

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2022

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 2021.

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 2021, except for the adoption of the following new MFRSs and Amendments to MFRSs that are effective for the financial statements effective from 1 January 2022, as disclosed below:

Title	Effective Date
Annual Improvements to MFRS Standards 2018 - 2020	1 January 2022
Amendments to MFRS 3 <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to MFRS 116 <i>Property, Plant and Equipment - Proceeds before Intended Use</i>	1 January 2022
Amendments to MFRS 137 <i>Onerous Contracts - Cost of Fulfilling a Contract</i>	1 January 2022

The adoption of the above Amendments 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 standard and amendments to MFRS of which are effective for the financial period beginning on or after 1 January 2023.

Title	Effective Date
Amendments to MFRS 101 <i>Classification of Liabilities as Current or Non-current</i>	1 January 2023
MFRS 17 <i>Insurance Contracts</i>	1 January 2023
Amendments to MFRS 17 <i>Insurance Contracts</i>	1 January 2023
<i>Disclosure of Accounting Policies</i> (Amendments to MFRS 101 <i>Presentation of Financial Statements</i>)	1 January 2023
<i>Definition of Accounting Estimates</i> (Amendments to MFRS 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>)	1 January 2023
Amendments to MFRS 112 <i>Deferred tax related to Assets and Liabilities arising from a Single Transaction</i>	1 January 2023
Amendments to MFRS 10 and MFRS 128 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Deferred

The Group and the Company are in the process of assessing the impact of implementing these Standard and Amendments, since the effects would only be observable for future financial years.

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2022

The figures have not been audited

2. Audit qualification

The audit report on the financial statements for the financial year ended 31 December 2021 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 except for a total of 2,393,200 new ordinary shares were issued pursuant to the exercise of the ESOS for a total cash consideration of RM6,102,660.00 or at an exercise price of RM2.55 a share.

7. Dividend paid

	Current year to date RM'000	Preceding year to date RM'000
There were no dividends paid	-	-

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2022

The figures have not been audited

8. Segmental reporting

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

	Malaysia	UK (Discontinued operations) ¹	Elimination	Total
	RM'000	RM'000	RM'000	RM'000
3-month ended 31-3-2022				
Revenue				
External	252,061	-	-	252,061
Inter-segment sales	23,713	-	(23,713)	-
Total revenue	275,774	-	(23,713)	252,061
Results				
Segment results	27,103	-	309	27,412
Finance cost	(41)	-	-	(41)
Profit before tax				27,371
Tax expense				(6,328)
Profit for the period				21,043
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

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.

¹ This UK company has been struck off and dissolved on 22 February 2022.

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2022

The figures have not been audited

10. Subsequent events

There were no material events subsequent to 31 March 2022 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 March 2022 except for, that a wholly owned subsidiary of the Company, Acoustic Energy Limited was struck off and dissolved on 22 February 2022.

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 31/3/2022 RM'000	Preceding Year Quarter 31/3/2021 RM'000	Current Quarter 31/3/2022 RM'000	Preceding Year Quarter 31/3/2021 RM'000
Sales of speakers to Wistron	32,009	52,298	32,009	52,298
Parts supply by Wistron	11,851	28,756	11,851	28,756

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2022

The figures have not been audited

14. Review of performance

	Individual			Cumulative		
	Current	Preceding	Changes	Current	Preceding	Changes
	Quarter	Year		Quarter	Year	
	31/3/2022	31/3/2021	%	31/3/2022	31/3/2021	%
	RM'000	RM'000		RM'000	RM'000	
Revenue	252,061	208,238	21.0	252,061	208,238	21.0
Profit before tax	27,371	26,592	2.9	27,371	26,592	2.9
Profit after tax	21,043	20,507	2.6	21,043	20,507	2.6
Profit attributable						
to ordinary equity						
holders of the parent	21,056	20,517	2.6	21,056	20,517	2.6
EBITDA	30,137	29,588	1.9	30,137	29,588	1.9

First quarter ended 31 March 2022

The Group recorded higher sales of RM252.1 million, an increase of 21.0% from the previous year's corresponding quarter of RM208.2 million mainly attributable to higher sales volume and change in sales mix. However, earnings before interest, tax, depreciation and amortization ("EBITDA") only increased marginally to RM30.1 million for the current quarter compared to RM29.6 million in the previous year's corresponding quarter as the performance was partly offset by higher raw material and operating costs.

