



(Company No.: 863263 . D)

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

### **PART 1-Explanatory Notes Pursuant to MFRS 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 2017.

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

The condensed consolidated interim financial statements of the Group for the first quarter ended 31 December 2016, 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 2016.

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 2016.

#### **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 2016 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 2017, the Group adopted the following new and amended MFRSs and IC Interpretation mandatory for the annual financial periods beginning on or after 1 January 2016:

##### **Effective for financial periods beginning on or after 1 Jan 2016**

MFRS 14: Regulatory Deferral Accounts

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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)  
Amendments to MFRS 10, 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)  
Amendments to MFRS 101: Disclosure Initiatives  
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**

Amendments to MFRS 12: Disclosure of Interests in Other Entities (Annual Improvements to MFRSs 2014-2016 Cycle)  
Amendments to MFRS 107: Disclosures Initiatives  
Amendments to MFRS 112: Recognition of Deferred Tax for Unrealised Losses

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 2016 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**

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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 2016.

#### 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.

#### 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 reviewed 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 March 2017 is set out below:

	Malaysia	Singapore	Others	Elimination	Group
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Revenue</b>					
External Sales	-	7,997	1,369	-	9,366
Inter-segment Sales	-	-	950	(950)	-
	-	7,997	2,319	(950)	9,366
<b>Results</b>					
Profit/(Loss) from Operation	(60)	(330)	225	(186)	(351)
Finance cost					(79)

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Share of Profit of associates	68
Share of Profit of JV	<u>(6)</u>
Loss Before Taxation	(368)
Taxation	<u>(1)</u>
Loss after taxation	<u>(369)</u>

#### **A12. Subsequent Event**

On 18 April 2017, Rotodyne Phils. Inc. a subsidiary held through Turbo-Mech Asia Pte Ltd has agreed with Department of Finance, Bureau of Internal Revenue of Philippines on final assessment on the tax deficiency amounting to Php994,645 (approximately RM86,200). The amount has been cleared on 4<sup>th</sup> May 2017.

#### **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 last report.

#### **A15. Capital Commitments**

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

#### **A16. Significant related party transaction**

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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 Mar 2017 RM'000</b>	<b>Transaction for the period ended 31 Mar 2016 RM'000</b>
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	20	15

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## B1. Analysis of Performance

The Group achieved revenue of RM9.4 million for the current quarter, an increase of RM2.7 million or 40% as compared to the RM6.7 million achieved during the preceding year corresponding quarter. The increase in revenue was mainly due to Indonesia region's improved sales order and delivery during current quarter.

The Group achieved gross profit of RM3.3 million during the current quarter. This represent an increase of RM1.7 million or 106% as compared to the RM1.6 million achieved during the preceding year corresponding quarter. The gross profit margin for this quarter is 35% which is higher than the gross profit margin of 23.8% achieved during the preceding year corresponding quarter due to change in product mix.

For the current quarter, the Group recorded a loss after tax of RM0.37 million, compared against the preceding year corresponding quarter loss after tax of RM0.24 million. The decrease was mainly due to increased overhead cost during the quarter compared with preceding year corresponding period.

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

	<b>Current Quarter</b> <b>31 Mar 2017</b> RM'000	<b>Preceding Quarter</b> <b>31 Dec 2016</b> RM'000
Revenue	9,366	14,247
Profit before Tax	(368)	2,903

The Group achieved revenue of RM9.4 million for the current quarter, a decrease of RM4.8 million or 33.8% as compared to the RM14.2 million achieved during the previous quarter.

The Group recorded a loss before tax of RM0.37 million during the current quarter, a decrease of RM3.3 million compared to the RM2.9 million achieved during the previous quarter. This is due to decrease in revenue during the quarter.

For the current quarter, the Group recorded a loss after tax of RM0.37 million, compared against the previous quarter profit after tax of RM2.7 million.

## B3. Prospects

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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**

	<b>Current Quarter</b>		<b>Cumulative Quarter</b>	
	<b>31 Mar</b>	<b>31 Mar</b>	<b>31 Mar</b>	<b>31 Mar</b>
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Current tax				
- Malaysian income tax	-	-	-	-
- Foreign income tax	1	17	1	17
(Over)/Under provision	-	-	-	-
in respect prior years	-	-	-	-
Deferred income tax:				
Origination and reversal	-	-	-	-
of temporary difference				
<b>Total</b>	<b>1</b>	<b>17</b>	<b>1</b>	<b>17</b>

The Group's effective tax rate for the current quarter 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, utilization 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**

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The details of the Group's borrowings as at 31 March 2017 are as set out as below:

	Maturity	31 Mar 2017 RM
<b>Current</b>		
Secured:		
Obligations under finance lease	2018	18,576
Bank loan	2018	1,155,939
		<u>1,174,515</u>
 <b>Noncurrent</b>		
Secured:		
Obligations under finance lease	2018-2021	54,291
Bank loan	2018-2025	10,018,637
		<u>10,072,928</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.

#### **B10. Dividend**

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

#### **B11. Earnings per Share**



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The basic earnings/(loss) per share have been calculated by dividing the Group's profit/(loss) 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 Mar 2017 RM'000</b>	<b>Corresponding Quarter 31 Mar 2016 RM'000</b>
Loss net of tax attributable to owners of the Parent	(369)	(235)
Weighted average number of ordinary Shares	108,000	108,000
Basic earnings/(loss) per share(Sen)	(0.46)	(0.22)

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 2016 was not subject to qualification.

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

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The retained profits as at 31 March 2017 is analysed as follows:-

	<b>Current Quarter 31 Mar 2017 RM'000</b>	<b>Corresponding Quarter 31 Mar 2016 RM'000</b>
Total retained profits of the Group and its subsidiaries:		
- Realised profits	27,443	25,750
- Unrealised profits/(loss)	(592)	(222)
Total share of retained profits from associated companies:		
- Realised profits	8,283	15,867
- Unrealised profits/(loss)	131	239
Less : Consolidated adjustments	(12,118)	(17,004)
<b>Total Group retained profits as per consolidated accounts</b>	<b>23,147</b>	<b>24,630</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.

#### **B14. Profit before taxation**

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

	<b>Current Quarter 31 Mar 2017 RM'000</b>	<b>Cumulative Quarter 31 Mar 2017 RM'000</b>
Interest Income	33	33
Foreign exchange gain/(Loss) net	(592)	(592)
Investment income*	-	-
Depreciation and Amortisation	(403)	(403)
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.