

FORMOSA PROSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE YEAR ENDED 31 MARCH 2020

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 2019.

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 2019, except with the adoption of the following Malaysian Financial Reporting Standards ("MFRS"), Clarification on MFRS, Issues Committee ("IC") Interpretations and Amendments to MFRS for financial period beginning on or after 1 January 2020:

Title	Effective Date
<i>Amendments to References to the Conceptual Framework in MFRS Standards</i>	1 January 2020
<i>Amendments to MFRS 3 Definition of a Business</i>	1 January 2020
<i>Amendments to MFRS 101 and MFRS 108 Definition of Material</i>	1 January 2020
<i>Amendments to MFRS 9, MFRS 139 and MFRS 7 Interest Rate Benchmark Reform</i>	1 January 2020

The adoption of these Standards and Amendments had no material financial impacts on the interim financial report.

2. Audit qualification

The audit report on the financial statements for the financial year ended 31 December 2019 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.

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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.

7. Dividend paid

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

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8. Segmental reporting

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

	Malaysia	UK (Discontinued operations)	Elimination	Total
	RM'000	RM'000	RM'000	RM'000
3-month ended 31-3-2020				
Revenue				
External	124,514	-	-	124,514
Inter-segment sales	14,435	-	(14,435)	-
Total revenue	138,949	-	(14,435)	124,514
Results				
Segment results	8,833	(1,326)	36	7,543
Finance cost	(111)	-	-	(111)
Profit before tax				7,432
Tax expense				(2,032)
Profit for the period				5,400
3-month ended 31-3-2019				
Revenue				
External	142,885	-	-	142,885
Inter-segment sales	19,520	-	(19,520)	-
Total revenue	162,405	-	(19,520)	142,885
Results				
Segment results	9,514	554	36	10,104
Finance cost	(101)	-	-	(101)
Profit before tax				10,003
Tax expense				(2,037)
Profit for the period				7,966

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.

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10. Subsequent events

There were no material events subsequent to 31 March 2020 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 2020.

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	Preceding Year Quarter	Current Quarter	Preceding Year Quarter
	31/3/2020	31/3/2019	31/3/2020	31/3/2019
	RM'000	RM'000	RM'000	RM'000
Sales of speakers to Wistron	30,710	15,618	30,710	15,618
Parts supply by Wistron	9,449	14,323	9,449	14,323

14. Review of performance

	Individual			Cumulative		
	Current Quarter	Preceding Year Quarter	Changes	Current Quarter	Preceding Year Quarter	Changes
	31/3/2020	31/3/2019		31/3/2020	31/3/2019	
	RM'000	RM'000	%	RM'000	RM'000	%
Revenue	124,514	142,885	(12.9)	124,514	142,885	(12.9)
Profit before tax	7,432	10,003	(25.7)	7,432	10,003	(25.7)
Profit after tax	5,400	7,966	(32.2)	5,400	7,966	(32.2)
Profit attributable to ordinary equity holders of the parent	5,396	7,957	(32.2)	5,396	7,957	(32.2)
EBITDA	10,343	13,044	(20.7)	10,343	13,044	(20.7)

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14. Review of performance (cont'd)

First quarter ended 31 December 2020

The Group recorded lower sales of RM124.5 million, a drop of 12.9% from the previous year's corresponding quarter of RM142.9 million mainly due to lower sales volume as the Group shut down its operations from 18 March 2020 in compliance with the Movement Control Order ("MCO") imposed by the Government of Malaysia in an effort to contain the outbreak of COVID-19 pandemic.

The lower sales has impacted the Group profitability which has resulted in lower earnings before interest, tax, depreciation and amortization ("EBITDA") of RM10.3 million for the current quarter compared to RM13.0 million in the previous year's corresponding quarter.

15. Comparison with previous quarter's results

	Current Quarter 31/3/2020 RM'000	Preceding Quarter 31/12/2019 RM'000	Changes %
Revenue	124,514	175,335	(29.0)
Profit before tax	7,432	12,265	(39.4)
Profit after tax	5,400	9,019	(40.1)
Profit attributable to ordinary equity holders of the parent	5,396	9,009	(40.1)
EBITDA	10,343	15,385	(32.8)

The Group recorded 29.0% lower sales of RM124.5 million in the current quarter compared to RM175.3 million in the immediate preceding quarter mainly due to lower sales volume on seasonal factor and the MCO . As a result, the Group recorded lower EBITDA at RM10.3 million as compared to RM15.4 million.

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16. Current Year Prospects

The Group anticipates this year will be a tough and challenging year in view of economic downturn and turmoil in the global market which have resulted in lower sales and higher operating costs, and barring unforeseen circumstances, the Group expects its performance for the financial year 2020 to be impacted.

Nonetheless, the Group is monitoring the market situation closely and will optimize its operations to adapt to the fast changing and volatile business environment.

17. Deviation from profit forecast and profit guarantee

Not applicable.

18. Notes to the statement of comprehensive income

	Individual		Cumulative	
	Current Quarter 31/3/2020 RM'000	Preceding Year Quarter 31/3/2019 RM'000	Current Quarter 31/3/2020 RM'000	Preceding Year Quarter 31/3/2019 RM'000
Profit for the period is arrived at after charging / (crediting):				
Income from short term funds	(1,078)	(1,066)	(1,078)	(1,066)
Interest income	(47)	(42)	(47)	(42)
Interest expenses	29	18	29	18
Reversal of impairment loss on trade	(29)	-	(29)	-
Lease liabilities	80	109	80	109
Depreciation and amortization	3,094	3,284	3,094	3,284
Amortisation of right-of-use assets	832	739	832	739
Foreign exchange loss / (gain)	(3,229)	(445)	(3,229)	(445)
Derivatives loss	724	-	724	-

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19. Taxation

	Individual		Cumulative	
	Current	Preceding	Current	Preceding
	Quarter	Year	Quarter	Year
	31/3/2020	31/3/2019	31/3/2020	31/3/2019
	RM'000	RM'000	RM'000	RM'000
In respect of current period:-				
- Income tax	2,013	2,581	2,013	2,581
- Deferred tax	19	(544)	19	(544)
	2,032	2,037	2,032	2,037

The effective tax rate of the Group for the current quarter and financial year to-date are higher than the statutory tax rate due to tax loss incurred in foreign tax jurisdiction not available for set-off.

20. Corporate proposals

There is no outstanding corporate proposal 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 2020.

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 11.0 sen per share in respect of the financial year ended 31 December 2019 (31 December 2018: 10.0 sen per share) on 17 April 2020 to shareholders whose names appear in the Record of Depositors of the Company at the close of business on 3 April 2020.

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

24. Basic Earnings per share

	Individual		Cumulative	
	Current Quarter 31/3/2020	Preceding Year Quarter 31/3/2019	Current Quarter 31/3/2020	Preceding Year Quarter 31/3/2019
Net profit attributable to equity holders of the parent (RM'000)	5,396	7,957	5,396	7,957
Weighted average number of shares ('000)	247,358	247,358	247,358	247,358
Basic earnings per share (sen)	2.2	3.2	2.2	3.2