

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 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 September 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 September 2016.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2016

A7. Dividend

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

A9. Debt and Equity Securities

During the current quarter and period ended 30 September 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 September 2016 | Current Year Ended 30 September 2016 |
|-------------------------------------|---|---|---|
| Number of new ordinary share issued | 0.17 | 343,000 | 1,800,000 |
| | 0.30 | - | 139,000 |
| Total | | <u>343,000</u> | <u>1,939,000</u> |

The new ordinary shares rank pari passu with the existing 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 September 2016.

A10. Segmental Information

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

| Current Year Year-To-Date 30 September 2016 | Asia RM'000 | Europe RM'000 | USA RM'000 | Others RM'000 | Group RM'000 |
|--|------------------------|--------------------------|-----------------------|--------------------------|-------------------------|
| Revenue | 201,638 | 68,249 | 28,384 | 3,187 | 301,458 |
| Segment assets | 407,609 | 30,091 | 791 | 180 | 438,671 |
| Capital expenditure | 46,051 | 90 | 5 | - | 46,146 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Preceding Year Year-To-Date 30 September 2015 | Asia RM'000 | Europe RM'000 | USA RM'000 | Others RM'000 | Group RM'000 |
| Revenue | 234,680 | 62,657 | 16,583 | 12,228 | 326,148 |
| Segment assets | 415,985 | 32,323 | 687 | 177 | 449,172 |
| Capital expenditure | 28,954 | 28 | - | - | 28,982 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </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 THIRD QUARTER ENDED 30 SEPTEMBER 2016

A12. Capital Commitments

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

| | As at 30 September 2016 RM'000 | As at 31 December 2015 RM'000 |
|---|---|--|
| Purchase of property, plant and equipment | | |
| - Contracted but not provided for | 12,694 | 10,185 |
| - Authorised but not contracted for | 5,674 | 7,764 |
| | <u>18,368</u> | <u>17,949</u> |

A13. Changes in Contingent Liabilities or Contingent Assets

Other than as disclosed in note B12 of this report, there were no contingent liabilities or contingent assets as at 30 September 2016.

A14. Subsequent Events

There was no material event subsequent to the end of the financial period reported up to 17 November 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 30 September 2016 RM'000 | As at 31 December 2015 RM'000 |
|--------------------------------|---|--|
| Total retained profits | | |
| - realised | 70,725 | 53,282 |
| - unrealised | (42,976) | (38,838) |
| | <u>27,749</u> | <u>14,444</u> |
| Add: Consolidation adjustments | 8,327 | 13,855 |
| | <u>36,076</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 and period ended 30 September 2016.

| | Current Year Quarter Ended 30 September 2016 RM'000 | Preceding Year Quarter Ended 30 September 2015 RM'000 | Current Year Period Ended 30 September 2016 RM'000 | Preceding Year Period Ended 30 September 2015 RM'000 |
|-----------|--|--|---|---|
| Sales | 44 | 45 | 222 | 216 |
| Purchases | 24,845 | 112 | 79,580 | 430 |
| Others | <u>28</u> | <u>29</u> | <u>84</u> | <u>84</u> |

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2016

A17. Deferred Income

| | As at 30 September 2016 RM'000 | As at 31 December 2015 RM'000 |
|-----------------------|---|--|
| Non-current | | |
| - Government grant | 214 | 429 |
| Current | | |
| - Government grant | 286 | 286 |
| Total Deferred Income | <u>500</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 September 2016, RM214,454 (2015 – RM214,454) has been amortised and recognised as other income in the profit or loss.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2016
PART B: ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA SECURITIES BERHAD
LISTING REQUIREMENTS

B1. Operating Segment review

3rd Q 2016 versus 3rd Q 2015

The Automotive Segment continued with its growth momentum in the current quarter, surging 32% to RM89.2 million (2015: RM67.7 million). In line with management's deliberate shift in focus away from the highly competitive and volatile Non-Automotive Segment, the Non-Automotive Segment registered a 74% decline in revenue to RM13.9 million (2015: RM54.5 million), resulting in the overall Group turnover decreasing 16% year-on-year to RM103.1 million.

Despite a 16% decrease in sales revenue, gross margin rose to 23% in 3Q16 (3Q15: 20%), bolstered by a favourable change in sales mix and a strengthening US Dollar against the Malaysia Ringgit. Consequently, PBT rose 12% to RM6.9 million. Net profit however declined by 26% to RM4.2 million, weighed down by RM2.2 million deferred tax provision resulting from the anticipated expiry of Dominant's pioneer status tax incentive in 2017.

