



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

Notes on the quarterly report – 30 June 2011

**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 2010. 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 2010.

A2. Significant Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2010, 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 2011.

FRSs, Amendments to FRSs and Interpretations

FRS 1	First-time Adoption of Financial Reporting Standards
FRS 3	Business Combinations (Revised)
FRS 127	Consolidated and Separate Financial Statements
Amendments to FRS 1	Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
Amendments to FRS 1	Additional Exemptions for First-time Adopters
Amendments to FRS 2	Share-based Payment
Amendments to FRS 2	Group Cash-settled Share-based Payment Transactions
Amendments to FRS 5	Non-current Assets Held for Sale and Discontinued Operations
Amendments to FRS 7	Improving Disclosures about Financial Instruments
Amendments to FRS 132	Financial Instruments: Presentation
Amendments to FRS 138	Intangible Assets
IC Interpretation 4	Determining Whether an Arrangement Contains a Lease
IC Interpretation 16	Hedges of a Net Investment in a Foreign Operation
IC Interpretation 17	Distributions of Non-cash Assets to Owners
IC Interpretation 18	Transfers of Assets from Customers
Amendments to IC Interpretation 9	Reassessment of Embedded Derivatives
Improvements to FRSs (2010)	Amendments to FRS 1, FRS 3, FRS 7, FRS 101, FRS 121, FRS 128, FRS 131, FRS 132, FRS 134 and FRS 139

A3. Qualification of Annual Financial Statements

The latest audited consolidated financial statements of SEB for the financial year ended 31 December 2010 were not qualified.



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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 2011. 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 2011.

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

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the financial period ended 30 June 2011.

A8. Dividend Paid

During the financial period ended 30 June 2011, an interim dividend of 2% amounting to RM 0.8 million in respect of financial year ending 2011 was paid on 9 June 2011.

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	
	30.06.2011	30.06.2010
	<u>RM</u>	<u>RM</u>
Revenue		
-Domestic	23,063,165	9,095,762
-Overseas	12,101,875	7,136,429
	<u>35,165,040</u>	<u>16,232,191</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 2010.



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A11. Capital Commitments

The amount of capital commitments are as follows:

	<u>RM</u>
Approved and contracted for:	
Purchase of property, plant and equipment	1,360,000

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

On 20 May 2011, SEB had invested and subscribed for 6 ordinary shares of RM 1.00 each in Seremban Mechanical Services Sdn. Bhd. (“SMS”), representing 60% equity interest in SMS for a total consideration of RM 6.00.

Save as disclosed above, there were no changes in the composition of the Group during the current quarter under review.

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 year results showed a Group revenue of RM 35.16 million and a profit before tax (“PBT”) of RM 1.47 million as compared to a revenue of RM 16.23 million and PBT of RM 0.7 million in the corresponding period in the previous financial year.

The current quarter results showed a Group revenue of RM18.68 million and a profit before taxation (“PBT”) of RM1.32 million as compared to a revenue of RM9.88 million and profit before tax of RM 0.95 million in the corresponding period in the previous financial year.

The Group showed a higher PBT for current year and current quarter as compared to preceding year and preceding year corresponding quarter was mainly due to higher sales.

B2. Variation of results against preceding quarter

The profit before taxation of RM1.32 million for the current quarter as compared to the profit before taxation in preceding quarter of RM 0.15 million was mainly due to higher sales.

B3. Prospects for the Current Financial Year

With the heightened uncertainties surrounding the world economy, the Group expects the outlook of the process equipment industries to remain competitive. While the Company is continuously stepping up its effort in strengthening and expanding its customers’ base, it has also been aggressively making inroads into the oil and gas industry which is expected to contribute positively to the Group in this financial year.

While the Group aims to achieve positive results this financial year, the Directors expect the remaining of the year to be challenging.

B4. Profit forecast or profit guarantee

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

B5. Tax expense

	Quarter and Year-to-date ended	
	30.06.2011	30.06.2010
	<u>RM</u>	<u>RM</u>
Income Tax	270,159	170,730
Deferred Tax	47,318	25,407
Total	<u>317,477</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.



