

ANNUAL REPORT

SMIS ANNUAL REPORT 2006



SMIS Corporation Berhad

(491857-V)  
(Incorporated in Malaysia under the Companies Act, 1965)

No.19, Jalan Dua, Off Jalan Chan Sow Lin, 55200 Kuala Lumpur, Malaysia  
Tel: 03-9221 9898 (10 lines) Fax: 03-9221 7878



SMIS Corporation Berhad

(491857-V)



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## SMIS Corporation Berhad

100%

GRAND CARPET INDUSTRIES SDN. BHD.

100%

SANYCO GRAND INDUSTRIES SDN. BHD.

60%

SUGIHARA GRAND INDUSTRIES SDN. BHD.

100%

MACHINERY & INDUSTRIAL SUPPLIES SDN. BHD.

66.25%

CLEON TECHNOLOGY SDN. BHD.

# CORPORATE INFORMATION



## Board of Directors

Mohamed Ghazali bin Kamal Baharein  
(Independent Non-Executive Director)  
(Chairman) [Appointed as Chairman of  
the Board on 27 February 2007]

Mohd Riani bin Osman (Executive Director)

Ng Wai Kee (Executive Director)

Yap Siew Foong (Executive Director)

Cham Bee Sim (Executive Director)

Danny Ng Siew L'Leong  
(Senior Independent Non-Executive Director)

Pauline Teh @ Pauline Teh Abdullah  
(Independent Non-Executive Director)

## Audit Committee

Danny Ng Siew L'Leong  
(Senior Independent Non-Executive Director)  
(Chairman)

Pauline Teh @ Pauline Teh Abdullah  
(Independent Non-Executive Director)

Ng Wai Kee (Executive Director)

## Nomination Committee

Danny Ng Siew L'Leong (Chairman)

Pauline Teh @ Pauline Teh Abdullah

Mohamed Ghazali bin Kamal Baharein

## Remuneration Committee

Mohamed Ghazali bin Kamal Baharein (Chairman)

Danny Ng Siew L'Leong

Pauline Teh @ Pauline Teh Abdullah

Ng Wai Kee

## Company Secretaries

Saw Bee Lean (MAICSA 0793472)

Liew Irene (MAICSA 7022609)

## Registered Office

Level 7, Setia 1, 15, Lorong Dungun, Damansara Heights,  
50490 Kuala Lumpur, Wilayah Persekutuan.

Tel: 03-2095 7188 Fax: 03-2095 0988

## Auditors

KPMG, Chartered Accountants  
Wisma KPMG, Jalan Dungun, Damansara Heights,  
50490 Kuala Lumpur, Wilayah Persekutuan.

## Principal Bankers

EON Bank Bernad (92351-V)  
Wisma Cyclecarri  
288, Jalan Raja Laut, 50350 Kuala Lumpur,  
Wilayah Persekutuan.

United Overseas Bank (Malaysia) Berhad (271809-K)  
Level 7, Menara UOB, Jalan Raja Laut,  
50050 Kuala Lumpur, Wilayah Persekutuan.

## Registrars

Tenaga Koperat Sdn Bhd (118401-V)  
20th Floor, Plaza Pertama, Jalan Kampar,  
Off Jalan Tun Razak, 50400 Kuala Lumpur,  
Wilayah Persekutuan.  
Tel: 03-4041 6522 Fax: 03-4042 6352

## Stock Exchange Listing

Bursa Malaysia Securities Berhad (Second Board)



## SUMMARY OF FINANCIAL HIGHLIGHTS

for Balance Sheet and Income Statement for Past Five Years from 2002 to 2006

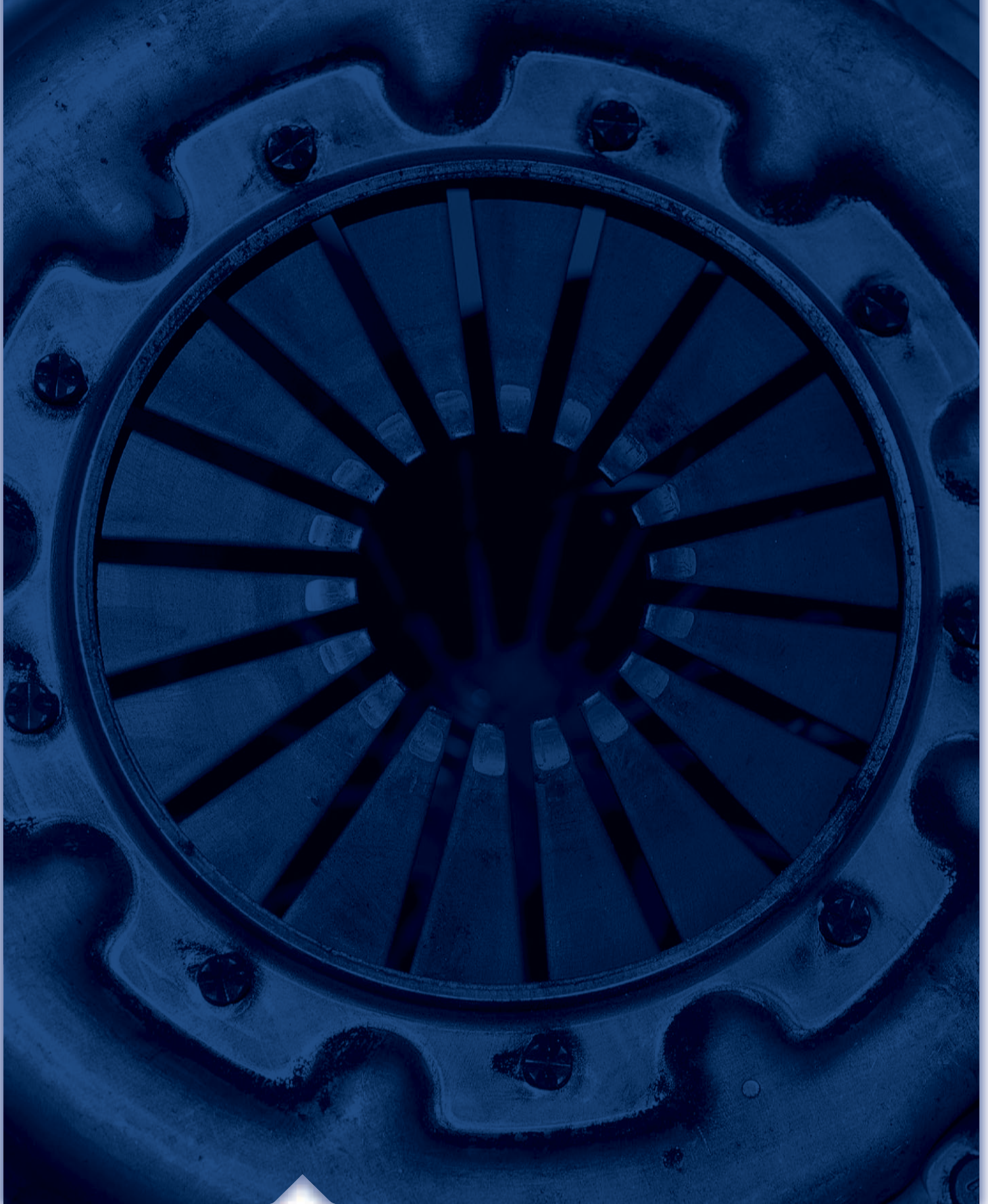
### Balance Sheet

	2006 RM'000	2005 RM'000	2004 RM'000	2003 RM'000	2002 RM'000
Issue Capital	44,800	44,800	44,800	44,800	44,800
Share Premium	4,891	4,891	4,891	4,891	4,891
Treasury Shares	(246)	-	-	-	-
Retained profits/Accumulated loss	15,251	12,028	10,630	10,142	9,781
Minority shareholders' interests	-	737	1,935	1,092	-
Funds employed	64,696	62,456	62,256	60,925	59,472
Negative goodwill	-	2,968	5,708	8,448	11,188
	64,696	65,424	67,964	69,373	70,660
Property, plant and equipment	26,746	29,710	30,412	25,713	23,777
Goodwill	710	710	1,365	2,021	2,677
Prepaid lease payments	2,046	2,082	2,116	2,152	2,189
Investment properties	1,740	1,787	2,223	2,280	1,745
Deferred tax assets	760	755	785	809	817
Current asset	45,632	46,605	44,196	43,925	47,417
Total assets	77,634	81,649	81,097	76,900	78,622
Total liabilities	(12,938)	(16,225)	(13,133)	(7,527)	(7,962)
	64,696	65,424	67,964	69,373	70,660

### Income Statement

Revenue	77,144	72,998	63,611	62,198	67,948
Other operating income	458	3,827	3,098	3,234	2,700
Other operating expense	(77,088)	(76,179)	(66,458)	(62,346)	(59,951)
Operating profit	514	646	251	3,086	10,697
Financing costs	(144)	(156)	(94)	(109)	(138)
Interest income	285	197	236	310	162
Profit before taxation	655	687	393	3,287	10,721
Tax expense	(1,137)	(627)	(1,087)	(1,030)	(1,754)
(Loss)/Profit for the year	(482)	60	(694)	2,257	8,967
Attributable to :					
Shareholders of the Company	510	1,398	488	2,482	8,967
Minority interests	(992)	(1,338)	(1,182)	(225)	-
(Loss)/Profit for the year	(482)	60	(694)	2,257	8,967

Note : The Company was listed on the second board of Bursa Malaysia Securities Berhad on 16 April 2002



## Directors' Profile



## DIRECTORS' PROFILE

### **Mohamed Ghazali Bin Kamal Baharein**

#### **Chairman, Independent Non-Executive Director**

Mohamed Ghazali Bin Kamal Baharein, a Malaysian, aged 61, was appointed to the Board of Directors of SMIS on 2 February 2002 as an Independent Non-Executive Director. He was appointed as Chairman, Independent Non-Executive Director on 27 February 2007.

He holds a Bachelor of Arts from University Malaya and a post graduate Diploma in Development Economics from University Cambridge, United Kingdom in 1972. He attended the Program Management Development in Harvard Business School in 1979. He started his career as an Assistant District Officer in the government service and later in various capacities within the FELDA group of companies where his last appointment was Senior General Manager of Felda Palm Industries Sdn Bhd. He is now a businessman and in consultancy services.

He is also the Chairman of the Remuneration Committee and is a member of the Nomination Committee.

He has no family relationship with any director and/or major shareholders of the Company. He does not have any conflict of interest with the Company and has not been convicted for any offences within the past 10 years.

### **Mohd Riani Bin Osman**

#### **Executive Director**

Mohd Riani Bin Osman, a Malaysian, aged 55, was appointed as Executive Director of SMIS on 2 February 2002.

He is an entrepreneur with more than twenty-eight years experience in business, especially in the field of trading and manufacturing of OEM automotive parts and components. He has extensive working knowledge and experience in the automotive parts and components industry. He is responsible for the operations of the automotive division.

He also serves as a Director of Lysaght Galvanised Steel Berhad.

He has no family relationship with any director and/or major shareholders of the Company. He does not have any conflict of interest with the Company and has not been convicted for any offences within the past 10 years.

# DIRECTORS' PROFILE



## **Ng Wai Kee**

### **Executive Director**

Ng Wai Kee, a Malaysian, aged 36, was appointed an Executive Director of SMIS on 2 February 2002.

He holds a Bachelor of Accounting from the University of Technology, Sydney, Australia and is an Associate member of the Institute of Chartered Accountants, Australia. He has worked as project consultant in Westpac Banking Corporation, Sydney in 1992 and with Deloitte Touche Tohmatsu, Sydney in 1993. He left the firm as a Senior Analyst in 1996. He is responsible for the operations and finance of the Group.

He also serves as a Director of Hirotake Holdings Berhad and is a member of the Audit and Remuneration committees.

He is the son of Yap Siew Foong, a Director and major shareholder of the Company. Save as disclosed on page 71 of the annual report, he does not have any other conflict of interest with the Company and has not been convicted of any offences within the past 10 years.

## **Yap Siew Foong**

### **Executive Director**

Yap Siew Foong, a Malaysian, aged 63, was appointed an Executive Director of SMIS on 2 February 2002.

She is one of the co-founders of SMIS Group. She is responsible for the finance and operations of the trading division.

She is the mother of Ng Wai Kee and sister-in-law of Cham Bee Sim. Save as disclosed on page 71 of the annual report, she does not have any other conflict of interest with the Company and has not been convicted of any offences within the past 10 years.

## **Cham Bee Sim**

### **Executive Director**

Cham Bee Sim, a Malaysian, aged 59, was appointed an Executive Director of SMIS on 2 February 2002.

Ha has vast experience in the manufacturing and trading of automotive parts and components. He is responsible for the operations of the automotive division.

He is the brother-in-law of Yap Siew Foong, a Director and a major shareholder of SMIS. Save as disclosed on page 71 of the annual report, he does not have any other conflict of interest with the Company and has not been convicted of any offences within the past 10 years.





## DIRECTORS' PROFILE

### **Danny Ng Siew L'Leong**

#### **Senior Independent Non-Executive Director**

Danny Ng Siew L'Leong, a Malaysian, aged 49, was appointed to the Board of Directors of SMIS on 2 February 2002 as an Independent Non-Executive Director.

He graduated with a Bachelor degree in Agribusiness (Honours) from University Pertanian Malaysia, with major in Financial Management in 1982. He was attached to United Malayan Banking Corporation (now known as RHB Bank Berhad) as Credit Analyst for the central region from 1982 to 1986 and subsequently, the Accounts Manager of the Corporate Banking Department from 1986 to 1990. From 1990 to 1991, he was appointed the Unit Head of the Northern Region of the Corporate Banking Department and Head of Credit and Marketing for its Corporate Banking Department from 1991 to 1994.

He also serves as a Director of New Hoong Fatt Holdings Berhad and Loh & Loh Corporation Berhad. He is the Chairman of the Audit Committee and also a member of the Nomination and Remuneration Committee.

He has no family relationship with any director and/or major shareholders of the Company. He does not have any conflict of interest with the Company and has not been convicted for any offences within the past 10 years.

### **Pauline Teh @ Pauline Teh Abdullah**

#### **Independent Non-Executive Director**

Pauline Teh @ Pauline Teh Abdullah, a Malaysian, aged 37, was appointed to the Board of directors of SMIS on 2 February 2002, as Independent Non-Executive Director.

She obtained a Bachelor of Commerce (Accounting) from Saint Mary's University, Halifax, Canada in 1993 and a Masters in Finance from University of Hull, United Kingdom in 1994. She was a Senior Operations Officer in Public Bank Berhad from 1993 to 1995 and joined Perdana Merchant Bankers in 1995 and left as Assistant Vice-President in 1997 to take up the post of Assistant Manager with Project Lebuhraya Utara Selatan Berhad from 1997 to 1998. In 1998, she joined Hanifah Teo & Associates as a Management Consultant. Currently, she is attached to BDO Capital Consultants Sdn Bhd.

She is a member of the Audit, Nomination and Remuneration Committee.

She has no family relationship with any director and/or major shareholders of the Company. She does not have any conflict of interest with the Company and has not been convicted for any offences within the past 10 years.



# CHAIRMAN'S STATEMENT



## CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of SMIS Corporation Berhad ("SMIS" or "the Company"), I am pleased to present the Annual Report incorporating the Audited Financial Statements of SMIS and its subsidiary companies ("SMIS Group" or "Group") for the financial year ended 31 December 2006.

### INDUSTRY OVERVIEW AND FINANCIAL HIGHLIGHTS

With the National Automotive Policy ("NAP") made official in year 2006, market certainty has not improved and is apparent from the dwindling market volume. The impact of the NAP on the automotive industry remains negative as a whole. The lower new car prices have only had an overall impact of weakening the used car market making it prohibitive for consumers to replace their existing cars. Compounding the already weak market sentiment are rising oil prices, tighter credit control on loans, inflation and high interest rates which effectively limited consumers' spending power. Based on the figures released by the Malaysian Automotive Association ("MAA"), the passenger car segment recorded a decline of 11% in year 2006 with sales of 366,738 units for the year ended 31 December 2006 as compared to 410,892 units in the previous year. This weakness in the automotive market was also carried forward to the first quarter of year 2007.

The SMIS Group recognize the challenges that lie ahead and continue to strive towards achieving greater efficiency and reduction of wastage. These measures help to protect the operating margins of the Group during the current weak market condition and will also allow the Group to achieve better returns when the industry strengthens.

