

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 JUNE 2023

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 2022.

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 2022, except for the adoption of the following Amendments to MFRSs that are effective for the financial statements effective from 1 January 2023, as disclosed below:

Title	Effective Date
Amendments to MFRS 101, Presentation of Financial Statements – Disclosure of Accounting Policies	1 January 2023
Amendments to MFRS 108, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates	1 January 2023
Amendments to MFRS 112, Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

Malaysian Accounting Standards Board had issued the following amendments and new standards which are effective for the following financial years:

Title	Effective Date
Amendments to MFRS 16, Leases – Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to MFRS101, Presentation of Financial Statements – Non-current Liabilities with Covenants	1 January 2024
Amendments to MFRS 10, Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Yet to be confirmed

The Group and the Company will adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are not expected to have any material effect to the financial statements of the Group and the Company upon their initial applications.

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2. Audit qualification

The audit report on the financial statements for the financial year ended 31 December 2022 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 the 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

Other than the following, there were no issuance, cancellation and repayment of debt and equity securities for the financial period ended 30 June 2023.

(a) The number of issued and paid-up ordinary shares of the Company was increased from 256,266,166 to 256,965,666 by way of the issuance of 699,500 new ordinary shares arising from the exercise of the ESOS for a total cash consideration of RM1,783,725.00 or at an exercise price of RM2.55 a share.

(b) Total 1,853,100 shares were repurchased in the open market at an average price of RM2.35 per share and retained as treasury shares of the Company as disclosed below:

Date of share buy back	No. of share purchase (units)	Total (RM)
24.05.2023	1,039,300	2,450,027
29.05.2023	813,800	1,897,855

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7. Dividend paid

	Current year to date RM'000	Preceding year to date RM'000
First interim single tier of 21.0 sen per ordinary share for the financial year ended 31 December 2022 (31 December 2021 : 20.0 sen per ordinary share)	53,963	51,055

8. Segmental reporting

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

	Malaysia RM'000	Elimination RM'000	Total RM'000
6-month ended 30-6-2023			
Revenue			
External	285,482	-	285,482
Inter-segment sales	39,666	(39,666)	-
Total revenue	<u>325,148</u>	<u>(39,666)</u>	<u>285,482</u>
Results			
Segment results	46,228	(197)	46,031
Finance cost	(46)	-	(46)
Profit before tax			<u>45,985</u>
Tax expense			<u>(9,930)</u>
Profit for the period			<u><u>36,055</u></u>
6-month ended 30-6-2022			
Revenue			
External	503,192	-	503,192
Inter-segment sales	45,713	(45,713)	-
Total revenue	<u>548,905</u>	<u>(45,713)</u>	<u>503,192</u>
Results			
Segment results	69,689	234	69,923
Finance cost	(54)	-	(54)
Profit before tax			<u>69,869</u>
Tax expense			<u>(16,294)</u>
Profit for the period			<u><u>53,575</u></u>

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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.

10. Subsequent events

There were no material events subsequent to 30 June 2023 that have not been reflected in the interim report except for:

- (i) The Board of Directors of the Company announced that the Company had on 24 July 2023 entered into a conditional Share Sale Agreement with Wistron Technology (Malaysia) Sdn Bhd for the disposal by the Company of 371 ordinary shares of USD10,000.00 each, representing 70% equity interest in the issued and paid-up share capital of Heracles Enterprises Limited for a cash consideration of RM31,833,647.00 (“Proposed Disposal”).

The Proposed Disposal is subject to the approvals of the following:

- (a) the shareholders of FPI at the EGM to be convened for the Proposed Disposal; and
 - (b) any other relevant authorities and/or parties, if required.
- (ii) Formosa Prosonic Industries Berhad Taiwan Branch, a wholly owned branch of the Company, has on 7 June 2023 entered into a sale and purchase agreement with M3 Technology Inc for disposal of freehold land and building located at 9F, No. 36, Aly. 38, Ln 358, Ruiguang, Neihu District, Taipei City to the latter for a cash consideration of NTD113,000,000.00 (equivalent to RM16,170,074.00¹) (“Disposal”).

This Disposal has been completed on 18 July 2023.

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 2023.

12. Contingent liabilities or contingent assets

There were no changes in contingent liabilities or contingent assets since the last annual balance sheet date.

¹ exchange rate NTD/RM 0.143098 on 31 July 2023

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13. Related Party Disclosures

Significant related party transactions with a major corporate shareholder, Wistron Corporation (“Wistron”) are as follows:

	Individual		Cumulative	
	Current Quarter	Preceding Year Quarter	Current Quarter	Preceding Year Quarter
	30/6/2023	30/6/2022	30/6/2023	30/6/2022
	RM'000	RM'000	RM'000	RM'000
Sales of speakers to Wistron	6,849	31,833	13,738	63,842
Parts supply by Wistron	1,984	17,388	3,783	29,239

