

SMIS Corporation Berhad

(Company No. 491857-V)
(Incorporated in Malaysia)
and its subsidiaries

A Notes to Interim Financial Report on Consolidated Results for the Period Ended 30 June 2013

A1 Basis of preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 30 June 2013 and has been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad and Malaysian Financial Reporting Standards (“MFRS”) 134, Interim Financial Reporting in Malaysia. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2012.

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

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

A2 Changes in Accounting Policies

The significant policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2012.

A3 Auditors’ report on preceding annual financial statements

The auditors’ report on the financial statements for the year ended 31 December 2012 was not subject to any qualifications.

A4 Seasonal or cyclical factors

As reported by the Malaysian Automotive Association (“MAA”), the passenger vehicles sector recorded 136,302 new passenger vehicles registrations for the quarter ended 30 June 2013, which represents a 4.70% decrease compared to 143,018 units for the corresponding period in the previous year.

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

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

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

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

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The following dividend was paid during the current period.

In respect of financial year ended 31 December 2012

First and final dividend of 3.34 sen per ordinary share less 25% income tax (2.5 sen net per ordinary share), paid on 28 June 2013.

RM'0001,057**A8 Debts and equity securities**

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

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

A9 Segmental reporting

Segmental analysis of the results and assets employed for the 6 months period ended 30 June 2013:

<i>Business segments</i>	Automotive Parts RM'000	Machinery Parts RM'000	Plastic RM'000	Discontinued Operation RM'000	Eliminations RM'000	Consolidated RM'000
Revenue from external customers	52,973	8,654	1,474	-	-	63,101
Segment results	6,336	457	(1,378)	-	(36)	5,379
Unallocated expense						(175)
						5,204
Interest income						110
Financing costs						(305)
Profit before taxation						5,009
Tax expense						(1,853)
Profit after taxation						3,156
Fair value reserve						36
Translation reserve						143
Total comprehensive income for the period						3,335

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<i>Business segments</i>	Automotive Parts	Machinery Parts	Plastic	Discontinued Operation	Eliminations	Consolidated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Segment assets	78,495	19,716	13,386	41	(876)	110,762
Unallocated assets						4,198
Total assets						<u>114,960</u>
Segment liabilities	28,545	1,908	8,336	40	(8,699)	30,130
Unallocated liabilities						1,125
Total liabilities						<u>31,255</u>

<i>Business segments</i>	Automotive Parts	Machinery Parts	Plastic	Discontinued Operation	Eliminations	Consolidated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Capital expenditure	2,120	251	1,219	-	-	3,590
Depreciation of investment properties	3	8	-	-	-	11
Depreciation of property, plant and equipment	1,793	141	209	-	-	2,143

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

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

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

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A11 Material events

In the opinion of the Directors, there are no items, transactions or events of a material and unusual nature which have arisen since 31 December 2012 to the date of this announcement.

A12 Changes in the composition of the Group

There were no changes in the composition of the Group during the financial year ended 31 December 2012.

A13 Contingent assets and contingent liabilities

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

A14 Capital commitments

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

	As at 30.06.2013 RM'000	As at 30.06.2012 RM'000
Plant and equipment Contracted but not provided in the financial statements	<u>2,150</u>	<u>3,270</u>

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

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

	For the quarter ended 30.06.2013 RM'000	For the quarter ended 30.06.2012 RM'000	Increase / (Decrease)	
			RM'000	%
Revenue by segment				
Automotive parts	28,036	25,179	2,857	11.35%
Machinery parts	4,611	5,895	(1,284)	-21.78%
Plastic	686	280	406	145.00%
	<u>33,333</u>	<u>31,354</u>	<u>1,979</u>	<u>6.31%</u>
PBT by segment				
Automotive parts	3,366	2,027	1,339	66.06%
Machinery parts	476	1,058	(582)	-55.01%
Plastic	(565)	(532)	(33)	-6.20%
	<u>3,277</u>	<u>2,553</u>	<u>724</u>	<u>28.36%</u>

The Group’s revenue recorded a marginal 6.31% increase for the quarter ended 30 June 2013, in comparison to the previous corresponding period.

Automotive parts

Automotive segment continued to lead the Group’s growth recording an improvement in the reporting quarter. The robust growth in automotive segment was mainly due to the newly launched Honda CRV and Perodua Myvi “S series”.

Machinery parts

Machinery parts segment recorded a drop of 21.78% in sales revenue for the quarter as compared to the corresponding quarter in the previous year. This was mainly due to the lethargic demand from oil palm sector in year 2013 that resulted into much lesser order intake for Conveying Products by almost RM 1.0 million. The down turn in oil palm sector has affected both regular and project natures of business due to constrained spending of the palm oil mills

Plastic

Even though this segment has since improved gradually and the revenue rose 145.00% to RM0.67 million its key markets for electronics products namely the US EU are very sluggish and yet to show any signs of significant recovery.

