

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 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:

- Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16 'Interest Rate Benchmark Reform - Phase 2' (effective date 1 January 2021)
- Amendment to MFRS 16 *Leases* 'Covid-19-Related Rent Concessions beyond 30 June 2021' (effective date 1 April 2021)

The adoption of the amendment did not have any impact on the Group.

Amendments to MFRS that are applicable to the Group but not yet effective

The Malaysian Accounting Standards Board had issued the following amendments to MFRS of which are effective for the financial period beginning on or after 1 January 2022.

- Amendments to MFRS 3 'Reference to Conceptual Framework' (effective 1 January 2022)
- Annual Improvements to MFRS 9 'Fees in the 10% test for derecognition of financial liabilities' (effective 1 January 2022)
- Amendments to MFRS 116 'Proceeds before Intended Use' (effective 1 January 2022)
- Amendments to MFRS 137 'Onerous contracts – cost of fulfilling a contract' (effective 1 January 2022)
- MFRS 17 Insurance Contracts and Amendments to MFRS 17 (effective 1 January 2023)
- Amendments to MFRS 101 'Classification of liabilities as current or non-current (effective 1 January 2023)
- Amendments to MFRS 101 – 'Disclosure of accounting policies' (effective 1 January 2023)
- Amendments to MFRS 108 – 'Definition of accounting estimates' (effective 1 January 2023)
- Amendments to MFRS 112 – 'Deferred tax related to assets and liabilities arising from a single transaction'

The Group did not early adopt these amendments to MFRS and they are not expected to have a material impact to the Group.

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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.

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)	<u>34,630</u>	<u>27,209</u>

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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
12-month ended 31-12-2021				
Revenue				
External	938,875	-	-	938,875
Inter-segment sales	133,527	-	(133,527)	-
Total revenue	1,072,402	-	(133,527)	938,875
Results				
Segment results	114,362	10,944	(364)	124,942
Finance cost	(205)	(3)	-	(208)
Profit before tax				124,734
Tax expense				(27,888)
Profit for the year				96,846
12-month ended 31-12-2020				
Revenue				
External	765,988	-	-	765,988
Inter-segment sales	91,765	-	(91,765)	-
Total revenue	857,753	-	(91,765)	765,988
Results				
Segment results	69,654	171	(147)	69,678
Finance cost	(347)	-	-	(347)
Profit before tax				69,331
Tax expense				(16,819)
Profit for the year				52,512

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 December 2021 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 31 December 2021.

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 31/12/2021 RM'000	Preceding Year Quarter 31/12/2020 RM'000	Current Quarter 31/12/2021 RM'000	Preceding Year Quarter 31/12/2020 RM'000
Sales of speakers to Wistron	44,907	71,141	198,267	210,530
Parts supply by Wistron	12,458	29,384	81,934	86,800

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14. Review of performance

	Individual			Cumulative		
	Current	Preceding	Changes	Current	Preceding	Changes
	Quarter	Year		Quarter	Year	
	31/12/2021	31/12/2020	%	31/12/2021	31/12/2020	%
	RM'000	RM'000		RM'000	RM'000	
Revenue	260,534	252,808	3.1	938,875	765,988	22.6
Profit before tax	36,260	17,735	104.5	124,734	69,331	79.9
Profit after tax	28,205	12,817	120.1	96,846	52,512	84.4
Profit attributable						
to ordinary equity						
holders of the parent	28,219	12,826	120.0	96,898	52,520	84.5
EBITDA	39,072	20,940	86.6	136,894	82,018	66.9

Fourth quarter ended 31 December 2021

The Group recorded higher sales of RM260.5 million, an increase of 3.1% from the previous year's corresponding quarter of RM252.8 million mainly attributable to higher sales volume and change in sales mix. As such, these have resulted in higher earnings before interest, tax, depreciation and amortization ("EBITDA") of RM39.1 million for the current quarter compared to RM20.9 million in the previous year's corresponding quarter.

Financial year-to-date ended 31 December 2021

The Group recorded higher sales of RM938.9 million, an increase of 22.6% from the previous year's corresponding quarter of RM766.0 million mainly due to higher sales volume. As such, this has resulted in higher EBITDA of RM136.9 million for the current quarter compared to RM82.0 million in the previous year's corresponding quarter.

During the financial year, the Group has accounted for gain on disposal of property of RM5.6 million as well as stock option expenses of RM6.3 million.

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 subsequent production and delivery requirement.

