

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30 JUNE 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 and period ended 30 June 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 and period ended 30 June 2016.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30 JUNE 2016

A7. Dividend

No dividend has been declared or paid in the current quarter and period ended 30 June 2016.

A8. 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 2016.

A9. Debt and Equity Securities

During the current quarter and period ended 30 June 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 Year Quarter Ended 30 June 2016	Current Year Ended 30 June 2016
Number of new ordinary share issued	0.17	380,000	1,457,000
	0.30	75,000	139,000
Total		<u>455,000</u>	<u>1,596,000</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 and period ended 30 June 2016.

A10. Segmental Information

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

Current Year Year-To-Date 30 June 2016	Asia RM'000	Europe RM'000	USA RM'000	Others RM'000	Group RM'000
Revenue	129,943	44,932	21,138	2,360	198,373
Segment assets	404,676	27,436	1,908	180	434,200
Capital expenditure	<u>33,041</u>	<u>35</u>	<u>-</u>	<u>-</u>	<u>33,076</u>
Preceding Year Year-To-Date 30 June 2015	Asia RM'000	Europe RM'000	USA RM'000	Others RM'000	Group RM'000
Revenue	146,538	40,681	10,258	6,476	203,953
Segment assets	370,318	28,159	670	174	399,321
Capital expenditure	<u>10,204</u>	<u>16</u>	<u>-</u>	<u>-</u>	<u>10,220</u>

A11. Changes in the Composition of the Group

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30 JUNE 2016

A12. Capital Commitments

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

	As at 30 June 2016 RM'000	As at 31 December 2015 RM'000
Purchase of property, plant and equipment		
- Contracted but not provided for	20,103	10,185
- Authorised but not contracted for	8,354	7,764
	28,457	17,949

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 30 June 2016.

A14. Subsequent Events

There was no material event subsequent to the end of the financial period reported up to 23 August 2016, the latest practical date which is not earlier than 7 days from the date of issue of these financial statements, except for the following:

On 19 July 2016, the Company via its 61.84% owned subsidiary, Dominant Opto Technologies Sdn. Bhd. (“Dominant”), had entered into a joint venture agreement with Rayben Innovation Limited (“Rayben”) to set up a 51%:49% private limited company (“New Company”) in Zhuhai, Hengqin New Area in the People’s Republic of China. The Board expects the New Company to be incorporated by the end of 2016 with initial registered capital of RMB1,000,000.

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 30 June 2016 RM'000	As at 31 December 2015 RM'000
Total retained profits		
- realised	64,704	53,282
- unrealised	(40,966)	(38,838)
	23,738	14,444
Add: Consolidation adjustments	9,818	13,855
	33,556	28,299

A16. Significant Related Party Transaction

The Group carried out the following significant transactions with related parties during the current quarter and period ended 30 June 2016.

	Current Year Quarter Ended 30 June 2016 RM'000	Preceding Year Quarter Ended 30 June 2015 RM'000	Current Year Period Ended 30 June 2016 RM'000	Preceding Year Period Ended 30 June 2015 RM'000
Sales	78	77	178	171
Purchases	28,771	250	54,735	318
Others	28	28	56	55
	28,876	355	173	544

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A17. Deferred Income

	As at 30 June 2016 RM'000	As at 31 December 2015 RM'000
Non-current		
- Government grant	286	429
Current		
- Government grant	286	286
Total Deferred Income	<u>572</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 current period ended 30 June 2016, RM142,970 (2015 – RM142,970) has been amortised and recognised as other income in the profit or loss.

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

B1. Operating Segment review

2nd Q 2016 versus 2nd Q 2015

The Automotive Segment continued with its growth momentum during the current quarter under review, rising 33% year-on-year to RM84.5 million, raising its contribution to Group turnover to 84% from 56% a year ago. A sustained wind down of the Group's exposure to the highly competitive and volatile Non-Automotive Segment however resulted in an overall 11% decline in the second quarter revenue to RM100.8 million. Sales to the Non-Automotive Segment posted a 67% year-on-year decline to RM16.3 million primarily attributable to lower sales to the general lighting sub-segment.

Despite an 11% overall decrease in sales revenue, gross margin rose to 22.8% in 2Q16 (2Q15: 17.0%), bolstered by a favourable change in sales mix and a stronger US Dollar against the Malaysia Ringgit. Consequently, the Group registered a 17% increase in profit from operating activities to RM7.3 million.