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B7. Quoted Securities

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

B8. Corporate Proposals

(a) Cooperation Agreement (CA)

Further to the Success Transformer Corporation Berhad (“STC”) announcements dated 17 September 2009, 17 December 2009, 24 February 2010, 24 May 2010 and SEB announcements dated 1 September 2010, 18 November 2010 and 17 February 2011 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”)

With regards to the JV agreement with Groupage Energy Sdn. Bhd. (“GESB”), there are no further developments on the said JV.

(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	Deviation	Balance
		RM’000	RM’000	RM’000	RM’000
Purchase of plant and machinery and extension/upgrading of properties	Within 12 months	9,000	2,410	-	6,590
Repayment of borrowings *	Within 3 months	3,000	1,171	-	1,829
Working capital	Within 6 months	2,939	3,141	(202)	-
Defray estimated listing expenses #	Within 1 month	2,000	1,798	202	-
Total gross proceeds		16,939	8,520	-	8,419

Note:

1.*The time taken for repayment of borrowings is longer than the estimated timeframe initially planned mainly due to the on-going negotiation with a bank to reduce the penalty fee which is to be imposed on the early repayment of term loan.

2. #The actual utilisation for the listing expenses was lower than the estimated amount. Hence, the balance unutilised amount of RM202,000 was utilised for the Group’s working capital purposes as per the disclosure in the Company’s Prospectus dated 14 April 2010.



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B9. Group Borrowings

The Group’s borrowings as at 30 June 2011 were as follows:-

	<u>RM</u>
Current	
Secured – Bank overdraft	357,577
– Term loans	722,148
– Trade bills	<u>15,330,000</u>
	16,409,725
Non- current	
Secured – Term loans	<u>3,629,814</u>
	<u>20,039,539</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 2011	Changes in fair value
Less than 1 year	SGD213,000	2.386	RM508,218	2.457	(RM15,123)
Less than 1 year	USD185,000	3.000	RM555,000	3.038	(RM6,956)

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.



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B12. Dividends

Save as disclosed in Note A8, the Board of Directors does not recommend any dividend in respect of current financial period ended 30 June 2011.

B13. Earnings per ordinary share (sen)

(a) Basic

The calculation of basic earnings per ordinary share for the current quarter and current year to date are based on the net profit attributable to ordinary shareholders of RM 1,130,024 and the weighted average number of ordinary shares outstanding during the quarter of 80,000,000.

	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	1,005,574	1,130,024
Weighted average number of ordinary shares in issue	80,000,000	80,000,000
Basic earnings per share (sen)	1.26	1.41

(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.



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B14. Realised and unrealised profit / losses disclosure

On 25 March 2010, Bursa Malaysia Securities Berhad (“Bursa Securities”) had issued directives to all listed issuers to disclose a breakdown of the unappropriated profits or accumulated losses into unrealised profits or losses.

On 20 December 2010, Bursa Securities further issued guidance on the disclosure and the format required.

Pursuant to the directive, the breakdown of the retained profits of the Group as at 30 June 2011, into realised and unrealised profits is as follows:

	As At End of Current Quarter 30/06/2011 RM	As At End of Preceding Quarter 31/12/2010 RM
Total retained profits / (losses) of the Company and the subsidiaries:-		
- Realised	10,143,320	9,753,359
- Unrealised	(2,525,170)	(2,476,439)
	7,618,150	7,276,920
Total share of accumulated losses from jointly controlled entities:-		
-Realised	(1,446)	(12,584)
-Unrealised	-	-
	7,616,704	7,264,336
Less: Consolidation adjustments	(490,624)	(468,280)
Total group retained profits as per statement of financial position	7,126,080	6,796,056

The determination of realised and unrealised profits is compiled based on Guidance of Special Matter No. 1 “*Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*”, issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Securities and should not be applied for any other purposes.

By Order of the Board

Wong Chee Kian
Managing Director