

EXPLANATORY NOTES

The figures have not been audited

1. Accounting Policies

The interim financial report is unaudited and has been prepared in accordance with Malaysian Financial Reporting Standard ("MFRS") 134 "Interim Financial Reporting", International Financial Reporting Standards and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. The report should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2016.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted in the most recent audited annual financial statements for the financial year ended 31 December 2016.

The following are Standards of the MFRS Framework that have been issued by the Malaysian Accounting Standards Board ('MASB') but have not been adopted by the Group and the Company.

MFRSs/ Amendments/Interpretations	Effective date
Amendments to MFRS 12 <i>Annual Improvements to MFRS Standards 2014 – 2016 Cycle</i>	1 January 2017
Amendments to MFRS 107 <i>Disclosure Initiative</i>	1 January 2017
Amendments to MFRS 112 <i>Recognition of Deferred Tax Assets for Unrealised Losses</i>	1 January 2017
Amendments to MFRS 1 <i>Annual Improvements to MFRS Standards 2014 - 2016 Cycle</i>	1 January 2018
MFRS 9 <i>Financial Instruments (IFRS 9 as issued by IASB in July 2014)</i>	1 January 2018
MFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018
Clarifications to MFRS 15	1 January 2018
Amendments to MFRS 2 <i>Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
Amendments to MFRS 128 <i>Annual Improvements to MFRS Standards 2014 - 2016 Cycle</i>	1 January 2018
Amendments to MFRS 140 <i>Transfers of Investment Property</i>	1 January 2018
IC Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
MFRS 16 <i>Leases</i>	1 January 2019
Amendments to MFRS 10 and MFRS 128 <i>Sale or Contribution of Assets between an Investor and its Associates or Joint Venture</i>	Deferred

The Group is in the process of assessing the impact of implementing these Amendments, Clarifications and Standards, since the effects would only be observable for future financial years.

2. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the financial statements for the financial year ended 31 December 2016 was not qualified.

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3. Segmental Information

	Audio division RM'000	Property development division RM'000	Investment holding segment RM'000	Total RM'000
6-months ended 30 June 2017				
Revenue				
External revenue	18,660	(1,391)	-	17,269
Results				
Operating loss	(2,219)	(3,518)	(1,256)	(6,993)
Finance costs	(3)	(344)	(3)	(350)
Unrealised gain on forex	53	-	-	53
Interest income	252	76	6	334
Other income	782	-	-	782
Share of results in an associate	-	(62)	-	(62)
Loss before tax	(1,135)	(3,848)	(1,253)	(6,236)
Tax expense				1,024
Loss for the period				(5,212)
6-months ended 30 June 2016				
Revenue				
External revenue	31,636	18,197	-	49,833
Results				
Operating profit/(loss)	(1,703)	2,531	(1,212)	(384)
Finance costs	(7)	(7)	-	(14)
Unrealised gain on forex	224	-	-	224
Interest income	214	-	3	217
Other income	114	-	-	114
Profit/(Loss) before tax	(1,158)	2,524	(1,209)	157
Tax expense				(676)
Loss for the period				(519)

4. Unusual Items due to their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income and cash flow during the current quarter and financial year-to-date.

5. Changes in Estimates

There were no significant changes in estimates of amount reported in prior interim period or prior financial year that have a material effect in the current quarter and financial year-to-date.



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6. Comments about Seasonal or Cyclical Factors

Sales of the Group are seasonal and are affected by economic conditions in countries in which the products are sold.

7. Dividends Paid

The Board of Directors has not paid any dividend for the current quarter (30 June 2016: Nil).

8. Carrying Amount of Revalued Assets

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss, if any.

9. Debt and Equity Securities

There were no issuance and repayment of debt and equity securities, share cancellations and resale of treasury shares for the current financial year-to-date.

10. Changes in Composition of the Group

There was no change in the composition of the Group for the current financial year to-date under review except for as disclosed in Note 20.

