

The cover features a dark blue background with a white wireframe of a car's engine and chassis. A large gear with a world map inside is positioned in the upper left. A series of white curved lines sweep across the page from the gear towards the bottom right. A prominent red diamond is placed on the lower right side of these lines. The text 'ANNUAL REPORT 2005' is centered horizontally in the upper half, followed by a small red diamond.

ANNUAL REPORT 2005 ◆



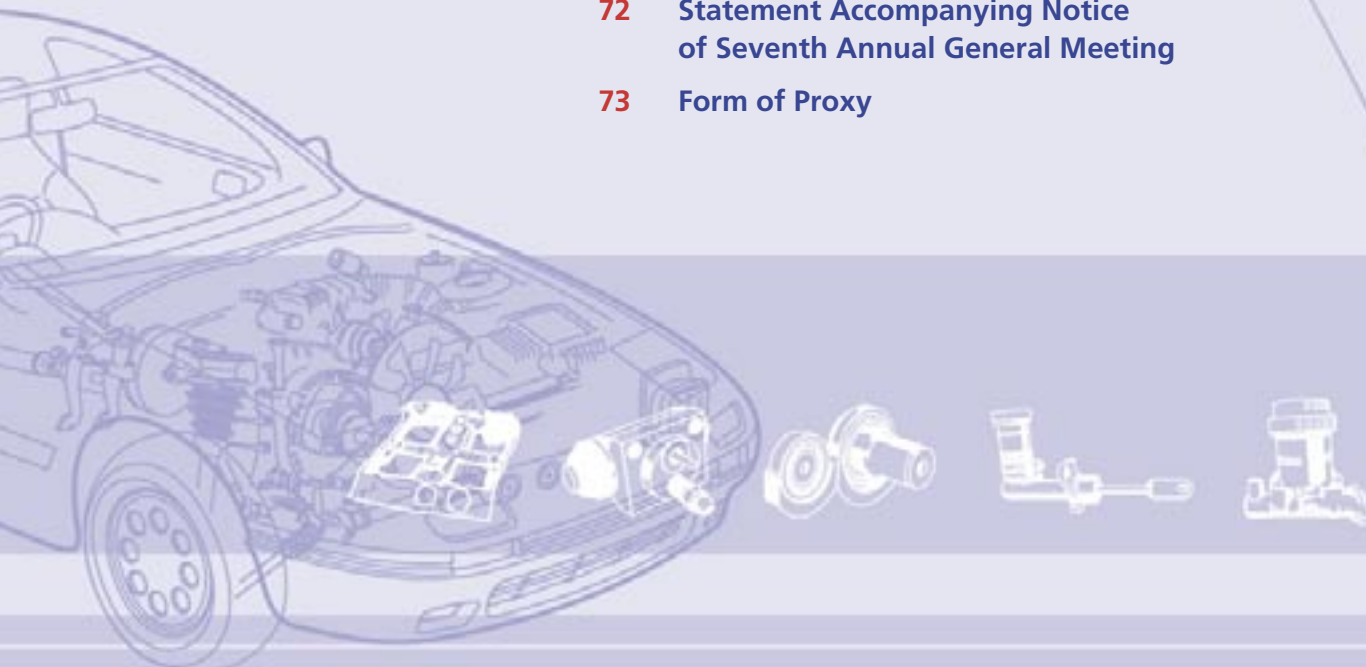
SMIS Corporation Berhad





CONTENTS

02	Group Corporate Structure
03	Corporate Information
04	Summary of Financial Highlights
06	Directors' Profile
10	Chairman's Statement
12	Corporate Governance Statement
17	Audit Committee Report
22	Statement on Internal Control
24	Directors' Responsibility Statement
25	Financial Statements
63	Shareholdings Statistics as at 28 April 2005
66	List of Properties
67	Notice of Annual General Meeting
72	Statement Accompanying Notice of Seventh Annual General Meeting
73	Form of Proxy





SMIS Corporation Berhad

GROUP STRUCTURE

as at 31 December 2005

100%

Grand Carpet Industries Sdn. Bhd.

100%

Sanyco Grand Industries Sdn. Bhd.

60%

Sugihara Grand Industries Sdn. Bhd.

100%

Machinery & Industrial Supplies Sdn. Bhd.

55%

Cleon Technology Sdn. Bhd.



CORPORATE INFORMATION

Board of Directors

Tan Sri Abdul Rashid bin Abdul Manaf
(Chairman, Non-Independent Non-Executive Director)
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)
Mohamed Ghazali bin Kamal Baharein
(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 Berhad (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 Permata, Jalan Kampar,
Off Jalan Tun Razak, 50400 Kuala Lumpur
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 2001 to 2005

Balance Sheet	2005 RM'000	2004 RM'000	2003 RM'000	2002 RM'000	2001 RM'000
Issued Capital	44,800	44,800	44,800	44,800	10
Share Premium	4,891	4,891	4,891	4,891	-
Retained profits /Accumulated loss	12,028	10,630	10,142	9,781	(3)
Minority shareholders' interests	737	1,935	1,092	-	-
Funds employed	62,456	62,256	60,925	59,472	7
Negative goodwill	2,968	5,708	8,448	11,188	-
	65,424	67,964	69,373	70,660	7
Property, plant and equipment	33,615	34,787	30,181	27,747	-
Goodwill	710	1,365	2,021	2,677	-
Deferred tax assets	755	785	809	817	-
Current asset	46,569	44,160	43,889	47,381	10
Total assets	81,649	81,097	76,900	78,622	10
Total liabilities	(16,225)	(13,133)	(7,527)	(7,962)	(3)
	65,424	67,964	69,373	70,660	7

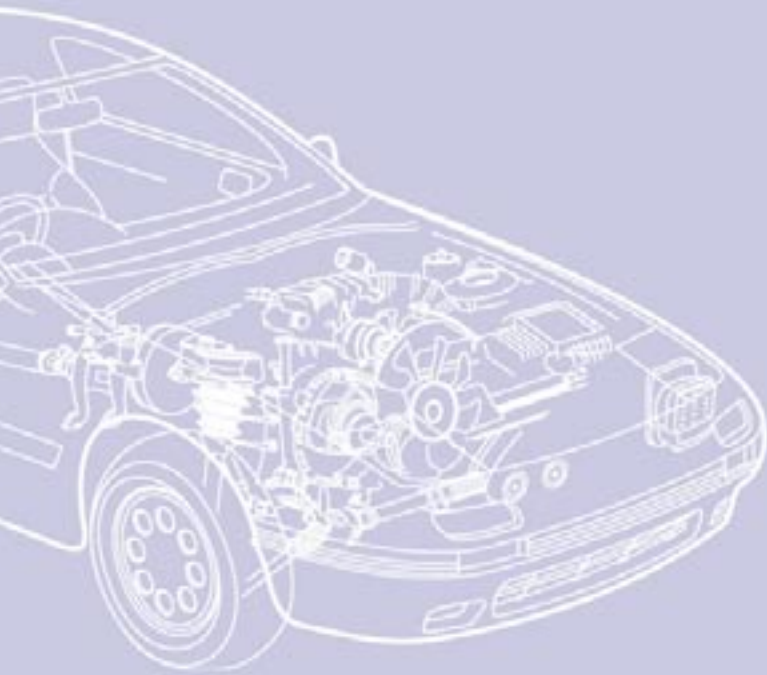
Income Statement

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

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



DIRECTORS' PROFILE





DIRECTORS' PROFILE

Tan Sri Abdul Rashid bin Abdul Manaf

Chairman, Non-Independent Non-Executive Director

Tan Sri Abdul Rashid bin Abdul Manaf, a Malaysian, aged 60 was appointed Director and Chairman of the Board of Directors of SMIS Corporation Berhad ("SMIS") on 2 February 2002.

He is a senior partner of the legal firm Shahrizat Rashid & Lee in Kuala Lumpur since 1977. He is a Barrister-at-Law of the Middle Temple London and was called to the English Bar in 1971. For the period between 1970 to 1977, he served the Malaysian Judicial and Legal Services as Magistrate, President Session Court and Senior Federal Council Income Tax.

He also serves as Chairman and Director of S P Setia Berhad, Loh & Loh Corporation Berhad and Maika Holdings Berhad.

He does not have any family relationship with any director and/or major shareholder of the Company and has no conflict of interest with the Company. He 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 54, was appointed an Executive Director of SMIS on 2 February 2002.

He is an entrepreneur with more than twenty-seven 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 industry. He is responsible for the operations of the automotive division.

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

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

Ng Wai Kee

Executive Director

Ng Wai Kee, a Malaysian, aged 35, was appointed an Executive Director of SMIS on 2 February 2002.

He holds a Bachelor of Accounting degree from the University of Technology, Sydney, Australia and is an Associate member of the Institute of Chartered Accountants, Australia. He has worked as a 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.



DIRECTORS' PROFILE

He also serves as a Director of Hirotako 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 65 of the annual report, he does not have any other conflict of interest with the Company and has not been convicted for any offences within the past 10 years.

Yap Siew Foong

Executive Director

Yap Siew Foong, a Malaysian, aged 62, 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 65 of the annual report, she does not have any other conflict of interest with the Company and has not been convicted for any offences within the past 10 years.