9 months 2016 versus 9 months 2015

Revenue in the 9-month period was 8% lower year-on-year at RM301.5 million. As in the current quarter, revenue for the 9-month period was adversely affected by a sharp 62% decline in the Non-Automotive Segment revenue to RM50.3 million. Importantly, the group's core Automotive Segment's revenue grew strongly by 29% to RM251.1 million.

Gross profit margin for the 9-month period stood at 23%, a substantial improvement from the 19% registered in the same period last year. The margin improvement came on the back of increased revenue contribution from higher margin Automotive Segment sales and a stronger US Dollar versus the Malaysia Ringgit. As a result, despite an 8% decline in revenue, Group PBT before associate loss in the corresponding period last year rose 6% to RM17.4 million. Net profit for the 9-month period was however flat year-on-year at RM13.8 million as a result of a RM2.2 million deferred tax provision in 3Q16, mitigated by the absence of associate loss of RM1.4 million in the corresponding 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 slightly higher by 2% to RM103.1 million. A 5% quarter-on-quarter growth in the Automotive Segment more than offset the impact from the 15% decline in Non-Automotive Segment revenue.

Gross profit margin at 23% was stable quarter-on-quarter. The Group reported a PBT of RM6.9 million. PAT however declined 30% to RM4.2 million resulting from a RM2.2 million deferred tax provision in 3Q16 as explained above.

B3. Commentary on Prospects

Management expects that the Group's performance in the 9-month period will be sustained in the final quarter of 2016, supported by continuing order increases from the automotive customers, partially offset by an expected further reduction in Non-Automotive sales. The effect from lower Non-Automotive revenue is however expected to have a lesser impact to future Group earnings compared to previous periods given its contribution to turnover has been reduced to 14% by 3Q16, (50% in 2014 and 36% in 2015).

To address short term capacity constraints and to cope with the anticipated medium-to-long term demand growth of the Automotive Segment, Dominant has on 4 October 2016 entered into a sales and purchase agreement to purchase the land cum factory building adjacent to the Company's existing plant in Melaka for RM11 million. The land measuring 2.4 hectare is slightly larger than the current factory site of 2.1 hectare. The purchase, which is expected to be completed within the first quarter of next year, will be funded by bank borrowings and internal generated fund. The Board believes the purchase will enable the Group to capitalise on the burgeoning automotive LED industry.

Omega, which has been dormant since 2014, has entered into a sales and purchase agreement to dispose its factory for cash consideration of RM6.5 million.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 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 September 2016 RM'000 | Preceding Year Quarter Ended 30 September 2015 RM'000 | Current Year Period Ended 30 September 2016 RM'000 | Preceding Year Period Ended 30 September 2015 RM'000 |
|---|---|---|--|--|
| Current tax | 489 | 350 | 1,102 | 997 |
| Withholding tax on dividend received | - | - | 290 | - |
| Deferred tax | 2,192 | - | 2,192 | - |
| Under provision in prior year | 2 | 143 | 2 | 143 |
| | <u>2,683</u> | <u>493</u> | <u>3,586</u> | <u>1,140</u> |

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 September 2016 RM'000 | As At 31 December 2015 RM'000 |
|--|--------------------------------------|-------------------------------------|
| <i>Short term borrowings</i> | | |
| Secured denominated in Ringgit Malaysia: | | |
| - bankers acceptances | - | 28,256 |
| - hire purchase | 215 | 149 |
| - revolving credit | 27,000 | 30,000 |
| | <u>27,215</u> | <u>58,405</u> |
| Secured denominated in Euro Dollars: | | |
| - term loans | 3,237 | 3,283 |
| | <u>30,452</u> | <u>61,688</u> |
| <i>Long term borrowings</i> | | |
| Secured denominated in Ringgit Malaysia: | | |
| - hire purchase | 340 | 221 |
| | <u>30,792</u> | <u>61,909</u> |

B7. Unquoted Investments

Details of investment in unquoted investments are as follows:

