

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2020
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 2019.

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 2019, except for the adoption of the following Amendments and Annual improvement to Standards that came into effect on 1 January 2020:-

Amendments to MFRS 3: Definition of a Business
Amendments to MFRS 9, MFRS 139 and MFRS 7: Interest Rate Benchmark Reform
Amendments to MFRS 101 and MFRS 108: Definition of Material
Amendments to References to the Conceptual Framework in MFRS Standards

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 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

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 2020.

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 2020.

A7. Dividend

No dividend has been declared or paid in the current quarter ended 31 March 2020.

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 2020.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2020

A9. Debt and Equity Securities

During the current quarter ended 31 March 2020, 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 2020 No of shares
	RM	
Exercise of ESOS	0.17	2,370,000
Exercise of ESOS	0.25	100,000
Exercise of ESOS	0.28	1,707,600
Exercise of ESOS	0.30	1,158,000
Exercise of ESOS	0.495	1,218,000
Exercise of ESOS	0.725	195,000
Total		6,748,600

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 2020.

A10. Segmental Information

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

Current Year Year-To-Date 31 March 2020	Asia RM'000	Europe RM'000	USA RM'000	Others RM'000	Group RM'000
Revenue	69,354	33,083	12,453	3,299	118,189
Segment assets	586,022	40,794	6,339	-	633,155
Capital expenditure	6,802	111	-	-	6,913
Preceding Year Year-To-Date 31 March 2019	Asia RM'000	Europe RM'000	USA RM'000	Others RM'000	Group 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

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 2020.

A12. Capital Commitments

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

	As at 31 March 2020 RM'000	As at 31 December 2019 RM'000
Purchase of property, plant and equipment	33,075	26,524

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2020

A13. Changes in Contingent Liabilities or Contingent Assets

There were no contingent liabilities or contingent assets as at 31 March 2020.

A14. Significant Event During the Reporting Period

The Malaysia government implemented Movement Control Order (MCO) on 18 March 2020 in response to the Covid-19 pandemic in the country. On 21 March 2020, Dominant Opto Technologies Sdn Bhd (“Dominant”) received approval from the Ministry of International Trade and Industry (“MITI”) to operate at approximately 20% of its headcount capacity. The reduced headcount capacity significantly impaired manufacturing productivity during the period from 18 March 2020 to 31 March 2020, resulting in higher unabsorbed overheads and lower gross profit margin in the current quarter under review.

A15. Significant Events After the Reporting Period

There was no significant event subsequent to the end of the financial period reported up to 10 June 2020, the latest practicable date which is not earlier than 7 days from the date of issue of these financial statements, except for:

(a) Movement Control Order (“MCO”)

On 9 April 2020, MITI approved the increase of headcount capacity from 20% to 50%. Dominant was allowed to operate at full capacity starting from 29 April 2020 on condition that Dominant put in place precautionary procedures to prevent Covid-19 from spreading.

To curb the spread of Covid-19 virus, many automakers across the US and Europe temporarily halted production for varying periods of between one and two months in the months of March to May 2020.

The reduced headcount capacity in April 2020 and subdued LED demand in the April-May period resulting from temporary plant closures of automakers in the US and Europe are expected to have a negative impact on the Group’s sales revenue and profitability in the second quarter of this year.

(b) Incorporation of a new subsidiary, Dominant Technologies (Taiwan) Co. Ltd.

The Company had on 13 May 2020 through its 89.79% effective equity interest subsidiary, Dominant Technologies Sdn Bhd (“DTSB”), incorporated a new subsidiary known as, 台湾统明亮科技有限公司 or Dominant Technologies (Taiwan) Co. Ltd (“Dominant Taiwan”). Dominant Taiwan was incorporated in Taiwan, Republic of China under the Taiwan Company Act. The intended business activities of Dominant Taiwan are design, develop and wholesale of integrated circuits chips for LED applications.

A16. Significant Related Party Transaction

The Group carried out the following significant transactions with related parties during the current quarter ended 31 March 2020.

	Current Year Quarter Ended 31 March 2020 RM'000	Preceding Year Quarter Ended 31 March 2019 RM'000
Purchases	28,929	24,782
Rental	47	37

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2020
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 Quarter Ended 31 March 2020 (RM mil)	Preceding Year Quarter Ended 31 March 2019 (RM mil)	% Change
Revenue			
- Automotive	115.47	109.66	5.3%
- Non-Automotive	2.72	3.40	-20.0%
	118.19	113.06	4.5%
Gross Profit	30.22	30.55	-1.1%
<i>Gross margin</i>	25.6%	27.0%	
Net Other Expense	(3.87)	(1.98)	95.5%
Distribution expenses	(1.80)	(1.72)	4.7%
Administrative expenses	(13.13)	(11.92)	10.2%
R&D expenses	(5.03)	(5.95)	-15.5%
Finance costs	(0.90)	(0.73)	23.3%
PBT	5.49	8.25	-33.5%
Income Tax	(1.12)	(1.47)	-23.8%
Net Profit	4.37	6.78	-35.5%
Significant other income/(expense) items			
Foreign exchange (loss)/gain	(1.70)	0.50	-440.0%
ESOS	(0.27)	(1.49)	-81.9%
Amortisation	(0.26)	(0.05)	420.0%
Customer compensation	(0.54)	(0.04)	1,250.0%
Interest income	0.15	0.02	650.0%
Inventory impairment	(1.36)	(1.22)	11.5%

The Group reported a 4.5% year-on-year growth in revenue for the current quarter to RM118.2 million, propelled by a 5.3% growth in Automotive Segment revenue to RM115.5 million. The negative effects of the Covid-19 pandemic were not felt until the second half of March 2020.