Cham Bee Sim

Executive Director

Cham Bee Sim, a Malaysian, aged 58, was appointed an Executive Director of SMIS on 2 February 2002.

He 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 major shareholder of SMIS. Save as disclosed on page 65 of the annual report, he does not have any other conflict of interest with the Company and has not been convicted for any offences within the past 10 years.

Danny Ng Siew L'Leong

Senior Independent Non-Executive Director

Danny Ng Siew L'Leong, a Malaysian, aged 48, 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 a major in Financial Management in 1982. He was attached to United Malayan Banking Corporation Berhad (now known as RHB Bank Berhad) as a 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.



DIRECTORS' PROFILE

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

He has no family relationship with any director and/or major shareholder 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 36, 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 Projek 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 Committees.

She has no family relationship with any director and/or major shareholder 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.

Mohamed Ghazali Bin Kamal Baharein

Independent Non-Executive Director

Mohamed Ghazali Bin Kamal Baharein, a Malaysian, aged 58, was appointed to the Board of Directors of SMIS on 2 February 2002 as an Independent Non-Executive Director.

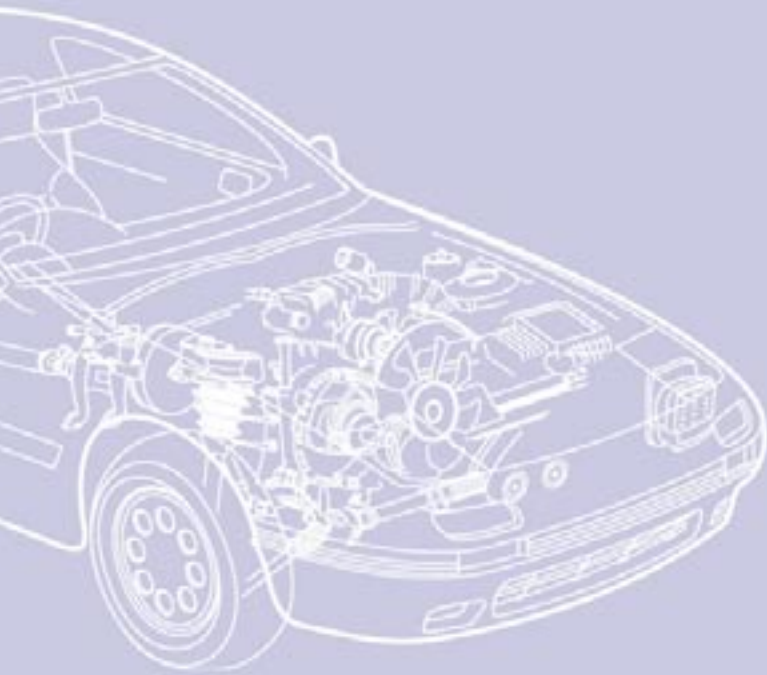
He holds a Bachelor of Arts from University Malaya and a Diploma in Development Economics from University of Cambridge, United Kingdom in 1972. He attended the Program Management Development in Harvard Business School in 1979. He started his career as an Assistant District Officer in the government service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

He is 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 shareholder 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.



CHAIRMAN'S STATEMENT



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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") for the financial year ended 31 December 2005.

Industry Overview/Financial Highlights

The Malaysian real gross domestic product ("GDP") expanded by 5.3% for year 2005. Growth was private sector driven and was supported by macroeconomic policies and favourable financial conditions. Value added in the manufacturing sector rose 4.9%.

Against the backdrop of the above, market sentiment and consumer confidence in the automotive industry continued to improve despite the deferment of the announcement on the duty structure pertaining to the new National Automotive Policy ("NAP"). The Malaysian Automotive Association ("MAA") reported that the passenger car sector achieved a growth of 5% for the year ended 31 December 2005. MAA further reported that passenger car sales went up to 410,892 units for the year ended 31 December 2005 as compared to 392,139 units in the previous corresponding period, attributable mainly to the introduction of new models and players in the automotive industry coupled with low interest rates, long repayment periods and aggressive promotion by manufacturers.

Notwithstanding the improved market sentiment leading to better sales in the financial year, raw materials cost remained high particularly petro-chemical based products which constitute 80% of SMIS Group's raw materials cost. In the face of rising costs, various cost improvement exercises were introduced and implemented by the SMIS Group. Steps were also taken to reduce wastage in an effort to improve operational efficiency. A rationalisation exercise on the prices of the SMIS Group's products was also undertaken to improve margins. In addition, greater emphasis was also placed and put into research and development to further improve efficiency and to create added value to the SMIS Group's products.

I am pleased to report that in line with the improved market sentiment and the various measures undertaken to address the issue of rising costs, the SMIS Group achieved a marked improvement in net profit from RM488,000 in the previous financial year to RM1,398,000 for the financial year ended 31 December 2005, representing a growth of 286%, attributable mainly by the automotive segment. Revenue for the twelve months ended 31 December 2005 was at RM72.998 million as opposed to 63.611 million in the previous financial year. Basic earnings per share also showed a marked improvement from 1.09 sen in the previous financial year ended 31 December 2004 to 3.12 sen in the financial year ended 31 December 2005. Net assets per share at 31 December 2005 was more or less the same as the previous financial year at RM1.43.



CHAIRMAN'S STATEMENT

Prospects

The air of uncertainty over the new tariff structure pursuant to the NAP was finally cleared, with the announcement of the new duty structure on 22 March 2006. The motor industry on the whole is happy with the new NAP which will ensure that the domestic motor industry can become more competitive and export orientated. Grants and incentive packages are also offered to companies in the domestic sector to distinguish those that make a significant economic contribution to the country.

The SMIS Group foresees greater opportunities with the implementation of the new NAP as the reduction in car prices is expected to push up sales. The clamp on the issuance of new manufacturing licences until the overcapacity in the domestic automotive sector is resolved, is also viewed positively by the SMIS Group. Bank Negara Malaysia ("BNM") has forecasted the economic growth of the country to be at 6% for year 2006, a slight improvement over the GDP growth of 5.3% for year 2005, with the mining, manufacturing and services sector being the main contributors. Based on the aforementioned favourable market conditions and outlook, the SMIS Group is expected to turn in a better set of results for the next financial year.

High raw materials cost arising from the escalating oil prices which to date, have shown little sign of stabilizing, remain the biggest challenge that is expected to put pressure on the performance of the SMIS Group for the next financial year. BNM has forecasted that inflation, arising from higher global oil prices, is expected to rise above the previous year's level to 3.5% to 4% for year 2006. Coupled with that, interest rates are also expected to go up further despite the three rounds of revision since November 2005. Inflation together with the rising cost of credit will be the other two factors that are likely to impact the performance of the SMIS Group for the next financial year.

Given the resilience of the Malaysian economy however and the prudent macroeconomic management by the Government, we believe and are confident that the impact of the rise in petrol prices will be mitigated.

Acknowledgement

On behalf of the Board of Directors, I would like to take this opportunity to extend the Board's appreciation to the management and staff for their commitment and to all our valued customers, suppliers, bankers and business associates for their support. Finally, to my fellow Directors, a special thank you for your assistance and support during the year.

Tan Sri Abdul Rashid bin Abdul Manaf
Chairman



CORPORATE GOVERNANCE STATEMENT

The Board of Directors of SMIS Corporation Berhad (“SMIS”) remains committed towards ensuring the highest standard of corporate governance, as promulgated by the Malaysian Code on Corporate Governance (“the Code”), is adopted throughout the Company and its subsidiaries (“the Group”) to safeguard the Group’s assets and shareholders’ interests. The Board is pleased to report to the shareholders the manner in which the Group has applied the principles and best practices, and the extent of compliance with the Code throughout the financial year ended 31 December 2005.

THE BOARD OF DIRECTORS

(a) Composition and Balance

The Group is led by an effective Board, comprising of 8 members, of whom, 3 are Independent Non-Executive Directors, 1 is a Non-Independent Non-Executive Director and 4 are Executive Directors. The profiles of the members of the Board are set out on page 6 to page 8 of this Annual Report.

The Board members are experienced individuals from diverse backgrounds and have a wide range of skills and experience in areas relevant to managing and directing the Group’s operations. 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 to effectively discharge its duties and responsibilities.

(b) Duties and Responsibilities

The Board’s main role is charting the strategic direction, development and control of the Group’s operations. This involves:

- (a) reviewing and adopting the strategic plan for the Group;
- (b) overseeing the conduct of the Group’s operations;
- (c) ensuring principal risks faced by the Group are identified and managed effectively;
- (d) reviewing the Group’s succession planning;
- (e) ensuring that there is a proper framework established for effective communication with the Company’s shareholders, stakeholders and the public in general; and
- (f) reviewing the adequacy and integrity of the Group’s system of internal controls.

The roles of the Chairman and Chief Executive Officer (“CEO”) are clearly distinct to ensure that there is a balance of power and authority. The Chairman is primarily responsible for the effective and efficient conduct and working of the Board whilst the CEO is responsible for the daily management of the Group’s operations and implementation of the policies and strategies adopted by the Board. 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.

