

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2019
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) and Issuers Communication No. 1/2017 – Guidance on Disclosures in Notes to Quarterly Report issued by Bursa Securities. This interim financial report should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018.

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 2018, except for the adoption of the following Amendments and Annual improvement to Standards that came into effect on 1 January 2019:-

MFRS 16 Leases

Amendments to MFRS 9: Prepayment Features with Negative Compensation

Amendments to MFRS 119: Plan Amendment, Curtailment or Settlement

Amendments to MFRS 128: Long-term Interests in Associates and Joint Ventures

IC Interpretation 23 Uncertainty Over Income Tax Treatments

Annual Improvements to MFRS Standards 2015-2017 Cycles

The initial applications of the above do not have any material financial impacts to the financial statements of the Group except for MFRS16.

MFRS 16 Leases

MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and will replace the current guidance on lease accounting when it becomes effective. Under MFRS 16, the classification of leases as either finance leases or operating leases is eliminated for lessees. All lessees are required to recognise their leased assets and the related lease obligations in the statement of financial position (with limited exceptions). The leased assets are subject to depreciation and the interest on lease liabilities are calculated using the effective interest method.

There are recognition exemptions for short-term leases and leases of low-value items. These leases, accounting remains similar to the current standard which continues to be classified as finance or operating lease.

As allowed by the transitional provision, the Group applies MFRS 16 with effect from 1 January 2019, using the modified retrospective approach, with no restatement of comparative information. The effect from the adoption of MFRS 16 is stated in Note A16.

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
Amendments to MFRS 3: Definition of a Business	1 January 2020
Amendments to MFRS 101 and MFRS 108: Definition of a Material	1 January 2020
Amendments to References to the Conceptual Framework in MFRS Standards	1 January 2020
MFRS 17 Insurance Contracts	1 January 2021
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2019

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 2019.

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 2019.

A7. Dividend

The proposed dividend payment in the current quarter ended 31 March 2019 is disclosed in Note B12.

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 2019.

A9. Debt and Equity Securities

During the current quarter ended 31 March 2019, the Company has:

- (a) Issued new ordinary shares arising from the exercise of options under the Company's Employees' Share Option Scheme ("ESOS") as follows:-

	Issue Price per share	Current Year Quarter Ended 31 March 2019 No of shares
	RM	
Exercise of ESOS	0.17	1,770,000
Exercise of ESOS	0.25	150,000
Exercise of ESOS	0.28	838,800
Exercise of ESOS	0.30	1,141,500
Exercise of ESOS	0.495	440,000
Total		<u>4,340,300</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 ended 31 March 2019.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2019

A10. Segmental Information

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

Current Year					
Year-To-Date	Asia	Europe	USA	Others	Group
31 March 2019	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	68,212	26,688	14,136	4,019	113,055
Segment assets	507,383	33,935	1,923	4	543,245
Capital expenditure	15,908	4	-	-	15,912
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Preceding Year					
Year-To-Date	Asia	Europe	USA	Others	Group
31 March 2018	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	70,182	25,757	13,352	3,790	113,081
Segment assets	454,136	28,577	1,850	183	484,746
Capital expenditure	7,355	9	-	-	7,364
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A11. Changes in the Composition of the Group

There were no changes in the composition of the Group for the current quarter ended 31 March 2019 except for:

Incorporation of a new subsidiary, DOT Semiconductor Inc.

Dominant Opto Technologies Sdn Bhd (“Dominant”), an 89.79% owned subsidiary of D&O, had on 30 January 2019 acquired and subscribed a total of seven hundred and fifty thousand (750,000) shares in DOT Semiconductor Inc (“DOT”), a company incorporated in the United States, representing seventy five percentage (75%) of DOT’s issued share capital at a total consideration of USD1,000,000 to be paid in stages. As at 31 March 2019, USD263,300 has been paid.

The principal activity of DOT is to design and develop integrated circuit (“IC”) chips for automotive LED applications.

A12. Capital Commitments

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

	As at	As at
	31 March 2019	31 December 2018
	RM'000	RM'000
Purchase of property, plant and equipment	35,748	34,895
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A13. Changes in Contingent Liabilities or Contingent Assets

There were no contingent liabilities or contingent assets as at 31 March 2019.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2019

A14. Subsequent Material Events

There was no material event subsequent to the end of the financial year reported up to 17 May 2019, the latest practicable date which is not earlier than 7 days from the date of issue of these financial statements except for:

Incorporation of a new subsidiary, Dominant Integrated Circuits Sdn Bhd

The Company had on 15 May 2019 incorporated a new subsidiary known as Dominant Integrated Circuits Sdn Bhd (“Dominant IC”), a wholly owned subsidiary of Dominant. Dominant IC was incorporated in Malaysia under the Malaysia Companies Act 2016. The principal activity of Dominant IC is to design, develop and sales of integrated circuit (“IC”) chips for LED applications.

