

FORMOSA PROSONIC

FORMOSA PROSONIC INDUSTRIES BERHAD (172312-K)
 INTERIM REPORT FOR THE YEAR ENDED 31 MARCH 2018
 (The figures have not been audited)

CONDENSED CONSOLIDATED INCOME STATEMENTS

	Individual quarter		Cumulative quarter	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding quarter
	31/03/2018 RM'000	31/03/2017 RM'000	31/03/2018 RM'000	31/03/2017 RM'000
Revenue	97,278	75,525	97,278	75,525
Cost of sales	<u>(84,023)</u>	<u>(66,421)</u>	<u>(84,023)</u>	<u>(66,421)</u>
Gross profit	13,255	9,104	13,255	9,104
Other income	4,547	10,215	4,547	10,215
Distribution costs	<u>(3,577)</u>	<u>(2,904)</u>	<u>(3,577)</u>	<u>(2,904)</u>
Administrative expenses	<u>(2,067)</u>	<u>(2,547)</u>	<u>(2,067)</u>	<u>(2,547)</u>
Other expenses	<u>(4,404)</u>	<u>(3,118)</u>	<u>(4,404)</u>	<u>(3,118)</u>
Profit from operations	7,754	10,750	7,754	10,750
Finance costs	<u>(30)</u>	<u>(33)</u>	<u>(30)</u>	<u>(33)</u>
Profit before tax	7,724	10,717	7,724	10,717
Tax expense	<u>(1,096)</u>	<u>(1,721)</u>	<u>(1,096)</u>	<u>(1,721)</u>
Profit for the financial period	<u>6,628</u>	<u>8,996</u>	<u>6,628</u>	<u>8,996</u>
Profits attributable to:				
Owners of the parent	6,613	8,940	6,613	8,940
Non-controlling interests	<u>15</u>	<u>56</u>	<u>15</u>	<u>56</u>
	<u>6,628</u>	<u>8,996</u>	<u>6,628</u>	<u>8,996</u>
Earnings per share (sen)				
Basic	<u>2.7</u>	<u>3.6</u>	<u>2.7</u>	<u>3.6</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 31/03/2018 RM'000	Preceding year corresponding quarter 31/03/2017 RM'000	Current year to date 31/03/2018 RM'000	Preceding year corresponding quarter 31/03/2017 RM'000
Profit for the financial period	6,628	8,996	6,628	8,996
<u>Other comprehensive income / (loss), net of tax</u>				
Currency translation difference	(44)	(880)	(44)	(880)
Total comprehensive income	<u>6,584</u>	<u>8,116</u>	<u>6,584</u>	<u>8,116</u>
Attributable to:				
Owners of the parent	6,604	8,426	6,604	8,426
Non-controlling interests	(20)	(310)	(20)	(310)
	<u>6,584</u>	<u>8,116</u>	<u>6,584</u>	<u>8,116</u>

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31/03/2018 RM'000	As at 31/12/2017 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	102,212	101,401
Prepaid land lease payment	16,955	17,035
	119,167	118,436
Current assets		
Inventories	47,049	39,189
Trade and other receivables	79,302	89,673
Current tax assets	3,366	54
Short term funds	119,871	134,584
Cash, bank balances and deposits	18,209	14,704
	267,797	278,204
TOTAL ASSETS	386,964	396,640
EQUITY AND LIABILITIES		
Equity		
Share capital	124,673	124,673
Reserves	157,822	151,218
	282,495	275,891
Equity attributable to equity holders of the Company	282,495	275,891
Non-controlling interests	10,778	10,798
Total equity	293,273	286,689
Non-current liabilities		
Deferred tax liabilities	2,986	3,587
Current liabilities		
Trade and other payables	89,008	106,286
Current tax liabilities	1,697	78
	90,705	106,364
Total liabilities	93,691	109,951
TOTAL EQUITY AND LIABILITIES	386,964	396,640
Net assets per share attributable to owners of the parent (RM)	1.14	1.12

