

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 18 November 2019.

A2. Basis of Preparation

The condensed consolidated interim financial statements of the Group for the third quarter ended 30 September 2019, 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 2018.

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 2018.

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 2018 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.

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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 119: Plan Amendment, Curtailment or Settlement

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 2020

Amendments to MFRS 3: Definition of a Business

Amendments to MFRS 101: Definition of Material

Amendments to MFRS 108: Definition of Material

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 2018 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.

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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 2018.

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 September 2019 is set out below:

	Malaysia	Singapore	Others	Elimination	Group
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue					
External Sales	-	20,291	7,164	-	27,455
Inter-segment Sales	-	2,815	-	(2,815)	-
	-	23,106	7,164	(2,815)	27,455
Results					
Profit/(Loss) from Operation	(452)	656	1,584	(553)	1,235
Finance cost					(2)
Share of Results of associates					387
Share of Results of JV					109
Profit before taxation					1,729
Taxation					(213)
Profit after taxation					1,516

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 Sept 2019 RM'000	Transaction for the period ended 30 Sept 2018 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	36	33

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

B1. Analysis of Performance

	INDIVIDUAL QUARTER				CUMULATIVE QUARTER			
	Current	Preceding Year	Changes		Current	Preceding Year	Changes	
	Year	Corresponding			Year	Corresponding		
	Quarter	Quarter	RM'000	%	To Date	Period	RM'000	%
	30 Sep 2019	30 Sep 2018			30 Sep 2019	30 Sep 2018		
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	11,141	12,647	(1,506)	-12%	27,455	27,808	(353)	-1%
Segment revenue								
- Singapore	9,139	9,986	(847)	-8%	23,106	23,959	(853)	-4%
- Others	2,002	2,661	(659)	-25%	4,349	3,849	500	13%
Gross profit	3,857	5,198	(1,341)	-26%	8,619	10,128	(1,509)	-15%
Profit from operations	2,186	2,741	(555)	-20%	1,235	2,803	(1,568)	-56%
Profit before tax	2,441	3,190	(749)	-23%	1,729	3,754	(2,025)	-54%
Profit after tax	2,267	2,712	(445)	-16%	1,516	3,242	(1,726)	-53%
Profit attributable to equity holders of the parent	2,265	2,713	(448)	-17%	1,513	3,242	(1,729)	-53%

The Group achieved revenue of RM11.1 million for the current quarter, a decrease of RM1.5 million compared to the RM12.6 million achieved during the preceding year corresponding quarter. The decrease in revenue was mainly due to general decrease in sales activities across the region.

The Group achieved gross profit of RM3.8 million during the current quarter compared with RM5.2 million achieved in preceding year corresponding quarter. The gross profit margin for this quarter is 34.6% which is lower than the gross profit margin of 41.1% 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 RM2.2 million, compared against the preceding year corresponding quarter profit after tax of RM2.7 million. The decrease in profit was mainly due to lower gross profit margin, lower revenue and lower contribution from associates.

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B2. Comparison between the current Quarter and Immediate Preceding Quarter

	INDIVIDUAL QUARTER		Changes	
	30 Sep 2019 RM'000	30 Jun 2019 RM'000	RM'000	%
Revenue	11,141	8,424	2,717	32%
Segment revenue				
- Singapore	9,139	7,803	1,336	17%
- Others	2,002	621	1,381	222%
Profit from operations	2,186	242	1,944	803%
Profit before tax	2,441	213	2,228	1046%
Profit after tax	2,267	211	2,056	974%
Profit attributable to equity holders of the parent	2,265	210	2,055	979%

The Group achieved revenue of RM11.1 million for the current quarter, an increase of RM2.7 million or 32% as compared to the RM8.4 million achieved during the previous quarter.

The Group recorded a profit before tax of RM2.4 million during the current quarter, compared to the profit of RM0.2 million during the previous quarter. This is due to improvement in sales revenue during the quarter.

For the current quarter, the Group recorded a profit after tax of RM2.2 million, compared against the previous quarter profit after tax of RM0.2 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.

The Group does not experience any increase in operating expenditure and capital expenditure of our oil and gas clients, as such the pressure on the Group would continue. The Company will stay focus 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 Sept 2019	30 Sept 2018	30 Sept 2019	30 Sept 2018
	RM'000	RM'000	RM'000	RM'000
Current tax				
- Malaysian income tax	-	-	-	-
- Foreign income tax	174	478	213	512
(Over)/Under provision in respect prior years	-	-	-	-
Deferred income tax:				
Origination and reversal of temporary difference	-	-	-	-
Total	174	478	213	512

The Group's effective tax rate for the current quarter is 6.6%, 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 September 2019 are as set out as below:

	Maturity	30 Sept 2019 RM
Current		
Secured:		
Obligations under finance lease	2020	22,032
		<u>22,032</u>
Noncurrent		
Secured:		
Obligations under finance lease	2021	6,669
		<u>6,669</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 Sept 2019 RM'000	Corresponding Quarter 30 Sept 2018 RM'000
Profit net of tax attributable to owners of the Parent	2,265	2,713
Weighted average number of ordinary Shares	108,000	108,000
Basic earnings/(loss) per share(Sen)	2.10	2.51

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 2018 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 Sept 2019 RM'000	Cumulative Quarter 30 Sept 2019 RM'000
Interest Income	58	169
Foreign exchange gain/(Loss) net	728	327
Investment income*	-	-
Depreciation and Amortisation	(707)	(2,125)
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.