

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 20 August 2018.

A2. Basis of Preparation

The condensed consolidated interim financial statements of the Group for the second quarter ended 30 June 2018, 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 2017.

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 2017.

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 2017 except for the adoption of the following new or revised Malaysian Financial Reporting Standards ("MFRS") below.

3.1 Changes in Accounting Policies

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and of the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards and interpretations, if applicable when they become effective.

Effective for financial periods beginning on or after 1 January 2018

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Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRSs 2014–2016 Cycle)
Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions
Amendments to MFRS 4: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts
Amendments to MFRS 128: Investments in Associates and Joint Ventures (Annual Improvements to MFRSs 2014–2016 Cycle)
Amendments to MFRS 140: Transfers of Investment Property
MFRS 9: Financial Instruments (IFRS issued by IASB in July 2014)
MFRS 15: Revenue from Contracts with Customers
MFRS 15: Clarification of Revenue from Contracts with Customers
IC Interpretation 22: Foreign Currency Transactions and Advance Consideration

Effective for financial periods beginning on or after 1 January 2019

Amendments to MFRS 3: Business Combinations (Annual improvements to MFRSs 2015–2017 Cycle)
Amendments to MFRS 9: Prepayment Features with Negative Compensation
Amendments to MFRS 11: Joint Arrangements (Annual improvements to MFRSs 2015–2017 Cycle)
Amendments to MFRS 112: Income Taxes (Annual improvements to MFRSs 2015–2017 Cycle)
Amendments to MFRS 123: Borrowing Costs (Annual improvements to MFRSs 2015–2017 Cycle)
MFRS 16: Leases
MFRS 128: Long-term interests in Associates and Joint Ventures
IC Interpretation 23: Uncertainty over Income Tax Treatments

Effective for financial periods beginning on or after 1 January 2021

MFRS 17: Insurance Contracts

Effective for financial periods to be announced

Amendment to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)

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 2017 was not subject to any qualification.

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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 2017.

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.

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Segment analysis for the period ended 30 June 2018 is set out below:

	Malaysia	Singapore	Others	Elimination	Group
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue					
External Sales	-	13,778	1,383	-	15,161
Inter-segment Sales	-	195	-	(195)	-
	-	13,973	1,383	(195)	15,161
Results					
Profit/(Loss) from Operation	(416)	345	84	49	62
Finance cost					(2)
Share of Results of associates					491
Share of Results of JV					14
Profit Before Taxation					565
Taxation					(34)
Profit after taxation					531

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 last report.

A15. Capital Commitments

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

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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.

Related parties	Nature of transactions	Transaction for the period ended 30 June 2018 RM'000	Transaction for the period ended 30 June 2017 RM'000
Turbo-Mech Asia Pte Ltd and Bayu Purnama Sdn Bhd	Sales of parts	-	-
Turbo-Mech Asia Pte Ltd and Bayu Purnama Sdn Bhd	Reimbursement of expenses by Related party	25	27

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 Quarter 30 Jun 2018 RM'000	Preceding Year Corresponding Quarter 30 Jun 2017 RM'000	Changes		Current Year To Date 30 Jun 2018 RM'000	Preceding Year Corresponding Period 30 Jun 2017 RM'000	Changes	
			RM'000	%			RM'000	%
Revenue	10,236	12,007	(1,771)	-15%	15,161	21,373	(6,212)	-29%
Segment revenue								
- Singapore	9,669	10,451	(782)	-7%	13,973	19,270	(5,297)	-27%
- Others	568	1,556	(988)	-64%	1,188	2,103	(915)	-44%
Gross profit	2,989	4,693	(1,704)	-36%	4,930	7,969	(3,039)	-38%
Profit from operations	1,277	1,289	(12)	-1%	62	938	(876)	-93%
Profit before tax	1,748	951	797	84%	565	583	(18)	-3%
Profit after tax	1,721	921	800	87%	531	552	(21)	-4%
Profit attributable to equity holders of the parent	1,721	986	735	75%	530	486	44	9%

The Group achieved revenue of RM10.2 million for the current quarter, a decrease of RM1.8 million or 15% as compared to the RM12 million achieved during the preceding year corresponding quarter. The decrease in revenue was mainly due to decrease in sales across the region.

The Group achieved gross profit of RM3 million during the current quarter. This represent a decrease of RM1.7 million or 36% as compared to the RM4.7 million achieved during the preceding year corresponding quarter. The gross profit margin for this quarter is 29% which is lower than the gross profit margin of 39% achieved during the preceding year corresponding quarter due to change in product mix.

For the current quarter, the Group recorded a profit after tax of RM1.7 million, compared against the preceding year corresponding quarter profit after tax of RM0.9 million. The increase was mainly due to higher contribution from associates and reduction in operating expenditure.

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B2. Comparison between the current Quarter and Immediate Preceding Quarter

	INDIVIDUAL QUARTER			
	30 Jun 2018	30 Mar 2018	Changes	
	RM'000	RM'000	RM'000	%
Revenue	10,236	4,925	5,311	108%
Segment revenue				
- Singapore	9,669	4,305	5,364	125%
- Others	568	620	(52)	-8%
Profit from operations	1,277	1,941	(664)	-34%
Profit/(Loss) before tax	1,748	(1,183)	2,931	-248%
Profit/(Loss) after tax	1,721	(1,190)	2,911	-245%
Profit/(Loss) attributable to equity	1,721	(1,191)	2,912	-245%

The Group achieved revenue of RM10.2 million for the current quarter, an increase of RM5.3 million or 108% as compared to the RM4.9 million achieved during the previous quarter.

The Group recorded a profit before tax of RM1.7 million during the current quarter, an increase of RM2.9 million compared to the loss of RM1.2 million during the previous quarter. This is due to improved in sales revenue during the quarter.

For the current quarter, the Group recorded a profit after tax of RM1.7 million, compared against the previous quarter loss after tax of RM1.2 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.

Notwithstanding recent improvement in crude oil prices, the Group does not experience any increase in operating expenditure and capital expenditure of our oil and gas clients, as such the pressure of the Group would continue. 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.

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B5. Income Tax Expenses

	Current Quarter		Cumulative Quarter	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	RM'000	RM'000	RM'000	RM'000
Current tax				
- Malaysian income tax	-	-	-	-
- Foreign income tax	27	30	34	31
(Over)/Under provision in respect prior years	-	-	-	-
Deferred income tax:				
Origination and reversal of temporary difference	-	-	-	-
Total	27	30	34	31

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

The details of the Group's borrowings as at 30 June 2018 are as set out as below:

	Maturity	30 June 2018 RM
Current		
Secured:		
Obligations under finance lease	2019	21,380
		<u>21,380</u>
Noncurrent		
Secured:		
Obligations under finance lease	2019-2021	33,083
		<u>33,083</u>

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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

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

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 30 June 2018 RM'000	Corresponding Quarter 30 June 2017 RM'000
Profit net of tax attributable to owners of the Parent	1,721	986
Weighted average number of ordinary Shares	108,000	108,000
Basic earnings/(loss) per share(Sen)	1.59	0.91

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 2017 was not subject to qualification.

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B13. Profit/(loss) before taxation

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

	Current Quarter 30 June 2018 RM'000	Cumulative Quarter 30 June 2018 RM'000
Interest Income	43	69
Foreign exchange gain/(Loss) net	391	(95)
Investment income*	-	-
Depreciation and Amortisation	(661)	(1,315)
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.