
4. RISK FACTORS

Applicants for the Issue Shares should carefully consider the following (which may not be exhaustive) in addition to the other information contained elsewhere in this Prospectus before applying for the Issue Shares:-

4.1 No Prior Market for SMIS's Shares

Prior to this Public Issue, there was no public market for SMIS's shares. There can be no assurance that an active market for SMIS's shares will develop upon its listing on the Second Board of KLSE or, if developed, that such market will be sustained. The issue price of RM1.15 per Issue Share was determined after taking into consideration a number of factors, including but not limited to, the Group's financial and operating history and condition, its prospects and the prospects of the industry in which the Group operates, the Group's proforma NTA per share after the Public Issue of RM1.29, the management of the Group, the market prices for shares of comparative companies and prevailing market conditions. The price at which SMIS's shares will trade on the Second Board of KLSE upon or subsequent to its listing will be dependent upon market forces beyond the control of the Company.

4.2 Underwriting No Assurance of Value

3,740,000 Issue Shares are underwritten by the underwriter at a rate of 3% on the value of the underwritten Issue Shares. However, the agreement of the Underwriter to underwrite 3,740,000 Issue Shares should not be taken as an indication of the merits or assurance of the value of the Issue Shares.

4.3 Control by Major Shareholder

Following the Public Issue, the single largest shareholder of SMIS will be MIYES, which will own 15,680,000 ordinary shares of RM1.00 each in SMIS, representing 35.00% of the Company's enlarged issued and paid-up capital. In addition, Ng Kwee Eng and Yap Siew Foong, who are relatives and who together control MIYES, have a combined 5.89% direct equity interest in the Company's enlarged issued and paid-up capital. As a result, it is likely that MIYES will be able to effectively control the outcome of certain matters requiring the vote of the Company's shareholders unless it is required to abstain from voting by law and/or by the relevant authorities.

4.4 Supply and Cost of Raw Materials

SMIS Group's profit will be subject to fluctuations due to changes in the cost of raw materials used in the Group's operations. The Group's production also depends significantly on the long term sustainable supply of main raw materials used (for example aluminium ingots, yarn, polyester and polypropylene staple fibres).

There are generally no purchase agreements with suppliers. However, the Group places forward orders of between three (3) to six (6) months at an agreed price, which is a norm in the industry given the required lead time from production to delivery for both local and foreign suppliers.

4.5 Fluctuations in Sale Prices and Volumes of the Group's Products

The selling prices of the Group's products are subject to fluctuations. However, the SMIS Group mitigates the fluctuations by having a diverse range of quality products and effective costing. Hence, the Group's risks are reduced should any one product or market suffer from a downturn in selling price or demand.

4. RISK FACTORS (Cont'd)

4.6 Foreign Exchange Risk

SMIS Group's transactions with its customers are primarily executed in RM. However, a significant part of the Group's purchases are conducted in USD. Accordingly, SMIS Group's results will be subject to fluctuations of the USD against RM. Should the Malaysian Government remove the RM peg, the Group may be at risk to foreign currency fluctuations when making necessary purchases. Based on the audited results for the financial year ended 31 December 2000, approximately RM18.2 million or 39.5% of the total production cost of RM46.1 million was subject to foreign exchange risk. SMIS Group has taken efforts to hedge most of its foreign exchange exposure in order to mitigate losses of certain of its foreign exchange exposure. The Group has implemented an aggressive localisation program since 1995 to reduce imports in an effort to reduce the Group's exposure to foreign currency fluctuations.

4.7 Competition

The Group faces competition from various quarters. However, in respect of the manufacturing and marketing of moulded floor carpets and carpet-based interior trims for automobiles, GCI is believed to be one of the market leaders in terms of the supply of automotive moulded floor carpets. GCI supplies to a significant portion of the moulded floor carpet requirements of Proton, Perodua and locally assembled non-national car segments including Honda, Toyota, Peugeot, Nissan and Ford.

The Directors believe that Sanyco is one of the major local manufacturers of automotive brake and clutch components in Malaysia. The Group currently supplies to a significant portion of Proton's needs in respect of these components and is likely to continue to do so. This is due to several factors, among them:-

- (i) A good customer-supplier relationship between the Group and Proton;
- (ii) The quality of the Group's automotive car brakes and clutch components. As automotive brakes and clutch components form an essential part of a vehicle's safety features, no compromise can be tolerated with regards to quality. In the case of Proton, the car brakes and clutch components used in its Saga, Iswara and Wira models require endorsement by Mitsubishi Motor Corporation Ltd ("MMC"), one of Proton's technical partners. That the Group's products have been accepted by MMC is a testimony to the quality of the brakes and clutch components.
- (iii) Partnership with San Yes, a manufacturer of automotive brakes and clutch components in Taiwan, Republic of China. In association with San Yes, the Group has managed to design and produce brakes and clutch components used by most of Proton's models, being Saga, Iswara and Wira.
- (iv) The barriers to entry faced by potential competitors. To ensure that the brakes and clutch components conform to the exacting standards required by Proton and MMC, the brakes and clutch components are subject to rigorous testing prior to acceptance. The period required to complete the testing is typically two (2) years before the components are approved for production.

Due to fairly high barriers of entry and good relations between Proton and Sanyco, it is not expected that any competitor may pose a significant threat to Sanyco in the foreseeable future.

4. RISK FACTORS *(Cont'd)*

4.8 Customer Exposure

In accordance with the norm of the industry, the SMIS Group does not have any long term contracts with its customers, which comprise various automotive manufacturers and assemblers. Whilst the Group endeavours to maintain its current market position, no assurance can be given that the Group will continue to supply automotive parts and components to these automotive manufacturers and assemblers or that the Group will be able to maintain or increase its existing market share in the future.

In addition, the automotive parts and components supplied are specific to a particular model of motor vehicle. Each model in turn has a limited production life span. Accordingly, no assurance can be given that the Group will be able to secure the supply of automotive parts and components for replacement models and/or new models of motor vehicles as and when they are introduced.

The SMIS Group is dependent, to a certain extent, on Proton for its revenue. Approximately 44.3% and 45.2% of the Group's revenue for the financial year ended 31 December 2000 and eleven (11)-month period ended 30 November 2001 respectively was attributable to Proton.

However, the Group's exposure to Proton is mitigated by Proton's status as a national project, and the barriers to entry faced by potential competitors who intend to supply car brakes parts and clutch components to Proton. Furthermore, a substantial amount of the Group's revenue is contributed by GCI. However, GCI has a significant market share in respect of the supply of moulded and non-moulded carpet-based interior trims in Malaysia with reputable customers other than Proton such as Perodua, Assembly Services Sdn. Bhd. (Toyota), Tan Chong Motor Assemblies Sdn. Bhd. (Nissan), DRB-Oriental-Honda Sdn. Bhd. (Honda) and Ford Malaysia Sdn. Bhd. (formerly known as AMIM Holdings Sdn. Bhd.) (Ford).

4.9 Business Risks

The Group is not insulated from the risks inherent in most areas of its businesses. For example, the Group may be affected by a general downturn in the global and national economy and particularly the automotive industry, political uncertainties, supply of labour, increases in the cost of labour, the entry of new players, changes in law and taxation affecting the industries, fluctuations in foreign exchange, loss of major principals, non-collectibility of debts, and business and credit conditions.

The Group has forged an alliance with its foreign shareholder and technical partner, namely San Yes, to enhance its engineering capabilities, and the quality and development of its products to suit current and future markets. However, there can be no assurance that the alliance with its foreign corporate shareholder and technical partner will continue in the future.

The Group also has plans to set up strategic alliances in the form of joint ventures with foreign companies to better serve their present and potential foreign customers commencing with the Asia Pacific region. Such alliances will also support the Group's marketing and distribution activities abroad. However, there is no assurance that such alliances will indeed take place, and if they do, would contribute positively to the results of the Group.

4. RISK FACTORS (Cont'd)

4.10 Dependence on Key Personnel

The Group believes that its continued success will depend, to a significant extent, upon the abilities and continued efforts of its existing Directors and senior management. The loss of any of the Group's Directors or key members of the senior management may affect the Group's performance. The Group's future success will also depend upon its ability to attract and retain experienced personnel.

4.11 Trade Agreements

ASEAN has decided to defer till 2005 the transfer, originally scheduled for 2003, of CBU and CKD motor vehicles on to the Inclusion List from the Temporary Exclusion List.

The introduction of AFTA in 2005 of CBU and CKD motor vehicles may result in new challenges and opportunities for local automotive parts and components manufacturers. Due to the uncertainty surrounding the economic impact of trade liberalisation in the ASEAN region, no assurance can be given that the liberalisation of trade in the ASEAN region will not have a material impact on the SMIS Group.

However, the SMIS Group is confident that it can remain competitive despite the introduction of AFTA due to the following reasons:-

- (a) The Group started manufacturing automotive components in 1985 and is now an established local market player. The reputation and experience acquired over the years provides a positive platform for future opportunities for growth and expansion within the ASEAN market; and
- (b) The Group currently exports carpet-based products and brake components to Japan, Taiwan, Republic of China and Thailand. This gives rise to further opportunities for an increased distribution network in these countries.

4.12 Profit Estimate and Forecast

This Prospectus contains certain estimates and forecasts for the Group that are based on reasonable assumptions that are nevertheless subject to uncertainties and contingencies. Because of the subjective judgements and inherent uncertainties of forecasts and because events and circumstances frequently do not occur as expected, there can be no assurance that the forecasts contained herein will be realised and actual results may be materially different than those shown. Investors will be deemed to have read and understood the descriptions of the assumptions and uncertainties underlying the estimates and forecasts that are contained herein.

Investors are advised to read carefully the assumptions made in the preparation of the consolidated profit estimate and forecast as set out in Section 14.2.2 of this Prospectus.

4.13 Financial Risks

Based on the Group's proforma balance sheet as at 30 November 2001, total borrowings of the Group was approximately RM2.05 million or gearing of 0.04 times. Of the total borrowings, RM1.48 million (excluding hire purchase which has fixed interest rates) is pegged to the base lending rate of the Group's principal bankers which is greatly influenced by directives from Bank Negara Malaysia. Consequently the Group's financing cost may be affected by changes in interest rates. Furthermore, there can be no assurance that the principal bankers will not withdraw the financial facilities that are presently granted to the Group.

4. RISK FACTORS (Cont'd)

In mitigating the risks mentioned above, the Group has consistently made prudent financial decisions and has thus, been able to support working capital and certain portions of capital expenditure through internally-generated funds. Future capital investments will be partly financed through proceeds from the Public Issue as disclosed in Section 6.6 of this Prospectus. In addition, the Group has continuously maintained a cordial relationship with its principal bankers.

The Group does not have any borrowings denominated in foreign currency.

4.14 Limit on Operating and Financial Flexibility

The subsidiaries of SMIS have entered into various credit facility agreements with banks or financiers to finance their operations and business activities. These agreements contain, inter-alia, covenants which may limit the SMIS Group's operating and financial flexibility. Any act by the SMIS Group falling within the ambit or scope of such covenants will require the consent of the relevant banks or financiers. Breach of such covenants may give rise to a right by the bank or financier to terminate the relevant credit facility and/or enforce any securities granted, in relation to that credit facility. The Board of Directors of SMIS are aware of such covenants and shall take all precautions necessary to prevent any breach of these agreements.

4.15 New Markets

In early 2000, the Group began exporting to Japan, Taiwan, Republic of China and Thailand. These are new markets to the Group and thus, apart from Taiwan, Republic of China (the Group's technical partner, San Yes, is from Taiwan, Republic of China), the Group has relatively limited information on overseas business climate, knowledge of business culture and past relationship with the customers.

Exports are estimated and forecasted at RM4.8 million and RM5.7 million representing 6.92% and 7.43% of total revenue of the Group, for the financial years ended 31 December 2001 and ending 31 December 2002 respectively.

