

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 JUNE 2015

The figures have not been audited

8. Segmental reporting

The Group's operations by geographical segments were as follows:-

	Malaysia RM'000	Asia RM'000	UK/US RM'000	Elimination RM'000	Total RM'000
6-month ended 30-6-2015					
Revenue					
External	112,613	78,911	891	-	192,415
Inter-segment sales	507	8,431	-	(8,938)	-
Total revenue	113,120	87,342	891	(8,938)	192,415
Results					
Segment results	(1,122)	2,642	(298)	526	1,748
Finance cost	(73)	(18)	-	-	(91)
Share of result in an associate	541	-	-	-	541
Profit before tax					2,198
Tax expense					108
Profit for the period					2,306
6-month ended 30-6-2014					
Revenue					
External	135,062	87,867	2,062	-	224,991
Inter-segment sales	9,217	4,130	-	(13,347)	-
Total revenue	144,279	91,997	2,062	(13,347)	224,991
Results					
Segment results	12,535	2,550	(373)	(8,906)	5,806
Finance cost	(43)	(19)	-	-	(62)
Share of result in an associate	370	-	-	-	370
Profit before tax					6,114
Tax expense					(1,018)
Profit for the period					5,096

9. Valuation of property, plant and equipment

The valuations of property, plant and equipment have been brought forward without any amendments from the previous annual financial statements which are deemed at cost upon the adoption of MFRS.

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10. Subsequent events

10.1 The Board of Directors announced that on 09 February 2015 the Company entered into a Sale and Purchase Agreement (“SPA”) to acquire the manufacturing asset and equipment located at address plot 236, 238 & 240 Kawasan Perusahaan LPK, Taman Ria Jaya, 08000 Sungai Petani, Kedah (“SP Factory”) from Formosa Prosonic Technics Sdn Bhd (“FPT”) (“Proposed Acquisition”) for a cash consideration of RM4,500,000. Simultaneous with the SPA, the Company also entered into a tenancy agreement whereby the Company will rent the factory land and building located at the SP Factory. The terms of the Sale and Purchase Agreement have been fully satisfied and the Proposed Disposal had been completed on 25 March 2015.

10.2 The Board of Directors announced that on 27 March 2015, the Company had entered into:

(a) A Sale and Purchase Agreement with Formosa Prosonic Technics Sdn Bhd (“FPT”) to acquire registered lease interest in the land under Geran 49384, Lot 184 Seksyen 65, Bandar Sungai Petani, Daerah Kuala Muda, Negeri Kedah together with buildings erected thereon for a cash consideration of RM15,000,000.00 (“Proposed Acquisition I”); and

(b) A Sale and Purchase Agreement with FPT to acquire a double storey link semi-detached house bearing postal address B278, Jalan 12, Cinta Sayang Resort Homes, 08000 Sungai Petani, Kedah Held Under Individual Title No. Geran 187490, Lot 2430, Seksyen 65, Bandar Sungai Petani, Daerah Kuala Muda, Negeri Kedah for a cash consideration of RM550,000.00 (“Proposed Acquisition II”).

Proposal Acquisition I and II had been completed on 12 August 2015.

11. 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.

12. Contingent liabilities or contingent assets

There were no changes in contingent liabilities or contingent assets since the last annual balance sheet date.

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13. Review of performance

For the period ended 30 June 2015, the Group registered profit before tax of RM2.2 million compared to profit before tax at RM5.9 million in the previous year's corresponding period mainly due to lower sales and intense competition in the market.

14. Comparison with previous quarter's results

Sales increased by 50% to RM115.5 million in Q2 2015 from RM77.0 million in the immediately preceding quarter. This has resulted profit before tax of RM3.9 million compared to loss before tax of RM1.7 million in the immediate preceding quarter.

15. Prospects for the current financial year

Barring unforeseen circumstances, the Directors are cautious on the business prospects for the financial year ending 31 December 2015 given the intensifying competition and uncertain macro-economic outlook in the worldwide market.

16. Deviation from profit forecast and profit guarantee

Not applicable.

17. Notes to the statement of comprehensive income (Continuing Operations)

	Individual		Cumulative	
	Current Quarter 30/6/2015 RM'000	Preceding Year Quarter 30/6/2014 RM'000	Current Quarter 30/6/2015 RM'000	Preceding Year Quarter 30/6/2014 RM'000
Profit for the period is arrived at after charging / (crediting):				
Income from short term funds	(294)	(291)	(969)	(658)
Interest income	(64)	(65)	(118)	(118)
Interest expenses	13	12	60	27
Depreciation and amortization	1,750	2,836	4,485	5,894
Foreign exchange loss / (gain)	(1,697)	(363)	(1,464)	(1,309)
Derivatives (gain) / loss	-	4	(370)	(67)
Reversal of impairment loss on trade receivables	-	(437)	-	(437)
Loss on disposal of property, plant and equipment	39	(230)	39	(203)
Property, plant and equipment written off	33	1	33	1

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18. Discontinued operations classified as held for sale

(i) An analysis of the results of the discontinued operations are as follows :