(c) Board Meetings

The Board meets regularly on a quarterly basis with additional meetings being convened when necessary. In the meetings, the Board will deliberate on and considered matters relating to the Group’s financial performance, significant investments, corporate



CORPORATE GOVERNANCE STATEMENT

development, strategic issues and business plan. During the financial year ended 31 December 2005, the Board met 5 times. Details each Director's attendance of Board meetings are set out below.

Name of Director	Designation	No. of meetings attended
Tan Sri Abdul Rashid bin Abdul Manaf (Chairman)	Non-Independent Non-Executive Director	3/5
Mohd. Riani bin Osman	Executive Director	5/5
Ng Wai Kee	Executive Director	5/5
Yap Siew Foong	Executive Director	3/5
Cham Bee Sim	Executive Director	5/5
Danny Ng Siew L'Leong	Senior Independent Non-Executive Director	4/5
Pauline Teh @ Pauline Teh Abdullah	Independent Non-Executive Director	4/5
Mohamed Ghazali bin Kamal Baharein	Independent Non-Executive Director	5/5

Board meetings are structured with a pre-set agenda which encompasses all aspects of matters under discussion. The Board papers are circulated to directors well in advance of the Board meetings for their deliberation. All meetings of the Board are duly recorded in the Board Minutes.

Senior management may be invited to attend these meetings to explain and clarify matters being tabled.

In furtherance of their duties, the Board has unrestricted access to any information pertaining to the Group as well as to the advice and services of the Company Secretary and independent professional advisers whenever appropriate at the Group's expense.

(d) Appointment and Re-election of Directors

Any new appointments 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 from office at least once in every three years.

(e) Directors' Training

All Members of the Board have successfully completed the Mandatory Accreditation Programme as prescribed by Bursa Malaysia Securities Berhad ("Bursa Securities"). All Directors have also complied with the Continuous Education Programme by accumulating the required points during the prescribed period. During the year, the Directors attended training on Goods and Services Tax conducted by KPMG Tax Service Sdn Bhd and Financial Reporting Standards. The Directors are committed to continue to undergo other relevant training programmes as appropriate to keep abreast with developments of the business environment and to further enhance their skills and knowledge.

The Company Secretary regularly updates the Board on the latest update/amendments on the Bursa Securities Listing Requirements and other regulatory requirements relating to the Directors' duties and responsibilities.



CORPORATE GOVERNANCE STATEMENT

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

BOARD COMMITTEES

The Board has delegated certain of its responsibilities to committees. These are the Audit, the Nomination and the Remuneration Committees. All Board committees are provided with written terms of reference. Details of the Board committees are provided below.

(a) Audit Committee

The report of the Audit Committee is set out on pages 17 to 21.

(b) Nomination Committee

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

- i) Chairman
Danny Ng Siew L'Leong – Senior Independent Non-Executive Director
- ii) 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 and its terms of reference to recommend to the Board, candidates for the Board and Board committees.

The Nomination Committee met once during the financial year with 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.

(c) Remuneration Committee

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

- i) Chairman
Mohamed Ghazali bin Kamal Baharein – Independent Non-Executive Director
- ii) 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

The Remuneration Committee is responsible for recommending to the Board the remuneration packages of the Executive Directors. The policy practiced by the Remuneration Committee is to provide 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 reviewed annually. The remuneration and entitlements of the Non-Executive Directors shall be a matter to be decided by the Board as a whole.



CORPORATE GOVERNANCE STATEMENT

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

DIRECTORS' REMUNERATION

The details of the remuneration of each Director during the financial year ended 31 December 2005 are as follows:

(a) Total Remuneration

	Executive Directors RM	Non-Executive Directors RM	Total RM
Basic Salary	796,000		796,000
Bonuses	52,000		52,000
Fees	48,000	78,000	126,000
Benefits-in-kind	50,000		50,000
Attendance fee		18,000	18,000
Total	946,000	96,000	1,042,000

(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
Total number of Directors	4	4	8

Details of individual Directors' remuneration are not disclosed in this report as the Board considers that the above Directors' remuneration disclosure by band and analysis between Executive and Non-Executive Directors satisfies the accountability and transparency aspects of the Code.

SHAREHOLDERS

(a) Shareholders and Investors Relations

The Board acknowledges the importance of accountability to the shareholders. Timely release of the financial results on a quarterly basis, press releases and announcements provide an overview of the Group's performance and operations to its shareholders.

Information disseminated to the investment community is in accordance to Bursa Securities' disclosure rules and regulations. The Board has taken steps to ensure that no market sensitive information is disclosed to any party prior to making an official announcement to Bursa Securities.

(b) Annual General Meeting

The Annual General Meeting ("AGM") is the principal platform for dialogue with the shareholders. At the AGM, the Board presents the progress and performance of the



CORPORATE GOVERNANCE STATEMENT

Group and the Chairman of the Board provides shareholders with ample opportunity to question the business issues, concerns and operations in general.

ACCOUNTABILITY AND AUDIT

(a) Financial Reporting

In presenting the annual financial statements and quarterly announcements to shareholders, the Directors aim to ensure that the financial statements are prepared in accordance with the Companies Act, 1965 and applicable approved accounting standards so as to offer a balanced and comprehensive assessment of the Group's financial position and prospects. The Directors' Responsibility Statement is set out on page 24 of this Annual Report.

(b) Internal Control

The Group's Statement on Internal Control is set out on pages 22 to 23 of the annual report to provide an overview on the state of internal control throughout the year.

(c) Relationship with Auditors

The Board has established a formal and transparent arrangement with the Group's auditors in seeking professional advice. The role of the Audit Committee in relation to the external auditors is explained in the Audit Committee Report set out on pages 17 to 21 of the annual report.

(d) Non-Audit Fees

The amount of non-audit fees paid to external auditors by the Group for the current financial year amounted to RM18,000 for other services undertaken by the Group.

OTHER INFORMATION

(a) Shares Buy-Back

There was no share buy-back during the financial year under review.

(b) Options, Warrants or Convertible Securities

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

(c) 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

(d) 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 2005 are as follows:

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

At the invitation of the Audit Committee, Senior Management staff and the external consultants to whom the internal audit function was outsourced, 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 line with the terms of reference of the Committee, the following activities were carried out by the Committee during the financial year ended 31 December 2005 in discharging its functions:

- Review the quarterly report and year-end financial statements of the Group prior to the approval by the Board of Directors.
- Review with the external auditors the audit plans, scope of audit and the audit report.
- 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 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, which is outsourced to external consultants, assists 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 2005 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 quarterly 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 that action plans are properly and timely implemented by Management.

TERMS OF REFERENCE OF AUDIT COMMITTEE

1. OBJECTIVES

The objectives of the Audit Committee is 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 confirm 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



AUDIT COMMITTEE REPORT

- 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 Securities 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.

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 auditors, 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);



AUDIT COMMITTEE REPORT

- (f) To review the external auditor's management letter and management's response;
- (g) To do the following where an internal audit function exists:-
 - 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;
 - 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;
 - 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.

4. RIGHTS OF THE AUDIT COMMITTEE

The Audit Committee shall, wherever necessary and reasonable for the Company to perform 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.



AUDIT COMMITTEE REPORT

5. MEETINGS

The Audit Committee shall 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 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.

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STATEMENT ON INTERNAL CONTROL

INTRODUCTION

The Board of SMIS Corporation Berhad is pleased to provide below a statement on the state of the Group's internal control throughout the year prepared in accordance with Bursa Securities Statement on Internal Control: Guidance for Directors of Public Listed Companies.

BOARD RESPONSIBILITY

The Board acknowledges the importance of a sound system of internal controls and affirms its overall responsibility for the Group's system of internal control and reviewing its adequacy and integrity. The responsibility of reviewing the adequacy and integrity of the internal control system is delegated to the Audit Committee. The Audit Committee obtains assurance on the adequacy and integrity of the internal control system through reports it receives from the external auditor, internal auditor and management.

As there are inherent limitations in any system of internal controls, such systems are designed to manage, rather than eliminate all risks that may impede the achievement of the Group's business objectives. Consequently, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement or loss. In addition, due consideration is given to the cost of implementation as compared to the expected benefits to be derived, when devising internal controls procedures.

RISK MANAGEMENT

Key management staff and Heads of Department are delegated the responsibility of identifying and managing risks related to their functions/departments. At the periodic management meetings, such risks identified and related internal controls are communicated to the Senior Management team. In addition, significant risks identified are brought to the attention of the Board at their scheduled meetings.

Subsequent to the financial year ended 31 December 2005, Management with the assistance of external consultants updated the Group's key risk profile which was presented to the Audit Committee on 22 May 2006. In the key risk profile, risks identified are prioritised in terms of likelihood of their occurrence and the impact on the achievement of the Group's business objectives/goals. This facilitates the proper allocation of resources to mitigate the risks.

The abovementioned practices/initiatives by Management are reviewed by the Board and serves as the ongoing process used to identify, evaluate and manage significant risks.



STATEMENT ON INTERNAL CONTROL

OTHER KEY ELEMENTS OF INTERNAL CONTROLS

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

(a) Internal Audit Function

The internal audit function, which is outsourced to external consultants, conducts regular reviews to assess the adequacy and integrity of the internal controls systems. The activities of the internal audit function are documented in the Audit Committee Report.

(b) 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.

