

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 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 2,657,200 new ordinary shares were issued pursuant to the exercise of the ESOS for a total cash consideration of RM6,775,860.00 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)	51,055	34,630

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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
9-month ended 30-9-2022				
Revenue				
External	803,290	-	-	803,290
Inter-segment sales	69,035	-	(69,035)	-
Total revenue	872,325	-	(69,035)	803,290
Results				
Segment results	127,731	-	150	127,881
Finance cost	(68)	-	-	(68)
Profit before tax				127,813
Tax expense				(30,003)
Profit for the period				97,810
9-month ended 30-9-2021				
Revenue				
External	678,341	-	-	678,341
Inter-segment sales	95,237	-	(95,237)	-
Total revenue	773,578	-	(95,237)	678,341
Results				
Segment results	83,063	5,913	(330)	88,646
Finance cost	(171)	(1)	-	(172)
Profit before tax				88,474
Tax expense				(19,833)
Profit for the period				68,641

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 September 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 September 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 30/9/2022 RM'000	Preceding Year Quarter 30/9/2021 RM'000	Current Quarter 30/9/2022 RM'000	Preceding Year Quarter 30/9/2021 RM'000
Sales of speakers to Wistron	24,993	47,114	88,835	153,360
Parts supply by Wistron	7,471	21,171	36,710	69,476

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14. Review of performance

	Individual			Cumulative		
	Current	Preceding	Changes	Current	Preceding	Changes
	Quarter	Year		Quarter	Year	
30/9/2022	30/9/2021	%	30/9/2022	30/9/2021	%	
	RM'000	RM'000		RM'000	RM'000	
Revenue	300,098	236,921	26.7	803,290	678,341	18.4
Profit before tax	57,944	32,462	78.5	127,813	88,474	44.5
Profit after tax	44,235	24,949	77.3	97,810	68,641	42.5
Profit attributable to ordinary equity holders of the parent	44,241	24,969	77.2	97,842	68,679	42.5
EBITDA	59,833	35,731	67.5	135,045	97,822	38.1

Third quarter ended 30 September 2022

The Group recorded higher sales of RM300.1 million, an increase of 26.7% from the previous year's corresponding quarter of RM236.9 million mainly due to higher sales volume.

Earnings before interest, tax, depreciation and amortization ("EBITDA") increased significantly to RM59.8 million for the current quarter compared to RM35.7 million in the previous year's corresponding quarter mainly attributable to higher sales and gain on foreign exchange.

Financial year-to-date ended 30 September 2022

The Group recorded higher sales of RM803.3 million, an increase of 18.4% from the previous year's corresponding period of RM678.3 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 RM135.0 million compared to RM97.8 million in the previous year's corresponding period.

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 inventory level which is supportive to subsequent production and delivery requirement.

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15. Comparison with previous quarter's results

	Current Quarter 30/9/2022 RM'000	Preceding Quarter 30/6/2022 RM'000	Changes %
Revenue	300,098	251,131	19.5
Profit before tax	57,944	42,498	36.3
Profit after tax	44,235	32,532	36.0
Profit attributable to ordinary equity holders of the parent	44,241	32,545	35.9
EBITDA	59,833	45,075	32.7

The Group recorded higher sales of RM300.1 million or an increase of 19.5% in the current quarter compared to RM251.1 million in the immediate preceding quarter mainly due to higher sales volume. EBITDA increased 32.7% to RM59.8 million from RM45.1 million in the immediate preceding quarter mainly due to higher sales and gain on foreign exchange.

16. Current Year Prospects

With the strong headwinds continue to arise from the rising inflation and interest rates, and the downward revision to demand outlook, the Group will continue to face more challenges and uncertainties in the worldwide marketplace.

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 30/9/2022 RM'000	Preceding Year Quarter 30/9/2021 RM'000	Current Quarter 30/9/2022 RM'000	Preceding Year Quarter 30/9/2021 RM'000
Profit for the period is arrived at after charging / (crediting):				
Income from short term funds	(929)	(358)	(2,168)	(1,726)
Interest income	(397)	(15)	(472)	(45)
Interest expenses	3	3	40	36
Impairment loss on trade receivables	676	852	1,277	1,453
Interest - Lease liabilities	12	39	28	133
Depreciation and amortization	2,649	2,777	8,167	8,462
Amortisation of right-of-use assets	551	824	1,637	2,487
Foreign exchange gain	(18,273)	(2,783)	(35,046)	(11,938)
Gain on disposal of property, plant and equipment	(12)	(5,587)	(45)	(5,651)
Share option expenses	-	6,263	-	6,263

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19. Taxation

	Individual		Cumulative	
	Current Quarter 30/9/2022 RM'000	Preceding Year Quarter 30/9/2021 RM'000	Current Quarter 30/9/2022 RM'000	Preceding Year Quarter 30/9/2021 RM'000
In respect of current period:				
- Income tax	12,004	7,145	27,141	18,659
- Deferred tax	2,289	(209)	3,446	597
In respect of prior year :-				
- Income tax	(584)	-	(584)	-
Real property gains tax (United Kingdom)				
- Income tax	-	705	-	705
- Deferred tax	-	(128)	-	(128)
	13,709	7,513	30,003	19,833

The effective tax rate of the Group for the current quarter and year to-date is marginally 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 September 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	Preceding	Current	Preceding
	Quarter	Year	Quarter	Year
	30/9/2022	30/9/2021	30/9/2022	30/9/2021
Net profit attributable to equity holders of the parent (RM'000)	44,241	24,969	97,842	68,679
Weighted average number of shares ('000)	255,452	247,358	254,750	247,358
Basic earnings per share (sen)	17.32	10.09	38.41	27.76

(a) Diluted

	Individual		Cumulative	
	Current	Preceding	Current	Preceding
	Quarter	Year	Quarter	Year
	30/9/2022	30/9/2021	30/9/2022	30/9/2021
Net profit attributable to equity holders of the parent (RM'000)	44,241	24,969	97,842	68,679
Weighted average number of shares ('000)	256,169	252,002	255,836	252,002
Diluted earnings per share (sen)	17.27	9.91	38.24	27.25