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	31/03/2018 RM'000	31/03/2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax		
- continuing operations	7,724	10,717
Adjustments for non-cash items	3,309	(4,918)
Operating profit before working capital changes	<u>11,033</u>	<u>5,799</u>
Net changes in working capital	<u>(10,680)</u>	<u>(13,323)</u>
Cash from / (used in) operations	353	(7,524)
Other payments	(24)	(23)
Taxes paid	<u>(1,935)</u>	<u>(164)</u>
Net cash used in operating activities	(1,606)	(7,711)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	794	740
Purchase of property, plant and equipment	(2,615)	(817)
Acquisition of subsidiaries, net of cash acquired	(5,749)	-
Proceeds from disposal of property, plant and equipment	<u>214</u>	<u>500</u>
Net cash (used in) / from investing activities	(7,356)	423
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	-	-
Net cash used in financing activities	-	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(8,962)</u>	<u>(7,288)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL PERIOD		
As previously reported	<u>149,288</u>	<u>170,639</u>
Effect of exchange rate changes	<u>(2,246)</u>	<u>5,244</u>
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD	<u><u>138,080</u></u>	<u><u>175,883</u></u>
	<u><u>138,080</u></u>	<u><u>168,595</u></u>

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Non-distributable			Distributable			Equity attributable to equity holders of the parent	Non-controlling interests	Total equity
			Share premium	Capital reserve	Exchange fluctuation reserve	Retained profits	Equity attributable to equity holders of the parent				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Balance as at 1 January 2018	124,673	-	1,259	6,006	143,953	275,891	10,798	286,689			
Total comprehensive income / (loss)	-	-	-	(9)	6,613	6,604	(20)	6,584			
Balance as at 31 March 2018	124,673	-	1,259	5,997	150,566	282,495	10,778	293,273			
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)	-	-	-	(514)	8,940	8,426	(310)	8,116			
Dividend in respect of financial year 2016	-	-	-	-	(14,841)	(14,841)	-	(14,841)			
Balance as at 31 March 2017	123,679	994	1,259	7,833	111,723	245,488	35,792	281,280			

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 MARCH 2018

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 2017.

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 2017, except with the adoption of the following Malaysian Financial Reporting Standards ("MFRS"), Clarification on MFRS, Issues Committee ("IC") Interpretations and Amendments to MFRS for financial period beginning on or after 1 January 2018:

- MFRS 15, Revenue from Contracts with Customers
- MFRS 9, Financial Instruments (2014)
- Clarifications to MFRS 15, Revenue from Contracts with Customers
- IC Interpretation 22, Foreign Currency Transactions and Advance Consideration
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 2, Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 140, Investment Property – Transfers of Investment Property*

The accounting standards marked with [*] are not applicable to the Group.

The adoption of the other standards and amendments are not expected to have material financial impacts to the financial statements of the Group.

2. Audit qualification

The audit report on the financial statements for the financial year ended 31 December 2017 was not qualified.

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 MARCH 2018

The figures have not been audited

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.

7. Dividend paid

	Current year to date RM'000	Preceding year to date RM'000
There were no dividends paid	-	-

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 MARCH 2018

The figures have not been audited

8. Segmental reporting

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

	Malaysia RM'000	UK (Discontinued operations) RM'000	Elimination RM'000	Total RM'000
3-month ended 31-3-2018				
Revenue				
External	97,278	-	-	97,278
Inter-segment sales	9,195	-	(9,195)	-
Total revenue	106,473	-	(9,195)	97,278
Results				
Segment results	7,069	697	(12)	7,754
Finance cost	(30)	-	-	(30)
Profit before tax				7,724
Tax expense				(1,096)
Profit for the period				6,628
3-month ended 31-3-2017				
Revenue				
External	74,781	744	-	75,525
Inter-segment sales	374	-	(374)	-
Total revenue	75,155	744	(374)	75,525
Results				
Segment results	10,969	(198)	(21)	10,750
Finance cost	(33)	-	-	(33)
Profit before tax				10,717
Tax expense				(1,721)
Profit for the period				8,996

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 MARCH 2018

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.

11. Changes in composition of the Group

There was no change to the composition of the Group during the financial period under review except for the Company had on 2 January 2018 completed the acquisition of 9,990,000 ordinary shares representing 100% equity interest in the share capital of Formosa Prosonic Technics Sdn Bhd and its wholly-owned subsidiary, Aerotronic Sdn Bhd for a cash consideration of RM10,600,000.