(c) Clear Organisational Structure

An organisational structure where key responsibilities are clearly defined as well as the authorisation policy which sets out authority levels for all key aspects of the business.

(d) Regular Factory Visits

Regular factory visits by members of the senior management team.

(e) ISO Certification

Certain of the Group's operations are ISO certified and TS 16949 certified and are subjected to audits conducted by external parties.

CONCLUSION

The Board recognises the need for the internal controls system to continuously evolve to support the business operations of the Group. In this regard, regular reviews of the Group's internal control system will continue to be carried out to ensure that such systems are adequate and effective in meeting the Group's changing business environment.

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DIRECTORS' RESPONSIBILITY STATEMENT

in respect of the preparation of the Financial Statements

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 provisions of the Companies Act, 1965 so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2005 and of the results and cash flows of the Group and Company for the financial year ended on that date.

In the preparation of the financial statements, the Directors have:

- (a) applied relevant and appropriate accounting policies consistently and in accordance with applicable approved accounting standards;
- (b) made judgements and estimates that are prudent and reasonable; and
- (c) used the going concern basis for the preparation of the financial statements.

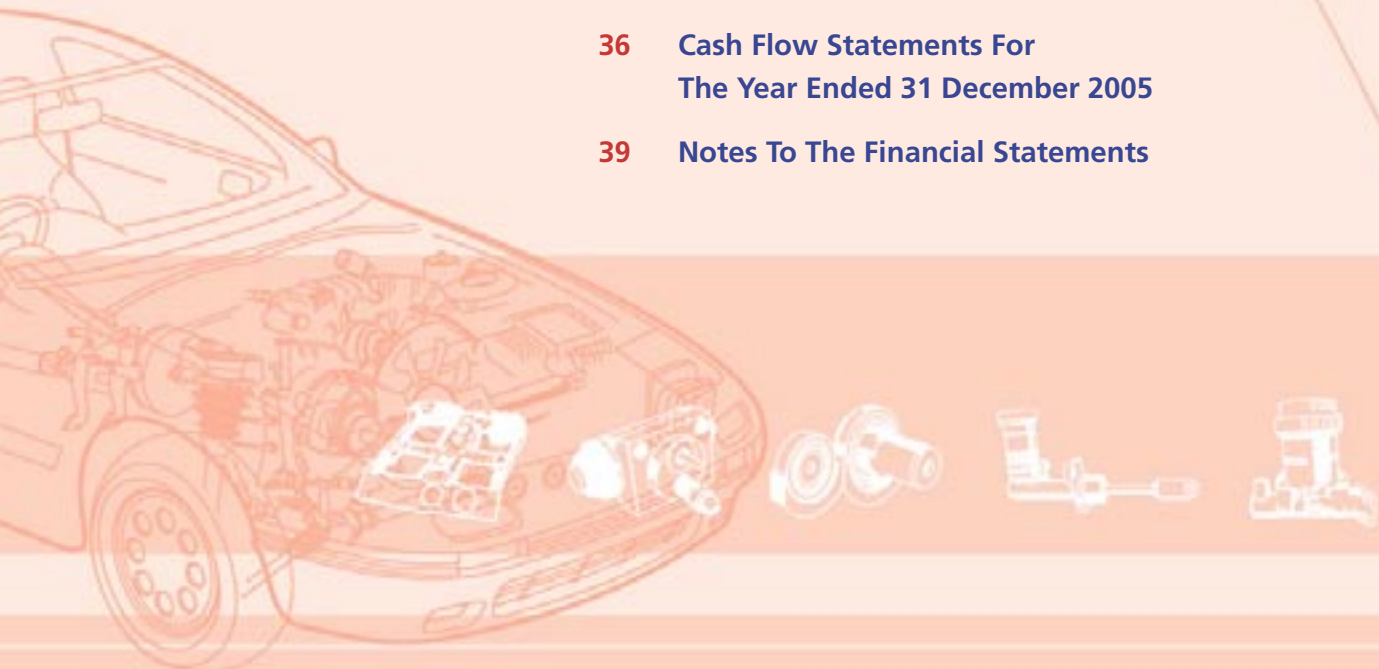
The Directors have ensured that proper accounting records are kept which enable the preparation of the financial statements with reasonable accuracy and are kept in accordance with the Companies Act, 1965. The Directors are also responsible for taking such steps as are reasonably open to them to safeguard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



FINANCIAL STATEMENTS

for the year ended 31 December 2005

- 26** Directors' Report For
The Year Ended 31 December 2005
- 30** Statement By Directors Pursuant To
Section 169(15) Of The Companies Act, 1965
- 31** Statutory Declaration Pursuant To
Section 169(16) Of The Companies Act, 1965
- 32** Report Of The Auditors To The Members Of
SMIS Corporation Berhad
- 33** Balance Sheet At 31 December 2005
- 34** Income Statement For
The Year Ended 31 December 2005
- 35** Statement Of Changes In Equity For
The Year Ended 31 December 2005
- 36** Cash Flow Statements For
The Year Ended 31 December 2005
- 39** Notes To The Financial Statements



DIRECTORS' REPORT

for the year ended 31 December 2005

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2005.

Principal activities

The Company is principally engaged in investment holding, whilst the principal activities of the subsidiaries are stated in Note 4 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
Net profit for the year	1,398	2,522

Reserves and provisions

There were no material transfers to or from reserves and provisions during the year under review.

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:

Tan Sri Abdul Rashid bin Abdul Manaf
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

The holdings and deemed holdings in the ordinary shares of the Company and of its related corporations (other than wholly owned subsidiaries) of those who were Directors at year end as recorded in the Register of Directors' Shareholdings are as follows:-

DIRECTORS' REPORT

for the year ended 31 December 2005

Number of ordinary shares of RM1.00 each

	Balance at 1.1.2005	Bought	Sold	Balance at 31.12.2005
Shareholdings in which Directors have direct interests in the Company				
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
Shareholdings in which Directors have indirect interests in the Company				
Tan Sri Abdul Rashid bin Abdul Manaf	2,122,984	-	-	2,122,984
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, Tan Sri Abdul Rashid bin Abdul Manaf, 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 2005 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 21 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 2005

Issue of shares and debentures

There were no changes in the 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.

Significant event during the year

On 1 July 2005, the Company subscribed for an additional 210,000 new ordinary shares of RM1.00 each, representing 60% of the enlarged issued and paid-up share capital of Sugihara Grand Industries Sdn. Bhd. ("Sugihara"), for a total cash consideration of RM210,000.

The issued and paid-up share capital of Sugihara after the subscription is RM3,942,557 divided into 3,942,557 ordinary shares of RM1.00 each.

Other statutory information

Before the financial 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 has been 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 Group and in the Company financial statements 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.



DIRECTORS' REPORT

for the year ended 31 December 2005

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.

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, the results of the operations of the Group and of the Company for the financial year ended 31 December 2005 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.

Auditors

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

Signed in accordance with a resolution of the Directors:

Mohd Riani bin Osman

Ng Wai Kee

Kuala Lumpur,
Date: 21 April 2006

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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 62 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2005 and of the results of their operations and cash flows for the year ended on that date.

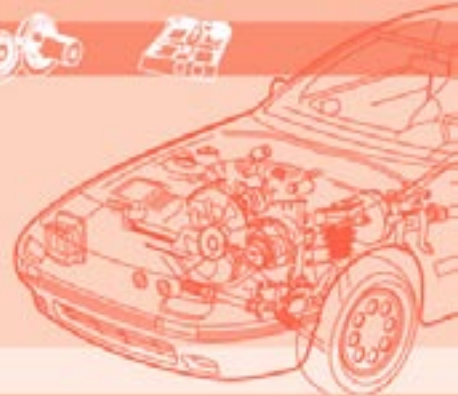
Signed in accordance with a resolution of the Directors:

Mohd Riani bin Osman

Ng Wai Kee

Kuala Lumpur,

Date: 21 April 2006



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 62 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 abovenamed in Kuala Lumpur on 21 April 2006.

Ng Wai Kee

Before me:

Soh Ah Kau
Pesuruhjaya Sumpah
No. W315



REPORT OF THE AUDITORS

to the members of SMIS Corporation Berhad

We have audited the financial statements set out on pages 33 to 62. 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. These standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. 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 in Malaysia 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 2005 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: 1514/05/06(J)

Kuala Lumpur,
Date: 21 April 2006

BALANCE SHEETS

at 31 December 2005

	Note	Group		Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Property, plant and equipment	2	33,615	34,787	5	6
Goodwill on consolidation	3	710	1,365	-	-
Investment in subsidiaries	4	-	-	57,942	57,732
Deferred tax assets	14	755	785	-	-
Current assets					
Inventories	5	10,685	11,360	-	-
Trade and other receivables	6	19,741	18,673	-	-
Tax recoverable		1,430	848	22	5
Cash and cash equivalents	7	14,713	13,279	5,584	3,289
		46,569	44,160	5,606	3,294
Current liabilities					
Trade and other payables	8	13,613	12,380	5,278	5,279
Borrowings	9	1,637	-	-	-
Hire purchase liabilities	10	69	-	-	-
Taxation		412	418	-	-
		15,731	12,798	5,278	5,279
Net current assets/(liabilities)		30,838	31,362	328	(1,985)
		65,918	68,299	58,275	55,753
Financed by:					
Capital and reserves					
Share capital	11	44,800	44,800	44,800	44,800
Reserves		16,919	15,521	13,475	10,953
Shareholders' funds		61,719	60,321	58,275	55,753
Negative goodwill	12	2,968	5,708	-	-
Minority shareholders' interests	13	737	1,935	-	-
Long term and deferred liabilities					
Deferred tax liabilities	14	446	335	-	-
Hire purchase liabilities	10	48	-	-	-
		65,918	68,299	58,275	55,753

The financial statements were approved and authorised for issue by the Board of Directors on 21 April 2006.

