

FORMOSA PROSONIC

FORMOSA PROSONIC INDUSTRIES BERHAD (172312-K)
 INTERIM REPORT FOR THE YEAR ENDED 31 DECEMBER 2017
 (The figures have not been audited)

CONDENSED CONSOLIDATED INCOME STATEMENTS

	Individual quarter		Cumulative quarter	
	Current year quarter 31/12/2017 RM'000	Preceding year corresponding quarter 31/12/2016 RM'000	Current year to date 31/12/2017 RM'000	Preceding year corresponding quarter 31/12/2016 RM'000
Revenue	131,294	91,327	462,621	343,822
Cost of sales	<u>(117,069)</u>	<u>(84,622)</u>	<u>(402,643)</u>	<u>(318,194)</u>
Gross profit	14,225	6,705	59,978	25,628
Other income	3,807	12,368	20,606	34,015
Distribution costs	<u>(3,105)</u>	<u>(2,212)</u>	<u>(12,162)</u>	<u>(12,515)</u>
Administrative expenses	<u>(2,550)</u>	<u>(4,616)</u>	<u>(9,638)</u>	<u>(11,500)</u>
Other expenses	<u>(2,357)</u>	<u>(8,422)</u>	<u>(10,694)</u>	<u>(19,431)</u>
Profit from operations	10,020	3,823	48,090	16,197
Finance costs	<u>(26)</u>	<u>(37)</u>	<u>(81)</u>	<u>(103)</u>
Profit before tax	9,994	3,786	48,009	16,094
Tax expense	<u>404</u>	<u>(1,346)</u>	<u>(5,772)</u>	<u>(324)</u>
Profit for the financial year	<u>10,398</u>	<u>2,440</u>	<u>42,237</u>	<u>15,770</u>
Profits attributable to:				
Owners of the parent	10,382	2,367	42,313	13,543
Non-controlling interests	<u>16</u>	<u>73</u>	<u>(76)</u>	<u>2,227</u>
	<u>10,398</u>	<u>2,440</u>	<u>42,237</u>	<u>15,770</u>
Earnings per share (sen)				
Basic	<u>4.2</u>	<u>1.0</u>	<u>17.1</u>	<u>5.5</u>
Diluted	<u>NA</u>	<u>NA</u>	<u>NA</u>	<u>NA</u>

(The notes set out on pages 6 to 13 form an integral part of and should be read in conjunction with this interim financial report.)

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Individual quarter		Cumulative quarter	
	Current year quarter 31/12/2017 RM'000	Preceding year corresponding quarter 31/12/2016 RM'000	Current year to date 31/12/2017 RM'000	Preceding year corresponding quarter 31/12/2016 RM'000
Profit for the financial year	10,398	2,440	42,237	15,770
<u>Other comprehensive income / (loss), net of tax</u>				
Currency translation difference	157	4,835	(3,931)	4,053
Total comprehensive income	<u>10,555</u>	<u>7,275</u>	<u>38,306</u>	<u>19,823</u>
Attributable to:				
Owners of the parent	10,596	5,204	39,972	16,398
Non-controlling interests	(41)	2,071	(1,666)	3,425
	<u>10,555</u>	<u>7,275</u>	<u>38,306</u>	<u>19,823</u>

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31/12/2017 RM'000	As at 31/12/2016 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	101,401	87,379
Prepaid land lease payment	17,035	17,353
	118,436	104,732
Current assets		
Inventories	39,189	29,638
Trade and other receivables	89,673	70,198
Current tax assets	54	1,321
Short term funds	134,584	143,960
Cash, bank balances and deposits	14,704	26,679
	278,204	271,796
TOTAL ASSETS	396,640	376,528
EQUITY AND LIABILITIES		
Equity		
Share capital	123,679	123,679
Reserves	153,355	128,224
	277,034	251,903
Equity attributable to equity holders of the Company	277,034	251,903
Non-controlling interests	10,798	36,102
Total equity	287,832	288,005
Non-current liabilities		
Deferred tax liabilities	2,444	2,231
Current liabilities		
Trade and other payables	106,286	81,742
Derivative financial instruments	-	4,550
Current tax liabilities	78	-
	106,364	86,292
Total liabilities	108,808	88,523
TOTAL EQUITY AND LIABILITIES	396,640	376,528
 Net assets per share attributable to owners of the parent (RM)	 1.12	 1.02