11. Changes in Contingent Liabilities or Contingent Assets

The Company has an existing corporate guarantee amounting to RM37.5 million issued to a licensed bank for banking facilities granted to a subsidiary company. Consequently, the Company is contingently liable for the amount of banking facilities utilised by the subsidiary company totalling RM11.1 million as at 30 June 2017.

12. Subsequent Events

There were no material events subsequent to 30 June 2017 that have not been reflected in the interim report.

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13. Review of Performance

During the financial period under review, the Group recorded a turnover of RM17 million compared to RM50 million in the preceding year. Turnover for the audio division remained subdued due to low season. Turnover for the property division was similarly stagnant due to sale withdrawals resulting from existing buyers' failure to secure bank financing. The profit margin for audio segment continued to be low during the quarter due to high material costs, labour costs and manufacturing overheads. As for the development segment, due to subdued sales and scheduled payments to contractors for work done, a loss of RM2.7 million was incurred for this division. As a consequence, the Group posted a RM6.2 million pre-tax loss for the period under review.

14. Material Change In Profit Before Tax For The Current Quarter As Compared With The Immediate Preceding Quarter

The Group posted a pre-tax loss of RM4.8 million for the current quarter as compared to a pre-tax loss of RM1.5 million for the preceding quarter. The audio segment registered a pre-tax loss of RM1.5 million as compared to a pre-tax profit of RM0.3 million in the preceding quarter mainly due to increased manufacturing costs and operating costs. The development segment posted a pre-tax loss of RM2.7 million for the quarter as compared to a pre-tax loss of RM1.2 million in the preceding quarter. The increased loss in current quarter was attributed to the effects of withdrawal of sales and bookings for units previously sold and subdued demand.

15. Prospects for the current financial year

The issuance of the Certificate of Completion and Compliance during the quarter for the Group's maiden development project, Senibong 88, was a landmark achievement for the Group and management endeavours to sell all remaining unit this year. The proposed dormitory project at Jaya 88 land in Permas Jaya has also progressed well with financing for the project secured during the quarter. Pre-development preparations are underway for Desa 88 project located in Plentong which is scheduled for launching this quarter. The launch and sales of Desa 88 in stages will generate revenues and profits over the next 4 to 5 years. Given that the performance of the audio segment may remain sluggish in the near term, the Group is in the process of evaluating and considering other audio business segments with a view to strengthen its result. For the property development segment, the Group is quietly optimistic that its upcoming development will receive positive response and therefore help the Group to register better results for the remaining period of the financial year.

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16. Deviation from Profit Forecast and Profit Guarantee

The Group did not provide any profit forecast in a public document and therefore, this note is not applicable.

17. (i) Profit/(Loss) Before Tax From Continuing Operations

The profit/(loss) before tax of the Group from continuing operations is arrived at after charging/(crediting):

	Current Quarter 30/06/17 RM'000	Preceding Year Corresponding Quarter 30/06/16 RM'000	Cumulative Quarter 30/06/17 RM'000	Preceding Year Cumulative Quarter 30/06/16 RM'000
Depreciation and amortisation	150	130	295	286
Foreign exchange (gain)/loss	117	(1,530)	598	784
Derivatives (gain)/loss	(180)	453	(767)	(165)
Interest income	(85)	(3)	(90)	(11)
Income from short term funds	(124)	(118)	(244)	(206)
Interest expense	201	7	346	14
Loss on disposal of property, plant and equipment	-	6	14	6

(ii) Cash and Cash Equivalents

The cash and cash equivalents at end of the financial year comprise of the following:

	Current year to date RM'000 30/06/17	Preceding year to date RM'000 30/06/16
Continuing operations		
Short term funds	12,804	19,500
Cash, bank balances and deposits	7,795	6,325
	20,599	25,825

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18. Non-Current Assets Classified As Held For Sale

In the preceding year, the non-current assets classified as held for sale are in respect of the proposed disposal of a leasehold land and building constructed thereon by wholly owned subsidiary Formosa Prosonic Technics Sdn Bhd (“FPT”) for a cash consideration of RM11 million (“Proposed Disposal”). The Proposed Disposal was first announced by the Board of Directors on 18 January 2016. On 29 September 2016, the Board of Directors announced that the terms of the Sale and Purchase Agreement (“SPA”) have been fully satisfied and the Proposed Disposal had been completed on 28 September 2016.

