

SOUTH MALAYSIA INDUSTRIES BERHAD (8482 - D)

(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER AND FINANCIAL PERIOD ENDED 30 JUNE 2016**Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income**

	3 Months Ended		6 Months Ended	
	30.6.2016 RM'000	30.6.2015 RM'000	30.6.2016 RM'000	30.6.2015 RM'000
Revenue	19,128	18,198	39,123	41,099
Operating Expenses	(17,131)	(19,589)	(34,650)	(42,591)
Other Expenses	(459)	(673)	(1,372)	(1,152)
Interest Income	172	285	435	494
Other Operating Income	1,160	3,540	1,292	4,595
Profit/(loss) from Operations	2,870	1,761	4,828	2,445
Finance costs	(394)	(451)	(808)	(909)
Investing Results	-	-	-	-
Profit/(loss) before tax	2,476	1,310	4,020	1,536
Tax	(189)	(307)	(539)	(479)
Net Profit/(loss) for the period	2,287	1,003	3,481	1,057
Other comprehensive income, net of tax				
Items that may be reclassified subsequently to profit or loss				
- Exchange differences on translating foreign operations	582	(1,011)	(655)	(803)
- Fair value of available-for-sale financial assets	(725)	726	(1,209)	1,211
Other comprehensive income for the period, net of tax	(143)	(285)	(1,864)	408
Total comprehensive income for the period	2,144	718	1,617	1,465
Profit/(loss) attributable to:				
Owners of the parent	1,881	230	3,342	239
Minority Interests	406	773	139	818
	2,287	1,003	3,481	1,057
Total comprehensive income attributable to:				
Owners of the parent	2,157	96	1,223	1,083
Minority Interests	(13)	622	394	382
	2,144	718	1,617	1,465
Earnings/(loss) per share attributable to equity holders of the parent:				
Basic/Diluted (sen)	0.90	0.11	1.59	0.11

(The Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Annual Financial Report for the year ended 31 December 2015)

SOUTH MALAYSIA INDUSTRIES BERHAD (8482 - D)

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INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER AND FINANCIAL PERIOD ENDED 30 JUNE 2016**Condensed Consolidated Statements of Financial Position**

	As at 30.6.2016 RM'000	As at 31.12.2015 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	38,352	39,138
Prepaid lease payments	563	699
Investment properties	35,308	36,455
Land held for property development	6,032	6,068
Available-for-sale financial assets	23,843	25,468
Trade and other receivables	5,906	5,906
	110,004	113,734
Current assets		
Inventories	20,978	21,469
Trade and other receivables	27,790	21,301
Derivative financial assets	40	-
Cash and cash equivalents	43,808	45,751
	92,616	88,521
TOTAL ASSETS	202,620	202,255
EQUITY		
Capital and reserves attributable to the		
Company's equity holders		
Share capital	209,940	209,940
Reserves	(64,452)	(65,675)
Shareholders' equity	145,488	144,265
Minority Interest	(6,533)	(6,927)
TOTAL EQUITY	138,955	137,338
LIABILITIES		
Non-current liabilities		
Borrowings	12,248	13,432
Deferred liabilities	291	323
	12,539	13,755
Current liabilities		
Trade and other payables	40,852	39,962
Borrowings	10,250	10,816
Derivative financial liabilities	-	10
Taxation	24	374
	51,126	51,162
TOTAL LIABILITIES	63,665	64,917
TOTAL EQUITY AND LIABILITIES	202,620	202,255
Net assets per share (RM) attributable to ordinary equity holders of the parent	0.69	0.69

(The Condensed Consolidated Statements of Financial Position should be read in conjunction with the Annual Financial Report for the year ended 31 December 2015)

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INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER AND FINANCIAL PERIOD ENDED 30 JUNE 2016

