

## **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 30 June 2014**

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#### **A1 Basis of preparation**

This interim financial report is based on the unaudited financial statements for the quarter ended 30 June 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 154,251 new passenger vehicles registrations for the quarter ended 30 June 2014, which represents a 13.17% increase as compared to 136,302 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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**A Notes to Interim Financial Report on Consolidated Results for the Period Ended 30 June 2014****A7 Dividend**

The following dividend was paid during the current period.

	RM'000
<b>In respect of financial year ended 31 December 2013</b>	
First and final single tier dividend of 2.5 sen per ordinary share paid on 10 July 2014.	<u>1,055</u>

**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 6 months period ended 30 June 2014:

<i>Business segments</i>	Automotive Parts RM'000	Machinery Parts RM'000	Plastic RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
Revenue from external customers	65,385	6,222	2,396	-	-	<u>74,003</u>
Segment results	5,863	38	(1,570)	(244)	-	<u>4,087</u>
Interest income						96
Financing costs						<u>(250)</u>
Profit before taxation						3,933
Tax expense						<u>(1,249)</u>
Profit after taxation						2,684
Translation reserve						(76)
Total comprehensive income for the period						<u><u>2,608</u></u>

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<i>Business segments</i>	Automotive	Machinery				
	Parts	Parts	Plastic	Others	Eliminations	Consolidated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Segment assets</b>	76,386	18,317	14,289	3,496	(1,148)	111,340
<b>Total assets</b>						<u>111,340</u>
<b>Segment liabilities</b>	23,925	1,725	14,416	773	(15,030)	25,809
<b>Total liabilities</b>						<u>25,809</u>
<i>Business segments</i>	Automotive	Machinery		Discontinued		
	Parts	Parts	Plastic	Operation	Eliminations	Consolidated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Capital expenditure	1,541	4	(29)	-	-	1,516
Depreciation of investment properties	3	8	-	-	-	11
Depreciation of property, plant and equipment	2,070	178	266	-	-	2,514

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 30 June 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 30.06.2014 RM'000	As at 30.06.2013 RM'000
Plant and equipment Contracted but not provided in the financial statements	<u>522</u>	<u>2,150</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:-

Revenue by segment	For the	For the	Increase / (Decrease)	
	quarter ended 30.06.2014 RM'000	quarter ended 30.06.2013 RM'000	RM'000	%
Automotive parts	34,268	28,036	6,232	22.23%
Machinery parts	2,930	4,611	(1,681)	(36.46%)
Plastic	1,323	686	637	92.86%
	<u>38,521</u>	<u>33,333</u>	<u>5,188</u>	<u>15.56%</u>
<b>PBT by segment</b>				
Automotive parts	3,098	3,366	(268)	(7.96%)
Machinery parts	(80)	476	(556)	(116.81%)
Plastic	(597)	(565)	(32)	(5.66%)
	<u>2,421</u>	<u>3,277</u>	<u>(856)</u>	<u>(26.12%)</u>

The Group’s revenue recorded a 16% increase for the quarter ended 30 June 2014, in comparison to the previous corresponding period.

#### Automotive parts

The quarter revenue improved by 22%, from the same quarter of last year, mainly contributed by the increase of sales of the carpets products. This increase is attributed to the continuous strong demand for the new Toyota Vios, new Honda Accord and the launching of the new Honda City. Promotions offered by Proton also helped push sales for the marque.

Sales for braking products improved marginally due to the sustained demand from Hyundai, Mazda and additional variants of the Perodua Myvi. Further growth for braking products was hampered by a sharp drop in the export sales to Thailand.

Despite better sales, the profit for the reporting period deteriorated by 8% due to increase in material cost and larger portion of product mix having lower margins.

#### Machinery parts

Revenue generation for the reporting period was lower than the previous corresponding period. This was due to the depressed order intake that was affected by the poor performance of Oil Palm sector and lack of Sewage and Waste Water projects. Exports sales were affected due to the downturn in the economy of Indonesia. The drop in profits was mainly attributed to the deterioration of year-on-year sales.

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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)

##### Plastic

The segment reported a 93% increase in revenue against the corresponding quarter of 2013. Despite the growth in sales revenue, the segment is still recording a loss due to increase in operating overheads and increased raw material cost. Increased electricity tariff contributed to higher operating overhead cost whilst raw material cost rose as a result of regional supply shortage.

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

	Revenue		Profit before Tax	
	Quarter Ended 30.06.2014 RM'000	Quarter Ended 31.03.2014 RM'000	Quarter Ended 30.06.2014 RM'000	Quarter Ended 31.03.2014 RM'000
<b>Consolidated total</b>	<b>38,521</b>	<b>35,482</b>	<b>2,421</b>	<b>2,391</b>
<b>Business Segment:</b>				
Automotive parts	34,268	31,117	3,098	2,822
Machinery parts	2,930	3,292	(80)	126
Plastic Resin	1,323	1,073	(597)	(557)

The Group's profit for the reporting period recorded a marginal 1% increase in comparison to the preceding quarter.

