

SMIS Corporation Berhad

(Company No. 491857-V)

(Incorporated in Malaysia)

and its subsidiaries

A Notes to Interim Financial Report on Consolidated Results for the Period Ended 30 September 2014

A1 Basis of preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 30 September 2014 and has been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad and Malaysian Financial Reporting Standards (MFRS) 134, Interim Financial Reporting in Malaysia. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2013.

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

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

A2 Changes in Accounting Policies

The significant policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2013.

A3 Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2013 was not subject to any qualifications.

A4 Seasonal or cyclical factors

As reported by the Malaysian Automotive Association (MAA), the passenger vehicles sector recorded 139,873 new passenger vehicles registrations for the quarter ended 30 September 2014, which represents a 9.47% decrease as compared to 154,497 units for the corresponding period in the previous year.

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

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

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

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

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The following dividend was paid during the current period.

In respect of financial year ended 31 December 2013**RM'000**

First and final single tier dividend of 2.5 sen per ordinary share paid on 10 July 2014.

1,055**A8 Debts and equity securities**

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

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

A9 Segmental reporting

Segmental analysis of the results and assets employed for the 9 months period ended 30 September 2014:

<i>Business segments</i>	Automotive Parts RM'000	Machinery Parts RM'000	Plastic RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
Revenue from external customers	96,712	9,987	4,279	-	-	110,978
Segment results	7,449	126	(2,307)	(356)	-	4,912
Interest income						130
Financing costs						(366)
Profit before taxation						4,676
Tax expense						(1,717)
Profit after taxation						2,959
Translation reserve						4
Total comprehensive income for the period						2,963

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<i>Business segments</i>	Automotive		Machinery		Others	Eliminations	Consolidated
	Parts	Parts	Plastic				
	RM000	RM000	RM000		RM000	RM000	RM000
Segment assets	86,257	18,057	14,475		3,051	(6,459)	115,381
Total assets							<u>115,381</u>
Segment liabilities	29,930	1,485	15,396		591	(17,868)	29,534
Total liabilities							<u>29,534</u>
<i>Business segments</i>	Automotive	Machinery		Discontinued	Eliminations	Consolidated	
	Parts	Parts	Plastic	Operation			
	RM000	RM000	RM000	RM000	RM000	RM000	
Capital expenditure	4,267	34	492	-	-	4,793	
Depreciation of investment properties	5	12	-	-	-	17	
Depreciation of property, plant and equipment	3,429	268	409	-	-	4,106	

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

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

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

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A11 Material events

In the opinion of the Directors, there are no items, transactions or events of a material and unusual nature which have arisen since 31 December 2013 to the date of this announcement.

A12 Changes in the composition of the Group

There were no changes in the composition of the Group during the financial period ended 30 September 2014.

A13 Contingent assets and contingent liabilities

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

A14 Capital commitments

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

	As at 30.09.2014 RM'000	As at 30.09.2013 RM'000
Plant and equipment Contracted but not provided in the financial statements	<u>569</u>	<u>848</u>

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B Additional Information Required by Bursa Malaysia Securities Berhad (“Bursa Malaysia”) Main Market Listing Requirements

B1. Review of performance

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

Revenue by segment	For the	For the	Increase / (Decrease)	
	quarter ended 30.09.2014 RM'000	quarter ended 30.09.2013 RM'000	RM'000	%
Automotive parts	31,327	29,672	1,655	5.58%
Machinery parts	3,765	3,929	(164)	(4.17%)
Plastic	1,882	740	1,142	154.32%
	<u>36,974</u>	<u>34,341</u>	<u>2,633</u>	<u>7.67%</u>
PBT by segment				
Automotive parts	1,603	3,269	(1,666)	(50.96%)
Machinery parts	92	131	(39)	(29.77%)
Plastic	(488)	(430)	(58)	(13.49%)
	<u>1,207</u>	<u>2,970</u>	<u>(1,763)</u>	<u>(59.36%)</u>

The Group's revenue recorded a 7.67% increase for the quarter ended 30 September 2014, in comparison to the previous corresponding period.

Automotive parts

Overall revenue improved slightly, demand remains consistent and strong evident from MAA's upward revision of its forecast volume for the industry earlier this year. However; part of the increase in revenue from carpet products was offset by weaker sales of braking products, mainly caused by poorer export volumes to Thailand. PBT dropped despite the slight improvement in the revenue. This is mainly due to slower sales of premium products and lesser-than-premium products gaining more momentum.

Machinery parts

Revenue generation for the reporting quarter remained consistent with the plans, registering an increase over the previous quarters of the year. While year-on-year revenue remained comparable, PBT dropped due to change in the product mix owing to less order from Indonesia.

Plastic

Despite a revenue growth of 154%, PBT continue to slip due to higher raw material and operational cost over same quarter. Adjustments to selling prices to reflect market situation is expected to recover loss margins. Efforts in driving higher value products through existing customers, cost cutting measures and better production planning to reduce start/stop downtime is expected to help further.