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.

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2022

The figures have not been audited

15. Comparison with previous quarter's results

	Current Quarter 31/3/2022 RM'000	Preceding Quarter 31/12/2021 RM'000	Changes %
Revenue	252,061	260,534	(3.3)
Profit before tax	27,371	36,260	(24.5)
Profit after tax	21,043	28,205	(25.4)
Profit attributable to ordinary equity holders of the parent	21,056	28,219	(25.4)
EBITDA	30,137	39,072	(22.9)

The Group recorded lower sales of RM252.1 million or a decrease of 3.3% in the current quarter compared to RM260.5 million in the immediate preceding quarter mainly due to lower sales volume. As such, coupled with higher raw material and operating costs, these have resulted in the Group to record lower EBITDA of RM30.1 million as compared RM39.1 million in the immediate preceding quarter.

16. Current Year Prospects

The Group still faces challenges from labour shortage which has been persistent for some times now although the recent opening of borders is expected to relieve the situation. The recent implementation of the new minimum wage standard in Malaysia will result in higher operating costs for the manufacturing sector. On the external front, the ongoing Russia-Ukraine conflict and the lockdown in China's major cities as a result of the new wave of infections, would have consequences for the already strained global supply chain. This has led to the rising global commodity, energy and raw material prices as well as global logistic disruptions and soaring shipping costs.

The Group is aware of these circumstances and will monitor the situation closely and take necessary steps to mitigate 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 2022.

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2022

The figures have not been audited

17. Deviation from profit forecast and profit guarantee

Not applicable.

18. Notes to the statement of comprehensive income

	Individual		Cumulative	
	Current Quarter 31/3/2022 RM'000	Preceding Year Quarter 31/3/2021 RM'000	Current Quarter 31/3/2022 RM'000	Preceding Year Quarter 31/3/2021 RM'000
Profit for the period is arrived at after charging / (crediting):				
Income from short term funds	(532)	(777)	(532)	(777)
Interest income	(27)	(19)	(27)	(19)
Interest expenses	32	36	32	36
Impairment loss on trade receivables	557	518	557	518
Interest - Lease liabilities	8	51	8	51
Depreciation and amortization	2,747	2,864	2,747	2,864
Amortisation of right-of-use assets	538	841	538	841
Foreign exchange loss / (gain)	(3,959)	(4,830)	(3,959)	(4,830)
Gain on disposal of property, plant and equipment	(3)	(59)	(3)	(59)

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2022

The figures have not been audited

19. Taxation

	Individual		Cumulative	
	Current	Preceding Year	Current	Preceding Year
	Quarter 31/3/2022	Quarter 31/3/2021	Quarter 31/3/2022	Quarter 31/3/2021
	RM'000	RM'000	RM'000	RM'000
In respect of current period:				
- Income tax	6,178	4,624	6,178	4,624
- Deferred tax	150	1,461	150	1,461
	6,328	6,085	6,328	6,085

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 March 2022.

22. Material litigation

There was no pending material litigation since the last annual balance sheet date.

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2022

The figures have not been audited

23. Dividend

The Group paid a first interim single tier tax exempt dividend of 20.0 sen per share in respect of the financial year ended 31 December 2021 (31 December 2020: 14.0 sen per share) 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.

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

24. Earnings per share

(a) Basic

	Individual		Cumulative	
	Current Quarter 31/3/2022	Preceding Year Quarter 31/3/2021	Current Quarter 31/3/2022	Preceding Year Quarter 31/3/2021
Net profit attributable to equity holders of the parent (RM'000)	21,056	20,517	21,056	20,517
Weighted average number of shares ('000)	253,436	247,358	253,436	247,358
Basic earnings per share (sen)	8.31	8.29	8.31	8.29

(a) Diluted

	Individual		Cumulative	
	Current Quarter 31/3/2022	Preceding Year Quarter 31/3/2021	Current Quarter 31/3/2022	Preceding Year Quarter 31/3/2021
Net profit attributable to equity holders of the parent (RM'000)	21,056	NA	21,056	NA
Weighted average number of shares ('000)	254,994	NA	254,994	NA
Diluted earnings per share (sen)	8.26	NA	8.26	NA