

EONMETALL GROUP BERHAD

(Company No. 631617-D)

(Incorporated in Malaysia)

SELECTED EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2017

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 2016. 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 2016.

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 2016 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 2017

- Amendments to MFRS 12 Annual Improvements to MFRS Standards 2014 – 2016 Cycle
- Amendments to MFRS 107 Disclosure Initiative
- Amendments to MFRS 112 Recognition of Deferred Tax Assets for Unrealised Losses

The Group had adopted the above Amendments to Standards, with a date of initial application of 1 January 2017. The adoption of the above pronouncements did not have any impact on the financial statements of the Group.

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(Company No. 631617-D)

(Incorporated in Malaysia)

SELECTED EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2017

2. Significant Accounting Policies (cont'd)

New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 JANUARY 2018

The following are accounting standards, amendments and interpretations of the MFRS Framework that have been issued by the Malaysian Accounting Standards Board ('MASB') but have not been early adopted by the Group and the Company.

Description		Effective for financial periods beginning on or after
• Amendments to MFRS 1	Annual Improvement to MFRS Standards 2014 – 2016 Cycle	1 January 2018
• MFRS 9	Financial Instruments (IFRS 9 as issued by International Accounting Standards Board ("IASB") in July 2014)	1 January 2018
• MFRS 15	Revenue from Contracts with Customers	1 January 2018
• Clarifications to MFRS 15		1 January 2018
• Amendments to MFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
• Amendments to MFRS 128	Annual Improvement to MFRS Standards 2014 – 2016 Cycle	1 January 2018
• Amendments to MFRS 140	Transfer of Investment Property	1 January 2018
• IC Interpretation 22	Foreign Currency Translation and Advance Consideration	1 January 2018
• Amendments to MFRS 4	Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contract	See MFRS 4 Paragraphs 46
• MFRS 16	Leases	1 January 2019
• Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associates or Joint Venture	Deferred

The Group is in the process of assessing the impact of implementing these Standards, since the effects would only be observable for future financial years.

3. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2016 was not qualified.

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(Incorporated in Malaysia)

**SELECTED EXPLANATORY NOTES
TO THE INTERIM FINANCIAL REPORT
FOR THE PERIOD ENDED 31 MARCH 2017**

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.

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.

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**SELECTED EXPLANATORY NOTES
TO THE INTERIM FINANCIAL REPORT
FOR THE PERIOD ENDED 31 MARCH 2017****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
31-March-17				
Total revenue	13,762	36,538	358	50,658
Inter-segment revenue	-	(17,276)	(358)	(17,634)
External revenue	13,762	19,262	-	33,024
Interest income	1	4	-	5
Interest expense	339	605	-	944
Depreciation and amortisation	199	1,003	191	1,393
Segment profit/(loss)	4,214	2,857	(599)	6,472
Period-to-date ended				
31-March-16				
Total revenue	20,518	24,742	340	45,600
Inter-segment revenue	-	(12,362)	(340)	(12,702)
External revenue	20,518	12,380	-	32,898
Interest income	-	2	-	2
Interest expense	379	317	113	809
Depreciation and amortisation	217	456	65	738
Segment (loss)/profit	9,380	2,868	(728)	11,520

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 current quarter under review.

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(Company No. 631617-D)

(Incorporated in Malaysia)

**SELECTED EXPLANATORY NOTES
TO THE INTERIM FINANCIAL REPORT
FOR THE PERIOD ENDED 31 MARCH 2017**

12. Changes in contingent liabilities or contingent assets

	As at 31.03.2017 RM'000	As at 31.12.2016 RM'000
Corporate guarantees given to licensed banks for credit facilities granted to subsidiaries	<u>198,504</u>	<u>194,004</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 31 March 2017.

	Period ended 31.03.2017 RM'000
Rental of premises	80
Sale of goods	5,121
Purchase of goods	<u>350</u>

EONMETALL GROUP BERHAD

(Company No. 631617-D)

(Incorporated in Malaysia)

SELECTED EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2017

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 first quarter ended 31 March 2017 increased by RM0.1 million from RM32.9 million up to RM33 million as compared to the corresponding quarter in the prior financial year. This is mainly attributed by revenue generated from steel product and trading segment for the current quarter.

The Group's profit before tax ("PBT") for the current quarter is RM6.5 million, decreased by RM5 million equivalent to a drop of 43.5% as compared to the PBT of RM11.5 million recorded in preceding year corresponding quarter. The performance of the operating of each business segment for the first quarter as compared to the preceding year corresponding quarter is presented as follows:-

(a) Machinery and equipment segment

This segment recorded revenue of RM13.8 million for the current quarter as compared to RM20.5 million achieved in the previous year corresponding quarter, representing a decrease of RM6.7 million equivalent to a drop of 32.7%. This segment recorded PBT of RM4.2 million, a drop of RM5.2 million equivalent to 0.55 times as compared to PBT of RM9.4 million earned from the corresponding quarter in prior year which was in line with the decrease in revenue.