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and its subsidiaries**B Additional Information Required by Bursa Malaysia Securities Berhad (“Bursa Malaysia”)
Main Market Listing Requirements****B2. Variation of results against preceding quarter**

	Revenue		Profit before Tax	
	Quarter Ended 30.06.2013 RM'000	Quarter Ended 31.03.2013 RM'000	Quarter Ended 30.06.2013 RM'000	Quarter Ended 31.03.2013 RM'000
Consolidated total	33,333	29,798	2,095	2,095
Business Segment:				
Automotive parts	28,036	24,937	3,366	3,002
Machinery parts	4,611	4,073	476	(16)
Plastic Resin	686	788	(565)	(481)

The Group's revenue recorded a marginal 11.86% increase for the quarter ended 30 June 2013, in comparison to the preceding quarter.

Automotive parts

The segment recorded a 12.4% increase in revenue against the preceding quarter due to the introduction of new Honda CRV. However, the increase was partially offset by a slight decline in sales from Naza on the discontinued of Kia Forte model.

Machinery parts

The slight increase in revenue for Q2 2013 was mainly attributable to the execution of some orders secured in Q4 2012.

Plastic

This segment continues to operate in a challenging environment given the uncertainty over the pace of the recovery in major global economies. The result remains similar to the previous reporting quarter.

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B Additional Information Required by Bursa Malaysia Securities Berhad (“Bursa Malaysia”) Main Market Listing Requirements**B3. Prospects for 2013****Automotive parts**

MAA industry forecast for 2013 is as follows:

	2013	2012	Variance	
Market segment	Forecast	Actual	Units	%
Passenger vehicles	563,000	552,189	10,811	2%
Commercial vehicles	77,000	75,564	1,436	2%
Total vehicles	640,000	627,753	12,247	2%

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

Machinery parts

We anticipate that export sales will continue to grow in 2013 as it did in 2012 and break into new markets.

Management is cautious on its outlook for the segment in the near future, however; the longer term prospect remains positive.

Plastic

Development efforts in previous months are beginning to convert into some orders. Management will continue to work on penetrating new markets and developing new/alternative solutions for its customers. We are optimistic that 2013 will see the segment yield better results.

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

The Group did not announce or provide any profit estimate, forecast, projection, internal targets for the financial year ending 31 December 2013.

B5. Taxation

	3 months ended		Financial period ended	
	30.06.2013	30.06.2012	30.06.2013	30.06.2012
	RM'000	RM'000	RM'000	RM'000
Income tax expenses				
- Current year	1,318	844	1,703	1,551
- Prior year	-	-	-	-
	1,318	844	1,703	1,551
Deferred tax				
- Origination and reversal of temporary differences	(282)	(40)	150	(75)
- Prior year	-	(58)	-	(115)
	1,036	746	1,853	1,361

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

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B Additional Information Required by Bursa Malaysia Securities Berhad (“Bursa Malaysia”) Main Market Listing Requirements**B6. Status of corporate proposals announced**

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

B7. Notes to the Statement of Comprehensive Income

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

	3 months ended		6 months ended	
	30.06.2013 RM'000	30.06.2012 RM'000	30.06.2013 RM'000	30.06.2012 RM'000
Interest income	32	88	64	115
Other income including investment income	224	216	406	346
Interest expenses	(155)	(79)	(290)	(132)
Depreciation and amortization	(1,170)	(1,150)	(2,154)	(1,985)
Amortization of intangible asset	-	(49)	-	(98)
Allowance for doubtful debts and bad debts written off	-	(6)	-	(6)
Development cost	(210)	(81)	(341)	(127)
Net foreign exchange gain	32	64	150	194

Other than the above, there was no provision for and write off of inventories, impairment of assets, gain or loss on disposal of quoted or unquoted investments or properties, gain or loss on derivatives and exceptional items included in the results for the current quarter ended 30 June 2013.

B8. Group's borrowings and debt securities

	30.06.2013 RM'000
Current	Secured
Borrowings – Bankers' acceptances	587
Borrowings – Short Term Revolving Credit	367
Borrowings – Bank Overdraft	3,041
Borrowings – Hire-Purchase	74
	<u>4,069</u>
Non-current	
Repayable after more than 12 months	
Borrowings - Term Loan	3,257
Borrowings – Hire-Purchase	153
	<u>3,410</u>

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**B Additional Information Required by Bursa Malaysia Securities Berhad (“Bursa Malaysia”)
Main Market Listing Requirements****B8. Group’s borrowings and debt securities (cond’t)**

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

B9. Material litigation

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

B10. Dividend

The Board of Directors does not recommend any dividend for the current quarter ended 30 June 2013.

B11. Retained Earnings

	As at 30.06.2013 RM'000	As at 30.06.2012 RM'000
Total retained earnings of the Company and subsidiaries : -		
- Realised profit / (loss)	63,649	62,067
- Unrealised profit / (loss)	(1,305)	(897)
	62,344	61,170
Less : Consolidated Adjustments	(36,430)	(35,406)
Total retained earnings	<u>25,914</u>	<u>25,764</u>

B12. Basic earnings per ordinary share

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

	For the quarter ended 30.06.2013 RM'000	For the cumulative 6 months period ended 30.06.2013 RM'000
Profit for the period	1,642	2,617
Profit attributable to minority interest	236	539
Profit for the period attributable to Shareholders of the Company	<u>1,878</u>	<u>3,156</u>
Weighted average number of ordinary shares	<u>42,210</u>	<u>42,213</u>
Basic earnings per share (sen)	<u>3.89</u>	<u>6.20</u>

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