

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 DECEMBER 2015

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" 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 2014.

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 2014, except for the adoption of the following:

MFRSs/ Amendments/Interpretations	Effective date
Amendments to MFRS 119 Defined Benefit Plans: Employee Contributions	1 July 2014
Amendments to MFRSs Annual Improvements 2010 - 2012 Cycle	1 July 2014
Amendments to MFRSs Annual Improvements 2011 - 2013 Cycle	1 July 2014

The initial application of the aforesaid applicable standards, amendments or interpretations is not expected to have any material financial impact to the current and prior period's financial statements upon their first adoption.

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2. Audit qualification

The audit report on the financial statements for the financial year ended 31 December 2014 was not qualified.

3. Seasonal or cyclical factors

Demands for speaker systems and its related products are generally seasonal and are affected by economic conditions in countries in which the products are sold.

4. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income and cash flow for the current financial year.

5. Changes in estimates of amount reported

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 financial year.

6. Issuance and repayment of debt and equity securities

There were no issuance and repayment of debt and equity securities, share buy-back, share cancellation, shares held as treasury shares and resale of treasury shares for the financial year to date.

7. Dividend paid

	Current year to date RM'000	Preceding year to date RM'000
First interim single tier of 3.0 sen per ordinary share of RM0.50 each for the financial year ended 31 December 2014 (31 December 2013 : 6.0 sen per ordinary share)	7,421	14,841

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8. Segmental reporting

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

	Malaysia RM'000	(Discontinued operations) China RM'000	UK/US RM'000	Elimination RM'000	Total RM'000
12-month ended 31-12-2015					
Revenue					
External	307,226	137,106	2,782	-	447,114
Inter-segment sales	1,094	11,982	-	(13,076)	-
Total revenue	<u>308,320</u>	<u>149,088</u>	<u>2,782</u>	<u>(13,076)</u>	<u>447,114</u>
Results					
Segment results	47,150	6,817	(1,347)	(27,920)	24,700
Finance cost	(111)	(27)	(29)	-	(167)
Share of result in an associate	3,044	-	-	-	3,044
Profit before tax					<u>27,577</u>
Tax expense					<u>(5,498)</u>
Profit for the year					<u>22,079</u>
12-month ended 31-12-2014					
Revenue					
External	253,396	211,035	3,305	-	467,736
Inter-segment sales	15,900	7,407	-	(23,307)	-
Total revenue	<u>269,296</u>	<u>218,442</u>	<u>3,305</u>	<u>(23,307)</u>	<u>467,736</u>
Results					
Segment results	20,836	206	(1,726)	(9,576)	9,740
Finance cost	(75)	(42)	(32)	-	(149)
Share of result in an associate	(467)	-	-	-	(467)
Profit before tax					<u>9,124</u>
Tax expense					<u>(1,429)</u>
Profit for the year					<u>7,695</u>

As disclosed in Note 20 of this interim reports, the Company entered into a sale and purchase agreement to dispose of the entire equity interest in FP Group Limited and its subsidiary.

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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.

10. Subsequent events

There were no material events subsequent to 31 December 2015 that have not been reflected in the interim report save for Formosa Prosonic Manufacturing Sdn Bhd, a wholly-owned subsidiary of the Company, had on 29 January 2016 disposed of its entire 46,442,474 ordinary shares of RM0.50 each representing 27.787% of the issued and paid-up share capital of Acoustech Berhad for a total cash consideration of RM34,831,855.50 or RM0.75 per share via direct business transaction.

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.

13. Review of performance

For the continuing operations, the Group registered significantly higher profit before tax of RM21.7 million for the FY 2015 as compared to RM8.6 million in the previous financial year on the back of higher revenue, higher share of results in an associate and gain in foreign exchange.

For the current quarter under review, the Group registered profit before tax of RM10.5 million compared to a loss before tax of RM0.2 million in the previous corresponding quarter mainly due to the reasons as aforementioned.

As disclosed in Note 20 of this interim report, the Group's manufacturing operations in China was disposed off in the last quarter of 2015 and its results and contribution to the Group for the financial year 2015 are disclosed in Note 18.

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14. Comparison with previous quarter's results

For the continuing operations, the Group's profit before tax was lower at RM9.5 million in Q4 2015 from RM11.7 million in Q3 2015 as a result of lower foreign exchange gain despite the increase in the Group's revenue by 14% to RM104.8 million from RM91.7 million.

15. Prospects for the current financial year

The Directors are mindful of the challenges ahead arising from the slowdown in global economic growth and the imminent threats posed by shortages and tightening in labour supply which would lead to higher operating costs. The Directors remain cautious on the business prospects and barring unforeseen circumstances, expect profitable results for the financial year ending 31 December 2016.

