

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 22 May 2015.

A2. Basis of Preparation

The condensed consolidated interim financial statements of the Group for the second quarter ended 30 June 2015, 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 2014.

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 2014.

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 2014 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 2015, the Group adopted the following new and amended MFRSs and IC Interpretation mandatory for the annual financial periods beginning on or after 1 January 2015:

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)

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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 Disclosures (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 beginning on or after 1 January 2016

MFRS 14: Regulatory Deferral Accounts
Amendment to MFRS 5: Non-current Assets Held for Sale and Discontinued Operation (Annual Improvements to MFRSs 2012-2014 Cycle)
Amendment to MFRS 7: Financial Instruments (Annual Improvements to MFRSs 2012-2014 Cycle)
Amendment to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendment to MFRS10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception
Amendment to MFRS 11: Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)
Amendment to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation
Amendment to MFRS 116 and MFRS 141: Agriculture: Bearer Plants
Amendment to MFRS 119: Employee Benefits (Annual Improvements to MFRSs 2012-2014 Cycle)
Amendment to MFRS 127: Equity Method in Separate Financial Statements
Amendment to MFRS 134: Interim Financial Reporting (Annual Improvements to MFRSs 2012-2014 Cycle)

Effective for financial periods beginning on or after 1 Jan 2017

MFRS 15: Revenue from Contracts with Customers

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Effective for financial periods beginning on or after 1 Jan 2018

MFRS 9: Financial Instruments (IFRS issued by IASB in July 2014)

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 2014 was not subject to any qualification.

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 2014.

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 declared during the financial quarter under review.

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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.

Segment analysis for the first quarter ended 30 June 2015 is set out below:

	Malaysia	Singapore	Others	Elimination	Group
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue					
External Sales	-	19,891	1,427	-	21,318
Inter-segment Sales	-	985	-	(985)	-
	-	20,876	1,427	(985)	21,318
Results					
Profit/(Loss) from Operation	(347)	4,384	314	74	4,425
Share of Profit of associates					1,213
Profit Before Taxation					5,638
Taxation					(830)
Profit after taxation					4,808

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.

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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

As announced on 7 January 2015, 9 January 2015, 15 January 2015, 20 January 2015 and 26 March 2015, Turbo-Mech Asia Pte Ltd has exercised the Option Agreement on 25 March 2015. 5% deposit has been paid to the vendor. The remaining amount of SGD7,695,000 is remained as capital commitments.

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.

Related parties	Nature of transactions	Transaction for	Transaction
		the period ended 30 June 2015 RM'000	for the period ended 30 June 2014 RM'000
Ultra Sol Engineering & Trading Sdn Bhd and Bayu Purnama	Provision of tools, equipment and labour for fabrication services	-	-
Turbo-Mech Asia Pte Ltd and Bayu Purnama Sdn Bhd	Sales of parts	8	10
Turbo-Mech Asia Pte Ltd and Bayu Purnama Sdn Bhd	Reimbursement of expenses by Related party	16	12
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 RM13.69 million for the current quarter, an increase of RM2.96 million or 27.6% as compared to the RM10.73 million achieved during the preceding year corresponding quarter. The increase in revenue was mainly due to overall increase in sales in the region.

The Group achieved gross profit of RM4.56 million during the current quarter. This represent an increase RM0.92 million or 25.3% as compared to the RM3.64 million achieved during the preceding year corresponding quarter. The gross profit margin for this quarter is 33.3% is fairly consistent with the gross profit margin of 33.9% achieved during the preceding year corresponding quarter.

For the current quarter, the Group recorded a profit after tax of RM2.3 million, a decrease of RM0.37 million or 13.9% as compared against the preceding year corresponding quarter profit after tax of RM2.67 million. The decrease was mainly due to the reduced contributions from associates.

B2. Comparison between the current Quarter and Immediate Preceding Quarter

	Current Quarter 30 June 2015 RM'000	Preceding Quarter 31 March 2015 RM'000
Revenue	13,687	7,631
Profit before Tax	2,669	2,969

The Group achieved revenue of RM13.69 million for the current quarter, an increase of RM6.06 million or 79.4% as compared to the RM7.63 million achieved during the previous quarter.

The Group achieved a profit before tax of RM2.67 million during the current quarter, a decrease of RM0.3 million or 10%, compared to the RM2.97 million achieved during the previous quarter. This is due to change in product mix.

For the current quarter, the Group recorded a profit after tax of RM2.3 million, a decrease of RM0.2 million or 8% compared against the previous quarter profit after tax of RM2.5 million. The decrease was mainly due to reduction in contribution from associates.

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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	
	30 June 2015 RM'000	30 June 2014 RM'000	30 June 2015 RM'000	30 June 2014 RM'000
Current tax				
- Malaysian income tax	-	-	-	-
- Foreign income tax	374	293	830	412
(Over)/Under provision in respect prior years	-	-	-	-
Deferred income tax:				
Origination and reversal of temporary difference	-	-	-	-
Total	374	293	830	412

The Group's effective tax rate for the current quarter is 14%, 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.

B7. Group Borrowing

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

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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

A final tax exempt (single tier) dividend of 5 sen per ordinary share of 50 sen in respect of the financial year ended 31 December 2014 on 108,000,000 ordinary shares, amounted to a dividend payable of RM5.4 million was approved by shareholders during the Annual General Meeting held on 22 May 2015 and subsequently paid on 26 June 2015.

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.

	Current Quarter 30 June 2015 RM'000	Corresponding Quarter 30 June 2014 RM'000
Profit net of tax attributable to owners of the Parent	2,292	2,664
Weighted average number of ordinary Shares	108,000	108,000
Basic earnings per share(Sen)	2.12	2.47

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

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B12. Auditors report of preceding Annual Financial Statements

The audit report on the Group's financial statements for the financial year ended 31 December 2014 was not subject to qualification.

B13. Realised and Unrealised Profits of the Group

The retained profits as at 30 June 2015 is analysed as follows:-

	Current Quarter 30 June 2015 RM'000	Corresponding Quarter 30 June 2014 RM'000
Total retained profits of the Group and its subsidiaries:		
- Realised profits	25,688	12,992
- Unrealised profits/(loss)	164	14
Total share of retained profits from associated companies:		
- Realised profits	16,104	12,421
- Unrealised profits/(loss)	2	287
Less : Consolidated adjustments	(20,676)	(12,545)
Total Group retained profits as per consolidated accounts	21,282	13,169

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.

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B14. Profit before taxation

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

	Current Quarter 30 June 2015 RM'000	Cumulative Quarter 30 June 2015 RM'000
Interest Income	40	98
Foreign exchange gain/(Loss) net	(138)	150
Investment income*	-	-
Depreciation and Amortisation	137	273
Provision for Trade Receivable	-	-
Trade Receivable Write off*	-	-
Provision for Inventory	-	-
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.