14. Review of performance

	Individual			Cumulative		
	Current Quarter	Preceding Year Quarter	Changes	Current Quarter	Preceding Year Quarter	Changes
	30/6/2023	30/6/2022	%	30/6/2023	30/6/2022	%
	RM'000	RM'000		RM'000	RM'000	
Revenue	176,247	251,131	(29.8)	285,482	503,192	(43.3)
Profit before tax	33,559	42,498	(21.0)	45,985	69,869	(34.2)
Profit after tax	26,332	32,532	(19.1)	36,055	53,575	(32.7)
Profit attributable to ordinary equity holders of the parent	26,350	32,545	(19.0)	36,065	53,601	(32.7)
EBITDA	33,004	45,075	(26.8)	45,138	75,212	(40.0)

Second quarter ended 30 June 2023

The Group recorded lower sales of RM176.2 million, a decrease of 29.8% from the previous year’s corresponding quarter of RM251.1 million mainly due to lower sales volume. Consequently, earnings before interest, tax, depreciation and amortization (“EBITDA”) dropped to RM33.0 million for the current quarter compared to RM45.1 million in the previous year’s corresponding quarter.

Financial year-to-date ended 30 June 2023

The Group recorded lower sales of RM285.5 million, a decrease of 43.3% from the previous year’s corresponding period of RM503.2 million mainly attributable to lower sales volume. Together with lower gain on foreign exchange, these have contributed to lower profitability which has resulted in a lower EBITDA of RM45.1 million compared to RM75.2 million in the previous year’s corresponding period.

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14. Review of performance (continued)

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 the normal range of 60 to 90 days and the inventory level which is supportive to subsequent production and delivery requirements.

15. Comparison with previous quarter's results

	Current Quarter 30/6/2023 RM'000	Preceding Quarter 31/03/2023 RM'000	Changes %
Revenue	176,247	109,235	61.3
Profit before tax	33,559	12,426	170.1
Profit after tax	26,332	9,723	170.8
Profit attributable to ordinary equity holders of the parent	26,350	9,715	171.2
EBITDA	33,004	12,135	172.0

The Group recorded higher sales of RM176.2 million in the current quarter or an increase of 61.3% when compared to RM109.2 million in the immediate preceding quarter mainly due to higher sales volume. Consequently, EBITDA rose 172.0% to RM33.0 million from RM12.1 million in the immediate preceding quarter.

16. Current Year Prospects

With still persistent strong headwinds from inflationary pressure and rising interest rates, and inventory adjustments in the market, the Board anticipates that the operating environment continues to be challenging in the coming quarters.

The Group is aware of these circumstances and will continue to monitor the situation closely and take necessary steps to mitigate any adverse impact and to optimize its operations to adapt to the 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 30/6/2023 RM'000	Preceding Year Quarter 30/6/2022 RM'000	Current Quarter 30/6/2023 RM'000	Preceding Year Quarter 30/6/2022 RM'000
Profit for the year is arrived at after charging / (crediting):				
Income from short term funds	(2,336)	(707)	(4,256)	(1,239)
Interest income	(1,246)	(48)	(2,704)	(75)
Interest expenses	5	5	26	37
Addition to / (Reversal of)				
impairment loss on trade receivables	247	43	(288)	601
Interest - Lease liabilities	7	8	17	16
Depreciation and amortization	2,477	2,771	4,983	5,518
Amortisation of right-of-use assets	538	548	1,088	1,086
Foreign exchange loss / (gain)	(5,518)	(12,815)	(9,403)	(16,774)
Gain / (loss) on disposal of property, plant and equipment	(215)	(31)	(216)	(33)

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19. Taxation

	Individual		Cumulative	
	Current Quarter 30/6/2023 RM'000	Preceding Year Quarter 30/6/2022 RM'000	Current Quarter 30/6/2023 RM'000	Preceding Year Quarter 30/6/2022 RM'000
In respect of current period:				
- Income tax	8,127	8,959	9,565	15,137
- Deferred tax	(900)	1,007	365	1,157
	7,227	9,966	9,930	16,294

The effective tax rate of the Group for the current quarter and year to-date was lower than the 24% statutory tax rate mainly attributed to certain items that were not taxable.

20. Corporate proposals

There were no corporate proposals announced but not completed as at the date of this report save for those as disclosed in Note 10 of this interim report.

21. Group borrowings (interest bearing) and debt securities

The Group does not have any borrowings and debt securities as at 30 June 2023.

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 21.0 sen per share in respect of the financial year ended 31 December 2022 (31 December 2021: 20.0 sen per share) on 28 April 2023 to shareholders whose names appeared in the Record of Depositors of the Company at the close of business on 7 April 2023.

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
	30/6/2023	30/6/2022	30/6/2023	30/6/2022
Net profit attributable to equity holders of the parent (RM'000)	26,350	32,545	36,065	53,601
Weighted average number of shares ('000)	256,237	255,339	256,377	254,393
Basic earnings per share (sen)	10.28	12.75	14.07	21.07

(a) Diluted

	Individual		Cumulative	
	Current	Preceding	Current	Preceding
	Quarter	Year	Quarter	Year
	30/6/2023	30/6/2022	30/6/2023	30/6/2022
Net profit attributable to equity holders of the parent (RM'000)	26,350	32,545	36,065	53,601
Weighted average number of shares ('000)	256,253	256,350	256,758	255,678
Diluted earnings per share (sen)	10.28	12.70	14.05	20.96