

## **NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

### **PART 1-Explanatory Notes Pursuant to FRS 134**

**A1.** Turbo-Mech Berhad is a public limited liability company incorporated and domiciled in Malaysia, and is listed on Bursa Malaysia Securities Berhad.

These condensed consolidated interim financial statements were approved by Board of Directors on 23 May 2014.

#### **A2. Basis of Preparation**

The condensed consolidated interim financial statements of the Group for the first quarter ended 31 March 2014, have been prepared in accordance with MFRS 134 *Interim Financial Reporting* and paragraph 9.22 of the Listing Requirements of the Bursa Malaysia Securities Berhad. These condensed consolidated interim financial statements also comply with IAS 34 *Interim Financial Reporting* issued by the International Accounting Standards Board.

The condensed consolidated interim financial statements should read in conjunction with the audited financial statements for the year ended 31 December 2013.

The explanatory notes attached to these condensed consolidated 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 2013.

#### **A3. Significant accounting policies**

The significant accounting policies and methods of computation adopted for the condensed consolidated interim financial statements are consistent with those of the audited financial statements for the year ended 31 December 2013 except for the adoption of the following new or revised Malaysian Financial Reporting Standards (“MFRS”) below.

##### **3.1 Changes in Accounting Policies**

On 1 January 2014, the Group adopted the following new and amended MFRSs and IC Interpretation mandatory for the annual financial periods beginning on or after 1 January 2014:

##### **Effective for financial periods beginning on or after 1 January 2014**

IC Interpretations 21 Levies

Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities

(Company No.: 863263 – D)

Amendments to MFRS 132: Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities  
Amendments to MFRS 136: Recoverable Amount Disclosure for Non-Financial Assets  
Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting

**Effective for financial periods beginning on or after 1 July 2014**

Amendment to MFRS 2: Share-based Payment (Annual Improvements to MFRSs 2010-2012 Cycle)  
Amendment to MFRS 3: Business Combinations (Annual Improvements to MFRSs 2010-2012 Cycle)  
Amendment to MFRS 3: Business Combinations (Annual Improvements to MFRSs 2011-2013 Cycle)  
Amendment to MFRS 8: Operating Segments (Annual Improvements to MFRSs 2010-2012 Cycle)  
Amendment to MFRS 13: Fair Value Adjustment (Annual Improvements to MFRS 2011-2013 Cycle)  
Amendment to MFRS 116: Property, Plant and Equipment (Annual Improvements to MFRSs 2010-2012 Cycle)  
Amendment MFRS 119: Defined Benefit Plans: Employee Contributions  
Amendment to MFRS 124: Related Party Disclosure (Annual Improvements to MFRSs 2010-2012 Cycle)  
Amendment to MFRS 138: Intangible Assets (Annual Improvements to MFRSs 2010-2012 Cycle)  
Amendment to MFRS 140: Investment Property (Annual Improvements to MFRSs 2011-2013 Cycle)

**Effective for financial periods to be announced**

MFRS 9: Financial Instruments (IFRS issued by IASB in November 2009)  
MFRS 9: Financial Instruments (IFRS issued by IASB in October 2010)  
MFRS 9: Financial Instruments: Hedge Accounting and amendments to MFRS 9, MFRS 7 and MFRS 139

The directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application.

**A4. Auditors report of preceding Annual Financial Statements**

The audit report on the Group's financial statements for the financial year ended 31 December 2013 was not subject to any qualification.

(Company No.: 863263 – D)

**A5. Seasonal or cyclical factors**

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

**A6. Unusual items due to nature of size or incidence**

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

**A7. Change in estimates**

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

**A8. Carrying amount of revalued assets**

The valuation of property, plant and equipment has been brought forward without amendment from the audited financial statements as at 31 December 2013.

**A9. Debt and equity security**

The Group did not undertake any issuance and/or repayment of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the current financial quarter under review.

**A10. Dividends**

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

**A11. Segment information**

Segment information are presented in respect of the Group's geographical segment, which is based on the company's management reporting structure where discrete Financial information is available and regularly review by the Chief Operation Decision Maker.