A15. Significant Related Party Transaction

The Group carried out the following significant transactions with related parties during the current quarter ended 31 March 2019.

	Current Year Quarter Ended 31 March 2019 RM'000	Preceding Year Quarter Ended 31 March 2018 RM'000
Purchases	24,782	23,684
Rental	37	28

A16. Changes in accounting policies – Operating leases

As of 1 January 2019, the Group has recognised right-of-use assets of RM1.51 million and a corresponding lease liability of RM1.51 million in respect of land and building, motor vehicles and information technology equipments. The Group adopted MFRS 16: Leases accounting policy as of 1 January 2019 applying the simplified transition approach, and did not restate comparative amounts for the year prior to first adoption of the standard.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2019
PART B: ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA SECURITIES BERHAD
LISTING REQUIREMENTS

B1. Operating Segment review

1Q Year-on-Year Earnings Performance Review

	Current Year	Preceding Year	
	Quarter Ended	Quarter Ended	
	31 March 2019	31 March 2018	% Change
	(RM mil)	(RM mil)	
Revenue			
- Automotive	109.66	106.75	2.7%
- Non-Automotive	3.40	6.33	-46.3%
	113.06	113.08	0.0%
Gross Profit	30.55	30.84	-0.9%
Gross margin	27.0%	27.3%	
Net Other Expense	(1.98)	(4.07)	-51.4%
Distribution expenses	(1.72)	(1.48)	16.2%
Administrative expenses	(11.92)	(10.60)	12.5%
R&D expenses	(5.95)	(4.36)	36.5%
Finance costs	(0.73)	(0.46)	58.7%
PBT	8.25	9.87	-16.4%
Income Tax	(1.47)	(2.22)	-33.8%
Net Profit	6.78	7.65	-11.4%
Significant other income/(expense) items			
Foreign exchange gain/(loss)	0.50	(1.60)	-131.3%
ESOS	(1.49)	(0.76)	96.1%
Inventory write off	(1.22)	(1.32)	-7.3%
Asset realization	(0.07)	(0.60)	-88.3%

Group revenue in the current quarter was flat year-on-year at RM113.1 million. A 2.7% growth in Automotive revenue, bolstered by a 2.1% weakening of the Malaysia Ringgit against the export currencies, was offset by a 46.3% decline in non-automotive revenue.

During the current quarter under review, top line growth performance was adversely affected by continued weakness in new car sales across the Group's major markets. Notably, new light and passenger car sales in China fell 13.2%, while the European Union and the USA registered negative growth of 3.2% and 2.0% respectively during the period. The overall operating environment was challenging resulting from weaker consumer sentiment and heightened geo-political risks.

Gross profit margin was marginally lower at 27.0% when compared to 27.3% in the same period a year ago. The slightly lower gross margin was mainly attributable to lower capacity utilisation. Pre-tax profit fell 16.4% to RM8.3 million owing to higher distribution and administrative expenses and R&D costs, partially offset by lower other net expense. Other net expense was lower mainly as a result of foreign exchange gain of RM0.5 million compared to a foreign exchange loss of RM1.6 million in the same period last year,

Net profit declined at a slower pace of 11% to RM6.8 million due to a lower effective tax rate on higher capital and reinvestment allowances.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2019

B1. Operating Segment review (cont'd)

Changes in key Balance Sheet items during the 3 months period

	As At 31 March 2019 (RM mil)	As At 31 December 2018 (RM mil)	Explanation
Non-Current Assets			
Property, Plant and Equipment	197.7	190.5	Capex in 1Q2019 totaled RM15.9 million on purchases of tools and equipment for new product lines, upgrades of existing machinery and equipment, plant automation and improvements on quality control processes, and renovation of the new factory, partially offset by RM7.9 million depreciation charge and RM0.07 million in asset write off.
Current Assets			
Inventories	145.7	150.1	Inventory declined as part of inventory holding realignment on slower customer offtake.
Trade Receivables	91.1	102.4	Trade receivable reduced RM11.3 million on lower sales revenue in 1Q2019 when compared to 4Q2018.
Current Liabilities			
Trade Payables	88.4	125.2	Trade payable decreased by RM36.8 million due to lower purchases according to production loading.

Cash flow analysis for 3-month period ended 31 March 2019

Before changes in working capital, the Group generated a positive RM18.7 million cash flow from its operations. Including changes in working capital, interest and income tax payments, the Group generated a negative cash flow of RM11.5 million from its operating activities. During the period, net working capital increased RM27.1 million as a result a RM41.7 million net payment of trade and other payables, which more than offset the RM14.5 million decrease in inventory and trade and other receivable on lower production loading and sales (when compared to 4Q2018).