Other unquoted investments

| | As At 30 September 2016 RM'000 | As At 31 December 2015 RM'000 |
|--|--------------------------------------|-------------------------------------|
| Investment in unquoted shares (outside Malaysia) | | |
| At beginning of year, at cost | 8,530 | 8,530 |
| Partial disposal of an unquoted shares | (81) | - |
| At the end of the period/year, at cost | <u>8,449</u> | <u>8,530</u> |

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2016

B8. Earnings per Share

1. *Basic*

| | Current Year Quarter Ended 30 September 2016 | Preceding Year Quarter Ended 30 September 2015 | Current Year Period Ended 30 September 2016 | Preceding Year Period Ended 30 September 2015 |
|---|---|---|--|--|
| Continuing operations | | | | |
| Profit after taxation (RM'000) | 4,238 | 5,696 | 13,818 | 13,894 |
| Non-controlling interests (RM'000) | (1,718) | (2,042) | (6,344) | (5,726) |
| Profit attributable to Owners of the Company (RM'000) | <u>2,520</u> | <u>3,654</u> | <u>7,474</u> | <u>8,168</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>1,742</u> | <u>465</u> | <u>1,305</u> | <u>374</u> |
| Weighted average number of ordinary shares for the period (‘000) | <u>989,789</u> | <u>977,996</u> | <u>989,352</u> | <u>977,905</u> |
| Basic earnings per share (sen) | <u>0.26</u> | <u>0.37</u> | <u>0.76</u> | <u>0.84</u> |

2. *Diluted*

| | Current Year Quarter Ended 30 September 2016 | Preceding Year Quarter Ended 30 September 2015 | Current Year Period Ended 30 September 2016 | Preceding Year Period Ended 30 September 2015 |
|--|---|---|--|--|
| Continuing operations | | | | |
| Profit attributable to Owners of the Company (RM'000) (as above) | 2,520 | 3,654 | 7,474 | 8,168 |
| Weighted average number of ordinary shares for the period (‘000) (as above) | 989,789 | 977,996 | 989,352 | 977,905 |
| Weighted average number of shares deemed to have been issued at no consideration ('000) | <u>24,899</u> | <u>19,836</u> | <u>24,899</u> | <u>19,836</u> |
| Weighted average number of ordinary shares for diluted earnings per share computation ('000) | <u>1,014,688</u> | <u>997,832</u> | <u>1,014,251</u> | <u>997,741</u> |
| Diluted earnings per share (Sen) | <u>0.25</u> | <u>0.37</u> | <u>0.74</u> | <u>0.82</u> |

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2016

B9. Detailed Disclosure for Statement of Comprehensive Income

| | Current Year Quarter Ended 30 September 2016 RM'000 | Preceding Year Quarter Ended 30 September 2015 RM'000 | Current Year Period Ended 30 September 2016 RM'000 | Preceding Year Period Ended 30 September 2015 RM'000 |
|--|--|--|---|---|
| After crediting: | | | | |
| Interest income | 20 | 20 | 432 | 36 |
| Gain/(Loss) on disposal of property, plant and equipment | 19 | 88 | 22 | (237) |
| Gain on disposal of unquoted investment | 9 | - | 9 | 31 |
| Gain on disposal of interest in an associate | - | - | - | 613 |
| Reversal of impairment losses on trade receivables | - | 1 | 42 | 110 |
| After debiting: | | | | |
| Amortisation of intangible assets | 212 | 212 | 636 | 636 |
| Depreciation | 7,423 | 5,659 | 20,081 | 15,761 |
| Interest expense | 426 | 639 | 1,474 | 1,940 |
| Inventories written down | 1,660 | 312 | 2,719 | 3,154 |
| (Gain)/Loss on foreign exchange | (790) | (1,029) | 672 | 259 |
| Net fair value (gain)/loss on marketable securities | (63) | 117 | 55 | 99 |
| Property, plant and equipment written off | 8 | 6 | 465 | 262 |

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 17 November 2016, 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 17 November 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 THIRD QUARTER ENDED 30 SEPTEMBER 2016

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”)

The Court has decided to hear this case after the conclusion of the 132 Suit (before the delivery of the decision). The case is fixed for Case Management on 4th January 2017 for parties to file additional bundle of documents, if any.

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

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

The matter is fixed for full retrial on 4th, 5th and 6th January 2017. The earlier retrial dates have been vacated.

The next Case management date is fixed for 20th December 2016. The Parties are to file their additional witness statements by this date.

The Defendant’s application for security for costs was dismissed with costs on 9th September 2016.

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 23 November 2016.