**TURBO-MECH BERHAD (863263-D)**

**INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2010**

**EXPLANATORY NOTES IN COMPLIANCE WITH FINANCIAL REPORTING STANDARDS (“FRS”) 134 INTERIM FINANCIAL REPORT**

**A1. Basis of Preparation**

The interim financial statements are unaudited and have been prepared in compliance with FRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

This is the first interim financial report on the consolidated results for the second quarter ended 30 June 2010 announced by the Company in compliance with the Listing Requirements and as such, there are no comparative figures for the preceding corresponding period.

The interim financial statements should be read in conjunction with the proforma consolidated financial information and the Accountants’ Report for the financial year ended 31 December 2009 as disclosed in the Prospectus of the Company dated 13 April 2010 and the accompanying explanatory notes attached to the interim financial report.

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 year ended 31 December 2009.

**A2. Changes in Accounting Policies**

The accounting policies and method of computation adopted by the Group in these quarterly financial statements are consistent with those adopted in the proforma consolidated financial information for the financial year ended 31 December 2009 as disclosed in the Prospectus of the Company dated 13 April 2010 except for the adoption of the following new and amended Financial Reporting Standards (“FRS”) and Issue Committee (“IC”) Interpretation effective for financial period beginning 1 January 2010 as follows:

FRS 7: Financial Instruments: Disclosures

FRS 8: Operating Segments

FRS 101: Presentation of Financial Statements (revised)

FRS 139: Financial Instruments: Recognition and Measurement

Amendments to FRS 1: First-time Adoption of Financial Reporting Standards and FRS 127: Consolidated and Separate Financial Statements: Cost of an Investments in a Subsidiary, Jointly Controlled Entity or Associate.

Amendments to FRS 132: Financial Instruments: Presentation

Amendments to FRS 139: Financial Instruments: Recognition and Measurement, FRS 7: Financial Instruments: Disclosures and IC interpretation 9: Reassessment of Embedded Derivatives.

Amendments to FRSs ‘Improvements to FRSs (2009)’

IC Interpretation 10: Interim Financial Reporting and Impairment

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**INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2010**

**EXPLANATORY NOTES IN COMPLIANCE WITH FINANCIAL REPORTING STANDARDS (“FRS”) 134 INTERIM FINANCIAL REPORT (CONT’D)**

The principal effects of the changes in presentation, changes in methods of computation and in accounting policies resulting from the adoption of the new and revised FRSs, IC Interpretations and Amendments are set out below

1. FRS 101: Presentation of Financial Statements (Revised)

The revised FRS 101 separates owner and non-owner changes in equity. Therefore, the consolidated statement of changes in equity only includes details of transactions with owners. All non-owner changes in equity, if any, will be presented as a single line labelled as total comprehensive income. In addition, the consolidated balance sheet was renamed as the consolidated statement of financial position in the interim financial report. This standard did not have any impact on the financial position and results of the Group.

The effects of the change in presentation are as follows:

1. The gains and losses that were recognized directly in the statement of income and taken into equity, in the preceding year corresponding period are presented as components in other comprehensive income in the statement of comprehensive income. The total comprehensive income for the preceding year corresponding period is presented separately.

|  |  |  |  |
| --- | --- | --- | --- |
| For the period ended 30 June 2010 | Income statement as previously reportedRM’000 | Effects of adopting FRS 101RM’000 | Statement of comprehensive incomeAs restatedRM’000 |
| Profit for the period | 4,995 |   | 4,995 |
| Other comprehensive loss |  | (1,900) | (1,900) |
| Total comprehensive profit |  |  | 3,095 |

1. The total comprehensive profit for the period is presented as a one-line item in the statement of changes in equity.
2. Amendments for FRSs ‘Improvements to FRSs (2009) – FRS 117: Lease

FRS 117 clarifies on the classification of leases of land and buildings. The resulting effect of this Standard taking effect was the reclassification of prepaid leases on land back into property, plant and equipment, rather than being separately classified under prepaid lease payments on the consolidated statement of financial position.

|  |  |  |  |
| --- | --- | --- | --- |
| 31 December 2009 | As previously reported  | Effect of changes in accounting policy  | As restated |
| Property, plant and equipment | 3,244 | 2,924 | 6,168 |
| Prepaid land lease payments | 2,924 | (2,924) | - |

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**EXPLANATORY NOTES IN COMPLIANCE WITH FINANCIAL REPORTING STANDARDS (“FRS”) 134 INTERIM FINANCIAL REPORT (CONT’D)**

**Changes in Accounting Policies (cont’d)**

1. FRS 139: Financial Instruments: Recognition and Measurement, and Amendments to FRS 139: Financial Instruments: Recognition and Measurement

The new Standard on FRS 139 established principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. In accordance with the requirement of this standard, financial derivatives are stated at fair value which is equivalent to the marking of the financial derivatives to market, using prevailing market rates. Financial derivatives with positive market values (unrealized gains) are included under current assets and financial derivative with negative market values (unrealized losses) are included under current liabilities in the statement of financial position. Any gains or losses arising from changes in fair value on financial derivatives during the financial period that do not qualify for hedge accounting and the ineffective portion of effective hedge, are taken directly to the statement of comprehensive income.

The adoption of other interpretations and revisions to existing FRSs, IC Interpretations and Amendments mandatory for annual periods beginning on or after 1 January 2010 did not result in significant changes in the reporting profit or equity or on the disclosures in the financial statements.

**A3. Auditors’ report of preceding annual financial statements**

The auditors’ report for the audited annual financial statements for the year ended 31 December 2009 was not qualified.

**A4. Seasonal or cyclical factors**

The business operations of the Group are affected by the cycles of capital and repair/maintenance programs implemented by major players in the oil, gas, and petrochemical sector.

