



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

Notes on the quarterly report – 31 December 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

The following FRS has been issued by the MASB but is not yet effective, and has yet to be adopted by the Group:

<u>Effective for annual periods commencing on or after 1 January 2012:</u>	
FRS 124	Related Party Disclosures



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

Notes on the quarterly report – 31 December 2011

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.

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 year ended 31 December 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 year ended 31 December 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

Save as disclosed below, there were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the financial year ended 31 December 2011 under review:

(a) Share Buy-Back

During the financial year ended 31 December 2011, the company:

Repurchased 43,000 of its share capital from the open market at an average cost RM 0.51 per shares. The total consideration paid for the share buy-back of SEB shares during the financial year twelve months ended 31 December 2011, including transaction costs was RM 22,048 and was financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with Section 67A Subsection 3(A) (b) of the Company Act, 1965.

As at 31 December 2011, the number of treasury shares held was 43,000 SEB Shares.

A8. Dividend Paid

During the financial year ended 31 December 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.



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

Notes on the quarterly report – 31 December 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:-

	12 months period ended	
	31.12.2011	31.12.2010
	<u>RM</u>	<u>RM</u>
Revenue		
-Domestic	48,003,637	30,931,385
-Overseas	37,254,854	19,790,966
	<u>85,258,491</u>	<u>50,722,351</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.

A11. Capital Commitments

The amount of capital commitments are as follows:

	<u>RM</u>
Approved and contracted for:	
Purchase of property, plant and equipment	879,950

A12. Material events subsequent to the end of the interim

There was no material event subsequent to the end of the current quarter under review.

A13. Changes in the composition of the Group

Pursuant to our announcement dated on 9 February 2011, the Company had subscribed a total of 300,000 ordinary share of RM1.00 each in Nine Energy Sdn. Bhd. (“NESB”) representing a 40% equity investment in the issued and paid-up share capital of NESB for a total cash consideration of RM300,000.00. As a result, NESB had become an associate of The Company.

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



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

Notes on the quarterly report – 31 December 2011

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.



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

Notes on the quarterly report – 31 December 2011

**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 RM30.85 million and a profit after taxation after MI (“PAT”) of RM1.52 million as compared to a revenue of RM22.71 million and PAT of RM 2.59 million in the corresponding period in the previous financial year.

Although the current quarter showed increase in sales, the lower PAT was due to certain projects recorded lower profit margin and additional initial marketing and operating expenses incurred in venturing into Oil and Gas sector.

The current year results showed a Group revenue of RM 85.26 million and a PAT of RM 4.00 million for current financial year ended 31 December 2011 as compared to a revenue of RM 50.62 million and PAT of RM 3.15 million in the previous financial year.

The Group recorded higher PAT for current financial year as compared to last financial year mainly due to higher sales in spite of certain projects recorded lower profit margin and additional initial marketing and operating cost incurred in venturing into Oil and Gas sector.

B2. Variation of results against preceding quarter

The Group recorded a higher profit before taxation (“PBT”) of RM1.79 million for the current quarter as compared to preceding quarter of RM 1.61 million mainly due to higher sales.

B3. Prospects for the Current Financial Year

For the coming year, although the demand and enquiries for the process equipment industries are very encouraging, stiff and competitive pricing strategies adopted by the industry players may affect the company’s profit margin.

Nevertheless, the Board is optimistic that going forward, the Group can achieve better result with increasing activities in the Oil and Gas sector which is expected to contribute positively in the coming year.

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	
	31.12.2011	31.12.2010
	RM	RM
Income Tax	654,382	682,145
Deferred Tax	174,225	224,910
Total	<u>828,606</u>	<u>907,055</u>



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

Notes on the quarterly report – 31 December 2011

The effective tax rate for the current quarter and financial year under review was lower than the statutory tax rate of 25% mainly due to the utilization of reinvestment allowances by the Company.

B6. Notes to the Statements of Comprehensive Income

	3 months ended		Year to date ended	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	<u>RM</u>	<u>RM</u>	<u>RM</u>	<u>RM</u>
Interest income	(52,131)	(100,306)	(279,201)	(273,216)
Interest expense	215,852	110,909	870,244	432,070
Depreciation	442,258	331,863	1,532,933	1,266,617
Allowance for doubtful debts and bad debts written off	-	-	-	-
(Gain)/ loss on disposal of property, plant and equipment	-	(53,718)	(146,462)	(82,176)
Total	<u>605,979</u>	<u>288,748</u>	<u>1,977,514</u>	<u>1,343,295</u>

B7. Unquoted investments and/or properties

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

B8. Quoted Securities

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

B9. Corporate Proposals

(a) Cooperation Agreement (“CA”)

Pursuant to our announcement dated on 19th January 2012, SEB and Affcom Resources Sdn. Bhd., have on even date agreed to terminate the said CA with immediate effect as it is not feasible for both parties to fulfill the terms and conditions as stipulated therein.

(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.



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

Notes on the quarterly report – 31 December 2011

(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	6,790	-	2,210
Repayment of borrowings *	Within 3 months	3,000	2,246	-	754
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	13,975	-	2,964

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.

B10. Group Borrowings

The Group's borrowings as at 31 December 2011 were as follows:-

Current	RM
Secured – Bank overdraft	286,650
– Term loans	733,423
– Trade bills	13,258,294
– Hire Purchases	125,358
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	14,403,725
Non- current	
Secured – Term loans	5,317,927
– Hire Purchases	274,387
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	5,592,314
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	19,996,039



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

Notes on the quarterly report – 31 December 2011

B11. Financial instruments

The Group does not have any financial instruments with off balance sheet risk, the latest practicable date which is not earlier than 7 days from the date of this quarterly report.

B12. 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.

B13. Dividends

Save as disclosed in Note A8, the Board does not recommend any dividend in respect of current quarter under review.

**B14. 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 3,999,282 and the weighted average number of ordinary shares outstanding during the quarter of 79,981,195

	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	1,519,533	3,999,282
Weighted average number of ordinary shares in issue	79,981,195	79,981,195
Basic earnings per share (sen)	1.90	5.00

(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.



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

Notes on the quarterly report – 31 December 2011

B15. Realised and unrealised profit / losses disclosure

Pursuant to the Bursa Malaysia Securities Berhad’s (Bursa Securities) directives dated 25 March 2010 and 20 December 2010, the breakdown of the retained profits of the Group as at 31 December 2011, into realised and unrealised profits is as follows:

	As At End of Current Quarter 31/12/2011 RM	As At End of Preceding Quarter 30/09/2011 RM
Total retained profits / (losses) of the Company and the subsidiaries:-		
- Realised	13,159,905	11,375,428
- Unrealised	(2,652,078)	(2,493,814)
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	10,507,827	8,881,615
Total share of accumulated losses from jointly controlled entities:-		
-Realised	(14,030)	(1,445)
-Unrealised	-	-
	<hr/>	<hr/>
	10,493,797	8,880,169
Less: Consolidation adjustments	(472,807)	(415,937)
Total group retained profits as per statement of financial position	<hr/>	<hr/>
	10,020,990	8,464,232

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