The notes set out on pages 39 to 62 form an integral part of, and should be read in conjunction with, these financial statements.

INCOME STATEMENT

for the year ended 31 December 2005

	Note	Group		Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Revenue	15	72,998	63,611	3,308	1,500
Cost of sales		(64,067)	(56,617)	-	-
Gross profit	15	8,931	6,994	3,308	1,500
Other operating income		3,827	3,098	-	-
Distribution costs		(1,216)	(932)	-	-
Administrative expenses		(7,682)	(7,376)	(286)	(290)
Other operating expenses		(3,214)	(1,533)	-	-
Operating profit	15	646	251	3,022	1,210
Financing costs	17	(156)	(94)	-	-
Interest income		197	236	88	87
Profit before taxation		687	393	3,110	1,297
Tax expense	18	(627)	(1,087)	(588)	(24)
Profit/(Loss) after taxation		60	(694)	2,522	1,273
Minority interests		1,338	1,182	-	-
Net profit for the year		1,398	488	2,522	1,273
Basic earnings per ordinary share (sen)	19	3.12	1.09		

The notes set out on pages 39 to 62 form an integral part of, and should be read in conjunction with, these financial statements.

CASH FLOW STATEMENTS

for the year ended 31 December 2005

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Cash flows from operating activities				
Profit before taxation	687	393	3,110	1,297
Adjustments for:				
Depreciation	4,346	3,505	1	1
Dividend income	-	-	(3,308)	(1,500)
Amortisation of goodwill	655	656	-	-
Amortisation of negative goodwill	(2,740)	(2,740)	-	-
Bad debts written off	47	-	-	-
Gain on disposal of property, plant and equipment	(787)	(81)	-	-
Interest expense	59	10	-	-
Interest income	(197)	(236)	(88)	(87)
Impairment losses on property	379	-	-	-
Operating profit/(loss) before working capital changes	2,449	1,507	(285)	(289)
Changes in working capital:				
Inventories	675	1,125	-	-
Trade and other receivables	(1,115)	(2,848)	-	-
Trade and other payables	768	5,097	(1)	6
Cash generated from/(used in) operations	2,777	4,881	(286)	(283)
Income taxes paid	(1,075)	(903)	(22)	(36)
Interest paid	(59)	(10)	-	-
Net cash generated from/(used in) operating activities	1,643	3,968	(308)	(319)

The notes set out on pages 39 to 62 form an integral part of, and should be read in conjunction with, these financial statements.

CASH FLOW STATEMENTS

for the year ended 31 December 2005 (Continued)

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Cash flows from investing activities				
Investment in subsidiaries	-	-	(210)	(2,475)
Purchase of property, plant and equipment (i)	(3,654)	(5,360)	-	-
Proceeds from disposal of property, plant and equipment	1,493	149	-	-
Interest received	197	236	88	87
Dividend received	-	-	2,725	1,500
Net cash (used in)/generated from investing activities	(1,964)	(4,975)	2,603	(888)
Cash flows from financing activities				
Proceeds from issuance of shares to minority shareholders of a subsidiary	140	-	-	-
Repayment of hire purchase liabilities	(22)	(47)	-	-
Net cash generated from/(used in) financing activities	118	(47)	-	-
Net (decrease)/increase in cash and cash equivalents	(203)	(1,054)	2,295	(1,207)
Cash and cash equivalents at beginning of year	13,279	14,333	3,289	4,496
Cash and cash equivalents at end of year (ii)	13,076	13,279	5,584	3,289

The notes set out on pages 39 to 62 form an integral part of, and should be read in conjunction with, these financial statements.

CASH FLOW STATEMENTS

for the year ended 31 December 2005 (Continued)

Notes to cash flow statements

i) Purchase of property, plant and equipment

During the year, the Group acquired property, plant and equipment amounting to RM4,259,000 (2004 - RM8,179,000) of which Nil (2004 - RM2,025,000) was acquired via the issuance of shares to minority shareholders of a subsidiary, RM140,000 (2004 - Nil) was acquired by means of hire purchase and RM465,000 (2004 - RM794,000) was accrued for.

ii) Cash and cash equivalents

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

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Money market placements with licensed banks	11,100	7,400	5,500	3,200
Cash and bank balances	3,613	5,879	84	89
Bank overdrafts	(1,637)	-	-	-
	13,076	13,279	5,584	3,289

The notes set out on pages 39 to 62 form an integral part of, and should be read in conjunction with, these financial statements.



NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The following accounting policies are adopted by the Group and by the Company and are consistent with those adopted in previous years.

(a) Basis of accounting

The financial statements of the Group and of the Company are prepared on the historical cost basis except as disclosed in the notes to the financial statements and in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

(b) Basis of consolidation

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiaries are consolidated using the acquisition method of accounting.

A subsidiary is excluded from consolidation when either control is intended to be temporary if the subsidiary is acquired and held exclusively with a view of its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company. Subsidiaries excluded on these grounds are accounted for as investments.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Group's financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or negative goodwill as appropriate.

Intra-group transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intra-group transactions are also eliminated unless cost cannot be recovered.

(c) Goodwill and negative goodwill

Goodwill represents the excess of cost of acquisition over the fair values of the net identifiable assets acquired and is stated at cost less accumulated amortisation and accumulated impairment losses (refer Note 1(e)). Negative goodwill represents the excess of the fair values of the net identifiable assets acquired over the cost of acquisition.

Goodwill and negative goodwill arising on consolidation are amortised on a straight-line basis over a maximum of 5 years from the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS

(d) Property, plant and equipment

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

Property, plant and equipment retired from active use and held for disposal are stated at the carrying amount at the date when the asset is retired from active use, less impairment losses, if any.

Depreciation

Freehold land and capital work-in-progress are stated at cost and are not amortised. Long term leasehold land is stated at cost and amortised in equal instalments which range from 50 to 91 years.

The straight-line method is used to write off the cost of the following assets over the term of their estimated useful lives at the following principal annual rates:

Buildings	2%
Plant and machinery	10% - 20%
Motor vehicles	10% - 25%
Office equipment, furniture and fittings and renovations	2% - 20%
Moulds and jigs	10% - 33.3%

(e) Impairment

The carrying amount of assets, other than inventories (refer Note 1(g)), deferred tax assets and financial assets (other than investment in subsidiaries), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.



NOTES TO THE FINANCIAL STATEMENTS

(e) Impairment (continued)

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. The reversal is recognised in the income statement.

(f) Investment in subsidiaries

Investment in subsidiaries are stated at cost in the Company, less impairment losses, where applicable.

(g) Inventories

Raw materials, work-in-progress, manufactured goods and goods in transit 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.

(h) Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful debts.

Known bad debts are written off in the financial year in which they are identified. An allowance is made for all debts considered doubtful, based on estimates of possible losses which may arise from non-collection of certain receivable accounts.

(i) 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.

(j) Liabilities

Trade and other payables and borrowings are stated at cost.



NOTES TO THE FINANCIAL STATEMENTS

(k) Assets under hire purchase

Property, plant and equipment acquired under hire purchase arrangements are capitalised in the financial statements and depreciated over their estimated useful lives in accordance to the policy set out in Note 1(d) and the corresponding obligation relating to the remaining capital payments are treated as a liability. The interest element of the hire purchase instalments is charged to the income statement over the period of the hire purchase and accounted for on the sum of digit method.

(l) Employee benefits

i) Short term employee benefits

Wages, salaries and bonuses are recognised as expenses in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

ii) Defined contribution plans

Obligations for contributions to the Employees' Provident Fund are recognised as an expense in the income statement as incurred.

(m) Income tax

Tax on the profit or loss for the year comprises current and deferred tax. Income tax 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 expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.