Finance cost declined 20% to RM0.6 million on lower bank borrowings and a stronger balance sheet. PBT rose at slower pace of 9% to RM6.7 million in the absence of associate contribution during the current quarter (2Q15: RM0.7 million). Tongfang Optoelectronic (HK) Limited ceased to be an associate after the Group reduced its interest to below 20% in June 2015.

1st H 2016 versus 1st H 2015

First half Group revenue registered a marginal 3% year-on year decline to RM198.4 million as a robust 28% expansion in the Automotive Segment was insufficient to offset a 53% decline in the Non-Automotive Segment.

The change in sales mix, coupled with a stronger US Dollar versus the Malaysia Ringgit however resulted in significant earnings quality improvement. Gross margin rose from 18.1% a year ago to 22.6% in the current period under review. Profit from operating activities however came in flat at RM11.8 million, weighed down by forex losses (under "other expenses") resulting from a sudden strengthening of the Ringgit against the US Dollar during the first quarter.

PBT however increased 19% to RM10.5 million due to lower finance cost and the absence of associate losses (1H15: loss RM1.4 million). As explained above, Tongfang Optoelectronic (HK) Limited ceased to be an associate in June 2015.

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 3% higher at RM100.8 million. A 9% quarter-on-quarter growth in the Automotive Segment more than offset the impact from a 19% decline in Non-Automotive segment revenue.

Gross profit margin marginally improved from 22.3% in the preceding quarter to 22.8% in the current quarter mainly due to a favorable change in sales mix. On higher revenue and gross profit margin, the Group's PBT rose 75% to RM6.7 million compared to RM3.8 million in the preceding quarter.

B3. Commentary on Prospects

LED sales to the automotive industry is expected to grow steadily on new LED applications in both interior (e.g. back light display unit, ambience lighting) and exterior (e.g. tail light, head lamp) lighting. Being an approved vendor to a diversified automotive customer base, supported by strong R&D capabilities and cost effective production facilities, we believe Dominant is well positioned to capitalize on this burgeoning trend. Management is therefore optimistic that the Group's performance in the first half will be sustained in the second half of 2016, underpinned by rising orders from its automotive customers. Contribution from the Non-Automotive Segment is expected to reduce as the Group further scales back its exposure to the general lighting industry.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30 JUNE 2016

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 2016 RM'000	Preceding Year Quarter Ended 30 June 2015 RM'000	Current Year Period Ended 30 June 2016 RM'000	Preceding Year Period Ended 30 June 2015 RM'000
Current tax	319	311	613	647
Withholding tax on dividend received	290	-	290	-
	609	311	903	647

Dominant Opto Technologies Sdn Bhd has been granted pioneer status incentive under the Promotion of Investment Act 1986. This incentive will be expiring on 31 March 2017. The current taxation was mainly derived from profitable overseas subsidiaries.

B6. Borrowings

The Group's borrowings are as follows:

	As At 30 June 2016 RM'000	As At 31 December 2015 RM'000
<i>Short term borrowings</i>		
Secured denominated in Ringgit Malaysia:		
- bankers acceptances	1,407	28,256
- hire purchase	194	149
- revolving credit	29,000	30,000
	30,601	58,405
Secured denominated in Euro Dollars:		
- term loans	3,139	3,283
	33,740	61,688
<i>Long term borrowings</i>		
Secured denominated in Ringgit Malaysia:		
- hire purchase	306	221
Total Borrowings	34,046	61,909

B7. Unquoted Investments and/or Properties

Details of investment in unquoted investments are as follows:

Other unquoted investments

	As At 30 June 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

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30 JUNE 2016

B8. Earnings per Share

1. Basic

	Current Year Quarter Ended 30 June 2016	Preceding Year Quarter Ended 30 June 2015	Current Year Period Ended 30 June 2016	Preceding Year Period Ended 30 June 2015
Continuing operations				
Profit after taxation (RM'000)	6,068	5,825	9,580	8,195
Non-controlling interests (RM'000)	(2,791)	(1,810)	(4,626)	(3,684)
Profit attributable to Owners of the Company (RM'000)	<u>3,277</u>	<u>4,015</u>	<u>4,954</u>	<u>4,511</u>
Weighted average number of ordinary shares:-				
Issued ordinary shares at 1 January ('000)	988,047	977,531	988,047	977,531
Effect of new ordinary shares issued under ESOS ('000)	<u>1,306</u>	<u>302</u>	<u>1,087</u>	<u>238</u>
Weighted average number of ordinary shares for the period ('000)	<u>989,353</u>	<u>977,833</u>	<u>989,134</u>	<u>977,769</u>
Basic earnings per share (sen)	<u>0.33</u>	<u>0.41</u>	<u>0.50</u>	<u>0.46</u>