Condensed Consolidated Statement of Changes in Equity

	Attributable to Owners of the Parent						Non-Controlling Interest	Total Equity	
	Share Capital	Share Premium	Foreign Exchange Reserve	Revaluation Reserve	Fair Value Reserve	Accumulated Losses			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
6 months ended 30.6.2016									
At 1.1.2016	209,940	34,299	20,218	1,168	5,076	(126,436)	144,265	(6,927)	137,338
Profit/(loss) for the period	-	-	-	-	-	3,342	3,342	139	3,481
Other comprehensive income	-	-	(910)	-	(1,209)	-	(2,119)	255	(1,864)
Total comprehensive income for the period	-	-	(910)	-	(1,209)	3,342	1,223	394	1,617
At 30.6.2016	209,940	34,299	19,308	1,168	3,867	(123,094)	145,488	(6,533)	138,955
6 months ended 30.6.2015									
At 1.1.2015	209,940	34,299	18,003	1,168	6,044	(122,493)	146,961	(5,564)	141,397
Profit/(loss) for the period	-	-	-	-	-	239	239	818	1,057
Other comprehensive income	-	-	(367)	-	1,211	-	844	(436)	408
Total comprehensive income for the period	-	-	(367)	-	1,211	239	1,083	382	1,465
At 30.6.2015	209,940	34,299	17,636	1,168	7,255	(122,254)	148,044	(5,182)	142,862

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Annual Financial Report for the year ended 31 December 2015)

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INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER AND FINANCIAL PERIOD ENDED 30 JUNE 2016**Consolidated Statements of Cash Flow**

	6 Months Ended 30.6.2016 RM'000	6 Months Ended 30.6.2015 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	4,020	1,536
Adjustments for:		
Depreciation & amortisation	1,209	1,925
Other non-cash items	(320)	(2,287)
Dividend Income	(1)	(16)
Finance costs	808	909
Finance income	(435)	(494)
Operating profit/(loss) before working capital changes	<u>5,281</u>	<u>1,573</u>
Decrease/(increase) in property development cost	1,992	2,658
Decrease/(increase) in inventories	(1,397)	2,255
Decrease/(increase) in trade and other receivables	(6,476)	(182)
Increase/(decrease) in trade and other payables	2,123	(716)
Cash generated from/(used in) operations	<u>1,523</u>	<u>5,588</u>
Interest paid	(1,126)	(874)
Tax paid	(930)	8
Net cash from/(used in) operating activities	<u>(533)</u>	<u>4,722</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	435	495
Expenditure on land held for property development	(68)	(164)
Proceeds from disposal of available-for-sale financial assets	503	-
Purchase of available-for-sale financial assets	(501)	(16)
Purchase of property, plant and equipment	(369)	(293)
Proceeds from disposal of property, plant and equipment	942	101
Net dividend received	1	16
Net cash from/(used in) investing activities	<u>943</u>	<u>139</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and borrowings, net drawdown/(repayment)	(1,507)	(2,026)
Repayments of hire purchase payables	(242)	(228)
Net cash from/(used in) financing activities	<u>(1,749)</u>	<u>(2,254)</u>
Effects of exchange rate changes on cash and cash equivalents	(604)	863
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL PERIOD	<u>(1,943)</u>	<u>3,470</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL PERIOD	<u>45,751</u>	<u>37,922</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD	<u>43,808</u>	<u>41,392</u>

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INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER AND FINANCIAL PERIOD ENDED 30 JUNE 2016

NOTES TO THE INTERIM FINANCIAL REPORT

A1 Accounting Policies

The interim financial report is prepared in accordance with Financial Reporting Standards 134 - Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. The figures have not been audited.

The interim financial report should be read in conjunction with the Group's audited financial statements for the financial year ended 31 December 2015. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2015.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those of the audited financial statements for the financial year ended 31 December 2015, except for the adoption of the following Financial Reporting Standards ("FRS"), amendments to FRSs and IC Interpretations which are effective for the financial period beginning on or after 1 January 2016:

FRS 14	Regulatory Deferral Accounts
Amendments to FRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to FRS 101	Disclosure Initiative
Amendments to FRS 116 and 138	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to FRS 127	Equity Method in Separate Financial Statements
Amendments to FRS 10, 12 and 128	Investment Entities: Applying the Consolidated Exception
Annual Improvements to FRSs 2012 - 2014 Cycle	

The adoption of the above FRSs, Amendments and IC Interpretation did not result in any significant changes in the accounting policies and presentations of the financial statement of the Group.

The Group has not early adopted the following FRSs and amendments to FRSs that have been issued but not yet effective:

		Effective for financial periods beginning on or after
Amendments to FRS 107	Disclosure Initiative	1 Jan 2017
Amendments to FRS 112	Recognition of Deferred Tax Assets for Unrealised Losses	1 Jan 2017
FRS 9	Financial Instruments (IFRS 9 issued by IASB in July 2014)	1 Jan 2018
Amendments to FRS 10 & 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be announced

These new and amended standards will have no significant changes on the financial statements of the Group upon their initial application except for FRS 9 which will result in a change in accounting policy. The Group is currently examining the financial impact of adopting FRS 9.

