

FORMOSA PROSONIC

FORMOSA PROSONIC INDUSTRIES BERHAD (172312-K)
 INTERIM REPORT FOR THE YEAR ENDED 30 JUNE 2018
 (The figures have not been audited)

CONDENSED CONSOLIDATED INCOME STATEMENTS

	Individual quarter		Cumulative quarter	
	Current year quarter 30/06/2018 RM'000	Preceding year corresponding quarter 30/06/2017 RM'000	Current year to date 30/06/2018 RM'000	Preceding year corresponding quarter 30/06/2017 RM'000
Revenue	122,226	102,505	219,504	178,030
Cost of sales	(109,650)	(86,998)	(193,673)	(153,419)
Gross profit	12,576	15,507	25,831	24,611
Other income	2,020	4,165	6,567	14,380
Distribution costs	(3,271)	(2,902)	(6,848)	(5,806)
Administrative expenses	(2,626)	(2,275)	(4,693)	(4,822)
Other expenses	760	(3,851)	(3,644)	(6,969)
Profit from operations	9,459	10,644	17,213	21,394
Finance costs	(16)	(15)	(46)	(48)
Profit before tax	9,443	10,629	17,167	21,346
Tax expense	(2,342)	(2,172)	(3,438)	(3,893)
Profit for the financial period	7,101	8,457	13,729	17,453
Profits attributable to:				
Owners of the parent	7,105	8,416	13,718	17,356
Non-controlling interests	(4)	41	11	97
	7,101	8,457	13,729	17,453
Earnings per share (sen)				
Basic	2.9	3.4	5.6	7.0
Diluted	NA	NA	NA	NA

(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 30/06/2018 RM'000	Preceding year corresponding quarter 30/06/2017 RM'000	Current year to date 30/06/2018 RM'000	Preceding year corresponding quarter 30/06/2017 RM'000
Profit for the financial period	7,101	8,457	13,729	17,453
<u>Other comprehensive income / (loss), net of tax</u>				
Currency translation difference	290	(2,042)	246	(2,922)
Total comprehensive income	<u>7,391</u>	<u>6,415</u>	<u>13,975</u>	<u>14,531</u>
Attributable to:				
Owners of the parent	7,362	7,127	13,966	15,553
Non-controlling interests	29	(712)	9	(1,022)
	<u>7,391</u>	<u>6,415</u>	<u>13,975</u>	<u>14,531</u>

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30/06/2018 RM'000	As at 31/12/2017 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	104,969	101,401
Prepaid land lease payment	16,875	17,035
	121,844	118,436
Current assets		
Inventories	51,293	39,189
Trade and other receivables	93,476	89,673
Current tax assets	1,491	54
Short term funds	105,354	134,584
Cash, bank balances and deposits	20,164	14,704
	271,778	278,204
TOTAL ASSETS	393,622	396,640
EQUITY AND LIABILITIES		
Equity		
Share capital	124,673	124,673
Reserves	145,393	151,218
	270,066	275,891
Equity attributable to equity holders of the Company		
Non-controlling interests	10,807	10,798
Total equity	280,873	286,689
Non-current liabilities		
Deferred tax liabilities	3,399	3,587
Current liabilities		
Trade and other payables	108,746	106,286
Current tax liabilities	604	78
	109,350	106,364
Total liabilities	112,749	109,951
TOTAL EQUITY AND LIABILITIES	393,622	396,640
Net assets per share attributable to owners of the parent (RM)	1.09	1.12

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	30/06/2018 RM'000	30/06/2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax		
- continuing operations	17,167	21,346
Adjustments for non-cash items	4,108	(2,331)
Operating profit before working capital changes	21,275	19,015
Net changes in working capital	(9,724)	(20,248)
Cash from / (used in) operations	11,551	(1,233)
Other payments	(29)	(28)
Taxes paid	(3,082)	(409)
Net cash from / (used in) operating activities	8,440	(1,670)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,576	1,421
Purchase of property, plant and equipment	(8,048)	(2,021)
Acquisition of a subsidiaries, net of cash acquired	(5,749)	-
Proceeds from disposal of property, plant and equipment	285	707
Net cash (used in) / from investing activities	(11,936)	107
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(19,791)	(14,841)
Net cash used in financing activities	(19,791)	(14,841)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(23,287)	(16,404)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL PERIOD		
As previously reported	149,288	170,639
Effect of exchange rate changes	(483)	1,107
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD	148,805	171,746
	125,518	155,342

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital RM'000	Non-distributable				Distributable		Equity attributable to equity holders of the parent RM'000	Non- controlling interests RM'000	Total equity 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 2018	124,673	-	1,259	6,006	143,953	275,891	10,798	286,689		
Total comprehensive income / (loss)	-	-	248	13,718	(19,791)	13,966	9	13,975		
Dividend in respect of financial year 2017	-	-	-	-	(19,791)	(19,791)	-	(19,791)		
Balance as at 30 June 2018	124,673	-	1,259	6,254	137,880	270,066	10,807	280,873		
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)	-	-	-	(1,803)	17,356	15,553	(1,022)	14,531		
Dividend in respect of financial year 2016	-	-	-	-	(14,841)	(14,841)	-	(14,841)		
Balance as at 30 June 2017	123,679	994	1,259	6,544	120,139	252,615	35,080	287,695		

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 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 30 JUNE 2018

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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
First interim single tier of 8.0 sen per ordinary share for the financial year ended 31 December 2017 (31 December 2016 : 6.0 sen per ordinary share)	19,791	14,841

