

FORMOSA PROSONIC INDUSTRIES BERHAD (172312-K)
EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE
PERIOD ENDED 30 SEPTEMBER 2010

The figures have not been audited

1. Accounting policies

The interim financial report is unaudited and has been prepared in accordance with Financial Reporting Standard ("FRS") 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 March 2010.

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 March 2010 except for the adoption of the following new/revised FRSs, Amendments to FRSs and IC Interpretations that are effective for financial periods beginning on or after 1 July 2009 or 1 January 2010:-

FRS 7 Financial Instruments: Disclosures
FRS 8 Operating Segments
FRS 101 Presentation of Financial Statements (Revised)
FRS 123 Borrowing Costs (Revised)
FRS 132 Financial Instruments: Presentation
FRS 139 Financial Instruments: Recognition and Measurement
Amendments to FRS 2 Share-based Payment – Vesting Condition and Cancellation.
Amendment to FRS 5 Non-current Assets Held for Sale and Discontinued operations
Amendment to FRS 7 Financial Instruments: Disclosures
Amendment to FRS 8 Operating Segments
Amendment to FRS 107 Statement of Cash Flows
Amendment to FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors
Amendment to FRS 110 Events after the Reporting Period
Amendment to FRS 116 Property, Plant and Equipment
Amendment to FRS 117 Leases
Amendment to FRS 118 Revenue
Amendment to FRS 119 Employee Benefits
Amendment to FRS 123 Borrowing Costs
Amendment to FRS 127 Consolidated and Separate Financial Statements
Amendment to FRS 128 Investments in Associates
Amendment to FRS 132 Financial Instruments: Presentation
Amendment to FRS 134 Interim Financial Reporting
Amendment to FRS 136 Impairment of Assets
Amendment to FRS 138 Intangible assets
Amendment to FRS 139 Financial Instruments: Recognition and Measurement

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IC Interpretation 9 Reassessment of Embedded Derivatives
 IC Interpretation 10 Impairment and Interim Financial Reporting
 IC Interpretation 11 FRS 2, Group and Treasury Share Transactions
 IC Interpretation 14 FRS 119: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above new/revised FRSs, Amendments to FRSs and IC Interpretations does not have any significant financial impact on the Group except for the following:-

FRS 101(revised): Presentation of Financial Statements

Prior to the adoption of the revised FRS 101, the components of a set of financial statements consisted of a balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the financial statements.

Upon the adoption of the revised FRS 101, a set of financial statements shall now comprise a statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the financial statements. The statement of comprehensive income consists of profit or loss for the period and other comprehensive income. All non-owner changes in equity previously presented in the consolidated statement of changes in equity are now presented in the statement of comprehensive income as components in other comprehensive income.

Amendment to FRS 117, Leases

Prior to the adoption of the Amendment to FRS 117, leasehold land that has an indefinite economic life and with title that is not expected to pass to the lessee by the end of the lease term is classified as operating lease. Upfront payments for the rights to use the leasehold land over a predetermined period are accounted for as prepaid lease payments and amortised on a straight-line basis over the remaining period of the lease.

Upon adoption of the Amendment to FRS 117 in relation to classification of leasehold land, the Group reassessed the classification of leasehold land as a finance lease or an operating lease based on the extent of risks and rewards associated with the land. The Group has determined that all leasehold land of the Group is in substance finance leases and has reclassified its leasehold land from prepaid lease payments to property, plant and equipment.

This change in classification has no effect to the profit or loss of the current period ended 30 June 2010 or the comparative prior period. The effect of the reclassification to the comparative of the prior year's statement of financial position is as follows:

31 March 2010	<u>Consolidated Balance Sheets</u> As previously reported RM'000	Reclassi- fication RM'000	<u>Consolidated Statement of Financial Position</u> As restated RM'000
Prepaid lease payments for land	11,667	-	-
Reclassification as leasehold land		11,667	11,667

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FRS 139, Financial Instruments: Recognition and Measurement

Prior to the adoption of FRS 139, financial derivatives are recognised on their settlement dates. Outstanding derivatives at the balance sheet date were not recognised. With the adoption of FRS 139, all financial assets and financial liabilities, including derivatives, are recognised at contract dates when, and only when, the Company or any subsidiary becomes a party to the contractual provisions of the instruments.