2. Diluted

	Current Year Quarter Ended 30 June 2016	Preceding Year Quarter Ended 30 June 2015	Current Year Period Ended 30 June 2016	Preceding Year Period Ended 30 June 2015
Continuing operations				
Profit attributable to Owners of the Company (RM'000) (as above)	<u>3,277</u>	<u>4,015</u>	<u>4,954</u>	<u>4,511</u>
Weighted average number of ordinary shares for the period ('000) (as above)				
Weighted average number of shares deemed to have been issued at no consideration ('000)	<u>23,733</u>	<u>21,884</u>	<u>23,733</u>	<u>21,884</u>
Weighted average number of ordinary shares for diluted earnings per share computation ('000)	<u>1,013,086</u>	<u>999,717</u>	<u>1,012,867</u>	<u>999,653</u>
Diluted earnings per share (Sen)	<u>0.32</u>	<u>0.40</u>	<u>0.49</u>	<u>0.45</u>

B9. Detailed Disclosure for Statement of Comprehensive Income

	Current Year Quarter Ended 30 June 2016 RM'000	Preceding Year Quarter Ended 30 June 2015 RM'000	Current Year Period Ended 30 June 2016 RM'000	Preceding Year Period Ended 30 June 2015 RM'000
After crediting:				
Interest income	120	8	412	16
(Loss)/Gain on disposal of property, plant and equipment	(1)	(347)	3	(325)
Gain on disposal of unquoted investment	-	-	-	31
Gain on disposal of interest in an associate	-	613	-	613
Reversal of impairment losses on trade receivables	-	(1)	42	109
After debiting:				
Amortisation of intangible assets	212	212	424	424
Depreciation	6,536	4,584	12,658	10,102
Interest expense	462	624	1,048	1,301
Inventories written down/(Reversal of inventories written down)	63	(53)	1,059	2,842
Loss on foreign exchange	1,776	1,878	1,462	1,288
Net fair value loss/(gain) on marketable securities	6	(21)	118	(18)
Property, plant and equipment written off	-	1	457	256

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 23 August 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 SECOND QUARTER ENDED 30 JUNE 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	Transfer RM'000	Proposed Utilisation (Revised) RM'000	Actual Utilisation RM'000	Balance
Working capital	64,405	14	64,419	(64,419)	-
Estimated expenses for the corporate proposal	440	(14)	426	(426)	-
	<u>64,845</u>	<u>-</u>	<u>64,845</u>	<u>(64,845)</u>	<u>-</u>

The proceeds raised has been fully utilised, according to the proposed utilisation during the current quarter under review.

B12. Off Balance Sheet Financial Instruments

There was no financial instrument with off balance sheet risk as at 23 August 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 Khoo (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 July 2016 and the Judge indicated that he will review the pleadings and would make a decision on 25 August 2016 whether the action ought to be heard immediately after Suit No. 22-132-2010. The case management on 25 August 2016 was however adjourned to 9 September 2016. 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 held on 13 May 2016. The Court gave two options to both parties either:-

- (i) to accept all evidences taken at the trial; or
- (ii) to have a fresh trial

Both Plaintiff and Defendant opted for option (i) on the case management held respectively on 30 May 2016 and 13 July 2016. The Court gave procedural directions for the trial. The case management on 25 August 2016 was adjourned to 9 September 2016. The action is fixed for trial on 17 and 18 October 2016.

The Defendant has filed an application for security for costs and was fixed for hearing on 13 July 2016. On 13 July 2016, the Court gave directions on the exchange of written submissions and to deliver its decision on 25 August 2016. On 25 August 2016, the delivery of the decision in respect of the application for security for costs was adjourned to 9 September 2016.

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 29 August 2016.