

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2016
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 Main Market Listing Requirements of Bursa Malaysia Securities Berhad (Bursa Securities). This interim financial report should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015.

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 2015, except for the adoption of the following Amendments and Annual improvement to Standards that came into effect on 1 January 2016:-

Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations

Amendments to MFRS 10, MFRS 12 and MFRS 128 (2011): Investment Entities – Applying the Consolidation Exception

Amendments to MFRS 101: Presentation of Financial Statements – Disclosure Initiative

Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation

Amendments to MFRS 116 and MFRS 141: Agriculture – Bearer Plants

Amendments to MFRS 127 (2011): Equity Method in Separate Financial Statements

Annual Improvements to MFRSs 2012 – 2014 Cycle

The initial applications of the above do not have any material financial impacts to the financial statements of the Group.

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 Financial Instruments (IFRS 9 issued by IASB in July 2014)	1 January 2018
MFRS 15 Revenue from Contracts with Customers & Amendments to MFRS 15: Effective Date of MFRS 15	1 January 2018
Amendments to MFRS 10 and MFRS 128 (2011): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred until further notice

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 ended 31 March 2016.

A6. 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 ended 31 March 2016.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2016

A7. Dividend

No dividend has been declared or paid in the current quarter ended 31 March 2016.

A8. Valuation of Property, Plant and Equipment

The Group did not revalue any of its property, plant and equipment for the current quarter ended 31 March 2016.

A9. Debt and Equity Securities

During the current quarter ended 31 March 2016, the Company issued the following new ordinary shares arising from the exercise of options under the Company's Employees' Share Option Scheme ("ESOS").

	Issue Price Per share RM	Current Quarter Ended 31 March 2016
Number of new ordinary share issued	0.17	1,077,000
	0.30	<u>64,000</u>
Total		<u><u>1,141,000</u></u>

The new ordinary shares rank pari passu with the other ordinary shares of the Company.

Other than the above, there was no issuance, cancellation, repurchase, resale and repayment of debt and equity security during the current quarter ended 31 March 2016.

A10. Segmental Information

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

Current Year Year-To-Date 31 March 2016	Asia RM'000	Europe RM'000	USA RM'000	Others RM'000	Group RM'000
Revenue	64,803	22,112	9,714	904	97,533
Segment assets	391,416	28,160	524	178	420,278
Capital expenditure	<u>9,031</u>	<u>24</u>	<u>-</u>	<u>-</u>	<u>9,055</u>
Preceding Year Year-To-Date 31 March 2015	Asia RM'000	Europe RM'000	USA RM'000	Others RM'000	Group RM'000
Revenue	63,518	19,227	4,430	3,693	90,868
Segment assets	349,599	26,730	579	168	377,076
Capital expenditure	<u>3,250</u>	<u>9</u>	<u>-</u>	<u>-</u>	<u>3,259</u>

A11. Changes in the Composition of the Group

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2016

A12. Capital Commitments

Capital commitments authorised but not provided for in the financial statements are as follows:

	As at 31 March 2016 RM'000	As at 31 December 2015 RM'000
Purchase of property, plant and equipment		
- Contracted but not provided for	17,843	10,185
- Authorised but not contracted for	13,151	7,764
	<u>30,994</u>	<u>17,949</u>

A13. Changes in Contingent Liabilities or Contingent Assets

Other than as disclosed in note B13 of this report, there were no contingent liabilities or contingent assets as at 31 March 2016.

A14. Subsequent Events

There was no material event subsequent to the end of the financial year reported up to 19 May 2016, the latest practical date which is not earlier than 7 days from the date of issue of these financial statements.

A15. 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 31 March 2016 RM'000	As at 31 December 2015 RM'000
Total retained profits		
- realised	62,125	53,282
- unrealised	(44,396)	(38,838)
	<u>17,729</u>	<u>14,444</u>
Add: Consolidation adjustments	12,311	13,855
	<u>30,040</u>	<u>28,299</u>

A16. Significant Related Party Transaction

The Group carried out the following significant transactions with related parties during the current quarter ended 31 March 2016.

	Current Year Quarter Ended 31 March 2016 RM'000	Preceding Year Quarter Ended 31 March 2015 RM'000
Sales	100	94
Purchases	25,964	68
Others	<u>28</u>	<u>27</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2016

A17. Deferred Income

	As at 31 March 2016 RM'000	As at 31 December 2015 RM'000
Non-current		
- Government grant	357	429
Current		
- Government grant	286	286
Total Deferred Income	<u>643</u>	<u>715</u>

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, RM71,485 (2015 – RM71,485) has been amortised and recognised as other income in the profit or loss.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2016
PART B: ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA SECURITIES BERHAD
LISTING REQUIREMENTS

B1. Operating Segment review

1st Q 2016 versus 1st Q 2015

The Group reported a 7% year-on-year growth in revenue for the current quarter to RM97.5 million, bolstered by a 23% growth in Automotive Segment. Growth was however partially offset by a 28% decrease in Non-Automotive Segment to RM20.2 million as the Group shifted its focus and resources to further strengthen its core automotive business. Revenue contribution from the Automotive Segment continued to improve to 79% of Group turnover from 69% in the corresponding quarter last year.

Gross margin rose to 22.3% in the current quarter (1stQ15: 19.5%) as a result of a favourable change in sales mix and a stronger US Dollar against the Malaysia Ringgit when compared to the same period last year. Despite a 23% increase in Gross Profit to RM21.8 million, the Group's operating results were negatively impacted by a RM1.87 million forex loss arising from a strengthening Malaysia Ringgit against the USD during the quarter. As a result, profit from operation fell 20% from RM5.6 million to RM4.5 million.