In order to mitigate this risk, the Group signed a supply agreement with CNM Industries Co. Ltd., its customer from Thailand on 27 March 2000 which remains in force between the parties for as long as the parties mutually agree to and may be terminated by giving a three (3) month notice. The supply agreement is for the supply of polyester yarn waste and polyester fibre waste and sets an annual minimum purchase value and amount. Nevertheless, there is no assurance that the customer will not terminate the agreement prematurely or that the Group will continuously export to the abovementioned countries.

4.16 Insurance Coverage

The Group has the following insurance policies:-

- (a) Fire insurance on its properties except where the properties are under construction and a vacant plot of land;
- (b) Consequential loss insurance arising from the damage of both of its factories in Port Klang and Hicom Glenmarie, Selangor Darul Ehsan;
- (c) Public liability insurance on both of its factories in Port Klang and Hicom Glenmarie, Selangor Darul Ehsan and its trading office in Jalan Chan Sow Lin, Kuala Lumpur, Wilayah Persekutuan;

4. RISK FACTORS (Cont'd)

- (d) Machinery and equipment insurance on all its moveable and unmoveable machinery and equipment and all office equipment in both its factories in Port Klang and Hicom Glenmarie, Selangor Darul Ehsan and its trading office in Jalan Chan Sow Lin, Kuala Lumpur, Wilayah Persekutuan;
- (e) Products liability insurance on its automotive clutch and brake components and ABS. The Group's automotive carpet-based interior trims are not insured for products liability as they are not safety products;
- (f) Burglary insurance for its factory at Hicom Glenmarie, Selangor Darul Ehsan and its trading office in Jalan Chan Sow Lin, Wilayah Persekutuan. The factory at Port Klang, Selangor Darul Ehsan is not insured for burglary as the Directors believe that the products manufactured at the factory, which are automotive carpet-based interior trims are not as marketable as, for instance, automotive clutch and brake components, and thus, pilferage is uncommon;
- (g) Group personal accident and group term life insurance for the employees in the SMIS Group; and
- (h) Other miscellaneous insurance including goods in transit, money and fidelity guarantee.

The Group has not made any material insurance claims in the past and the Directors believe that the Group's assets and operations are adequately covered.

Whilst the Group endeavours to insure all of its assets, potential loss in assets and potential liabilities, there exists an inherent risk on the adequacy of the sum insured as well as completeness of coverage of its assets.

4.17 Loan Regulations

During the economic slowdown of 1997 and 1998 which resulted in a general credit squeeze, increasing interest rates and declining wealth, domestic demand for passenger and commercial vehicles were accordingly dampened. Among the various measures undertaken by the Government to stimulate demand of motor vehicles were relaxing hire-purchase guidelines and extending exemption of excise duty for locally manufactured cars. Consequently demand for motor vehicles has grown steadily since April 1998 to the date hereof.

(Source : Excerpts from Mid Term Review of the 7th Malaysian Plan 1996-2000 (printed in 1999) and Economic Report 1999/2000)

Liquidity in the Malaysian economy and general interest rates is dependent on the Government's fiscal and monetary policies.

Consequently, there is no assurance that the current relaxation of hire-purchase guidelines will not be tightened in the future or that interest rates for vehicle loans will remain at its present relatively low level.

4. RISK FACTORS (Cont'd)

4.18 Collection of Trade Receivables

The SMIS Group allows its customers credit periods ranging from 30 days to 150 days, with some customers enjoying 150 days credit period. As at 30 November 2001, the value of trade debts exceeding 90 days (net of provision for doubtful debts) but which were still within credit limit was RM7.853 million representing 32.17% of total debts (net of provision for doubtful debts) as at the same date. In addition, the value of trade debts (net of provision for doubtful debts) exceeding credit limit as at 30 November 2001 amounted to RM9.718 million or 39.81% of total debts (net of provision for doubtful debts) as at the same date. Details of the ageing of the trade debts as at 30 November 2001 and the comments by the Directors of the Company on the recoverability of the debts are set out in Section 14.4 of this Prospectus.

Furthermore, while the Directors of the Group believe that adequate provision for doubtful debts has been made, there is no assurance that this is indeed so, and that additional provisions in the future will not have material adverse effect on the Group.

The SMIS Group endeavours to manage its credit risk through structured credit control policies. However, there is no assurance that the relatively long credit periods enjoyed by some of the Group's customers would not detrimentally affect the Group's short term cashflow requirements.

4.19 Licence and Technical Assistance Agreement

Sanyco and San Yes had entered into a Licence and Technical Assistance Agreement on 9 July 1991 ("TA Agreement") for the provision by San Yes to Sanyco of technical assistance in the manufacture and sale of licensed devices for brake master cylinder, proportioning valve, clutch master cylinder, clutch slave cylinder and wheels cylinder, comprising a substantial portion of Sanyco's automotive brake and clutch components business. The TA Agreement was for a term of five (5) years from the date of the agreement and thereafter from year to year unless notice is given by either party of termination of the agreement.

Subsequently, the TA Agreement had been renewed on 29 May 2000 ("Renewed TA Agreement"). The Renewed TA Agreement is also for a term of five (5) years from the date of the agreement and thereafter from year to year unless notice is given by either party of termination of the agreement.

The initial five (5) year term referred to in the Renewed TA Agreement is scheduled to expire on 28 May 2005. Whilst the Directors believe that Sanyco and San Yes enjoy a good relationship, and that San Yes intends to maintain a presence in Malaysia, there is no assurance that the Renewed TA Agreement would not be terminated upon the expiry of the first five (5) year term. In addition, there is no assurance that, upon expiry of the first five (5) year term of the Renewed TA Agreement, Sanyco would have adequately absorbed the technological knowledge required to develop new brake and clutch components for future automobile models.

4.20 Failure/Delay in the Listing Exercise

The listing exercise is also exposed to the risk that it may fail or be delayed should, inter-alia, the following events occur:-

- (i) The Company is unable to meet the public spread requirements i.e. at least 25% of the issued and paid-up share capital of the Company must be held by a minimum number of 750 public shareholders holding not less than 1,000 shares each upon completion of the Public Issue and upon listing; and

4. RISK FACTORS (Cont'd)

- (ii) The Underwriter terminating the underwriting pursuant to the Underwriting Agreement.

In the event the listing fails, applicants would be refunded their application monies in full but without any interest.

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5. SHARE CAPITAL

	RM
<i>Authorised</i>	
60,000,000 ordinary shares of RM1.00 each	<u>60,000,000</u>
<i>Issued and fully paid-up as at the date of this Prospectus</i>	
37,440,000 ordinary shares of RM1.00 each	37,440,000
<i>To be issued pursuant to the Public Issue</i>	
7,360,000 ordinary shares of RM1.00 each	<u>7,360,000</u>
	<u>44,800,000</u>

The price of RM1.15 for each Issue Share is payable in full on application.

There is only one class of shares in SMIS, being ordinary shares of RM1.00 each. The Issue Shares will rank pari passu in all respects with the existing issued and paid-up ordinary shares of RM1.00 each of SMIS including voting rights, dividends and distribution that may be declared subsequent to the date of the allotment and issuance of the Issue Shares.

Subject to any special rights attaching to any shares that may be issued by the Company in the future, the shareholders of ordinary shares in the Company shall, in proportion to the amount paid-up on the shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends and other distributions and the whole of any surplus in the event of liquidation of the Company.

At every general meeting of SMIS, each shareholder shall be entitled to vote in person or by proxy or by attorney, and on a show of hands, every person present who is a shareholder or representative or proxy or attorney to a shareholder shall have one vote and on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one vote for each ordinary share held. A proxy may but need not be a member of the Company.

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6. DETAILS OF THE PUBLIC ISSUE

6.1 Particulars of the Public Issue

The Public Issue is subject to the terms and conditions of this Prospectus and upon acceptance, the Issue Shares will be allocated in the following manner:-

(i) Eligible employees and customers of the SMIS Group

2,240,000 of the Issue Shares have been reserved for eligible employees and customers of the SMIS Group.

(ii) Private placement

3,620,000 of the Issue Shares have been reserved for private placement to identified investors, who have given their irrevocable undertaking to subscribe for the Issue Shares reserved for them.

(iii) Malaysian public

1,500,000 of the Issue Shares will be available for application by Malaysian citizens, companies, co-operatives, societies and institutions, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, co-operatives, societies and institutions.

The Issue Shares in respect of paragraph (i) above are allocated to the employees and customers of the SMIS Group based on the following criteria:-

- (a) the job position and length of service of the eligible employees of the SMIS Group as at 31 January 2002. Based on this criteria, there are 219 employees who are eligible to subscribe for the reserved Issue Shares; and
- (b) the value of transactions per annum of the customers of the SMIS Group. Based on this criteria, up to 122 customers are eligible to subscribe for the reserved Issue Shares.

No Issue Shares will be allocated to the Directors of SMIS pursuant to the Public Issue.

Any Issue Shares not taken-up in respect of Section 6.1(i) above will be made available for application by Malaysian citizens, companies, co-operatives, societies and institutions in respect of paragraph (iii) above.

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6. DETAILS OF THE PUBLIC ISSUE (Cont'd)

All the Issue Shares mentioned in Section 6.1(i) and Section 6.1(iii) above have been fully underwritten by the CIMB at an underwriting commission of three per centum (3%) of the issue price of RM1.15 per Issue Share. The total underwriting commission amounts to RM129,030. The Issue Shares mentioned in 6.1(ii) have not been underwritten as the identified investors have given their irrevocable undertaking to subscribe for the said Issue Shares reserved for them. An Underwriting Agreement was entered into between SMIS and the CIMB on 4 February 2002. The salient features of the Underwriting Agreement are as follows:-

- (i) The obligations of the Underwriter under the Underwriting Agreement shall be conditional upon:-
- (a) the SC having approved the Prospectus and KLSE having agreed in principle on or prior to the Closing Date (being the last date for the receipt of applications for the Public Issue which will be fourteen (14) business days from the date of the issuance of the Prospectus or such other date as may be extended by the Company provided that such extended date shall not exceed three (3) months from the date of the Underwriting Agreement and shall only be granted subject to the Underwriter's agreement) to the listing of and quotation for all the issued ordinary share capital of the Company on the Second Board of KLSE on terms satisfactory to the Underwriter and the Underwriter being reasonably satisfied that such listing and quotation will be granted three (3) market days (or such other period as the KLSE may permit) after KLSE has received all the necessary supporting documents and receipt of confirmation from MCD that all CDS accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants;
 - (b) there not having been, on or prior to the Closing Date, in the opinion of the Underwriter any material adverse change or any development reasonably likely to involve a prospective material adverse change in the condition (financial or otherwise) of the Company or its subsidiaries from that set forth in the Prospectus which in the opinion of the Underwriter is material in the context of the issuance of the Issue Shares or the occurrence of any event rendering untrue or incorrect to an extent which is material as aforesaid any representations or warranties contained in the Underwriting Agreement as though they had been given or made on such date;
 - (c) the registration with the SC and lodgment with the Registrar of Companies of the Prospectus together with copies of all documents required by the Securities Commission Act 1993 and the issue by the SC of the relevant certificate of registration;
 - (d) the Public Shareholding Spread (that is, the requirement imposed by KLSE that the Company must, following the Public Issue, have at least 25% of its issued and paid-up capital in the hands of a minimum number of 750 public shareholders holding not less than 1,000 Issue Shares each) having been met; and
 - (e) all agreements in relation to the private placement in a form acceptable to the Underwriter have been duly executed before the issuance of the Prospectus.

If any of the conditions stipulated in (a) to (e) above are not satisfied on or before the Closing Date and if after the Closing Date it shall become apparent to the Underwriter that the Public Shareholding Spread has not been met, the Underwriter shall thereupon be entitled to terminate the Underwriting Agreement by notice in writing to the Company and in that event CIMB and SMIS shall be released and discharged from their respective

6. DETAILS OF THE PUBLIC ISSUE (Cont'd)

obligations hereunder provided that the Company shall remain liable for the payment of the underwriting commission and of all other costs and expenses including but not limited to those referred to in Clause 7.03 of the Underwriting Agreement.