In the same period, the Group spent RM15.9 million on capital expenditure as explained above. The cash outflow from operating and investing activities were partially financed by banking facilities and RM1.1 million new capital raised from the exercise of ESOS. Consequently, the Group swung from a net cash position of RM3.2 million to a net debt position of RM23.8 million.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2019

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

	Current Year Quarter Ended 31 March 2019 (RM mil)	Preceding Year Quarter Ended 31 December 2018 (RM mil)	% Change
Revenue			
- Automotive	109.66	135.92	-19.3%
- Non-Automotive	3.40	4.66	-27.0%
	113.06	140.58	-19.6%
Gross Profit	30.55	41.78	-26.9%
Gross margin	27.0%	29.7%	
Other (Expense)/Income	(1.98)	(3.70)	-46.5%
Distribution expenses	(1.72)	(1.65)	4.2%
Administrative expenses	(11.92)	(10.72)	11.2%
R&D expenses	(5.95)	(8.10)	-26.5%
Finance costs	(0.73)	(0.57)	28.1%
PBT	8.25	17.04	-51.6%
Income Tax	(1.47)	(3.19)	-53.9%
Net Profit	6.78	13.85	-51.0%
Significant other income/expense items			
Foreign exchange (loss)/gain	0.50	(1.52)	-132.9%
ESOS	(1.49)	(3.18)	-53.1%
Provision for doubtful debts	-	(0.58)	NM
Government R&D grant	-	0.99	NM
Asset realization	(0.07)	(0.48)	-85.4%
Unutilised leaves	-	1.35	NM

Group turnover fell 20% to RM113.1 million when compared to the preceding quarter. Revenue from the Automotive Segment declined 19% quarter-on-quarter to RM109.7 million on seasonally lower demand from China due to the Lunar New Year break. In contrast, demand is seasonally the strongest in the fourth quarter on strong deliveries ahead of the Lunar New Year celebration and other year-end festive seasons.

Gross profit margin at 27.0% was 3% lower when compared to 30% achieved in the previous quarter mainly due to lower capacity utilisation. Consequently, gross profit declined at a sharper rate than revenue at 37% to RM30.6 million. Lower gross profit and higher distribution and administrative expenses, partially offset by lower R&D expenses and net other expenses as disclosed above, resulted in a 52% decline in pre-tax profit to RM8.3 million.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2019

B3. Commentary on Prospects

Consumer sentiments, especially in China, are expected to remain on tenterhooks amidst a slowing global economy and a heightened geopolitical risk as the trade spat between the US and China deepens. While the market remains challenging, management remains optimistic to continue sustaining its performance in the remaining quarters of 2019, thanks to its robust business wins line up and traction with existing customers.

We believe the long-term prospects for LED in the automotive space remains bright, underpinned by LED's superior endurance, high energy efficiency, excellent design versatility and high cost effectiveness, which collectively make LED the preferred lighting technology compared to the other lighting technologies. Automakers' pursuit of enhanced safety and aesthetic appeal through innovative lighting features would also mean increased demand for LED volume in every new car design.

In line with industry trends and customer demand, and in anticipation of strong demand growth for system integrated LED packages, Dominant has incorporated two new subsidiaries, namely Dominant Electronics Sdn Bhd and Dominant Integrated Circuits Sdn Bhd to complement its existing component manufacturing capability.

The renovation of the new factory building is progressing on schedule and we expect to move the offices into the new building in 4Q2019.

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 2019 RM'000	Preceding Year Quarter Ended 31 March 2018 RM'000
Current tax	1,469	2,220
	<u>1,469</u>	<u>2,220</u>

The effective tax rate for the current quarter ended was lower than Malaysia statutory tax rate of 24% due to capital allowances and reinvestment allowance.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2019

B6. Borrowings

The Group's borrowings are as follows:

	Exchange rate*	As at 31 March 2019					
		Long term		Short term		Total borrowings	
		Foreign denomination RM'000	RM denomination RM'000	Foreign denomination RM'000	RM denomination RM'000	Foreign denomination RM'000	RM denomination RM'000
Secured:							
<i>Hire purchase</i>		-	484	-	220	-	704
<i>Term loan</i>							
-USD	4.09	5,680	-	9,002	-	14,682	-
-EURO	4.59	-	-	3,210	-	3,210	-
-RM		-	9,321	-	1,761	-	11,082
<i>Revolving credit</i>		-	-	-	10,000	-	10,000
<i>Bankers acceptances</i>		-	-	-	22,289	-	22,289
		<u>5,680</u>	<u>9,805</u>	<u>12,212</u>	<u>34,270</u>	<u>17,892</u>	<u>44,075</u>
Sub-total			<u>15,485</u>		<u>46,482</u>		<u>61,967</u>
	Exchange rate*	As at 31 December 2018					
		Long term		Short term		Total borrowings	
		Foreign denomination RM'000	RM denomination RM'000	Foreign denomination RM'000	RM denomination RM'000	Foreign denomination RM'000	RM denomination RM'000
Secured:							
<i>Hire purchase</i>		-	539	-	220	-	759
<i>Term loan</i>							
-USD	4.14	7,115	-	10,461	-	17,576	-
-EURO	4.80	-	-	3,310	-	3,310	-
-RM		-	4,107	-	1,727	-	5,834
<i>Revolving credit</i>		-	-	-	12,500	-	12,500
<i>Bankers acceptances</i>		-	-	-	7,606	-	7,606
		<u>7,115</u>	<u>4,646</u>	<u>13,771</u>	<u>22,053</u>	<u>20,886</u>	<u>26,699</u>
Sub-total			<u>11,761</u>		<u>35,824</u>		<u>47,585</u>

