

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 2015

A1 Basis of preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 30 June 2015 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 2014.

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 2014.

A3 Auditors’ report on preceding annual financial statements

The auditors’ report on the financial statements for the year ended 31 December 2014 was not subject to any qualifications.

A4 Seasonal or cyclical factors

As reported by the Malaysian Automotive Association (“MAA”), the passenger vehicles sector recorded 137,601 new passenger vehicles registrations for the quarter ended 30 June 2015, which represents a 10.8% decrease as compared to 154,251 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 2015**A7 Dividend**

There were no dividends paid during the quarter under review.

A8 Debts and equity securities

During the quarter under review, the Company purchased a total of 1,000 Ordinary Shares of RM1.00 each from the open market for a total consideration of RM778.63. The buy-back transaction was financed by internally generated funds. The shares purchased are held as treasury shares.

Month	No. of shares purchased and retained as treasury shares	Lowest price paid (RM)	Highest price paid (RM)	Average price paid (RM)	Total consideration paid (RM)
Apr – June 2015	1,000	0.735	0.735	0.735	778.63

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 2015:

<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	65,789	6,027	4,159	-	-	75,975
Segment results	3,709	55	(1,066)	2,294	(2,500)	2,492
Interest income						51
Financing costs						(300)
Profit before taxation						2,243
Tax expense						(791)
Profit after taxation						1,452
Translation reserve						72
Total comprehensive income for the period						1,524

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A Notes to Interim Financial Report on Consolidated Results for the Period Ended 30 June 2015**A9 Segmental reporting (cont'd)**

<i>Business segments</i>	Automotive		Machinery			Eliminations	Consolidated
	Parts	Parts	Plastic	Others			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Segment assets	79,266	18,313	14,789	3,379	(169)		115,578
Total assets							<u>115,578</u>
Segment liabilities	23,178	1,609	19,940	645	(15,153)		30,219
Total liabilities							<u>30,219</u>
<i>Business segments</i>	Automotive Parts	Machinery Parts	Plastic	Others	Eliminations	Consolidated	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Capital expenditure	2,344	263	173	-	-		2,781
Depreciation of investment properties	3	8	-	-	-		11
Depreciation of property, plant and equipment	2,146	165	301	-	-		2,612

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 30 June 2015 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 2015.

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 30.06.2015 RM'000	As at 30.06.2014 RM'000
Plant and equipment Contracted but not provided in the financial statements	<u>623</u>	<u>522</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 30.06.2015 RM'000	quarter ended 30.06.2014 RM'000	RM'000	%
Automotive parts	30,752	34,268	(3,516)	(10.26%)
Machinery parts	3,229	2,930	299	10.20%
Plastic	1,450	1,323	127	9.60%
	<u>35,431</u>	<u>38,521</u>	<u>(3,090)</u>	<u>(8.02%)</u>
PBT by segment				
Automotive parts	1,498	3,098	(1,600)	(51.65%)
Machinery parts	88	(80)	168	210.00%
Plastic	(779)	(597)	(182)	(30.49%)
	<u>807</u>	<u>2,421</u>	<u>(1,614)</u>	<u>(66.67%)</u>

The Group’s revenue recorded a 8.02% decrease for the quarter ended 30 June 2015, in comparison to the previous corresponding period.

Automotive parts

There was a significant (more than RM5.1m) drop in sales of braking products caused by the:

- ‘phase-out’ of Perodua model;
- sharp drop in demand for Proton; and
- sluggish demand for Thai export market.

Carpet product registered a RM1.6m improvement in revenue, mainly contributed by the introduction of the Perodua Axia, Proton Iriz and Honda’s HRV and Jazz models. However; this was not sufficient to compensate for the reduction recorded in the braking components business.

Whilst revenue for the automotive segment was reduced by 10.3%, profits took a bigger hit with a reduction of 51.7%. Apart from the factors mention above, the depreciation of the Malaysian Ringgit against the UD Dollar caused an increase in cost of raw materials.

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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

Sales revenue was lower by RM0.3m against the corresponding quarter of the previous year as many palm oil mill project owners held back on investments due to the increased cost caused by the depreciation of the Malaysian Ringgit and Indonesian Rupiah against the US Dollar. The introduction of GST also further dampened the enthusiasm of buyers.

Plastic

Marginal growth in revenue for the segment was due to efforts into new business diversification. However; the continued softening of the electronics sector and reduce manufacturing outputs from China and globally weigh down the segment and put margins under pressure.

B2. Variation of results against preceding quarter

	Revenue		Profit before Tax	
	Quarter Ended 30.06.2015 RM'000	Quarter Ended 31.03.2015 RM'000	Quarter Ended 30.06.2015 RM'000	Quarter Ended 31.03.2015 RM'000
Consolidated total	35,431	40,544	807	1,766
Business Segment:				
Automotive parts	30,752	35,038	1,498	2,179
Machinery parts	3,229	2,798	88	(27)
Plastic Resin	1,450	2,708	(779)	(386)

The Group's revenue for the reporting period recorded a 12.61% decrease in comparison to the preceding quarter.