Despite the challenges and amidst the weak market sentiment, operating profit for the Group was significantly higher for the financial year ended 31 December 2006, at RM3 million in comparison with RM1.4 million for the financial year ended 31 December 2005. Provision for impairment of plant and machinery in a subsidiary, Clean Technology Sdn Bhd, has however brought down the profit attributable to shareholders of the Group for the financial year ended 31 December 2006 to RM0.5 million, a reduction of 63%, as compared to a profit of RM1.4 million recorded in the previous financial year. Basic earnings per share for the financial year ended 31 December 2006 was RM1.14 per share.

# CHAIRMAN'S STATEMENT



## PROSPECTS

MAA has forecasted a marginal growth in the overall vehicle sales volume for the year 2007 to 500,000 units from 490,678 units sold in 2006.

The SMIS Group's automotive export market revenue has grown by 31% for the financial year ended 31 December 2006. The Group foresees greater long term opportunities to achieve greater market share in its automotive segment and better profitability for the Group as a whole. It is also confident that improvement measures adopted coupled with a strong Balance Sheet will place the Group in a strong position to secure future business.

## CHANGES IN THE BOARD

Our former Chairman, Tan Sri Abdul Rashid bin Abdul Manaf, resigned as Director and Chairman of the Board of Directors on 6 December 2006, after having led the Board for close to five (5) years. On behalf of the Group, I would like to take this opportunity to thank and extend our appreciation to Tan Sri Abdul Rashid bin Abdul Manaf for his invaluable contribution during his tenure with the Company and wish him all the best.

## ACKNOWLEDGEMENT

Despite the various challenges to the industry, the Group has remained resilient. This is attributable mainly to the dedication, skill and commitment of our employees, led by a strong management team and Board of Directors. I would also like to take this opportunity to thank all our employees for their hard work, loyalty and support.

To our valued customers, suppliers, business partners and investors, on behalf of my fellow Directors, we wish to extend our appreciation to you for your continued trust and confidence in us, which will only spur us to work harder towards achieving greater success and growth.

**Mohamed Ghazali Bin Kamal Baharein**  
Chairman



# CORPORATE GOVERNANCE STATEMENT

The Board of Directors ("Board") of SMIS Corporation Berhad ("SMIS") recognises the importance of establishing and maintaining good corporate governance within the Group. The Board is committed in ensuring the adoption of the principles and best practices of the Malaysian Code on Corporate Governance ("the Code") to safeguard the Group's assets and shareholders' interests. This statement sets out the manner in which the Group has applied the Principles, and the extent of compliance with the Best Practices in Corporate Governance as set out in Part 1 and Part 2 respectively of the Code. The best practices that were not adopted during the financial year are explained in the relevant paragraphs.

## THE BOARD OF DIRECTORS

### s Composition

The Group is led by an effective and experienced Board with members from different backgrounds possessing a wide range of expertise. Together they bring a broad range of skills, experience and knowledge which gives added strength to the leadership in managing and directing the Group's operations.

The Board recognises its key role in charting the strategic direction, development and control of the Group. The specific responsibilities that are listed in the Code are those assumed by the Board in the discharge of the Board's stewardship responsibilities. In summary, this includes the reviewing and monitoring of matters relating to strategy, performance, resource allocation, standards of conduct, financial matters, succession planning, effectiveness and adequacy of the Group's system of internal controls and risk management practices.

### s Board Balance

The Board comprises of 7 members (after the resignation of Tan Sri Abdul Rashid bin Abdul Manaf), of whom, 3 are Independent Non-Executive Directors and 4 are Executive Directors. The Board composition satisfies the requirement of having at least one third of its members as Independent Non-Executive Directors. The profiles of the members of the Board are set out on page 6 to page 8 of this Annual Report.

The Executive Directors are primarily responsible for the implementation of policies and decisions of the Board, overseeing the Group's operations and developing the Group's business strategies. The role of the Independent Non-Executive Directors is to provide objective and independent judgment to the decision making of the Board and as such, provide an effective check and balance to the Board's decision making process.

With this composition of members, the Board is satisfied that it fairly reflects the investment of the minority shareholders and represents the required mix of skills and experience required for the effective discharge of Board's duties and responsibilities.

There is a clear division of responsibilities between the roles of the Chairman and Chief Executive Officer ("CEO") to ensure that there is equilibrium of power and authority in managing and directing the Group. The Chairman is primarily responsible for the effective and efficient conduct and working of the Board whilst the CEO oversees the day-to-day running of the business, implementation of Board policies and making of operational decisions. The responsibilities of the CEO are assumed by the Executive Directors in charge of the respective business activities of the Group.

The Board has appointed Mr. Danny Ng Siew L'Leong as the Senior Independent Non-Executive Director to whom concerns may be conveyed.

# CORPORATE GOVERNANCE STATEMENT



## THE BOARD OF DIRECTORS (continued)

### s Board Meetings

During the financial year ended 31 December 2006, a total of five Board meetings were held and the attendance details of individual Board members are documented below.

Name of Director	Designation	No. of meetings attended
Mohamed Ghazali bin Kamal Baharein (Chairman - appointed on 27 <sup>th</sup> February 2007)	Independent Non-Executive Director	5/5
Tan Sri Abdul Rashid bin Abdul Manaf (Chairman - resigned on 6 <sup>th</sup> December 2006)	Non-Independent Non-Executive Director	3/5
Mohd. Riani bin Osman	Executive Director	5/5
Ng Wai Kee	Executive Director	4/5
Yap Siew Foong	Executive Director	5/5
Cham Bee Sim	Executive Director	5/5
Danny Ng Siew L'Leong	Senior Independent Non- Executive Director	5/5
Pauline Teh @ Pauline Teh Abdullah	Independent Non-Executive Director	5/5

Board meetings are scheduled every quarter and additional meetings are convened as and when necessary. In the meetings, Board members will deliberate on and consider matters relating to the Group's financial performance, significant investments, corporate development, strategic issues and business plans. Senior Management may be invited to attend these meetings to explain and clarify the relevant matters tabled, if required. All meetings of the Board are duly recorded in the Board Minutes by the Company Secretary.

All Directors have full access to the advice and services of the Company Secretary who ensures that Board procedures are adhered to at all times during meetings and advises the Board on matters including corporate governance issues and the Directors' responsibilities in complying with relevant legislation and regulations.

### s Supply of Information to Board Members

Board papers providing updates on operations, financial, corporate developments and minutes of the Board Committees are circulated prior to each meeting. This is to provide the Directors sufficient time to enable them to participate in the deliberations of the issues to be raised at the meetings and to make informed decisions.

### s Appointment and Re-election of Directors

Any new appointment to the Board will require deliberation by the full Board guided by formal recommendations by the Nomination Committee. In accordance with the Company's Articles of Association, one third of the Directors are subject to retirement from office and be eligible for re-election at the annual general meeting. Furthermore, each Director shall retire once in every three years.



# CORPORATE GOVERNANCE STATEMENT

## THE BOARD OF DIRECTORS (continued)

Directors over seventy (70) years of age are required to submit themselves for re-appointment annually in accordance with Section 129(6) of the Companies Act, 1965 ("the Act").

### s Directors' Training

All directors have attended the Mandatory Accreditation Programme prescribed by Bursa Securities and the Board is mindful that they should receive appropriate continuous training. During the financial year, certain Directors have attended briefings/professional programmes on Financial Reporting Standards and Corporate Governance matters to enhance their knowledge and expertise. The Board will continue to evaluate and determine the training needs of its Directors on an ongoing basis.

For new Directors, the Nomination Committee ensures that they undergo an orientation program so that they are familiar with the Group's operation and current business issues.

## BOARD COMMITTEES

Apart from the Audit Committee, there are two additional committees established to assist the Board of Directors in the execution of its responsibilities. All the committees are provided with written terms of reference. Details of the Board committees are provided below.

### s Nomination Committee

The Nomination Committee has three members, all of whom are Non-Executive Directors with a majority being Independent Directors. The members of the Nomination Committee are:

#### Chairman

Danny Ng Siew L'Leong – Senior Independent Non-Executive Director

#### Members

Pauline Teh @ Pauline Teh Abdullah – Independent Non-Executive Director

Mohamed Ghazali bin Kamal Baharein – Independent Non-Executive Director

The Nomination Committee is empowered by the Board of Directors and its terms of reference to assist the Board of Directors in their responsibilities in nominating new candidates for the Board and Board Committees.

Members of the Nomination Committee met once during the financial year with the full attendance of its members. The purpose of the meeting was to assess the Board's composition and balance. The Board considers that the current mix of skills and experience of its members is sufficient for the discharge of its duties and responsibilities effectively.

### s Remuneration Committee

The Remuneration Committee comprises four members. The members of the Remuneration Committee are:

#### Chairman

Mohamed Ghazali bin Kamal Baharein – Independent Non-Executive Director

#### Members

Danny Ng Siew L'Leong – Senior Independent Non-Executive Director

Pauline Teh @ Pauline Teh Abdullah - Independent Non-Executive Director

Ng Wai Kee – Executive Director

# CORPORATE GOVERNANCE STATEMENT



## THE BOARD OF DIRECTORS (continued)

The responsibility of the Remuneration Committee is to recommend the remuneration packages of each Executive Director. This includes recommending remuneration packages necessary to attract, retain and motivate the Directors, and is reflective of the Directors' experience and level of responsibilities.

None of the Executive Directors participate in any way in determining their individual remuneration. The remuneration of the Executive Directors is to be reviewed annually. The remuneration and entitlements of the Non-Executive Directors shall be a matter to be decided by the Board of Directors as a whole.

The Remuneration Committee met once during the financial year. The meeting was attended by all its members to discuss the remuneration package of Directors that commensurate with corporate and individual performance.

### s Audit Committee

The report of the Audit Committee is set out on pages 18 to 21.

## DIRECTORS' REMUNERATION

The aggregate remuneration of Directors for the financial year ended 31 December 2006 are categorised as follows:

### (a) Total Remuneration

	Executive Directors RM	Non-Executive Directors RM	Total RM
Basic Salary	757,112	-	757,112
Bonuses	109,600	-	109,600
Fees	48,000	78,000	126,000
Benefits-in-kind	61,317	-	61,317
Attendance fee	-	17,000	17,000
<b>Total</b>	<b>976,029</b>	<b>95,000</b>	<b>1,071,029</b>

### (b) Directors' remuneration by bands

	Executive	Non-Executive	Total
RM1 to RM50,000	-	4	4
RM150,001 to RM200,000	1	-	1
RM200,001 to RM250,000	1	-	1
RM250,001 to RM300,000	2	-	2
<b>Total number of Directors</b>	<b>4</b>	<b>4</b>	<b>8</b>

The details of individual Director's remuneration are not disclosed as the Board considers the above disclosures on Directors' remuneration are sufficient to cater to the transparency and accountability aspects of the Code.





# CORPORATE GOVERNANCE STATEMENT

## THE BOARD OF DIRECTORS (continued)

### ACCOUNTABILITY AND AUDIT

#### s Financial Reporting

The financial statements are prepared in accordance with the provisions of the Companies Act, 1965 and approved accounting standards in Malaysia and which give a true and fair view of the state of affairs of the Group at the end of the financial year. The Board of Directors strives to ensure that the quarterly reports and annual financial statements are presented in a manner which provides a balanced and understandable assessment of the Company's performance and prospect.

A Responsibility Statement by the Directors of their responsibility pursuant to Section 169 of the Companies Act, 1965 is set out on page 24 of the Annual Report.

#### s Statement on Internal Control

The Board acknowledges its responsibility to establish a sound system of internal control that is maintained and reviewed for its adequacy and integrity.

The Group's Statement on Internal Control is set on pages 22 to 23 of the Annual Report.

#### s Relationship With Auditors

The role of the Audit Committee in relation to the external auditors is described in the Audit Committee Report set out on pages 18 to 21 of the Annual Report.

#### s Non-Audit Fees

The amount of non-audit fees paid to external auditors by the Group for the current financial year amounted to RM 20,000 which was largely for other services undertaken by the group.

### RELATIONSHIP WITH SHAREHOLDERS AND INVESTORS

The timely release of quarterly financial results, press releases and other announcements provide the primary platform for the ongoing communication of the Group's performance and operations to the Company's shareholders and investors. All queries from shareholders and members of public received through phone calls or letters are handled by the Directors. In addition, the Board has taken appropriate steps to ensure that no market information is disclosed to any party prior to making an official announcement to Bursa Securities.

At the Annual General Meeting, the Board presents the progress and performance of the Group. The Chairman of the Board gives shareholders ample time and opportunity to question matters of concern to them.

### ADDITIONAL COMPLIANCE INFORMATION

#### Share Buy-Back

The Company had on 24 June 2003 obtained mandate of its shareholders to undertake, inter alia, a share buy back of up to 10% of the issued and paid-up capital. The mandate for the share buy back was renewed via the Company's annual general meeting annually.

# CORPORATE GOVERNANCE STATEMENT



## THE BOARD OF DIRECTORS (continued)

During the financial year ended 31 December 2006 the Company purchased 487,800 of its own shares which were retained as treasury shares as follows :

Month	No. of shares purchased and retained as treasury shares	Lowest purchase price paid per share (RM)	Highest purchase price paid per share (RM)	Average purchase price per share (RM)	Total consideration paid (RM)
Sep 2006	32,700	0.420	0.425	0.425	13,892.83
Oct 2006	132,800	0.415	0.425	0.419	55,701.60
Nov 2006	164,200	0.425	0.640	0.565	92,742.50
Dec 2006	158,100	0.500	0.550	0.520	82,140.50
	487,800				244,477.43

Subsequently the Company purchased 228,500 of its own shares which were retained as treasury shares as at 30 April 2007 as follows :

Month	No. of shares purchased and retained as treasury shares	Lowest purchase price paid per share (RM)	Highest purchase price paid per share (RM)	Average purchase price per share (RM)	Total consideration paid (RM)
Jan 2007	70,500	0.500	0.530	0.516	36,385.00
Feb 2007	18,000	0.530	0.540	0.540	9,712.70
Mar 2007	140,000	0.500	0.530	0.521	72,888.06
Apr 2007	-	-	-	-	-
<b>Total</b>	228,500				118,985.76

## Options, Warrants or Convertible Securities

There was no option, warrants or convertible securities exercised during the financial under review.

## Material Contracts involving Directors' Interests

There were no contracts involving directors' interests which are or may be material, not being contracts entered into in the ordinary course of business, which have been entered into by the Company and its subsidiary companies since the end of the previous financial year.

## Recurrent Related Party Transactions ("RRPT")

The information on RRPT for the financial year is presented in the Audited Financial Statement in this annual report.

# AUDIT COMMITTEE REPORT

## Composition and Meetings

The members of the Audit Committee and details of their attendance of the meetings during the financial year ended 31 December 2006 are as follows:

		Number of meetings	Attendance of meetings
Chairman:	Danny Ng Siew L'Leong (Senior Independent Non-Executive Director)	6	6/6
Members:	Pauline Teh @ Pauline Teh Abdullah (Independent Non-Executive Director)	6	6/6
	Ng Wai Kee (Executive Director)	6	5/6

At the invitation of the Audit Committee, Senior Management staff and the external consultants to whom the internal audit function was outsourced to attended the meetings. The agenda of the meetings and relevant information are distributed to the Audit Committee members with sufficient notification. The Company Secretary is also responsible for recording the proceedings of the Audit Committee meetings.

## Summary of Activities of the Audit Committee

In accordance with the terms of reference of the Audit Committee, the following activities were undertaken by the Audit Committee during the financial year ended 31 December 2006:

- Reviewed the unaudited quarterly reports and year end financial statements of the Group prior to tabling of the same to the Board of Directors for approval.
- Reviewed with the external auditors the audit plan, scope of audit and the results of the external audit.
- Considered related party transactions and conflict of interest situation that may arise within the Group.
- Reviewed and approved the internal audit plans.
- Reviewed internal audit reports which outlined recommendations towards correcting area of weaknesses and ensured that there are management action plans established for the implementation of the internal auditors' recommendations.
- Reviewed the Group's Key Risk Profile ("KRP") updated by Management with the assistance of the external consultants.