NOTES TO THE FINANCIAL STATEMENTS

(n) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

The closing rates used in the translation of foreign currency monetary assets and liabilities are as follows:

	2005	2004
1USD	RM3.7793	RM3.8000
100JPY	RM3.2170	RM3.3732

(o) Revenue recognition

i) Goods sold

Revenue from sale of goods is measured at the fair value of the consideration receivable less returns and discounts allowed and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

ii) Dividend income

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

(p) Interest income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

(q) Financing costs

All interest and other costs incurred in connection with borrowings, other than as disclosed in Note 1(k), are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS

2. Property, plant and equipment

Group	Freehold land RM'000	Long term leasehold land RM'000	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and renovations RM'000	Moulds and jigs RM'000	Capital work-in-progress RM'000	Total RM'000
Cost									
At 1 January 2005	2,231	2,583	15,768	22,642	2,350	4,732	1,931	2,790	55,027
Additions	-	-	62	2,683	304	774	436	-	4,259
Disposals	(676)	-	-	-	(468)	(1)	-	-	(1,145)
Reclassifications	-	-	-	2,662	-	-	-	(2,662)	-
At 31 December 2005	1,555	2,583	15,830	27,987	2,186	5,505	2,367	128	58,141
Accumulated depreciation and impairment losses									
Accumulated depreciation	-	429	2,909	11,765	1,512	2,610	1,015	-	20,240
Accumulated impairment losses	-	-	-	-	-	-	-	-	-
At 1 January 2005	-	429	2,909	11,765	1,512	2,610	1,015	-	20,240
Depreciation charge for the year	-	36	356	2,579	303	596	476	-	4,346
Disposals	-	-	-	-	(439)	-	-	-	(439)
Impairment losses for the year	-	-	379	-	-	-	-	-	379
At 31 December 2005	-	465	3,265	14,344	1,376	3,206	1,491	-	24,147
Accumulated impairment losses	-	-	379	-	-	-	-	-	379
At 31 December 2005	-	465	3,644	14,344	1,376	3,206	1,491	-	24,526

NOTES TO THE FINANCIAL STATEMENTS

2. Property, plant and equipment (continued)

Group	Freehold land RM'000	Long term leasehold land RM'000	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and renovations RM'000	Moulds and jigs RM'000	Capital work-in-progress RM'000	Total RM'000
<i>Net book value</i>									
At 31 December 2005	1,555	2,118	12,186	13,643	810	2,299	876	128	33,615
At 31 December 2004	2,231	2,154	12,859	10,877	838	2,122	916	2,790	34,787
Depreciation charge for the year ended 31 December 2004	-	36	348	1,912	340	489	380	-	3,505

NOTES TO THE FINANCIAL STATEMENTS

2. Property, plant and equipment (continued)

Company	Office equipment RM'000
Cost	
At 1 January 2005/31 December 2005	9
Accumulated depreciation	
At 1 January 2005	3
Depreciation charge for the year	1
At 31 December 2005	4
Net book value	
At 31 December 2005	5
At 31 December 2004	6
Depreciation charge for the year ended 31 December 2004	1

2.1 The title to the freehold land of a subsidiary costing RM1,555,000 (2004 - RM1,555,000) is pending registration to the name of the subsidiary.

2.2 Certain long term leasehold and freehold land and buildings of the Group costing RM16,832,000 (2004 - RM16,832,000) have been assigned/pledged to financial institutions as security for borrowings/banking facilities granted to the subsidiaries (Note 9).

2.3 The net book value of plant and equipment acquired under hire purchase arrangement included in the Group's property, plant and equipment is as follows:

	2005 RM'000	2004 RM'000
Motor vehicles	243	-

NOTES TO THE FINANCIAL STATEMENTS

3. Goodwill on consolidation

Cost	Group RM'000
At 1 January 2005/31 December 2005	3,323
Accumulated amortisation	
At 1 January 2005	1,958
Amortisation charge for the year	655
At 31 December 2005	2,613
Net book value	
At 31 December 2005	710
At 31 December 2004	1,365
Amortisation charge for the year ended 31 December 2004	656

4. Investment in subsidiaries

	Company	
	2005 RM'000	2004 RM'000
Unquoted shares, at cost	57,942	57,732

Details of the subsidiaries are as follows:

Name of company	Principal activities	Country of incorporation	Effective ownership interest	
			2005	2004
Grand Carpet Industries Sdn. Bhd.	Trading of carpet of all description	Malaysia	100%	100%
Sanyco Grand Industries Sdn. Bhd.	Manufacturing of automotive braking components and motorcycle components	Malaysia	100%	100%
Machinery & Industrial Supplies Sdn. Bhd.	Trading of machinery and industrial parts supplies	Malaysia	100%	100%
Sugihara Grand Industries Sdn. Bhd.	Manufacturing and trading of carpet of all description	Malaysia	60%	60%
Cleon Technology Sdn. Bhd.	Dormant	Malaysia	55%	55%

NOTES TO THE FINANCIAL STATEMENTS

5. Inventories

	Group	
	2005 RM'000	2004 RM'000
Raw materials	3,200	2,830
Work-in-progress	606	829
Manufactured goods	403	1,306
Trading goods	6,476	6,394
Goods in transit	-	1
	10,685	11,360

Trading goods of RM176,000 (2004 - RM30,000) are carried at net realisable value.

6. Trade and other receivables

	Group	
	2005 RM'000	2004 RM'000
Trade receivables	18,939	16,846
Less: Allowance for doubtful debts	(100)	(100)
	18,839	16,746
Other receivables, deposits and prepayments	902	1,927
	19,741	18,673

6.1 Credit terms of trade receivables ranges from 60 - 180 days (2004 - 60 - 180 days).

6.2 Included in other receivables, deposits and prepayments of the Group is an amount of RM72,000 (2004 - RM115,000) being deposits paid by a subsidiary for the acquisition of plant and machineries.

6.3 Included in other receivables, deposits and prepayments of the Group are deposits for the purchases of inventories amounting to RM341,000 (2004 - RM389,000).

NOTES TO THE FINANCIAL STATEMENTS

7. Cash and cash equivalents

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Money market placements with licensed banks	11,100	7,400	5,500	3,200
Cash and bank balances	3,613	5,879	84	89
	14,713	13,279	5,584	3,289

The weighted average effective interest rate of money market placements with licensed banks is as follows:

	Group		Company	
	2005	2004	2005	2004
Money market placements with licensed banks	2.86%	2.28%	2.37%	2.28%

During the year, the average tenor of the money market placements with licensed banks of the Group and Company was 30 days (2004 - 31 days).

8. Trade and other payables

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Trade payables	7,708	8,071	-	-
Other payables and accruals	5,905	4,309	158	159
Amount due to a subsidiary	-	-	5,120	5,120
	13,613	12,380	5,278	5,279

8.1 Included in trade payables of the Group is an amount of RM16,000 (2004 – RM60,000) due to San Yes Automotive Technology Co. Ltd., a deemed substantial shareholder of the Company.

8.2 Credit terms of trade payables ranges from 30 - 120 days (2004 - 30 - 120 days).

8.3 Included in other payables and accruals of the Group is an amount of RM465,000 (2004 - RM794,000) accrued for the acquisition of plant and machineries of which RM125,000 (2004 - RM720,000) is due to substantial shareholders of subsidiaries.

8.4 In 2005, included in other payables and accruals of the Group is an amount of RM36,000 of deposits received from a customer of a subsidiary.

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

NOTES TO THE FINANCIAL STATEMENTS

9. Borrowings

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Bank overdrafts - secured	1,637	-	-	-

In 2005, the secured bank overdrafts were 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 long term leasehold and freehold land and buildings of certain subsidiaries (Note 2); and
- (ii) Corporate guarantee given by the Company.

10. Hire purchase liabilities

Hire purchase liabilities are payable as follows:

Group	← 2005 →			← 2004 →		
	Payments RM'000	Interest RM'000	Principal RM'000	Payments RM'000	Interest RM'000	Principal RM'000
Less than one year	73	(4)	69	-	-	-
Between one and five years	49	(1)	48	-	-	-
	122	(5)	117	-	-	-

10.1 Hire purchase liabilities are subject to fixed rates of 2.25% (2004 - 3.30%) per annum.

10.2 Hire purchase liabilities were fully repaid in 2004.

NOTES TO THE FINANCIAL STATEMENTS

11. Share capital

	Group and Company	
	2005 RM'000	2004 RM'000
Ordinary shares of RM1.00 each:		
Authorised	60,000	60,000
Issued and fully paid	44,800	44,800

12. Negative goodwill

Cost	Group RM'000
At 1 January 2005/31 December 2005	13,700
<i>Accumulated amortisation</i>	
At 1 January 2005	7,992
Amortisation charge for the year	2,740
At 31 December 2005	10,732
<i>Net book value</i>	
At 31 December 2005	2,968
At 31 December 2004	5,708
Amortisation charge for the year ended 31 December 2004	2,740

13. Minority shareholders' interests

This consists of the minority shareholders' proportion of share capital and reserves of two subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

14. Deferred taxation

The recognised deferred tax assets and liabilities are as follows:

	Group	
	2005 RM'000	2004 RM'000
Deferred tax assets		
Property, plant and equipment		
- capital allowances	91	61
Provisions	(846)	(846)
	(755)	(785)
Deferred tax liabilities		
Property, plant and equipment		
- capital allowances	536	353
Provisions	(90)	(18)
	446	335

Deferred tax assets and liabilities are offset above where there is a legally enforceable right to set off current tax assets against current tax liabilities and where the deferred taxes relate to the same tax authority.

No deferred tax has been recognised for the following items:

	Group	
	2005 RM'000	2004 RM'000
Taxable temporary differences	4,198	3,857
Unabsorbed capital allowances	(6,167)	(5,003)
Unutilised tax losses	(2,855)	(2,329)
	(4,824)	(3,475)

The unabsorbed capital allowances, unutilised tax losses and taxable temporary differences do not expire under current tax legislation except in the event of a change in substantial shareholders. Deferred tax assets of the Group have been recognised in respect of these items to the extent that future taxable profits will be available against which the Group can utilise the benefits.