NOTES TO THE INTERIM FINANCIAL REPORT

A2 Malaysian Financial Reporting Standards (MFRS)

On 19 November 2011, the Malaysian Accounting Standards Board ("MASB") issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards ("MFRS Framework"). The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 agriculture ("MFRS 141") and IC Interpretation 15 Agreements for Construction of Real Estate ("IC 15"), including its parent, significant investor and venture (herein called "Transitioning Entities").

Transitioning Entities will be allowed to defer adoption of the new MFRS Framework and continue to use the existing FRS Framework. The adoption of the MFRS Framework by Transitioning Entities will be mandatory for annual periods beginning on or after 1 January 2018.

The Group falls within the scope of Transitioning Entities and has opted to defer adoption of the new MFRS Framework. Accordingly, the Group will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the financial year ending 31 December 2018. In presenting the Group's first MFRS financial statements, the Group will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening retained profits.

A3 Audit Report of the Previous Annual Financial Report

The audit report of the previous annual financial report was not qualified.

A4 Seasonality or Cyclicity of Interim Operations

The Group's operations were not significantly affected by any seasonal or cyclical factors.

A5 Unusual Items Affecting the Financial Statements

There were no items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their material effect in the current quarter under review.

A6 Changes in Accounting Estimates

There were no changes in estimates of amount reported in prior interim periods or prior financial years that have a material effect in the current quarter under review.

A7 Debt and Equity Securities

There were no issuance of debt and equity securities, share buy back, share cancellation, share held as treasury and resale of treasury share during the financial period ended 30 June 2016.

A8 Dividends Paid

No dividend has been paid during the financial period ended 30 June 2016.

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INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER AND FINANCIAL PERIOD ENDED 30 JUNE 2016**NOTES TO THE INTERIM FINANCIAL REPORT****A9 Segment Reporting**

The Group is organised on a worldwide basis into four main business segments:

- (a) Property development - develop and sale of residential and commercial properties & car park operation
- (b) Investment Holding - investment in properties and holding company
- (c) Manufacturing & trading - manufacture of assorted wires and trading
- (d) Leisure and entertainment - cinema business

Other operations of the Group mainly comprise of dormant companies which are not of sufficient size to be reported separately.

6 months ended	Property	Investment	Manufacturing	Leisure &	Others	Elimination	Total
30.6.2016	Development	Holding	& Trading	Entertainment	RM'000	RM'000	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Segment Revenue							
External revenue	14,950	1,596	22,577	-	-	-	39,123
Intersegment revenue	-	617	-	-	-	(617)	-
	14,950	2,213	22,577	-	-	(617)	39,123
Segment Results							
Profit/(loss) from operations	4,991	(1,975)	3,024	-	(3)	-	6,037
Finance costs	(8)	(513)	(287)	-	-	-	(808)
Depreciation & amortisation	(336)	(193)	(680)	-	-	-	(1,209)
Profit/(loss) before tax	4,647	(2,681)	2,057	-	(3)	-	4,020
Tax	(531)	(15)	7	-	-	-	(539)
Profit/(loss) from ordinary activities after tax	4,116	(2,696)	2,064	-	(3)	-	3,481
Minority interests	-	(139)	-	-	-	-	(139)
Net profit/(loss) attributable to shareholders	4,116	(2,835)	2,064	-	(3)	-	3,342
Assets and Liabilities							
Segment assets	81,849	80,660	39,375	-	736	-	202,620
Segment liabilities	20,100	30,427	13,134	-	4	-	63,665

