

# SMIS Corporation Berhad

(Company No. 491857-V)

(Incorporated in Malaysia)

and its subsidiaries

## A Notes to Interim Financial Report on Consolidated Results for the Period Ended 31 March 2014

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### A1 Basis of preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 31 March 2014 and has been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad and Malaysian Financial Reporting Standards (MFRS) 134, Interim Financial Reporting in Malaysia. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2013.

These are the Group's interim financial statements for part of the period covered by the Group's first MFRS framework annual financial statements and MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards has been applied.

The adoption of the MFRSs and Amendments do not have any material impact on the financial statements of the Group.

### A2 Changes in Accounting Policies

The significant policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2013.

### A3 Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2013 was not subject to any qualifications.

### A4 Seasonal or cyclical factors

As reported by the Malaysian Automotive Association (MAA), the passenger vehicles sector recorded 142,528 new passenger vehicles registrations for the quarter ended 31 March 2014, which represents a 0.02% increase as compared to 139,689 units for the corresponding period in the previous year.

### A5 Unusual nature and amount of items affecting assets, liabilities, equity, net income and cash flows

There were no unusual nature and amount of items, which affected the assets, liabilities, equity, net income and cash flows of the Group during the quarter under review.

### A6 Material changes in estimates of amounts reported in prior periods in current financial year or prior financial years which have material effect in the current interim period

There were no material changes in estimates during the quarter under review.

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**A7 Dividend**

There were no dividends paid during the quarter under review.

**A8 Debts and equity securities**

During the quarter under review, the Company did not purchase any ordinary shares from the open market.

Aside from the above, there were no new debts and equity securities issued during the quarter.

**A9 Segmental reporting**

Segmental analysis of the results and assets employed for the 3 months period ended 31 March 2014:

<i>Business segments</i>	Automotive Parts RM000	Machinery Parts RM000	Plastic RM000	Others RM000	Eliminations RM000	Consolidated RM000
Revenue from external customers	31,117	3,292	1,073	-	-	35,482
Segment results	2,796	122	(403)	(73)	-	2,442
Interest income						45
Financing costs						(468)
Profit before taxation						2,019
Tax expense						(509)
Profit after taxation						1,510
Translation reserve						(25)
Total comprehensive income for the period						1,485

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<i>Business segments</i>	Automotive	Machinery				Consolidated
	Parts	Parts	Plastic	Others	Eliminations	
	RM000	RM000	RM000	RM000	RM000	RM000
<b>Segment assets</b>	76,661	18,881	14,128	3,757	(1,275)	112,152
<b>Total assets</b>						<u>112,152</u>
<b>Segment liabilities</b>	26,584	1,471	13,387	992	(15,637)	26,797
<b>Total liabilities</b>						<u>26,797</u>
<i>Business segments</i>	Automotive	Machinery		Discontinued		Consolidated
	Parts	Parts	Plastic	Operation	Eliminations	
	RM000	RM000	RM000	RM000	RM000	RM000
Capital expenditure	659	4	(8)	-	-	655
Depreciation of investment properties	2	4	-	-	-	6
Depreciation of property, plant and equipment	1,015	89	133	-	-	1,237

No segmental reporting has been prepared for geographical segments as the Group's activities are predominantly carried out in Malaysia.

**A10 Statement on the effect on interim results concerning valuation of property, plant and equipment brought forward without amendment from the previous annual financial statements.**

There were no valuations of property, plant and equipment performed or brought forward from the previous financial year.

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**A11 Material events**

In the opinion of the Directors, there are no items, transactions or events of a material and unusual nature which have arisen since 31 December 2013 to the date of this announcement.

**A12 Changes in the composition of the Group**

There were no changes in the composition of the Group during the financial period ended 31 March 2014.

**A13 Contingent assets and contingent liabilities**

There were no contingent assets and contingent liabilities for the current quarter.

**A14 Capital commitments**

The capital commitments of the Group for the quarter under review are as follows:

	As at 31.03.2014 RM'000	As at 31.03.2013 RM'000
Plant and equipment Contracted but not provided in the financial statements	<u>1,197</u>	<u>2,527</u>

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**B Additional Information Required by Bursa Malaysia Securities Berhad (“Bursa Malaysia”)  
Main Market Listing Requirements****B1. Review of performance**

The Group's performance for the quarter under review against the corresponding quarter of the previous financial year is tabled below :-

<b>Revenue by segment</b>	For the	For the	Increase / (Decrease)	
	quarter ended 31.03.2014 RM'000	quarter ended 31.03.2013 RM'000	RM'000	%
Automotive parts	31,117	24,937	6,180	24.78%
Machinery parts	3,292	4,073	(781)	(19.18%)
Plastic	1,073	788	285	36.17%
	<u>35,482</u>	<u>29,798</u>	<u>5,684</u>	<u>19.08%</u>
<b>PBT by segment</b>				
Automotive parts	2,822	3,002	(180)	(6%)
Machinery parts	126	(16)	142	887.50%
Plastic	(557)	(481)	(76)	(15.80%)
	<u>2,391</u>	<u>2,505</u>	<u>(114)</u>	<u>(4.55%)</u>

The Group's revenue recorded a 19.08% increase for the quarter ended 31 March 2014, in comparison to the previous corresponding period.

