



**SEREMBAN ENGINEERING BERHAD (“SEB”)
(Company No: 45332-X)**

Notes on the quarterly report – 30 June 2010

**PART A: EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD 134
 (“FRS 134”)**

A1. Basis of preparation

The interim financial statements are unaudited and have been prepared in compliance with FRS 134, Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”) and paragraph 9.22 and Part A of Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”).

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2009. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2009.

A2. Significant Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2009, except for the adoption of the following new Financial Reporting Standards (“FRS”), Amendments to FRSs and Interpretations by the Group with effect from 1 January 2010.

FRSs, Amendments to FRSs and Interpretations

FRS 7	Financial Instruments : Disclosures
FRS 8	Operating Segments
FRS 101	Presentation of Financial Statements (Revised 2009)
FRS 123	Borrowing Costs (Revised)
FRS 139	Financial Instruments: Recognition and Measurement
Amendments to FRS 7	Financial Instruments: Disclosures
Amendments to FRS 8	Operating Segments
Amendments to FRS 107	Statement of Cash Flows
Amendments to FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
Amendments to FRS 110	Events after the Reporting Period
Amendments to FRS 116	Property, Plant and Equipment
Amendments to FRS 117	Leases
Amendments to FRS 118	Revenue
Amendments to FRS 119	Employee Benefits
Amendments to FRS 123	Borrowing Costs
Amendments to FRS 127	Consolidated and Separate Financial Statements: Costs of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
Amendments to FRS 128	Investments in Associates
Amendments to FRS 131	Interest in Joint Ventures
Amendments to FRS 132	Financial Instruments: Presentation
Amendments to FRS 134	Interim Financial Reporting
Amendments to FRS 136	Impairment of Assets
Amendments to FRS 139	Financial Instruments: Recognition and Measurement
IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 10	Interim Financial Reporting and Impairment



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A2. Significant Accounting Policies (cont’d)

Other than the application FRS 8 and FRS 101, the application of the above FRSs, Amendments to FRSs and Interpretations do not have any material impact on the financial position and results of the Group.

(a) FRS 8 : Operating Segments (FRS 8)

FRS 8 requires segment information to be presented on a similar basis to that used for internal reporting purposes. As a result, the Group’s segmental reporting had been presented based on the internal reporting to the chief operating decision maker who makes decisions on the allocation of resources and assesses the performance of the reportable segments. This standard does not have any material impact on the financial position and results of the Group.

(b) FRS 101(revised) : Presentation of Financial Statements

FRS 101 separates owner and non-owner changes in equity. Therefore, the current consolidated statement of changes in equity only includes details of transactions with owners. All non-owner changes in equity are presented as a single line labeled as total comprehensive income. Comparative information, with exception of the requirements under FRS 139, had been re-presented so that it is also in conformity with the revised standard. This standard does not have any material impact on the financial position and results of the Group.

(c) Amendments to FRS 117(revised) : Leases

Amendments to FRS 117 removes the classification of leases of land and of buildings, and instead, requires assessment of classification based on the risks and rewards of the lease itself. The reassessment of land elements of unexpired leases shall be made retrospectively in accordance with FRS 108. Therefore, the Group has reclassified the prepaid lease payments for land as land held in accordance with FRS 116. This amendment shall be presented on the statement of financial position as at the beginning of the earliest comparative period in accordance with FRS 101.

	As previously reported	Effects on adoption of FRS 117	As restated
	RM	RM	RM
Property, plant and equipment	26,025,815	195,261	26,221,076
Prepaid lease payments	195,261	(195,261)	-

(d) FRS 139 : Financial Instruments : Recognition and Measurement

Forward foreign currency exchange contracts of the Group have been measured at fair value and the changes in the fair value are recognised in the income statement.

In accordance with the transitional provision of FRS 139, the above changes are applied prospectively and the comparative as at 31 December 2009 are not restated.



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A3. Qualification of Annual Financial Statements

The latest audited consolidated financial statements of SEB for the financial year ended 31 December 2009 were not qualified.

A4. Seasonal and cyclical factors

The Group’s business operation results were not materially affected by any major seasonal or cyclical factors during the financial period ended 30 June 2010. However, the process equipment’s business operation result is very much dependent on the timing of completion of each project.

A5. Unusual nature and amounts of items affecting assets, liabilities, equity, net income or cash flows

There were no items of unusual nature and amounts affecting assets, liabilities, equity, net income or cash flows during the financial period ended 30 June 2010.

A6. Changes in accounting estimates

There were no changes in accounting estimates that have a material effect in the current quarter results.

