

# FORMOSA PROSONIC

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

<b>Title</b>	<b>Effective Date</b>
MFRS 16 <i>Leases</i>	1 Jan 2019
IC Interpretation 23 <i>Uncertainty over Income Tax Treatments</i>	1 Jan 2019
Amendments to MFRS 128 <i>Long-term Interests in Associates and Joint Ventures</i>	1 Jan 2019
Amendments to MFRS 9 <i>Prepayment Features with Negative Compensation</i>	1 Jan 2019
Amendments to MFRS 3 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i>	1 Jan 2019
Amendments to MFRS 11 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i>	1 Jan 2019
Amendments to MFRS 112 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i>	1 Jan 2019
Amendments to MFRS 123 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i>	1 Jan 2019
Amendments to MFRS 119 <i>Plan Amendment, Curtailment or Settlement</i>	1 Jan 2019

The adoption of these Standards, Amendments and IC Interpretation have no material financial impacts on the interim financial report, except for the following:

#### **MFRS 16 Leases**

The Group has adopted MFRS 16 Leases and applied this Standard retrospectively during the financial period. In accordance with the transition requirements under the Appendix C, paragraph 5(b) of this Standard, comparatives are not restated. As a result of the adoption of MFRS 16 Leases, the existing requirements for a lessee to distinguish between finance lease and operating lease under the MFRS 117 Leases are no longer required. This Standard introduces a single accounting model, requiring the lessee to recognise the right-of-use of the underlying lease asset and the future lease payments liabilities in the statement of financial position. Right-to-use assets depreciated throughout the lease period whereas lease liability is accreted to reflect interest and is reduced to reflect lease payments made. For a lessor, MFRS 16 Leases continue to allow the lessor to classify leases as either operating leases or finance leases and to account for these two types of leases differently.

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### 1. Accounting policies (cont'd)

The following table presents the impact of changes to the Consolidated Statements of Financial Position of the Group resulting from the adoption of MFRS 16 Leases as at 1 January 2019:

	Note	As at 31 Dec 2018 RM'000	Effect of MFRS 16 RM'000	As at 1 Jan 2019 RM'000
Non-current assets				
<b>Right-of-Use asset</b>	(a)	-	<b>4,672</b>	<b>4,672</b>
<b>Lease liabilities</b>	(b)			
Non-current liabilities		-	3,571	3,571
Current liabilities		-	1,101	1,101
<b>Total lease liabilities</b>		-	<b>4,672</b>	<b>4,672</b>

Note:

- (a) The right-of-use assets comprise buildings leased and recognised during the period. Subsequent to initial recognition, the right-of-use assets are measured at cost less any accumulated depreciation, accumulated impairment losses and adjusted for any remeasurement of lease liabilities.
- (b) The long term and short term lease liabilities arising from the buildings leased are recognised and discounted using the Group's approximate average borrowing rate of 7.00%. Subsequent to initial recognition, the Group measures the lease liabilities with inclusion of interest on the lease liabilities, reduces the carrying amounts to reflect lease payments made and remeasures the carrying amounts to reflect any reassessment or lease modifications.

At the date of authorization of these interim financial statements, the following MFRS, IC Interpretations and Amendments to IC Interpretations were issued but not yet effective and have not been applied by the Group:

Title	Effective Date
<i>Amendments to References to the Conceptual Framework in MFRS Standards</i>	1 Jan 2020
<i>Amendments to MFRS 3 Definition of a Business</i>	1 Jan 2020
<i>Amendments to MFRS 101 and MFRS 108 Definition of Material</i>	1 Jan 2020
<i>MFRS 17 Insurance Contracts</i>	1 Jan 2021
<i>Amendments to MFRS 10 and MFRS 128 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Deferred

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### 2. Audit qualification

The audit report on the financial statements for the financial year ended 31 December 2018 was not qualified.

### 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 10.0 sen per ordinary share for the financial year ended 31 December 2018 (31 December 2017 : 8.0 sen per ordinary share)	<b>24,736</b>	19,791

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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
<b>6-month ended 30-6-2019</b>				
Revenue				
External	330,251	-	-	330,251
Inter-segment sales	48,753	-	(48,753)	-
Total revenue	<u>379,004</u>	-	<u>(48,753)</u>	<u>330,251</u>
Results				
Segment results	21,610	25	(92)	21,543
Finance cost	(196)	-	-	(196)
Profit before tax				<u>21,347</u>
Tax expense				<u>(4,473)</u>
Profit for the period				<u>16,874</u>
<b>6-month ended 30-6-2018</b>				
Revenue				
External	219,504	-	-	219,504
Inter-segment sales	23,385	-	(23,385)	-
Total revenue	<u>242,889</u>	-	<u>(23,385)</u>	<u>219,504</u>
Results				
Segment results	17,469	(205)	(51)	17,213
Finance cost	(46)	-	-	(46)
Profit before tax				<u>17,167</u>
Tax expense				<u>(3,438)</u>
Profit for the period				<u>13,729</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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## EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2019

