

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 MARCH 2019

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 2018.

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 2018, 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 2019:

Title	Effective Date
MFRS 16 <i>Leases</i>	1 January 2019
IC Interpretation 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Amendments to MFRS 128 <i>Long-term Interests in Associates and Joint Ventures</i>	1 January 2019
Amendments to MFRS 9 <i>Prepayment Features with Negative Compensation</i>	1 January 2019
Amendments to MFRS 3 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i>	1 January 2019
Amendments to MFRS 11 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i>	1 January 2019
Amendments to MFRS 112 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i>	1 January 2019
Amendments to MFRS 123 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i>	1 January 2019
Amendments to MFRS 119 <i>Plan Amendment, Curtailment or Settlement</i>	1 January 2019
<i>Amendments to References to the Conceptual Framework in MFRS Standards</i>	1 January 2020
Amendments to MFRS 3 <i>Definition of a Business</i>	1 January 2020
Amendments to MFRS 101 and MFRS 108 <i>Definition of Material</i>	1 January 2020
MFRS 17 <i>Insurance Contracts</i>	1 January 2021
Amendments to MFRS 10 and MFRS 128 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Deferred

The adoption of the relevant 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 2018 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
There were no dividends paid	-	-

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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
3-month ended 31-3-2019				
Revenue				
External	142,885	-	-	142,885
Inter-segment sales	19,520	-	(19,520)	-
Total revenue	162,405	-	(19,520)	142,885
Results				
Segment results	9,514	554	36	10,104
Finance cost	(101)	-	-	(101)
Profit before tax				10,003
Tax expense				(2,037)
Profit for the period				7,966
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

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 March 2019 that have not been reflected in the interim report.

11. Changes in composition of the Group

There were no changes in the composition of the Group during the current quarter and financial period ended 31 March 2019.

12. Contingent liabilities or contingent assets

There were no changes in contingent liabilities or contingent assets since the last annual balance sheet date.

13. Related Party Disclosures

Significant related party transactions with a major corporate shareholder, Wistron Corporation (“Wistron”) are as follows:

	Individual		Cumulative	
	Current Quarter	Preceding Year Quarter	Current Quarter	Preceding Year Quarter
	31/3/2019	31/3/2018	31/3/2019	31/3/2018
	RM'000	RM'000	RM'000	RM'000
Sales of speakers to Wistron	15,618	-	15,618	-
Parts supply by Wistron	14,323	-	14,323	-

14. Review of performance

	Individual			Cumulative		
	Current Quarter	Preceding Year Quarter	Changes	Current Quarter	Preceding Year Quarter	Changes
	31/3/2019	31/3/2018		31/3/2019	31/3/2018	
	RM'000	RM'000	%	RM'000	RM'000	%
Revenue	142,885	97,278	46.9	142,885	97,278	46.9
Profit before tax	10,003	7,724	29.5	10,003	7,724	29.5
Profit after tax	7,966	6,628	20.2	7,966	6,628	20.2
Profit attributable to ordinary equity holders of the parent	7,957	6,613	20.3	7,957	6,613	20.3
EBITDA	12,345	9,353	32.0	12,345	9,353	32.0

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14. Review of performance (cont'd)

First quarter ended 31 March 2019

The Group recorded higher sales of RM142.9 million, an increase of 46.9% from the previous year's corresponding quarter of RM97.3 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 RM12.3 million for the current quarter compared to RM9.3 million in the previous year's corresponding quarter mainly due to higher sales volume and gain on foreign exchange.

In respect of the Group financial position, it remains healthy with net cash of RM170.5 million or RM0.69 cash per share. Trade receivables collection day was within normal range of 60 to 90 days and the inventory level was higher to support production requirement and delivery for coming months.

15. Comparison with previous quarter's results

	Current Quarter 31/3/2019 RM'000	Preceding Quarter 31/12/2018 RM'000	Changes %
Revenue	142,885	148,983	(4.1)
Profit before tax	10,003	8,179	22.3
Profit after tax	7,966	6,289	26.7
Profit attributable to ordinary equity holders of the parent	7,957	6,270	26.9
EBITDA	12,345	10,502	17.5

The Group recorded 4.1% lower sales of RM142.9 million in the current quarter compared to RM149.0 million in the immediate preceding quarter mainly due to lower sales volume. Nevertheless, the Group recorded higher EBITDA at RM12.3 million as compared with RM10.5 million mainly due to change in sales mix and better cost controls.

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16. Current 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 commodity prices as well as labour costs as a result of the implementation of the minimum wage policy.

17. Deviation from profit forecast and profit guarantee

Not applicable.

18. Notes to the statement of comprehensive income

	Individual		Cumulative	
	Current Quarter 31/3/2019 RM'000	Preceding Year Quarter 31/3/2018 RM'000	Current Quarter 31/3/2019 RM'000	Preceding Year Quarter 31/3/2018 RM'000
Profit for the period is arrived at after charging / (crediting):				
Income from short term funds	(1,066)	(757)	(1,066)	(757)
Interest income	(42)	(37)	(42)	(37)
Interest expenses	18	24	18	24
Interest - Lease liabilities	78	-	78	-
Depreciation and amortization	3,450	2,423	3,450	2,423
Amortisation of Right-of-use Assets	305	-	305	-
Foreign exchange loss / (gain)	(445)	1,262	(445)	1,262
Discount on acquisition of subsidiaries	-	(744)	-	(744)
Gain on disposal of property, plant and equipment	-	(214)	-	(214)
PPE written off	-	1	-	1

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19. Taxation

	Individual		Cumulative	
	Current	Preceding Year	Current	Preceding Year
	Quarter	Quarter	Quarter	Quarter
	31/3/2019	31/3/2018	31/3/2019	31/3/2018
	RM'000	RM'000	RM'000	RM'000
In respect of current period:-				
- Income tax	2,581	1,697	2,581	1,697
- Deferred tax	(544)	(601)	(544)	(601)
	2,037	1,096	2,037	1,096

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.

20. Corporate proposals

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

21. Group borrowings (interest bearing) and debt securities

The Group does not have any borrowings and debt securities as at 31 March 2019.

22. Material litigation

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

23. Dividend

The Group paid a first interim single tier tax exempt dividend of 10.0 sen per share in respect of the financial year ended 31 December 2018 (31 December 2017: 8.0 sen per share) 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.

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

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24. Basic Earnings per share

	Individual		Cumulative	
	Current Quarter 31/3/2019	Preceding Year Quarter 31/3/2018	Current Quarter 31/3/2019	Preceding Year Quarter 31/3/2018
Net profit attributable to equity holders of the parent (RM'000)	7,957	6,613	7,957	6,613
Weighted average number of shares ('000)	247,358	247,358	247,358	247,358
Basic earnings per share (sen)	3.2	2.7	3.2	2.7