

FORMOSA PROSONIC

FORMOSA PROSONIC INDUSTRIES BERHAD (172312-K)
 INTERIM REPORT FOR THE YEAR ENDED 31 DECEMBER 2019
 (The figures have not been audited)

CONDENSED CONSOLIDATED INCOME STATEMENTS

	Individual quarter		Cumulative quarter	
	Current year	Preceding year	Current year	Preceding year
	quarter	corresponding	to date	corresponding
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
	RM'000	RM'000	RM'000	RM'000
Revenue	175,335	148,983	766,198	560,520
Cost of sales	<u>(161,176)</u>	<u>(136,638)</u>	<u>(691,711)</u>	<u>(495,892)</u>
Gross profit	14,159	12,345	74,487	64,628
Other income	4,181	4,167	19,483	14,375
Distribution costs	<u>(3,961)</u>	<u>(3,599)</u>	<u>(16,704)</u>	<u>(15,232)</u>
Administrative expenses	<u>(2,036)</u>	<u>(2,108)</u>	<u>(11,858)</u>	<u>(11,023)</u>
Other expenses	<u>123</u>	<u>(2,612)</u>	<u>(10,617)</u>	<u>(7,604)</u>
Profit from operations	12,466	8,193	54,791	45,144
Finance costs	<u>(201)</u>	<u>(14)</u>	<u>(469)</u>	<u>(67)</u>
Profit before tax	12,265	8,179	54,322	45,077
Tax expense	<u>(3,246)</u>	<u>(1,890)</u>	<u>(12,536)</u>	<u>(8,445)</u>
Profit for the financial year	<u>9,019</u>	<u>6,289</u>	<u>41,786</u>	<u>36,632</u>
Profits attributable to:				
Owners of the parent	9,009	6,270	41,750	36,644
Non-controlling interests	<u>10</u>	<u>19</u>	<u>36</u>	<u>(12)</u>
	<u>9,019</u>	<u>6,289</u>	<u>41,786</u>	<u>36,632</u>
Earnings per share (sen)				
Basic	<u>3.6</u>	<u>2.5</u>	<u>16.9</u>	<u>14.8</u>
Diluted	<u>NA</u>	<u>NA</u>	<u>NA</u>	<u>NA</u>

(The notes set out on pages 6 to 14 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 31/12/2019 RM'000	Preceding year corresponding quarter 31/12/2018 RM'000	Current year to date 31/12/2019 RM'000	Preceding year corresponding quarter 31/12/2018 RM'000
Profit for the financial year	9,019	6,289	41,786	36,632
<u>Other comprehensive income / (loss), net of tax</u>				
Currency translation difference	(395)	269	(175)	407
Total comprehensive income	8,624	6,558	41,611	37,039
Attributable to:				
Owners of the parent	8,614	6,537	41,566	37,035
Non-controlling interests	10	21	45	4
	8,624	6,558	41,611	37,039

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31/12/2019 RM'000	As at 31/12/2018 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	88,610	111,436
Prepaid land lease payment	-	16,716
Right-of-use assets	40,927	-
	129,537	128,152
Current assets		
Inventories	47,462	47,677
Trade and other receivables	105,860	97,594
Current tax assets	737	1,485
Deferred tax assets	84	-
Short term funds	168,736	141,863
Cash, bank balances and deposits	34,960	25,967
	357,839	314,586
TOTAL ASSETS	487,376	442,738
EQUITY AND LIABILITIES		
Equity		
Share capital	124,673	124,673
Reserves	185,294	168,464
	309,967	293,137
Equity attributable to equity holders of the Company	309,967	293,137
Non-controlling interests	10,117	10,802
Total equity	320,084	303,939
Non-current liabilities		
Lease liabilities	2,752	-
Deferred tax liabilities	4,390	4,778
	7,142	4,778
Current liabilities		
Trade and other payables	151,662	132,997
Lease liabilities	2,311	-
Current tax liabilities	6,177	1,024
	160,150	134,021
Total liabilities	167,292	138,799
TOTAL EQUITY AND LIABILITIES	487,376	442,738
Net assets per share attributable to owners of the parent (RM)	1.25	1.19