## Summary of Activities of the Internal Audit Function

The Internal Audit Function is outsourced to external consultants. They assist the Audit Committee in ensuring the adequacy and effectiveness of the internal control system of the Group. The activities of the Internal Audit Function during the financial year ended 31 December 2006 were as follows:

# AUDIT COMMITTEE REPORT



- (a) Facilitated the updating of the Group's key risk profile;
- (b) Execution of the approved internal audit plan;
- (c) Presentation of the internal audit findings at the Audit Committee meetings. All findings raised by the Internal Audit Function have been appropriately addressed by Management; and
- (d) Conducted follow up reviews to ensure previously established action plans have been adequately implemented by Management within the set timelines.

The internal audits conducted did not reveal weaknesses which would result in material losses, contingencies or uncertainties that would require disclosure in the annual report.

## TERMS OF REFERENCE OF AUDIT COMMITTEE

### 1. OBJECTIVES

The objectives of the Audit Committee are to assist the Board of Directors in meeting its responsibilities relating to accounting and reporting practices of the Company and its subsidiary companies.

In addition, the Audit Committee shall:-

- (a) Oversee and appraise the quality of the audits conducted both by the Company's internal and external auditors;
- (b) Maintain open lines of communication between the Board of Directors, the internal auditors and the external auditors for the exchange of views and information, as well as to substantiate their respective authority and responsibilities; and
- (c) Determine the adequacy of the Group's administrative, operating and accounting controls.

### 2. COMPOSITION

The Audit Committee shall be appointed by the Directors from among their members (pursuant to a resolution of the Board of Directors) which fulfill the following requirements:-

- (a) the audit committee must be composed of no fewer than 3 members;
- (b) a majority of the audit committee must be independent directors; and
- (c) at least one member of the audit committee:-
  - i) must be a member of the Malaysian Institute of Accountants; or
  - ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:-
    - he must have passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act, 1967; or
    - he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967, or
  - iii) he must be a person who fulfills the requirements as may be prescribed by the Bursa Malaysia Berhad and/or other relevant authorities from time to time.

The members of the Audit Committee shall elect a Chairman from among their members who shall be an Independent Director.



# AUDIT COMMITTEE REPORT

## TERMS OF REFERENCE OF AUDIT COMMITTEE

In the event of any vacancy in the Audit Committee resulting in the non-compliance of item 2 (a) to (c) above, the vacancy must be filled within 3 months of that event.

The Board of Directors must review the term of office and performance of the Audit Committee and each of its members at least once every 3 years to determine whether the Audit Committee and members have carried out their duties in accordance with the terms of reference.

### 3. FUNCTIONS

The functions of the Audit Committee are as follows:-

- (a) To review the following and report the same to the Board of Directors:-
  - i. with the external auditors, the audit plan;
  - ii. with the external auditors, his evaluation of the system of internal controls;
  - iii. with the external auditor, his audit report;
  - iv. the assistance given by the Company's employees to the external auditors; and
  - v. any related party transaction and conflict of interest situation that may arise within the Company or group including any transaction, procedure or course of conduct that raises questions of management integrity.
- (b) To consider the appointment of the external auditor, the audit fees and any questions of resignation or dismissal;
- (c) To discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- (d) To review the quarterly and year-end financial statements of the company, focusing particularly on:-
  - Any changes in accounting policies and practices;
  - Significant adjustments arising from the audit;
  - The going concern assumption;
  - Compliance with accounting standards and other legal requirements;
- (e) To discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of management where necessary);
- (f) To review the external auditor's management letter and management's response;
- (g) To do the following where an internal audit function exists:-
  - s Review the adequacy of the scope, functions and resources of the internal audit function, and that it has the necessary authority to carry out its work;
  - s Review the internal audit program and results of the internal audit process and where necessary, ensure that appropriate action is taken on the recommendations of the internal audit function;
  - Review any appraisal or assessment of the performance of members of the internal audit function;
  - Approve any appointments or termination of senior staff members of the internal audit function;
  - s Inform itself of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.
- (h) To consider the major findings of internal investigations and management's response;
  - (i) To consider other areas as defined by the Board;
  - (j) To perform any other functions or responsibilities as may be required of them as prescribed by the Bursa Securities or any other relevant authorities from time to time.

# AUDIT COMMITTEE REPORT



## TERMS OF REFERENCE OF AUDIT COMMITTEE

### 4. RIGHTS OF THE AUDIT COMMITTEE

The Audit Committee shall, wherever necessary and reasonable for the Company to the performance of its duties, in accordance with a procedure to be determined by the Board of Directors and at the cost of the Company:-

- (a) have authority to investigate any matter within its terms of reference;
- (b) have the resources which are required to perform its duties;
- (c) have full and unrestricted access to any information pertaining to the Company;
- (d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any);
- (e) be able to obtain independent professional or other advice; and
- (f) be able to convene meetings with the external auditors, excluding the attendance of the executive members of the committee, whenever deemed necessary.

### 5. MEETINGS

The Audit Committee shall be meet at least four (4) times a year and such additional meetings as the Chairman shall decide in order to fulfill its duties. However, at least once a year the Audit Committee shall meet with the external auditors without executive Board members present.

In addition, the Chairman may call a meeting of the Audit Committee if a request is made by any committee member, the Company's Chief Executive, or the internal or external auditors.

The Company Secretary or other appropriate senior official shall act as secretary of the Audit Committee and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it, supported by explanatory documentation to committee members prior to each meeting.

The Company Secretary shall also be responsible for keeping the minutes of meetings of the Audit Committee and circulating them to committee members and to the other members of the Board of Directors.

A quorum shall consist of a majority of independent directors.

By invitation of the Audit Committee, the Company must ensure that other Directors and employees attend any particular Audit Committee meeting specific to the relevant meeting.



# STATEMENT ON INTERNAL CONTROL

## INTRODUCTION

The Board of Directors remains committed towards ensuring that a sound system of internal control exists in order to safeguard shareholders' investments and the Group's assets. The Board is pleased to provide below a statement on the state of the internal control of the Group prepared in accordance with paragraph 15.27(b) of the Bursa Malaysia Securities Berhad ("Bursa Securities") Listing Requirements and the Statement on Internal Control - Guidance for Directors of Public Listed Companies.

## BOARD RESPONSIBILITY

The Board affirms its responsibility for establishing and maintaining a sound system of internal control and risk management practices as well as reviewing the adequacy and integrity of the internal control system. The Board has delegated the abovementioned responsibility to the Audit Committee. Through the Audit Committee, the Board is kept informed of all significant control issues brought to the attention of the Audit Committee by the Management, the internal audit function and the external auditors.

As there are inherent limitations in any system of internal control, such a system can only manage rather than eliminate all risks that may impede the achievement of the Group's corporate objectives. Therefore, the system of internal control can only provide reasonable assurance rather than absolute assurance against material misstatement or loss. In devising control procedures, due consideration is given to the cost of implementation as compared to the expected benefits.

## RISK MANAGEMENT

The Board acknowledges that the Group's business activities involve some degree of risk and key management staff and Heads of Departments are delegated the responsibility to manage identified risks within defined parameters and standards.

Identifying, evaluating and managing the significant risks faced by Group is an ongoing process which is undertaken at each subsidiary. During the year under review, this process was exercised through periodic management meetings held to communicate and deliberate key issues and risks amongst Management team members and where appropriate, controls are devised and implemented. Significant risks identified are escalated to the Board for their attention at their scheduled meetings.

Subsequent to the financial year ended 31 December 2006, the Group's key risks profile was updated and presented to the Audit Committee on 18th May 2007 with the assistance of external consultants. Identified risks are prioritised in terms of likelihood of their occurrence and the impact impeding the achievement of the Group's business objectives. This allows Management to allocate appropriate resources in the mitigation of risks.

The abovementioned practices/initiatives by Management serves as the ongoing process used to identify, assess and manage key business, operational and financial risks faced by the Group.

# STATEMENT ON INTERNAL CONTROL



## INTERNAL AUDIT FUNCTION

The Group's internal audit function is outsourced to external consultants. The outsourced internal auditors assist the Board and the Audit Committee in providing independent assessment of the adequacy and effectiveness of the Group's internal control systems. Internal audit plans are tabled to the Audit Committee for review and approval to ensure adequate coverage.

Periodically and in accordance with the approved internal audit plan, the Group's internal auditors perform audit reviews on business processes of different business units. The results of their review are brought to the attention of the Audit Committee through their audit reports. Follow up reviews are also conducted to ensure that the recommendations for improvement have been implemented by Management on a timely basis.

During the financial year under review, the weaknesses in internal control identified have been appropriately addressed. Notwithstanding this, the Group will continue to take measures to enhance and strengthen the internal control environment.

## OTHER KEY ELEMENTS OF INTERNAL CONTROLS

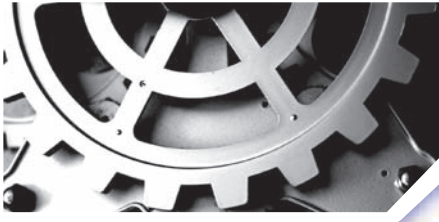
The other key elements of the Group's internal control system are as follows:

- (a) **Monitoring Results Against Budget**  
Monthly monitoring of results against budgets for active subsidiaries, with significant variances being followed up and appropriate action taken, where necessary.
- (b) **Clear Organisation Structure**  
An organizational structure where key responsibilities are clearly defined as well as the authorization policy which sets out the appropriate authority limits for all aspects of the Group's business.
- (c) **Regular Factory Visits**  
Regular factory visits carried out by the senior management team members.
- (d) **ISO Certification**  
Certain of the Group's operations are ISO certified and TS16949 certified. With such certifications, audits are conducted by external parties periodically to ensure compliance with the terms and condition of the respective certifications.

## CONCLUSION

For the financial year under review, issues highlighted by Management, the Internal Audit Function and the External Auditors in relation to the Group's internal control system have been adequately addressed. The Board remains committed towards operating a sound system of internal control. Therefore, reviews of internal controls will be continuously carried out to ensure the ongoing adequacy and effectiveness of the Group's system of internal control.





## DIRECTORS' RESPONSIBILITY STATEMENT

The Directors acknowledge their responsibility for ensuring that the financial statements of the Group are drawn up in accordance with applicable approved accounting standards in Malaysia and the provision of the Companies Act, 1965 so as to give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2006 and of the results and cash flows of the Company and the Group for the financial year ended on that date.

In preparing the financial statements of the Company and the Group for the year ended 31 December 2006, the Directors have:

- s ensured that relevant and appropriate accounting policies are consistently applied and that these policies are in accordance with applicable approved accounting standards;
- made judgments and estimates that are reasonable and prudent; and
- used the going concern basis for the preparation of the financial statements.

The Directors have ensured that proper accounting records are kept which enable the preparation of the financial statements with reasonable accuracy and that these records are kept in accordance with the Companies Act, 1965. The Directors are also responsible for taking steps as are reasonable to safeguard the Group's assets and to prevent and detect fraud and other irregularities.

# FINANCIAL STATEMENTS

for the year ended 31 December 2006



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# DIRECTORS' REPORT

for the year ended 31 December 2006

The Directors hereby submit their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2006.

## Principal activities

The Company is principally engaged in investment holding, whilst the principal activities of the subsidiaries are as stated in Note 7 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

## Results

	Group RM'000	Company RM'000
Loss for the year	(482)	(2,629)

## Reserves and provisions

There were no material transfers to or from reserves and provisions during the year under review except as disclosed in the financial statements.

## Dividends

No dividend was paid during the year and the Directors do not recommend any dividend to be paid for the year under review.

## Directors of the Company

Directors who served since the date of the last report are:

Mohd Riani bin Osman  
 Ng Wai Kee  
 Yap Siew Foong  
 Cham Bee Sim  
 Danny Ng Siew L' Leong  
 Pauline Teh @ Pauline Teh Abdullah  
 Mohamed Ghazali bin Kamal Baharein  
 Tan Sri Abdul Rashid bin Abdul Manaf (resigned on 6.12.2006)

# DIRECTORS' REPORT

for the year ended 31 December 2006



## Directors' interests

The holdings and deemed holdings in the ordinary shares of the Company and of its related corporations of those who were Directors at year end as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM1.00 each			
	At 1.1.2006	Bought	Sold	At 31.12.2006
<b>Direct interest in the Company</b>				
Mohd Riani bin Osman	2,389,336	-	-	2,389,336
Ng Wai Kee	700,900	-	-	700,900
Yap Siew Foong	1,263,730	-	-	1,263,730
Cham Bee Sim	149,572	-	-	149,572
<b>Indirect interest in the Company</b>				
Ng Wai Kee	15,680,000	-	-	15,680,000
Yap Siew Foong	15,680,000	-	-	15,680,000
Cham Bee Sim	15,680,000	-	-	15,680,000

By virtue of their interest in the ordinary shares of the Company, Mohd Riani bin Osman, Ng Wai Kee, Yap Siew Foong and Cham Bee Sim are also deemed interested in the ordinary shares of the subsidiaries during the financial year to the extent that the Company has an interest.

None of the other Directors holding office at 31 December 2006 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

## Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than certain Directors who have significant financial interests in companies which traded with certain companies in the Group in the ordinary course of business as disclosed in Note 24 to the financial statements.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.



# DIRECTORS' REPORT

for the year ended 31 December 2006

## Issue of shares and debentures

There were no changes in the authorised, issued and paid-up capital of the Company during the financial year.

There were no debentures issued during the financial year.

## Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year.

## Other statutory information

Before the balance sheets and income statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- ii) all current assets have been stated at the lower of cost and net realisable value.

At the date of this report, the Directors are not aware of any circumstances:

- i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

- i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

# DIRECTORS' REPORT

for the year ended 31 December 2006



## Other statutory information (continued)

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, except for the effects arising from the change in accounting policies as disclosed in the financial statements, the impairment losses on plant and equipment and investment in subsidiaries, the results of the operations of the Group and of the Company for the financial year ended 31 December 2006 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

## Significant event during the year

On 10 May 2006, the Company subscribed for an additional 1,500,000 new ordinary shares of RM1.00 each, representing 25% of the enlarged issued and paid-up share capital of Cleon Technology Sdn. Bhd. ("Cleon"), for a total cash consideration of RM1,500,000.

The issued and paid-up share capital of Cleon after the subscription is RM6,000,000 divided into 6,000,000 ordinary shares of RM1.00 each.

## Auditors

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

**Mohd Riani bin Osman**

**Ng Wai Kee**

Kuala Lumpur,  
Date: 19 April 2007

A black and white photograph of several interlocking metal gears, shown from a slightly elevated perspective, creating a sense of mechanical complexity and industry.

## STATEMENT BY DIRECTORS

Pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 33 to 68 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2006 and of the results of their operations and cash flows for the year ended on that date.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

**Mohd Riani bin Osman**

**Ng Wai Kee**

Kuala Lumpur,  
Date: 19 April 2007

# STATUTORY DECLARATION

Pursuant to Section 169(16) of the Companies Act, 1965



I, Ng Wai Kee, the Director primarily responsible for the financial management of SMIS Corporation Berhad, do solemnly and sincerely declare that the financial statements set out on pages 33 to 68 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur in the Federal Territory on 19 April 2007.

**Ng Wai Kee**

Before me:  
No. W476  
RAMAN KUNYAPU  
Commissioner for Oaths  
Kuala Lumpur.