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6 months ended	Property Development	Investment Holding	Manufacturing & Trading	Leisure & Entertainment	Others	Elimination	Total
30.6.2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Segment Revenue							
External revenue	13,687	933	26,479	-	-	-	41,099
Intersegment revenue	-	626	-	-	-	(626)	-
	<u>13,687</u>	<u>1,559</u>	<u>26,479</u>	<u>-</u>	<u>-</u>	<u>(626)</u>	<u>41,099</u>
Segment Results							
Profit/(loss) from operations	3,363	(1,914)	566	2,398	(1)	-	4,412
Finance costs	(52)	(617)	(282)	-	-	-	(951)
Depreciation & amortisation	(325)	(81)	(657)	(862)	-	-	(1,925)
Profit/(loss) before tax	<u>2,986</u>	<u>(2,612)</u>	<u>(373)</u>	<u>1,536</u>	<u>(1)</u>	<u>-</u>	<u>1,536</u>
Tax	(460)	-	7	(26)	-	-	(479)
Profit/(loss) from ordinary activities after tax	<u>2,526</u>	<u>(2,612)</u>	<u>(366)</u>	<u>1,510</u>	<u>(1)</u>	<u>-</u>	<u>1,057</u>
Minority interests	-	-	-	(818)	-	-	(818)
Net profit/(loss) attributable to shareholders	<u>2,526</u>	<u>(2,612)</u>	<u>(366)</u>	<u>692</u>	<u>(1)</u>	<u>-</u>	<u>239</u>
Assets and Liabilities							
Segment assets	84,005	69,560	40,090	15,567	735	-	209,957
Segment liabilities	<u>21,348</u>	<u>16,472</u>	<u>14,082</u>	<u>15,188</u>	<u>5</u>	<u>-</u>	<u>67,095</u>

A10 Valuation of Property, Plant & Equipment

The valuation of property, plant and equipment have been brought forward, without amendments from the previous annual financial report.

A11 Material Events Subsequent to the End of the Interim Period

There were no material events subsequent to the current financial period ended 30 June 2016 up to the date of this report.

A12 Changes in the Composition of the Group

There were no changes in the composition of the Group during the current financial period ended 30 June 2016.

A13 Changes in Contingent Liabilities and Contingent Assets

There were no contingent liabilities and contingent assets since 31 March 2016.

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INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER AND FINANCIAL PERIOD ENDED 30 JUNE 2016

NOTES TO THE INTERIM FINANCIAL REPORT

A14 Outstanding Commitments

There were no outstanding commitments for the financial period under review.

A15 Related Party Transactions

The following related party transactions were carried out in the ordinary course of business and were established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

	6 months ended 30.6.2016 RM'000
Rental income received / receivable from related party	<u>380</u>

ADDITIONAL INFORMATION REQUIRED PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1 Review of Performance of the Company and its Principal Subsidiaries

For the Quarter

The Group registered a revenue of RM19.13 million and a profit before tax of RM2.48 million in the second quarter ended 30 June 2016 as compared to a revenue of RM18.2 million and a profit before tax of RM1.31 million in the preceding year corresponding quarter. The manufacturing and trading division recorded a revenue of RM12.82 million, and increase of RM1.21 million due higher market demand offset by lower revenue recorded by property division. The property division recorded a revenue of RM5.51 million, a decrease of RM0.6 million due to the lower contribution from the Ipoh projects. As for the investment holding division, higher revenue of RM0.3 million was recorded as a result of the reclassification of rental income from the Group's leisure and entertainment division to revenue of the investment holding division in the fourth quarter 2015 due to the change in the principal activity of the subsidiary companies in China.

The Group's higher profit in the period under review was mainly attributed to the higher gross profit margin of manufacturing and trading division as a result of higher domestic demand and lower raw materials cost. The division recorded a profit before taxation of RM2.3 million, a significant increase of RM2.5 million as compared with a loss of RM0.2 million in the preceding year corresponding quarter. The Group's investment holding division in China has recorded a lower profit of RM0.2 million as compared with RM1.7 million in the second quarter ended 30 June 2015 due to the absence of certain write-back of expenses.

For the Six Months Period

The Group's revenue of RM39.12 million for the financial period ended 30 June 2016 represents a 5% or RM1.98 million decrease from RM41.1 million in the corresponding period ended 30 June 2015. The property division recorded an increase of RM1.26 million due to higher contribution from Pinnacle Kelana Jaya project offset by lower contribution from Taman Saikat and Bandar Meru Raya projects in Ipoh. The manufacturing and trading division recorded a decrease of 15% or RM3.9 million in revenue as compared to the corresponding period ended 30 June 2015 mainly due to the stocking up by customers prior to the implementation of GST on 1 April 2015. As for the investment holding division, higher revenue of RM0.6 million was recorded in the period under review as a result of the reclassification of rental income from the Group's leisure and entertainment division to revenue of the investment holding division in the fourth quarter 2015 due to the change in the principal activity of the subsidiary companies in China.

NOTES TO THE INTERIM FINANCIAL REPORT**B1 Review of Performance of the Company and its Principal Subsidiaries (Cont'd)**For the Six Months Period (cont'd)

Gross profit margin of the Group increased from 19.9% in the financial period ended 30 June 2015 to 32.3% in the financial period ended 30 June 2016 mainly due to higher margin from the manufacturing and trading division, higher recognition of Pinnacle Kelana Jaya project and reclassification of China operation to investment holding.