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	31/12/2019 RM'000	31/12/2018 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	54,322	45,077
Adjustments for non-cash items	14,436	8,325
Operating profit before working capital changes	<u>68,758</u>	<u>53,402</u>
Net changes in working capital	<u>9,748</u>	<u>14,786</u>
Cash from operations	78,506	68,188
Other payments	(42)	(41)
Taxes paid	<u>(7,107)</u>	<u>(6,285)</u>
Net cash from operating activities	71,357	61,862
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	3,895	3,225
Purchase of property, plant and equipment	(9,964)	(20,754)
Acquisition of a subsidiaries, net of cash acquired	-	(5,749)
Proceeds from disposal of property, plant and equipment	<u>28</u>	<u>407</u>
Net cash used in investing activities	(6,041)	(22,871)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid to non-controlling interests	(730)	-
Repayment of lease liabilities	(2,792)	-
Dividend paid	<u>(24,736)</u>	<u>(19,789)</u>
Net cash used in financing activities	(28,258)	(19,789)
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>37,058</u>	<u>19,202</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		
As previously reported	<u>167,830</u>	<u>149,288</u>
Effect of exchange rate changes	<u>(1,192)</u>	<u>(660)</u>
	<u>166,638</u>	<u>148,628</u>
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	<u>203,696</u>	<u>167,830</u>

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Non-distributable			Distributable		Equity attributable to equity holders of the parent RM'000	Non-controlling interests RM'000	Total equity RM'000
	Share capital RM'000	Capital reserve RM'000	Exchange fluctuation reserve RM'000	Retained profits RM'000				
Balance as at 1 January 2019	124,673	1,259	6,397	160,808	293,137	10,802	303,939	
Total comprehensive income / (loss)	-	-	(184)	41,750	41,566	45	41,611	
Dividend in respect of financial year 2018	-	-	-	(24,736)	(24,736)	(730)	(25,466)	
Balance as at 31 December 2019	124,673	1,259	6,213	177,822	309,967	10,117	320,084	
Balance as at 1 January 2018	124,673	1,259	6,006	143,953	275,891	10,798	286,689	
Total comprehensive income / (loss)	-	-	391	36,644	37,035	4	37,039	
Dividend in respect of financial year 2017	-	-	-	(19,789)	(19,789)	-	(19,789)	
Balance as at 31 December 2018	124,673	1,259	6,397	160,808	293,137	10,802	303,939	

(The notes set out on pages 6 to 14 form an integral part of and should be read in conjunction with this interim financial report)

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

The figures have not been audited

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				
Right-of-Use asset	(a)			
Property, plant and equipment		111,436	(19,973)	91,463
Prepaid land lease payment		16,716	(16,716)	-
Right-of-Use assets		-	43,203	43,203
<hr/>				
Lease liabilities				
Lease liabilities	(b)			
Non-current liabilities		-	4,403	4,403
Current liabilities		-	2,111	2,111
Total lease liabilities		-	6,514	6,514

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

The figures have not been audited

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)	24,736	19,789

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The figures have not been audited

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 31-12-2019				
Revenue				
External	766,198	-	-	766,198
Inter-segment sales	96,677	-	(96,677)	-
Total revenue	862,875	-	(96,677)	766,198
Results				
Segment results	55,442	482	(1,133)	54,791
Finance cost	(469)	-	-	(469)
Profit before tax				54,322
Tax expense				(12,536)
Profit for the year				41,786
12-month ended 31-12-2018				
Revenue				
External	560,520	-	-	560,520
Inter-segment sales	58,328	-	(58,328)	-
Total revenue	618,848	-	(58,328)	560,520
Results				
Segment results	46,037	(820)	(73)	45,144
Finance cost	(67)	-	-	(67)
Profit before tax				45,077
Tax expense				(8,445)
Profit for the year				36,632

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 31 DECEMBER 2019

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10. Subsequent events

There were no material events subsequent to 31 December 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 December 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
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
	RM'000	RM'000	RM'000	RM'000
Sales of speakers to Wistron	46,341	-	189,221	-
Parts supply by Wistron	22,481	199	89,940	226

14. Review of performance

	Individual			Cumulative		
	Current Quarter	Preceding Year Quarter	Changes	Current Quarter	Preceding Year Quarter	Changes
	31/12/2019	31/12/2018		31/12/2019	31/12/2018	
	RM'000	RM'000	%	RM'000	RM'000	%
Revenue	175,335	148,983	17.7	766,198	560,520	36.7
Profit before tax	12,265	8,179	50.0	54,322	45,077	20.5
Profit after tax	9,019	6,289	43.4	41,786	36,632	14.1
Profit attributable to ordinary equity holders of the parent	9,009	6,270	43.7	41,750	36,644	13.9
EBITDA	15,385	10,502	46.5	66,950	53,129	26.0

