

FORMOSA PROSONIC

FORMOSA PROSONIC INDUSTRIES BERHAD (172312-K)
 INTERIM REPORT FOR THE YEAR ENDED 30 SEPTEMBER 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
	30/09/2018 RM'000	30/09/2017 RM'000	30/09/2018 RM'000	30/09/2017 RM'000
Revenue	192,033	153,297	411,537	331,327
Cost of sales	<u>(165,581)</u>	<u>(132,155)</u>	<u>(359,254)</u>	<u>(285,574)</u>
Gross profit	26,452	21,142	52,283	45,753
Other income	3,641	2,419	10,208	16,799
Distribution costs	<u>(4,785)</u>	<u>(3,251)</u>	<u>(11,633)</u>	<u>(9,057)</u>
Administrative expenses	<u>(4,222)</u>	<u>(2,266)</u>	<u>(8,915)</u>	<u>(7,088)</u>
Other expenses	<u>(1,348)</u>	<u>(1,368)</u>	<u>(4,992)</u>	<u>(8,337)</u>
Profit from operations	19,738	16,676	36,951	38,070
Finance costs	<u>(7)</u>	<u>(7)</u>	<u>(53)</u>	<u>(55)</u>
Profit before tax	19,731	16,669	36,898	38,015
Tax expense	<u>(3,117)</u>	<u>(2,283)</u>	<u>(6,555)</u>	<u>(6,176)</u>
Profit for the financial period	<u>16,614</u>	<u>14,386</u>	<u>30,343</u>	<u>31,839</u>
Profits attributable to:				
Owners of the parent	16,656	14,575	30,374	31,931
Non-controlling interests	<u>(42)</u>	<u>(189)</u>	<u>(31)</u>	<u>(92)</u>
	<u>16,614</u>	<u>14,386</u>	<u>30,343</u>	<u>31,839</u>
Earnings per share (sen)				
Basic	<u>6.7</u>	<u>5.9</u>	<u>12.3</u>	<u>12.9</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 30/09/2018 RM'000	Preceding year corresponding quarter 30/09/2017 RM'000	Current year to date 30/09/2018 RM'000	Preceding year corresponding quarter 30/09/2017 RM'000
Profit for the financial period	16,614	14,386	30,343	31,839
<u>Other comprehensive income / (loss), net of tax</u>				
Currency translation difference	(108)	(1,166)	138	(4,089)
Total comprehensive income	16,506	13,220	30,481	27,750
Attributable to:				
Owners of the parent	16,532	13,823	30,498	29,375
Non-controlling interests	(26)	(603)	(17)	(1,625)
	16,506	13,220	30,481	27,750

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30/09/2018 RM'000	As at 31/12/2017 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	109,359	101,401
Prepaid land lease payment	16,795	17,035
	126,154	118,436
Current assets		
Inventories	51,454	39,189
Trade and other receivables	142,562	89,673
Current tax assets	1,491	54
Short term funds	105,243	134,584
Cash, bank balances and deposits	33,665	14,704
	334,415	278,204
TOTAL ASSETS	460,569	396,640
EQUITY AND LIABILITIES		
Equity		
Share capital	124,673	124,673
Reserves	161,927	151,218
	286,600	275,891
Equity attributable to equity holders of the Company	286,600	275,891
Non-controlling interests	10,781	10,798
Total equity	297,381	286,689
Non-current liabilities		
Deferred tax liabilities	3,706	3,587
Current liabilities		
Trade and other payables	157,216	106,286
Current tax liabilities	2,266	78
	159,482	106,364
Total liabilities	163,188	109,951
TOTAL EQUITY AND LIABILITIES	460,569	396,640
Net assets per share attributable to owners of the parent (RM)	1.16	1.12

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	30/09/2018 RM'000	30/09/2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax		
- continuing operations	36,898	38,015
Adjustments for non-cash items	5,774	(1,688)
Operating profit before working capital changes	42,672	36,327
Net changes in working capital	(11,167)	(27,685)
Cash from operations	31,505	8,642
Other payments	(34)	(28)
Taxes paid	(4,230)	(653)
Net cash from operating activities	27,241	7,961
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	2,389	2,308
Purchase of property, plant and equipment	(15,284)	(6,287)
Acquisition of a subsidiaries, net of cash acquired	(5,749)	-
Proceeds from disposal of property, plant and equipment	285	707
Net cash used in investing activities	(18,359)	(3,272)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(19,789)	(14,841)
Net cash used in financing activities	(19,789)	(14,841)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(10,907)	(10,152)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL PERIOD		
As previously reported	149,288	170,639
Effect of exchange rate changes	527	917
	149,815	171,556
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD	138,908	161,404

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Non-distributable					Distributable			Total equity
	Share capital	Share premium	Capital reserve	Exchange fluctuation reserve	Retained profits	Equity attributable to equity holders of the parent	Non-controlling interests		
	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)	-	-	-	124	30,374	30,498	(17)	30,481	
Dividend in respect of financial year 2017	-	-	-	-	(19,789)	(19,789)	-	(19,789)	
Balance as at 30 September 2018	124,673	-	1,259	6,130	154,538	286,600	10,781	297,381	
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)	-	-	-	(2,556)	31,931	29,375	(1,625)	27,750	
Dividend in respect of financial year 2016	-	-	-	-	(14,841)	(14,841)	-	(14,841)	
Balance as at 30 September 2017	123,679	994	1,259	5,791	134,714	266,437	34,477	300,914	

