

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 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 3,382,500 new ordinary shares were issued pursuant to the exercise of the ESOS for a total cash consideration of RM8,625,375.00 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
12-month ended 31-12-2022				
Revenue				
External	984,018	-	-	984,018
Inter-segment sales	84,702	-	(84,702)	-
Total revenue	<u>1,068,720</u>	-	<u>(84,702)</u>	<u>984,018</u>
Results				
Segment results	140,921	-	364	141,285
Finance cost	(116)	-	-	(116)
Profit before tax				<u>141,169</u>
Tax expense				<u>(35,217)</u>
Profit for the year				<u>105,952</u>
12-month ended 31-12-2021				
Revenue				
External	938,875	-	-	938,875
Inter-segment sales	133,527	-	(133,527)	-
Total revenue	<u>1,072,402</u>	-	<u>(133,527)</u>	<u>938,875</u>
Results				
Segment results	114,362	10,944	(364)	124,942
Finance cost	(205)	(3)	-	(208)
Profit before tax				<u>124,734</u>
Tax expense				<u>(27,888)</u>
Profit for the year				<u>96,846</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.

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 31 December 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 year ended 31 December 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 31/12/2022 RM'000	Preceding Year Quarter 31/12/2021 RM'000	Current Quarter 31/12/2022 RM'000	Preceding Year Quarter 31/12/2021 RM'000
Sales of speakers to Wistron	14,671	44,907	103,506	198,267
Parts supply by Wistron	5,297	12,458	42,007	81,934

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14. Review of performance

	Individual			Cumulative		
	Current	Preceding	Changes	Current	Preceding	Changes
	Quarter	Year		Quarter	Year	
31/12/2022	31/12/2021		31/12/2022	31/12/2021		
	RM'000	RM'000	%	RM'000	RM'000	%
Revenue	180,728	260,534	(30.6)	984,018	938,875	4.8
Profit before tax	13,356	36,260	(63.2)	141,169	124,734	13.2
Profit after tax	8,142	28,205	(71.1)	105,952	96,846	9.4
Profit attributable to ordinary equity holders of the parent	8,141	28,219	(71.2)	105,983	96,898	9.4
EBITDA	14,199	39,072	(63.7)	149,244	136,894	9.0

Fourth quarter ended 31 December 2022

The Group recorded lower sales of RM180.7 million, a decrease of 30.6% from the previous year's corresponding quarter of RM260.5 million mainly due to lower sales volume.

Earnings before interest, tax, depreciation and amortization ("EBITDA") dropped significantly to RM14.2 million for the current quarter compared to RM39.1 million in the previous year's corresponding quarter mainly attributable to lower sales and loss on foreign exchange.

Financial year ended 31 December 2022

The Group recorded higher sales of RM984.0 million, an increase of 4.8% from the previous year's corresponding period of RM938.9 million mainly attributable to change in sales mix. Together with gain on foreign exchange, these have contributed to higher profitability which has resulted in higher EBITDA of RM149.2 million compared to RM136.9 million in the previous year.

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 31/12/2022 RM'000	Preceding Quarter 30/9/2022 RM'000	Changes %
Revenue	180,728	300,098	(39.8)
Profit before tax	13,356	57,944	(77.0)
Profit after tax	8,142	44,235	(81.6)
Profit attributable to ordinary equity holders of the parent	8,141	44,241	(81.6)
EBITDA	14,199	59,833	(76.3)

The Group recorded lower sales of RM180.7 million or a decrease of 39.8% in the current quarter compared to RM300.1 million in the immediate preceding quarter mainly due to lower sales volume. EBITDA dropped 76.3% to RM14.2 million from RM59.8 million in the immediate preceding quarter mainly due to lower sales and loss on foreign exchange.

16. Next Year Prospects

With persistent strong headwinds from inflationary pressure and rising interest rates, and the possibility of a recession, the Group will 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 2023.

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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 31/12/2022 RM'000	Preceding Year Quarter 31/12/2021 RM'000	Current Quarter 31/12/2022 RM'000	Preceding Year Quarter 31/12/2021 RM'000
Profit for the year is arrived at after charging / (crediting):				
Income from short term funds	(1,473)	(354)	(3,642)	(2,080)
Interest income	(816)	(30)	(1,288)	(75)
Interest expenses	6	6	46	42
Addition to / (Reversal of)				
impairment loss on trade receivables	(992)	(2,324)	285	(871)
Interest - Lease liabilities	12	9	40	142
Depreciation and amortization	2,559	2,796	10,726	11,258
Amortisation of right-of-use assets	556	385	2,193	2,873
Foreign exchange loss / (gain)	13,077	(1,027)	(21,970)	(12,965)
Gain / (loss) on disposal of property, plant and equipment	(59)	16	(104)	(5,636)
Share option expenses	-	-	-	6,263

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19. Taxation

	Individual		Cumulative	
	Current Quarter 31/12/2022 RM'000	Preceding Year Quarter 31/12/2021 RM'000	Current Quarter 31/12/2022 RM'000	Preceding Year Quarter 31/12/2021 RM'000
In respect of current period:				
- Income tax	9,849	8,340	36,990	26,999
- Deferred tax	(4,114)	(304)	(668)	293
In respect of prior year :-				
- Income tax	-	(415)	(584)	(415)
- Deferred tax	(521)	436	(521)	436
Real property gains tax (United Kingdom)				
- Income tax	-	(2)	-	703
- Deferred tax	-	-	-	(128)
	5,214	8,055	35,217	27,888

The effective tax rate of the Group for the current quarter and year to-date was higher than the 24% statutory tax rate mainly attributed to the one-off Prosperity Tax of 33% for chargeable income above RM100 million (i.e. Cukai Makmur) introduced in 2022.

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 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 Board has declared a first interim single tier tax exempt dividend of 21.0 sen per share in respect of the financial year ended 31 December 2022 (31 December 2021: 20.0 sen per share).

The dividend will be payable on 28 April 2023 to shareholders whose names appear in the Record of Depositors of the Company at the close of business on 7 April 2023.

24. Earnings per share

(a) Basic

	Individual		Cumulative	
	Current	Preceding	Current	Preceding
	Quarter	Year	Quarter	Year
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Net profit attributable to equity holders of the parent (RM'000)	8,141	28,219	105,983	96,898
Weighted average number of shares ('000)	255,840	250,985	255,025	248,272
Basic earnings per share (sen)	3.18	11.24	41.56	39.03

(a) Diluted

	Individual		Cumulative	
	Current	Preceding	Current	Preceding
	Quarter	Year	Quarter	Year
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Net profit attributable to equity holders of the parent (RM'000)	8,141	28,219	105,983	96,898
Weighted average number of shares ('000)	256,558	253,651	255,807	250,949
Diluted earnings per share (sen)	3.17	11.13	41.43	38.61