**A5. Unusual item affecting assets, liabilities, equity, net income or cash flow**

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group during the financial quarter under review.

**A6. Material changes in estimates**

There were no changes in estimates that have had material effect on the results of the financial quarter under review.

**TURBO-MECH BERHAD (863263-D)**

**INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2010**

**EXPLANATORY NOTES IN COMPLIANCE WITH FINANCIAL REPORTING STANDARDS (“FRS”) 134 INTERIM FINANCIAL REPORT (CONT’D)**

**A7. Carrying Amount of Revalued Assets**

The valuation of property, plant and equipment has been brought forward without amendment from the audited financial statements for the financial year ended 31 December 2009.

**A8. Debt and Equity Securities**

Save as disclosed below, there were no issuance, cancellation, repurchase, resale or repayment of debt and/or equity securities, share buy-backs, share cancellations, shares held under treasury shares and resales of treasury shares for the financial period under review:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date of allotment/subdivision | Number of shares allotted | Par Value (RM) | Consideration | Cumulative Issued and Paid-up Share Capital (RM) |
|  |  |  |  |  |
| 6 July 2009 | 4 | 0.50 | Cash | 2 |
| 22 February 2010 | 72,652,486 | 0.50 | Acquisition of Turbo-Mech Asia | 36,326,245 |
| 22 February 2010 | 17,279,510 | 0.50 | Acquisition of Bayu Purnama | 44,966,000 |
| 30 April 2010 | 18,068,000 | 0.50 | Issue price of RM0.63 per share | 54,000,000 |

The details of the IPO as disclosed in the prospectus dated 13 April 2010 are as follows:

1. ***Malaysian public via balloting.***

6,000,000 Public Issue Shares, representing approximately 5.5% of the enlarged issued and paid-up share capital of Turbo-Mech Berhad, to be allocated via balloting, will be made available for application by the Malaysian public.

1. ***Eligible Directors, employees and business associated of the Group.***

4,500,000 Public Issue Shares, representing approximately 4.2% of the enlarged issued and paid-up share capital of Turbo-Mech Berhad, will be made available for application by eligible Directors, employees and business associates of the Group.

1. ***Selected investors via placement.***

7,568,000 Public Issue Shares, representing approximately 7.0% of the enlarged issued and paid-up share capital of Turbo-Mech Berhad, by way of private placement to selected investors

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**EXPLANATORY NOTES IN COMPLIANCE WITH FINANCIAL REPORTING STANDARDS (“FRS”) 134 INTERIM FINANCIAL REPORT (CONT’D)**

**A9. Dividends**

There was no dividend paid during the financial quarter under review.

 **A10. Operating segment**

Segmental information is presented in respect of the Group’s geographical segments, which is based on the Company’s management reporting structure.

Transfer prices between the operating segments are on an arm’s length basis in a manner similar to transactions with third parties.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Singapore** | **Others** | **Elimination** | **Group** |
|  | **RM’000** | **RM’000** | **RM’000** | **RM’000** |
| **Revenue** |  |  |  |  |
| External sales | 17,626 | 1,175 |  | 18,801 |
| Intersegment sales | 467 |  | (467) | - |
|  | 18,093 | 1,175 | (467) | 18,801 |
| **Results** |  |  |  |  |
| Profit from operations | 4,647 | 136 | 72 | 4,855 |
| Finance cost |  |  |  | - |
| Share of profit of associates |  |  |  | 1,164 |
| Profit before taxation |  |  |  | 6,019 |
| Taxation |  |  |  |  (1,024) |
| Profit after taxation |  |  |  | 4,995 |

 **A11. Subsequent Material Events**

There were no material events subsequent to the reporting period up to 4 August 2010 which have not been reflected in the financial statements for the quarter under review.

 **A12. Effect of changes in the composition of the Group**

On 22 February 2010, the Company acquired 100% equity interest in Turbo-Mech Asia Pte Ltd, a company incorporated in Singapore for a consideration of RM36,326,243 fully satisfied by the issuance of 72,652,486 new shares of RM0.50 each in the company

On 13 April 2010, the Company issued a prospectus for the public issue of up to 18,068,000 new Turbo-Mech Berhad’s shares at an issue price of RM0.63 per ordinary share payable in full on application in conjunction with its listing on the Main Market of Bursa Securities**.**

**TURBO-MECH BERHAD (863263-D)**

**INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2010**

**EXPLANATORY NOTES IN COMPLIANCE WITH FINANCIAL REPORTING STANDARDS (“FRS”) 134 INTERIM FINANCIAL REPORT (CONT’D)**

 **A12. Effect of changes in the composition of the Group (cont’d)**

The entire enlarged issued and paid-up share capital of RM54,000,000 comprising 108,000,000 ordinary shares of RM0.50 each of the Company listed on the Main Market of Bursa Securities on 30 April 2010.

 **A13. Changes in Contingent liabilities and Contingent Assets**

The contingent liabilities for the financial quarters are as follows: RM’000

Warranty given to customers in the form of bank guarantee 3,512

in respect of products supplied/services rendered

 **A14. Capital commitments**

The capital commitments provided for the financial quarter ended 30 June 2010 is as follows:

 RM’000

Approved but not provided for 102

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |

 **A15. Related party transactions**

The Company entered into the following transaction in the normal course of business with a related party during the financial quarter under review.

|  |  |  |  |
| --- | --- | --- | --- |
| Related parties | Nature of transaction | Interest of substantial /major shareholders/director | RM’000 |
|  |  |  |  |
| PT Turbo Mechin | Sales of industrial cooling fans | Achmad Atim Kasmanto | 160 |
| Bayu Purnama Sdn Bhd | Sales of sundyne nikkiso spare | Salmiah binti Jantan |  8 |