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

(Company No.: 863263 – D)

Segment analysis for the cumulative period ended 31 March 2014 is set out below:

	Malaysia RM'000	Singapore RM'000	Others RM'000	Elimination RM'000	Group RM'000
<b>Revenue</b>					
External Sales	-	9,489	329	-	9,818
Inter-segment Sales	-	133	-	(133)	-
	-	9,622	329	(133)	9,818
<b>Results</b>					
Profit/(Loss) from Operation	(152)	929	153	133	1,063
Share of Profit of associates					1,952
Profit Before Taxation					3,015
Taxation					(119)
Profit after taxation					2,896

#### A12. Subsequent Event

There is no subsequent event reported during the financial quarter under review.

#### A13. Change in the composition of the Group

There were no changes in the composition of the Group for the period under review.

#### A14. Contingent Liabilities

At the date of this report, there were no changes in contingent liabilities since date of the last report.

#### A15. Capital Commitments

There are no capital commitments for the financial quarter under review.

(Company No.: 863263 – D)

#### A16. Significant related party transaction

The significant related party transactions below were carried out in the ordinary course of business during the quarter under review.

<b>Related parties</b>	<b>Nature of transactions</b>	<b>Transaction for the period ended 31 March 2014 RM'000</b>	<b>Transaction for the period ended 31 March 2013 RM'000</b>
Ultra Sol Engineering & Trading Sdn Bhd and Bayu Purnama	Provision of tools, equipment and labour for fabrication services	-	313
Turbo-Mech Asia Pte Ltd and Bayu Purnama Sdn Bhd	Sales of parts	2	-
Turbo-Mech Asia Pte Ltd and Bayu Purnama Sdn Bhd	Reimbursement of expenses by Related party	8	-
Turbo-Mech Asia Pte Ltd and Bayu Purnama Sdn Bhd	Purchase of services charges from Related party	-	-

## **PART B – Explanatory Notes Pursuant to Appendix 9B of the Listing Requirements of Bursa Malaysia**

### **B1. Analysis of Performance**

The Group achieved revenue of RM9.82 million for the current quarter, a decrease of RM0.23 million or 2.3% as compared to the RM10.05 million achieved during the preceding year corresponding quarter. The decrease in revenue was mainly from the decrease in revenue from the Singapore and Malaysia segment.

The Group achieved gross profit of RM2.69 million during the current quarter. This represent a drop of RM0.24 million or 8.2% as compared to the RM2.93 million achieved during the preceding year corresponding quarter. The gross profit margin for this quarter is 27.4% which is lower than the gross profit margin of 29.2% achieved during the preceding year corresponding quarter. This drop was mainly due to the lower profit margin resulting from the market competition in Singapore segment.

For the current quarter, the Group recorded a profit after tax of RM2.9 million, an increase of RM1.35 million or 87% as compared against the preceding year corresponding quarter profit after tax of RM1.55 million. The increase was mainly due to the substantial improved contributions from associates.

### **B2. Comparison between the current Quarter and Immediate Preceding Quarter**

	<b>Current Quarter 31 March 2014</b>	<b>Preceding Quarter 31 December 2013</b>
	RM'000	RM'000
Revenue	9,818	12,732
Profit before Tax	3,015	3,988

The Group achieved revenue of RM9.82 million for the current quarter, a drop of RM2.91 million or 22.9% as compared to the RM12.73 million achieved during the previous quarter.

The Group achieved a gross profit of RM2.69 million during the current quarter, a drop of RM1.68 million or 38.4%, compared to the RM4.37 million achieved during the previous quarter.

The gross profit margin for this quarter is 27.4%, which is lower than the gross profit margin of 34.3% achieved during the previous quarter. Despite a lower gross profit margin, the Group recorded a higher pre-tax profit due to better contributions from associates.

(Company No.: 863263 – D)

For the current quarter, the Group recorded a profit after tax of RM2.9 million, a drop of RM0.86 million or 22.9% compared against the previous quarter profit after tax of RM3.76 million.

### B3. Prospects

The demand for petrochemical industries products are influenced by the market economic conditions. As a supplier of pumps and compressors to both upstream as well as downstream of petrochemical industries, the demand for our products and services will inevitably be affected as well.

The Company will stay focused on maintenance and services in which we should expect no significant changes in this area.

### B4. Notes on variance in actual profit and shortfall in profit guarantee

The Group has not issued any profit forecast or profit guarantee for the current financial quarter under review.