- (ii) Notwithstanding anything contained in the Underwriting Agreement, the Underwriter may at any time be entitled to terminate its obligations under the Underwriting Agreement with a notice in writing delivered to the Company on the occurrence of all or any of the matters stated in this Clause on or before the Closing Date if the success of the Public Issue is, in the opinion of the Underwriter, seriously jeopardised by:-
- (a) any Government requisition or other occurrence of any nature whatsoever which in the opinion of the Underwriter seriously affects or will seriously affect the business and/or financial position of the Company and/or any of its subsidiaries;
 - (b) any change or any development involving a prospective change in national or international monetary, financial (including stock market conditions and interest rates), political or economic conditions or exchange control or currency exchange rates as would in the reasonable opinion of the Underwriter prejudice materially the success of the Public Issue and their distribution or sale (whether in the primary or in respect of dealings on the secondary market); or
 - (c) any breach of the warranties and undertakings referred to in Clause 3 of the Underwriting Agreement or withholding of information of a material nature from the Underwriter; or
 - (d) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, which in the opinion of the Underwriter has or is likely to have a material adverse effect on the condition, financial or otherwise, or the earnings, business affairs or business prospects (whether or not arising in the ordinary course of business) of the Company and/or its subsidiaries; or
 - (e) any event or series of events beyond the reasonable control of the Underwriter (including without limitation acts of government, strikes, lockouts, fire, explosion, flooding, civil commotion, acts of war, sabotage, acts of God or accidents) which has or is likely to have the effect of making any material part of the Underwriting Agreement incapable of performance with its terms or which prevents the processing of application, crediting of accounts and/or payments pursuant to the Public Issue or pursuant to the underwriting hereof; or
 - (f) the imposition of any moratorium, suspension or material restriction on trading in securities generally in the KLSE due to exceptional financial circumstances or otherwise.

On delivery of such a notice by the Underwriter to the Company and confirmation of such a notice by facsimile or by hand, the Underwriting Agreement shall be terminated and the obligations of the Underwriter under the Underwriting Agreement shall be discharged accordingly. In the event of any such termination under this Clause, the Company shall bear all the cost and expenses incurred under the Underwriting Agreement including but not limited to those stated in Clause 7.03 of the Underwriting Agreement.

6. DETAILS OF THE PUBLIC ISSUE *(Cont'd)*

- (iii) In the event that the Underwriting Agreement shall be terminated in accordance with the provisions of the Underwriting Agreement, CIMB and SMIS shall be released and discharged from their obligation thereunder, save and except that the liability of the Company for the payment of the underwriting commission and the costs and expenses as provided in Clause 7.03 thereof incurred prior to or in connection with such termination shall remain and shall not be affected by such termination.

6.2 Indicative Timetable

The indicative timing of events leading up to the listing of and quotation for SMIS's entire enlarged issued and paid-up share capital on the Second Board of KLSE is set out below:-

Events	Scheduled date
Opening date	13 March 2002
Closing date	27 March 2002
Tentative balloting date	1 April 2002
Tentative allotment date	12 April 2002
Tentative listing date	18 April 2002

6.3 Closing of Applications

Application for SMIS shares will remain open until 8.00 p.m. on 27 March 2002 or for such further period or periods as the Directors of SMIS in their absolute discretion may decide. Late applications will not be accepted.

6.4 Purposes of the Public Issue

The purposes of the Public Issue are as follows:-

- (i) To provide the Company access to the capital market to raise funds for future expansion, diversification, modernisation and continued growth of the SMIS Group;
- (ii) To provide an opportunity for eligible employees and customers of SMIS Group and the Malaysian public to participate in the equity and the continuing growth of the Group; and
- (iii) To obtain listing of and quotation for the entire issued and paid-up ordinary shares of SMIS on the Second Board of KLSE.

6.5 Pricing of the Issue Shares

The issue price of RM1.15 per ordinary share was determined and agreed upon by the Company and CIMB as Adviser and Underwriter, after taking into account, inter-alia, the following factors:-

- (i) The Group's financial and operating history and conditions as described in Sections 14.1 and 7.5 of this Prospectus respectively;
- (ii) The industry overview and future prospects and plans of the Group as described in Sections 8 and 9 of this Prospectus respectively;
- (iii) The Group's proforma NTA per share (after Public Issue) of RM1.29 as at 30 November 2001;

6. DETAILS OF THE PUBLIC ISSUE (Cont'd)

- (iv) The Group's proforma consolidated estimate and consolidated forecast results for the years ending 31 December 2001 and 2002 respectively;
- (v) The management of the Group;
- (vi) The market prices for shares of comparative companies; and
- (vii) Prevailing market conditions.

However, investors should also note that the market prices of SMIS shares upon listing on the Second Board of KLSE are subject to the vagaries of market forces and other uncertainties, which may affect the price of SMIS shares being traded. Investors should form their own views on the valuation of the Issue Shares before deciding to invest in the Issue Shares.

6.6 Proceeds from the Public Issue and Proposed Utilisation

The total gross proceeds of RM8,464,000 from the Public Issue will be utilised in the following manner:-

	Note	RM'000
Repayment of bank borrowings	1	1,357
Capital expenditure	2	3,604
Working capital	3	935
Estimated listing expenses	4	2,568
		8,464

Notes:-

1. Repayment of bank borrowings

Set out below are the details of the Group's bank borrowing creditors to be repaid:-

Name of lenders	Type of loan	Expected outstanding balance as at 15 April 2002 RM'000	Interest rate per annum %	Terms of repayment	Purpose of borrowings
United Overseas Bank (M) Berhad	Term loan	978	1.25 + Base Lending Rate	60 instalments of RM38,050 per month	Financing for the extension of a factory building of the Group
United Overseas Bank (M) Berhad	Term loan	379	1.25 + Base Lending Rate	60 instalments of RM13,703 per month	Financing for the purchase of a freehold land and building of the Group
TOTAL		1,357			

Interest saving projected from the repayment of the bank borrowing is approximately RM108,000 for the financial year ending 31 December 2002.

In the event the amount of borrowings outstanding as at the date of repayment is less than stated above (due to the continuous repayment of borrowings according to their repayment schedule), the excess proceeds will be utilised as working capital.

2. Capital expenditure

For the financial years ending 31 December 2002 and 2003, the Group is expected to incur RM3.304 million and RM300,000 respectively on capital expenditure, which will be financed by proceeds from the Public Issue.

6. DETAILS OF THE PUBLIC ISSUE (Cont'd)

The proceeds allocated for capital expenditure will be used to finance the following capital expenditure:-

Financial year ending 31 December	2002 RM'000	2003 RM'000
Description		
For the manufacturing plant in Port Klang, Selangor Darul Ehsan		
Plant and machinery - metal mould, forming machine, manufacturing oven, random velour brushes, computers	2,718	-
Upgrading the R&D laboratory/production office	200	200
For the manufacturing plant in Hicom Glenmarie, Selangor Darul Ehsan		
Plant and machinery - ultrasonic cleaning line, universal tensile testing machine, CNC tap mill	386	100
	3,304	300

3. Working capital

There is no specific timeframe for the utilisation of working capital.

4. Estimated listing expenses

Details of the estimated listing expenses are shown in Section 6.8. The funds set aside for the estimated listing expenses are expected to be fully utilised within a period of six (6) months from the date of receipt of the funds.

6.7 Brokerage and Underwriting Commission

Brokerage is payable by SMIS at the rate of 1.0% of the issue price of RM1.15 per ordinary share in respect of successful applications which bear the stamp of CIMB, member companies of KLSE, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or MIH.

The Underwriter mentioned herein has agreed to underwrite all the Issue Shares mentioned in Section 6.1(i) and Section 6.1(iii) amounting to 3,740,000 Issue Shares. Underwriting commission is payable by the Company at the rate of three per centum (3%) of the issue price of RM1.15 per Issue Share or RM129,030 in total.

6.8 Estimated Listing Expenses

The details of the estimated listing expenses is as follows:-

	RM'000
Professional fees in respect of advisers and experts	860
Printing costs	200
KLSE fees	
- perusal of document	40
- initial listing fee	23
SC processing fee	52
Issuing house	130
Brokerage	59
Underwriting commission	129
Advertisement	20
Stamp duty	300
Contingencies	755
	2,568

7. INFORMATION ON THE SMIS GROUP

7.1 History

SMIS was incorporated in Malaysia under the Companies Act, 1965 on 19 August 1999 as a private limited company under the name of Asuncion Corporation Sdn. Bhd.. It subsequently assumed the name of SMIS Corporation Sdn. Bhd. on 19 April 2000. It was converted into a public company on 7 June 2000 and adopted its present name.

SMIS is an investment holding company.

7.2 Share Capital

The present authorised and issued and fully paid-up share capital of SMIS is as follows:-

	No. of shares	Par value RM	Total share capital RM
Authorised:-			
Ordinary shares	60,000,000	1.00	60,000,000
Issued and fully paid-up:-			
Ordinary shares	37,440,000	1.00	37,440,000

The changes in the issued and fully paid-up share capital of the Company since its incorporation are as follows:-

Date of allotment	No. of ordinary shares allotted	Par value RM	Consideration	Issued and paid-up share capital RM
19.08.1999	2	1.00	Subscribers' shares	2
27.05.2000	9,998	1.00	Cash	10,000
30.01.2002	18,281,000	1.00	Issued pursuant to the Acquisition of GCI and Acquisition of Sanyco	18,291,000
31.01.2002	19,149,000	1.00	Issued pursuant to the Acquisition of MIS	37,440,000

7.3 Subsidiaries and Associates

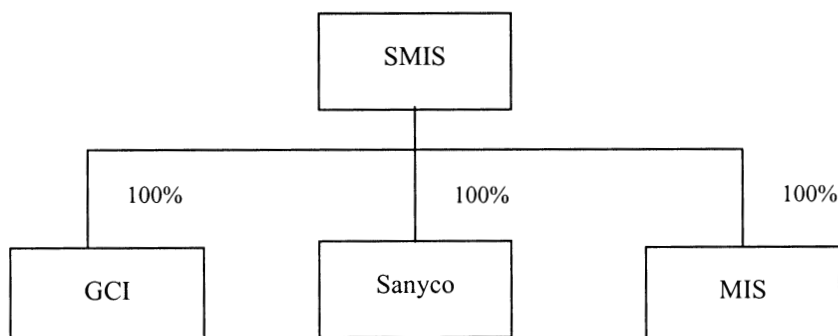
Details of SMIS's wholly-owned subsidiaries, GCI, Sanyco and MIS, all of which are incorporated in Malaysia, are as follows:-

Name	Date of incorporation	Authorised share capital RM	Issued and paid-up share capital RM	Principal activities
GCI	29.09.1983	5,000,000	1,536,302	Manufacturing and trading of carpets of all descriptions
Sanyco	14.05.1991	5,000,000	5,000,000	Manufacturing of automotive braking components and motorcycle components
MIS	29.10.1975	10,000,000	7,210,000	Trading in machinery and industrial parts supplies

As at the date hereof, SMIS does not have any associates.

7. INFORMATION ON THE SMIS GROUP (Cont'd)

The current structure of the SMIS Group is as follows:-



Further information on GCI, Sanyco and MIS are as follows:-

7.3.1 GCI

(i) History and Business

GCI was incorporated in Malaysia under the Companies Act, 1965 as a private limited company on 29 September 1983 under its present name.

Its principal activity is the manufacturing and trading of carpets of all description and its products are described in Section 7.5.1 of this Prospectus.

GCI began its operations more than sixteen (16) years ago around the time when the first national car, Proton Saga was launched by Proton. Noticing the absence of an integrated local automotive carpet supplier, GCI seized the opportunity and positioned itself as the preferred automotive carpet supplier amongst the car manufacturers and assemblers in Malaysia.