Group profit before tax however rose 40.7% to RM3.8 million in the absence of share of associate loss. Tongfang Optoelectronic (HK) Limited ceased to be an associate in second quarter last year. In the preceding year corresponding quarter, share of loss from associate amounted to RM2.1 million.

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

When compared to the preceding quarter, Group turnover registered a 9% decline to RM97.5 million. More specifically, sales by the Automotive Segment declined 6% to RM77.4 million due to the long Lunar New Year break in February in China, a key market of Dominant. Sales by Non-Automotive Segment fell 19% to RM20.2 million, in line with management's expectation.

Gross profit margin at 22% was stable quarter-on-quarter. This was achieved despite a strengthening Malaysia Ringgit against the USD as the resulting negative impact was offset by a favourable change in sales mix. Profit before tax was marginally lower on lower turnover.

B3. Commentary on Prospects

Based on existing automotive order trend, management is optimistic that the Group will be able to sustain its performance in the remaining quarters of 2016. To cope with the robust demand from Dominant's automotive customers, some capacity conversion from Non-Automotive to Automotive is underway. Management will continue with its strategy to channel its resources and capex investment in expanding Dominant's Automotive business.

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 31 March 2016 RM'000	Preceding Year Quarter Ended 31 March 2015 RM'000
Current tax	294	336

Dominant Opto Technologies Sdn Bhd has been granted pioneer status incentive under the Promotion of Investment Act 1986. This incentive will be expiring in 2017. The current taxation was mainly derived from profitable overseas subsidiaries.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2016

B6. Borrowings

The Group's borrowings are as follows:

	As At 31 March 2016 RM'000	As At 31 December 2015 RM'000
<i>Short term borrowings</i>		
Secured denominated in Ringgit Malaysia:		
- bankers acceptances	16,994	28,256
- hire purchase	194	149
- revolving credit	30,000	30,000
	47,188	58,405
Secured denominated in Euro Dollars:		
- term loans	3,102	3,283
	50,290	61,688
<i>Long term borrowings</i>		
Secured denominated in Ringgit Malaysia:		
- hire purchase	355	221
Total Borrowings	50,645	61,909

B7. Unquoted Investments and/or Properties

Details of investment in unquoted investments are as follows:

Other unquoted investments

	As At 31 March 2016 RM'000	As At 31 December 2015 RM'000
Investment in unquoted shares (outside Malaysia)		
At beginning of year and at the end of the period/year, at cost	8,530	8,530

B8. Earnings per Share

1. *Basic*

	Current Year Quarter Ended 31 March 2016	Preceding Year Quarter Ended 31 March 2015
Continuing operations		
Profit after taxation (RM'000)	3,512	2,370
Non-controlling interests (RM'000)	(1,835)	(1,874)
Profit attributable to Owners of the Company (RM'000)	1,677	496
Weighted average number of ordinary shares:-		
Issued ordinary shares at 1 January ('000)	986,451	977,531
Effect of new ordinary shares issued under ESOS ('000)	868	173
Weighted average number of ordinary shares for the period ('000)	987,319	977,704
Basic earnings per share (sen)	0.17	0.05

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2016

B8. Earnings per Share (Cont'd)

2. *Diluted*

	Current Year Quarter Ended 31 March 2016	Preceding Year Quarter Ended 31 March 2015
Continuing operations		
Profit attributable to Owners of the Company (RM'000) (as above)	1,677	496
Weighted average number of ordinary shares for the period ('000) (as above)	987,319	977,704
Weighted average number of shares deemed to have been issued at no consideration ('000)	22,932	23,925
Weighted average number of ordinary shares for diluted earnings per share computation ('000)	1,010,251	1,001,629
Diluted earnings per share (Sen)	0.17	0.05

B9. Detailed Disclosure for Statement of Comprehensive Income

	Current Year Quarter Ended 31 March 2016 RM'000	Preceding Year Quarter Ended 31 March 2015 RM'000
After crediting:		
Interest income	292	8
Gain on disposal of property, plant and equipment	4	22
Gain on disposal of unquoted investment	-	31
Gain on foreign exchange	314	590
Reversal of impairment losses on trade receivables	42	110
After debiting:		
Amortisation of intangible assets	212	212
Depreciation	6,122	5,518
Interest expense	586	677
Inventories written down	996	2,895
Net fair value loss on marketable securities	112	3
Property, plant and equipment written off	457	255

The company and the group do not have the following items for the respective period:

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

B10. Corporate Proposals

There was no corporate proposal announced but not completed as at 19 May 2016, the latest practical date which is not earlier than 7 days from the date of issue of these financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2016

B11. Utilisation of proceeds

The utilisation of the RM64.845 million proceeds raised from the subscription of 11,000,000 new ordinary shares of RM1.00 each in Dominant Opto Technologies Sdn Bhd by Epistar Corporation is as follows:

Purpose	Proposed Utilisation RM'000	Actual Utilisation RM'000	Transfer RM'000	Balance RM'000	Expected time frame for utilisation from date of proceeds are received (9.11.2015)
Working capital	64,405	(58,579)	14	5,840	12 months
Estimated expenses for the corporate proposal	440	(426)	(14)	-	12 months
	64,845	(59,005)	-	5,840	

B12. Off Balance Sheet Financial Instruments

There was no financial instrument with off balance sheet risk as at 19 May 2016, the latest practical date which is not earlier than 7 days from the date of issue of these financial statements.

B13. 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”)

A case management was conducted on 13 May 2016. However, no directions were given. The date for the trial has yet to be fixed by the Melaka High Court.

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

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

A case management was conducted on 13 May 2016 and the Court has fixed the matters for further case management on 30 May 2016. This is pending both parties obtaining further instructions on the further conduct on the options suggested by the Judge. The date for the re-trial has yet to be fixed by the Melaka High Court.

B14. 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 25 May 2016.