### B5. Income Tax Expenses

	Current Quarter		Cumulative Quarter	
	31 March 2014	31 March 2013	31 March 2014	31 March 2013
	RM'000	RM'000	RM'000	RM'000
Current tax				
- Malaysian income tax	-	-	-	-
- Foreign income tax	119	190	119	190
(Over)/Under provision in respect prior years	-	-	-	-
Deferred income tax:				
Origination and reversal of temporary difference	-	-	-	-
<b>Total</b>	<b>119</b>	<b>190</b>	<b>119</b>	<b>190</b>

The Group's effective tax rate for the current quarter is 4%, which is lower than the statutory tax rate of 25% principally due to deferred income tax provision on withholding tax in a related company, lower tax regime from foreign income tax utilisation of business loss, and share of associated company results which is net of tax in current quarter.

### B6. Status of Corporate Proposals

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

(Company No.: 863263 – D)

**B7. Group Borrowing**

There is no group borrowing for the current quarter under review.

**B8. Gains/Losses from Fair Value changes of Financial Liabilities**

There were no gains/losses arising from fair value changes of the financial liabilities for the current quarter and financial period.

**B9. Material litigation**

As at the date of this report, neither the Company nor any of its subsidiaries is engaged in any material litigation and arbitration either as plaintiff or defendant, which has a material effect on the financial position of the Company or its subsidiaries and our Directors are 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 financial position or business of the Company or its subsidiaries.

**B10. Dividend**

No dividend has been recommended or declared for the current quarter as well as in previous corresponding period under review.

Final tax exempt (single-tier) dividend of 5 sen per ordinary share of 50 sen in respect of the financial year ended 31 December 2013 on 108,000,000 ordinary shares, amounting to a dividend payable of RM5.4 million was approved at the Fifth Annual General Meeting held on 23 May 2014 will be paid on 23 June 2014. The entitlement date for the said dividend shall be 6 June 2014.

**B11. Earnings per Share**

The basic earnings per share have been calculated by dividing the Group's profit for the financial quarter under review attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the financial quarter under review.

	<b>Current Quarter 31 March 2014 RM'000</b>	<b>Corresponding Quarter 31 March 2013 RM'000</b>
Profit net of tax attributable to owners of the Parent	2,896	1,563
Weighted average number of ordinary Shares	108,000	108,000
Basic earnings per share(Sen)	2.68	1.45



(Company No.: 863263 – D)

The Company does not have any convertible shares or convertible financial instrument for the financial quarter under review.

## **B12. Auditors report of preceding Annual Financial Statements**

The audit report on the Group's financial statements for the financial year ended 31 December 2013 was not subject to qualification.

## **B13. Realised and Unrealised Profits of the Group**

The retained profits as at 31 March 2014 is analysed as follows:-

	<b>Current Quarter 31 March 2014 RM'000</b>	<b>Corresponding Quarter 31 March 2013 RM'000</b>
Total retained profits of the Group and its subsidiaries:		
- Realised profits	16,657	19,720
- Unrealised profits/(loss)	179	(349)
Total share of retained profits from associated companies:		
- Realised profits	12,421	10,773
- Unrealised profits/(loss)	287	231
Less : Consolidated adjustments	(13,639)	(20,225)
<b>Total Group retained profits as per consolidated accounts</b>	<b>15,905</b>	<b>10,150</b>

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

(Company No.: 863263 – D)

#### B14. Profit before taxation

Profit before taxation is arrived at after crediting/(charging) the following income/(expenses):

	<b>Current Quarter 31 March 2014 RM'000</b>	<b>Cumulative Quarter 31 March 2014 RM'000</b>
Interest Income	25	25
Foreign exchange gain/(Loss) net	142	142
Investment income*	-	-
Depreciation and Amortisation	150	150
Provision for Trade Receivable	-	-
Trade Receivable Write off*	-	-
Provision for Inventory	25	25
Inventory Write Off*	-	-
Impairment of asset*	-	-
Gain/Loss on disposal of quoted or unquoted investment*	-	-
Gain/Loss on Derivatives*	-	-
Exceptional Expenses*	-	-

\*These items are not applicable to the Group but disclosed pursuant to Appendix 9B Note 16 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.