(ii) Share Capital

The present authorised and paid up share capital as at the date hereof are as follows:-

Type	No. of ordinary shares	Par value RM	Share capital RM
Authorised	5,000,000	1.00	5,000,000
Issued and paid up	1,536,302	1.00	1,536,302

7. INFORMATION ON THE SMIS GROUP (Cont'd)

Changes in the issued and paid-up share capital of GCI since its incorporation are as follows:-

Date of allotment	No. of ordinary shares allotted	Par value RM	Consideration	Issued and paid-up share capital RM
29.09.1983	2	1.00	Subscribers' shares	2
08.11.1984	1,132,720	1.00	Cash	1,132,722
29.12.1984	158,580	1.00	Cash	1,291,302
28.01.1985	10,000	1.00	Cash	1,301,302
28.04.1985	17,321	1.00	Cash	1,318,623
28.04.1985	97,679	1.00	Capitalisation of debt	1,416,302
27.07.1992	120,000	1.00	Capitalisation of advances from a director	1,536,302

(iii) Major Shareholders

Shareholders	No. of shares held			
	Direct	%	Indirect	%
SMIS	1,536,302	100.00	-	-
MIYES	-	-	1,536,302*	100.00
Umberston	-	-	1,536,302^	100.00
San Yes	-	-	1,536,302^	100.00
Yap Siew Foong	-	-	1,536,302#	100.00
Ng Kwee Eng	-	-	1,536,302#	100.00

Notes:-

* Deemed interested through SMIS.

^ Deemed interested through MIYES and SMIS.

Deemed interested through Umberston, MIYES and SMIS.

(iv) Subsidiaries and Associates

As at the date hereof, GCI does not have any subsidiaries or associates.

7.3.2 Sanyco

(i) History and Business

Sanyco was incorporated in Malaysia under the Companies Act, 1965 as a private limited company on 14 May 1991 under its present name.

Sanyco was set up as a joint venture between GCI and San Yes, a manufacturer of automotive components in Taiwan, Republic of China. The principal activities of Sanyco are the manufacturing of automotive braking components and motorcycle components. Its products are described in Section 7.5.1 of this Prospectus. In less than ten (10) years, Sanyco has become a major local supplier to Proton for the above mentioned products which are produced and fitted onto Proton's Saga, Iswara, and Wira models. In addition to being a major supplier to Proton, Sanyco has recently commenced selling ABS to Oriental-Hyundai Sdn. Bhd. to be fitted on the

7. INFORMATION ON THE SMIS GROUP (Cont'd)

Hyundai Elantra model for the Malaysian market. Similar to its customers, who are mainly automotive manufacturers and assemblers in Malaysia, Sanyco places high importance on quality and customer satisfaction by continuously providing good customer service and continuous product improvement.

(ii) Share Capital

The present authorised and paid up share capital are as follows:-

Type	No. of ordinary shares	Par value RM	Share capital RM
Authorised	5,000,000	1.00	5,000,000
Issued and paid up	5,000,000	1.00	5,000,000

Changes in the issued and paid-up share capital of Sanyco since its incorporation are as follows:-

Date of allotment	No. of ordinary shares allotted	Par value RM	Consideration	Issued and paid-up share capital RM
14.05.1991	2	1.00	Cash	2
10.01.1992	430,000	1.00	Cash	430,002
03.08.1992	400,000	1.00	Cash	830,002
02.11.1992	17,000	1.00	Cash	847,002
04.08.1993	950,000	1.00	Cash	1,797,002
30.12.1993	887,998	1.00	Cash	2,685,000
20.06.1994	315,000	1.00	Cash	3,000,000
26.09.1994	1,000,000	1.00	Cash	4,000,000
07.07.1995	1,000,000	1.00	Cash	5,000,000

(iii) Major Shareholders

Shareholders	-----No. of shares held-----			
	Direct	%	Indirect	%
SMIS	5,000,000	100.00	-	-
MIYES	-	-	5,000,000*	100.00
Umberston	-	-	5,000,000^	100.00
San Yes	-	-	5,000,000^	100.00
Yap Siew Foong	-	-	5,000,000 [#]	100.00
Ng Kwee Eng	-	-	5,000,000 [#]	100.00

Notes:-

* Deemed interested through SMIS.

^ Deemed interested through MIYES and SMIS.

Deemed interested through Umberston, MIYES and SMIS.

7. INFORMATION ON THE SMIS GROUP (Cont'd)

(iv) Subsidiaries and Associates

As at the date hereof, Sanyco does not have any subsidiaries or associates.

7.3.3 MIS**(i) History and Business**

MIS was incorporated in Malaysia under the Companies Act, 1965 on 29 October 1975 as a private limited company under the name of Syarikat Machinery & Industrial Supplies Sdn. Berhad and it subsequently changed to its present name on 2 April 1991.

MIS is engaged in the distribution of mechanical power transmission parts, helical rotor pumps and material handling products and systems. MIS also provides support services, spare parts and technical expertise in relation to these products. MIS has an extensive distribution network via dealers and OEM. This network supports a broad spectrum of industries including palm oil, sugar, rubber processing, food and general manufacturing.

(ii) Share Capital

The present authorised and paid up share capital are as follows:-

Type	No. of ordinary shares	Par value RM	Share capital RM
Authorised	10,000,000	1.00	10,000,000
Issued and paid up	7,210,000	1.00	7,210,000

Changes in the issued and paid-up share capital of MIS since its incorporation are as follows:-

Date of allotment	No. of ordinary shares allotted	Par value RM	Consideration	Issued and paid-up share capital RM
29.10.1975	8	1.00	Cash	8
10.08.1979	225,000	1.00	Cash	225,008
19.11.1982	112,492	1.00	Cash	337,500
14.09.1984	562,500	1.00	Capitalisation of retained earnings	900,000
28.12.1990	1,295,430	1.00	Cash	2,195,430
24.10.1991	4,814,570	1.00	Cash	7,010,000
23.12.1991	200,000	1.00	Cash	7,210,000

7. INFORMATION ON THE SMIS GROUP (Cont'd)

(iii) Major Shareholders

Shareholders	-----No. of shares held-----			
	Direct	%	Indirect	%
SMIS	7,210,000	100.00	-	-
MIYES	-	-	7,210,000*	100.00
Umberston	-	-	7,210,000^	100.00
San Yes	-	-	7,210,000^	100.00
Yap Siew Foong	-	-	7,210,000#	100.00
Ng Kwec Eng	-	-	7,210,000#	100.00

Notes:-

* *Deemed interested through SMIS.*

^ *Deemed interested through MIYES and SMIS.*

Deemed interested through Umberston, MIYES and SMIS.

(iv) Subsidiaries and Associates

As at the date hereof, MIS does not have any subsidiaries or associates.

7.4 Restructuring and Listing Exercise

In conjunction with, and as an integral part of the listing of and quotation for the entire issued and paid-up share capital of SMIS on the Second Board of KLSE, the Company undertook a restructuring exercise which was approved by the FIC on 8 September 2000 and 23 January 2001, MITI on 28 October 2000 and 12 January 2001 and SC on 12 April 2001, 31 October 2001 and 24 January 2002, and which involved the following:-

7.4.1 Acquisitions

(i) Acquisition of GCI

On 16 June 2000, SMIS entered into a conditional Sale and Purchase Agreement with the shareholders of GCI for the acquisition of 1,164,978 ordinary shares of RM1.00 each in GCI, representing 75.83% of the issued and paid-up capital of GCI, for a purchase consideration of RM17,166,219, satisfied by an issuance of 14,801,000 new ordinary shares of RM1.00 each in SMIS at an issue price of approximately RM1.16 per share credited as fully paid-up, and acquisition of 371,324 ordinary shares of RM1.00 each representing the remaining 24.17% of the issued and paid-up capital of GCI for a cash consideration of RM5,471,548 to be settled at a later date.

7. INFORMATION ON THE SMIS GROUP (Cont'd)

The vendors of GCI, their respective shareholdings therein and the number of SMIS shares issued to them pursuant to the Acquisition of GCI are as follows:-

Vendors	Shareholdings in GCI		New SMIS ordinary shares of RM1.00 issued as part consideration	New SMIS ordinary shares of RM1.00 each assigned to MIYES as part consideration*	Cash as consideration RM
	No. of shares	%			
Mohd. Riani bin Osman	414,803	27.00	5,270,036	-	-
MIS	371,324	24.17	-	-	**5,471,548
Ujana Makmur Sdn. Bhd.	245,808	16.00	3,122,984	-	-
Ahmad Redza bin Abdullah	173,602	11.30	2,205,607	-	-
Shahrir bin Abdul Jalil	173,602	11.30	2,205,607	-	-
Abdul Hamid bin Abdul Manaff	98,323	6.40	1,249,194	-	-
Cham Bee Sim	58,840	3.83	149,572	598,000	-
Total	1,536,302	100.00	14,203,000	598,000	5,471,548

Notes:-

* Please refer to Section 7.4.2(i) on Arrangement I.

** As an amount owing by SMIS to be paid at a later date.

The total purchase consideration of RM22,637,767 for the Acquisition of GCI was arrived at on a willing-buyer willing-seller basis based on the NTA of GCI and its subsidiary as at 31 December 1999 of RM22,637,767.

(ii) Acquisition of Sanyco

On 16 June 2000, SMIS entered into a conditional Sale and Purchase Agreement with the shareholders of Sanyco for the acquisition of 2,450,000 ordinary shares of RM1.00 each in Sanyco, representing 49.00% of the issued and paid-up capital of Sanyco, for a purchase consideration of RM4,036,821, satisfied by an issuance of 3,480,000 new ordinary shares of RM1.00 each in SMIS at an issue price of approximately RM1.16 per share credited as fully paid-up, and acquisition of 2,550,000 ordinary shares of RM1.00 each representing the remaining 51.00% of the issued and paid-up capital of Sanyco for a cash consideration of RM4,201,589 to be settled at a later date.

7. INFORMATION ON THE SMIS GROUP (Cont'd)

The vendors of Sanyco, their respective shareholdings therein and the number of SMIS shares issued to them pursuant to the Acquisition of Sanyco are as follows:-

Vendors	Shareholdings in Sanyco		New SMIS ordinary shares of RM1.00 each assigned to MIYES as part consideration*	Cash as consideration RM
	No. of shares	%		
GCI	2,550,000	51.00	-	**4,201,589
San Yes	2,450,000	49.00	3,480,000	-
Total	5,000,000	100.00	3,480,000	4,201,589

Notes:-

* Please refer to Section 7.4.2(ii) on Arrangement II.

** As an amount owing by SMIS to be paid at a later date.

The total purchase consideration of RM8,238,410 for the Acquisition of Sanyco was arrived at on a willing-buyer willing-seller basis based on the NTA of Sanyco as at 31 December 1999 of RM8,238,410.

(iii) Acquisition of MIS

On 16 June 2000, SMIS entered into a conditional Sale and Purchase Agreement with the shareholders of MIS for the acquisition of 7,210,000 ordinary shares of RM1.00 each in MIS, representing the entire equity interest therein, for a purchase consideration of RM22,225,297, satisfied by an issuance of 19,149,000 new ordinary shares of RM1.00 each in SMIS at an issue price of approximately RM1.16 per share credited as fully paid-up.

The vendors of MIS, their respective shareholdings therein and the number of SMIS shares issued to them pursuant to the Acquisition of MIS are as follows:-

Vendors	-Shareholdings in MIS-		New SMIS ordinary shares of RM1.00 issued as part consideration	New SMIS ordinary shares of RM1.00 each assigned to MIYES as part consideration*
	No. of shares	%		
Yap Siew Foong	1,842,592	25.56	1,263,730	3,630,000
Ng Kwee Eng	1,602,254	22.22	1,373,418	2,882,000
Yap Meow Lim	961,338	13.33	1,484,212	1,069,000
Tan Teck @ Chin Sien Chin	961,338	13.33	1,484,212	1,069,000
Ng Wai Kee	721,000	10.00	700,900	1,214,000
Eng Kim Lian	640,825	8.89	546,964	1,155,000
Ng Eng Bee	320,423	4.44	501,010	350,000
Yap Sew Kim @ Yap Chew Yung	160,230	2.23	192,554	233,000
Total	7,210,000	100.00	7,547,000	11,602,000

7. INFORMATION ON THE SMIS GROUP (Cont'd)

Note:-

* Please refer to Section 7.4.2(i) on Arrangement I.