	Individual		Cumulative	
	Current Quarter 30/6/2015 RM'000	Preceding Year Quarter 30/6/2014 RM'000	Current Quarter 30/6/2015 RM'000	Preceding Year Quarter 30/6/2014 RM'000
Revenue	-	3,224	-	4,596
Cost of sales	-	(2,449)	-	(4,061)
Gross profit	-	775	-	535
Other income	-	40	-	42
Distribution expenses	-	(13)	-	(62)
Administrative expenses	-	(82)	-	(183)
Other expenses	-	(55)	-	(141)
Profit from operations	-	665	-	191
Finance costs	-	(1)	-	(2)
Profit before tax	-	664	-	189
Tax expenses	-	-	-	-
Profit for the period	-	664	-	189

Included in profit before tax from discontinued operations are :

Interest income	-	(4)	-	(4)
Depreciation and amortisation	-	132	-	224
Foreign exchange (gain) / loss	-	(48)	-	(32)

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18. Discontinued operations classified as held for sale (continued)

(ii) An analysis of the assets for the discontinued operations classified as held for sales are as follows :

	As at 30/6/2014 RM'000
Assets	
Property, plant and equipment	1,876
Inventories	2,158
Trade and other receivables	2,912
Cash, bank balances and deposits	12,336
Assets of disposal company classified as held for sale	<u>19,282</u>
Liabilities	
Trade and other payables	<u>1,098</u>
Liabilities of disposal company classified as held for sale	<u>1,098</u>
Net assets of disposal company classified as held for sale	<u>18,184</u>

(iii) The cash flow attributable to the discontinued operations are as follows :

	As at 30/6/2014 RM'000
Operating activities	17
Investing activities	166
Net cash flow	<u>183</u>

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19. Taxation

	Individual		Cumulative	
	Current	Preceding Year	Current	Preceding Year
	Quarter	Quarter	Quarter	Quarter
	30/6/2015	30/6/2014	30/6/2015	30/6/2014
	RM'000	RM'000	RM'000	RM'000
In respect of current period:-				
- Income tax	398	632	432	1,511
- Deferred tax	(140)	(232)	(540)	(493)
	258	400	(108)	1,018

The effective tax rates of the Group for the current quarter and financial year to-date is lower than the statutory tax rate mainly due to different tax rate in foreign jurisdiction and certain income which is not taxable.

20. Corporate proposals

On 31 July 2015, the Company announced that it and a subsidiary company, Winmax Holdings Group Limited ("Winmax"), had on 30 July 2015 entered into the following agreements:

- (i) A Sale and Purchase Agreement ("SPA") between Winmax as Vendor, the Company as Guarantor and Tonly International Limited ("TIL") as Purchaser in respect of the disposal by the Vendor of 5,000,000 ordinary shares of USD1.00 each credited as fully paid and representing the entire equity share capital of FP Group Limited ("FPG") for a consideration of USD14,302,166 (equivalent to approximately RMB88,792,136 or RM54,569,914) subject to adjustments, if any;
- (i) A Deed of Guarantee between the Company as Guarantor and TIL as Purchaser in respect of the obligations of the Vendor under the SPA ("Deed").

This transaction is pending completion.

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21. Group borrowings (interest bearing) and debt securities

<u>As at end of the period</u>	30/6/2015	30/6/2014
	RM'000	RM'000
Repayable within twelve months:-		
Term loans – secured	-	-
Repayable after twelve months:-		
Term loans – secured	-	-
Total	-	-
GBP borrowings	-	-

22. Material litigation

There was no pending material litigation since the last annual balance sheet date.

23. Dividend

The Board has on 10 April 2015 paid a first interim single tier tax exempt dividend of 3.0 sen per ordinary share of RM0.50 each in respect of the financial year ended 31 December 2014 (31 December 2013: 6.0 sen).

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

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24. Basic Earnings per share

	Individual		Cumulative	
	Current Quarter 30/6/2015	Preceding Year Quarter 30/6/2014	Current Quarter 30/6/2015	Preceding Year Quarter 30/6/2014
Net profit attributable to equity holders of the parent (RM'000)				
- continuing operations	2,962	2,327	1,288	3,864
- discontinued operations	-	664	-	189
	2,962	2,991	1,288	4,053
Weighted average number of shares ('000)	247,358	247,358	247,358	247,358
Basic earnings per share (sen)				
- continuing operations	1.2	0.9	0.5	1.6
- discontinued operations	-	0.3	-	-.*
	1.2	1.2	0.5	1.6

* Marginal amount

25. Realised and Unrealised Profits

	As At End Of Current Quarter 30/6/2015 RM'000	As At End Of Preceding Quarter 31/3/2015 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	107,175	104,684
- Unrealised	(1,681)	(1,864)
	105,494	102,820
Total share of retained profits from an associate:		
- Realised	(1,142)	(2,045)
- Unrealised	(401)	(401)
	(1,543)	(2,446)
Consolidation adjustments	103,951	100,374
	(645)	(30)
Total Group retained profits	103,306	100,344