The Group has tax losses carried forward of RM2,855,000 (2004 - RM2,329,000) which give rise to the unrecognised deferred tax assets in respect of the unutilised tax losses above.

NOTES TO THE FINANCIAL STATEMENTS

15. Operating profit

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Revenue – manufacturing	55,608	47,040	-	-
– trading	17,390	16,571	-	-
– dividends	-	-	3,308	1,500
	72,998	63,611	3,308	1,500
Cost of manufactured goods	(51,342)	(44,654)	-	-
Cost of goods sold	(12,725)	(11,963)	-	-
Gross profit	8,931	6,994	3,308	1,500
Operating profit is arrived at after crediting:				
Amortisation of negative goodwill	2,740	2,740	-	-
Gain on disposal of property, plant and equipment	787	81	-	-
Gross dividend income from unquoted shares of subsidiaries				
- tax exempt	-	-	1,225	1,500
- 28% tax	-	-	2,083	-
Rental income from properties	266	244	-	-
and after charging:				
Amortisation of goodwill	655	656	-	-
Auditors' remuneration	87	87	19	19
Bad debts written off	47	-	-	-
Company's Directors				
- Remuneration	916	923	18	15
- Fees	126	126	126	126
Other Directors' remuneration	401	397	-	-
Depreciation	4,346	3,505	1	1
Inventories written off	-	493	-	-
Impairment losses on property	379	-	-	-
Realised foreign exchange loss	4	7	-	-
Rental expenses for warehouse and staff housing facilities	179	186	-	-

The estimated monetary value of Directors' benefits-in-kind of the Group is RM94,000 (2004 - RM86,000).

Included in other operating expenses of the Group is an amount of RM1,297,000 (2004 - RM362,000) relating to pre-operating expenses of a subsidiary which had yet to commence operations as at 31 December 2005.

NOTES TO THE FINANCIAL STATEMENTS

16. Employee information

	Group	
	2005 RM'000	2004 RM'000
Staff costs	11,186	9,659

The number of employees of the Group (including Executive Directors) at the end of the year was 311 (2004 - 283).

Included in staff costs of the Group are contributions to the Employees' Provident Fund of RM765,000 (2004 - RM734,000).

17. Financing lost

	Group	
	2005 RM'000	2004 RM'000
Interest expense on:		
Bank overdrafts	57	9
Hire purchase liabilities	2	1
Others	97	84
	156	94

18. Tax expense

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Income tax expense				
Current year provision	568	1,199	588	24
(Over)/Under provision in prior year	(114)	40	-	-
	454	1,239	588	24
Deferred tax expense				
Origination and reversal of temporary differences	141	(152)	-	-
Real property gain tax	32	-	-	-
	627	1,087	588	24

NOTES TO THE FINANCIAL STATEMENTS

18. Tax expense (continued)

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Reconciliation of effective tax expense				
Profit before taxation	687	393	3,110	1,297
Income tax using Malaysian tax rate	192	110	871	363
Non-deductible expenses	567	1,046	-	-
Non-taxable income	(767)	(767)	-	-
Tax exempt income	-	-	(343)	(420)
Tax incentives	(74)	(125)	-	-
Effects of deferred tax not recognised	377	783	-	-
Other items	(62)	-	-	-
	709	1,047	588	24
(Over)/Under provision in prior year	(114)	40	-	-
Real property gain tax	32	-	-	-
Tax expense	627	1,087	588	24

19. Earnings per ordinary share - Group

The basic earnings per ordinary share is calculated by dividing the Group's net profit attributable to ordinary shareholders of RM1,398,000 (2004 - RM488,000) by the weighted average number of ordinary shares outstanding during the financial year of 44,800,000 (2004 - 44,800,000).

20. Retained profits (Distributable)

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income under the Income Tax Act, 1967 to frank all of its retained profits at 31 December 2005 if paid out as dividends.

NOTES TO THE FINANCIAL STATEMENTS

21. Related parties

21.1 Controlling related party relationships are subsidiaries of the Company as disclosed in Note 4.

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

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

	Group	
	2005 RM'000	2004 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	96	61
Purchase of raw materials	519	552
Purchase of plant and machinery	414	-
<i>Shinsho Corporation, a shareholder of Sugihara Grand Industries Sdn. Bhd.</i>		
Purchase of plant and machinery	-	1,369
<i>Sugihara Hosei Kogyo Co. Ltd., a shareholder of Sugihara Grand Industries Sdn. Bhd.</i>		
Technical assistance fees payable	60	80
Royalties payable	694	347
Purchase of plant and equipment	125	147
Other expenses	150	-
<i>Empower Microsystems Pte. Ltd., a substantial shareholder of Cleon Technology Sdn. Bhd.</i>		
Acquisition of plant and equipment in exchange for the issuance of 2,025,000 ordinary shares of Cleon Technology Sdn. Bhd. and the balance to be satisfied in cash	-	2,280

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.

NOTES TO THE FINANCIAL STATEMENTS

22. Capital commitment

	Group	
	2005 RM'000	2004 RM'000
Property, plant and equipment Contracted but not provided for in the financial statements	474	1,771

23. Segmental information

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 segment assets that are expected to be used for more than one period.

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.

NOTES TO THE FINANCIAL STATEMENTS

23. Segmental information (continued)

	Automotive parts		Machinery parts		Eliminations		Consolidated	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Business Segments								
Revenue from external customers	55,608	47,040	17,390	16,571	-	-	72,998	63,611
Inter-segment revenue	-	-	21	39	(21)	(39)	-	-
Total revenue	55,608	47,040	17,411	16,610	(21)	(39)	72,998	63,611
Segment results	1,928	280	376*	673	-	-	2,304	953
Unallocated expenses							(1,658)	(702)
Financing costs							646	251
Interest income							(156)	(94)
							197	236
Profit before taxation							687	393
Tax expense							(627)	(1,087)
Profit/(Loss) after taxation							60	(694)
Minority interests							1,338	1,182
Net profit for the year							1,398	488

* Included in the segment results of the machinery parts segment are impairment losses on property amounting to RM379,000 (2004 - Nil).

NOTES TO THE FINANCIAL STATEMENTS

23. Segmental information (continued)

	Automotive parts		Machinery parts		Eliminations		Consolidated	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Segment assets	47,279	45,928	23,826	25,804	-	-	71,105	71,732
Unallocated assets							10,544	9,365
Total assets							81,649	81,097
Segment liabilities	12,870	8,976	2,218	2,896	-	-	15,088	11,872
Unallocated liabilities							1,137	1,261
Total liabilities							16,225	13,133
Capital expenditure	3,573	4,537	357	563	-	-	3,930*	5,100*
Depreciation	3,176	2,985	489	427	-	-	3,665*	3,412*
Amortisation of goodwill	-	-	655	656	-	-	655	656
Amortisation of negative goodwill	(2,740)	(2,740)	-	-	-	-	(2,740)	(2,740)
Gain on disposal of property, plant and equipment	(57)	(16)	(730)	(65)	-	-	(787)	(81)
Impairment losses on property	-	-	379	-	-	-	379	-

* Capital expenditure of RM329,000 (2004 - RM3,079,000) and depreciation charge of RM681,000 (2004 - RM92,000) incurred by a newly incorporated subsidiary which had not commenced operations as of 31 December 2005, are included in unallocated assets.

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NOTES TO THE FINANCIAL STATEMENTS

24. 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 2005, approximately 66% (2004 - 66%) of the Group's trade receivables were due from 11 (2004 - 12) major customers. Trade receivables balances from these 11 (2004 - 12) major customers amounted to RM12,347,000 (2004 - RM11,071,000). 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 and Japanese Yen.

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.

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

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.

Effective interest rates and repricing analysis

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

	2005			2004		
	Within 1 year RM'000	Total RM'000	Effective interest rate per annum %	Within 1 year RM'000	Total RM'000	Effective interest rate per annum %
Group						
Financial asset						
Money market placements with licensed banks	11,100	11,100	2.86	7,400	7,400	2.28
Financial liability						
Bank overdrafts - secured	1,637	1,637	7.26	-	-	-
Company						
Financial asset						
Money market placement with a licensed bank	5,500	5,500	2.37	3,200	3,200	2.28

Fair values

In the opinion of the Directors, there are no significant differences between the fair values and the carrying amounts of financial assets and liabilities of the Group and Company due to the relatively short term nature of these financial instruments.

A decorative header featuring a light orange background. On the left, there is a faint world map. To the right of the map, several red diamonds of varying sizes are scattered across the space. The text 'NOTES TO THE FINANCIAL STATEMENTS' is centered in a bold, dark blue font.

NOTES TO THE FINANCIAL STATEMENTS

25. Significant event during the year

On 1 July 2005, the Company subscribed for an additional 210,000 new ordinary shares of RM1.00 each, representing 60% of the enlarged issued and paid-up share capital of Sugihara Grand Industries Sdn. Bhd. ("Sugihara"), for a total cash consideration of RM210,000.

The issued and paid-up share capital of Sugihara after the subscription is RM3,942,557 divided into 3,942,557 ordinary shares of RM1.00 each.

