

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 MARCH 2021

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 2020.

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 2020, except for the adoption of the following new MFRSs and Amendments to MFRSs that are effective for the financial statements effective from 1 January 2021, as disclosed below:

Title	Effective Date
<i>Interest Rate Benchmark Reform - Phase 2</i> (Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16)	1 January 2021
<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i> (Amendment to MFRS 16 <i>Leases</i>)	1 April 2021

2. Audit qualification

The audit report on the financial statements for the financial year ended 31 December 2020 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
There were no dividends paid	-	-

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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
3-month ended 31-3-2021				
Revenue				
External	208,238	-	-	208,238
Inter-segment sales	32,575	-	(32,575)	-
Total revenue	240,813	-	(32,575)	208,238
Results				
Segment results	26,506	309	(135)	26,680
Finance cost	(88)	-	-	(88)
Profit before tax				26,592
Tax expense				(6,085)
Profit for the period				20,507
3-month ended 31-3-2020				
Revenue				
External	124,514	-	-	124,514
Inter-segment sales	14,435	-	(14,435)	-
Total revenue	138,949	-	(14,435)	124,514
Results				
Segment results	8,833	(1,326)	36	7,543
Finance cost	(111)	-	-	(111)
Profit before tax				7,432
Tax expense				(2,032)
Profit for the period				5,400

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 31 March 2021 that have not been reflected in the interim report except for as disclosed below:

(a) Proposed ESOS

On 5 May 2021, the Company announced a proposal to establish an Employees' Share Option Scheme ("Proposed ESOS") of up to 10% of the total number of issued shares of the Company (excluding treasury shares, if any) at any point in time to the eligible Directors and employees of the Company and its subsidiary companies. Only eligible persons of the Group who meet the criteria as set out in the By-Laws are eligible to participate in the Proposed ESOS. The Proposed ESOS, when implemented, shall be in force for a period of 5 years and can be extended for a further period of up to 5 years. The Proposed ESOS is subject to approvals being obtained from Bursa Malaysia Securities Berhad and the shareholders of the Company, at an extraordinary general meeting of the Company.

(b) Proposed Disposal

Acoustic Energy Limited ("AE"), a wholly owned foreign subsidiary of the Company, had on 7 May 2021 entered into a contract for the sale of freehold Property with vacant possession ("SPA") with Scott Group Holdings Limited, a non-related third party, for the disposal of a parcel of property at 16 Bridge Road Cirencester GL7 1NJ, United Kingdom and registered at the HM Property Registry with title absolute under title number GR138064 for a cash consideration of Pounds One Million Four Hundred and Twenty Thousand (£1,420,000.00) only ("Proposed Disposal"). The Proposed Disposal is expected to be completed in third quarter of 2021.

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 March 2021.

12. Contingent liabilities or contingent assets

There were no changes in contingent liabilities or contingent assets since the last annual balance sheet date.

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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
	31/3/2021	31/3/2020	31/3/2021	31/3/2020
	RM'000	RM'000	RM'000	RM'000
Sales of speakers to Wistron	52,298	30,710	52,298	30,710
Parts supply by Wistron	28,756	9,449	28,756	9,449

14. Review of performance

	Individual			Cumulative		
	Current Quarter	Preceding Year Quarter	Changes	Current Quarter	Preceding Year Quarter	Changes
	31/3/2021	31/3/2020		31/3/2021	31/3/2020	
	RM'000	RM'000	%	RM'000	RM'000	%
Revenue	208,238	124,514	67.2	208,238	124,514	67.2
Profit before tax	26,592	7,432	257.8	26,592	7,432	257.8
Profit after tax	20,507	5,400	279.8	20,507	5,400	279.8
Profit attributable to ordinary equity holders of the parent	20,517	5,396	280.2	20,517	5,396	280.2
EBITDA	29,588	10,343	186.1	29,588	10,343	186.1

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14. Review of performance (cont'd)

First quarter ended 31 March 2021

The Group recorded higher sales of RM208.2 million, an increase of 67.2% from the previous year's corresponding quarter of RM124.5 million mainly due to higher sales volume. As such, this has resulted in higher earnings before interest, tax, depreciation and amortization ("EBITDA") of RM29.6 million for the current quarter compared to RM10.3 million in the previous year's corresponding quarter.

