

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 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 Leases)	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
First interim single tier of 14.0 sen per ordinary share for the financial year ended 31 December 2020 (31 December 2019 : 11.0 sen per ordinary share)	34,630	27,209

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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
6-month ended 30-6-2021				
Revenue				
External	441,420	-	-	441,420
Inter-segment sales	65,551	-	(65,551)	-
Total revenue	<u>506,971</u>	-	<u>(65,551)</u>	<u>441,420</u>
Results				
Segment results	56,026	409	(292)	56,143
Finance cost	(131)	-	-	(131)
Profit before tax				<u>56,012</u>
Tax expense				<u>(12,320)</u>
Profit for the period				<u>43,692</u>
6-month ended 30-6-2020				
Revenue				
External	232,132	-	-	232,132
Inter-segment sales	26,406	-	(26,406)	-
Total revenue	<u>258,538</u>	-	<u>(26,406)</u>	<u>232,132</u>
Results				
Segment results	19,136	(799)	45	18,382
Finance cost	(193)	-	-	(193)
Profit before tax				<u>18,189</u>
Tax expense				<u>(4,328)</u>
Profit for the period				<u>13,861</u>

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 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 has obtained the relevant approvals including shareholders' approval from extraordinary general meeting of the Company held on 29 June 2021.

(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 was completed on 1 July 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 30 June 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
	30/6/2021	30/6/2020	30/6/2021	30/6/2020
	RM'000	RM'000	RM'000	RM'000
Sales of speakers to Wistron	53,948	29,609	106,246	60,319
Parts supply by Wistron	19,549	12,224	48,305	21,673

14. Review of performance

	Individual			Cumulative		
	Current Quarter	Preceding Year Quarter	Changes	Current Quarter	Preceding Year Quarter	Changes
	30/6/2021	30/6/2020		30/6/2021	30/6/2020	
	RM'000	RM'000	%	RM'000	RM'000	%
Revenue	233,182	107,618	116.7	441,420	232,132	90.2
Profit before tax	29,420	10,757	173.5	56,012	18,189	207.9
Profit after tax	23,185	8,461	174.0	43,692	13,861	215.2
Profit attributable to ordinary equity holders of the parent	23,193	8,459	174.2	43,710	13,855	215.5
EBITDA	32,503	13,944	133.1	62,091	24,287	155.7

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14. Review of performance (cont'd)

Second quarter ended 30 June 2021

The Group recorded higher sales of RM233.2 million, a substantial increase of 116.7% from the previous year's corresponding quarter of RM107.6 million mainly attributable to higher sales volume.

The higher sales have contributed higher profitability which has resulted in higher earnings before interest, tax, depreciation and amortization ("EBITDA") of RM32.5 million for the current quarter compared to RM13.9 million in the previous year's corresponding quarter.

Financial year-to-date ended 30 June 2021

The Group recorded higher sales of RM441.4 million, an increase of 90.2% from the previous year's corresponding quarter of RM232.1 million mainly due to higher sales volume. As such, this has resulted in higher EBITDA of RM62.1 million for the current quarter compared to RM24.3 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 the higher inventory level which is required to support production and delivery requirement.

15. Comparison with previous quarter's results

	Current Quarter 30/6/2021 RM'000	Preceding Quarter 31/3/2021 RM'000	Changes %
Revenue	233,182	208,238	12.0
Profit before tax	29,420	26,592	10.6
Profit after tax	23,185	20,507	13.1
Profit attributable to ordinary equity holders of the parent	23,193	20,517	13.0
EBITDA	32,503	29,588	9.9

The Group recorded higher sales of RM233.2 million or an increase of 12.0% in the current quarter compared to RM208.2 million in the immediate preceding quarter mainly due to higher sales volume. This in turn has resulted in the Group to record higher EBITDA of RM32.5 million as compared RM29.6 million in the immediate preceding quarter.

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16. Current Year Prospects

In compliance with the National Recovery Plan (Phase 1) (previously referred to as the Movement Control Order 3.0) imposed by the Government of Malaysia, the Group's operations were carried on with restricted capacity since 25 May 2021. The Company has further shut down its operations in Port Klang from 3 July 2021 to 9 July 2021 to comply with imposition of Enhanced MCO in most parts of the Selangor State. In addition, there are challenges in the supply chain particularly on shortages of material and rising material cost which 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 30/6/2021 RM'000	Preceding Year Quarter 30/6/2020 RM'000	Current Quarter 30/6/2021 RM'000	Preceding Year Quarter 30/6/2020 RM'000
Profit for the period is arrived at after charging / (crediting):				
Income from short term funds	(591)	(697)	(1,368)	(1,775)
Interest income	(11)	(30)	(29)	(77)
Interest expenses	(2)	6	33	35
Addition to / (Reversal of) impairment				
loss on trade receivables	83	(2,052)	601	(2,081)
Interest - Lease liabilities	43	72	94	152
Depreciation and amortization	2,821	3,001	5,685	6,095
Amortisation of right-of-use assets	823	835	1,664	1,667
Foreign exchange loss / (gain)	(4,325)	(3,745)	(9,155)	(6,975)
Derivatives loss / (gain)	-	(584)	-	140
Gain on disposal of property, plant and equipment	(5)	-	(64)	-

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19. Taxation

	Individual		Cumulative	
	Current Quarter 30/6/2021 RM'000	Preceding Year Quarter 30/6/2020 RM'000	Current Quarter 30/6/2021 RM'000	Preceding Year Quarter 30/6/2020 RM'000
In respect of current period:				
- Income tax	6,890	2,370	11,514	4,383
- Deferred tax	(655)	(74)	806	(55)
	6,235	2,296	12,320	4,328

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

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 30 June 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 30/6/2021	Preceding Year Quarter 30/6/2020	Current Quarter 30/6/2021	Preceding Year Quarter 30/6/2020
Net profit attributable to equity holders of the parent (RM'000)	23,193	8,459	43,710	13,855
Weighted average number of shares ('000)	247,358	247,358	247,358	247,358
Basic earnings per share (sen)	9.4	3.4	17.7	5.6