The purchase consideration of RM22,225,297 for the Acquisition of MIS was arrived at on a willing-buyer willing-seller basis based on the NTA of MIS and its associate as at 31 December 1999 of RM22,225,297.

7.4.2 Arrangements

(i) Arrangement I

Arrangement by vendors of MIS, namely Yap Siew Foong, Ng Kwee Eng, Ng Wai Kee, Eng Kim Lian, Yap Meow Lim, Tan Teck @ Chin Sien Chin, Ng Eng Bee and Yap Sew Kim @ Yap Chew Yung and a vendor of GCI, namely Cham Bee Sim whereby out of the total new ordinary shares of RM1.00 each in SMIS issued to the said vendors pursuant to the Acquisition of MIS and Acquisition of GCI, 12,200,000 new SMIS shares were issued directly to their nominee, MIYES. In consideration for the issuance of SMIS shares to MIYES, Umberston, then the holding company of MIYES, issued new Umberston shares to the said vendors in the proportions set out as follows:-

Shareholders	Nomination of SMIS ordinary shares of RM1.00 each to MIYES		Resultant shareholdings in Umberston	
	No. of SMIS shares of RM1.00 each	% of enlarged paid-up capital of SMIS	No. of Umberston shares of RM1.00 each	%
Yap Siew Foong	3,630,000	8.10	3,629,998	29.75
Ng Kwee Eng	2,882,000	6.43	2,882,000	23.62
Ng Wai Kee	1,214,000	2.71	1,214,000	9.95
Eng Kim Lian	1,155,000	2.58	1,155,000	9.47
Yap Meow Lim	1,069,000	2.39	1,069,000	8.76
Tan Teck @ Chin Sien Chin	1,069,000	2.39	1,069,000	8.76
Cham Bee Sim	598,000	1.33	598,000	4.90
Ng Eng Bee	350,000	0.78	350,000	2.87
Yap Sew Kim @ Yap Chew Yung	233,000	0.52	233,000	1.92
Total	12,200,000	27.23	12,199,998	100.00

The total issued and paid-up share capital in Umberston will be 12,200,000 ordinary shares of RM1.00 each of which 2 ordinary shares are subscribers' shares.

7. INFORMATION ON THE SMIS GROUP (Cont'd)

Following the Arrangement I, Umberston will capitalise debt owing by MIYES to Umberston by MIYES issuing 12,199,998 ordinary shares of RM1.00 each in MIYES to Umberston. The issued and paid-up share capital of MIYES will be increased from RM2 comprising 2 ordinary shares of RM1.00 each to RM12,200,000 comprising 12,200,000 ordinary shares of RM1.00 each.

(ii) Arrangement II

Arrangement by a vendor of Sanyco, namely San Yes, whereby out of the total new ordinary shares of RM1.00 each in SMIS issued to San Yes pursuant to the Proposed Sanyco Acquisition, 3,480,000 new shares were issued directly to its nominee, MIYES. In consideration for the issuance of SMIS shares to MIYES, MIYES issued 3,480,000 new MIYES shares to San Yes. The resultant shareholding in MIYES after completion of the Arrangements is as follows:-

Shareholders	Resultant shareholdings in MIYES	
	No. of MIYES shares of RM1.00 each	%
Umberston	12,200,000	77.81
San Yes	3,480,000	22.19
Total	15,680,000	100.00

7.4.3 Disposal

Disposal of two (2) subscribers' shares by the existing shareholders of Umberston, namely Gazel Cheong Mei Foong and K. Saraswathy A/P A.Kamawadi to Yap Siew Foong for a cash consideration of RM2.00 after the Acquisitions and Arrangements.

7.4.4 Special Dividend

Payment of special dividend amounting to RM3,500,000 by GCI, RM500,000 by Sanyco and RM900,000 by MIS totalling RM4,900,000 to the existing ultimate shareholders of GCI, Sanyco and MIS prior to the Acquisitions.

7.4.5 Public Issue

SMIS is now making a public issue of 7,360,000 new ordinary shares of RM1.00 each at an issue price of RM1.15 per new ordinary share to identified investors, eligible employees and customers of the SMIS Group and the Malaysian public, which is the subject of this Prospectus.

Upon completion of the Public Issue, the enlarged issued and paid-up share capital of SMIS will increase from RM37,440,000 comprising 37,440,000 ordinary shares of RM1.00 each to RM44,800,000 comprising 44,800,000 ordinary shares of RM1.00 each.

7. INFORMATION ON THE SMIS GROUP (Cont'd)

7.4.6 Listing and Quotation

Listing of and quotation for the 44,800,000 ordinary shares of RM1.00 each, representing the enlarged issued and paid-up share capital of SMIS after the Public Issue will be on the Second Board of KLSE.

7.4.7 Approvals and Conditions

The FIC and the MITI approved the Public Issue on 8 September 2000 and 28 October 2000 respectively. The SC approved the same on 12 April 2001, 31 October 2001 and 24 January 2002. The approvals of the FIC, MITI and SC are conditional on the following:-

Authority	Date of approval	Conditions imposed	Status of compliance																					
FIC	08.09.00	(i) SMIS should have at least 30% equity interest held directly by Bumiputera investors upon listing of SMIS on the Second Board of KLSE; and	Will be complied. SMIS will have at least 30% direct Bumiputera equity participation upon its listing on the Second Board of KLSE.																					
		(ii) To obtain the approval of MITI.	Met																					
MITI	28.10.00	(i) SMIS should allocate at least 30% equity interest for Bumiputera investors upon listing of SMIS on the Second Board of KLSE; and	Will be complied. SMIS will have at least 30% direct Bumiputera equity participation upon its listing on the Second Board of KLSE.																					
		(ii) To obtain the written approval of MITI prior to the disposal or transfer of the following shareholdings in SMIS recognised by MITI as Bumiputera shareholdings:-	To be complied with by respective recognised Bumiputera shareholders when applicable																					
<table border="1"> <thead> <tr> <th>Name</th> <th>No. of ordinary shares</th> <th>% of enlarged issued and paid-up share capital</th> </tr> </thead> <tbody> <tr> <td>Mohd. Riani bin Osman</td> <td>5,270,036</td> <td>11.76</td> </tr> <tr> <td>Ujana Makmur Sdn. Bhd.</td> <td>3,122,984</td> <td>6.97</td> </tr> <tr> <td>Shahrir bin Abdul Jalil</td> <td>2,205,607</td> <td>4.93</td> </tr> <tr> <td>Ahmad Redza bin Abdullah</td> <td>2,205,607</td> <td>4.92</td> </tr> <tr> <td>Abdul Hamid bin Abdul Manaff</td> <td>1,249,194</td> <td>2.79</td> </tr> <tr> <td>Total</td> <td>14,053,428</td> <td>31.37</td> </tr> </tbody> </table>			Name	No. of ordinary shares	% of enlarged issued and paid-up share capital	Mohd. Riani bin Osman	5,270,036	11.76	Ujana Makmur Sdn. Bhd.	3,122,984	6.97	Shahrir bin Abdul Jalil	2,205,607	4.93	Ahmad Redza bin Abdullah	2,205,607	4.92	Abdul Hamid bin Abdul Manaff	1,249,194	2.79	Total	14,053,428	31.37	
Name	No. of ordinary shares	% of enlarged issued and paid-up share capital																						
Mohd. Riani bin Osman	5,270,036	11.76																						
Ujana Makmur Sdn. Bhd.	3,122,984	6.97																						
Shahrir bin Abdul Jalil	2,205,607	4.93																						
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Abdul Hamid bin Abdul Manaff	1,249,194	2.79																						
Total	14,053,428	31.37																						

7. INFORMATION ON THE SMIS GROUP (Cont'd)

Authority	Date of approval	Conditions imposed	Status of compliance
SC	12.04.01, 31.10.01 and 24.01.02	<p>(i) In respect of the utilisation of proceeds from the Public Issue (as disclosed in Section 6.6 of this Prospectus):-</p> <p>(a) Approval of the SC must be obtained for any change in the utilisation if the change involves utilisation for a purpose other than the core business of SMIS Group;</p> <p>(b) Approval of the shareholders of SMIS must be obtained for the utilisation of proceeds from the Public Issue and any change equal to 25% or more of the original utilisation. If the change being contemplated is less than 25%, appropriate disclosures must be made to the shareholders of SMIS;</p> <p>(c) Any extension of time from the period already determined by SMIS in respect of the utilisation of proceeds must be approved by a clear resolution of the Board of Directors of SMIS and must be fully disclosed to the KLSE; and</p> <p>(d) Appropriate disclosures on the status of utilisation of proceeds must be made in the Quarterly Reports and Annual Reports of SMIS until the proceeds have been fully utilised.</p> <p>(ii) A moratorium shall be imposed on the disposal of SMIS shares held by the promoters of SMIS whereby:-</p> <p>(a) the affected promoters will not be allowed to sell, transfer or assign their shareholdings amounting to 45% of the nominal issued and paid-up capital of SMIS for one (1) year from the date of admission of the Company to the Second Board of KLSE. Thereafter, they are allowed to sell, transfer or assign only up to a maximum of one-third per annum (on a straight-line basis) of their respective shareholdings under moratorium; and</p> <p>(b) in the case where the affected promoter is a private holding company, every shareholder of the private holding company (if an individual) or ultimate individual shareholder (if the shareholder of the private holding company is another private holding company) must give an undertaking that he/she will not sell, transfer or assign his/her shareholding in the related private holding company for the period as stipulated above.</p> <p>(iii) The promoters, Directors and major shareholders of SMIS are not allowed to be involved in any business activities that compete against and conflict with the businesses of the SMIS Group.</p> <p>(iv) SMIS must disclose in the Prospectus the following:-</p> <p>(a) The reliance of the SMIS Group on sales to Proton, the risks associated with such reliance and steps taken/to be taken by the SMIS Group to mitigate such risks;</p>	<p>To be complied with, if applicable</p> <p>Complied/ To be complied with, if applicable</p> <p>To be complied with, if applicable</p> <p>To be complied with</p> <p>To be complied with. The shareholders of SMIS who are subject to the moratorium are disclosed in Section 11 of this Prospectus</p> <p>Complied.</p> <p>To be complied with</p> <p>Complied</p> <p>Appropriate disclosure has been made in Section 4.8 of this Prospectus</p>

7. INFORMATION ON THE SMIS GROUP (Cont'd)

Authority	Date of approval	Conditions imposed	Status of compliance
		(b) The risks faced by the SMIS Group arising from the implementation of AFTA and the steps taken/to be taken to mitigate such risks;	Complied Appropriate disclosure has been made in Section 4.11 of this Prospectus
		(c) The involvement and interests of the promoters, Directors and substantial shareholders of SMIS in existing companies or businesses that are related/similar to or that may compete with the businesses of the SMIS Group, with satisfactory explanations as to how conflicts of interests between the SMIS Group and the said existing companies/businesses, if any, would be resolved; and	Complied Appropriate disclosure has been made in Section 12.1 of this Prospectus
		(d) Total amount of trade debts, ageing analysis of the trade debts and amount of trade debts exceeding credit period, with comments by the Directors regarding the recoverability of the trade debts exceeding credit period.	Complied Appropriate disclosure has been made in Section 14.4 of this Prospectus
		(v) Provision is to be made for trade debts as at the date of the latest audited accounts that are:- (a) In dispute; (b) Facing legal action; and (c) Are aged more than one (1) year.	Complied. Provision has been made for trade debts as at 30 November 2001 that are in dispute, facing legal action and are aged more than one (1) year, that have not been repaid subsequent to 30 November 2001.
		(vi) The Directors of SMIS are to provide written confirmation to the SC that the overdue debts referred to in (iv)(d) above are recoverable and that provision has been made for the doubtful/bad debts referred to in (v) above.	Complied
		(vii) Any further transactions between the SMIS Group and the companies related to the promoters, directors and substantial shareholders of SMIS must be made on an "arm's length" basis and should not be detrimental to the SMIS Group. In this regard, the audit committee of SMIS is required to monitor and report such transactions (if any) in the annual report of SMIS Group annually.	To be complied with when applicable
		(viii) CIMB and SMIS are to inform the SC of the actual issue price of the Issue Shares when the same is determined, as well as any change in utilisation of proceeds.	Complied
		(ix) SMIS is required to fully comply with the relevant requirements pertaining to the listing of companies as stipulated in the SC's Policies and Guidelines on Issue/Offer of Securities, in particular chapters 7, 10 and 25 of the aforesaid Guidelines.	Complied or to be complied with, as applicable
		(x) SMIS is to fully comply with the SC's Policies and Guidelines on Issue/Offer of Securities in respect of placement of securities as part of a listing scheme.	Complied/To be complied with when applicable

7. INFORMATION ON THE SMIS GROUP (Cont'd)

7.5 Business Overview

SMIS is principally an investment holding company while the principal activities of the subsidiaries can be classified into two (2) categories namely the manufacturing of automotive components and accessories and the trading and supplying of machinery and industrial parts. A brief description of the Group's main activities are as follows:-

7.5.1 Manufacturing of Automotive Components and Accessories**(i) Products and Markets**

The Group's income is mainly derived from the manufacturing of automotive parts and components which can be broadly categorised into three (3) main market segments, namely the original equipment ("OE"), replacement equipment ("RE") and export markets.