# REPORT OF THE AUDITORS

to the members of SMIS Corporation Berhad

We have audited the financial statements set out on pages 33 to 68. The preparation of the financial statements is the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board so as to give a true and fair view of:
  - i) the state of affairs of the Group and of the Company at 31 December 2006 and the results of their operations and cash flows for the year ended on that date; and
  - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and the subsidiaries have been properly kept in accordance with the provisions of the said Act.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

## KPMG

Firm Number: AF 0758  
Chartered Accountants

**Lim Hun Soon @ David Lim**

Partner

Approval Number: 1514/05/08(J)

Kuala Lumpur,  
Date: 19 April 2007

# BALANCE SHEETS

at 31 December 2006



	Note	Group		Company	
		2006 RM'000	2005 RM'000 Restated	2006 RM'000	2005 RM'000
<b>Assets</b>					
Property, plant and equipment	3	26,746	29,710	4	5
Goodwill on consolidation	4	710	710	-	-
Prepaid lease payments	5	2,046	2,082	-	-
Investment properties	6	1,740	1,787	-	-
Investment in subsidiaries	7	-	-	55,467	57,942
Deferred tax assets	8	760	755	-	-
<b>Total non-current assets</b>		<b>32,002</b>	<b>35,044</b>	<b>55,471</b>	<b>57,947</b>
Prepaid lease payments	5	36	36	-	-
Receivables, deposits and prepayments	9	15,969	19,741	15	-
Inventories	10	11,181	10,685	-	-
Tax recoverable		1,595	1,430	27	22
Cash and cash equivalents	11	16,851	14,713	5,180	5,584
<b>Total current assets</b>		<b>45,632</b>	<b>46,605</b>	<b>5,222</b>	<b>5,606</b>
<b>Total assets</b>		<b>77,634</b>	<b>81,649</b>	<b>60,693</b>	<b>63,553</b>
<b>Equity</b>					
Share capital	12	44,800	44,800	44,800	44,800
Reserves		19,896	16,919	10,600	13,475
<b>Total equity attributable to shareholders of the Company</b>	12	<b>64,696</b>	<b>61,719</b>	<b>55,400</b>	<b>58,275</b>
Minority shareholders' interest		-	737	-	-
<b>Total equity</b>		<b>64,696</b>	<b>62,456</b>	<b>55,400</b>	<b>58,275</b>
Negative goodwill	13	-	2,968	-	-
<b>Liabilities</b>					
Loans and borrowings	15	-	48	-	-
Deferred tax liabilities	8	996	446	-	-
<b>Total non-current liabilities</b>		<b>996</b>	<b>494</b>	<b>-</b>	<b>-</b>
Payables and accruals	14	11,073	13,613	5,293	5,278
Loans and borrowings	15	869	1,706	-	-
Taxation		-	412	-	-
<b>Total current liabilities</b>		<b>11,942</b>	<b>15,731</b>	<b>5,293</b>	<b>5,278</b>
<b>Total liabilities</b>		<b>12,938</b>	<b>16,225</b>	<b>5,293</b>	<b>5,278</b>
<b>Total equity and liabilities</b>		<b>77,634</b>	<b>81,649</b>	<b>60,693</b>	<b>63,553</b>

The notes on pages 39 to 68 are an integral part of these financial statements.



# INCOME STATEMENTS

for the year ended 31 December 2006

	Note	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Revenue		77,144	72,998	1,889	3,308
Cost of sales		(63,505)	(64,067)	-	-
<b>Gross profit</b>		13,639	8,931	1,889	3,308
Other operating income		458	3,827	-	-
Distribution costs		(1,000)	(1,216)	-	-
Administrative expenses		(6,951)	(7,682)	(292)	(286)
Other operating expenses		(5,632)	(3,214)	(3,975)	-
<b>Operating profit/(loss)</b>	16	514	646	(2,378)	3,022
Interest income		285	197	133	88
Finance costs	18	(144)	(156)	-	-
<b>Profit/(Loss) before taxation</b>		655	687	(2,245)	3,110
Tax expense	19	(1,137)	(627)	(384)	(588)
<b>(Loss)/Profit for the year</b>		(482)	60	(2,629)	2,522
<b>Attributable to:</b>					
Shareholders of the Company		510	1,398	(2,629)	2,522
Minority interests		(992)	(1,338)	-	-
<b>(Loss)/Profit for the year</b>		(482)	60	(2,629)	2,522
Basic earnings per ordinary share (sen)	20	1.14	3.12		

The notes on pages 39 to 68 are an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2006



	Note	Attributable to shareholders of the Company					Minority interest RM'000	Total Equity RM'000
		Non-distributable		Distributable				
		Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Retained earnings RM'000	Total RM'000		
<b>Group</b>								
<b>At 1 January 2005</b>		44,800	4,891	-	10,630	60,321	-	60,321
Reclassification of opening minority interest		-	-	-	-	-	1,935	1,935
<b>At 1 January 2005, restated</b>		44,800	4,891	-	10,630	60,321	1,935	62,256
Issuance of shares to minority interest		-	-	-	-	-	140	140
Profit for the year		-	-	-	1,398	1,398	(1,338)	60
<b>At 31 December 2005/1 January 2006</b>		44,800	4,891	-	12,028	61,719	737	62,456
- As previously reported		-	-	-	2,968	2,968	-	2,968
- Effect of adopting FRS 3	13	-	-	-	-	-	-	-
<b>At 1 January 2006, restated</b>		44,800	4,891	-	14,996	64,687	737	65,424
Purchase of treasury share at cost		-	-	(246)	-	(246)	-	(246)
Changes in share of net assets arising from the additional subscription of shares in a subsidiary		-	-	-	(255)	(255)	255	-
Profit for the year		-	-	-	510	510	(992)	(482)
<b>At 31 December 2006</b>		44,800	4,891	(246)	15,251	64,696	-	64,696
<b>Company</b>								
<b>At 1 January 2005</b>		44,800	4,891	-	6,062			55,753
Profit for the year		-	-	-	2,522			2,522
<b>At 31 December 2005/1 January 2006</b>		44,800	4,891	-	8,584			58,275
Purchase of treasury share at cost		-	-	(246)	-			(246)
Loss for the year		-	-	-	(2,629)			(2,629)
<b>At 31 December 2006</b>		44,800	4,891	(246)	5,955			55,400
		Note 12	Note 12	Note 12	Note 12			

The notes on pages 39 to 68 are an integral part of these financial statements.



# CASH FLOW STATEMENTS

for the year ended 31 December 2006

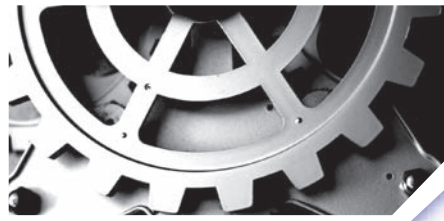
	Group		Company	
	2006 RM'000	2005 RM'000 Restated	2006 RM'000	2005 RM'000
<b>Cash flows from operating activities</b>				
Profit/(Loss) before taxation	655	687	(2,245)	3,110
Adjustments for:				
Amortisation of negative goodwill	-	(2,740)	-	-
Amortisation of goodwill	-	655	-	-
Amortisation of prepaid lease payments	36	36	-	-
Bad debts written off	-	47	-	-
Depreciation of investment properties	47	57	-	-
Depreciation of property, plant and equipment	4,422	4,253	1	1
Dividend income	-	-	(1,889)	(3,308)
Gain on disposal of property, plant and equipment	(20)	(787)	-	-
Interest expense	48	59	-	-
Interest income	(285)	(197)	(133)	(88)
Impairment loss on investment in subsidiaries	-	-	3,975	-
Impairment loss on investment properties	-	379	-	-
Impairment loss on property, plant and equipment	2,463	-	-	-
<b>Operating profit/(loss) before changes in working capital</b>	7,366	2,449	(291)	(285)
Changes in working capital:				
Inventories	(496)	675	-	-
Payables and accruals	(2,755)	768	-	(1)
Receivables, deposits and prepayments	3,772	(1,115)	15	-
<b>Cash generated from/(used in) operations</b>	7,887	2,777	(276)	(286)
Tax paid	(1,199)	(1,075)	-	(22)
Interest paid	(48)	(59)	-	-
<b>Net cash generated from/(used in) operating activities</b>	6,640	1,643	(276)	(308)

# CASH FLOW STATEMENTS

for the year ended 31 December 2006 (continued)



	Group		Company	
	2006 RM'000	2005 RM'000 Restated	2006 RM'000	2005 RM'000
<b>Cash flows from investing activities</b>				
Investment in subsidiaries	-	-	(1,500)	(210)
Acquisition of property, plant and equipment	(i) (3,676)	(3,654)	-	-
Dividends received	-	-	1,500	2,725
Interest received	285	197	118	88
Proceeds from disposal of property, plant and equipment	20	1,493	-	-
<b>Net cash (used in)/generated from investing activities</b>	(3,371)	(1,964)	118	2,603
<b>Cash flows from financing activities</b>				
Proceeds from issuance of shares to minority shareholders of a subsidiary	-	140	-	-
Purchase of treasury shares at cost	(246)	-	(246)	-
Repayment of finance lease liabilities	(69)	(22)	-	-
<b>Net cash (used in)/generated from financing activities</b>	(315)	118	(246)	-
<b>Net increase/(decrease) in cash and cash equivalents</b>	2,954	(203)	(404)	2,295
Cash and cash equivalents at 1 January	13,076	13,279	5,584	3,289
Cash and cash equivalents at 31 December	(ii) 16,030	13,076	5,180	5,584



# CASH FLOW STATEMENTS

for the year ended 31 December 2006 (continued)

## Notes to cash flow statements

### i) Acquisition of property, plant and equipment

During the year, the Group acquired property, plant and equipment amounting to RM3,921,000 (2005 - RM4,259,000) of which RM215,000 (2005 - RM465,000) was accrued for, RM30,000 (2005 - Nil) was capitalised from deposits previously included in other receivables and Nil (2005 - RM140,000) was acquired by means of finance lease.

### ii) Cash and cash equivalents

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	Note	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Deposits placed with licensed banks	11	12,100	11,100	4,500	5,500
Cash and bank balances	11	4,751	3,613	680	84
Bank overdrafts - secured	15	(821)	(1,637)	-	-
		<u>16,030</u>	<u>13,076</u>	<u>5,180</u>	<u>5,584</u>

The notes on pages 39 to 68 are an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS



SMIS Corporation Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Second Board of Bursa Malaysia Securities Berhad. The addresses of its registered office and principal place of business are as follows:

## Registered office

Level 7, Setia 1, 15 Lorong Dungun  
Damansara Heights, 50490 Kuala Lumpur

## Principal place of business

No 19, Jalan Dua Off Jalan Chan Sow Lin  
55200 Kuala Lumpur

The consolidated financial statements as at and for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the Group). The financial statements of the Company as at and for the year ended 31 December 2006 do not include other entities.

The Company is principally engaged in investment holding whilst the principal activities of the subsidiaries are as stated in Note 7 to the financial statements.

## 1. Basis of preparation

### (a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board (MASB), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965. These financial statements also comply with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad.

The MASB has issued the following Financial Reporting Standards (FRSs) and Interpretations that are effective for annual period beginning after 1 January 2006, and that have not been applied in preparing these financial statements:

Standard/Interpretation	Effective date
FRS 124, Related Party Disclosures	1 October 2006
FRS 139, Financial Instruments: Recognition and Measurement	To be announced
Amendment to FRS 119 <sub>2004</sub> , Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2007
FRS 6, Exploration for and Evaluation of Mineral Resources	1 January 2007
Amendment to FRS 121, The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation	1 July 2007
IC Interpretation 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities	1 July 2007
IC Interpretation 2, Members' Shares in Co-operative Entities and Similar Instruments	1 July 2007
IC Interpretation 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 July 2007
IC Interpretation 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	1 July 2007
IC Interpretation 7, Applying the Restatement Approach under FRS 129 <sub>2004</sub> Financial Reporting in Hyperinflationary Economies	1 July 2007
IC Interpretation 8, Scope of FRS 2	1 July 2007



## 1. Basis of preparation (continued)

### (a) Statement of compliance (continued)

The Group has chosen to early adopt FRS 117, Leases which is effective for annual periods beginning on or after 1 October 2006. The Group plans to apply FRS 124, Related Party Disclosures and the Amendment to FRS 119<sup>2004</sup>, Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures initially for the annual period beginning 1 January 2007 and to apply the rest of the above-mentioned FRSs (except for FRS 6 and FRS 139 as explained below) and Interpretations for the annual period beginning 1 January 2008. The adoption of revised FRS 117, FRS 124 and Amendment to FRS 119<sup>2004</sup> does not result in significant changes in accounting policies of the Group except for the format and extent of disclosures presented in the financial statements.

The MASB has issued FRS 139, Financial Instruments: Recognition and Measurement but for which the MASB has yet to announce the effective date of this standard. The Group has not adopted FRS 139 and by virtue of the exemption in paragraph 103AB of FRS 139, the impact of applying FRS 139 on its financial statements upon first adoption of this standard as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed.

On 15 August 2006, the MASB issued FRS 6, Exploration for and Evaluation of Mineral Resources which will be effective for annual periods beginning on or after 1 January 2007 and for which is not applicable to the Group. Hence, no further disclosure is warranted.

The initial application of the other standards and interpretations are not expected to have any material impact on the financial statements.

The effects of adopting the new/revised FRSs in 2006 are set out in Note 25.

The financial statements were approved by the Board of Directors on 19 April 2007.

### (b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

### (c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information presented in RM has been rounded to the nearest thousand, unless otherwise stated.

### (d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 4 - measurement of the recoverable amounts of cash generating units.

# NOTES TO THE FINANCIAL STATEMENTS



## 2. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities, unless otherwise stated.

Certain comparative amounts have been reclassified to conform to the current year's presentation (see Note 26).

### (a) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Group. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are stated in the Company's balance sheet at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

#### (ii) Minority interest

Minority interest at the balance sheet date, being the portion of the net identifiable assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interest in the results of the Group is presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interest and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated with all such profits until the minority's share of the losses previously absorbed by the Group has been recovered.

#### (iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with subsidiaries are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### (b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of Group entities at exchange rates at the dates of the transaction.

## 2. Significant accounting policies (continued)

### (b) Foreign currency transactions (continued)

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

### (c) Property, plant and equipment

#### (i) Recognition and measurement

Freehold land and capital work-in-progress are stated at cost. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

#### (ii) Reclassification to investment property

Property that is being constructed for future use as investment property is accounted for as property, plant and equipment until construction or development is complete, at which time it is measured at cost and reclassified as investment property.

When the use of a property changes from owner-occupied to investment property, the property is measured at cost and reclassified as investment property.

#### (iii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of those parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

#### (iv) Depreciation

Depreciation is recognised in the income statement on straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Freehold land and capital work-in-progress are not depreciated.

The estimated useful lives and the principal annual rates for the current and comparative periods are as follows:

s Buildings	50 years
s Plant and machinery	10% - 20%
• Office equipment, furniture and fittings and renovation	2% - 33.3%
s Motor vehicles	10% - 33.3%
s Moulds and jigs	10% - 33.3%

The depreciable amount is determined after deducting the residual value.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

# NOTES TO THE FINANCIAL STATEMENTS



## 2. Significant accounting policies (continued)

### (d) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

### (e) Prepaid lease payments

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted for as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

The Group had previously classified a lease of land as finance lease and had recognised the amount of prepaid lease payments as property within its property, plant and equipment. On early adoption of FRS 117, Leases, the Group treats such a lease as an operating lease, with the unamortised carrying amount classified as prepaid lease payments in accordance with the transitional provisions in FRS 117.67A.

Amortisation is charged to the income statement on a straight-line basis over the lease term which ranges from 50 to 91 years.

### (f) Intangible assets

#### (i) Goodwill

Goodwill arises on the acquisition of subsidiary.

With the adoption of FRS 3 beginning 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill is measured at cost and is no longer amortised but tested for impairment at least annually or more frequently when there is objective evidence of impairment.

Goodwill is allocated to cash generating units and is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired.

#### (ii) Negative goodwill

Negative goodwill arises on the acquisition of subsidiaries.

For acquisition prior to 1 January 2006, negative goodwill represents the excess of the Group's interest in the fair values of the net identifiable assets and liabilities over the cost of the acquisition.

In the previous years, negative goodwill was amortised on a straight line basis over a maximum of 5 years from the date of acquisition.

Following the adoption of FRS 3 on 1 January 2006, the excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquirer over the cost of the acquisition is recognised immediately in the income statement. The carrying amount of negative goodwill at 1 January 2006 is derecognised with a corresponding adjustment to the opening balance of retained earnings. The effects of adoption FRS 3 are set out in Note 25.

## 2. Significant accounting policies (continued)

### (f) Intangible assets (continued)

#### (iii) Amortisation

Goodwill is tested for impairment annually and whenever there is an indicative that it may be impaired.

### (g) Investment properties

Investment properties are properties which are owned or held under a leasehold interest either to earn rental income or for capital appreciation or for both. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment property. Investment property is stated at cost less accumulated depreciation and impairment losses, consistent with the accounting policy for property, plant and equipment as stated in accounting policy Note 2(c).

In the previous years, all investment properties were included in property, plant and equipment. Following the adoption of FRS 140, Investment Property, these investment properties are now classified separately. Transfers between investment property and property, plant and equipment do not change the carrying amount and the cost of the property transferred.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of 50 years.