SHAREHOLDING STATISTICS

as at 28 April 2006

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

Category	No Of Shares	% Over Total Shares	No Of Holders	% Over Total Shareholders
1 - 99	175	0.00	5	0.27
100 - 1,000	450,377	1.01	468	25.62
1,001 - 10,000	4,809,000	10.73	1,023	55.99
10,001 - 100,000	9,091,822	20.29	300	16.42
100,001 - 2,239,999	14,768,626	32.97	30	1.64
2,240,000 and above	15,680,000	35.00	1	0.06
Total	44,800,000	100.00	1,827	100.00
Company Total	44,800,000		1,827	

THIRTY LARGEST SHAREHOLDERS/DEPOSITORS

Name of Shareholders/Depositors	No. of Shares	% of Issued Capital
1. MIYES Holdings Sdn Bhd	15,680,000	35.00
2. Mohd Riani Bin Osman	2,139,336	4.78
3. Chang Kun-Sheng	1,940,700	4.33
4. Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Lim Chai Beng (222AB0320)	1,516,900	3.39
5. Yap Siew Foong	1,263,730	2.82
6. Ng Eng Bee	1,185,010	2.65
7. Gwee Ooi Teng	1,000,000	2.23
8. Ng Wai Kee	640,900	1.43
9. Yap Ah Seng	627,800	1.40
10. Ng Eng Bee	560,000	1.25

SHAREHOLDING STATISTICS

as at 28 April 2006

THIRTY LARGEST SHAREHOLDERS/DEPOSITORS

Name of Shareholders/Depositors	No. of Shares	% of Issued Capital
11. Yeoh Kean Hua	430,000	0.96
12. Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Yap Meow Lim (100463)	400,000	0.89
13. Eng Kim Lian	380,964	0.85
14. Ambank (M) Berhad Pledged Securities Account For Mohd Riani Bin Osman (Smart)	250,000	0.56
15. Tan Lay Choo	200,000	0.45
16. Citigroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Lim Chai Guan (474333)	170,000	0.38
17. Mercsec Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Lim Mui Heng	166,000	0.37
18. Wong Lee Peng	151,800	0.34
19. Wong Chee Mun	150,000	0.33
20. Cham Bee Sim	149,572	0.33
21. Hlg Nominee (Tempatan) Sdn Bhd Pledged Securities Account For Kow Meng Soon	146,000	0.33
22. Ng Beng Tee	142,300	0.32
23. Ng Kwee Eng	142,018	0.32
24. Loh Chai Hun	140,000	0.31
25. Chan Seng Cheong	139,400	0.31
26. Tan Teck @ Chin Sien Chin	138,912	0.31
27. Lee Ang Ee	129,000	0.29
28. Ujana Makmur Sdn Bhd	122,984	0.27
29. Hlb Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Ang Huat Keat	121,700	0.27
30. Tan Yu Wei	119,400	0.27
Total	30,344,426	67.73

SHAREHOLDINGS STATISTICS

as at 28 April 2006

SUBSTANTIAL SHAREHOLDERS AS AT 28 APRIL 2006

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	35.00	-	-
Umberston Holdings Sdn Bhd ("Umberston")	-	-	15,680,000 ⁽¹⁾	35.00
San Yes Automotive Technology Co., Ltd	-	-	15,680,000 ⁽¹⁾	35.00
Ng Kwee Eng	142,018	0.32	15,680,000 ⁽²⁾	35.00
Yap Siew Foong	1,263,730	2.82	15,680,000 ⁽²⁾	35.00
Mohd Riani bin Osman	2,389,336	5.33	-	-

(1) deemed interested through MIYES

(2) deemed interested through Umberston and MIYES

DIRECTORS' INTERESTS AS AT 28 APRIL 2006

Name of Director	Direct Interest		Indirect Interest	
	No. of Shares	% of Issued Capital	No. of Shares	% of Issued Capital
Tan Sri Abdul Rashid bin Abdul Manaf	-	-	122,984 ⁽¹⁾	0.27
Mohd Riani bin Osman	2,389,336	5.33	-	-
Yap Siew Foong	1,263,730	2.82	15,680,000 ⁽²⁾	35.00
Ng Wai Kee	700,900	1.56	15,680,000 ⁽²⁾	35.00
Cham Bee Sim	149,572	0.33	15,680,000 ⁽²⁾	35.00
Danny Ng Siew L'Leong	-	-	-	-
Pauline Teh @ Pauline Teh Abdullah	-	-	-	-
Mohamed Ghazali bin Kamal Baharein	-	-	-	-

(1) deemed interested through Ujana Makmur Sdn Bhd

(2) deemed interested through Umberston and MIYES

LIST OF PROPERTIES

as at 31 December 2005

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 2005 (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.	41 years (30.01.2046)	9	3,866.5	3,031,999
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.	81 years (9.6.2086)	14	10,310.26	7,216,993
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.	-	7	140.37	3,822,165
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	-	26	1,197.1	371,869
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	-	9	586.60	499,800
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	-	5	429.21	360,000
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	-	3	53.70	282,863
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	-	3	53.70	272,523



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Seventh 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 Tuesday, 27 June 2006 at 10.30 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 2005 together with the Directors' and Auditors' Reports thereon.

Resolution 1

2. To approve the payment of Directors' Fees in respect of the financial year ended 31 December 2005.

Resolution 2

3. To re-elect the following Directors retiring under Article 103 of the Company's Articles of Association:-

- i) Tan Sri Abdul Rashid bin Abdul Manaf
- ii) Mohd Riani bin Osman
- iii) Ng Wai Kee

Resolution 3

Resolution 4

Resolution 5

4. To re-appoint Messrs KPMG as Auditors of the Company and to authorise the Directors to fix their remuneration.

Resolution 6

As Special Business

To consider and, if thought fit, to pass the following Ordinary 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."

Resolution 7



NOTICE OF ANNUAL GENERAL MEETING

6. Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature and New Mandate for Additional 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 5 June 2006 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
- (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."

Resolution 8



NOTICE OF ANNUAL GENERAL MEETING

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 2005 of RM12 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 Eighth (“8th”) 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;
- (ii) the expiration of the period within which the 8th 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);



NOTICE OF ANNUAL GENERAL MEETING

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.”

Resolution 9

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

Kuala Lumpur
Date: 5 June 2006

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) Resolution No. 7 - Authority under Section 132D of the Companies Act, 1965 for the Directors to allot and issue shares

Ordinary Resolution No. 7, 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) Resolution No. 8 - Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature and New Mandate for Additional Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposed Shareholders' Mandate")

Please refer to the Circular to Shareholders dated 5 June 2006 for further information.

(iii) Resolution No. 9 - Proposed Renewal of Authority for the Company to Purchase its own Ordinary Shares

Please refer to the Share Buy-Back Statement dated 5 June 2006 for further information.

STATEMENT ACCOMPANYING NOTICE

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

- (1) The following are the Directors standing for re-election at the Seventh Annual General Meeting:-

Pursuant to Article 103 of the Articles of Association of the Company

- i) Tan Sri Abdul Rashid bin Abdul Manaf
- ii) Mohd Riani bin Osman
- iii) Ng Wai Kee

- (2) Number of Board Meetings held for the financial year ended 31 December 2005 : Five

- (3) Attendance of Directors at Board Meetings

Directors	Number of Meetings Attended
Tan Sri Abdul Rashid bin Abdul Manaf	3/5
Encik Mohd Riani bin Osman	5/5
Mr Ng Wai Kee	5/5
Madam Yap Siew Foong	3/5
Mr Cham Bee Sim	5/5
Mr Danny Ng Siew L'Leong	4/5
Ms Pauline Teh @ Pauline Teh Abdullah	4/5
Encik Mohamed Ghazali bin Kamal Baharein	5/5

- (4) The Seventh 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 Tuesday, 27 June 2006 at 10.30 a.m..

- (5) For further details on the Directors standing for re-election at the Seventh Annual General Meeting, please refer to pages 6 to 7 of the Annual Report

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 Seventh 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 Tuesday, 27 June 2006 at 10.30 a.m. and at any adjournment thereof in respect of my/our shareholding in the manner indicated below:

No.	Resolution	For	Against
Resolution 1	Adoption of the Audited Financial Statements for the financial year ended 31 December 2005 and Directors' and Auditors' Reports		
Resolution 2	Approval of Directors' Fees		
Resolution 3	Re-election of Tan Sri Abdul Rashid bin Abdul Manaf as Director		
Resolution 4	Re-election of Encik Mohd Riani bin Osman as Director		
Resolution 5	Re-election of Mr Ng Wai Kee as Director		
Resolution 6	Re-appointment of Auditors		
Resolution 7	Authority under Section 132D of the Companies Act, 1965 for the Directors to issue shares		
Resolution 8	Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature and New Mandate for Additional Recurrent Related Party Transactions of a Revenue or Trading Nature		
Resolution 9	Proposed Renewal of Authority for the Company to Purchase its own Ordinary Shares		

(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 thisday of 2006

.....
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.

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**THE SECRETARY
SMIS CORPORATION BERHAD**

LEVEL 7, SETIA 1, 15 LORONG DUNGUN
DAMANSARA HEIGHTS
50490 KUALA LUMPUR
MALAYSIA

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



SMIS Corporation Berhad

[491857-V]

(Incorporated in Malaysia under the Companies Act, 1965)