

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30 JUNE 2014

PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

A1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with MFRS 134, “Interim Financial Reporting” issued by the Malaysian Accounting Standards Board (“MASB”) and Paragraph 9.22 of the Bursa Malaysia Securities Berhad (Bursa Securities) Listing Requirements. This interim financial report should be read in conjunction with the audited financial statements for the financial year ended 31 December 2013.

A2. Adoption of Revised Financial Reporting

The accounting policies and presentation adopted for the interim financial statements are consistent with those adopted for the annual financial statements for the year ended 31 December 2013, except for the following:

MFRSs and IC Interpretations (Including The Consequential Amendments)	Effective Date
Amendments to MFRS 10, MFRS 12 and MFRS 127 (2011): Investment Entities	1 January 2014
Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS 136: Recoverable Amount Disclosures for Non-financial Assets	1 January 2014
Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IC Interpretation 21 Levies	1 January 2014

The initial applications of the aforesaid applicable standards, amendments or interpretation do not have any material financial impacts to the current and prior period financial statements upon their first adoption.

The following Standards were issued but not yet effective and have not been adopted by the Group:

MFRSs and IC Interpretations (Including The Consequential Amendments)	Effective Date
MFRS 9 (2009) Financial Instruments)
MFRS 9 (2010) Financial Instruments) To be
MFRS 9 Financial Instruments (Hedge Accounting and Amendments to MFRS 7, MFRS 9 and MFRS 139)) announced) by MASB
Amendments to MFRS 9 and MFRS 7: Mandatory Effective Date of MFRS 9 and Transition Disclosures))
Amendments to MFRS 119: Defined Benefit Plans - Employee Contributions	1 July 2014
Annual Improvements to MFRSs 2010 - 2012 Cycle	1 July 2014
Annual Improvements to MFRSs 2011 - 2013 Cycle	1 July 2014

A3. Auditors’ Report on Preceding Annual Financial Statements

The preceding annual financial statements of the Group were reported on without any qualification.

A4. Comments about Seasonal or Cyclical Factors

The business of the Group is not affected by any significant seasonal or cyclical factors.

A5. Changes in Estimates

There was no significant change in estimates of amounts reported in prior financial years which have a material effect in the current quarter and period ended 30 June 2014.

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A6. Segmental Information

The Group operates primarily in the semiconductor industry. Geographical segmental information is as follows:

Current Year	Asia	Europe	USA	Others	Group
Year-To-Date	RM'000	RM'000	RM'000	RM'000	RM'000
30 June 2014					
Revenue	178,799	37,876	8,640	3,468	228,783
Segment assets	350,497	24,577	121	171	375,366
Capital expenditure	8,631	44	-	-	8,675
Preceding Year	Asia	Europe	USA	Others	Group
Year-To-Date	RM'000	RM'000	RM'000	RM'000	RM'000
30 June 2013					
Revenue	88,238	27,526	10,587	5,681	132,032
Segment assets	307,158	19,752	249	226	327,385
Capital expenditure	7,481	51	-	-	7,532

A7. Unusual Items due to their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flow during the current quarter and period ended 30 June 2014.

A8. Dividend

No dividend has been declared or paid in the current quarter and period ended 30 June 2014.

A9. Valuation of Property, Plant and Equipment

The Group did not revalue any of its property, plant and equipment for the current quarter and period ended 30 June 2014.

A10. Debt and Equity Securities

There was no issuance, cancellation, repurchase, resale and repayment of debt and equity security during the current quarter and period ended 30 June 2014.

A11. Changes in the Composition of the Group

There were no changes in the composition of the Group for the current quarter under review.

A12. Capital Commitments

Capital commitment authorised but not provided for in the financial statements:

	As at	As at
	30 June 2014	31 December 2013
	RM'000	RM'000
Property, Plant and Equipment		
- Contracted	7,473	3,616
- Not contracted	5,879	4,971
Purchase of shares in subsidiary		
- Contracted but not provided for	618	1,234
	<u>13,970</u>	<u>9,821</u>

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A13. Discontinued Operation

There were no discontinued operations in the current quarter and period ended 30 June 2014.

A14. Changes in Contingent Liabilities

	As at 30 June 2014 RM'000	As at 31 December 2013 RM'000
Contingent Liabilities		
Corporate guarantees given to financial institutions for credit facilities (utilised amount) extended to subsidiaries	99	1,896

The Company provided corporate guarantees to financial institutions for credit facilities granted to its wholly-owned subsidiary, Omega Semiconductor Sdn Bhd.

A15. Subsequent Events

There was no material event subsequent to the end of the period reported up to 21 August 2014, the latest practical date which is not earlier than 7 days from the date of issue of these financial statements.