### (h) Inventories

Raw materials, work-in-progress and manufactured goods are stated at the lower of cost and net realisable value with first-in first-out being the main basis for cost. For work-in-progress and manufactured goods, cost consists of materials and an appropriate proportion of direct labour, fixed and variable production overheads. For trading goods, cost is determined on a weighted average basis and includes all direct expenditure incurred in bringing the inventories to their present location and condition.

In arriving at net realisable value, a write down is made, where necessary, for obsolete and slow moving items.

### (i) Receivables

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts.

Receivables are not held for the purpose of trading.

### (j) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts.

# NOTES TO THE FINANCIAL STATEMENTS



## 2. Significant accounting policies (continued)

### (k) Impairment of assets

The carrying amounts of assets except for inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a pro rata basis.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

### (l) Share capital

#### Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares and are presented as a deduction from total equity.

### (m) Employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group's contribution to the Employees Provident Fund are charged to the income statements in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

## 2. Significant accounting policies (continued)

### (n) Loans and borrowings

Loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the loans and borrowings using the effective interest method.

### (o) Payables

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

### (p) Revenue

### (i) Goods sold

Revenue from the sale of goods is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

### (ii) Rental income

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease.

### (iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

### (q) Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

### (r) Interest income and borrowing costs

Interest income is recognised as it accrues, using the effective interest method.

All borrowing costs are recognised in the income statement using the effective interest method, in the period in which they are incurred except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to be prepared for its intended use.

# NOTES TO THE FINANCIAL STATEMENTS



## 2. Significant accounting policies (continued)

### (s) Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit (tax loss). Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

### (t) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

### (u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.



### 3. Property, plant and equipment

Group	Cost	Note	Freehold land		Long term leasehold land		Office equipment, furniture and fittings and renovations					Moulds and jigs RM'000	Motor vehicles RM'000	Capital work -in-progress RM'000	Total RM'000
			RM'000	RM'000	RM'000	RM'000	Buildings RM'000	Plant and machinery RM'000	Plant and machinery RM'000	Office equipment, furniture and fittings and renovations RM'000	Motor vehicles RM'000				
At 1 January 2005	2,231		2,231	2,583	15,768	22,642	4,732	2,350	1,931	2,790		55,027			
Effect of adopting FRS 117	-	5	-	(2,583)	-	-	-	-	-	-	-	(2,583)			
Effect of adopting FRS 140	-	6	-	-	(2,834)	-	-	-	-	-	-	(2,834)			
At 1 January 2005, restated	2,231		2,231	-	12,934	22,642	4,732	2,350	1,931	2,790		49,610			
Additions	-		-	-	62	2,683	774	304	436	-	-	4,259			
Disposals	(676)		(676)	-	-	-	(1)	(468)	-	-	-	(1,145)			
Reclassifications	-		-	-	-	2,662	-	-	-	(2,662)	-	-			
At 31 December 2005/1 January 2006	1,555		1,555	-	12,996	27,987	5,505	2,186	2,367	128		52,724			
Additions	-		-	-	-	1,810	366	277	554	914		3,921			
Disposals	-		-	-	-	-	(10)	(63)	-	-		(73)			
Reclassifications	-		-	-	-	76	-	-	150	(226)		-			
At 31 December 2006	1,555		1,555	-	12,996	29,873	5,861	2,400	3,071	816		56,572			

# NOTES TO THE FINANCIAL STATEMENTS



## 3. Property, plant and equipment (continued)

Group	Note	Long term		Office equipment, furniture and					Total	
		Freehold leasehold land RM'000	land RM'000	Buildings RM'000	Plant and machinery RM'000	renovations RM'000	Motor vehicles RM'000	Moulds and jigs RM'000		Capital work -in-progress RM'000
<b>Accumulated depreciation and impairment losses</b>										
At 1 January 2005		-	429	2,909	11,765	2,610	1,512	1,015	-	20,240
Accumulated depreciation		-	(429)	-	-	-	-	-	-	(429)
Effect of adopting FRS 117	5	-	-	-	-	-	-	-	-	-
Effect of adopting FRS 140	6	-	-	(611)	-	-	-	-	-	(611)
At 1 January 2005, restated		-	-	2,298	11,765	2,610	1,512	1,015	-	19,200
Accumulated depreciation		-	-	299	2,579	596	303	476	-	4,253
Depreciation for the year	16	-	-	-	-	-	(439)	-	-	(439)
Disposals		-	-	-	-	-	-	-	-	-
At 31 December 2005/1 January 2006		-	-	2,597	14,344	3,206	1,376	1,491	-	23,014
Depreciation for the year	16	-	-	299	2,540	570	332	681	-	4,422
Impairment loss for the year	16	-	-	-	2,244	195	-	24	-	2,463
Disposals		-	-	-	-	(10)	(63)	-	-	(73)
Accumulated depreciation		-	-	2,896	16,884	3,766	1,645	2,172	-	27,363
Accumulated impairment loss		-	-	-	2,244	195	-	24	-	2,463
At 31 December 2006		-	-	2,896	19,128	3,961	1,645	2,196	-	29,826
<b>Carrying amounts</b>										
At 1 January 2005, restated		2,231	-	10,636	10,877	2,122	838	916	2,790	30,410
At 31 December 2005/1 January 2006		1,555	-	10,399	13,643	2,299	810	876	128	29,710
At 31 December 2006		1,555	-	10,100	10,745	1,900	755	875	816	26,746

### 3. Property, plant and equipment (continued)

Company		Office equipment RM'000
Cost	Note	
At 1 January 2005/31 December 2006		9
<b>Accumulated depreciation</b>		
At 1 January 2005		3
Depreciation for the year	16	1
At 31 December 2005/1 January 2006		4
Depreciation for the year	16	1
At 31 December 2006		5
<b>Carrying amounts</b>		
At 1 January 2005		6
At 31 December 2005/1 January 2006		5
At 31 December 2006		4

- 3.1 The title to the freehold land of a subsidiary costing RM1,555,000 (2005 - RM1,555,000) is pending registration to the name of the subsidiary.
- 3.2 Certain freehold land and buildings of the Group costing RM14,249,000 (2005 - RM14,249,000) have been assigned/pledged to financial institutions as security for borrowings/banking facilities granted to the subsidiaries (Note 15).
- 3.3 The net book value of property, plant and equipment acquired under finance lease agreement is as follows:

	2006 RM'000	2005 RM'000
Motor vehicles	183	243

### 4. Goodwill on consolidation

	Note	Group RM'000
<b>Cost</b>		
At 1 January 2005/31 December 2006		3,323
<b>Accumulated amortisation</b>		
At 1 January 2005		1,958
Amortisation for the year	16	655
At 31 December 2005/2006		2,613
<b>Carrying amounts</b>		
At 1 January 2005		1,365
At 31 December 2005/1 January 2006		710
At 31 December 2006		710

# NOTES TO THE FINANCIAL STATEMENTS



## 4. Goodwill on consolidation (continued)

With effect from 1 January 2006, the Group no longer amortises goodwill on consolidation. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount. Impairment loss is recognised in the income statement and subsequent reversal is not allowed.

### Impairment testing for cash generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's machinery parts division which represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The recoverable amount for the above was based on its value in use and was determined by discounting the future cash flows generated from the continuing use of those units and was based on the following key assumptions:

- Cash flows were projected based on actual operating results and a 5-year projection.
- s Revenue was projected at an anticipated annual revenue growth of 5% per annum for 5 years.
- s Depreciation charges were projected based on 5 years useful life of plant and machineries.
- s Effective tax rates were projected to be 30% for 5 years.
- s A discount rate of 7% was applied in determining the recoverable amount of the unit. The discount rate was estimated based on the Group's existing rate of borrowings.

The values assigned to the key assumptions represent management's assessment of future trends in the industry.

## 5. Prepaid lease payments

	Note	Unexpired lease period of more than 50 years	
		2006 RM'000	2005 RM'000 Restated
<b>Long term leasehold land</b>			
<b>Cost</b>			
At 1 January		2,583	-
Effect of adopting FRS 117	3	-	2,583
At 31 December/1 January 2005, restated		2,583	2,583
<b>Amortisation</b>			
At 1 January		465	-
Effect of adopting FRS 117	3	-	429
At 1 January 2005, restated		465	429
Amortisation for the year	16	36	36
At 31 December		501	465
<b>Carrying amounts</b>			
At 31 December		2,082	2,118
Less: Current portion		(36)	(36)
Non-current portion		2,046	2,082

### Security

At 31 December 2006, long term leasehold land of the Group costing RM2,583,000 (2005 - RM2,583,000) has been assigned to a licensed bank for banking facilities granted to the subsidiaries (Note 15).

## 6. Investment properties

	Note	2006 RM'000	Group 2005 RM'000 Restated
<b>Cost</b>			
At 1 January		2,834	-
Effect of adopting of FRS 140	3	-	2,834
At 31 December/1 January 2005, restated		2,834	2,834
<b>Depreciation and impairment loss</b>			
At 1 January		1,047	-
Effect of adopting FRS 140			
Accumulated depreciation	3	-	611
At 1 January 2006/1 January 2005, restated		1,047	611
Accumulated depreciation		668	611
Accumulated impairment loss		379	-
Depreciation for the year	16	47	57
Impairment loss for the year	16	-	379
Accumulated depreciation		715	668
Accumulated impairment loss		379	379
At 31 December		1,094	1,047
<b>Carrying amounts</b>			
At 31 December		1,740	1,787
<b>Fair value</b>			
At 31 December		2,330	2,330

The Directors have applied a range of yields varying between 8% and 12% to the estimated net annual rentals of each property to determine the fair value of the properties.

Investment property comprises a number of commercial properties that are leased to third parties. The lease is renewable on a yearly basis. No contingent rents are charges.

# NOTES TO THE FINANCIAL STATEMENTS



## 7. Investment in subsidiaries

	Note	Company	
		2006 RM'000	2005 RM'000
Unquoted shares, at cost			
At 1 January		57,942	57,732
Additional subscription of shares in a subsidiary		1,500	210
Impairment loss	16	(3,975)	-
At 31 December		55,467	57,942

Details of the subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest	
			2006 %	2005 %
Grand Carpet Industries Sdn. Bhd.	Malaysia	Trading of carpet of all description	100	100
Sanyco Grand Industries Sdn. Bhd.	Malaysia	Manufacturing of automotive braking components and motorcycle components	100	100
Machinery & Industrial Supplies Sdn. Bhd.	Malaysia	Trading of machinery and industrial parts supplies	100	100
Sugihara Grand Industries Sdn. Bhd.	Malaysia	Manufacturing and trading of carpet of all description	60	60
Cleon Technology Sdn. Bhd.	Malaysia	Manufacturing and trading of rechargeable lithium polymer batteries of all description	66.25	55

## 8. Deferred tax assets and liabilities

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Property, plant and equipment	(86)	(91)	(1,886)	(536)	(1,972)	(627)
Provisions	846	846	53	90	899	936
Capital allowance carry-forwards	-	-	633	-	633	-
Tax loss carry-forwards	-	-	204	-	204	-
Net tax assets/(liabilities)	760	755	(996)	(446)	(236)	309

### Movement in temporary differences during the year

Group	At 1.1.2005 RM'000	Recognised in income statement (Note 19) RM'000	At 31.12.2005 RM'000	Recognised in income statement (Note 19) RM'000	At 31.12.2006 RM'000
	Property, plant and equipment	(414)	(213)	(627)	(1,345)
Provisions	864	72	936	(37)	899
Capital allowance carry-forwards	-	-	-	633	633
Tax loss carry-forwards	-	-	-	204	204
	450	(141)	309	(545)	(236)

In recognising the deferred tax assets attributable to unutilised tax loss carry-forwards and unutilised capital allowance carry-forwards, the Directors made an assumption that there will not be any substantial change (more than 50%) in the shareholders before these assets are utilised. If there is substantial change in the shareholders, unutilised tax loss carry-forwards and unutilised capital allowance carry-forwards will not be available to the Group, resulting in a decrease in net deferred tax assets of RM837,000.

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2006 RM'000	2005 RM'000
Deductible temporary differences	1,100	(584)
Tax loss carry-forwards	3,019	2,609
Capital allowance carry-forwards	3,172	2,822
	7,291	4,847

The deductible temporary differences do not expire under current tax legislation unless there is a substantial change in shareholders (more than 50%). If there is substantial change in shareholders, unutilised tax loss carry-forwards and unutilised capital allowance carry-forwards amounting to RM3,019,000 and RM3,172,000 will not be available to the Group. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

# NOTES TO THE FINANCIAL STATEMENTS



## 9. Receivables, deposits and prepayments

	Note	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<b>Trade</b>					
Trade receivables	a	13,284	18,939	-	-
Less: Allowance for doubtful debts		(125)	(100)	-	-
		13,159	18,839	-	-
<b>Non-trade</b>					
Other receivables		2,047	245	15	-
Deposits		213	212	-	-
Prepayments	b	550	445	-	-
		2,810	902	15	-
		15,969	19,741	15	-

### Note a

Credit terms of trade receivables ranges from 60 - 180 days (2005 - 60 - 180 days).

### Note b

Included in prepayments of the Group are deposits for the purchases of inventories amounting to RM253,000 (2005 - RM341,000) and deposits paid by a subsidiary for the acquisition of plant and machineries amounting to Nil (2005 - RM72,000).

## 10. Inventories

	Group	
	2006 RM'000	2005 RM'000
<b>At cost:</b>		
Raw materials	3,588	3,200
Work-in-progress	501	606
Manufactured goods	765	403
Trading goods	5,557	6,300
	10,411	10,509
<b>At net realisable value:</b>		
Trading goods	770	176
	11,181	10,685

## 11. Cash and cash equivalents

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Deposits placed with licensed banks	12,100	11,100	4,500	5,500
Cash and bank balances	4,751	3,613	680	84
	16,851	14,713	5,180	5,584



## 12. Capital and reserves

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Share capital	44,800	44,800	44,800	44,800
Non-distributable reserves				
Share premium	4,891	4,891	4,891	4,891
Treasury shares	(246)	-	(246)	-
Retained earnings (distributable)	15,251	12,028	5,955	8,584
	<b>64,696</b>	<b>61,719</b>	<b>55,400</b>	<b>58,275</b>

Share capital	Group and Company			
	Amount		Number	
	2006	2006	2005	2005
	RM'000	'000	RM'000	'000
Ordinary shares of RM1.00 each				
Authorised	60,000	60,000	60,000	60,000
Issued and fully paid	<b>44,800</b>	<b>44,800</b>	<b>44,800</b>	<b>44,800</b>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's treasury shares that are held by the Company (see below), all rights are suspended until those shares are reissued.

### Treasury shares

The shareholders of the Company, by a special resolution passed at the annual general meeting held on 27 June 2006, approved the Company's plan to repurchase its own shares. The Directors of the Company are committed to enhancing the value of the Company to its shareholders and believe that the repurchase plan can be applied in the best interests of the Company and its shareholders.

For the year ended 31 December 2006, the Company repurchased 487,800 of its issued share capital from the open market. The average price paid for the shares repurchased was RM0.50 per share. The repurchase transactions were financed by internally generated funds. The shares repurchased were retained as treasury shares in accordance with the requirement of Section 67A of the Companies Act, 1965 and carried at cost.

Details of the shares buy-back were as follows:

	Average price paid	Highest price paid	Lowest price paid	Number of shares purchase and retained as treasury share units	Total consideration paid
2006	RM	RM	RM		RM
September	0.425	0.425	0.420	32,700	13,893
October - December	0.511	0.640	0.420	455,100	232,349

### Retained earnings

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank all of its retained earnings at 31 December 2006 if paid out as dividends.