(b) Steel product and trading activity segment

The revenue for the current quarter is RM19.3 million, representing an increase of RM6.9 million (from RM12.4 million rise to RM19.3 million) as compared to the corresponding quarter preceding year. This segment recorded PBT of RM2.9 million for the quarter under review, PBT maintained as recorded in the previous year corresponding quarter. The lower PBT is due to lower margin generated from the flat steel coil processing business.

(c) Property, investment holding and other segment

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

EONMETALL GROUP BERHAD

(Company No. 631617-D)

(Incorporated in Malaysia)

**SELECTED EXPLANATORY NOTES
TO THE INTERIM FINANCIAL REPORT
FOR THE PERIOD ENDED 31 MARCH 2017****16. Variation of results against preceding quarter**

	Individual quarter ended	
	31.03.2017	31.12.2016
	RM'000	RM'000
Revenue	33,024	29,044
Profit/(Loss) before tax	<u>6,472</u>	<u>(3,308)</u>

The Group recorded a current quarter PBT of RM6.5 million, an increase of RM9.8 million over the preceding quarter mainly due to increase in revenue of machinery and equipment segment and steel product and trading activity segment.

17. Commentary of prospects

Notwithstanding the current global business environment, the Board of Directors of Eonmetall anticipates the performance of the Group for the financial year 2017 to be encouraging given the increase in demand for racking and machinery.

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	Period
	ended	ended
	31.03.2017	31.03.2017
	RM'000	RM'000
Other income	(217)	(217)
Interest Income	(5)	(5)
Interest expenses	944	944
Gain on disposal of plant and equipment	102	102
Depreciation of property, plant and equipment	1,285	1,285
Depreciation of investment property	108	108
Realised (gain)/loss on foreign exchange	(250)	(250)
Unrealised (gain)/loss on foreign exchange	<u>(35)</u>	<u>(35)</u>

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(Company No. 631617-D)

(Incorporated in Malaysia)

**SELECTED EXPLANATORY NOTES
TO THE INTERIM FINANCIAL REPORT
FOR THE PERIOD ENDED 31 MARCH 2017**

20. Taxation

	3 months ended 31.03.2017 RM'000	Period ended 31.03.2017 RM'000
Current tax expense	(173)	(173)
Deferred tax expense	-	-
	<u>(173)</u>	<u>(173)</u>

21. Status of corporate proposal announced

There was no corporate proposal announced but not completed as at the date of this announcement save for the following :-

On 13 October 2016, the company announced that the company proposed to undertake a private placement of new ordinary shares of RM0.50 each in the company of up to ten percent (10%) of the issued and paid-up share capital of the company. The investors to be identified and at an issue price to be determined by the Board and to be announced later.

On 28 October 2016, the company announced that the additional listing application for the Proposed Private Placement has been submitted to Bursa Malaysia Securities Berhad.

On 8 November 2016, the company announced that Bursa Malaysia Securities Berhad had vide its letter dated 7 November 2016 (which was received on 8 November 2016) approved the listing and quotation of up to 17,117,100 new shares to be issued pursuant to the Proposed Private Placement.

On 21 April 2017, the company announced that an application for an extension of time of six (6) months up to 6 November 2017 to complete the implementation of the Private Placement has been submitted to Bursa Malaysia Securities Berhad.

On 05 May 2017, the company announced that Bursa Malaysia Securities Berhad had vide its letter dated 04 May 2017 (which was received on 5 May 2017) approved the extension of time of 6 months up to 6 November 2017 to complete the implementation of the Private Placement.

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**SELECTED EXPLANATORY NOTES
TO THE INTERIM FINANCIAL REPORT
FOR THE PERIOD ENDED 31 MARCH 2017****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	6,786	8,520
Hire purchases	68	85
	6,854	8,605
<u>Unsecured</u>		
Bank overdrafts	9,125	-
Bankers' acceptances	33,641	-
Revolving credit	9,750	-
	52,516	-
Total borrowings	59,370	8,605

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 current financial period.

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EONMETALL GROUP BERHAD**(Company No. 631617-D)****(Incorporated in Malaysia)****SELECTED EXPLANATORY NOTES
TO THE INTERIM FINANCIAL REPORT
FOR THE PERIOD ENDED 31 MARCH 2017****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 31.03.2017 RM'000	As at 31.12.2016 RM'000
Total retained profits of Eonmetall Group Berhad and its subsidiaries:		
- Realised	115,769	110,453
- Unrealised	2,425	1,638
	<u>118,194</u>	<u>112,091</u>
Less: Consolidation adjustments	<u>(39,951)</u>	<u>(40,147)</u>
Total Group retained profits as per consolidation accounts	<u>78,243</u>	<u>71,944</u>

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**SELECTED EXPLANATORY NOTES
TO THE INTERIM FINANCIAL REPORT
FOR THE PERIOD ENDED 31 MARCH 2017**

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 31.03.2017	Period ended 31.03.2017
Profit after tax attributable to owners of the Company (RM'000)	6,299	6,299
Basic :		
Weighted average number of shares in issue ('000)	168,651	168,651
Basic earnings per share (sen)	<u>3.74</u>	<u>3.74</u>
Diluted :		
Diluted earnings per share (sen)	<u>3.74</u>	<u>3.74</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 25th May 2017