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	Revenue		Profit before Tax	
	Quarter Ended 30.09.2014 RM000	Quarter Ended 30.06.2014 RM000	Quarter Ended 30.09.2014 RM000	Quarter Ended 30.06.2014 RM000
Consolidated total	36,974	38,521	1,207	2,421
Business Segment:				
Automotive parts	31,327	34,268	1,603	3,098
Machinery parts	3,765	2,930	92	(80)
Plastic Resin	1,882	1,323	(488)	(597)

The Group's revenue for the reporting period recorded a 4% decrease in comparison to the preceding quarter.

Automotive parts

Revenue dropped by 8.58%; mainly due to festive holiday plant shutdown by the OEMs, higher than normal rejection of new carpet products (we expect rejection rates to normalize with continuous process improvements) and higher product cost caused by short term outsourcing of some processes instead of in house production caused the drop in PBT for the reporting period.

Machinery parts

With order-in-hand position improving, Q3q2014 revenue increased as compared to preceding reporting period. This is reflected in the improved PBT over Q2q2014.

Plastic

On the preceding quarter, the company registered improved results due commercialization of earlier developments. Q3 is also a typical high season for electronics segment where primarily demand is higher than normal.

B3. Prospects for 2014**Automotive parts**

MAA industry forecast for 2014 is as follows:

Market segment	2014	2013	Variance	
	Forecast	Actual	Units	%
Passenger vehicles	598,400	576,657	21,743	3.8%
Commercial vehicles	81,600	79,136	2,464	3.1%
Total vehicles	680,000	655,793	24,207	3.7%

Without of any evidence of a short term softening of the market we expect local demand in the automotive sector to remain on its current trend with a steady growth. However; a reduced export sales of braking products to Thailand seems set to continue into the last quarter.

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B3. Prospects for 2014 (cont’d)

Machinery parts

Order intake has gradually increased during Q2q2014 and a portion of these orders-in-hand could be executed during Q4q2014. Even though the market continues to remain sluggish throughout the region, there are some positive movements in the palm oil sector with clear indications that some of the projects are likely to move forward suggesting the possibility of a minor recovery within the industry.

Plastic

Initiative in reviewing selling prices and introduction of higher value products to current clients by driving more product commercialization will help improve margins. Volumes in Q4q2014 is expected to be lower with the Christmas shopping production cycle over. However; the management is adamant in driving a wider range of products through to its current customers whilst working on new customers concurrently to mitigate the seasonal slow-down. The company also continues to expand its sourcing initiative to secure better cost vs quality balance.

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

The Group did not announce or provide any profit estimate, forecast, projection, internal targets for the financial period ending 30 September 2014.

B5. Taxation

	3 months period ended		Financial period ended	
	30.09.2014	30.09.2013	30.09.2014	30.09.2013
	RM'000	RM'000	RM'000	RM'000
Income tax expenses				
- Current year	537	1,096	1,512	2,799
- Prior year	-	-	-	-
	537	1,096	1,512	2,799
Deferred tax				
- Origination and reversal of temporary differences	(261)	(134)	(304)	16
- Prior year	192	-	509	-
	468	962	1,717	2,815

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

B6. Status of corporate proposals announced

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

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

	3 months period ended		Financial period ended	
	30.09.2014	30.09.2013	30.09.2014	30.09.2013
	RM'000	RM'000	RM'000	RM'000
Interest income	34	33	130	143
Other income including investment income	119	223	272	675
Interest expenses	(97)	(130)	(310)	(420)
Depreciation and amortization	(1,598)	(1,382)	(4,123)	(3,536)
Development cost	238	(45)	(455)	(386)
Net foreign exchange gain	42	198	20	348

Other than the above, there was no gain or loss on disposal of quoted or unquoted investments or properties, gain or loss on derivatives and exceptional items included in the results for the current quarter ended 30 September 2014.

B8. Group’s borrowings and debt securities

	30.09.2014
	RM'000
	Secured
Current	
Borrowings . Bankers' acceptances	1,003
Borrowings . Short Term Revolving Credit	301
Borrowings . Term loan	134
Borrowings . Bank Overdraft	3,130
Borrowings . Hire-Purchase	38
	<u>4,606</u>
Non-current	
Repayable after more than 12 months	
Borrowings - Term Loan	2,126
	<u>2,126</u>

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

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

B10. Dividend

The Board of Directors does not recommend any dividend for the current quarter ended 30 September 2014.

B11. Retained Earnings

	As at 30.09.2014 RM'000	As at 30.09.2013 RM'000
Total retained earnings of the Company and subsidiaries : -		
- Realised profit / (loss)	71,285	64,397
- Unrealised profit / (loss)	666	(290)
	<u>71,951</u>	<u>64,107</u>
Less : Consolidated Adjustments	<u>(43,317)</u>	<u>(36,637)</u>
Total retained earnings	<u><u>28,634</u></u>	<u><u>27,470</u></u>

B12. Basic earnings per ordinary share

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

	For the quarter ended 30.09.2014 RM'000	For the cumulative 9 months period ended 30.09.2014 RM'000
Profit for the period	238	2,080
Profit attributable to minority interest	<u>37</u>	<u>879</u>
Profit for the period attributable to Shareholders of the Company	<u><u>275</u></u>	<u><u>2,959</u></u>
Weighted average number of ordinary shares	<u><u>42,190</u></u>	<u><u>42,194</u></u>
Basic earnings per share (sen)	<u><u>0.56</u></u>	<u><u>4.93</u></u>

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