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 31/3/2018 RM'000	Preceding Year Quarter 31/3/2017 RM'000	Changes %	Current Quarter 31/3/2018 RM'000	Preceding Year Quarter 31/3/2017 RM'000	Changes %
Revenue	97,278	75,525	28.8	97,278	75,525	28.8
Profit before tax	7,724	10,717	(27.9)	7,724	10,717	(27.9)
Profit after tax	6,628	8,996	(26.3)	6,628	8,996	(26.3)
Profit attributable to ordinary equity holders of the parent	6,613	8,940	(26.0)	6,613	8,940	(26.0)
EBITDA	10,449	13,766	(24.1)	10,449	13,766	(24.1)

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 MARCH 2018

The figures have not been audited

13. Review of performance (Cont'd)

First quarter ended 31 March 2018

The Group recorded higher sales of RM97.3 million, an increase of 28.8% from the previous year's corresponding quarter of RM75.5 million on the back of higher sales volume. The 36% growth in the sales of musical instrument components has outperformed the growth in sales of audio system and components. The increase in sales was also contributed by the newly acquired subsidiary Formosa Prosonic Technics Sdn Bhd in January 2018.

The Group recorded lower earnings before interest, tax, depreciation and amortization ("EBITDA") of RM10.4 million for the current quarter compared to RM13.8 million in the previous year's corresponding quarter mainly due to loss on foreign exchange as the USD has dropped against the RM.

In respect of the Group financial position, it remains healthy with net cash of RM138.1 million or RM0.56 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.

14. Comparison with previous quarter's results

	Current Quarter 31/3/2018 RM'000	Preceding Quarter 31/12/2017 RM'000	Changes %
Revenue	97,278	131,294	(25.9)
Profit before tax	7,724	9,994	(22.7)
Profit after tax	6,628	9,255	(28.4)
Profit attributable to ordinary equity holders of the parent	6,613	9,239	(28.4)
EBITDA	10,449	12,223	(14.5)

The Group recorded 25.9% lower sales of RM97.3 million in the current quarter compared to RM131.3 million in the immediate preceding quarter mainly due to drop in sales volume and the softening of the USD against the RM. Coupled with loss on foreign exchange, the EBITDA dropped by 14.5% to RM10.4 million from RM12.2 million.

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 MARCH 2018

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15. Current 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 drop of USD against the RM and the rising commodity prices and labour costs.

16. Deviation from profit forecast and profit guarantee

Not applicable.

17. Notes to the statement of comprehensive income

	Individual		Cumulative	
	Current Quarter 31/3/2018 RM'000	Preceding Year Quarter 31/3/2017 RM'000	Current Quarter 31/3/2018 RM'000	Preceding Year Quarter 31/3/2017 RM'000
Profit for the period is arrived at after charging / (crediting):				
Income from short term funds	(757)	(708)	(757)	(708)
Interest income	(37)	(32)	(37)	(32)
Interest expenses	24	23	24	23
Depreciation and amortization	2,423	2,068	2,423	2,068
Foreign exchange loss / (gain)	1,262	(638)	1,262	(638)
Derivatives (gain) / loss	-	(2,636)	-	(2,636)
Discount on acquisition of subsidiaries	(744)	-	(744)	-
Gain on disposal of property, plant and equipment	(214)	(301)	(214)	(301)
PPE written off	1	224	1	224

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 MARCH 2018

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18. Taxation

	Individual		Cumulative	
	Current Quarter 31/3/2018 RM'000	Preceding Year Quarter 31/3/2017 RM'000	Current Quarter 31/3/2018 RM'000	Preceding Year Quarter 31/3/2017 RM'000
In respect of current period:-				
- Income tax	1,697	513	1,697	513
- Deferred tax	(601)	1,208	(601)	1,208
	1,096	1,721	1,096	1,721

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.

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 March 2018.

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 8.0 sen per share in respect of the financial year ended 31 December 2017 (31 December 2015: 6.0 sen per share) 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.

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

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 MARCH 2018

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23. Basic Earnings per share

	Individual		Cumulative	
	Current Quarter 31/3/2018	Preceding Year Quarter 31/3/2017	Current Quarter 31/3/2018	Preceding Year Quarter 31/3/2017
Net profit attributable to equity holders of the parent (RM'000)	6,613	8,940	6,613	8,940
Weighted average number of shares ('000)	247,358	247,358	247,358	247,358
Basic earnings per share (sen)	2.7	3.6	2.7	3.6