# NOTES TO THE FINANCIAL STATEMENTS



## 13. Negative goodwill

	Note	Group	
		2006 RM'000	2005 RM'000
<b>Cost</b>			
At 1 January		13,700	13,700
Effect of adopting FRS 3		(13,700)	-
At 1 January 2006, restated/31 December		-	13,700
<b>Accumulated amortisation</b>			
At 1 January		10,732	7,992
Effect of adopting FRS 3		(10,732)	-
At 1 January 2006, restated/1 January 2005		-	7,992
Amortisation for the year	16	-	2,740
At 31 December		-	10,732
<b>Carrying amounts</b>			
At 31 December		-	2,968

## 14. Payables and accruals

	Note	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<b>Trade</b>					
Trade payables	a	5,134	7,708	-	-
<b>Non-trade</b>					
Other payables and accruals	b	5,939	5,905	173	158
Amount due to a subsidiary	c	-	-	5,120	5,120
		5,939	5,905	5,293	5,278
		11,073	13,613	5,293	5,278

### Note a

- (i) Credit terms of trade payables ranges from 30 - 120 days (2005 - 30 - 120 days).
- (ii) Included in trade payables of the Group is an amount of RM139,000 (2005 - RM16,000) due to San Yes Automotive Technology Co. Ltd., a deemed substantial shareholder of the Company.

### Note b

- (i) Included in other payables and accruals of the Group is an amount of RM362,000 (2005 - RM465,000) accrued for the acquisition of plant and machineries of which RM65,000 (2005 - RM125,000) is due to substantial shareholders of subsidiaries.
- (ii) Included in other payables and accruals of the Group is an amount of RM36,000 (2005 - RM36,000) of deposits received from a customer of a subsidiary.

### Note c

The amount due to a subsidiary is non-trade in nature, unsecured, interest free and has no fixed terms of repayment.

## 15. Loans and borrowings

	Group	
	2006 RM'000	2005 RM'000
<b>Non-current</b>		
Finance lease liabilities	-	48
<b>Current</b>		
Bank overdrafts - secured	821	1,637
Finance lease liabilities	48	69
	<b>869</b>	<b>1,706</b>

The secured bank overdrafts are subject to interest ranging between 0.75% - 1.50% above lenders' base lending rates.

The bank overdrafts are secured by the following:

- (i) fixed charge over certain freehold land and buildings (Note 3) and long term leasehold land (Note 5) of certain subsidiaries (Note 5); and
- (ii) corporate guarantee given by the Company.

### Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	2006			2005		
	Minimum lease payments RM'000	Interest RM'000	Principal RM'000	Minimum lease payments RM'000	Interest RM'000	Principal RM'000
Less than one year	49	(1)	48	73	(4)	69
Between one and five years	-	-	-	49	(1)	48
	<b>49</b>	<b>(1)</b>	<b>48</b>	<b>122</b>	<b>(5)</b>	<b>117</b>

Finance lease liabilities are subject to a fixed rate of 2.55% (2005 - 2.25%) per annum.

# NOTES TO THE FINANCIAL STATEMENTS



## 16. Operating profit/(loss)

	Note	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Revenue - manufacturing		58,879	55,608	-	-
- trading		18,265	17,390	-	-
- dividends		-	-	1,889	3,308
		77,144	72,998	1,889	3,308
Cost of manufactured goods		(49,932)	(51,342)	-	-
Cost of goods sold		(13,573)	(12,725)	-	-
Gross profit		13,639	8,931	1,889	3,308
<b>Operating profit/(loss) is arrived at after charging:</b>					
Allowance for doubtful debts		25	-	-	-
Amortisation of goodwill	4	-	655	-	-
Amortisation of prepaid lease payments	5	36	36	-	-
Auditors' remuneration		95	87	22	19
Bad debts written off		-	47	-	-
Depreciation on investment properties	6	47	57	-	-
Depreciation on property, plant and equipment	3	4,422	4,253	1	1
Impairment loss on property, plant and equipment	3	2,463	-	-	-
Impairment loss on investment properties	6	-	379	-	-
Impairment loss on investment in subsidiaries	7	-	-	3,975	-
Personnel expenses (including key management personnel):					
- Contributions to Employees Provident Fund		779	765	-	-
- Wages, salaries and others		10,509	10,421	17	18
Realised foreign exchange loss		-	4	-	-
Rental expenses for warehouse and staff housing facilities		163	179	-	-
<b>and after crediting:</b>					
Amortisation of negative goodwill	13	-	2,740	-	-
Gain on disposal of property, plant and equipment		20	787	-	-
Gross dividend income from unquoted shares of subsidiaries					
- tax exempt		-	-	500	1,225
- 28% tax		-	-	1,389	2,083
Realised foreign exchange gain		27	-	-	-
Rental income from properties		243	266	-	-

Included in other operating expenses of the Group is an amount of RM1,654,000 (2005 - RM1,297,000) relating to pre-operating expenses of a subsidiary which only commenced its operations in September 2006.

## 17. Key management personnel compensation

The key management personnel compensation is as follows:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<b>Company's Directors</b>				
- Fees	136	126	136	126
- Remuneration	885	916	17	18
- Other short term employee benefits (including estimated monetary value of benefits-in-kind)	62	49	-	-
<b>Other Directors</b>				
- Remuneration	404	401	-	-
- Other short term employee benefits (including estimated monetary value of benefits-in-kind)	45	45	-	-
	<b>1,532</b>	<b>1,537</b>	<b>153</b>	<b>144</b>

## 18. Finance costs

	Group	
	2006 RM'000	2005 RM'000
Interest expense on:		
Bank overdrafts	44	57
Finance lease liabilities	4	2
	<b>48</b>	<b>59</b>
Others	96	97
	<b>144</b>	<b>156</b>

## 19. Tax expense

	Note	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<b>Current tax expense</b>					
Malaysian - current year		475	568	389	588
- prior year		113	(114)	(5)	-
Total current tax		<b>588</b>	<b>454</b>	<b>384</b>	<b>588</b>
<b>Deferred tax expense</b>					
Origination and reversal of temporary differences	8	545	141	-	-
<b>Real property gain tax</b>		<b>4</b>	<b>32</b>	<b>-</b>	<b>-</b>
Total tax expense		<b>1,137</b>	<b>627</b>	<b>384</b>	<b>588</b>

# NOTES TO THE FINANCIAL STATEMENTS



## 19. Tax expense (continued)

### Reconciliation of effective tax expense

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Profit/(Loss) before taxation	655	687	(2,245)	3,110
Tax calculated at Malaysian tax rate	183	192	(629)	871
Non-deductible expenses	473	567	1,195	60
Non-taxable income	(37)	(291)	-	-
Tax exempt income	-	-	(177)	(343)
Tax incentives	(239)	(74)	-	-
Effects of deferred tax asset not recognised				
- current year	685	377	-	-
- prior year	(45)	-	-	-
Other items	-	(62)	-	-
	1,020	709	389	588
Under/(Over) provision in prior year	113	(114)	(5)	-
Real property gain tax	4	32	-	-
	1,137	627	384	588

## 20. Earnings per ordinary share - Group

### Basic earnings per ordinary share

The calculation of basic earnings per ordinary share at 31 December 2006 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	Group	
	2006 RM'000	2005 RM'000
Profit for the year attributable to ordinary shareholders	510	1,398
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	44,800	44,800
Effect of treasury shares held	(68)	-
Weighted average number of ordinary shares at 31 December	44,732	44,800
	2006 sen	2005 sen
Basic earnings per ordinary share	1.14	3.12

## 21. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segment, is based on the Group's management and internal reporting structure. Inter-segment pricing is determined based on negotiated terms.

The Group is principally engaged in the manufacturing and trading of carpet of all description, manufacturing of automotive braking components and motorcycle components and trading of machinery and industrial parts supplies which are all located within Malaysia. Accordingly, information by geographical segments on the Group's operations is not presented.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

### Business segments

The Group comprises the following main business segments:

Automotive parts	Manufacturing and trading of carpet of all description and manufacturing of automotive braking components and motorcycle components.
Machinery parts	Trading of machinery and industrial parts supplies.
Battery parts	Manufacturing and trading of rechargeable lithium polymer batteries of all description

# NOTES TO THE FINANCIAL STATEMENTS



## 21. Segment reporting (continued)

	Automotive parts		Machinery parts		Battery products		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Business Segments</b>										
Revenue from external customers	58,871	55,608	18,265	17,390	8	-	-	-	77,144	72,998
Inter-segment revenue	-	-	24	21	-	-	(24)	(21)	-	-
Total revenue	58,871	55,608	18,289	17,411	8	-	(24)	(21)	77,144	72,998
Segment results	3,877	1,928	1,106	376	(4,177)	-	-	-	806	2,304
Unallocated expenses									(292)	(1,658)
Finance costs									514	646
Interest income									(144)	(156)
Profit before taxation									285	197
Tax expense									655	687
(Loss)/Profit after taxation									(1,137)	(627)
Minority interests									(482)	60
									992	1,338
<b>Profit for the year</b>									510	1,398
<b>Segment assets</b>										
Unallocated assets	48,734	47,279	22,769	23,826	122	-	(1,545)	-	70,080	71,105
									7,554	10,544
<b>Total assets</b>									77,634	81,649
<b>Segment liabilities</b>										
Unallocated liabilities	11,208	12,870	1,925	2,218	181	-	(1,545)	-	11,769	15,088
									1,169	1,137
<b>Total liabilities</b>									12,938	16,225
Capital expenditure	3,095	3,573	317	357	509	-	-	-	3,921	3,930*
Depreciation										
- property, plant and equipment	3,368	3,154	397	418	657	-	-	-	4,422	3,572*
- prepaid lease payments	16	16	20	20	-	-	-	-	36	36
- investment properties	6	6	41	51	-	-	-	-	47	57
Amortisation of goodwill	-	-	-	655	-	-	-	-	-	655
Amortisation of negative goodwill	-	(2,740)	-	-	-	-	-	-	-	(2,740)
Gain on disposal of property, plant and equipment	(1)	(57)	(19)	(730)	-	-	-	-	(20)	(787)
Impairment loss on property, plant and equipment	-	-	-	-	2,463	-	-	-	2,463	-
Impairment loss on investment property	-	-	-	379	-	-	-	-	-	379

\* Capital expenditure of Nil (2005 - RM329,000) and depreciation charge of Nil (2005 - RM681,000) incurred by a newly incorporated subsidiary which had not commenced operations as of 31 December 2005, are included in unallocated assets.



## 22. Financial instruments

### Financial risk management objectives and policies

Exposure to credit, foreign currency, liquidity and cash flow, and interest rate risk arises in the normal course of the Group and Company's business. The Group and Company's overall business strategies, their tolerance to risk and their general risk management philosophy are guided by policies set by the Directors. The Board of Directors regularly review such policies and the Directors actively participate in the daily activities of the Group and Company to ensure that policies set in place are adhered to.

### Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Formal credit evaluations are performed on new customers while periodic informal credit evaluations are performed for monitoring purposes. The Group does not require collateral in respect of financial assets and credit terms and limits are set for their customers.

The Group has trade account receivables from manufacturing and sales of its automotive products for which risk of non-payment is affected by conditions mainly in the automotive industry.

As at 31 December 2006, approximately 58% (2005 - 66%) of the Group's trade receivables were due from 12 (2005 - 11) major customers. Trade receivables balances from these 12 (2005 - 11) major customers amounted to RM7,623,000 (2005 - RM12,347,000). The Directors are closely monitoring the credit risk exposure on these major customers. Based on past trends, the Directors do not view the credit risk exposure on these customers to be significant as they are the major automotive assemblers and manufacturers in the country.

The carrying amount of trade and other receivables represents the Group's maximum exposure to credit risk.

### Foreign currency risk

The Group has exposure to foreign currency risk as a result of its trade purchases that are denominated in currencies other than Ringgit Malaysia. The currencies giving rise to this risk are primarily US Dollar, Japanese Yen, EURO and Thai Baht.

Since the Malaysian Government has de-pegged Ringgit Malaysia against the US Dollar at a managed floating rate, the Group's direct exposure to foreign currency risk with regards to the US Dollar is minimal.

The Group does not engage in foreign currency hedging on its foreign currency exposures but the management is monitoring the exposure to foreign currency risk on an ongoing basis.

### Liquidity and cash flow risk

Prudent liquid risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

### Interest rate risk

The Group and Company's income and operating cash flows are substantially independent of changes in market interest rates.

# NOTES TO THE FINANCIAL STATEMENTS



## 22. Financial instruments (continued)

### Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their average effective interest rates at the balance sheet date and the periods in which they mature, or if earlier, reprice.

	2006			2005		
	Average effective interest rate %	Total RM'000	Less than 1 year RM'000	Average effective interest rate %	Total RM'000	Less than 1 year RM'000
<b>Group</b>						
<b>Financial assets</b>						
Deposits placed with licensed banks	2.95	12,100	12,100	2.86	11,100	11,100
<b>Financial liabilities</b>						
Bank overdrafts - secured	7.00	821	821	7.26	1,637	1,637
<b>Company</b>						
<b>Financial assets</b>						
Deposits placed with licensed banks	2.91	4,500	4,500	2.37	5,500	5,500

### Fair values

The carrying amounts of cash and cash equivalents, receivables, deposits and prepayments, payables and accruals and loans and borrowing approximate fair values due to the relatively short term nature of these financial instruments.

## 23. Capital commitments

	Group	
	2006 RM'000	2005 RM'000
<b>Property, plant and equipment</b>		
Contracted but not provided for in the financial statements	349	474

## 24. Related parties

### Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

24.1 Controlling related party relationships are subsidiaries of the Company as disclosed in Note 7.

24.2 Significant transactions with related parties other than those disclosed elsewhere in the financial statements are transactions with companies in which Directors have interests.

24.3 Significant transactions with substantial shareholders of the Company and its subsidiaries are as follows:

	Group	
	2006 RM'000	2005 RM'000
<i>San Yes Automotive Technology Co. Ltd., a substantial shareholder of the Company (deemed interested through MIYES Holdings Sdn. Bhd.)</i>		
Royalties payable	86	96
Purchase of raw materials	105	519
Purchase of plant and machinery	368	414
<i>Sugihara Hosei Kogyo Co. Ltd., a shareholder of Sugihara Grand Industries Sdn. Bhd.</i>		
Technical assistance fees payable	34	60
Royalties payable	541	694
Purchase of plant and equipment	144	125
Other expenses	-	150

The Directors are of the opinion that the above transactions have been entered into in the normal course of business and have been established under negotiated terms.

## 25. Changes in accounting policies

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended 31 December 2006.

The changes in accounting policies arising from the adoption FRS 3, Business Combinations, FRS 117, Lease, FRS 136, Impairment of Assets, FRS 138, Intangible assets and FRS 140, Investment Property are summarised below:

### FRS 3, Business Combinations, FRS 136, Impairment of Assets and FRS 138, Intangible assets

The adoption of FRS 3, FRS 136 and FRS 138 has resulted in a change in the accounting policy for goodwill and negative goodwill. The change in accounting policy is made in accordance with their transitional provisions.

# NOTES TO THE FINANCIAL STATEMENTS



## 25. Changes in accounting policies (continued)

### FRS 3, Business Combinations, FRS 136, Impairment of Assets and FRS 138, Intangible assets (continued)

With effect from 1 January 2006, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount. Impairment loss is recognised in the income statement and subsequent reversal is not allowed.

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangement under FRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortisation as of 1 January 2006 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the income statement for the 12 month period ended 31 December 2006.

Negative goodwill which represents the excess in fair value of the net assets acquired in a business combination over the consideration paid is now recognised immediately to the income statement. Prior to 1 January 2006, negative goodwill was amortised on a straight-line basis over a maximum of 5 years from the date of acquisition. In accordance with the transitional arrangement under FRS 3, negative goodwill of RM2.968 million as at 1 January 2006 were reclassified to retained earnings as at 1 January 2006.

The adoption of this FRS has resulted in an increase in the opening retained profits as at 1 January 2006 of RM2.968 million.

### FRS 117, Leases

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

The Group had previously classified leasehold lands as finance leases and had recognised the amount of prepaid lease payments as property, plant and equipment. On early adoption of FRS 117, Leases, the Group treats such a lease as an operating lease, with the unamortised carrying amount classified as prepaid lease payments in accordance with the transitional provisions in FRS 117.67A. There is no significant impact to the financial statements arising from this reclassification.

There is no effect on the opening balances of retained earnings for the Group.

### FRS 140, Investment Property

Investment property is property which is held either to earn rental income or for capital appreciation or for both. Investment property is stated at cost less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on a straight-line basis over the estimated useful life.

The Group has previously classified investment property under property, plant and equipment. Upon the adoption of FRS 140, Investment Property, the net book value of investment property is retained as the surrogate carrying amount of investment property as allowed by the transitional provisions of FRS 140. There is no significant impact to the financial statements arising from this reclassification.

There is no effect on the opening balances of retained earnings for the Group.