A7. Debt and Equity Securities

IPO

On 14 April 2010, the Group launched its Prospectus for its Initial Public Offering of 28,000,000 Ordinary Shares of RM0.50 each comprising:-

- Renounceable restricted offering of 8,000,000 Ordinary Shares of RM0.50 each by way of a renounceable restricted offer to the Entitled Shareholders of Success Transformer Corporation Berhad (“Success Transformer”) on the basis of 1 Ordinary Share of RM0.50 each in our Company for every 15 existing Ordinary Shares of RM0.50 each held in Success Transformer as at the Entitlement Date;
- Issue of 3,500,000 new Ordinary Shares of RM0.50 each to the eligible Directors and employees of Success Transformer and its subsidiaries, our Company and our Group of companies (“Group”) and persons who have contributed to the success of our Group;
- Issue / offer 10,000,000 Ordinary Shares of RM0.50 each by way of private placement to Bumiputera investors approved by the Ministry of International Trade and Industry ; and
- Issue of 6,500,000 new Ordinary Shares of RM0.50 each to the Malaysian Public.

at an issue / offer price of RM0.85 per Ordinary Share of RM0.50, each payable in full application, in conjunction with our listing on the Main Market of Bursa Malaysia Securities Berhad.

The admission to the official list and listing of and quotation for the entire enlarged issued and paid-up share capital of RM40,000,000 comprising of 80,000,000 Ordinary Shares of RM0.50 each of the Company on the Main Market of Bursa Securities was completed on 10 May 2010.

Save as disclosed above, there were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the financial period ended 30 June 2010.



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A8. Dividend Paid

During the financial period ended 30 June 2010, a final tax-exempt dividend amounting to RM5.5 million in respect of financial year ended 2009 was paid on 26 March 2010.

A9. Segment information

The Group is principally engaged in the fabrication of process equipment and metal structure and the provision of maintenance, repair and shutdown works. Therefore, business segmental information has not been prepared as the Group’s revenue, operating profit, assets employed, liabilities, capital expenditure, depreciation and non-cash expenses are confined to one business segment and located in Malaysia.

Major segments analysed by geographical location of customers are as follows:-

	6 months period ended	
	30.06.2010	30.06.2009
Revenue	<u>RM</u>	<u>RM</u>
-Domestic	9,095,762	13,681,981
-Overseas	7,136,429	22,319,623
	<u>16,232,191</u>	<u>36,001,604</u>

A10. Carrying Amount of Revalued Assets

The Group did not revalue any of its property, plant and equipment for the current quarter under review and the valuation of property, plant and equipment have been brought forward without amendment from the audited consolidated financial statements of SEB for the financial year ended 31 December 2009.

A11. Capital Commitments

The amount of capital commitments are as follows:

Approved and contracted for property, plant & equipment	<u>RM</u>
Factory building under construction	132,300
	1,515,600
	<u>1,647,900</u>

A12. Material events subsequent to the end of the interim period

Save as disclosed under Note 8 of Part B below, there were no material events subsequent to the end of the current quarter under review.

A13. Changes in the composition of the Group

There were no changes in the composition of the Group during the current quarter under review save as disclosed above.



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A14. Changes in contingent liabilities and contingent assets

As at the date of this announcement, there were no material contingent liabilities and contingent assets incurred by the Group which, upon becoming enforceable, may have a material impact on the financial position of the Group.



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PART B: ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES

B1. Review of performance

The current quarter results showed a Group revenue of RM16.23 million and a profit before taxation (PBT) of RM0.68 million as compared to a revenue of RM36.00 million and profit before taxation (PBT) of RM6.02 million in the corresponding quarter of the previous financial year. The lower PBT was mainly due to lower sales achieved in the current financial period to date.

B2. Variation of results against preceding quarter

The profit before taxation of RM0.95 million for the current quarter as compared to the loss before taxation in preceding quarter of RM0.26 million was mainly due to higher sales in the current quarter.

B3. Prospects 2010

The recovery in the global financial crisis is still uncertain and the economic outlook for the manufacturing in the fabrication of process equipment and metal structure and the provision of maintenance, repair and shutdown works remain challenging. Nevertheless, the Group will intensify its effort to further expand the market presence to fabricate process equipment facilities for the oil and gas industry, waste treatment plants, food processing and pharmaceutical industries. With the Group’s underlying fundamental strength of efficient business operations, financial stability and wide distribution network, the Board expects a better performance in second half with more jobs secured.

B4. Profit forecast or profit guarantee

Not applicable as there was no profit forecast or profit guarantee issued by the Group.

B5. Tax expense

	Current Quarter	YTD
	<u>RM</u>	<u>RM</u>
Income Tax	168,835	170,730
Deferred Tax	26,640	25,407
Total	<u>195,475</u>	<u>196,137</u>

B6. Unquoted investments and/or properties

The Group has not disposed of any unquoted investments and/or properties during the current quarter under review.