A16. Retained Profits

The breakdown of retained profits of the Group into realised and unrealised as at the end of the reporting period is as follows:

	As at 30 June 2014 RM'000	As at 31 December 2013 RM'000
Total retained profits		
- realised	43,256	38,976
- unrealised	(48,477)	(45,933)
	(5,221)	(6,957)
Total share of retained profits of associate:		
- realised	1,558	2,770
	(3,663)	(4,187)
Less: Consolidation adjustments	20,184	21,106
	16,521	16,919

A17. Significant Related Party Transaction

The Group carried out the following significant transactions with related parties during the current quarter and period ended 30 June 2014.

	Current Year Quarter Ended 30 June 2014 RM'000	Preceding Year Quarter Ended 30 June 2013 RM'000	Current Year Period Ended 30 June 2014 RM'000	Preceding Year Period Ended 30 June 2013 RM'000
Sales	173	72	312	496
Purchases	107	229	264	360
Others	28	28	56	56

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A18. Deferred Income

	As at 30 June 2014 RM'000	As at 31 December 2013 RM'000
Non-current		
- Government grant	858	1,001
Current		
- Government grant	286	286

The Group received a government grant in year 2013 for a patent licence agreement. The grant is being amortised over 5 years. During the period, RM142,970 (2013 – nil) has been amortised and recognised as other income in the statement of comprehensive income.

PART B: ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS

B1. Operating Segment review

2Q 2014 versus 2Q 2013

The Group derived virtually all its earnings from Dominant Opto Technologies Sdn Bhd, a 68.71% owned LED component manufacturing subsidiary. Group turnover rose 73% to RM125.1 million, underpinned by a 254% increase in General Lighting segment to RM71.6 million, while Automotive segment expanded more moderately by 13% to RM49.1 million. In line with management's strategy, contribution from BLU segment declined further to 1% of sales.

Overall gross profit margin at 13.2% in the current quarter (2Q2013: 16.5%) was adversely affected by a significant increase in revenue contribution from the lower-margin General Lighting segment. In the current quarter, General Lighting sales accounted for 57% of turnover, a sharp increase from 28% in the corresponding period last year.

Excluding ESOS expense of RM1.1 million (2Q2013: RM0.5 million), core operating profit came in 46% higher year-on-year to RM4.5 million on higher turnover. Including ESOS and share of loss from associate of RM0.6 million, profit before tax rose 41% to RM2.1 million.

1H 2014 versus 1H 2013

Revenue improved 73% year-on year to RM228.8 million in the first half of 2014, fueled by a three-fold sales increase in General Lighting segment to RM115.6 million and a 25% sales increase in Automotive segment to RM102.7 million. On the other hand, BLU segment contracted 70% to RM2.6 million as Dominant continued to channel capacity towards satisfying demand growth in General Lighting and Automotive segments.

Higher revenue contribution from General Lighting segment from 22% to 51% squeezed overall gross profit margin to 13.9%, compared to 15.9% in the previous year. Nonetheless, higher revenue pushed core operating profit, excluding ESOS expense, up 65% to RM8.1 million. Including ESOS expense and share of loss of associate amounting to RM1.2 million, pre-tax profit came in at RM3.1 million, compared to RM0.8 million in the same period last year.

B2. Material Changes In The Quarterly Result As Compared To The Result of The Preceding Quarter

Compared to the preceding quarter, revenue in the current quarter was higher by 21% to RM125.1 million. A robust 63% growth in the General Lighting segment partially offset a marginal decline in sales in Automotive segment.

Gross profit margin was similarly affected by lower margin General Lighting segment, shedding 1.6% to 13.2%. Core operating profit however rose 26% to RM4.5 million on higher turnover.

B3. Commentary on Prospects

Management expects the Group's top line growth rate to slow down in the second half of 2014 as management shifts its focus to improve margin by moving up the value chain through high value products such as automotive BLU interior display panel and high power packages for the exterior automotive lighting application.

Going forward, the Group intends to channel the majority of its resources in developing and expanding the capacity of higher power packages in particular the COB (Chip-On-Board) products range to tap on the rising popularity of COB in the General Lighting applications.

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B4. Profit Forecast or Profit Guarantee

The Group did not issue any profit forecast or profit guarantee.

B5. Income Tax Expense

	Current Year Quarter Ended 30 June 2014 RM'000	Preceding Year Quarter Ended 30 June 2013 RM'000	Current Year Period Ended 30 June 2014 RM'000	Preceding Year Period Ended 30 June 2013 RM'000
Current taxation - Ordinary Activities	584	382	1,215	1,166
Withholding tax on dividend received	-	-	156	-
	<hr/>	<hr/>	<hr/>	<hr/>
	584	382	1,371	1,166
Over provision	-	-	(2)	-
	<hr/>	<hr/>	<hr/>	<hr/>
	584	382	1,369	1,166

Dominant Opto Technologies Sdn Bhd has been granted pioneer status in 2007 which will expire in 2017. The current taxation was derived mainly from two profitable overseas subsidiaries.