16. Deviation from profit forecast and profit guarantee

Not applicable.

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

	Individual		Cumulative	
	Current Quarter 31/12/2015 RM'000	Preceding Year Quarter 31/12/2014 RM'000	Current Quarter 31/12/2015 RM'000	Preceding Year Quarter 31/12/2014 RM'000
Profit for the period is arrived at after charging / (crediting):				
Income from short term funds	(312)	(421)	(1,375)	(1,414)
Interest income	(50)	(49)	(201)	(183)
Interest expenses	10	11	87	51
Depreciation and amortization	1,797	1,697	6,628	6,798
Foreign exchange gain	(526)	(1,399)	(5,919)	(1,743)
Derivatives (gain) / loss	(214)	224	(584)	304
Reversal of impairment loss on trade receivables	783	680	783	210
Gain on disposal of property, plant and equipment	(90)	(969)	(51)	(1,244)
Gain on disposal of subsidiary	(876)	-	(876)	(3,041)

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18. Discontinued operations classified as held for sale

An analysis of the results of the discontinued operations is as follows:

	Individual		Cumulative	
	Current Quarter 31/12/2015 RM'000	Preceding Year Quarter 31/12/2014 RM'000	Current Quarter 31/12/2015 RM'000	Preceding Year Quarter 31/12/2014 RM'000
Revenue	-	53,824	149,088	223,011
Cost of sales	-	(50,502)	(131,590)	(205,910)
Gross profit	-	3,322	17,498	17,101
Other income	-	(1,849)	5,201	1,254
Distribution expenses	(369)	(2,369)	(7,956)	(9,489)
Administrative expenses	-	(1,169)	(4,543)	(4,651)
Other expenses	3,051	1,152	(4,241)	(3,634)
Profit / (loss) from operations	2,682	(913)	5,959	581
Finance costs	-	(9)	(26)	(44)
Profit / (loss) before tax	2,682	(922)	5,933	537
Tax expenses	-	-	-	-
Profit / (loss) for the year	2,682	(922)	5,933	537

Included in profit before tax from discontinued operations are:

Interest income	-	(3)	(27)	(46)
Income from short term funds	-	(125)	(212)	(277)
Depreciation and amortisation	-	1,434	2,242	5,368
Foreign exchange (gain) / loss	-	(181)	(2,573)	(424)

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19. Taxation

	Individual		Cumulative	
	Current	Preceding	Current	Preceding
	Quarter	Year	Quarter	Year
	31/12/2015	31/12/2014	31/12/2015	31/12/2014
	RM'000	RM'000	RM'000	RM'000
In respect of current period:-				
- Income tax	2,124	(190)	5,817	2,261
- Deferred tax	235	160	(583)	(297)
In respect of prior year :-				
- Income tax	(73)	-	(73)	(238)
- Deferred tax	337	(297)	337	(297)
	2,623	(327)	5,498	1,429

The effective tax rates of the Group for the current quarter and financial year to-date approximate the statutory tax rate.

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 RM59,353,988) subject to adjustments, if any;
- (ii) 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”).

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21. Group borrowings (interest bearing) and debt securities

The Group does not have any borrowings and debt securities as at 31 December 2015.

22. Material litigation

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

23. Dividend

The Board has declared a first interim single tier tax exempt dividend of 7 sen per ordinary share of RM0.50 each in respect of the financial year ended 31 December 2015 (31 December 2014: 3.0 sen).

The dividend will be payable on 15 April 2016 to shareholders whose names appear in the Record of Depositors of the Company at the close of business on 31 March 2016.

24. Basic Earnings per share

	Individual		Cumulative	
	Current Quarter 31/12/2015	Preceding Year Quarter 31/12/2014	Current Quarter 31/12/2015	Preceding Year Quarter 31/12/2014
Net profit attributable to equity holders of the parent (RM'000)				
- continuing operations	6,350	294	13,432	7,052
- discontinued operations	2,682	(743)	5,933	537
	9,032	(449)	19,365	7,589
Weighted average number of shares ('000)	247,358	247,358	247,358	247,358
Basic earnings per share (sen)				
- continuing operations	2.6	0.1	5.4	2.8
- discontinued operations	1.0	(0.3)	2.4	0.2
	3.6	(0.2)	7.8	3.0

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25. Realised and Unrealised Profits

	As At End Of Current Quarter 31/12/2015 RM'000	As At End Of Preceding Quarter 30/9/2015 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	116,540	91,039
- Unrealised	(781)	332
	115,759	91,371
Total share of retained profits from an associate:		
- Realised	1,227	665
- Unrealised	(259)	(493)
	968	172
	116,727	91,543
Consolidation adjustments	19,099	20,808
Total Group retained profits	135,826	112,351