## 26. Comparative figures

The comparatives for the balance sheets, income statements and cash flow statements as well as the comparatives in the notes to the financial statements relating to the balance sheet and income statement for the financial year ended 31 December 2005 have been reclassified as a result of changes in accounting policies as stated in Note 19 and to conform with the presentation requirements of FRS 101.

	Group	
	As restated RM'000	As previously stated RM'000
<b>Balance sheet</b>		
Property, plant and equipment	29,710	33,615
Prepaid lease payments	2,118	-
Investment properties	1,787	-
<b>Income statement - Note 16</b>		
Amortisation of prepaid lease payments	36	-
Depreciation of property, plant and equipment	4,253	4,346
Depreciation of investment properties	57	-
<b>Cash flow statement</b>		
Amortisation of prepaid lease payments	36	-
Depreciation of property, plant and equipment	4,253	4,346
Depreciation of investment properties	57	-

Following the adoption of FRS 3, Business Combinations, minority interest was reclassified into equity, likewise in arriving at profit for the year minority interest was not deducted.

Leasehold land costing RM2,583,000 in 2005 was reclassified from property, plant and equipment to prepaid lease payments to comply with the requirements of FRS 117, Leases.

Properties costing RM2,834,000 in 2005 that are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both were reclassified from property, plant and equipment to investment properties.

# SHAREHOLDING STATISTICS

as at 30 April 2007



## Analysis of shareholdings

Authorised Share Capital	:	RM 60,000,000
Issued and Paid-Up Share Capital	:	RM 44, 800,000
Class of Shares	:	Ordinary Shares of RM1.00 each
Voting Rights	:	One vote per share

(Against Total Issued Capital of 44,083,700)

Size of Holdings	No. of Shareholders/Depositors	% of Shareholders/Depositors	No. of Shares Held	% of Issued Capital
1 - 99	6	0.3911	183	0.0004
100 - 1,000	412	26.8579	397,175	0.9010
1,001 - 10,000	848	55.2803	3,825,000	8.6767
10,001 - 100,000	234	15.2542	7,002,522	15.8846
100,001 - 2,204,184	33	2.1512	17,178,820	38.9686
2,204,185 and above	1	0.0652	15,680,000	35.5687
<b>Total</b>	<b>1534</b>	<b>100.0000</b>	<b>44,083,700</b>	<b>100.0000</b>

Total no of shareholders	:	1534
Total Shareholdings	:	44,083,700
Total Percentage (%)	:	100.00

## Thirty largest shareholders/depositors

Name of shareholders/depositors	No. of Share	% of Issued Capital
1 MIYES Holdings Sdn Bhd	15,680,000	35.5687
2 Mohd Riani bin Osman	2,139,336	4.8529
3 Chang Kun-Sheng	1,944,700	4.4114
4 Ong Lea Ping	1,879,700	4.2639
5 HDM Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lim Chai Beng (M02)	1,673,400	3.7960
6 Yap Siew Foong	1,263,730	2.8667
7 Ng Eng Bee	1,185,010	2.6881
8 Ng Wai Kee	640,900	1.4538
9 HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lim Chai Beng	639,000	1.4495
10 Ng Eng Bee	560,000	1.2703
11 Yeoh Kean Hua	430,000	0.9754
12 AllianceGroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Yap Meow Lin (100463)	400,000	0.9074
13 Chong Teck Hoo @ Cham Teck Hoo	386,489	0.8767
14 Eng Kim Lian	380,964	0.8642
15 Cham Bee Seng @ Chiam Bee Seng	345,089	0.7828
16 Yap Ah Seng	337,000	0.7644
17 Lim Eng Hu	300,000	0.6805

# SHAREHOLDING STATISTICS

as at 30 April 2007

Name of shareholders/depositors	No. of Share	% of Issued Capital
18 Ambank (M) Berhad Pledged Securities Account for Mohd Riani bin Osman (Smart)	250,000	0.5671
19 Goh Gee Kin	202,800	0.4600
20 Loh Chai Hun	180,000	0.4083
21 CitiGroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lim Chai Guan (474333)	170,000	0.3856
22 Chan Seng Cheong	166,900	0.3786
23 Mercsec Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lim Mui Heng	166,000	0.3766
24 Ong Lea Ping	164,600	0.3734
25 Cham Bee Sim	149,572	0.3393
26 Amsec Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Yew Wai Mun	148,600	0.3371
27 HLG Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Kow Meng Soon	146,000	0.3312
28 Ng Beng Tee	142,300	0.3228
29 Ng Kwee Eng	142,018	0.3222
30 Tan Teck @ Chin Sien Chin	138,912	0.3151
<b>Total</b>	<b>32,353,020</b>	<b>73.39</b>

## SUBSTANTIAL SHAREHOLDERS AS AT 30 APRIL 2007

Name of Substantial Shareholder	Direct Interest		Indirect Interest	
	No. of Shares	% of Issued Capital *	No. of Shares	% of Issued Capital *
MIYES Holdings Sdn Bhd ("MIYES")	15,680,000	35.57	-	-
Umberston Holdings Sdn Bhd ("Umberston")	-	-	15,680,000(1)	35.57
San Yes Automotive Technology Co., Ltd	-	-	15,680,000(1)	35.57
Ng Kwee Eng	142,018	0.32	15,680,000(2)	35.57
Yap Siew Foong	1,263,730	2.87	15,680,000(2)	35.57
Mohd Riani bin Osman	2,389,336	5.42	-	-

\* Excludes 716,300 Ordinary Shares of RM1.00 each bought back by the Company and held as treasury shares as at 30 April 2007

(1) deemed interested through MIYES

(2) deemed interested through Umberston and MIYES

# SHAREHOLDING STATISTICS

as at 30 April 2007



## DIRECTORS' INTERESTS AS AT 30 APRIL 2007

Name of Director	Direct Interest No. of Shares	% of Issued Capital *	Indirect Interest No. of Shares	% of Issued Capital *
Mohd Riani bin Osman	2,389,336	5.42	-	-
Yap Siew Foong	1,263,730	2.87	15,680,000(1)	35.57
Ng Wai Kee	700,900	1.59	15,680,000(1)	35.57
Cham Bee Sim	249,572	0.57	15,680,000(1)	35.57
Danny Ng Siew L'Leong	-	-	-	-
Pauline Teh @ Pauline Teh Abdullah	-	-	-	-
Mohamed Ghazali bin Kamal Baharein	-	-	-	-

\* Excludes 716,300 Ordinary Shares of RM1.00 each bought back by the Company and held as treasury shares as at 30 April 2007

(1) deemed interested through Umberston and MIYES





# LIST OF PROPERTIES

as at 30 December 2006

Registered Beneficial Owner	Location	Date of Valuation	Description and Existing Use	Tenure	Approximate Remaining Lease Period (Expiry Date)	Approximate Age of Property (Year)	Built Up area (Sq.m)	Net book Value as at 31 December 2006 (RM)
Machinery & Industrial Supplies Sdn Bhd	No. 19, Jalan Dua, Off Jalan Chan Sow Lin, 55200 Kuala Lumpur	June 1, 2000	A double storey detached warehouse with 3 storey frontal office.  Warehouse	Leasehold 66 years	40 years (30.01.2046)	10	3,866.5	2,956,200
Grand Carpet Industries Sdn Bhd	Lot 3, Jalan Sultan Hishamuddin 2, Kawasan Perusahaan Selat Kelang Utara, 42000 Port Klang, Selangor Darul Ehsan	June 1, 2000	Industrial land erected with single and double storey office annexed.  Office and factory	Leasehold 99 years	80 years (9.6.2086)	15	10,310.26	7,013,118
Sanyco Grand Industries Sdn Bhd	No. 3, Jalan U1/15, HiCom Glenmarie Industrial Park, 40150 Shah Alam, Selangor	June 1, 2000	Two single storey factories with office annexed.  Office and factory	Freehold		8	140.37	3,766,880
Machinery & Industrial Supplies Sdn Bhd	No. 50 & 52, Jalan Brunei Utara, Kuala Lumpur	June 1, 2000	2 adjoining units of 4 storey shop office.  The ground floor to the second floor are rented out whilst the third floor is vacant.	Freehold		27	1,197.1	355,705
Machinery & Industrial Supplies Sdn Bhd	Lot 34, Jalan B 25/B, Taman Perindustrian AXIS, Section 25, 40400 Shah Alam, Selangor Darul Ehsan	June 1, 2000	One unit of 3 storey shop office.  Rented	Freehold		10	586.60	487,900
Machinery & Industrial Supplies Sdn Bhd	No. 21 & 23 (Developer's Plot No. 119 & 118), Taman Kenanga, Bandar Baru Salak Tinggi, 83800 Dengkil, Selangor Darul Ehsan.	Dec 23, 2005	Two units of an intermediate and end lot of three storey shophouse.  The property is vacant	Freehold		6	429.21	352,800
Grand Carpet Industries Sdn Bhd	Parcel No. A-42-09(E), Berjaya Star City, Jalan Imbi, Section 52, 55100 Kuala Lumpur	June 1, 2000	A 42nd Floor service suite within a high-rise commercial building housing retails and service apartment block.  Rented	Freehold		4	53.70	276,845
Machinery & Industrial Supplies Sdn Bhd	Parcel No. B-34-020(E), Berjaya Star City, Jalan Imbi, Section 52, 55100 Kuala Lumpur	June 1, 2000	A 34th Floor service suite within a high-rise commercial building housing retails and service apartment block.  Rented	Freehold		4	53.70	266,725

# Notice of Annual General Meeting



NOTICE IS HEREBY GIVEN THAT the Eighth Annual General Meeting of the Company will be held at Kuala Lumpur Golf & Country Club, No. 10, Jalan 1/70D, Off Jalan Bukit Kiara, 60000 Kuala Lumpur on Friday, 22 June 2007 at 10.00 a.m. to transact the following business:-

## AGENDA

### As Ordinary Business

1. To receive and adopt the Audited Financial Statements for the financial year ended 31 December 2006 together with the Directors' and Auditors' Reports thereon. Ordinary Resolution 1
2. To approve the payment of Directors' Fees in respect of the financial year ended 31 December 2006. Ordinary Resolution 2
3. To re-elect the following Directors retiring under Article 103 of the Company's Articles of Association:-
  - i) Cham Bee Sim Ordinary Resolution 3
  - ii) Mohamed Ghazali bin Kamal Baharein Ordinary Resolution 4
4. To re-appoint Messrs KPMG as Auditors of the Company and to authorise the Directors to fix their remuneration. Ordinary Resolution 5

### As Special Business

To consider and, if thought fit, to pass the following resolutions:-

#### 5. Authority under Section 132D of the Companies Act, 1965 for the Directors to allot and issue shares

"THAT pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby authorised to allot and issue shares in the Company at any time and from time to time until the conclusion of the next Annual General Meeting upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued does not exceed ten per centum (10%) of the issued share capital of the Company for the time being, subject always to the approval of all relevant regulatory bodies being obtained for such allotment and issue."

Ordinary Resolution 6

#### 6. Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposed Shareholders' Mandate")

"THAT, pursuant to Paragraph 10.09 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"), the Company and its subsidiaries ("SMIS Group") be and are hereby authorised to enter into any of the recurrent transactions of a revenue or trading nature as set out in Parts A and B of Paragraph 2.3 of the Circular to Shareholders dated 31 May 2007 with the related parties mentioned therein which are necessary for the SMIS Group's day-to-day operations, subject further to the following:-

- (i) the transactions are in the ordinary course of business on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company; and

## Notice of Annual General Meeting

- (ii) disclosure of the aggregate value of the transactions of the Proposed Shareholders' Mandate conducted during the financial year will be disclosed in the Annual Report for the said financial year,

AND THAT such approval shall continue to be in force until:-

- (i) the conclusion of the next Annual General Meeting ("AGM") of the Company at which time it will lapse, unless by a resolution passed at the Meeting, the authority is renewed;
- (ii) the expiration of the period within which the next AGM of the Company is required to be held pursuant to Section 143(1) of the Companies Act, 1965 ("the Act") (but shall not extend to such extensions as may be allowed pursuant to Section 143(2) of the Act); or
- (iii) revoked or varied by the Company in a general meeting,

whichever is earlier;

AND THAT the Directors of the Company be and are hereby authorised to complete and do all such acts and things as they may consider expedient or necessary to give effect to the Proposed Shareholders' Mandate."

**Ordinary Resolution 7**

### 7. Proposed Renewal of Authority for the Company to Purchase its own Ordinary Shares

"THAT subject to the Companies Act, 1965 ("Act"), the Memorandum and Articles of Association of the Company, the Listing Requirements of Bursa Securities and the approvals of all relevant governmental and/or regulatory authorities (if any), the Company be and is hereby authorised to utilise an amount not exceeding the audited retained profits and/or share premium of the Company as at 31 December 2006 of RM6 million and RM4.9 million respectively to purchase such amount of ordinary shares of RM1.00 each in the Company ("Proposed Share Buy-Back") as may be determined by the Directors of the Company from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that the aggregate number of shares purchased and/or held pursuant to this resolution does not exceed ten per centum (10%) of the issued and paid-up share capital of the Company;

THAT an amount not exceeding the Company's share premium account and retained profits account be allocated by the Company for the Proposed Share Buy-Back;

THAT authority be and is hereby given to the Directors of the Company to decide at their absolute discretion to either retain the shares so purchased as treasury shares (as defined in Section 67A of the Act) and/or to cancel the shares so purchased and if retained as treasury shares, may resell the treasury shares and/or to distribute them as share dividend and/or subsequently cancel them;

THAT the authority conferred by this resolution will be effective immediately upon the passing of this resolution and will expire at:

- (i) the conclusion of the next Annual General Meeting ("AGM") of the Company (being the Ninth ("9th") AGM of the Company), at which time the said authority will lapse unless by an ordinary resolution passed at a general meeting of the Company, the authority is renewed, either unconditionally or subject to conditions;

# Notice of Annual General Meeting



- (ii) the expiration of the period within which the 9th AGM of the Company is required by law to be held; or
- (iii) revoked or varied by an ordinary resolution passed by the shareholders in a general meeting;

whichever occurs first but not so as to prejudice the completion of the purchase(s) by the Company before the aforesaid expiry date and in any event, in accordance with the provisions of the guidelines issued by Bursa Securities and/or any other relevant governmental and/or regulatory authorities (if any);

AND THAT the Directors of the Company be authorised to take all steps necessary to implement, complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the Proposed Share Buy-Back as may be agreed or allowed by any relevant governmental and/or regulatory authority."

**Ordinary Resolution 8**

## 8. Proposed Amendments to the Articles of Association of the Company.

"THAT the deletions, alterations, modifications, variations and additions to the Articles of Association of the Company as set out in Appendix I attached with the Annual Report for the financial year ended 31 December 2006 be and are hereby approved."

**Special Resolution 1**

BY ORDER OF THE BOARD  
 SAW BEE LEAN (MAICSA 0793472)  
 LIEW IRENE (MAICSA 7022609)  
 Secretaries

Kuala Lumpur  
 Date: 31 May 2007

### NOTE:

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a member of the Company, an advocate, an approved company auditor or a person approved by the Registrar.
2. A member may appoint more than one (1) proxy to attend and vote at the same meeting. Where a member appoints two (2) or more proxies, the appointments shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its Common Seal or under the hand of the attorney.
4. The instrument appointing a proxy must be deposited at the Registered Office of the Company at Level 7, Setia 1, 15 Lorong Dungun, Damansara Heights, 50490 Kuala Lumpur not less than 48 hours before the time set for holding the meeting or any adjournment thereof.



## Notice of Annual General Meeting

### 5. EXPLANATORY NOTES ON SPECIAL BUSINESS

- (i) *Ordinary Resolution No.6 - Authority under Section 132D of the Companies Act, 1965 for the Directors to allot and issue shares*

Ordinary Resolution No. 6, if passed, will empower the Directors to allot and issue shares in the Company up to an amount not exceeding in total 10% of the issued share capital of the Company for such purposes as the Directors consider would be in the interest of the Company. This authority, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting.

- (ii) *Ordinary Resolution No. 7 - Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposed Shareholders' Mandate")*

Please refer to the Circular to Shareholders dated 31 May 2007 for further information.

- (iii) *Ordinary Resolution No. 8 - Proposed Renewal of Authority for the Company to Purchase its own Ordinary Shares*

Please refer to the Share Buy-Back Statement dated 31 May 2007 for further information.