**Automotive parts**

The quarter revenue improved by 25% against the corresponding period in 2013, contributed by the increased sales of both carpets and braking products, by RM4.3 million and RM 1.9 million respectively. Carpets sales increases were attributed to strong sales of Almera, new CRV, new Vios and new Accord. As for braking products, the increased revenue was mostly contributed by the sales for the Mazda CX5 and the sales of brake components for new variants of the Myvi. However, the overall sales growth was hampered by poor sales of Proton vehicles.

Despite the strong rise in sales revenue, profits deteriorated slightly by 6%. This was due to the sales mix. Products with lower margin made up a larger portion of the total revenue. Material cost inflation, as a result of a weakening of the ringgit for the carpets products, and customer price down exercise for braking products also contributed to erosion of margins. Increased electricity tariff contributed to higher operating overhead cost particularly in the carpets production.

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### B Additional Information Required by Bursa Malaysia Securities Berhad (“Bursa Malaysia”) Main Market Listing Requirements

#### B1. Review of performance (cont'd)

##### Machinery parts

The revenue increase in the first quarter of 2013 was mainly made possible by the execution of orders that were carried forward from the previous year while in 2014 the same was not feasible. Further in 2014 the market has become sluggish. Notwithstanding a reduction of 19% in terms of revenue the segment managed to record a slight profit against a loss in the same period of 2013. The loss for Q1q2013 was due to a one-off expenditure on sales promotion and staff welfare.

##### Plastic

The segment saw an improvement in revenue of 36% for the reporting quarter against the corresponding period in the previous year as a direct result of customers gaining more confidence in the company and its products. However, the company has yet to reach its breakeven capacity. As such, the segment recorded a loss for the quarter.

#### B2. Variation of results against preceding quarter

	Revenue		Profit before Tax	
	Quarter Ended 31.03.2014 RM000	Quarter Ended 31.12.2013 RM000	Quarter Ended 31.03.2014 RM000	Quarter Ended 31.12.2013 RM000
<b>Consolidated total</b>	<b>35,482</b>	<b>35,490</b>	<b>2,391</b>	<b>777</b>
<b>Business Segment:</b>				
Automotive parts	31,117	30,168	2,822	2,419
Machinery parts	3,292	3,888	126	(519)
Plastic Resin	1,073	1,434	(557)	(1,123)

The Group's revenue recorded a marginal 0.02% decrease for the quarter ended 31 March 2014, in comparison to the preceding quarter.

##### Automotive parts

Revenue for the reporting quarter improved marginally, by 3% or RM 1.0 million. This was contributed by improved sales of carpets products, driven by strong sales of the new Accord but the overall achievement was again pulled down by the poor sales of Proton vehicles. As for braking products, even though the export sales to Thailand was strong, coupled with the increase demand of Perodua vehicles, overall revenue saw a net reduction of RM 0.1 million as a result of poor Proton car sales performance.

##### Machinery parts

We foresee the segment to remain challenging especially in the retail sub-segment due to price competition and manufacturers willing to supply direct to end users. Similar outlook on the projects front with many South East Asia countries economically challenged and projects are few and far in-between. On the near to mid-term, we expect the segment to grow in tandem with the South East Asian economies. However, increasingly challenging business environment may hamper growth prospects.

##### Plastic

Whilst the segment has grown over the period of 2013 the revenue for Q1q2014 saw a reduction 25% compared the preceding quarter as the company lost one anchor customers due to change of supply requirement.

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**B Additional Information Required by Bursa Malaysia Securities Berhad (“Bursa Malaysia”) Main Market Listing Requirements****B3. Prospects for 2014****Automotive parts**

MAA industry forecast for 2014 is as follows:

Market segment	2014	2013	Variance	
	Forecast	Actual	Units	%
Passenger vehicles	589,600	576,657	12,943	2%
Commercial vehicles	80,400	79,136	1,264	2%
Total vehicles	670,000	655,793	14,207	2%

In view of the above, the Group expects its Automotive Parts segment's performance to be relatively stable.