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	31/12/2017 RM'000	31/12/2016 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	48,009	16,094
Adjustments for non-cash items	2,265	2,653
Operating profit before working capital changes	50,274	18,747
Net changes in working capital	(9,327)	(18,648)
Cash from operations	40,947	99
Other payments	(35)	(55)
Taxes paid	(4,214)	(3,841)
Net cash from / (used in) operating activities	36,698	(3,797)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	3,156	2,083
Purchase of property, plant and equipment	(23,049)	(18,960)
Proceeds from disposal of subsidiaries	-	11,975
Proceeds from disposal of an associate	-	34,775
Proceeds from disposal of property, plant and equipment	707	89
Net cash (used in) / from investing activities	(19,186)	29,962
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid to non-controlling interests	(23,638)	-
Dividend paid	(14,841)	(17,315)
Net cash used in financing activities	(38,479)	(17,315)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(20,967)	8,850
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		
As previously reported	170,639	158,202
Effect of exchange rate changes	(384)	3,587
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	170,255	161,789
	149,288	170,639

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Non-distributable					Distributable		Equity attributable to equity holders of the parent RM'000	Non-controlling interests RM'000	Total equity RM'000
	Share capital RM'000	Share premium RM'000	Capital reserve RM'000	Exchange fluctuation reserve RM'000	Retained profits RM'000	Equity attributable to equity holders of the parent RM'000				
Balance as at 1 January 2017	123,679	994	1,259	8,347	117,624	251,903	36,102	288,005		
Total comprehensive income / (loss)	-	-	-	(2,341)	42,313	39,972	(1,666)	38,306		
Dividend in respect of financial year 2016	-	-	-	-	(14,841)	(14,841)	(23,638)	(38,479)		
Balance as at 31 December 2017	<u>123,679</u>	<u>994</u>	<u>1,259</u>	<u>6,006</u>	<u>145,096</u>	<u>277,034</u>	<u>10,798</u>	<u>287,832</u>		
Balance as at 1 January 2016	123,679	994	1,259	5,492	121,396	252,820	32,677	285,497		
Total comprehensive income / (loss)	-	-	-	2,855	13,543	16,398	3,425	19,823		
Dividend in respect of financial year 2015	-	-	-	-	(17,315)	(17,315)	-	(17,315)		
Balance as at 31 December 2016	<u>123,679</u>	<u>994</u>	<u>1,259</u>	<u>8,347</u>	<u>117,624</u>	<u>251,903</u>	<u>36,102</u>	<u>288,005</u>		

(The notes set out on pages 6 to 13 form an integral part of and should be read in conjunction with this interim financial report)

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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 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.

2. Audit qualification

The audit report on the financial statements for the financial year ended 31 December 2016 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.

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The figures have not been audited

7. Dividend paid

	Current year to date RM'000	Preceding year to date RM'000
First interim single tier of 6.0 sen per ordinary share for the financial year ended 31 December 2016 (31 December 2015 : 7.0 sen per ordinary share)	14,841	17,315