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

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14. Review of performance (cont'd)

Fourth quarter ended 31 December 2019

The Group recorded higher sales of RM175.3 million, an increase of 17.7% from the previous year's corresponding quarter of RM149.0 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 RM15.4 million for the current quarter compared to RM10.5 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 31 December 2019

The Group recorded higher EBITDA of RM66.9 million for the year ended 31 December 2019 compared to RM53.1 million in the previous year's corresponding period on the back of significantly higher sales of RM766.2 million compared to RM560.5 million. Nevertheless, the Group's profitability was affected by increases in operating cost and impairment loss on trade receivables of RM2.6 million.

15. Comparison with previous quarter's results

	Current Quarter 31/12/2019 RM'000	Preceding Quarter 30/9/2019 RM'000	Changes %
Revenue	175,335	260,612	(32.7)
Profit before tax	12,265	20,710	(40.8)
Profit after tax	9,019	15,893	(43.3)
Profit attributable to ordinary equity holders of the parent	9,009	15,885	(43.3)
EBITDA	15,385	23,578	(34.7)

The Group recorded 32.7% lower sales of RM175.3 million in the current quarter compared to RM260.6 million in the immediate preceding quarter mainly due to lower sales volume on seasonal factor. As a result, the Group recorded lower EBITDA at RM15.4 million as compared to RM23.6 million.

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16. Next Year Prospects

The Board of Directors expects the Group to achieve profitable results for the financial year ending 31 December 2020 on the back of prevailing sales condition. However, the Board is cautious about the operating challenges and possible disruptions arising from the outbreak of the novel coronavirus (COVID-19), fluctuation in the USD currency against the RM and the rising 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 31/12/2019 RM'000	Preceding Year Quarter 31/12/2018 RM'000	Current Quarter 31/12/2019 RM'000	Preceding Year Quarter 31/12/2018 RM'000
Profit for the period is arrived at after charging / (crediting):				
Income from short term funds	(861)	(771)	(3,662)	(3,068)
Interest income	(73)	(66)	(233)	(157)
Interest expenses	8	7	42	41
Impairment loss on trade receivables	(970)	-	2,641	-
Lease liabilities	92	-	410	-
Depreciation and amortization	3,117	3,160	12,863	11,277
Amortisation of right-of-use assets	838	-	3,207	-
Foreign exchange loss / (gain)	(623)	(1,204)	(7,015)	(4,421)
Discount on acquisition of subsidiaries	-	-	-	(744)
Gain on disposal of property, plant and equipment	-	(36)	(28)	(322)
PPE written off	-	-	-	1

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19. Taxation

	Individual		Cumulative	
	Current	Preceding Year	Current	Preceding Year
	Quarter	Quarter	Quarter	Quarter
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
	RM'000	RM'000	RM'000	RM'000
In respect of current period:-				
- Income tax	3,291	819	12,490	8,086
- Deferred tax	(486)	384	(912)	503
In respect of prior year :-				
- Income tax	-	-	517	(831)
- Deferred tax	441	687	441	687
	<u>3,246</u>	<u>1,890</u>	<u>12,536</u>	<u>8,445</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.

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 December 2019.

22. Material litigation

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

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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 Board has declared a first interim single tier tax exempt dividend of 11.0 sen per share in respect of the financial year ended 31 December 2019 (31 December 2018: 10.0 sen per share).

The dividend will be payable on 17 April 2020 to shareholders whose names appear in the Record of Depositors of the Company at the close of business on 3 April 2020.

24. Basic Earnings per share

	Individual		Cumulative	
	Current Quarter 31/12/2019	Preceding Year Quarter 31/12/2018	Current Quarter 31/12/2019	Preceding Year Quarter 31/12/2018
Net profit attributable to equity holders of the parent (RM'000)	9,009	6,270	41,750	36,644
Weighted average number of shares ('000)	247,358	247,358	247,358	247,358
Basic earnings per share (sen)	3.6	2.5	16.9	14.8