With the adoption of FRS 139, financial assets and financial liabilities recognised and unrecognised in the prior financial year are classed into the following categories:

	Pre-FRS 139	Post-FRS 139
1	Long-term equity investments	Available-for-sale investments
2	Long-term quoted debt instruments	Held-to-maturity investments
3	Private-debt instruments	Loans and receivables
4	Current investments	Financial assets at fair value through profit or loss
5	Unrecognised derivative assets	Financial assets at fair value through profit or loss
6	Long-term borrowings and bonds	Financial liabilities at amortised cost
7	Unrecognised derivative liabilities	Financial liabilities at fair value through profit or loss

The measurement bases applied to the financial assets and financial liabilities in the prior financial year were changed to conform to the measurement standards of FRS 139 in the current quarter. At initial recognition, all financial assets and financial liabilities are measured at their fair value plus in the case of financial instruments not at fair value through profit or loss, transaction costs directly attributable to the acquisition or issuance of the instruments. Subsequent to their initial recognition, the financial assets and financial liabilities are measured as follows:

	Category	Measurement basis
1	Financial instruments at fair value through profit loss	At fair value through profit or loss
2	Held-to-maturity investments	At amortised cost effective interest method
3	Loans and receivables	At amortised cost effective interest method
4	Available-for-sale investments	At fair value through other comprehensive income, unless fair value cannot be reliably measured, in which case, they are measured at cost
5	Loans and other financial liabilities	At amortised cost effective interest method

Financial assets and financial liabilities designated as hedged items and hedging financial derivatives are accounted for using the specified hedge accounting requirements of FRS 139. All financial assets other than those classified as at fair value through profit or loss are subject to impairment test of FRS 139.

In accordance with FRS 139, the recognition, derecognition, measurement and hedge accounting requirements are applied prospectively from 1 April 2010. The effects of the remeasurement on 1 April 2010 of the financial assets and financial liabilities brought forward from the previous financial year are adjusted to the opening retained profits and other opening reserves as disclosed in the statement of changes in equity.

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FRS 7, Financial Instruments: Disclosures

FRS 7 requires comprehensive disclosure on qualitative and quantitative information about exposure to risks from financial instruments. Such disclosures will be made in the audited annual financial statements of the Group.

FRS 8, Operating Segments

Following the adoption of FRS 8, Operating Segments, effective 1 April 2010, an operating segment is a component of the Group that engages in business activities within a particular economic environment (geographical segment) from which it may earn revenues and incur expenses. The Group determines and presents operating segments based on information that is internally provided to the Chief Executive Officer, who is the Group's chief operation decision maker, to make decisions about resources to be allocated to the segment and assess its performance.

At the date of authorisation of this quarterly condensed financial report, the MASB had issued the following FRS and Interpretations but which were not yet effective (all effect for the financial periods beginning on and after 1 July 2010) and have not been adopted by the Group:

FRS 1 (Revised): First time adoption of Financial Reporting Standards
FRS 3 (Revised): Business Combination
FRS 127 (Revised): Consolidated and Separate Financial Instruments (amended)
IC Interpretation 12: Service Concession Arrangements
IC Interpretation 15: Agreements for the Construction of Real Estate
IC Interpretation 16: Hedges of Net Investments in a Foreign Operation
IC Interpretation 17: Distributions of Non-cash Assets to Owners

The amendments to the FRS:

FRS 1: Additional Exemptions for First-time Adopters
FRS 2: Share-based Payment
FRS 5: Non-current Assets Held for Sale and Discontinued Operations
FRS 138: Intangible Assets
IC Interpretation 9: Reassessment of Embedded Derivatives
IC Interpretation 4: Determining whether an Arrangement contains a Lease
IC Interpretation 18: Transfers of Assets from Customers

These new FRS and interpretations are not expected to have any significant impact on the financial statements of the Group upon their initial application.

2. Audit qualification

The audit report of the Group's preceding year 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.

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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, other than 3,211,500 ordinary shares of RM0.50 each issued under the Company's Employee Share Option Scheme.

7. Dividend paid

	Current year to-date RM'000	Preceding year corresponding quarter RM'000
Second interim dividend in respect of FY2010 – 7.0 sen per ordinary share tax exempt	17,168	-
First and final interim dividend in respect of FY2009 – 5.5 sen per ordinary share tax exempt	-	12,788
	<u>17,168</u>	<u>12,788</u>

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8. Segmental reporting

The Group's operations by geographical segments were as follows:-

	Malaysia RM'000	Asia RM'000	UK RM'000	Elimination RM'000	Total RM'000
6 months ended 30/09/10					
Revenue					
External	251,673	106,752	2,333	-	360,758
Inter-segment sales	27,417	11,478	-	(38,895)	-
Total revenue	279,090	118,230	2,333	(38,895)	360,758
Results					
Segment results	19,946	8,509	(387)	(1,275)	26,793
Finance cost	(71)	(18)	(3)	-	(92)
Share of result of associate	1,611	-	-	-	1,611
Profit before tax					28,312
Tax expense					(4,389)
Profit for the period					23,923
6 months ended 30/09/09					
Revenue					
External	201,630	52,293	3,497	-	257,420
Inter-segment sales	22,852	10,408	-	(33,260)	-
Total revenue	224,482	62,701	3,497	(33,260)	257,420
Results					
Segment results	21,779	6,826	(449)	(2,226)	25,930
Finance cost	(69)	(16)	(9)	-	(94)
Share of result of associate	1,961	-	-	-	1,961
Profit before tax					27,797
Tax expense					(4,940)
Profit for the period					22,857

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.