In respect of the Group financial position, it remains solid with net cash position. The Group remains mindful 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 and delivery requirement.

15. Comparison with previous quarter's results

	Current Quarter 31/3/2021 RM'000	Preceding Quarter 31/12/2020 RM'000	Changes %
Revenue	208,238	252,808	(17.6)
Profit before tax	26,592	17,735	49.9
Profit after tax	20,507	12,817	60.0
Profit attributable to ordinary equity holders of the parent	20,517	12,826	60.0
EBITDA	29,588	20,940	41.3

The Group recorded lower sales of RM208.2 million or a decrease of 17.6% in the current quarter compared to RM252.8 million in the immediate preceding quarter mainly due to lower sales volume on seasonal factor. Notwithstanding lower sales, the Group recorded higher EBITDA of RM29.6 million as compared RM20.9 million in the immediate preceding quarter mainly due to change in sales mix and gain on foreign exchange.

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16. Current Year Prospects

To curb the infection of Covid-19, the Government of Malaysia has imposed a nationwide lock down (MCO 3.0) from 12 May 2021 to 7 June 2021. On 22 June 2021, the Government again imposed tighter MCO 3.0 standard operating procedures by restricting economic activity capacity. In addition, there are challenges in the supply chain particularly on shortages of material and rising commodity prices which have been gaining traction and these, potentially would impact our operations. The Group is aware of these circumstances, will monitor the market situation closely and take necessary steps to minimize any adverse impact and to optimize its operations to adapt to volatile business environment.

Notwithstanding the above and barring unforeseen circumstances, the Board of Directors expects the Group to achieve profitable results for the financial year ending 31 December 2021 on the back of prevailing sales orders.

17. Deviation from profit forecast and profit guarantee

Not applicable.

18. Notes to the statement of comprehensive income

	Individual		Cumulative	
	Current Quarter 31/3/2021 RM'000	Preceding Year Quarter 31/3/2020 RM'000	Current Quarter 31/3/2021 RM'000	Preceding Year Quarter 31/3/2020 RM'000
Profit for the period is arrived at after charging / (crediting):				
Income from short term funds	(777)	(1,078)	(777)	(1,078)
Interest income	(19)	(47)	(19)	(47)
Interest expenses	36	29	36	29
Addition to / (Reversal of) impairment loss on trade receivables	518	(29)	518	(29)
Interest - Lease liabilities	51	80	51	80
Depreciation and amortization	2,864	3,094	2,864	3,094
Amortisation of right-of-use assets	841	832	841	832
Foreign exchange loss / (gain)	(4,830)	(3,229)	(4,830)	(3,229)
Derivatives loss	-	724	-	724
Gain on disposal of property, plant and equipment	(59)	-	(59)	-

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19. Taxation

	Individual		Cumulative	
	Current	Preceding Year	Current	Preceding Year
	Quarter	Quarter	Quarter	Quarter
	31/3/2021	31/3/2020	31/3/2021	31/3/2020
	RM'000	RM'000	RM'000	RM'000
In respect of current period:				
- Income tax	4,624	2,013	4,624	2,013
- Deferred tax	1,461	19	1,461	19
	6,085	2,032	6,085	2,032

The effective tax rate of the Group for the current quarter is lower than the statutory tax rate mainly due to certain not taxable items.

20. Corporate proposals

There is no outstanding corporate proposal as at the date of this report other than those as disclosed in Note 10.

21. Group borrowings (interest bearing) and debt securities

The Group does not have any borrowings and debt securities as at 31 March 2021.

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 14.0 sen per share in respect of the financial year ended 31 December 2020 (31 December 2019: 11.0 sen per share) on 19 April 2021 to shareholders whose names appear in the Record of Depositors of the Company at the close of business on 5 April 2021.

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

24. Basic Earnings per share

	Individual		Cumulative	
	Current Quarter 31/3/2021	Preceding Year Quarter 31/3/2020	Current Quarter 31/3/2021	Preceding Year Quarter 31/3/2020
Net profit attributable to equity holders of the parent (RM'000)	20,517	5,396	20,517	5,396
Weighted average number of shares ('000)	247,358	247,358	247,358	247,358
Basic earnings per share (sen)	8.3	2.2	8.3	2.2