

## **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 19 February 2016.

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

The condensed consolidated interim financial statements of the Group for the fourth quarter ended 31 December 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**

At the forthcoming Annual General Meeting, a final single-tier dividend in respect of the financial year ended 31 December 2015, of 10% on 108,000,000 ordinary shares of 50 sen each, amounting to a dividend payable of RM5,400,000 (5 sen per ordinary share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as

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an appropriation of retained earnings in the financial year ending 31 December 2016.

#### 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 period ended 31 December 2015 is set out below:

	Malaysia RM'000	Singapore RM'000	Others RM'000	Elimination RM'000	Group RM'000
<b>Revenue</b>					
External Sales	90	33,095	2,904	-	36,089
Inter-segment Sales	-	1,863	-	(1,863)	-
	90	34,958	2,904	(1,863)	36,089
<b>Results</b>					
Profit/(Loss) from Operation	195	6,705	564	(750)	6,714
Share of Profit of associates					2,762
Profit Before Taxation					9,476
Taxation					(1,093)
Profit after taxation					8,383

#### A12. Subsequent Event

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

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

Ultra Sol Engineering & Trading Sdn Bhd (Company No. 807327-M), a 60% owned subsidiary which has inactive since year 2014, had on 1 December 2015 been placed under members' voluntary liquidation pursuant to the Companies Act, 1965.

### **A14. Contingent Liabilities**

At the end of December 2015, Rotodyne Phils. Inc. ("Rotodyne"), a subsidiary held through Turbo Mech Asia Pte. Ltd. received a formal assessment notice from the Department of Finance, Bureau of Internal Revenue ("BIR") of the Philippines arising from the deficiency of income tax and Value Added Tax ("VAT") for the taxable year 2009, inclusive of surcharged and interest amounting to Php16,077,963 (approximately RM1,471,037).

On January 2016, Rotodyne's tax consultant has filed a protest on behalf of Rotodyne on the deficiency tax assessments by BIR stating that BIR has no legal basis for this assessment and therefore requested for a re-investigation and its immediate cancellation.

The Directors believe that Rotodyne is not liable to pay any tax demanded. However, the outcome of the matter cannot be presently determined. Accordingly, no provision for this claim has been made in the financial statements.

### **A15. Capital Commitments**

The amount of capital commitment of the Group as at 31 December 2015 is SGD315,000 (RM956,214), relating to the renovation work of the new workshop in Singapore.

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#### 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 Dec 2015 RM'000</b>	<b>Transaction for the period ended 31 Dec 2014 RM'000</b>
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	34	20
Turbo-Mech Asia Pte Ltd and Bayu Purnama Sdn Bhd	Reimbursement of expenses by Related party	41	36
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 RM8.22 million for the current quarter, a decrease of RM5.4 million or 39.6% as compared to the RM13.62 million achieved during the preceding year corresponding quarter. The decrease in revenue was mainly due to drop in sales in Singapore region.

The Group achieved gross profit of RM3.02 million during the current quarter. This represent a decrease of RM2.42 million or 44.5% as compared to the RM5.44 million achieved during the preceding year corresponding quarter. The gross profit margin for this quarter is 36.7% which is slightly lower than the gross profit margin of 39.9% achieved during the preceding year corresponding quarter.

For the current quarter, the Group recorded a profit after tax of RM1.36 million, a decrease of RM3.14 million or 69.8% as compared against the preceding year corresponding quarter profit after tax of RM4.5 million. The decrease was mainly due to the reduction in revenue.

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

	<b>Current Quarter 31 December 2015</b>	<b>Preceding Quarter 30 September 2015</b>
	RM'000	RM'000
Revenue	8,223	6,548
Profit before Tax	1,552	2,286

The Group achieved revenue of RM8.22 million for the current quarter, an increase of RM1.67 million or 25.5% as compared to the RM6.55 million achieved during the previous quarter.

The Group achieved a profit before tax of RM1.55 million during the current quarter, a decrease of RM0.74 million or 32.3%, compared to the RM2.29 million achieved during the previous quarter. This is due to decrease in profit margin during the quarter, the absence of foreseeable exchange rate experienced in the preceding quarter, and cushion by improved contribution of associate.

For the current quarter, the Group recorded a profit after tax of RM1.36 million, a decrease of RM0.86 million or 38.7% compared against the previous quarter profit after tax of RM2.22 million.

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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 and will stay relevant to the industry.

### 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 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014
	RM'000	RM'000	RM'000	RM'000
Current tax				
- Malaysian income tax	20	10	20	10
- Foreign income tax	175	988	1,073	1,957
(Over)/Under provision in respect prior years	-	(8)	-	(8)
Deferred income tax:				
Origination and reversal of temporary difference	-	(8)	-	(8)
<b>Total</b>	<b>195</b>	<b>982</b>	<b>1,093</b>	<b>1,951</b>

The Group's effective tax rate for the current quarter is 12.6%, 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.



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## B7. Group Borrowing

The details of the Group's borrowings as at 31 December 2015 are as set out as below:

	Maturity	31 Dec 2015 RM
<b>Current</b>		
Secured:		
Obligations under finance lease	2016	11,069
Bank loan	2016	1,070,668
		<u>1,081,737</u>
<b>Noncurrent</b>		
Secured:		
Obligations under finance lease	2017-2020	46,182
Bank loan	2017-2025	10,983,858
		<u>11,030,040</u>

## 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.

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## B10. Dividend

At the forthcoming Annual General Meeting, a final single-tier dividend in respect of the financial year ended 31 December 2015, of 10% on 108,000,000 ordinary shares of 50 sen each, amounting to a dividend payable of RM5,400,000 (5 sen per ordinary share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2016.

## 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 Dec 2015 RM'000</b>	<b>Corresponding Quarter 31 Dec 2014 RM'000</b>
Profit net of tax attributable to owners of the Parent	1,513	4,500
Weighted average number of ordinary Shares	108,000	108,000
Basic earnings per share(Sen)	1.40	4.17

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 2014 was not subject to qualification.

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

The retained profits as at 31 December 2015 is analysed as follows:-

	<b>Current Quarter 31 Dec 2015 RM'000</b>	<b>Corresponding Quarter 31 Dec 2014 RM'000</b>
Total retained profits of the Group and its subsidiaries:		
- Realised profits	30,492	26,712
- Unrealised profits/(loss)	1,100	338
Total share of retained profits from associated companies:		
- Realised profits	16,107	15,805
- Unrealised profits/(loss)	(1)	258
Less : Consolidated adjustments	(22,833)	(21,081)
<b>Total Group retained profits as per consolidated accounts</b>	<b>24,865</b>	<b>21,883</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.

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#### B14. Profit before taxation

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

	<b>Current Quarter 31 Dec 2015 RM'000</b>	<b>Cumulative Quarter 31 Dec 2015 RM'000</b>
Interest Income	87	222
Foreign exchange gain/(Loss) net	(303)	1,324
Investment income*	-	-
Depreciation and Amortisation	(189)	(627)
Provision for Trade Receivable	(48)	(48)
Trade Receivable Write off*	-	-
Provision for Inventory	(31)	(82)
Inventory Write Off*	-	-
Impairment of asset*	-	-
Gain/Loss on disposal of quoted or unquoted investment*	(83)	(83)
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.