*The foreign exchange rate used is expressed on the basis of one unit of foreign currency to Ringgit Malaysia equivalent for the translation of the foreign currency balances at the end of the reporting period.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2019

B7. Unquoted Investments

Details of investment in unquoted investments are as follows:

Other unquoted investments

	As At 31 March 2019 RM'000	As At 31 December 2018 RM'000
Investment in unquoted shares (outside Malaysia)		
At the beginning of year, at cost	5,123	8,374
Changes in accounting policies	-	(3,147)
	5,123	5,227
Disposal of an unquoted shares	-	(104)
At the end of the period/year, at cost	5,123	5,123

B8. Earnings per Share

1. Basic

	Current Year Quarter Ended 31 March 2019	Preceding Year Quarter Ended 31 March 2018
Continuing operations		
Profit after taxation (RM'000)	6,783	7,648
Non-controlling interests (RM'000)	(743)	(2,516)
Profit attributable to Owners of the Company (RM'000)	6,040	5,132
Weighted average number of ordinary shares:-		
Issued ordinary shares at 1 January ('000)	1,102,434	1,004,030
Effect of new ordinary shares issued under ESOS ('000)	2,835	2,931
Effect of new ordinary shares issued under ICPS ('000)	-	245
Weighted average number of ordinary shares for the period ('000)	1,105,269	1,007,206
Basic earnings per share (sen)	0.55	0.51

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2019

B8. Earnings per Share (con't)

2. *Diluted*

	Current Year Quarter Ended 31 March 2019	Preceding Year Quarter Ended 31 March 2018
Continuing operations		
Profit attributable to Owners of the Company (RM'000) (as above)	6,040	5,132
Weighted average number of ordinary shares for the period ('000) (as above)	1,105,269	1,007,206
Weighted average number of shares deemed to have been issued under ESOS at no consideration ('000)	38,229	50,614
Weighted average number of shares deemed to have been issued under ICPS at no consideration ('000)	377,074	450,434
Weighted average number of ordinary shares for diluted earnings per share computation ('000)	1,520,572	1,508,254
Diluted earnings per share (Sen)	0.40	0.34

B9. Detailed Disclosure for Statement of Comprehensive Income

	Current Year Quarter Ended 31 March 2019 RM'000	Preceding Year Quarter Ended 31 March 2018 RM'000
After crediting:		
Interest income	23	20
Gain on disposal of unquoted investment	-	16
After debiting:		
Amortisation of intangible assets	54	212
Depreciation	7,889	7,100
Depreciation on right-of-use assets	194	-
Interest expense	568	350
Interest expense on lease liabilities	15	-
Inventories written down	1,292	1,346
Loss on disposal of property, plant and equipment	-	503
(Gain)/Loss on foreign exchange	(498)	1,603
Property, plant and equipment written off	79	85
Net fair value loss on marketable securities	-	61
Fair value loss/(gain) on derivatives	160	(297)

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

- a) gain or loss on disposal of quoted investments

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2019

B10. Corporate Proposals

There was no corporate proposal announced but not completed as at 17 May 2019, the latest practicable 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 May 2019, the latest practicable date which is not earlier than 7 days from the date of issue of these financial statements.

B12. Dividend

Ordinary Share

The Board of Directors proposes an interim single-tier-tax dividend of 0.5 sen per ordinary share for the financial year ending 31 December 2019. The proposed dividend has not been included as a liability in these financial statements. The entitlement and payment dates can be found in the notice dated 17 May 2019.

Irredeemable Convertible Preference Shares (“ICPS”)

The Board of Directors proposes an interim single-tier-tax dividend of 0.5 sen per ICPS share for the financial year ending 31 December 2019. The proposed dividend has not been included as a liability in these financial statements. The entitlement and payment dates can be found in the notice dated 17 May 2019.

B13. Material Litigation

The Group is not involved in any material litigation as at the date of this report.

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 23 May 2019.