

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2020

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 2019.

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 2019, 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 2020:

Title	Effective Date
<i>Amendments to References to the Conceptual Framework in MFRS Standards</i>	1 January 2020
<i>Amendments to MFRS 3 Definition of a Business</i>	1 January 2020
<i>Amendments to MFRS 101 and MFRS 108 Definition of Material</i>	1 January 2020
<i>Amendments to MFRS 9, MFRS 139 and MFRS 7 Interest Rate Benchmark Reform</i>	1 January 2020

The adoption of these Standards and Amendments had no material financial impacts on the interim financial report.

2. Audit qualification

The audit report on the financial statements for the financial year ended 31 December 2019 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 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 11.0 sen per ordinary share for the financial year ended 31 December 2019 (31 December 2018 : 10.0 sen per ordinary share)	27,209	24,736

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8. Segmental reporting

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

	Malaysia	UK (Discontinued operations)	Elimination	Total
	RM'000	RM'000	RM'000	RM'000
6-month ended 30-6-2020				
Revenue				
External	232,132	-	-	232,132
Inter-segment sales	26,406	-	(26,406)	-
Total revenue	258,538	-	(26,406)	232,132
Results				
Segment results	19,136	(799)	45	18,382
Finance cost	(193)	-	-	(193)
Profit before tax				18,189
Tax expense				(4,328)
Profit for the period				13,861
6-month ended 30-6-2019				
Revenue				
External	330,251	-	-	330,251
Inter-segment sales	48,753	-	(48,753)	-
Total revenue	379,004	-	(48,753)	330,251
Results				
Segment results	21,610	25	(92)	21,543
Finance cost	(196)	-	-	(196)
Profit before tax				21,347
Tax expense				(4,473)
Profit for the period				16,874

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 30 June 2020 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 2020.

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
	30/6/2020	30/6/2019	30/6/2020	30/6/2019
	RM'000	RM'000	RM'000	RM'000
Sales of speakers to Wistron	29,609	52,402	60,319	68,021
Parts supply by Wistron	12,224	26,891	21,673	41,214

14. Review of performance

	Individual			Cumulative		
	Current Quarter	Preceding Year Quarter	Changes	Current Quarter	Preceding Year Quarter	Changes
	30/6/2020	30/6/2019		30/6/2020	30/6/2019	
	RM'000	RM'000	%	RM'000	RM'000	%
Revenue	107,618	187,366	(42.6)	232,132	330,251	(29.7)
Profit before tax	10,757	11,344	(5.2)	18,189	21,347	(14.8)
Profit after tax	8,461	8,908	(5.0)	13,861	16,874	(17.9)
Profit attributable to ordinary equity holders of the parent	8,459	8,899	(4.9)	13,855	16,856	(17.8)
EBITDA	13,944	14,548	(4.1)	24,287	27,593	(12.0)

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14. Review of performance (cont'd)

Second quarter ended 30 June 2020

The Group recorded lower sales of RM107.6 million, a drop of 42.6% from the previous year's corresponding quarter of RM187.4 million mainly due to lower sales volume as the Group shut down its operations from 18 March 2020 in compliance with the Movement Control Order ("MCO") imposed by the Government of Malaysia in an effort to contain the outbreak of COVID-19 pandemic. The Group resumed its operations at end of April 2020.

The lower sales has impacted the Group profitability which has resulted in lower earnings before interest, tax, depreciation and amortization ("EBITDA") of RM11.9 million (excluding reversal of impairment loss of RM2.0 million) for the current quarter compared to RM14.5 million in the previous year's corresponding quarter.

Financial year-to-date ended 30 June 2020

The Group recorded lower EBITDA of RM22.3 million (excluding reversal of impairment loss of RM2.0 million) for the six-month period ended 30 June 2020 compared to RM27.6 million in the previous year's corresponding period mainly due to lower sales of RM232.1 million compared to RM330.1 million, a drop of 29.7%, for the aforementioned reason. Nevertheless, the drop in profitability was cushioned by higher foreign exchange gain.

In respect of the Group financial position, it remains solid with net cash position. The Group remains vigilant on trade receivables collection which was within normal range of 60 to 90 days and inventory level which was at optimum level to support production requirement and delivery for coming months.

15. Comparison with previous quarter's results

	Current Quarter 30/6/2020 RM'000	Preceding Quarter 31/3/2020 RM'000	Changes %
Revenue	107,618	124,514	(13.6)
Profit before tax	10,757	7,432	44.7
Profit after tax	8,461	5,400	56.7
Profit attributable to ordinary equity holders of the parent	8,459	5,396	56.8
EBITDA	13,944	10,343	34.8

The Group recorded 13.6% lower sales of RM107.6 million in the current quarter compared to RM124.5 million in the immediate preceding quarter mainly due to lower sales volume resulted from the MCO. Nevertheless, the Group recorded higher EBITDA at RM13.9 million as compared to RM10.3 million mainly due to reversal of impairment loss and higher foreign exchange gain.

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16. Current Year Prospects

The Group anticipates this year will be a tough and challenging year in view of economic downturn and turmoil in the global market which have resulted in lower sales and higher operating and compliance costs, and barring unforeseen circumstances, the Group expects its performance for the financial year 2020 to be profitable.

Nonetheless, the Group is monitoring the market situation closely and will optimize its operations to adapt to the fast changing and volatile business environment.

17. Deviation from profit forecast and profit guarantee

Not applicable.

18. Notes to the statement of comprehensive income

	Individual		Cumulative	
	Current Quarter 30/6/2020 RM'000	Preceding Year Quarter 30/6/2019 RM'000	Current Quarter 30/6/2020 RM'000	Preceding Year Quarter 30/6/2019 RM'000
Profit for the period is arrived at after charging / (crediting):				
Income from short term funds	(697)	(904)	(1,775)	(1,971)
Interest income	(30)	(55)	(77)	(97)
Interest expenses	6	10	35	29
Reversal of impairment loss on trade	(2,052)	-	(2,081)	-
Lease liabilities	72	108	152	217
Depreciation and amortization	3,001	3,247	6,095	6,530
Amortisation of right-of-use assets	835	799	1,667	1,538
Foreign exchange gain	(3,745)	(1,804)	(6,975)	(2,249)
Derivatives (gain) / loss	(584)	-	140	-

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19. Taxation

	Individual		Cumulative	
	Current	Preceding	Current	Preceding
	Quarter	Year	Quarter	Year
	30/6/2020	30/6/2019	30/6/2020	30/6/2019
	RM'000	RM'000	RM'000	RM'000
In respect of current period:-				
- Income tax	2,370	2,683	4,383	5,264
- Deferred tax	(74)	(247)	(55)	(791)
	2,296	2,436	4,328	4,473

The effective tax rate of the Group for the current quarter and financial year to-date are lower than the statutory tax rate due to certain items which are not taxable.

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 2020.

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 11.0 sen per share in respect of the financial year ended 31 December 2019 (31 December 2018: 10.0 sen per share) 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.

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

24. Basic Earnings per share

	Individual		Cumulative	
	Current Quarter 30/6/2020	Preceding Year Quarter 30/6/2019	Current Quarter 30/6/2020	Preceding Year Quarter 30/6/2019
Net profit attributable to equity holders of the parent (RM'000)	8,459	8,899	13,855	16,856
Weighted average number of shares ('000)	247,358	247,358	247,358	247,358
Basic earnings per share (sen)	3.4	3.6	5.6	6.8