

FORMOSA PRSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 JUNE 2016

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 2015.

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 2015.

2. Audit qualification

The audit report on the financial statements for the financial year ended 31 December 2015 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 period.

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 period.

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.

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7. Dividend paid

	Current year to date RM'000	Preceding year to date RM'000
First interim single tier of 7.0 sen per ordinary share of RM0.50 each for the financial year ended 31 December 2015 (31 December 2014 : 3.0 sen per ordinary share)	17,315	7,421

8. Segmental reporting

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

	Malaysia RM'000	(Discontinued operations) China RM'000	UK RM'000	Elimination RM'000	Total RM'000
6-month ended 30-6-2016					
Revenue					
External	144,176	-	1,062	-	145,238
Inter-segment sales	896	-	-	(896)	-
Total revenue	145,072	-	1,062	(896)	145,238
Results					
Segment results	6,752	-	(1,817)	50	4,985
Finance cost	(55)	-	-	-	(55)
Profit before tax					4,930
Tax expense					907
Profit for the period					5,837
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

As disclosed in Note 18 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 30 June 2016 that have not been reflected in the interim report.

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 except for on 29 January 2016, Formosa Prosonic Manufacturing Sdn. Bhd., a wholly-owned subsidiary of the Company disposed of its entire interest of 27.79% or 46,442,474 ordinary shares of RM0.50 each in an associate, which is Acoustech Berhad, for a total cash consideration of RM34,831,856 or RM0.75 per share via direct business transaction.

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

In respect of continuing operations, the Group registered 28% higher sales for H1 2016 at RM145.2 million from RM113.5 million. Nevertheless, the Group incurred loss before tax of RM2.3 million (after excluding gain on disposal of an associate and subsidiaries totalling RM7.2 million) as compared to loss before tax of RM0.4 million in the previous year corresponding period mainly due to higher operating costs and loss on foreign exchange.

For Q2 2016, the Group registered higher sales by 9% at RM76.1 million from RM69.9 million. Excluding gain on disposal of subsidiaries of RM4.9 million, the Group's profit before tax was lower at RM0.9 million as compared to last year corresponding quarter of RM2.1 million mainly due to higher operating costs.

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14. Comparison with previous quarter's results

In respect of continuing operations, the Group registered profit before tax of RM0.9 million in Q2 2016 (excluding gain on disposal of subsidiaries of RM4.9 million) as compared to loss before tax of RM3.1 million (excluding gain on disposal of an associate of RM2.3 million) in the immediate preceding quarter mainly due to higher sales and lower loss on foreign exchange.

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 restrictive labour supply and policies and higher minimum wages which have resulted in 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 30/6/2016 RM'000	Preceding Year Quarter 30/6/2015 RM'000	Current Quarter 30/6/2016 RM'000	Preceding Year Quarter 30/6/2015 RM'000
Profit for the period is arrived at after charging / (crediting):				
Income from short term funds	(401)	(180)	(908)	(742)
Interest income	(69)	(57)	(148)	(106)
Interest expenses	6	13	44	60
Depreciation and amortization	1,873	1,631	3,708	3,157
Foreign exchange loss / (gain)	(3,456)	(1,115)	4,841	(903)
Derivatives (gain) / loss	496	-	(554)	(370)
Gain on disposal of subsidiaries	(4,931)	-	(4,931)	-
Gain on disposal of property, plant and equipment	(14)	39	(14)	39
Gain on disposal of an associate	-	-	(2,272)	-

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18. Discontinued operations classified as held for sale

On 31 July 2015, the Company announced that it and a subsidiary company, Winmax Holdings Group Limited, had on 30 July 2015 entered into a Sale and Purchase Agreement (“SPA”) with Tonly International Limited to dispose of 5,000,000 ordinary shares of USD1.00 each representing the entire equity share capital of FP Group Limited (“FPG”) for a consideration of USD14,302,166 (equivalent to approximately RM59,353,988).

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

	Individual		Cumulative	
	Current Quarter 30/6/2016 RM'000	Preceding Year Quarter 30/6/2015 RM'000	Current Quarter 30/6/2016 RM'000	Preceding Year Quarter 30/6/2015 RM'000
Revenue	-	50,227	-	87,342
Cost of sales	-	(44,971)	-	(77,090)
Gross profit	-	5,256	-	10,252
Other income	-	679	-	2,018
Distribution expenses	-	(2,115)	-	(3,839)
Administrative expenses	-	(1,813)	-	(2,874)
Other expenses	-	(232)	-	(2,915)
Profit from operations	-	1,775	-	2,642
Finance costs	-	(9)	-	(18)
Profit before tax	-	1,766	-	2,624
Tax expenses	-	-	-	-
Profit for the period	-	1,766	-	2,624

Included in profit before tax from discontinued operations are:

Interest income	-	(7)	-	(12)
Income from short term funds	-	(114)	-	(227)
Depreciation and amortisation	-	119	-	1,328
Foreign exchange gain	-	(582)	-	(562)

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19. Taxation

	Individual		Cumulative	
	Current	Preceding Year	Current	Preceding Year
	Quarter	Quarter	Quarter	Quarter
	30/6/2016	30/6/2015	30/6/2016	30/6/2015
	RM'000	RM'000	RM'000	RM'000
In respect of current period:-				
- Income tax	(297)	398	-	432
- Deferred tax	1,058	(140)	(907)	(540)
	<u>761</u>	<u>258</u>	<u>(907)</u>	<u>(108)</u>

20. Corporate proposals

There is no other outstanding corporate proposal as at the date of this report.

21. Group borrowings (interest bearing) and debt securities

The Group does not have any borrowings and debt securities as at 30 June 2016.

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) which was paid 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.

The Directors have not recommended any dividend for the current quarter.

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24. Basic Earnings per share

	Individual		Cumulative	
	Current Quarter 30/6/2016	Preceding Year Quarter 30/6/2015	Current Quarter 30/6/2016	Preceding Year Quarter 30/6/2015
Net profit attributable to equity holders of the parent (RM'000)				
- continuing operations	3,035	2,962	3,828	1,288
- discontinued operations	-	-	-	-
	3,035	2,962	3,828	1,288
Weighted average number of shares ('000)	247,358	247,358	247,358	247,358
Basic earnings per share (sen)				
- continuing operations	1.2	1.2	1.5	0.5
- discontinued operations	-	-	-	-
	1.2	1.2	1.5	0.5

25. Realised and Unrealised Profits

	As At End Of Current Quarter 30/6/2016 RM'000	As At End Of Preceding Quarter 31/3/2016 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	80,797	80,208
- Unrealised	(3,600)	(8,018)
	77,197	72,190
Consolidation adjustments	30,712	32,684
Total Group retained profits	107,909	104,874