B7. Quoted Securities

There was no purchase or disposal of quoted securities during the financial period under review.



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B8. Corporate Proposals

(a) Cooperation Agreement (CA)

Further to the announcements made by SEB’s holding company, Success Transformer on 17 September 2009, 17 December 2009, 24 February 2010 and 24 May 2010 in relation to the CA between SEB and Affcom Resources Sdn. Bhd., there are no further developments on the said CA.

(b) Joint Venture Agreement (“JV Agreement”)

On 27 May 2010, SEB had entered into JV Agreement with Groupage Energy Sdn. Bhd. (“GESB”) to set up the Joint Venture Company (“JV Company”) to undertake the projects set out in relation to contracts for services (“Projects”), with Oil & Gas and Petrochemical companies and/or other companies that may require the services and assistance as set out in the JV Agreement wherein SEB shall hold 50% and GESB shall hold the remaining 50% in the participating interest of the JV Company.

Pursuant to this agreement, SEB had announced that the establishment of the JV Company, namely Twin Values Sdn. Bhd. (“TVSB”) has been completed on 7 July 2010. The initial investment of RM2.00 comprising 2 ordinary shares of RM1.00 each, are held by SEB and GESB in equal proportion.

On 9 July 2010, TVSB had changed its name to Groupage SEB Sdn. Bhd.

(c) Utilisation of proceeds

As at the date of this report, the total gross proceeds of RM16.9 million arising from the Public Issue have been utilised in the following manner:

Details of the utilisation of proceeds	Estimated timeframe for utilisation from the date of listing	Proposed utilisation	Actual utilisation	Balance
		RM’000	RM’000	RM’000
Purchase of plant and machinery and extension/ upgrading of properties	Within 12 months	9,000	355	8,645
Repayment of borrowings *	Within 3 months	3,000	1,171	1,829
Working capital	Within 6 months	2,939	2,939	-
Defray estimated listing expenses	Within 1 month	2,000	1,803	197
Total gross proceeds		16,939	6,268	10,671

*Note:

The time taken for repayment of borrowings is longer than the estimated timeframe initially planned mainly due to the on-going negotiation with Ambank (M) Berhad to reduce the penalty fee which is to be imposed on the early repayment of term loan.



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B9. Group Borrowings

The Group’s borrowings as at 30 June 2010 were as follows:-

	<u>RM</u>
Current	
Secured – Bank overdraft	386,387
– Term loans	354,745
– Trade bills	<u>7,118,000</u>
	7,859,132
Non- current	
Secured – Term loans	<u>2,901,570</u>
	<u>10,760,702</u>

B10. Financial instruments

Derivatives

The Group has entered into some forward foreign exchange currencies contracts to hedge its exposure to fluctuations in foreign currency arising from sales. The details of the open foreign exchange forward contracts are as follows:-

	Amount in original currency	Average contract rate	Contract Value	Rate as at 30 June 2010	Changes in fair value
Less than 1 year	SGD168,000	2.36	RM396,480	2.3263	RM5,662
Less than 1 year	EUR55,416	3.96	RM219,447	3.9702	(RM566)

The derivatives have been recorded on the Consolidated Statement of Financial Position for this reporting period in compliance with FRS 139.

The above instruments are executed with credit worthy financial institutions in Malaysia and as such credit and counterparties risks are minimal. There are no transaction costs at the inception of these contracts. The Group is exposed to minimal cash flow risk in view of its healthy cash position.

B11. Changes in material litigation

The Group is not engaged in any material litigation and arbitration, either as plaintiff or defendant, which has material effect on the financial position of the Group, and the Board is not aware of any proceedings pending or threatened, or of any facts likely to give rise to any proceedings, which might materially and adversely affect the position or business of the Group.

B12. Dividends

The Board of Directors does not recommend any dividend in respect of financial period ended 30 June 2010.



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B13. Earnings per ordinary share (sen)

(a) Basic

The calculation of basic earnings per ordinary share for the current quarter is based on the net profit attributable to ordinary shareholders of RM761,174 and the weighted average number of ordinary shares outstanding during the quarter of 71,459,428.

The calculation of basic earnings per ordinary share for the current year to date is based on the net profit attributable to ordinary shareholders of RM495,103 and the weighted average number of ordinary shares outstanding during the quarter of 65,797,171.

	Current quarter	Current year-to-date
Basic earnings per share	<u>RM</u>	<u>RM</u>
Net profit attributable to ordinary equity holders of the company	761,174	495,103
Weighted average number of ordinary shares in issue	71,459,428	65,797,171
Basic earnings per share (sen)	1.06	0.75

(b) Diluted

The diluted earnings per share of the Group were not presented as there were no dilutive potential ordinary shares during the financial year.

By Order of the Board

Wong Chee Kian
Managing Director