(a) OE Market

For this market, the Group works closely with local motor vehicle manufacturers and assemblers in the planning and design of the latest models. The Group develops prototypes which would be subject to testing and quality checks before the supply of the part and component is confirmed. The Group's products in this market category include moulded and non-moulded carpets and automotive carpet-based interior trims, conventional brake and clutch components, motorcycle components and ABS.

(b) RE market

The RE market as a percentage of the total revenue of the Group is not significant currently but this market is anticipated to increase as the car ages thus requiring more replacement. Sales to the RE market amounted to RM295,964 for the year ended 31 December 2000 and RM197,848 for the eleven (11) months ended 30 November 2001.

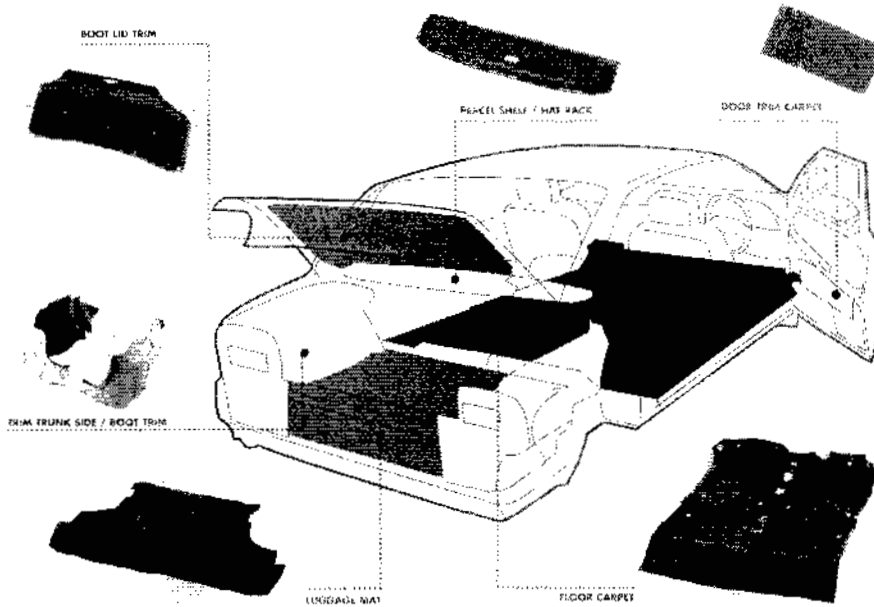
Nevertheless, the Group is an approved supplier to recognised dealers such as Proton Part Centre Sdn. Bhd., Toyota's Parts and Accessories and Parts Centre of Perodua. This market category includes non-moulded carpets and automotive carpet-based interior trims, conventional brake and clutch components, motorcycle components and ABS.

(c) Export market

The Group started exporting OE carpet-based interior trims to Japan for Mazda cars and polyester yarn waste and polyester fibre waste to Thailand in early 2000, further details of which have been set out in Section 4.15 and 9.2 of this Prospectus.

7. INFORMATION ON THE SMIS GROUP (Cont'd)

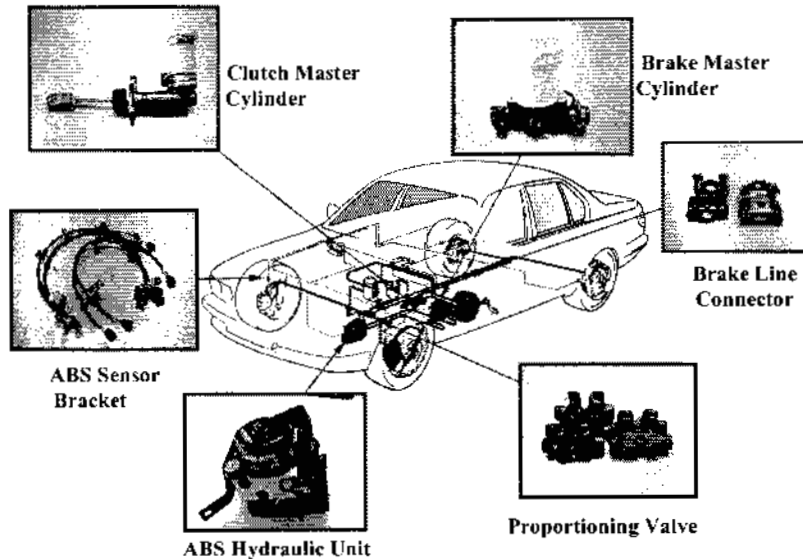
The following diagrams provide pictorial illustration of some of the products of the SMIS Group in automotive components and accessories:-



Note:-

The diagram of the motor vehicle above is for illustrative purposes only and does not represent any particular make or model of motor vehicle.

GCI'S MOULDED AND NON-MOULDED CARPETS AND AUTOMOTIVE CARPET-BASED INTERIOR TRIMS IN A MOTOR VEHICLE



Note:-

The diagram of the motor vehicle above is for illustrative purposes only and does not represent any particular make or model of motor vehicle.

SANYCO'S BRAKE AND CLUTCH COMPONENTS IN A MOTOR VEHICLE

7. INFORMATION ON THE SMIS GROUP (Cont'd)

(ii) Location of operations

The Group manufactures two (2) categories of products in two (2) main locations.

(a) Port Klang, Selangor Darul Ehsan

The Group's manufacturing plant in Port Klang, Selangor Darul Ehsan was established in 1983 and has a land area of approximately 12,141 sq.m. with a total built up area of approximately 10,310 sq.m. The production plant occupies almost 90% of total floor space.

Automotive carpets and carpet-based interior trims are manufactured in this plant. They include the following:-

- Floor carpet;
- Boot trim (side and rear);
- Luggage mat;
- Trunk lid and spare tyre cover;
- Parcel shelf ;
- Carpet in roll form;
- Seat backing; and
- Insulation materials for roof lining.

The factory in Port Klang, Selangor Darul Ehsan is currently running at just above 75% capacity with 1½ shifts of 8 hours per shift. This is equivalent to an output volume of approximately 180,000 sq.m. of carpet per month which is then converted into approximately 12,000 pieces of moulded and other carpet products per month.

The Group is looking into acquiring two (2) additional moulding machines and metal moulds with cooling system technology which would enhance quality and productivity.

(b) Hicom Glenmarie, Selangor Darul Ehsan

The Hicom Glenmarie plant in Selangor Darul Ehsan was set up in 1996. The plant which manufactures and assembles brake and clutch components (both conventional and ABS), and motorcycle components, was originally located in the Pandamaran Industrial Park in 1991 before relocating to the present Hicom Glenmarie Industrial Park in Selangor Darul Ehsan. The single storey plant has a land area of approximately 71,000 sq.ft. and a built-up area of approximately 50,000 sq.ft. The plant has capacity to be extended and another storey will be added to the building in the coming years.

The range of products manufactured by the plant are as follows:-

- Brake master cylinder;
- Clutch master cylinder;
- Proportioning valve;
- Brake line connector;
- ABS – final assembly only;

7. INFORMATION ON THE SMIS GROUP (Cont'd)

- Wheel cylinder; and
- Crown handle bracket (for motorcycles).

The capacity of the above plant is as follows:-

Product	Monthly installed capacity (Pieces)	Current plant utilisation (Pieces)
Brake master cylinder & clutch master cylinder	37,500	23,000
Proportioning valve & connector	21,500	20,000
ABS	4,000	2,000

The monthly installed capacity is based on 24 working days with 24 hours operation at an operation ratio of 100%.

(iii) Production Process and Technology

A summary of the manufacturing processes of the two (2) plants are set out below:-

(a) Port Klang, Selangor Darul Ehsan

The production plant in Port Klang, Selangor Darul Ehsan which is dedicated to the manufacturing of automotive carpets employs the following production process:-

In the manufacturing of automotive carpets, the fibres of correct specifications are first loosened prior to blending in the hopper. It will then be transferred to the carding machine, followed by continuous needle punching process with pre-determined width, thickness and density. Upon completion of this process, some carpets are directed to additional punching process using special machine to produce the required pattern and final surface as required by the customer.

All carpets (with and without patterns) will be coated with latex, synthetic resin and compound, and will be dried in an in-built oven within the spraying machine.

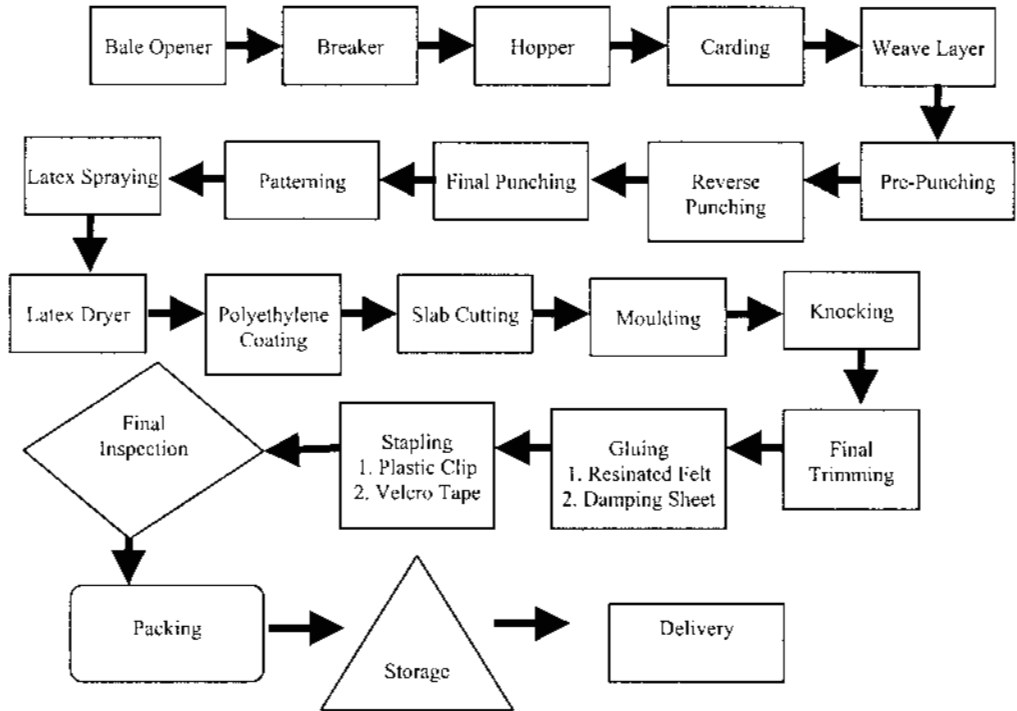
The subsequent process is the direct lamination of the carpet with a secondary backing, for example, with low density polyethylene. The laminated carpets are then cut into sheets or slabs of specified dimensions, using automatic slab cutting machines.