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 30 SEPTEMBER 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 SEPTEMBER 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
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)	19,789	14,841

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 30 SEPTEMBER 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
9-month ended 30-9-2018				
Revenue				
External	411,537	-	-	411,537
Inter-segment sales	42,560	-	(42,560)	-
Total revenue	454,097	-	(42,560)	411,537
Results				
Segment results	37,345	(310)	(84)	36,951
Finance cost	(53)	-	-	(53)
Profit before tax				36,898
Tax expense				(6,555)
Profit for the period				30,343
9-month ended 30-9-2017				
Revenue				
External	329,899	1,428	-	331,327
Inter-segment sales	808	-	(808)	-
Total revenue	330,707	1,428	(808)	331,327
Results				
Segment results	37,326	732	12	38,070
Finance cost	(55)	-	-	(55)
Profit before tax				38,015
Tax expense				(6,176)
Profit for the period				31,839

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 SEPTEMBER 2018

The figures have not been audited

10. Subsequent events

There were no material events subsequent to 30 September 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 completion on 2 January 2018 of 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		Changes	Cumulative		Changes
	Current Quarter 30/9/2018 RM'000	Preceding Year Quarter 30/9/2017 RM'000		Current Quarter 30/9/2018 RM'000	Preceding Year Quarter 30/9/2017 RM'000	
Revenue	192,033	153,297	25.3	411,537	331,327	24.2
Profit before tax	19,731	16,669	18.4	36,898	38,015	(2.9)
Profit after tax	16,614	14,386	15.5	30,343	31,839	(4.7)
Profit attributable to ordinary equity holders of the parent	16,656	14,575	14.3	30,374	31,931	(4.9)
EBITDA	21,906	17,885	22.5	42,627	41,891	1.8

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

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13. Review of performance (Cont'd)

Third quarter ended 30 September 2018

The Group recorded higher sales of RM192.0 million, an increase of 25.3% from the previous year's corresponding quarter of RM153.3 million on the back of higher sales volume and change in sales mix.

The Group recorded higher earnings before interest, tax, depreciation and amortization ("EBITDA") of RM21.9 million for the current quarter compared to RM17.9 million in the previous year's corresponding quarter mainly due to higher sales volume and better sales mix despite with an increase in operating cost.

Financial year-to-date ended 30 September 2018

The Group recorded higher EBITDA of RM42.6 million for the nine-month period ended 30 September 2018 from RM41.9 million in the previous year's corresponding period on the back of higher sales of RM411.5 million, an increase of 24.2% from RM331.3 million. The increase in sales had been attributable to increase in sales volume and change in sales mix. Nevertheless, the Group's profitability was dampened by lower USD currency against the RM and increase in operating costs.

In respect of the Group financial position, it remains healthy with net cash of RM138.9 million or RM0.56 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 requirement and delivery for coming months.

14. Comparison with previous quarter's results

	Current Quarter 30/9/2018 RM'000	Preceding Quarter 30/6/2018 RM'000	Changes %
Revenue	192,033	122,226	57.1
Profit before tax	19,731	9,443	108.9
Profit after tax	16,614	7,101	134.0
Profit attributable to ordinary equity holders of the parent	16,656	7,105	134.4
EBITDA	21,906	11,368	92.7

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

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

The Group recorded 57.1% higher sales of RM192.0 million in the current quarter compared to RM122.2 million in the immediate preceding quarter mainly due to higher sales volume and change in sales mix. These, in addition to stronger USD exchange rate against the RM and more effective material sourcing, had resulted in 92.7% higher EBITDA at RM21.9 million as compared with RM11.4 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 of 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 30/9/2018 RM'000	Preceding Year Quarter 30/9/2017 RM'000	Current Quarter 30/9/2018 RM'000	Preceding Year Quarter 30/9/2017 RM'000
Profit for the period is arrived at after charging / (crediting):				
Income from short term funds	(784)	(856)	(2,297)	(2,219)
Interest income	(28)	(31)	(91)	(89)
Interest expenses	5	-	34	28
Depreciation and amortization	2,987	2,102	8,117	6,183
Foreign exchange loss / (gain)	(2,094)	17	(3,217)	1,183
Derivatives gain	-	(294)	-	(4,550)
Discount on acquisition of subsidiaries	-	-	(744)	-
Gain on disposal of property, plant and equipment	-	-	(285)	(508)
PPE written off	-	-	1	224

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

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18. Taxation

	Individual		Cumulative	
	Current	Preceding Year	Current	Preceding Year
	Quarter	Quarter	Quarter	Quarter
	30/9/2018	30/9/2017	30/9/2018	30/9/2017
	RM'000	RM'000	RM'000	RM'000
In respect of current period:-				
- Income tax	3,641	2,296	7,267	5,456
- Deferred tax	307	134	119	867
In respect of prior year :-				
- Income tax	(831)	(147)	(831)	(147)
- Deferred tax	-	-	-	-
	<u>3,117</u>	<u>2,283</u>	<u>6,555</u>	<u>6,176</u>

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 30 September 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 2016: 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 SEPTEMBER 2018

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23. Basic Earnings per share

	Individual		Cumulative	
	Current Quarter 30/9/2018	Preceding Year Quarter 30/9/2017	Current Quarter 30/9/2018	Preceding Year Quarter 30/9/2017
Net profit attributable to equity holders of the parent (RM'000)	16,656	14,575	30,374	31,931
Weighted average number of shares ('000)	247,358	247,358	247,358	247,358
Basic earnings per share (sen)	6.7	5.9	12.3	12.9