

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 JUNE 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.

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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 2,542,200 new ordinary shares were issued pursuant to the exercise of the ESOS for a total cash consideration of RM6,482,610.00 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
First interim single tier of 20.0 sen per ordinary share for the financial year ended 31 December 2021 (31 December 2020 : 14.0 sen per ordinary share)	<u>51,055</u>	<u>34,630</u>

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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
6-month ended 30-6-2022				
Revenue				
External	503,192	-	-	503,192
Inter-segment sales	45,713	-	(45,713)	-
Total revenue	548,905	-	(45,713)	503,192
Results				
Segment results	69,689	-	234	69,923
Finance cost	(54)	-	-	(54)
Profit before tax				69,869
Tax expense				(16,294)
Profit for the period				53,575
6-month ended 30-6-2021				
Revenue				
External	441,420	-	-	441,420
Inter-segment sales	65,551	-	(65,551)	-
Total revenue	506,971	-	(65,551)	441,420
Results				
Segment results	56,026	409	(292)	56,143
Finance cost	(131)	-	-	(131)
Profit before tax				56,012
Tax expense				(12,320)
Profit for the period				43,692

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.

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10. Subsequent events

There were no material events subsequent to 30 June 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 30 June 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 30/6/2022 RM’000	Preceding Year Quarter 30/6/2021 RM’000	Current Quarter 30/6/2022 RM’000	Preceding Year Quarter 30/6/2021 RM’000
Sales of speakers to Wistron	31,833	53,948	63,842	106,246
Parts supply by Wistron	17,388	19,549	29,239	48,305

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14. Review of performance

	Individual			Cumulative		
	Current	Preceding	Changes	Current	Preceding	Changes
	Quarter	Year		Quarter	Year	
30/6/2022	30/6/2021	%	30/6/2022	30/6/2021	%	
	RM'000	RM'000		RM'000	RM'000	
Revenue	251,131	233,182	7.7	503,192	441,420	14.0
Profit before tax	42,498	29,420	44.5	69,869	56,012	24.7
Profit after tax	32,532	23,185	40.3	53,575	43,692	22.6
Profit attributable						
to ordinary equity						
holders of the parent	32,545	23,193	40.3	53,601	43,710	22.6
EBITDA	45,075	32,503	38.7	75,212	62,091	21.1

Second quarter ended 30 June 2022

The Group recorded higher sales of RM251.1 million, an increase of 7.7% from the previous year's corresponding quarter of RM233.2 million mainly due to higher sales volume.

Earnings before interest, tax, depreciation and amortization ("EBITDA") increased significantly to RM45.1 million for the current quarter compared to RM32.5 million in the previous year's corresponding quarter mainly attributable to higher sales and gain on foreign exchange.

Financial year-to-date ended 30 June 2022

The Group recorded higher sales of RM503.2 million, an increase of 14.0% from the previous year's corresponding period of RM441.4 million mainly attributable to higher sales volume. Together with gain on foreign exchange, these have contributed to higher profitability which has resulted in higher EBITDA of RM75.2 million compared to RM62.1 million in the previous year's corresponding period despite with higher operating cost resulted from the implementation of new minimum wages policy in May 2022.

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 relatively high 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 30/6/2022 RM'000	Preceding Quarter 31/3/2022 RM'000	Changes %
Revenue	251,131	252,061	(0.4)
Profit before tax	42,498	27,371	55.3
Profit after tax	32,532	21,043	54.6
Profit attributable to ordinary equity holders of the parent	32,545	21,056	54.6
EBITDA	45,075	30,137	49.6

The Group recorded marginally lower sales of RM251.1 million or a decrease of 0.4% in the current quarter compared to RM252.1 million in the immediate preceding quarter mainly due to lower sales volume. Nevertheless, EBITDA increased significantly to RM45.1 million from RM30.1 million in the immediate preceding quarter mainly due to sales mix and gain on foreign exchange which was partly offset by higher operating cost as a result of the implementation of new minimum wages in May 2022.

16. Current Year Prospects

With the increasing macro headwinds arising from higher inflationary environment which may inevitably reduce buying powers of some consumers, ongoing Russia-Ukraine conflict and geopolitical and trade tensions, China's strict pandemic control measures and still strained and disrupted global supply chain, the Group expects to face more challenges and uncertainties in the marketplace. The Group also takes note on cost challenges arising from interest rates hike, inflationary pressure and fluctuating currencies which could potentially affect performance of the Group.

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.

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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 30/6/2022 RM'000	Preceding Year Quarter 30/6/2021 RM'000	Current Quarter 30/6/2022 RM'000	Preceding Year Quarter 30/6/2021 RM'000
Profit for the period is arrived at after charging / (crediting):				
Income from short term funds	(707)	(591)	(1,239)	(1,368)
Interest income	(48)	(11)	(75)	(29)
Interest expenses	5	(2)	37	33
Impairment loss on trade receivables	43	83	601	601
Interest - Lease liabilities	8	43	16	94
Depreciation and amortization	2,771	2,821	5,518	5,685
Amortisation of right-of-use assets	548	823	1,086	1,664
Foreign exchange gain	(12,815)	(4,325)	(16,774)	(9,155)
Gain on disposal of property, plant and equipment	(31)	(5)	(33)	(64)

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19. Taxation

	Individual		Cumulative	
	Current	Preceding Year	Current	Preceding Year
	Quarter 30/6/2022	Quarter 30/6/2021	Quarter 30/6/2022	Quarter 30/6/2021
	RM'000	RM'000	RM'000	RM'000
In respect of current period:				
- Income tax	8,959	6,890	15,137	11,514
- Deferred tax	1,007	(655)	1,157	806
	9,966	6,235	16,294	12,320

The effective tax rate of the Group for the current quarter and year to-date 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 30 June 2022.

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 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 appeared 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 30/6/2022	Preceding Year Quarter 30/6/2021	Current Quarter 30/6/2022	Preceding Year Quarter 30/6/2021
Net profit attributable to equity holders of the parent (RM'000)	32,545	23,193	53,601	43,710
Weighted average number of shares ('000)	255,339	247,358	254,393	247,358
Basic earnings per share (sen)	12.75	9.38	21.07	17.67

(a) Diluted

	Individual		Cumulative	
	Current Quarter 30/6/2022	Preceding Year Quarter 30/6/2021	Current Quarter 30/6/2022	Preceding Year Quarter 30/6/2021
Net profit attributable to equity holders of the parent (RM'000)	32,545	NA	53,601	NA
Weighted average number of shares ('000)	256,350	NA	255,678	NA
Diluted earnings per share (sen)	12.70	NA	20.96	NA