Subsequently, the carpet sheets are fitted onto hydraulic presses or moulding machines to form the carpets into the desired shapes and profiles.

7. INFORMATION ON THE SMIS GROUP (Cont'd)

Knocking and trimming of the formed carpets is the next process, where it is performed manually and/or by a robotic high-pressure water-jet cutting system.

Prior to the packing process, the carpets undergo final assembly for accessories such as velero tapes, plastic clips, pads, hooks and resinated felt underlay.



FLOW CHART ON THE PRODUCTION PROCESS FOR FLOOR CARPETS

(b) Hicom Glenmarie, Selangor Darul Ehsan

The production technology of the Hicom Glenmarie plant in Selangor Darul Ehsan is a hybrid of technology from Taiwan, Republic of China, Germany and Japan through technical collaboration with a few world-renowned manufacturers of brake systems and motorcycle components. The manufacturing of brake systems and motorcycle components involve the following processes:-

Casting Line

This line is equipped with modern molten aluminium refining holding furnaces, gravity casting machines and heat treatment facilities. The casting machines are capable of producing a wide-range of high quality aluminium casting with minimal rejects.

Machining Line

This line houses state-of-the-art machines which include automatic turning machines, high precision Computerised and Numerical

7. INFORMATION ON THE SMIS GROUP (Cont'd)

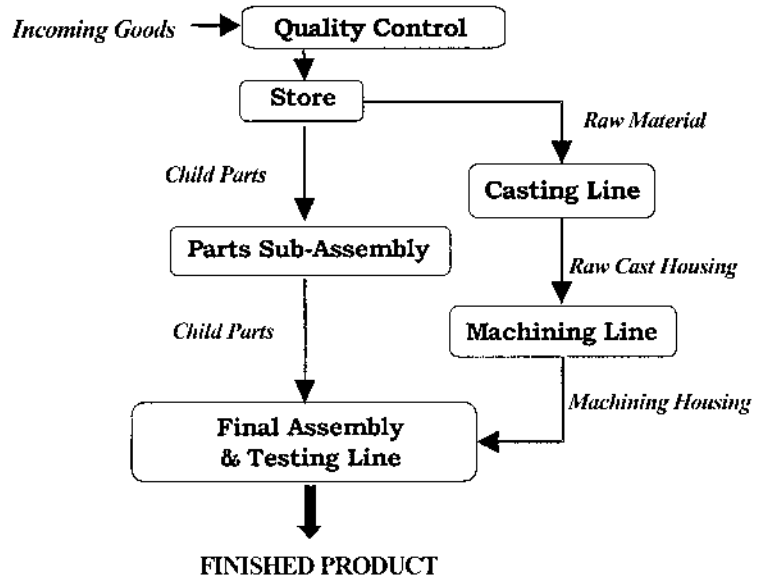
Control tapping and milling machines, leakage testers and specially designed cleaning machines. Products are given dimensional and surface finishing in this line.

Part Sub-Assembly

This line accommodates fool-proof devices to ensure that the sub-assembly of child parts is performed accurately and with minimal opportunities for human error.

Final Assembly and Testing Line

This line holds sophisticated computerised testing equipment and machines that are fitted with self-diagnosis capabilities to meet international quality specifications.



FLOW CHART OF THE PRODUCTION PROCESS FOR CLUTCH AND BRAKE SYSTEMS

(iv) Quality Control

The Group performs quality checks on its products in accordance with the requirements of ISO 9002 and QS 9000 International Standards. Its safety components are further tested by state-of-the-art and computerised self-diagnostic on-line testing. In addition to the above, the products are further subject to SIRIM's testing and car manufacturers' and assemblers' own quality standards, where applicable. Apart from quality checks at the final inspection, fool-proof checking methods are also in-built into every point of production.

The Hicom Glenmaric plant is already ISO 9002 certified and the Port Klang plant is currently in the process of obtaining the accreditation by the end of the year 2002.

The Group's stringent quality control has now gained international recognition and this has helped it break into the export market in 2000.

7. INFORMATION ON THE SMIS GROUP (Cont'd)

(v) R&D

The Group places emphasis on R&D to ensure that its products are of the highest quality and that its products conform to the stringent quality standards set by car manufacturers and assemblers. The R&D department stresses on product and process improvement. The R&D department is often directly involved in the design and development of prototypes for new automotive models together with car manufacturers and assemblers. This symbiotic arrangement has ensured continued product development and even enhancement in the accuracy and precision in the production processes. This in turn contributes to the long term viability of the Group.

The R&D department in SMIS has two (2) main objectives:-

- (a) manufacturing process improvements with emphasis on efficiency, productivity and quality; and
- (b) development of new products, materials and instruments relating to the automotive carpet-based interior-trims and clutch, brake and motorcycle components.

The Group's R&D department are located at the two (2) factories mentioned in Section 7.5.1 (iii)(a) and (b) above. The salient features of the R&D activities are:-

	Port Klang (GCI)	Hicom Glenmarie (Sanyco)
(a) Facilities available	<ul style="list-style-type: none"> • Abrasion test equipment, colour test machines, microscopic fibre material analyser • Auto-Computer Aided Design version 2000 systems which among other functions, allows GCI to receive customers' specifications in soft form rather than the traditional prototypes. This allows for greater product understanding and testing which saves time and minimises errors • Other comprehensive tests will be carried out by SIRIM with the assistance of SMIS engineers 	<ul style="list-style-type: none"> • Auto-Computer Aided Design version 2000 systems • Range of laboratory equipment to test functionality and reliability of the company's range of products

7. INFORMATION ON THE SMIS GROUP (Cont'd)

	Port Klang (GCI)	Hicom Glenmarie (Sanyco)
(b) Personnel involved	<ul style="list-style-type: none"> • No external assistance • A team of eleven (11) including three (3) engineers with extensive experience in the field of automotive carpet-based products 	<ul style="list-style-type: none"> • Technical assistance from San Yes • Appointment of a lecturer from a local university to perform research and study in car braking system design and engineering • A team of six (6) engineering personnel
(c) Current R&D activities	<ul style="list-style-type: none"> • Development of new products for Proton, Perodua, Honda, Nissan and certain range of Toyota's new models 	<ul style="list-style-type: none"> • Development of new products for Proton and Perodua • Child part localisation • Design to improve quality and production costs
(d) Achievements		
- New products	<ul style="list-style-type: none"> • Value Analysis Value Engineering ("VAVE") adopted by GCI whereby GCI is able to provide product enhancement services to its customers with cost efficiency at the stage of developing a new vehicle model (also known as simultaneous engineering) and after the vehicle is available in the market. 	<ul style="list-style-type: none"> • Seven (7) new brake master cylinder models • Three (3) new clutch master cylinder models • Two (2) new proportioning valve models • Two (2) new brake line connector models
- New processes	<ul style="list-style-type: none"> • Development of moulds that reduces mould setting time by one (1) hour without compromising product quality • Development of moulds where the trimming and forming processes are performed simultaneously • Development of new process jigs to reduce dependency on manual labour • Installation of infra-red heaters oven in order to improve heating efficiency thus reducing process cycle time 	<ul style="list-style-type: none"> • Direct forming process in machining to eliminate the use of tube seats in proportioning valve assembly which has substantially reduced leakage rejection rate from 5% to the current rate of less than 0.5% • Combined cutter design which consolidates cutting activities into one location reducing machine time by approximately 40% • Application of a "c-clip" which allows certain rejected parts to be reworked thereby reducing waste • Reconfiguration of the factory's heat treatment process which gives the end products a better surface appearance

7. INFORMATION ON THE SMIS GROUP (Cont'd)

	Port Klang (GCI)	Hicom Glenmarie (Sanyco)
(e) Future plans	<ul style="list-style-type: none"> • Two (2) years goal to achieve higher VAVE capabilities • One (1) year study on the "Failure Mode and Effect Analysis" • Four (4) years project to develop new carpet backing that is more cost effective, of equivalent if not higher quality • Additional in-house testing facilities 	<ul style="list-style-type: none"> • Three (3) years program to achieve 100% localisation of child parts • Two (2) years to develop five (5) new models to its current range of products • Two (2) to four (4) years target to develop the clutch slave cylinder and the intake manifold which is currently not manufactured by Sanyco • Five (5) years knowledge transfer from San Yes on the processing method of processing magnesium alloy for the automotive industry • A continuous quest to improve productivity, efficiency and quality • Additional in-house testing facilities

The following are major expenses incurred by the Group in respect of its R&D activities for the past five (5) financial years ended 31 December 2000 and eleven (11) month period ended 30 November 2001:-

	<-----Year ended 31 December----->					11-month period ended 30 November
	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Staff cost	218	314	306	433	504	559
Technical assistance fees	136	109	107	-	-	-
Royalty	100	124	87	78	72	114
Consumables and chemicals	-	30	24	51	56	59
Testing fee	60	33	12	23	14	36
Depreciation and maintenance of moulds and jigs	14	6	10	28	81	100

7. INFORMATION ON THE SMIS GROUP (Cont'd)

(vi) Technical Assistance Agreement

The Group has teamed up with its foreign corporate shareholder San Yes from Taiwan, Republic of China, vide a Licence & Technical Assistance Agreement dated 29 May 2000 to facilitate the transfer of technological know-how for the manufacture of certain automotive clutch and brake components. In the Licence and Technical Assistance Agreement, San Yes had agreed to provide technical assistance in the manufacture and sale of licensed devices for master cylinder, proportioning valve, clutch master cylinder, clutch slave cylinder and wheels cylinder. As compensation, San Yes is paid royalty on the sale of the components. The said agreement which expires in 2005, includes personnel training and does not limit the Group's rights to export. Additionally, San Yes, a manufacturer of automotive components in Taiwan, Republic of China, has close collaboration and licensing agreements with foreign international automotive parts manufacturers in the development of the Group's products. These include:-

- Continental Teves AG & Co. oHG from Germany; and
- A.L. Dunn Co. Ltd. from United Kingdom.

In this respect, both plants of the Group are fitted with machinery capable of mass volume production in line with world-class manufacturers.

(vii) Customers, Market Share and Competition

The Group faces competition from various quarters. However, in respect of the manufacturing and marketing of moulded floor carpets and carpet-based interior trims, the Directors of SMIS believe that GCI is currently one of the market leaders in terms of the supply of automotive moulded carpets in Malaysia. Sanyco is a major local assembler of ABS and local manufacturer of automotive brake master cylinders, proportioning valves, clutch master cylinders and wheel cylinders. Proton, being Sanyco's main customer, has sourced these components from Sanyco for the past six (6) years. Due to high barriers of entry and good relations between Proton and Sanyco, it is not expected that any competitors may pose a significant threat to Sanyco.

The top five customers of the Group in respect of its automotive components and accessories business are:-

No.	Customers	←-----% of revenue -----→		Years of relationship
		Year ended 31 December 2000	Eleven (11)-month period ended 30 November 2001	
1.	Proton	44.28	45.20	15
2.	CNM Industries Co. Ltd.	10.70	6.00	1
3.	Assembly Services Sdn. Bhd.	2.23	2.40	15

7. INFORMATION ON THE SMIS GROUP (Cont'd)

No.	Customers	<-----% of revenue ----->		Years of relationship
		Year ended 31 December 2000	Eleven (11)-month period ended 30 November 2001	
4.	Perodua Manufacturing Sdn. Bhd.	2.19	2.60	7
5.	Kah Motor Co. Sdn. Bhd.	2.13	*-	8

Note:-

- * *The franchise for Honda cars was taken over by DRB-Oriental-Honda Sdn. Bhd. ("DOH") during the eleven (11)-month period ended 30 November 2001. Whilst the Group continued sales of automotive components and accessories for Honda cars to DOH, the percentage of revenue from sales to DOH for the eleven (11)-month period ended 30 November 2001 was not significant.*

For the financial year ended 31 December 2000, no customers except for Proton and CNM Industries Co. Ltd. contributed more than 10% of the Group's revenue. Only Proton contributed more than 10% of the Group's revenue for the eleven (11)-month period ended 30 November 2001. Approximately 44.3% and 45.2% of the Group's revenue for the financial year ended 31 December 2000 and eleven (11)-month period ended 30 November 2001 respectively was attributable to Proton. However, the Group's exposure to Proton is mitigated by Proton's status as a national project, and the barriers to entry faced by potential competitors. Furthermore, the Group supplies to a significant portion of the moulded floor carpet requirements of locally assembled vehicles including Perodua and the non-national car segments including Honda, Toyota, Peugeot, Nissan and Ford.