10. Subsequent events

There were no material events subsequent to the end of the current financial period that have not been reflected in the interim financial report.

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11. Changes in composition of the Group

There was no change in the composition of the Group for the current financial period under review.

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

For the 6-month period ended 30 September 2010, the Group's profit before tax increased marginally to RM28.3 million from the previous corresponding period of RM27.8 million mainly due to higher sales.

14. Comparison with previous quarter's results

The Group's profit before tax of RM13.5 million is lower than RM14.8 million in the immediate preceding quarter despite 12% higher sales. The drop was mainly due to rising material costs and weakening of US Dollar which resulted in loss on foreign exchange.

15. Prospects for the current financial year

The recovery of the world economy has not been even and certain. Barring unforeseen circumstances, the Directors expect satisfactory results for the current financial year.

16. Deviation from profit forecast and profit guarantee

Not applicable.

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17. Taxation

Taxation comprises: -

Period ended	Individual Quarter		Cumulative Quarter	
	30/09/2010	30/09/2009	30/09/2010	30/09/2009
	RM'000	RM'000	RM'000	RM'000
Current taxation	1,788	2,791	3,881	5,349
Deferred tax – current year (Over)/Under provision of in prior years	318	(313)	508	(409)
	-	-	-	-
	<u>2,106</u>	<u>2,478</u>	<u>4,389</u>	<u>4,940</u>

The effective tax rates of the Group for the current quarter and financial year to-date are lower than the statutory tax rate mainly due to the utilisation of reinvestment allowances and different tax rate in foreign jurisdiction.

18. Profit on disposal of properties and unquoted securities

There was no sale of unquoted investments and/or properties for the current quarter and financial year to-date.

19. Purchase or disposal of quoted securities

There was no purchase and/or disposal of quoted securities for the current quarter.

Investment comprises: -

	As at 30/09/10	As at 31/03/10
	RM'000	RM'000
At cost / carrying amount:-		
Shares quoted in Malaysia	<u>31,536</u>	<u>28,538</u>
At market value:-		
Shares quoted in Malaysia	<u>36,690</u>	<u>34,157</u>

20. Corporate proposals

There was no corporate proposal announced which remained incomplete as at the date of issue of the interim report.

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21. Group borrowings (interest bearing) and debt securities

<u>As at end of the period</u>	31/09/2010 RM'000	31/03/2010 RM'000
Repayable within twelve months:-		
Term loans – secured	29	74
Repayable after twelve months:-		
Term loans – secured	218	220
Total	<u>247</u>	<u>294</u>

Included in the above are borrowings denominated in foreign currency as follows:-

	RM'000	RM'000
GBP borrowings	247	294

22. Financial instruments

The outstanding forward currency contracts as at 30 September 2010 were as follows:-

	Currency	Notional amount RM'000	Fair value RM'000
Less than 1 year			
Sale contracts	USD	36,463	34,436

The above contracts were entered into as hedges for USD sales. There is minimal credit risk as the contracts were entered into with reputable banks.

23. Material litigation

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

24. Dividend

The Board had on 22 July 2010 paid second interim tax exempt dividends of 7.0 sen per ordinary share of RM0.50 each in respect of financial year ended 31 March 2010. (31 March 2009: tax exempt interim dividend of 5.5 sen per ordinary share of RM0.50 each).

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25. Earnings per share

(a) Basic

	Individual quarter		Cumulative quarter	
	Current year 30/09/10	Preceding year 30/09/09	Current year 30/09/10	Preceding year 30/09/09
Net profit attributable to equity holders of the parent (RM'000)	9,818	10,921	20,468	20,025
Weighted average number of shares ('000)	242,242	230,006	244,535	231,678
Basic earnings per share (sen)	4.1	4.7	8.4	8.6

(b) Diluted

	Individual quarter		Cumulative quarter	
	Current year 30/09/10	Preceding year 30/09/09	Current year 30/09/10	Preceding Year 30/09/09
Net profit attributable to equity holders of the parent (RM'000)	9,818	10,921	20,468	20,025
Weighted average number of shares ('000)	243,950	234,048	246,244	235,924
Diluted earnings per share (sen)	4.0	4.7	8.3	8.5