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

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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
6-month ended 30-6-2018				
Revenue				
External	219,504	-	-	219,504
Inter-segment sales	23,385	-	(23,385)	-
Total revenue	242,889	-	(23,385)	219,504
Results				
Segment results	17,469	(205)	(51)	17,213
Finance cost	(46)	-	-	(46)
Profit before tax				17,167
Tax expense				(3,438)
Profit for the period				13,729
6-month ended 30-6-2017				
Revenue				
External	176,606	1,424	-	178,030
Inter-segment sales	636	-	(636)	-
Total revenue	177,242	1,424	(636)	178,030
Results				
Segment results	21,355	27	12	21,394
Finance cost	(48)	-	-	(48)
Profit before tax				21,346
Tax expense				(3,893)
Profit for the period				17,453

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 30 JUNE 2018

The figures have not been audited

10. Subsequent events

There were no material events subsequent to 30 June 2018 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 30/6/2018 RM'000	Preceding Year Quarter 30/6/2017 RM'000	Changes %	Current Quarter 30/6/2018 RM'000	Preceding Year Quarter 30/6/2017 RM'000	Changes %
Revenue	122,226	102,505	19.2	219,504	178,030	23.3
Profit before tax	9,443	10,629	(11.2)	17,167	21,346	(19.6)
Profit after tax	7,101	8,457	(16.0)	13,729	17,453	(21.3)
Profit attributable to ordinary equity holders of the parent	7,105	8,416	(15.6)	13,718	17,356	(21.0)
EBITDA	13,710	14,135	(3.0)	24,159	27,899	(13.4)

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

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13. Review of performance (Cont'd)

Second quarter ended 30 June 2018

The Group recorded higher sales of RM122.2 million, an increase of 19.2% from the previous year's corresponding quarter of RM102.5 million on the back of higher sales volume and change in sales mix. The 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 RM13.7 million for the current quarter compared to RM14.1 million in the previous year's corresponding quarter mainly due to the drop in USD currency against the RM and increase in operating cost.

Financial year-to-date ended 30 June 2018

The Group recorded lower EBITDA of RM24.2 million for the six-month period ended 30 June 2018 from RM27.9 million in the previous year's corresponding period despite sales increased by 23.3% to RM219.5 million from RM178.0 million. The increase in sales had been attributable to increase in sales volume and change in sales mix. Nevertheless, the Group's profitability was affected by the drop in USD currency against the RM and increase in operating costs.

In respect of the Group financial position, it remains healthy with net cash of RM125.5 million or RM0.51 cash per share. Trade receivables collection day was within normal range of 60 to 90 days and the inventory level was optimum and at higher level to support production requirements for coming months.

14. Comparison with previous quarter's results

	Current Quarter 30/6/2018 RM'000	Preceding Quarter 31/3/2018 RM'000	Changes %
Revenue	122,226	97,278	25.6
Profit before tax	9,443	7,724	22.3
Profit after tax	7,101	6,628	7.1
Profit attributable to ordinary equity holders of the parent	7,105	6,613	7.4
EBITDA	13,710	10,449	31.2

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

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14. Comparison with previous quarter's results (cont'd)

The Group recorded 25.6% higher sales of RM122.2 million in the current quarter compared to RM97.3 million in the immediate preceding quarter mainly due higher sales volume and change in sales mix. Coupled with gain on foreign exchange, the EBITDA improved by 31.2% to RM13.7 million from RM10.4 million.

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 fluctuation in the USD currency against the RM and the rising commodity prices and operating costs.

16. Deviation from profit forecast and profit guarantee

Not applicable.

17. Notes to the statement of comprehensive income

	Individual		Cumulative	
	Current Quarter 30/6/2018 RM'000	Preceding Year Quarter 30/6/2017 RM'000	Current Quarter 30/6/2018 RM'000	Preceding Year Quarter 30/6/2017 RM'000
Profit for the period is arrived at after charging / (crediting):				
Income from short term funds	(757)	(655)	(1,514)	(1,363)
Interest income	(26)	(26)	(63)	(58)
Interest expenses	5	5	29	28
Depreciation and amortization	2,708	2,013	5,131	4,081
Foreign exchange loss / (gain)	(2,385)	1,804	(1,123)	1,166
Derivatives (gain) / loss	-	(1,620)	-	(4,256)
Discount on acquisition of subsidiaries	-	-	(744)	-
Gain on disposal of property, plant and equipment	(71)	(207)	(285)	(508)
PPE written off	-	-	1	224

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

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18. Taxation

	Individual		Cumulative	
	Current	Preceding Year	Current	Preceding Year
	Quarter	Quarter	Quarter	Quarter
	30/6/2018	30/6/2017	30/6/2018	30/6/2017
	RM'000	RM'000	RM'000	RM'000
In respect of current period:-				
- Income tax	1,929	2,647	3,626	3,160
- Deferred tax	413	(475)	(188)	733
	<u>2,342</u>	<u>2,172</u>	<u>3,438</u>	<u>3,893</u>

The effective tax rate of the Group for the current quarter is slightly higher than the statutory tax rate mainly due to losses in certain subsidiaries which are not available for set off against the Group's profit.

The effective tax rate of the Group for the 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 30 June 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 30 JUNE 2018

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23. Basic Earnings per share

	Individual		Cumulative	
	Current Quarter 30/6/2018	Preceding Year Quarter 30/6/2017	Current Quarter 30/6/2018	Preceding Year Quarter 30/6/2017
Net profit attributable to equity holders of the parent (RM'000)	7,105	8,416	13,718	17,356
Weighted average number of shares ('000)	247,358	247,358	247,358	247,358
Basic earnings per share (sen)	2.9	3.4	5.6	7.0