The Directors of SMIS believe that the Group is likely to maintain its market share because of the following:-

- Technological know-how and capital intensive nature of prototype development.
- Series of stringent quality tests required by automotive manufacturers and assemblers will take about two (2) years before final acceptance of the products.
- The payback period on investment is relatively long.
- A good customer-supplier relationship between the Group and all its customers.

(viii) Major Supplies and Sourcing of Raw Materials

The SMIS Group enjoys established relationships with the suppliers for their manufacturing activities.

7. INFORMATION ON THE SMIS GROUP (Cont'd)

The main suppliers for the manufacture of automotive carpets are as follows:-

Supplier	Materials	Length of relationship (years)	% of purchases of GCI for the financial year ended 31 December 2000	% of purchases of GCI for the eleven (11)-month period ended 30 November 2001
Local				
None*	-	-	-	-
Foreign				
Taiwan Polypropylene Co. Ltd. (Taiwan, Republic of China)	Polypropylene fibre	10	5.95	5.81
Berry Yarns SA (Belgium)	Yarn	3	3.74	2.67
Chimoco Industrial Co. Ltd. (Taiwan, Republic of China)	Polyester fibre	9	12.06	17.84

Total purchases of raw materials in respect of the manufacture of automotive carpets amounted to RM12.420 million for the financial year ended 31 December 2000 and RM12.615 million for the eleven (11)-month period ended 30 November 2001.

The main suppliers for the manufacture of automotive brake and clutch components are as follows:-

Supplier	Materials	Length of relationship (years)	% of purchases of Sanyco for the financial year ended 31 December 2000	% of purchases of Sanyco for the eleven (11)-month period ended 30 November 2001
Local				
None*	-	-	-	-
Foreign				
Continental Teves AG & Co. Ltd. (Taiwan, Republic of China)	Piston, spring set, o-ring, tube seat, level sensor	7	13.53	10.43
Shanghai Automotive Brake Systems Co. Ltd. (China)	Hydraulic and electronic control unit for ABS	3	28.18	27.86

Note:-

* There is no single individual local supplier supplying more than 10% of purchases of each company for the financial year ended 31 December 2000 and eleven (11)-month period ended 30 November 2001.

Total purchases of raw materials in respect of the manufacture of automotive brake and clutch components amounted to RM14.574 million for the financial year ended 31 December 2000 and RM13.502 million for the eleven (11)-month period ended 30 November 2001.

7. INFORMATION ON THE SMIS GROUP (Cont'd)

Aluminium alloy ingots, yarn, polyester and polypropylene staple fibres represent the primary raw materials required by the Group's manufacturing activities. Whilst aluminium alloy ingots are readily available locally, yarn, polypropylene and polyester staple fibres that are consumed are imported from Taiwan, Republic of China and Belgium. The Group maintains a multi-sourcing policy.

The Group started its localisation program to increase the percentage of local materials in its products beginning six (6) years ago. To date, it has increased its local material content in its automotive components products to an average of 70% from 20% seven (7) years ago. The Group is continuously seeking local suppliers to shorten delivery time and to decrease the risks associated with dependence on foreign suppliers.

The Group has good working relationships with its raw materials suppliers, some of which have been with the Group since the start of operations and many of the local suppliers are located in the state of Selangor Darul Ehsan and the Federal Territory of Kuala Lumpur. This ensures uninterrupted supply of raw materials and parts at competitive prices.

(ix) Marketing and Method of Distribution

Marketing and promotional activities are undertaken by the senior management led by the Directors who have been in the industry for more than fifteen (15) years. The Group places significant emphasis on meeting customers' quality standards at the lowest possible cost with timely and accurate delivery. The Group's products are packaged and distributed directly to the customers' production plants for installation onto the vehicles.

(x) Employees

As at 22 February 2002, the Port Klang and Hicom Glenmarie plants employed 180 and 49 staff respectively in the following capacity:-

Department	Port Klang plant	Hicom Glenmarie plant
	(GCI)	(Sanyco)
	No. of staff	No. of staff
Senior management	3	2
Finance and administration	16	5
Marketing and sales	3	.*
Production	132	27
R&D	11	6
Maintenance	6	1
Quality control	9	8
Total	180	49
No. of years plant in operation	18	10
Average no. of years of service of employees	3.5	2.4

7. INFORMATION ON THE SMIS GROUP (Cont'd)

Note:-

- * *The directors and senior management carry out all of Sanyco's marketing and sales activities.*

GCI and Sanyco both undertake training and development programmes for their key employees in a structured manner. Staff are sent on courses conducted either locally or overseas on fields that relate to the job that they are doing. Most overseas training are with San Yes, with whom Sanyco has a Licence & Technical Assistance Agreement which includes, among others, technical transfer and training in Taiwan, Republic of China. The most recent and extensive staff training was the ISO 9002 in line with the Hicom Glenmarie plant's ISO 9002 certification. Sanyco has a training arrangement with a lecturer from a local university which involves certain key employees in the field of Automotive Design & Engineering.

GCI and Sanyco plan to increase their staff strength to 215 and 57 respectively by 2003 as follows:-

	Port Klang plant (GCI)		Hicom Glenmarie plant (Sanyco)	
	As at 22.02.02	in 2003	As at 22.02.02	in 2003
Senior management	3	4	2	2
Finance and administration	16	12	5	4
Marketing and sales	3	3	-	-
Production	132	177	27	40
R&D	11	4	6	4
Maintenance	6	8	1	1
Quality control	9	7	8	6
Total	180	215	49	57

Currently, Malaysians occupy the top and middle management posts and will continue to do so.

The employees do not belong to any labour union and enjoy a cordial relationship with management. There is, and has been, no labour or industrial dispute between employees and management.

(xi) Interruption to Operations

There has been no interruption to the business or operations of the Port Klang or Hicom Glenmarie plants for the past twelve (12) months.

(xii) Key Achievements, Milestones, Awards of GCI and Sanyco

The following are the key achievements, milestones and awards of GCI and Sanyco:-

	Year	Key Achievements
GCI	1994	MBf Automobile Sdn. Bhd.'s Recognition Award in appreciation of being a Certified Supplier of Components for Jeep vehicle

7. INFORMATION ON THE SMIS GROUP (Cont'd)

Year	Key Achievements
1996	Award for outstanding achievement as Assembly Services Sdn. Bhd.'s ("ASSB") Top Five Supplier for Year 1996 for Best Quality Performance. ASSB is the assembler of Toyota cars in Malaysia
1997	Award for outstanding achievement as ASSB's Top Local Supplier for Year 1997 for Best Cost Reduction Effort by a Supplier
1999	Outstanding award as ASSB's Top Three Local Supplier for Year 1999 for Best Cost Effort
2000	Excellence Honorary Tribute from Kah Motor Co. Sdn Bhd. for support and co-operation in helping Honda achieve "No. 1 Best-Selling Car 1990-1999"
2001	Best Overall Performance Award for Year 2000 by ASSB
Sanyco	1999 ISO 9002 accreditation awarded on 23 July 1999

7.5.2 Trading in Machinery and Industrial Parts Supplies
(i) Products and Markets

The Group is also involved in the trading of machinery and industrial parts through its wholly-owned subsidiary, MIS. The operations is located in a warehouse with a land area of 3,685.00 sq. m. and built-up area of 3,866.50 sq. m. in Jalan Chan Sow Lin, Kuala Lumpur, Wilayah Persekutuan. However, this area of business contributed to only 26.64% of turnover and 14.39% of profit after taxation to the proforma Group's results for the year ended 31 December 2000. For the eleven (11)-month period ended 30 November 2001 the % contribution to the proforma Group's turnover and profit after taxation amounted to 25.90% and 11.80% respectively. The products that MIS supplies include:-

- Gears/Sprockets;
- Frequency inverters;
- Couplings;
- Chains – roller or conveyor;
- Belts;
- Gear boxes;
- Motors; and
- Helical rotor pumps.

In addition to trading, MIS also provides technical expertise in the use of their products to its customers. MIS has an extensive distribution network via dealers to market its products which support a broad spectrum of industries including palm oil, sugar, rubber processing, food and general manufacturing.

7. INFORMATION ON THE SMIS GROUP (Cont'd)

(ii) Principals

MIS's established principals are as follows:-

Principal	Major Products	Length of relationship (years)
Oriental Chain Manufacturing Co. Ltd. (Japan)	Roller chains, conveyor chains and sprockets	25
SKF Malaysia Sdn. Bhd. ("SKF") (Wholly-owned subsidiary of SKF Far East Co. Ltd. - Sweden)	Bearings	23
Wayplas Ltd. (United Kingdom)	Oil impregnated nylon tubes, rods and sheets	13
ROTO Pumps Ltd. (India)	Helical rotor pumps	25
Jen Wu Machinery Co. Ltd. (Taiwan, Republic of China)	Gear reducers	10
Elecon Engineering Co. Ltd. (India)	Gear reducers, gear motors, flexible couplings, gear couplings and fluid couplings	10
Hofa Engineering Corporation (Taiwan, Republic of China)	Frequency inverters	4

However, due to the diverse range of products that MIS carries, only SKF supplies more than 10% of MIS's purchases. SKF supplied RM2.229 million or 17.07% of MIS's purchases for the financial year ended 31 December 2000 and RM2.252 million or 18.86% for the eleven (11)-month period ended 30 November 2001.

(iii) Sourcing of Products

MIS purchases couplings, bearings and sprockets locally which accounts for an average of 10% of total purchases. The other products are imported from the Group's principals abroad. The Group has a cordial relationship with all of its principals as evidenced by the long working relationship they enjoy with a number of the principals. In addition, the Group often sends its employees for product training at the principals' training facilities overseas.

(iv) Customers, Market Share and Competition

MIS markets its products to many customers, none of which comprise more than 10% of the Group's revenue.

7. INFORMATION ON THE SMIS GROUP (Cont'd)

(v) Marketing and Method of Distribution

MIS has established over the years an efficient physical distribution system capable of providing quick and reliable delivery. This has enabled MIS to pass on substantial savings to customers, thereby gaining a competitive advantage. Its products are channelled through an established network of dealers and end-users created over the last 25 years. MIS places great emphasis on service and supports the service requirements of its customers via the synergy of associated product lines, technical support service and inventory holding.

(vi) Employees

As at 22 February 2002, the trading office at Jalan Chan Sow Lin, Kuala Lumpur, Wilayah Persekutuan employed 35 staff in the following capacity:-

Department	No. of staff
Senior management	7
Finance and administration	9
Marketing and sales	19
Total	35
No. of years trading office in operation	26
Average no. of years of service of employees	9.8

These employees do not belong to any labour union and enjoy a cordial relationship with management. There is and has been no labour or industrial dispute between employees and management.

(vii) Interruption to Operations

There has been no interruption to the business or operations of the trading office at Jalan Chan Sow Lin, Kuala Lumpur, Wilayah Persekutuan for the past twelve (12) months.

(viii) Key Achievements, Milestones, Awards of MIS

The following are the key achievements, milestones and awards of MIS:-

	Year	Key Achievements
MIS	1992-1993	Award from ROTO Pumps Ltd. for Best Overseas Distributor (Most Improved Sales Performance)
	1993-1994	Award from ROTO Pumps Ltd. for Outstanding Sales Performance Award
	1995-1996	Award from ROTO Pumps Ltd. for Best Overseas Distributor (Highest Sales Performance)
	1993 to 1999	SKF Million Dollar Club Award from SKF