**Machinery parts**

We foresee the segment to remain challenging especially in the retail sub-segment due to price competition and manufacturers willing to supply direct to end users. Similar outlook on the projects front with many South East Asia countries economically challenged and projects are few and far in-between. On the near to mid-term, we expect the segment to grow in tandem with the South East Asian economies. However, increasingly challenging business environment may hamper growth prospects.

**Plastic**

The company strategy is to continue its expansion of end user customers in emerging markets. Due to the low manufacturing activities as a whole recycle generation has yet to see significant recovery. Recognising this, the company is expanding into other type of raw material family for growth and also to focus more on non-electronic sector. The segment expects some new developmental work to be commercialized in the coming months.

**B4. Profit estimate, forecast, projection or internal targets and profit guarantee**

The Group did not announce or provide any profit estimate, forecast, projection, internal targets for the financial period ending 31 March 2014.

**B5. Taxation**

	3 months period ended		Financial period ended	
	31.03.2014	31.03.2013	31.03.2014	31.03.2013
	RM'000	RM'000	RM'000	RM'000
Income tax expenses				
- Current year	347	385	347	385
- Prior year	-	-	-	-
	347	385	347	385
Deferred tax				
- Origination and reversal of temporary differences	421	432	421	432
- Prior year	(259)	-	(259)	-
	509	817	509	817

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The Group’s effective tax rate for the current quarter was higher than the statutory tax rate of 25% mainly due to certain expenses not being deductible for tax purposes.

**B6. Status of corporate proposals announced**

There were no new corporate proposals announced but not completed as of the date of this report.

**B7. Notes to the Statement of Comprehensive Income**

Profit for the period is arrived at after charging / crediting :

	3 months period ended		Financial period ended	
	31.03.2014	31.12.2013	31.03.2014	31.03.2013
	RM'000	RM'000	RM'000	RM'000
Interest income	45	32	45	32
Other income including investment income	251	182	251	182
Interest expenses	(417)	(135)	(417)	(135)
Depreciation and amortization	(1,243)	(984)	(1,243)	(984)
Development cost	(326)	(131)	(326)	(131)
Net foreign exchange gain	146	118	146	118

Other than the above, there was no gain or loss on disposal of quoted or unquoted investments or properties, gain or loss on derivatives and exceptional items included in the results for the current quarter ended 31 March 2014.

**B8. Group’s borrowings and debt securities**

	31.03.2014
	RM'000
	Secured
<b>Current</b>	
Borrowings . Bankers' acceptances	1,142
Borrowings . Short Term Revolving Credit	602
Borrowings . Term loan	143
Borrowings . Bank Overdraft	3,052
Borrowings . Hire-Purchase	115
	<u>5,054</u>
<b>Non-current</b>	
Repayable after more than 12 months	
Borrowings - Term Loan	2,183
	<u>2,183</u>



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**B Additional Information Required by Bursa Malaysia Securities Berhad (“Bursa Malaysia”) Main Market Listing Requirements****B8. Group’s borrowings and debt securities (cont’d)**

Bankers Acceptance, revolving credit and bank overdraft are secured by corporate guarantee. Term loan is secured by a fixed charge over a subsidiary’s land and building and corporate guarantee.

**B9. Material litigation**

The Company and its subsidiaries have no outstanding material litigation as at the date of this announcement.

**B10. Dividend**

A first and final single tier dividend of 2.5 sen per ordinary share of RM1/- each in respect of the financial year ended 31 December 2013 will be proposed for shareholders’ approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in the shareholders’ equity as an appropriation of retained earnings in the financial year ending 31 December 2014.

The Board of Directors does not recommend any dividend for the current quarter ending 31 March 2014.

**B11. Retained Earnings**

	As at 31.03.2014 RM'000	As at 31.03.2013 RM'000
Total retained earnings of the Company and subsidiaries : -		
- Realised profit / (loss)	71,023	62,956
- Unrealised profit / (loss)	539	(1,459)
	<u>71,562</u>	<u>61,497</u>
Less : Consolidated Adjustments	(42,978)	(36,167)
Total retained earnings	<u><u>28,584</u></u>	<u><u>25,330</u></u>

**B12. Basic earnings per ordinary share**

The calculation of basic earnings per ordinary share for the quarter and for the cumulative quarter is based on the following:

	For the quarter ended 31.04.2014 RM'000	For the cumulative 3 months period ended 31.03.2014 RM'000
Profit for the period	969	969
Profit attributable to minority interest	541	541
Profit for the period attributable to Shareholders of the Company	<u>1,510</u>	<u>1,510</u>
Weighted average number of ordinary shares	<u>42,200</u>	<u>42,200</u>
Basic earnings per share (sen)	<u><u>2.30</u></u>	<u><u>2.30</u></u>

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