##### Automotive parts

Revenue increased by 10% from the previous quarter, as both carpets and braking products registered revenue growth of RM1.8m and RM1.3m respectively. Sales promotions and introduction of new models coupled with the commencement of mass production of the new Mazda assembly line at Inokom further helped boost sales for Q2' 2014 against Q1' 2014.

##### Machinery parts

As with Q1' 2014 the market for the machinery parts segment remains sluggish. The reduction of revenue by 11% saw the segment dip below its breakeven point thus recording a loss for the reporting period.

##### Plastic

While the segment managed to record a 23% increase in revenue its loss grew by 7% as a result of higher electricity tariff and increased headcount to cater for upcoming orders intake.

#### B3. Prospects for 2014

##### Automotive parts

MAA industry forecast for 2014 is as follows:

Market segment	2014	2013	Variance	
	Forecast	Actual	Units	%
Passenger vehicles	598,400	576,657	21,743	3.8%
Commercial vehicles	81,600	79,136	2,464	3.1%
Total vehicles	680,000	655,793	24,207	3.7%

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#### B3. Prospects for 2014 (cont’d)

##### Automotive parts (cont’d)

With the better than expected growth, MAA has revised the forecast for 2014 with a 3.7% increase in total volume against 2013 (previous forecast for 2014 was 670,000 units). 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 for the near future due to the absence of signs of a significant immediate recovery. However; the company is of the opinion that smaller and more fragmented opportunities are still available around the region.

##### Plastic

The company will continue its expansion of end user customers in emerging markets, a strategy which has proven to yield favorable results. It will also continue qualifying new suppliers with reliable track record. This will help manage the buying risk whilst searching for more cost effective sources of materials.

#### 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 30 June 2014.

#### B5. Taxation

	3 months period ended		Financial period ended	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
	RM'000	RM'000	RM'000	RM'000
Income tax expenses				
- Current year	628	1,318	975	1,703
- Prior year	-	-	-	-
	628	1,318	975	1,703
Deferred tax				
- Origination and reversal of temporary differences	(464)	(282)	(43)	150
- Prior year	576	-	317	-
	740	1,036	1,249	1,853

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.

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**B Additional Information Required by Bursa Malaysia Securities Berhad (“Bursa Malaysia”) Main Market Listing Requirements****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	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
	RM'000	RM'000	RM'000	RM'000
Interest income	51	32	96	64
Other income including investment income	(98)	224	153	406
Interest expenses	204	(155)	(213)	(290)
Depreciation and amortization	(1,282)	(1,170)	(2,525)	(2,154)
Development cost	(367)	(210)	(693)	(341)
Net foreign exchange gain	(168)	32	(22)	150

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 30 June 2014.

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

	30.06.2014
	RM'000
	Secured
<b>Current</b>	
Borrowings – Bankers' acceptances	836
Borrowings – Short Term Revolving Credit	606
Borrowings – Term loan	133
Borrowings – Bank Overdraft	3,040
Borrowings – Hire-Purchase	78
	<u>4,693</u>
<b>Non-current</b>	
Repayable after more than 12 months	
Borrowings - Term Loan	<u>2,162</u>
	<u>2,162</u>

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.



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**B Additional Information Required by Bursa Malaysia Securities Berhad (“Bursa Malaysia”)  
Main Market Listing Requirements****B9. Material litigation**

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

**B10. Dividend**

The Board of Directors does not recommend any dividend for the current quarter ended 30 June 2014.

**B11. Retained Earnings**

	As at 30.06.2014 RM'000	As at 30.06.2013 RM'000
Total retained earnings of the Company and subsidiaries : -		
- Realised profit / (loss)	71,124	63,649
- Unrealised profit / (loss)	563	(1,305)
	<u>71,687</u>	<u>62,344</u>
Less : Consolidated Adjustments	<u>(43,279)</u>	<u>(36,430)</u>
Total retained earnings	<u><u>28,408</u></u>	<u><u>25,914</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 30.06.2014 RM'000	For the cumulative 6 months period ended 30.06.2014 RM'000
Profit for the period	873	1,842
Profit attributable to minority interest	<u>300</u>	<u>842</u>
Profit for the period attributable to Shareholders of the Company	<u><u>1,173</u></u>	<u><u>2,684</u></u>
Weighted average number of ordinary shares	<u><u>42,194</u></u>	<u><u>42,199</u></u>
Basic earnings per share (sen)	<u><u>2.07</u></u>	<u><u>4.37</u></u>

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30 June 2014