- (iv) *Special Resolution No. 1 - Proposed Amendments to the Articles of Association of the Company*

Special Resolution No. 1, if passed, will bring the Articles of Association of the Company to be in line with the amendments to the Listing Requirements of Bursa Malaysia Securities Berhad, the Companies Act, 1965 and will enhance administrative efficiency.

# STATEMENTS ACCOMPANYING NOTICE

of eighth Annual General Meeting



Statement accompanying Notice of Eighth Annual General Meeting pursuant to paragraph 8.28(2) of the Listing Requirements of Bursa Malaysia Securities Berhad

Further details of Directors standing for re-election at the Eighth Annual General Meeting, please refer to pages 6 and 7 of the Annual Report



## Appendix I

### Proposed Amendments to the Articles of Association of the Company

ARTICLE	EXISTING ARTICLES	AMENDED ARTICLES
To amend Article 2	<p><b>Words/Meanings</b></p> <p>“Approved Market Place” means a stock exchange which is specified to be an approved market place in the Securities Industry (Central Depositories) (Exemption) (No. 2) Order 1988.</p> <p>“Articles” means the articles of association set out herein, as the same may be amended by special resolution from time to time with the written consent of the Kuala Lumpur Stock Exchange and any other stock exchange on which the shares of the Company may be listed at the time.</p> <p>“Central Depository” means the Malaysian Central Depository Sdn Bhd.</p> <p>“Depositor” means a holder of a securities account.</p> <p>“Deposited Security” means the securities in the Company standing to the credit of a securities account of a Depositor, subject to the provisions of the Central Depositories Act and the Rules.</p> <p>“Exchange” means Kuala Lumpur Stock Exchange for the time being on which the shares of the Company are listed.</p> <p>“Listing Requirements” means the Listing Requirements of Kuala Lumpur Stock Exchange including any amendments to the same that may be made from time to time.</p> <p>“Member or Members” means any person or persons for the time being holding shares in the Company including Depositors whose names appear on the Record of Depositors in accordance with Section 35 of the Central Depositories Act but shall exclude the Central Depository or its nominee company in whose name the Deposited Securities are registered unless required by virtue of the Central Depositories Act or the Rules or the context of these Articles.</p>	<p><b>Meanings</b></p> <p>Deleted</p> <p>“Articles” means the articles of association set out herein, as the same may be amended by special resolution from time to time.</p> <p>“Central Depository” means Bursa Malaysia Depository Sdn Bhd.</p> <p>“Depositor” means a holder of a securities account established by the Depository.</p> <p>“Deposited Security” shall have the meaning given in Section 2 of the Securities Industry (Central Depositories) Act 1991.</p> <p>“Exchange” means Bursa Malaysia Securities Berhad for the time being on which the shares of the Company are listed.</p> <p>“Listing Requirements” means the Listing Requirements of Bursa Malaysia Securities Berhad including any amendments to the same that may be made from time to time.</p> <p>“Member or Members” means any person or persons for the time being holding shares in the Company including Depositors whose names appear on the Record of Depositors in accordance with Section 35 of the Central Depositories Act but shall exclude the Central Depository in its capacity as a bare trustee or its nominee company in whose name the Deposited Securities are registered unless required by virtue of the Central Depositories Act or the Rules or the context of these Articles.</p>



## Appendix I

<p>To delete Article 5(e)</p>	<p><b>Allotment of shares and power to issue shares</b></p> <p>"the total nominal value of issued preference shares shall not exceed the total nominal value of issued ordinary shares at any time"</p>	<p><b>Allotment of shares and power to issue shares</b></p> <p>Deleted.</p> <p>Existing Article 5(f) be renumbered to Article 5(e).</p>
<p>To amend Article 8</p>	<p><b>Rights of preference shareholders</b></p> <p>"Preference shareholders shall have the same rights as ordinary shareholders as regards receiving notices, reports and audited accounts, and attending general meetings of the Company and shall be entitled to a return of capital in preference to ordinary shareholders when the Company is wound up. Preference shareholders shall also have the right to vote at any meeting in each of the following circumstances:-</p> <p>(a) when the dividend or part of the dividend on the preference shares is in arrears for more than six (6) months;</p> <p>(b) on a proposal to reduce the Company's share capital;</p> <p>(c) on a proposal for the disposal of the whole of the Company's property, business and undertaking;</p> <p>(d) on a proposal that affects the rights attached to the preference shares;</p> <p>(e) on a proposal to wind up the Company; and</p> <p>(f) during the winding up of the Company."</p>	<p><b>Rights of preference shareholders</b></p> <p>"Preference shareholders shall have the same rights as ordinary shareholders as regards receiving notices, reports and audited accounts, and attending general meetings of the Company. Preference shareholders shall also have the right to vote at any meeting in each of the following circumstances:-</p> <p>(a) No change</p> <p>(b) No change</p> <p>(c) No change</p> <p>(d) No change</p> <p>(e) No change</p> <p>(f) No change</p>
<p>To amend Article 32</p>	<p><b>Transmission of securities from Foreign Register</b></p> <p>"(a) Where:-</p> <p>(i) The securities of the Company are listed on an Approved Market Place; and</p> <p>(ii) the Company is exempted from compliance with section 14 of the Central Depositories Act or Section 29 of the Securities Industry (Central Depositories) (Amendment) Act, 1998, as the case may be, under the Rules in respect of such securities;</p> <p>then in such case, the Company shall, upon the request of a securities holder, permit a transmission of securities held by such securities holder from the register of holders maintained by</p>	<p><b>Transmission of securities from Foreign Register</b></p> <p>"Where:-</p> <p>(i) the securities of the Company are listed on another stock exchange; and</p> <p>(ii) the Company is exempted from compliance with section 14 of the Securities Industry (Central Depositories) Act 1991 or Section 29 of the Securities Industry (Central Depositories) (Amendment) Act, 1998, as the case may be, under the Rules in respect of such securities;</p> <p>the Company shall, upon the request of a securities holder, permit a transmission of securities held by such securities holder from the register of holders maintained by the registrar of</p>





## Appendix I

the registrar of the Company in the jurisdiction of the Approved Market Place (hereinafter referred to as "the Foreign Register"), to the register of holders maintained by the registrar of the Company in Malaysia) hereinafter referred to as "the Malaysian Register") provided that there shall be no change in the ownership of such securities.

(b) For the avoidance of doubt, if the Company fulfils the requirements of paragraphs (i) and (ii) of Article 32(a), the Company shall not allow any transmission of securities from the Malaysian Register into the Foreign Register."

the Company in the jurisdiction of the other stock exchange, to the register of holders maintained by the registrar of the Company in Malaysia and vice versa provided that there shall be no change in the ownership of such securities.

(b) Deleted

To amend  
Article  
65(c)

### Record of Depositors

"The Company shall also request the Central Depository in accordance with the Rules of the Central Depository, to issue a Record of Depositors as at a date not less than three (3) market days before the general meeting (hereinafter referred to as "the general meeting Record of Depositors")."

### Record of Depositors

"The Company shall also request the Central Depository in accordance with the Rules of the Central Depository, to issue a Record of Depositors as at the latest date which is reasonably practicable which shall in any event be not less than three (3) market days before the general meeting (hereinafter referred to as "the general meeting Record of Depositors")."

To amend  
Article 68

### Right to appoint one or more proxy

"In every notice calling a meeting, a statement of reasonable prominence shall appear that a Member entitled to attend thereat and vote is entitled to appoint one (1) or more proxies to attend and vote instead of him. A proxy need not be a Member. Where the Member appoints two (2) or more proxies to attend the same meeting, the Member shall specify the proportion of his shareholdings to be represented by each proxy."

### Right to appoint one or more proxy

"In every notice calling a meeting, a statement of reasonable prominence shall appear that a Member entitled to attend thereat and vote is entitled to appoint not more than two (2) proxies to attend and vote instead of him. A proxy need not be a Member and the provisions of Section 149(1)(b) of the Act shall not apply to the Company. Where the Member appoints the maximum of two (2) proxies to attend the same meeting, the Member shall specify the proportion of his shareholdings to be represented by each proxy."

To amend  
Article 87

### Rights to vote and appoint proxy

"Subject to any rights or restrictions for the time being attaching to any class or classes of shares and subject further to Articles 65(a), (b) and (c) above, at the meetings of Members or classes of Members each Member may vote in person or by proxy or by attorney in respect of any share or shares upon which all calls due to

### Rights to vote and appoint proxy

"Subject to any rights or restrictions for the time being attaching to any class or classes of shares and subject further to Articles 65(a), (b) and (c) above, at the meetings of Members or classes of Members each Member may vote in person or by proxy or by attorney in respect of any share or shares upon which all calls due to the



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the Company has been paid and on a show of hands, every person present who is a Member or a representative or a proxy of a Member shall have one vote, and on a poll every Member present in person or by proxy or by attorney or other duly authorised representative shall have one vote for every such share he holds. A proxy shall be entitled to vote on a show of hands on any question at any general meeting."

Company has been paid and on a resolution to be decided on a show of hands, a holder of ordinary shares or preference shares who is personally present or a Member's representative or proxy or attorney and entitled to vote shall be entitled to one (1) vote and on a poll a holder of ordinary shares or preference shares who is personally present or a Member's representative or proxy or attorney and entitled to vote shall be entitled to one (1) vote. A proxy shall be entitled to vote on a show of hands on any question at any general meeting."

To amend  
Article  
100(a)

### First Directors and Board composition

"The first Directors shall be Ms Ng Lee Chum and Ms Lum Chee Yeng. All the Directors of the Company shall be natural persons. Unless otherwise determined by the Company in general meeting the number of Directors shall not be less than two (2) nor more than twenty (20)."

### First Directors and Board composition

"The first Directors of the Company were Ms Ng Lee Chum and Ms Lum Chee Yeng. Unless otherwise determined by the Company in general meeting the number of Directors shall not be less than two (2) nor more than twenty (20)."

To amend  
Article  
100(b)

### First Directors and Board composition

"Subject to any applicable laws or regulations, at least two (2) Directors or one-third (1/3) (or if the number of Directors is not three (3) or a multiple of three (3), then such number nearest one-third (1/3) of the Board of Directors, whichever is higher, shall comprise Independent Directors."

### First Directors and Board composition

"Subject to any applicable laws or regulations, at least two (2) Directors or one-third (1/3) (or if the number of Directors is not three (3) or a multiple of three (3), then such number nearest one-third (1/3) of the Board of Directors, whichever is higher, shall comprise Independent Directors. In the event of any vacancy in the Board of Directors resulting in non-compliance of the aforesaid, the vacancy must be filled within three (3) months of that event."

To add a  
new Article  
102(A)

### Cost of serving notice of nomination

New provision

### Cost of serving notice of nomination

"The cost of serving the notice as required to propose the election of a Director, where the nomination is made by a member, shall be borne by the member making the nomination."

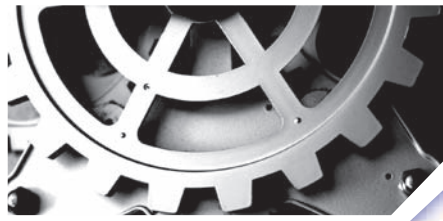
To amend  
Article  
114(c)

### Vacation of office of Director

"becomes bankrupt or makes any arrangement or composition with its creditors generally;"

### Vacation of office of Director

"becomes of unsound mind or bankrupt during his term of office;"



## Appendix I

<p>To delete Article 114(e)</p>	<p><b>Vacation of office of Director</b></p> <p>"becomes of unsound mind or a person whose person or estate is liable to be dealt with in any way under the law relating to mental disorder;"</p>	<p><b>Vacation of office of Director</b></p> <p>Deleted.</p> <p>Existing Article 114(f) be renumbered to Article 114(e).</p>
<p>To delete Article 114(g)</p>	<p><b>Vacation of office of Director</b></p> <p>"is absent from more than 50% of the total Board of Directors' meeting held during a financial year save and except in a case where the Exchange has granted a waiver to the Director from compliance with this requirement;"</p>	<p><b>Vacation of office of Director</b></p> <p>Deleted.</p> <p>Existing Article 114(h) be renumbered to Article 114(f).</p>
<p>To amend Article 156</p>	<p><b>Payment by post and discharge</b></p> <p>"Any dividend, interest or other money payable in cash in respect of shares may be paid by cheque or warrant sent through the post direct to the registered address of the holder on the Register or the Record of Depositors or to such person and to such address as the holder may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and the payment of any such cheque or warrant shall operate as a good discharge to the Company in respect of the dividend represented thereby. Every such cheque or warrant shall be sent at the risk of the person entitled to the money thereby represented."</p>	<p><b>Mode of Payment</b></p> <p>"Any dividend, interest or other money payable in cash in respect of shares or other securities may be paid by way of direct transfer by means of the electronic payment systems upon terms and subject to conditions as the directors may stipulate or by cheque or warrant sent through the post direct to the registered address of the holder on the Register or the Record of Depositors or to such person and to such address as the holder may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. The payment of any such cheque or warrant or remittance via the electronic payment systems shall operate as a good discharge to the Company in respect of the dividend represented thereby. Every such cheque or warrant shall be sent at the risk of the person entitled to the money thereby represented."</p>
<p>To add new Article 161(A)</p>	<p><b>Report in CD-ROM or DVD-ROM format</b></p> <p>New provision</p>	<p><b>Report in CD-ROM or DVD-ROM format</b></p> <p>"Subject to compliance with the requirements of the Exchange and any other relevant laws and regulations, if any, the Company may issue its annual report in compact disc read-only memory ("CD-ROM") or digital versatile disc read-only memory ("DVD-ROM") format or in a format that may be developed in future for the playback of images."</p>

# PROXY FORM

**SMIS CORPORATION BERHAD** (491857-V)  
(Incorporated in Malaysia)

No. of Shares : \_\_\_\_\_

I/We, .....  
of .....  
being a member of **SMIS CORPORATION BERHAD** hereby appoint .....  
.....  
of .....  
or failing him .....  
of .....  
as my/our proxy to vote for me/us on my/our behalf at the Eighth Annual General Meeting of the Company to be held at Kuala Lumpur Golf & Country Club, No. 10, Jalan 1/70D, Off Jalan Bukit Kiara, 60000 Kuala Lumpur on Friday, 22 June 2007 at 10.00 a.m. and at any adjournment thereof in respect of my/our shareholding in the manner indicated below:

No.	Resolution	For	Against
Ordinary Resolution 1	Adoption of the Audited Financial Statements for the financial year ended 31 December 2006 and Directors' and Auditors' Reports		
Ordinary Resolution 2	Approval of Directors' Fees		
Ordinary Resolution 3	Re-election of Mr Cham Bee Sim as Director		
Ordinary Resolution 4	Re-election of Encik Mohamed Ghazali bin Kamal Baharein as Director		
Ordinary Resolution 5	Re-appointment of Auditors		
Ordinary Resolution 6	Authority under Section 132D of the Companies Act, 1965 for the Directors to issue shares		
Ordinary Resolution 7	Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature		
Ordinary Resolution 8	Proposed Renewal of Authority for the Company to Purchase its own Ordinary Shares		
Special Resolution 1	Proposed Amendments to the Articles of Association of the Company		

*(Please indicate with an "X" in the spaces provided whether you wish your votes to be cast for or against the resolutions. In the absence of specific directions, your proxy will vote or abstain as he thinks fit.)*

Dated this .....day of ..... 2007

.....  
Signature of Shareholder or Common Seal

**NOTE:**

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a member of the Company, an advocate, an approved company auditor or a person approved by the Registrar.
2. A member may appoint more than one (1) proxy to attend and vote at the same meeting. Where a member appoints two (2) or more proxies, the appointments shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its Common Seal or under the hand of the attorney.
4. The instrument appointing a proxy must be deposited at the Registered Office of the Company at Level 7, Setia 1, 15 Lorong Dungun, Damansara Heights, 50490 Kuala Lumpur not less than 48 hours before the time set for holding the meeting or any adjournment thereof.

-----Please fold here to seal-----

		STAMP		

**THE SECRETARY**  
**SMIS CORPORATION BERHAD**  
LEVEL 7, SETIA 1, 15 LORONG DUNGUN  
DAMANSARA HEIGHTS  
50490 KUALA LUMPUR  
MALAYSIA

-----Please fold here to seal-----

