

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 26 February 2018.

A2. Basis of Preparation

The condensed consolidated interim financial statements of the Group for the fourth quarter ended 31 December 2017, 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

(Company No.: 863263 – D)

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.

(Company No.: 863263 – D)

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 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

At the forthcoming Annual General Meeting, a final dividend of 1 sen per share in respect of the financial year ended 31 December 2017, amounting to a dividend payable of RM1,080,000 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 2018.

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.

(Company No.: 863263 – D)

Segment analysis for the period ended 31 December 2017 is set out below:

	Malaysia	Singapore	Others	Elimination	Group
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue					
External Sales	-	41,185	3,976	-	45,161
Inter-segment Sales	-	1,459	-	(1,459)	-
	-	42,644	3,976	(1,459)	45,161
Results					
Profit/(Loss) from Operation	(448)	3,044	292	(62)	2,826
Finance cost					(176)
Share of Results of associates					1,123
Share of Results of JV					62
Profit Before Taxation					3,835
Taxation					(881)
Profit after taxation					2,954

A12. Subsequent Event

On 21 November 2017, the Company announced that Turbo-Mech Asia Pte Ltd, its wholly-owned subsidiary, has proposed a Sales and Purchase Agreement ("SPA") with a Director, Gan Kok Ten for the proposed acquisition of 248,000 ordinary shares of Thai Baht ("THB") 100 each in Turbo-Mech (Thailand) Company Limited ("TMT"), representing 24.8% equity interest in TMT, for a total cash consideration of THB28,941,000 (or approximately RM3,668,000). The SPA was signed on 1 January 2018 and TMT has now become a 99.8%-owned sub-sub-subsidiary of the Company.

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.

(Company No.: 863263 – D)

A15. Capital Commitments

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

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 31 Dec 2017 RM'000	for the period ended 31 Dec 2016 RM'000
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	50	41

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

B1. Analysis of Performance

	INDIVIDUAL QUARTER				CUMULATIVE QUARTER			
	Current Year	Preceding Year	Changes		Current Year	Preceding Year	Changes	
	Quarter	Corresponding Quarter	RM'000	%	To Date	Corresponding Period	RM'000	%
	31 Dec 2017	31 Dec 2016			31 Dec 2017	31 Dec 2016		
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Segment revenue								
- Singapore	11,617	9,632	1,985	21%	41,184	33,412	7,772	23%
- Others	1,626	4,615	(2,989)	-65%	3,976	6,697	(2,721)	-41%
Profit from operations	861	2,403	(1,542)	-64%	2,826	3,813	(987)	-26%
Profit before tax	1,852	2,902	(1,050)	-36%	3,835	4,736	(901)	-19%
Profit after tax	1,221	2,712	(1,491)	-55%	2,954	4,330	(1,376)	-32%
Profit attributable to equity holders of the parent	1,093	2,554	(1,461)	-57%	2,734	4,182	(1,448)	-35%

The Group achieved revenue of RM13.2 million for the current quarter, a decrease of RM1 million or 7% as compared to the RM14.2 million achieved during the preceding year corresponding quarter. The decrease in revenue was mainly due to generally decrease in sales activities across the region, mitigated by improved sales performance in Singapore.

The Group achieved gross profit of RM5 million during the current quarter. This represent a decrease of RM0.5 million or 9% as compared to the RM5.5 million achieved during the preceding year corresponding quarter. The gross profit margin for this quarter is 38% which is consistent with the gross profit margin achieved during the preceding year corresponding quarter.

For the current quarter, the Group recorded a profit after tax of RM1.2 million, compared against the preceding year corresponding quarter profit after tax of RM2.7 million. The decrease was mainly due to decrease in sales and increase in operating expenses during the quarter compared with preceding year corresponding period.

B2. Comparison between the current Quarter and Immediate Preceding Quarter

	INDIVIDUAL QUARTER			
	31 Dec 2017	30 Sep 2017	Changes	
	RM'000	RM'000	RM'000	%
Segment revenue				
- Singapore	11,617	10,297	1,320	13%
- Others	1,626	248	1,378	555%
Profit from operatic	861	1,027	(166)	-16%
Profit before tax	1,852	1,400	452	32%
Profit after tax	1,221	1,181	40	3%
Profit attributable to equity holders of the parent	1,093	1,155	(62)	-5%

(Company No.: 863263 – D)

The Group achieved revenue of RM13.2 million for the current quarter, an increase of RM2.7 million or 25.7% as compared to the RM10.5 million achieved during the previous quarter. The increase is correlated with the historical trend where sales has been picked up and delivered significantly in fourth quarter.

The Group recorded a profit before tax of RM1.9 million during the current quarter, an increase of RM0.5 million compared to the RM1.4 million during the previous quarter. This is due to improve in sales revenue during the quarter.

For the current quarter, the Group recorded a profit after tax of RM1.2 million, which is consistent with the the previous quarter profit after tax.

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 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Current tax				
- Malaysian income tax	1	(137)	1	(137)
- Foreign income tax	630	327	880	543
(Over)/Under provision in respect prior years	-	-	-	-
Deferred income tax:				
Origination and reversal of temporary difference	-	-	-	-
Total	631	190	881	406

The Group's effective tax rate for the current quarter is 34%, which is higher than the statutory tax rate of 25%.

(Company No.: 863263 – D)

B6. Status of Corporate Proposals

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

B7. Group Borrowing

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

	Maturity	31 Dec 2017 RM
Current		
Secured:		
Obligations under finance lease	2018	21,145
		<u>21,145</u>
 Noncurrent		
Secured:		
Obligations under finance lease	2018-2021	45,236
		<u>45,236</u>

Turbo-Mech Asia Pte Ltd, a wholly owned subsidiary in Singapore has during the year repaid in full on the outstanding bank loan total of SGD3,439,435 (approximately RM10,656,398).

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.

(Company No.: 863263 – D)

B10. Dividend

At the forthcoming Annual General Meeting, a final dividend of 1 sen per share in respect of the financial year ended 31 December 2017, amounting to a dividend payable of RM1,080,000 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 2018.

B11. Earnings per Share

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.

	Current Quarter 31 Dec 2017 RM'000	Corresponding Quarter 31 Dec 2016 RM'000
Profit net of tax attributable to owners of the Parent	1,093	2,554
Weighted average number of ordinary Shares	108,000	108,000
Basic earnings/(loss) per share(Sen)	1.01	2.36

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.

(Company No.: 863263 – D)

B13. Realised and Unrealised Profits of the Group

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

	Current Quarter 31 Dec 2017 RM'000	Corresponding Quarter 31 Dec 2016 RM'000
Total retained profits of the Group and its subsidiaries:		
- Realised profits	32,523	28,686
- Unrealised profits/(loss)	(1,651)	320
Total share of retained profits from associated companies:		
- Realised profits	9,550	8,283
- Unrealised profits/(loss)	(13)	131
Less : Consolidated adjustments	(14,028)	(13,773)
Total Group retained profits as per consolidated accounts	26,381	23,647

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

	Current Quarter 31 Dec 2017 RM'000	Cumulative Quarter 31 Dec 2017 RM'000
Interest Income	141	309
Foreign exchange gain/(Loss) net	(659)	(1,688)
Investment income*	-	-
Depreciation and Amortisation	(1,252)	(2,531)
Provision for Trade Receivable	(242)	(242)
Trade Receivable Write off*	-	-
Provision for Inventory	(106)	(106)
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.