Operating profit before tax of the Group for the financial period ended 30 June 2016 was higher at RM4.02 million as compared to RM1.54 million in the corresponding period ended 30 June 2015. The manufacturing and trading division recorded a profit before tax of RM2.06 million as compared to a loss of RM0.37 million in the corresponding period ended 30 June 2015 due to higher gross profit margin as a result of higher selling prices and lower production costs. Higher profit was also recorded by the property division at RM4.65 million, a 56% increase from RM2.99 million for the period ended 30 June 2015. This was mainly due to higher profit recognition of the Pinnacle Kelana Jaya project. Meanwhile, the China operation recorded a loss before tax of RM0.46 million as compared to a profit of RM1.54 million due to the absence of the write-back of expenses of the China operation in the corresponding period ended 30 June 2015.

B2 Explanatory comments on Any Material Change in the Profit Before Taxation for the Quarter Reported on as Compared with the Immediate Preceding QuarterSecond Quarter 2016 vs First Quarter 2016

During the 3 months ended 30 June 2016, the Group's revenue of RM19.13 million represents a decrease of RM0.87 million from the RM20.0 million revenue recorded in the preceding 3 months ended 31 March 2016. The decrease in revenue was mainly due to lower contribution from the property division of RM5.51 million in the second quarter 2016 as compared with RM9.45 million in the first quarter 2016 as a result of slower revenue recognition of the on-going projects in Ipoh and the Pinnacle project. This was offset by the higher revenue recorded by the manufacturing and trading division. Higher sales of RM12.8 million was recorded by the manufacturing division in the second quarter 2016 as compared with RM9.75 million in the first quarter 2016 mainly due to the reduction in production capacity as a result of major plant and machinery maintenance work carried out in the first quarter 2016.

Profit before tax was higher at RM2.48 million in the second quarter 2016 as compared to RM1.54 million in the first quarter 2016 mainly due to the higher contribution from the manufacturing and trading division as a result of higher gross profit margin arising from higher sales demand and lower production costs. This was offset by lower profit of the property division resulting mainly from lower profit recognised from the Pinnacle project.

B3 Commentary on Prospects

Faced with intense competition and the volatility of raw materials prices, the Group expects the manufacturing division's operating environment in 2016 to be similar to 2015. Hence, its focus will be on improving operating margin and retaining core customers. The Group's results are however expected to improve with the on-going property projects undertaken in 2016.

B4 Explanatory Notes for Variance of Actual Profit from Forecast Profit / Profit Guarantee

Not applicable.

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B5 Taxation	3 months Ended 30.6.2016 RM'000	6 months Ended 30.6.2016 RM'000
Taxation based on the results for the period:		
Malaysian taxation	193	536
Overseas taxation	5	15
Transfer to/(from) deferred taxation	(9)	(33)
	<u>189</u>	<u>518</u>
Under/(over) provision of taxation in respect of prior year	-	21
	<u>189</u>	<u>539</u>

The disproportionate tax charge in the current period was mainly due to non availability of group relief in respect of losses incurred by the Company and certain subsidiary companies, certain expenses which are not deductible for tax purposes and certain income which are not subject to tax.

B6 Status of Corporate Proposals

No corporate proposal was undertaken by the Group in the financial period ended 30 June 2016.

B7 Group Borrowings

	As at 30.6.2016 RM'000
Current	
Secured:-	
RM denominated	<u>10,250</u>
Non-current	
Secured:-	
RM denominated	<u>12,248</u>
Borrowings maturity:	
Less than one year	10,250
Later than one year and not later than two years	2,308
Later than two years and not later than five years	9,940
Later than five years	-
	<u>22,498</u>

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INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER AND FINANCIAL PERIOD ENDED 30 JUNE 2016**NOTES TO THE INTERIM FINANCIAL REPORT****B8 Realised and Unrealised Losses**

	As at 30.6.2016 RM'000	As at 31.12.2015 RM'000
Total accumulated losses of South Malaysia Industries Berhad and its subsidiaries		
- Realised	(132,708)	(125,291)
- Unrealised	1,221	1,126
	<u>(131,487)</u>	<u>(124,165)</u>
Less: consolidated adjustments	8,393	(2,271)
Total Group accumulated losses	<u>(123,095)</u>	<u>(126,436)</u>

B9 Derivative Financial Instruments

As at 30 June 2016, the outstanding foreign currency forward contracts are as follows:

Type of Derivative	Contract/ Notional Value RM'000	Fair Value RM'000	Fair Value Changes RM'000
Foreign Exchange Contracts Less than 1 year - USD denominated	984	1,024	40

The Group enters into foreign currency forward contract to hedge its estimated net exposure to movements in exchange rates arising mainly from purchases.