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### 10. Subsequent events

There were no material events subsequent to 30 June 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 30 June 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
	30/6/2019	30/6/2018	30/6/2019	30/6/2018
	RM'000	RM'000	RM'000	RM'000
Sales of speakers to Wistron	<b>52,402</b>	-	<b>68,021</b>	-
Parts supply by Wistron	<b>26,891</b>	-	<b>41,214</b>	-

### 14. Review of performance

	Individual			Cumulative		
	Current Quarter	Preceding Year Quarter	Changes	Current Quarter	Preceding Year Quarter	Changes
	30/6/2019	30/6/2018		30/6/2019	30/6/2018	
	RM'000	RM'000	%	RM'000	RM'000	%
Revenue	<b>187,366</b>	122,226	53.3	<b>330,251</b>	219,504	50.5
Profit before tax	<b>11,344</b>	9,443	20.1	<b>21,347</b>	17,167	24.3
Profit after tax	<b>8,908</b>	7,101	25.4	<b>16,874</b>	13,729	22.9
Profit attributable to ordinary equity holders of the parent	<b>8,899</b>	7,105	25.2	<b>16,856</b>	13,718	22.9
EBITDA	<b>14,186</b>	11,368	24.8	<b>26,931</b>	20,721	30.0

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## EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2019

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### 14. Review of performance (cont'd)

#### Second quarter ended 30 June 2019

The Group recorded higher sales of RM187.4 million, an increase of 53.3% from the previous year's corresponding quarter of RM122.2 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 RM14.2 million for the current quarter compared to RM11.4 million in the previous year's corresponding quarter mainly due to significantly higher sales volume despite increases in operating cost.

#### Financial year-to-date ended 30 June 2019

The Group recorded higher EBITDA of RM26.9 million for the six-month period ended 30 June 2019 compared to RM20.7 million in the previous year's corresponding period on the back of significantly higher sales of RM330.3 million compared to RM219.5 million and also due to gain on foreign exchange. Nevertheless, the Group's profitability was affected by increases in operating cost.

In respect of the Group financial position, it remains solid with net cash of RM161.7 million or RM0.65 cash per share. The Group remains vigilant on trade receivables collection which was within normal range of 60 to 90 days and on the higher inventory level which was to support production requirement and delivery for coming months.

### 15. Comparison with previous quarter's results

	Current Quarter 30/6/2019 RM'000	Preceding Quarter 31/3/2019 RM'000	Changes %
Revenue	<b>187,366</b>	142,885	31.1
Profit before tax	<b>11,344</b>	10,003	13.4
Profit after tax	<b>8,908</b>	7,966	11.8
Profit attributable to ordinary equity holders of the parent	<b>8,899</b>	7,957	11.8
EBITDA	<b>14,186</b>	12,746	11.3

The Group recorded 31.1% higher sales of RM187.4 million in the current quarter compared to RM142.9 million in the immediate preceding quarter mainly due to higher sales volume. As a result, the Group recorded higher EBITDA at RM14.2 million as compared to RM12.7 million.

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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 material 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 30/6/2019 RM'000	Preceding Year Quarter 30/6/2018 RM'000	Current Quarter 30/6/2019 RM'000	Preceding Year Quarter 30/6/2018 RM'000
Profit for the period is arrived at after charging / (crediting):				
Income from short term funds	<b>(904)</b>	(757)	<b>(1,971)</b>	(1,514)
Interest income	<b>(55)</b>	(26)	<b>(97)</b>	(63)
Interest expenses	<b>10</b>	5	<b>29</b>	29
Lease liabilities	<b>73</b>	-	<b>152</b>	-
Depreciation and amortization	<b>3,413</b>	2,708	<b>6,863</b>	5,131
Amortisation of Right-of-use Assets	<b>305</b>	-	<b>609</b>	-
Foreign exchange loss / (gain)	<b>(1,804)</b>	(2,385)	<b>(2,249)</b>	(1,123)
Discount on acquisition of subsidiaries	-	-	-	(744)
Gain on disposal of property, plant and equipment	-	(71)	-	(285)
PPE written off	-	-	-	1

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## EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2019

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### 19. Taxation

	Individual		Cumulative	
	Current	Preceding	Current	Preceding
	Quarter	Year	Quarter	Year
	30/6/2019	30/6/2018	30/6/2019	30/6/2018
	RM'000	RM'000	RM'000	RM'000
In respect of current period:-				
- Income tax	2,683	1,929	5,264	3,626
- Deferred tax	(247)	413	(791)	(188)
	<b>2,436</b>	<b>2,342</b>	<b>4,473</b>	<b>3,438</b>

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 30 June 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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## EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2019

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### 24. Basic Earnings per share

	Individual		Cumulative	
	Current Quarter 30/6/2019	Preceding Year Quarter 30/6/2018	Current Quarter 30/6/2019	Preceding Year Quarter 30/6/2018
Net profit attributable to equity holders of the parent (RM'000)	<b>8,899</b>	7,105	<b>16,856</b>	13,718
Weighted average number of shares ('000)	<b>247,358</b>	247,358	<b>247,358</b>	247,358
Basic earnings per share (sen)	<b>3.6</b>	2.9	<b>6.8</b>	5.6