8. Segmental reporting

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

	Malaysia RM'000	UK RM'000	Elimination RM'000	Total RM'000
12-month ended 31-12-2017				
Revenue				
External	461,182	1,439	-	462,621
Inter-segment sales	966	-	(966)	-
Total revenue	462,148	1,439	(966)	462,621
Results				
Segment results	82,919	616	(35,445)	48,090
Finance cost	(68)	(13)	-	(81)
Profit before tax				48,009
Tax expense				(5,772)
Profit for the year				42,237
12-month ended 31-12-2016				
Revenue				
External	340,607	3,215	-	343,822
Inter-segment sales	1,647	-	(1,647)	-
Total revenue	342,254	3,215	(1,647)	343,822
Results				
Segment results	13,332	(4,459)	11	8,884
Finance cost	(78)	(25)	-	(103)
Gain on disposal of an associate				2,272
Gain on disposal of subsidiaries				5,041
Profit before tax				16,094
Tax expense				(324)
Profit for the year				15,770

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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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The figures have not been audited

10. Subsequent events

There were no material events subsequent to 31 December 2017 that have not been reflected in the interim report except for the Company announced that on 7 December 2017 it has entered into a Share Sale Agreement with Acoustech Berhad for the acquisition by the Company 9,990,000 ordinary shares representing 100% equity interest in the share capital of Formosa Prosonic Technics Sdn Bhd ("FPT") for a cash consideration of RM10,600,000 ("Proposed Acquisition").

On 2 January 2018, the Company announced that the Proposed Acquisition has been completed and accordingly FPT and its wholly-owned subsidiary, Aerotronic Sdn Bhd, have become wholly-owned subsidiaries of the Company from the date hereof.

11. Changes in composition of the Group

There was no change to the composition of the Group during the financial year under review including business combination, acquisition or disposal of subsidiaries and long-term investments.

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

	Individual			Cumulative		
	Current Quarter 31/12/2017 RM'000	Preceding Year Quarter 31/12/2016 RM'000	Changes %	Current Quarter 31/12/2017 RM'000	Preceding Year Quarter 31/12/2016 RM'000	Changes %
Revenue	131,294	91,327	43.8	462,621	343,822	34.6
Profit before tax	9,994	3,786	164.0	48,009	16,094	198.3
Profit after tax	10,398	2,440	326.1	42,237	15,770	167.8
Profit attributable to ordinary equity holders of the parent	10,382	2,367	338.6	42,313	13,543	212.4
EBITDA	11,080	6,707	65.2	59,147	22,131	167.3

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The figures have not been audited

13. Review of performance (Cont'd)

Final quarter ended 31 December 2017

The Group recorded higher sales of RM131.3 million, an increase of 43.8% from the previous year's corresponding quarter of RM91.3 million on the back of higher sales volume and average selling price. Sales of audio systems and components and musical instrument components were the main growth drivers.

The Group recorded significant increase in the earnings before interest, tax, depreciation and amortization ("EBITDA") to RM11.1 million for the current quarter from RM6.7 million in the previous year's corresponding quarter mainly attributable to higher sales volume and lower operating costs.

Financial year-to-date ended 31 December 2017

The Group recorded significantly higher EBITDA of RM59.1 million for the year ended 31 December 2017 from RM22.1 in the previous year's corresponding period, an increase of 167.3%. The better performance was attributable to higher sales volume and favourable sales mix. The growth in the sales of musical instrument component has outperformed the sales of audio system and components. Lower operating costs arising from better labour supply and the cessation of the loss-making UK business has also contributed to higher profit performance.

Due to higher sales order from customers, the Group has during the financial year expanded its plastic injection molding capacity and its secondary processes which in turn has contributed to higher sales.

In respect of the Group financial position, it remains healthy with net cash of RM149.3 million or RM0.60 cash per share. Trade receivables collection day was within normal range of 60 to 90 days and the inventory level are at optimum level to support production requirements for coming months.

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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14. Comparison with previous quarter's results

	Current Quarter 31/12/2017 RM'000	Preceding Quarter 30/9/2017 RM'000	Changes %
Revenue	131,294	153,297	(14.4)
Profit before tax	9,994	16,669	(40.0)
Profit after tax	10,398	14,386	(27.7)
Profit attributable to ordinary equity holders of the parent	10,382	14,575	(28.8)
EBITDA	11,080	20,168	(45.1)

The Group recorded 14.4% lower sales of RM131.3 million in the current quarter compared to RM153.3 million in the immediate preceding quarter due to a drop in sales volume and the strengthening of the RM against the USD. EBITDA dropped by 45.1% to RM11.1 million from RM20.2 million mainly due to lower sales.