As foreign currencies contracts are hedged with creditworthy financial institutions in line with the Group's policy, the Group does not foresee any significant credit and market risks.

There are also no cash requirement risks as the Group only uses forward foreign currencies contracts as its hedging instruments.

The fair value of forward exchange contract is determined by using the market rates at the end of the reporting period and changes in the fair value is recognised in the profit or loss. The subsequent cumulative changes in the fair value of the commitment attributable to the hedged risk is recognised as an asset or a liability with the corresponding gain or loss recognised in the profit or loss.

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INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER AND FINANCIAL PERIOD ENDED 30 JUNE 2016

NOTES TO THE INTERIM FINANCIAL REPORT

B10 Material Litigation

A wholly owned subsidiary company of the Company, Perantara Properties Sdn Bhd ("PPSB"), has, since year 2010, been involved in a dispute with the Joint Management Body ("JMB") of Kelana Square, Petaling Jaya (a commercial project undertaken and completed in year 2000 by PPSB) involving the car parks of the said project ("Car Parks"), which has a carrying value of RM2 million in the books of PPSB. Prior to the trial of the case, PPSB has successfully applied to have the case struck out at the Kuala Lumpur High Court ("the High Court"). However, the Court of Appeal has reinstated the case resulting in a trial.

The High Court had on 18 July 2014 decided in favour of the JMB to the effect that the Car Parks is a common property of Kelana Square. However, PPSB has since filed an appeal to the Court of Appeal. The matter was heard by the Court of Appeal on 17 February 2016 and the Court of Appeal has on 26 February 2016 decided in favour of PPSB, i.e. the car park is not a common property of Kelana Square. JMB has filed to the Federal Court and the hearing for Motion for Leave is fixed on 25 August 2016. The Federal Court has on 25 August 2016 dismissed the JMB's application for Leave to appeal with cost. As such, the ownership of the Car Parks lies with PPSB.

B11 Dividends

The Directors do not recommend any payment of dividend for the financial period ended 30 June 2016.

B12 Profit/(Loss) From Operations

The following items have been charged/(credited) in arriving at profit/(loss) from operations:

	3 Months Ended		6 Months Ended	
	30.6.2016	30.6.2015	30.6.2016	30.6.2015
	RM'000	RM'000	RM'000	RM'000
(a) Other income including investment income	(994)	(3,211)	(1,052)	(3,939)
(b) Depreciation and amortisation	611	979	1,209	1,925
(c) Provision for and write-off of receivables	-	-	-	28
(d) Loss/(gain) on disposal of quoted investments	(2)	-	(2)	-
(e) Foreign exchange loss/(gain)	(139)	315	(198)	352
(f) Loss/(gain) on derivatives	(40)	-	182	-
(g) Fair value adjustment of investment property	342	-	679	-

Other than the above, there were no impairment of assets, gain or loss on disposal of quoted investment, provision for and write-off of inventories and exceptional items for the current quarter and financial period ended 30 June 2016.

SOUTH MALAYSIA INDUSTRIES BERHAD (8482 - D)

(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER AND FINANCIAL PERIOD ENDED 30 JUNE 2016

NOTES TO THE INTERIM FINANCIAL REPORT**B13 Earnings per Share**

	3 Months Ended		6 Months Ended	
	30.6.2016	30.6.2015	30.6.2016	30.6.2015
	RM'000	RM'000	RM'000	RM'000
(a) Basic Earnings per Share				
Net Profit/(loss) attributable to shareholders	1,881	230	3,342	239
Weighted average number of shares in issue ('000)	209,940	209,940	209,940	209,940
Basic earnings/(loss) per share (sen)	<u>0.90</u>	<u>0.11</u>	<u>1.59</u>	<u>0.11</u>

(b) Diluted Earnings per Share

There is no dilutive event as at 30 June 2016 and 30 June 2015. Therefore, the diluted EPS is the same as the basic EPS.

By Order of the Board

Tan Siew Chin
Company Secretary
Kuala Lumpur
Date: 25 August 2016