Automotive parts

Revenue for braking products was lower by RM4.3m in the reporting period against the preceding period whilst carpet products saw an increase of RM0.4m due to the same factors as explained in note B1 above.

Profits were reduced by 31.3% against a drop of 12.2% in revenue, mainly caused by increased in cost of materials due to the weakening of the Malaysian Ringgit against the US Dollar.

Machinery parts

The improvement in revenue of RM0.4m for Q2' 2015 was expected as normally Q1 is always the weakest period for the year.

Plastic

Sudden sharp decline in the electronics sector for emerging and global markets caused reduced order intake. Whilst diversification efforts into other sectors are beginning to pay off, the results were not enough to compensate for the loss of business from the electronics sector.

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

B3. Prospects for 2015

Automotive parts

MAA industry forecast for 2015 is as follows:

Market segment	2015	2014	Variance	
	Forecast	Actual	Units	%
Passenger vehicles	591,800	588,341	3,459	0.6%
Commercial vehicles	78,200	78,124	76	0.1%
Total vehicles	670,000	666,465	3,535	0.5%

As previously reported, MAA has revised the forecast for 2015 with a 0.5% increase in total volume against 2014 (previous forecast for 2015 was 680,000 units). In view of the above, the Group expects its Automotive Parts segment’s performance to be relatively stable. Having said this; we do not expect a sustained recovery of the market at this moment due to the continued slide of the Malaysian Ringgit and coupled with weak economic sentiments.

Machinery parts

As the business environment surrounding the segment remains depressed, the company will continue to seek smaller and more fragmented opportunities. The company will continue with its strategy in intensifying efforts with both end users and dealers, ensuring products are specified for Palm Oil & Pulp & Paper and Sugar Projects in Indonesia and running special promotion to counter the effects of the current slowdown.

Plastic

Efforts in penetrating emerging markets and business sector diversification will continue to provide some respite in the current downward trend, which could happen in Q3 as distribution networks begin replenish inventory for the year end Christmas sale. However; a sustained recovery is expected to take longer.

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 ended 30 June 2015.

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B Additional Information Required by Bursa Malaysia Securities Berhad (“Bursa Malaysia”) Main Market Listing Requirements**B5. Taxation**

	3 months period ended		Financial period ended	
	30.06.2015	30.06.2014	30.06.2015	30.06.2014
	RM'000	RM'000	RM'000	RM'000
Income tax expenses				
- Current year	(495)	(628)	(734)	(975)
- Prior year	-	-	-	-
	(495)	(628)	(734)	(975)
Deferred tax				
- Origination and reversal of temporary differences	(22)	464	(57)	43
- Prior year	-	(576)	-	(317)
	(517)	(740)	(791)	(1,249)

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 and losses incurred in the Plastic segment.

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 year ended	
	30.06.2015	30.06.2014	30.06.2015	30.06.2014
	RM'000	RM'000	RM'000	RM'000
Interest income	25	52	51	96
Other income including investment income	420	(98)	940	153
Interest expenses	(96)	204	(238)	(213)
Depreciation and amortization	(1,338)	(1,282)	(2,623)	(2,525)
Development cost	(256)	(367)	(590)	(693)
Net foreign exchange gain	280	(168)	602	(22)

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

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 2015.

B8. Group’s borrowings and debt securities

	30.06.2015
	RM'000
	Secured
Current	
Borrowings – Bankers' acceptances	1,430
Borrowings – Term loan	139
Borrowings – Bank Overdraft	2,844
	<u>4,413</u>
Non-current	
Repayable after more than 12 months	
Borrowings - Term Loan	2,162
	<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.

B9. Material litigation

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

B10. Dividend

No decision has been made on dividend payment for the period ended 30 June 2015.

B11. Retained Earnings

	As at 30.06.2015 RM'000	As at 30.06.2014 RM'000
Total retained earnings of the Company and subsidiaries : -		
- Realised profit	57,600	71,124
- Unrealised profit	866	563
	<u>58,466</u>	<u>71,687</u>
Less : Consolidated Adjustments	<u>(28,342)</u>	<u>(43,279)</u>
Total retained earnings	<u>30,124</u>	<u>28,408</u>

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Main Market Listing Requirements****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 30.06.2015 RM'000	For the cumulative 6 months period ended 30.06.2015 RM'000
Profit for the period	(81)	924
Profit attributable to minority interest	187	528
Profit for the period attributable to Shareholders of the Company	<u>106</u>	<u>1,452</u>
Weighted average number of ordinary shares	<u>42,185</u>	<u>42,185</u>
Basic earnings per share (sen)	<u>(0.19)</u>	<u>2.19</u>

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