

FORMOSA PROSONIC

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

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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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
12-month ended 31-12-2018				
Revenue				
External	560,520	-	-	560,520
Inter-segment sales	58,328	-	(58,328)	-
Total revenue	<u>618,848</u>	-	<u>(58,328)</u>	<u>560,520</u>
Results				
Segment results	46,037	(820)	(73)	45,144
Finance cost	(67)	-	-	(67)
Profit before tax				<u>45,077</u>
Tax expense				<u>(8,445)</u>
Profit for the year				<u>36,632</u>
12-month ended 31-12-2017				
Revenue				
External	461,182	1,439	-	462,621
Inter-segment sales	966	-	(966)	-
Total revenue	<u>462,148</u>	<u>1,439</u>	<u>(966)</u>	<u>462,621</u>
Results				
Segment results	82,919	616	(35,445)	48,090
Finance cost	(68)	(13)	-	(81)
Profit before tax				<u>48,009</u>
Tax expense				<u>(6,915)</u>
Profit for the year				<u>41,094</u>

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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10. Subsequent events

There were no material events subsequent to 31 December 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			Cumulative		
	Current	Preceding	Changes	Current	Preceding	Changes
	Quarter	Year		Quarter	Year	
	31/12/2018	31/12/2017	%	31/12/2018	31/12/2017	%
	RM'000	RM'000		RM'000	RM'000	
Revenue	148,983	131,294	13.5	560,520	462,621	21.2
Profit before tax	8,179	9,994	(18.2)	45,077	48,009	(6.1)
Profit after tax	6,289	9,255	(32.0)	36,632	41,094	(10.9)
Profit attributable to ordinary equity holders of the parent	6,270	9,239	(32.1)	36,644	41,170	(11.0)
EBITDA	10,669	11,484	(7.1)	53,296	53,375	(0.1)

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13. Review of performance (Cont'd)

Fourth quarter ended 31 December 2018

The Group recorded higher sales of RM149.0 million, an increase of 13.5% from the previous year's corresponding quarter of RM131.3 million on the back of higher sales volume and change in sales mix.

The Group recorded lower earnings before interest, tax, depreciation and amortization ("EBITDA") of RM10.7 million for the current quarter compared to RM11.5 million in the previous year's corresponding quarter mainly due to increase in operating cost.

Financial year-to-date ended 31 December 2018

The Group's EBITDA was marginally lower at RM53.3 million for the twelve-month period ended 31 December 2018 compared to RM53.4 million in the previous year despite with higher sales of RM560.5 million, an increase of 21.2% from RM462.6 million. 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 RM167.8 million or RM0.68 cash per share. Trade receivables collection day was within normal range of 60 to 90 days and the inventory level was optimum to support production requirement and delivery for coming months.

14. Comparison with previous quarter's results

	Current Quarter 31/12/2018 RM'000	Preceding Quarter 30/9/2018 RM'000	Changes %
Revenue	148,983	192,033	(22.4)
Profit before tax	8,179	19,731	(58.5)
Profit after tax	6,289	16,614	(62.1)
Profit attributable to ordinary equity holders of the parent	6,270	16,656	(62.4)
EBITDA	10,669	21,906	(51.3)

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

The Group recorded 22.4% lower sales of RM149.0 million in the current quarter compared to RM192.0 million in the immediate preceding quarter mainly due to lower sales volume. Coupled with increase in operating cost, these in turn had resulted in lower EBITDA at RM10.7 million as compared with RM21.9 million, a drop of 51.3%.

15. Next Year Prospects

The Board of Directors expects the Group to achieve profitable results for the financial year ending 31 December 2019 on the back of healthy sales orders. The Board is cautious about the operating challenges arising from fluctuation in the USD currency against the RM and the rising labour costs as a result of the implementation of the minimum wage policy.

16. Deviation from profit forecast and profit guarantee

Not applicable.

17. Notes to the statement of comprehensive income

	Individual		Cumulative	
	Current Quarter 31/12/2018 RM'000	Preceding Year Quarter 31/12/2017 RM'000	Current Quarter 31/12/2018 RM'000	Preceding Year Quarter 30/12/2017 RM'000
Profit for the period is arrived at after charging / (crediting):				
Income from short term funds	(771)	(810)	(3,068)	(3,029)
Interest income	(66)	(38)	(157)	(127)
Interest expenses	7	6	41	35
Depreciation and amortization	3,327	2,339	11,445	8,522
Foreign exchange loss / (gain)	(1,204)	2,137	(4,421)	3,321
Derivatives gain	-	-	-	(4,550)
Discount on acquisition of subsidiaries	-	-	(744)	-
Gain on disposal of property, plant and equipment	(36)	-	(322)	(508)
PPE written off	-	365	1	589

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18. Taxation

	Individual		Cumulative	
	Current	Preceding	Current	Preceding
	Quarter	Year	Quarter	Year
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	RM'000	RM'000	RM'000	RM'000
In respect of current period:-				
- Income tax	819	251	8,086	5,707
- Deferred tax	384	404	503	1,271
In respect of prior year :-				
- Income tax	-	(1)	(831)	(148)
- Deferred tax	687	85	687	85
	1,890	739	8,445	6,915

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 December 2018.

21. Material litigation

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

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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 Board has declared a first interim single tier tax exempt dividend of 10 sen per share in respect of the financial year ended 31 December 2018 (31 December 2017: 8.0 sen per share).

The dividend will be payable on 18 April 2019 to shareholders whose names appear in the Record of Depositors of the Company at the close of business on 5 April 2019.

23. Basic Earnings per share

	Individual		Cumulative	
	Current Quarter 31/12/2018	Preceding Year Quarter 31/12/2017	Current Quarter 31/12/2018	Preceding Year Quarter 31/12/2017
Net profit attributable to equity holders of the parent (RM'000)	6,270	9,239	36,644	41,170
Weighted average number of shares ('000)	247,358	247,358	247,358	247,358
Basic earnings per share (sen)	2.5	3.7	14.8	16.6