

# FORMOSA PROSONIC

## EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 30 SEPTEMBER 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)	<b>27,209</b>	24,736

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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>9-month ended 30-9-2020</b>				
Revenue				
External	513,180	-	-	513,180
Inter-segment sales	61,430	-	(61,430)	-
Total revenue	574,610	-	(61,430)	513,180
Results				
Segment results	52,325	(455)	4	51,874
Finance cost	(278)	-	-	(278)
Profit before tax				51,596
Tax expense				(11,901)
Profit for the period				39,695
<b>9-month ended 30-9-2019</b>				
Revenue				
External	590,863	-	-	590,863
Inter-segment sales	82,452	-	(82,452)	-
Total revenue	673,315	-	(82,452)	590,863
Results				
Segment results	42,764	(337)	(102)	42,325
Finance cost	(268)	-	-	(268)
Profit before tax				42,057
Tax expense				(9,290)
Profit for the period				32,767

### 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 September 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 September 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 30/9/2020 RM'000	Preceding Year Quarter 30/9/2019 RM'000	Current Quarter 30/9/2020 RM'000	Preceding Year Quarter 30/9/2019 RM'000
Sales of speakers to Wistron	<b>79,070</b>	74,859	<b>139,389</b>	142,880
Parts supply by Wistron	<b>35,743</b>	26,245	<b>57,416</b>	67,459

### 14. Review of performance

	Individual			Cumulative		
	Current Quarter 30/9/2020 RM'000	Preceding Year Quarter 30/9/2019 RM'000	Changes %	Current Quarter 30/9/2020 RM'000	Preceding Year Quarter 30/9/2019 RM'000	Changes %
Revenue	<b>281,048</b>	260,612	7.8	<b>513,180</b>	590,863	(13.1)
Profit before tax	<b>33,407</b>	20,710	61.3	<b>51,596</b>	42,057	22.7
Profit after tax	<b>25,834</b>	15,893	62.5	<b>39,695</b>	32,767	21.1
Profit attributable to ordinary equity holders of the parent	<b>25,839</b>	15,885	62.7	<b>39,694</b>	32,741	21.2
EBITDA	<b>36,791</b>	23,972	53.5	<b>61,078</b>	51,565	18.4

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

#### Third quarter ended 30 September 2020

The Group recorded higher sales of RM281.0 million, an increase of 7.8% from the previous year's corresponding quarter of RM260.6 million mainly due to higher sales volume. As such, this has resulted in higher earnings before interest, tax, depreciation and amortization ("EBITDA") of RM36.8 million for the current quarter compared to RM24.0 million in the previous year's corresponding quarter.

#### Financial year-to-date ended 30 September 2020

For the 9-month period ended 30 September 2020, the Group recorded 13.1% lower sales at RM513.2 million compared to RM590.9 million in the previous year's corresponding period 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. Nevertheless, the Group recorded higher EBITDA of RM60.0 million for the 9-month period ended 30 September 2020 compared to RM51.6 million in the previous year's corresponding period mainly due to change in sales mix.

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 30/9/2020 RM'000	Preceding Quarter 30/6/2020 RM'000	Changes %
Revenue	<b>281,048</b>	107,618	161.2
Profit before tax	<b>33,407</b>	10,757	210.6
Profit after tax	<b>25,834</b>	8,461	205.3
Profit attributable to ordinary equity holders of the parent	<b>25,839</b>	8,459	205.5
EBITDA	<b>36,791</b>	13,944	163.8

The Group recorded significantly higher sales of RM281.0 million or an increase of 161.2% in the current quarter compared to RM107.6 million in the immediate preceding quarter mainly due to higher sales volume. As such, coupled with better economies of scale, this has resulted in higher EBITDA of RM36.8 million as compared RM13.9 million in the immediate preceding quarter.

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### 16. Current Year Prospects

Despite the challenging environment, the Board of Directors expects the Group to achieve profitable results for the financial year ending 31 December 2020 on the back of healthy sales orders.

Nonetheless, in view of the existing threat of Covid-19 outbreak still remains, the Group will continue to monitor the market situation closely and take necessary steps to minimize any adverse impact to operations and will optimize its operations to adapt to 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 30/9/2020 RM'000	Preceding Year Quarter 30/9/2019 RM'000	Current Quarter 30/9/2020 RM'000	Preceding Year Quarter 30/9/2019 RM'000
Profit for the period is arrived at after charging / (crediting):				
Income from short term funds	<b>(499)</b>	(830)	<b>(2,274)</b>	(2,801)
Interest income	<b>(14)</b>	(63)	<b>(91)</b>	(160)
Interest expenses	<b>3</b>	5	<b>38</b>	34
Addition to / (Reversal of) impairment loss on trade receivables	<b>576</b>	3,286	<b>(1,505)</b>	3,611
Lease liabilities	<b>66</b>	102	<b>219</b>	319
Depreciation and amortization	<b>2,987</b>	3,216	<b>9,082</b>	9,747
Amortisation of right-of-use assets	<b>840</b>	831	<b>2,507</b>	2,369
Foreign exchange loss / (gain)	<b>970</b>	(4,143)	<b>(6,005)</b>	(6,392)
Derivatives (gain) / loss	<b>(140)</b>	-	-	-
Gain on disposal of property, plant and equipment	-	(28)	-	(28)

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### 19. Taxation

	Individual		Cumulative	
	Current	Preceding Year	Current	Preceding Year
	Quarter 30/9/2020	Quarter 30/9/2019	Quarter 30/9/2020	Quarter 30/9/2019
	RM'000	RM'000	RM'000	RM'000
In respect of current period:-				
- Income tax	8,320	3,935	12,703	9,199
- Deferred tax	(749)	365	(804)	(426)
In respect of prior year :-				
- Income tax	2	517	2	517
- Deferred tax	-	-	-	-
	<u>7,573</u>	<u>4,817</u>	<u>11,901</u>	<u>9,290</u>

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 September 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 30/9/2020	Preceding Year Quarter 30/9/2019	Current Quarter 30/9/2020	Preceding Year Quarter 30/9/2019
Net profit attributable to equity holders of the parent (RM'000)	<b>25,839</b>	15,885	<b>39,694</b>	32,741
Weighted average number of shares ('000)	<b>247,358</b>	247,358	<b>247,358</b>	247,358
Basic earnings per share (sen)	<b>10.4</b>	6.4	<b>16.0</b>	13.2