An analysis of the carrying amount of the non-current assets held for sale prior to completion of the disposal was as follows:-

	As at end of quarter ended 30/06/16 RM'000
Leasehold land	3,410
Building	6,445
Renovation	550
Electrical installation	64
	<u>10,469</u>

19. Income Tax Expense

The taxation of the Group for continuing operation comprises the following:

	Current Quarter 30/06/17 RM'000	Preceding Year Corresponding Quarter 30/06/16 RM'000	Cumulative Quarter 30/06/17 RM'000	Preceding Year Cumulative Quarter 30/06/16 RM'000
In respect of current period				
- income tax	1	915	2	994
- deferred tax	(1,076)	(25)	(1,026)	(319)
	<u>(1,075)</u>	890	<u>(1,024)</u>	675

The effective tax rate for the financial year-to-date is higher than the statutory tax rate mainly due to the effects of deferred tax provision on interest charged to subsidiaries and effects of certain expenses which were not deductible for tax purposes over deferred tax assets recognised on tax losses.

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20. Corporate Proposals

- (a) On 18 May 2016, the Board of Directors announced that wholly owned subsidiary Teras Eco Sdn Bhd (“TESB”) had entered into a Development Agreement with PIJ Property Development Sdn Bhd for the development of sixty (60) units of three storey shop offices, among others, on a piece of land held under PTD 9378 located in Tanjung Sepang, District of Kota Tinggi, State of Johor.
- (b) On 3 November 2016, the Board of Directors announced that the Company entered into a Joint Venture cum Shareholders’ Agreement with Harum Megah Resources Sdn Bhd, Jaya Dormitory Sdn Bhd and Harum Eco Dormitory Sdn Bhd (“HED”), an associate, for the purpose of participating in a project to jointly develop and construct 5 blocks of hostels consisting of 120 residential hostel units on a freehold land measuring 7.37 acres held under title particulars H.S.(D) 215993 PTD 75283 located in Bandar Baru Permas Jaya, Mukim of Plentong, District of Johor Bahru, State of Johor (“Land”).

On 15 December 2016, wholly owned subsidiary Teras Eco Sdn Bhd had entered into a Sale and Purchase Agreement (“SPA”) with HED for the proposed disposal of the Land for a cash consideration of RM20,000,000.00.

Save for the above, there were no other corporate proposals announced which remained incomplete as at the date of issue of this interim report.

21. Group Borrowings and Debt Securities

Group borrowings, which are denominated in Ringgit Malaysia, as at 31 March 2017 are as follows:

(a) Short term borrowings	RM’000
<u>Unsecured</u>	
Hire purchase	58
 <u>Secured</u>	
Term loans & bridging finance	4,303
	4,361
 (b) Long term borrowings	RM’000
<u>Unsecured</u>	
Hire purchase	414
 <u>Secured</u>	
Term loans & bridging finance	21,724
	22,138

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22. Material Litigation

The Group does not have any material litigation as at the date of this report.

23. Dividend Payable

The Board of Directors has not recommended any dividend for the current quarter.

24. Earnings Per Share
Basic earnings per share

	Current Quarter 30/06/17	Preceding Year Corresponding Quarter 30/06/16	Cumulative Quarter 30/06/17	Preceding Year Cumulative Quarter 30/06/16
Profit/(Loss) attributable to equity holders of the parent (RM'000)				
from:				
- continuing operations	(3,709)	662	(5,212)	(519)
Weighted average number of shares in issue ('000)	167,138	167,215	167,138	167,215
Basic EPS (sen)				
From:				
- continuing operations	(2.2)	0.4	(3.1)	(0.3)

25. Realised and Unrealised Profits

	As At End Of Current Quarter 30/06/17 RM'000	As At End Of Preceding Year 31/12/16 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	33,972	41,260
- Unrealised	1,267	(881)
	35,239	40,379
Less: Consolidation adjustments	(14,824)	(14,752)
Total Group retained profits	20,415	25,627