the current financial period-to-date increased by 26% to RM11.6 million as compared to RM9.2 million recorded in previous year corresponding period. The LBT of RM2.1 million registered in previous year corresponding period increased to PBT of RM0.09 million which was in line with the increase in revenue.

(b) Steel product and trading activity segment

This segment recorded revenue of RM18.3 million for the current quarter as compared to RM11.8 million achieved in the previous year corresponding quarter, representing an increase of 55%. Revenue for the current financial period-to-date increased by 20% to RM46.4 million as compared to RM38.6 million recorded in previous year corresponding period. PBT recorded for the financial under review increased from RM2.2 million up to RM4.2 million mainly due to higher revenue coupled with lower production cost.

(c) Property, investment holding and other segment

This segment represents trading of non-steel products and rental income derived from the Group's property offsetting with the operating expenses from all other segments.

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16. Variation of results against preceding quarter

| | Individual quarter ended | |
|-------------------|--------------------------|------------|
| | 30.09.2015 | 30.06.2015 |
| | RM'000 | RM'000 |
| Revenue | 26,100 | 17,525 |
| Profit before tax | <u>3,732</u> | <u>124</u> |

The Group recorded a current quarter PBT of RM3.7 million, an increase of RM3.6 million over the preceding quarter mainly due to higher revenue generated from both machinery and equipment and steel products and trading activity.

17. Commentary of prospects

Based on the current global business environment, the Board of Directors of Eonmetall anticipates the performance of the Group for the financial year 2015 to be challenging.

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 30.09.2015 RM'000 | Period ended 30.09.2015 RM'000 |
|---|---|---|
| Other income | (274) | (727) |
| Interest Income | (4) | (8) |
| Depreciation of property, plant and equipment | 1,022 | 2,853 |
| Depreciation of investment property | 106 | 317 |
| Gain on disposal of plant and equipment | - | (10) |
| Inventories written down | 29 | 777 |
| Realised gain on foreign exchange | (621) | (737) |
| Unrealised gain on foreign exchange | <u>(796)</u> | <u>(1,158)</u> |

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| | 3 months ended 30.09.2015 RM'000 | Period ended 30.09.2015 RM'000 |
|---------------------|---|---|
| Current tax expense | <u>(135)</u> | <u>(371)</u> |

21. Status of corporate proposal announced

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

22. 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 | 5,201 | 12,062 |
| Hire purchases | 135 | 103 |
| | 5,336 | 12,165 |
| <u>Unsecured</u> | | |
| Bank overdrafts | 4,206 | - |
| Bankers' acceptances | 23,644 | - |
| Revolving credit | 9,000 | - |
| | 36,850 | - |
| Total borrowings | <u>42,186</u> | <u>12,165</u> |

23. Changes in material litigation

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

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24. Dividends

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

25. Realised and Unrealised Profits/Losses

The following analysis of realised and unrealised 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 Realised and Unrealised 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 30.09.2015 RM'000 | As at 31.12.2014 RM'000 |
|--|-------------------------------|-------------------------------|
| Total retained profits of Eonmetall Group Berhad and its subsidiaries: | | |
| - Realised | 105,800 | 101,792 |
| - Unrealised | (915) | (1,974) |
| | <u>104,885</u> | <u>99,818</u> |
| Less: Consolidation adjustments | <u>(44,346)</u> | <u>(42,948)</u> |
| Total Group retained profits as per consolidation accounts | <u>60,539</u> | <u>56,870</u> |

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26. Earnings per share

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

| | 3 months ended 30.09.2015 | Period ended 30.09.2015 |
|--|---------------------------------|-------------------------------|
| Profit after tax attributable to owners of the Company (RM'000) | 3,593 | 3,668 |
| Basic : | | |
| Weighted average number of shares in issue ('000) | 168,654 | 168,655 |
| Basic earnings per share (sen) | <u>2.13</u> | <u>2.18</u> |
| Diluted : | | |
| Diluted earnings per share (sen) | <u>2.13</u> | <u>2.18</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 Director

DATED THIS 18th November 2015