15. Next Year Prospects

The Board of Directors expects the Group to achieve profitable results for the financial year ending 31 December 2018 on the back of healthy sales orders but is mindful of the operating challenges arising from the strengthening of ringgit against the US dollar and the rising commodity prices and labour costs.

16. Deviation from profit forecast and profit guarantee

Not applicable.

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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17. Notes to the statement of comprehensive income

	Individual		Cumulative	
	Current Quarter 31/12/2017 RM'000	Preceding Year Quarter 31/12/2016 RM'000	Current Quarter 31/12/2017 RM'000	Preceding Year Quarter 31/12/2016 RM'000
Profit for the year is arrived at after charging / (crediting):				
Income from short term funds	(810)	(555)	(3,029)	(1,853)
Interest income	(38)	(29)	(127)	(230)
Interest expenses	6	6	35	55
Depreciation and amortization	2,339	2,158	8,522	7,795
Foreign exchange loss / (gain)	2,137	(3,273)	3,321	(1,939)
Derivatives (gain) / loss	-	3,729	(4,550)	4,764
Gain on disposal of subsidiaries	-	(96)	-	(5,041)
Gain on disposal of property, plant and equipment	-	(49)	(508)	(87)
Gain on disposal of an associate	-	-	-	(2,272)
PPE written off	365	2	589	2

18. Taxation

	Individual		Cumulative	
	Current Quarter 31/12/2017 RM'000	Preceding Year Quarter 31/12/2016 RM'000	Current Quarter 31/12/2017 RM'000	Preceding Year Quarter 31/12/2016 RM'000
In respect of current period:-				
- Income tax	251	(39)	5,707	678
- Deferred tax	(740)	1,187	127	537
In respect of prior year :-				
- Income tax	-	(3)	(147)	(1,092)
- Deferred tax	85	201	85	201
	(404)	1,346	5,772	324

The effective tax rate of the Group for the current quarter and financial year to-date is lower than the statutory tax rate mainly due to certain items which are not taxable and the availability of investment tax allowances.

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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19. Corporate proposals

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

20. Group borrowings (interest bearing) and debt securities

The Group does not have any borrowings and debt securities as at 31 December 2017.

21. Material litigation

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

22. Dividend

The Group paid a first interim single tier tax exempt dividend of 6.0 sen per share in respect of the financial year ended 31 December 2016 (31 December 2015: 7.0 sen per share) on 18 April 2017 to shareholders whose names appear in the Record of Depositors of the Company at the close of business on 31 March 2017.

The Board has declared a first interim single tier tax exempt dividend of 8 sen per share in respect of the financial year ended 31 December 2017 (31 December 2016: 6.0 sen per share).

The dividend will be payable on 18 April 2018 to shareholders whose names appear in the Record of Depositors of the Company at the close of business on 5 April 2018.

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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23. Basic Earnings per share

	Individual		Cumulative	
	Current Quarter 31/12/2017	Preceding Year Quarter 31/12/2016	Current Quarter 31/12/2017	Preceding Year Quarter 31/12/2016
Net profit attributable to equity holders of the parent (RM'000)	10,382	2,367	42,313	13,543
Weighted average number of shares ('000)	247,358	247,358	247,358	247,358
Basic earnings per share (sen)	4.2	1.0	17.1	5.5

24. Realised and Unrealised Profits

	As At End Of Current Quarter 31/12/2017 RM'000	As At End Of Preceding Quarter 30/9/2017 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	81,637	104,428
- Unrealised	(2,348)	(899)
	79,289	103,529
Consolidation adjustments	65,807	31,185
Total Group retained profits	145,096	134,714