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15. Comparison with previous quarter's results

	Current Quarter 31/12/2021 RM'000	Preceding Quarter 30/9/2021 RM'000	Changes %
Revenue	260,534	236,921	10.0
Profit before tax	36,260	32,462	11.7
Profit after tax	28,205	24,949	13.1
Profit attributable to ordinary equity holders of the parent	28,219	24,969	13.0
EBITDA	39,072	35,731	9.4

The Group recorded higher sales of RM260.5 million or an increase of 10.0% in the current quarter compared to RM236.9 million in the immediate preceding quarter mainly due to higher sales volume. As such, this has resulted in the Group to record higher EBITDA of RM39.1 million as compared RM35.7 million in the immediate preceding quarter.

16. Next Year Prospects

The Group has since September 2021 been allowed to operate with full workers' attendance after more than 99% of its employees had their 2 doses vaccination jabs and more recently had their 3rd booster vaccination jabs. Nevertheless, the Group faces challenges especially with workers. Shortage of workers has begun since lockdown and it has been persistent for almost two years. The Group has raised up salary and incentive to attract labour and to retain them to stay with the Group. The shortage of labour and high turnover rate has increased higher operating cost and affected production efficiency. Other challenges include shortage of materials, port delays and rising commodity and energy prices which have gained traction and impacted our operations.

The Group is aware of these circumstances in particular the unstable labour market and uncertain global economy, will monitor the situation closely and will 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 will achieve profitable results for the financial year ending 31 December 2022.

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17. Deviation from profit forecast and profit guarantee

Not applicable.

18. Notes to the statement of comprehensive income

	Individual		Cumulative	
	Current Quarter 31/12/2021 RM'000	Preceding Year Quarter 31/12/2020 RM'000	Current Quarter 31/12/2021 RM'000	Preceding Year Quarter 31/12/2020 RM'000
Profit for the period is arrived at after charging / (crediting):				
Income from short term funds	(354)	(661)	(2,080)	(2,934)
Interest income	(30)	(27)	(75)	(118)
Interest expenses	6	7	42	46
Reversal of impairment loss on trade receivables	(2,324)	(238)	(871)	(1,743)
Interest - Lease liabilities	9	59	142	278
Depreciation and amortization	2,796	2,987	11,258	12,069
Amortisation of right-of-use assets	385	839	2,873	3,346
Foreign exchange loss / (gain)	(1,027)	3,230	(12,965)	(2,774)
Gain on disposal of property, plant and equipment	16	-	(5,636)	-
Share option expenses	-	-	6,263	-

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19. Taxation

	Individual		Cumulative	
	Current	Preceding Year	Current	Preceding Year
	Quarter	Quarter	Quarter	Quarter
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
	RM'000	RM'000	RM'000	RM'000
In respect of current period:				
- Income tax	8,340	3,145	26,999	15,848
- Deferred tax	(304)	632	293	(172)
In respect of prior year :-				
- Income tax	(415)	774	(415)	776
- Deferred tax	436	367	436	367
Real property gains tax (United Kingdom)				
- Income tax	(2)	-	703	-
- Deferred tax	-	-	(128)	-
	8,055	4,918	27,888	16,819

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 corporate proposal announced but not completed 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 31 December 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 Board has declared a first interim single tier tax exempt dividend of 20 sen per share in respect of the financial year ended 31 December 2021 (31 December 2020: 14.0 sen per share).

The dividend will be payable on 28 April 2022 to shareholders whose names appear in the Record of Depositors of the Company at the close of business on 8 April 2022.

24. Earnings per share

(a) Basic

	Individual		Cumulative	
	Current	Preceding Year	Current	Preceding Year
	Quarter 31/12/2021	Quarter 31/12/2020	Quarter 31/12/2021	Quarter 31/12/2020
Net profit attributable to equity holders of the parent (RM'000)	28,219	12,826	96,898	52,520
Weighted average number of shares ('000)	250,985	247,358	248,272	247,358
Basic earnings per share (sen)	11.2	5.2	39.0	21.2

(a) Diluted

	Individual		Cumulative	
	Current	Preceding Year	Current	Preceding Year
	Quarter 31/12/2021	Quarter 31/12/2020	Quarter 31/12/2021	Quarter 31/12/2020
Net profit attributable to equity holders of the parent (RM'000)	28,219	NA	96,898	NA
Weighted average number of shares ('000)	253,651	NA	250,949	NA
Diluted earnings per share (sen)	11.1	NA	38.6	NA