B6. Borrowings

The Group's borrowings are as follows:

	As At 30 June 2014 RM'000	As At 31 December 2013 RM'000
Short term borrowings		
Secured denominated in Ringgit Malaysia:		
- bankers acceptances	28,078	34,097
- term loans	1,130	1,937
- hire purchase	162	156
- revolving credit	30,000	30,000
	<hr/>	<hr/>
	59,370	66,190
Long term borrowings		
Secured denominated in Ringgit Malaysia:		
- term loans	-	385
- hire purchase	266	349
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	266	734
Bank overdraft		
Secured denominated in Ringgit Malaysia	4,405	2,692

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B7. Unquoted Investments and/or Properties

There was no sale or purchase of properties for the current quarter and period ended 30 June 2014.

Details of movements in investment in unquoted investments are as follows:

Other unquoted investments

	As At 30 June 2014 RM'000	As At 31 December 2013 RM'000
Investment in unquoted shares (outside Malaysia)		
At beginning of year, at cost	401	7,545
Transfer to investment in quoted shares	-	(4,682)
Allowance for impairment loss on unquoted shares	-	(2,462)
At end of period/year, at cost	401	401

Investment in an associate

	As At 30 June 2014 RM'000	As At 31 December 2013 RM'000
At beginning of year	13,465	13,147
Share of (loss)/profit in an associate	(1,211)	318
At end of period/year	12,254	13,465

B8. Earnings per Share

	Current Year Quarter Ended 30 June 2014	Preceding Year Quarter Ended 30 June 2013	Current Year Period Ended 30 June 2014	Preceding Year Period Ended 30 June 2013
Weighted average number of ordinary shares in issue ('000)	975,613	975,613	975,613	975,613
Weighted average number of shares deemed to have been issued at no consideration ('000)	28,296	N/A	28,296	N/A
Weighted average number of ordinary shares used in the calculation of diluted earnings per share ('000)	1,003,909	975,613	1,003,909	975,613
Profit/(Loss) for the period attributable to the owners of the Company (RM'000)	286	302	(140)	(1,767)
Basic Earnings per share (sen)	0.03	0.03	(0.01)	(0.18)
Diluted Earnings Per share (sen)	0.03	N/A	(0.01)	N/A

The diluted earnings per share for the quarter and year ended 30 June 2013 are not presented as the effect of anti-dilutive.

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B9. Detailed Disclosure for Statement of Comprehensive Income

	Current Year Quarter Ended 30 June 2014 RM'000	Preceding Year Quarter Ended 30 June 2013 RM'000	Current Year Period Ended 30 June 2014 RM'000	Preceding Year Period Ended 30 June 2013 RM'000
After crediting:-				
Interest income	10	13	17	19
Gain on disposal of marketable securities	-	-	-	508
Gain on disposal of property, plant and equipment	35	-	35	-
Writeback of allowance for impairment losses on receivables	-	-	43	32
After debiting:-				
Amortisation	212	61	424	122
Depreciation	5,276	4,660	10,574	9,279
Interest expense	684	792	1,406	1,535
Loss/(Gain) on foreign exchange	121	(121)	266	(1,290)
Property, plant and equipment written off	15	78	15	131
Allowance/(Reversal) for impairment losses on inventories	1,087	(1,100)	1,058	(1,350)
Allowance for impairment losses on receivables	-	16	2	16

The company and the group do not have the following items for the current quarter and financial year to date:

- a) gain or loss on derivatives; and
- b) gain or loss on disposal of unquoted investments

B10. Corporate Proposals

There was no corporate proposal announced but not completed as at 21 August 2014, the latest practical date which is not earlier than 7 days from the date of issue of these financial statements.

B11. Off Balance Sheet Financial Instruments

There was no financial instrument with off balance sheet risk as at 21 August 2014, the latest practical date which is not earlier than 7 days from the date of issue of these financial statements.

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B12. Material Litigation

Melaka High Court Civil Suit No. 22-125-2010

Dominant Opto Technologies Sdn Bhd (“Plaintiff”) vs Lai Kin Shin (“1st Defendant”), Goh Poh Lee (“2nd Defendant”), Lee Seng Khoon (3rd Defendant”), Geepar Enterprise Sdn Bhd (“4th Defendant”), Robert Chan Siew Kong (“5th Defendant”) and Lim Siew Yek (“6th Defendant”)

Melaka High Court Civil Suit No. 22-132-2010

Geepar Enterprise Sdn Bhd (“Plaintiff”) vs Dominant Opto Technologies Sdn Bhd (“Defendant”)

The trial for Civil Suit 22-132-2010 was completed upon examination of the Defendant's final witness on 10 June 2014. The matter was fixed for oral submissions on 20 August 2014 and is scheduled for further submissions on 9 September 2014.

In so far as the action vide Civil Suit No. 22-125-2010 is concerned, no dates have been fixed by Court.

B13. Authorisation for Issue

The Board of Directors of D&O approved this interim financial report announcement to the Bursa Malaysia at the Board meeting held on 27 August 2014.