Gross profit however fell slightly by 1.1% to RM30.2 million. Gross profit margin slipped from 27.0% in the preceding year corresponding quarter to 25.6% in the current quarter under review. The margin deterioration was attributable to underutilisation of manufacturing capacity during the MCO period starting from 18 March 2020. During the period between 18 March 2020 and 31 March 2020, Dominant was allowed to operate only up to 20% of its headcount capacity staff. This resulted in unabsorbed production overheads during this period being charged to Profit and Loss in the current quarter.

Pre-tax profit declined 33.5% to RM5.5 million. Aside from lower gross profit margin, pre-tax profit was negatively impacted by higher unrealized forex losses, and higher distribution and administrative expenses, partially offset by lower R&D expenses.

B1. Operating Segment review (cont'd)

1Q Year-on-Year Earnings Performance Review (Cont'd)

The Group recorded a RM1.7 million forex loss (verses forex gain of RM0.5 million in 1Q2019) due to translation loss of US Dollar denominated liabilities on a weaker Malaysia Ringgit. Distribution and administrative expenses rose 9.5% to RM14.9 million mainly as result of Dominant's expansion into LED module manufacturing and integrated circuit design, and translation loss of overseas sales office expenditure on a weaker Malaysia Ringgit. R&D expenses fell 15.5% to RM5.03 million on fewer outsourced product reliability testing following a major upgrade of Dominant's in-house laboratory capabilities

Changes in key Balance Sheet items during the 3-months period

	As At 31 March 2020 (RM mil)	As At 31 December 2019 (RM mil)	Explanation
Non-Current Assets			
Property, Plant and Equipment	219.5	222.2	Decrease was due to RM9.6 million depreciation charge for the period, partially offset by RM6.9 million CAPEX on tools and equipment for new product lines, machinery upgrades, plant automation, QC improvements and construction of new factory.
Current Assets			
Inventories	157.5	151.6	Increase in minimum stock level ("MSL") holding for key raw materials to lower the risk of supply interruptions during the Covid-19 pandemic.
Trade Receivables	99.9	117.2	Decrease was due to lower revenue in 1Q2020 when compared to 4Q2019.
Current Liabilities			
Trade Payables	99.0	113.9	Decrease was in line with lower purchases in accordance to production loading.

Cash flow analysis for 3-month period ended 31 March 2020

The Group generated a positive RM9.9 million cash flow from its operations (1Q2019: negative cash flow RM11.5 million). In the same period, the Group spent RM6.9 million on capital expenditure as explained above. RM2.0 million of new capital was raised during the quarter from the exercise of ESOS options. Consequently, Group's net debt position improved from RM37.4 million on 31 December 2019 to RM32.4 million as at 31 March 2020.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2020

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

	Current Year Quarter Ended 31 March 2020 (RM mil)	Preceding Year Quarter Ended 31 December 2019 (RM mil)	% Change
Revenue			
- Automotive	115.47	146.46	-21.2%
- Non-Automotive	2.72	4.01	-32.2%
	118.19	150.47	-21.5%
Gross Profit	30.22	44.69	-32.4%
<i>Gross margin</i>	25.6%	29.7%	
Net Other Expense	(3.87)	(3.05)	26.9%
Distribution expenses	(1.80)	(2.70)	-33.3%
Administrative expenses	(13.13)	(13.16)	-0.2%
R&D expenses	(5.03)	(5.75)	-12.5%
Finance costs	(0.90)	(1.07)	-15.9%
PBT	5.49	18.96	-71.0%
Income Tax	(1.12)	(3.44)	-67.4%
Net Profit	4.37	15.52	-71.8%
Significant other income/(expense) items			
Foreign exchange (loss)/gain	(1.70)	2.49	-168.3%
ESOS	(0.27)	(1.18)	-77.1%
Amortisation	(0.26)	(0.89)	-70.8%
Customer compensation	(0.54)	(0.40)	35.0%
Inventories impairment	(1.36)	(2.82)	-51.8%

When compared to 4Q2019, revenue in the current quarter was 21.5% lower at RM118.2 million. Seasonally, the last quarter of the year is the strongest as a result of strong deliveries ahead of year end festivities and the Lunar New Year celebrations. Additionally, revenue in the current quarter was negatively impacted by the MCO in the second half of March.

Gross profit declined 32.4% to RM30.2 million on lower sales revenue and gross margin compression. Gross profit margin fell from 29.7% in the preceding quarter to 25.6% in the current quarter on lower manufacturing capacity utilisation, compounded by inefficient headcount utilisation during the MCO period.

Pre-tax profit declined 71.0% sequentially to RM5.5 million mainly due to the decline in gross profit.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2020

B3. Commentary on Prospects

We expect the second quarter revenue and margins to be negatively impacted by pandemic-related production shutdown by automakers across the US and Europe, recession-induced decline in car demand and productivity loss arising from lower headcount and production capacity utilisation during the MCO period. Despite the difficult operating condition, we are optimistic the financial performance remains satisfactory in the second quarter, supported by timely cost containment measures, cash conservation efforts and a strong balance sheet.

Further out in 2H2020, Dominant's production has returned to near normalcy in June 2020. MITI's cap on headcount utilisation was officially lifted at the end of April 2020, allowing Dominant to fully utilise its headcounts to plan and produce in accordance to market condition.

Demand side, car sales in China, being the first major country to reopen its economy, has rebounded strongly to register a 4.4% year-on-year growth in April 2020. Early flash estimates point to a stronger growth rate in the month of May. As the other major economies of the US and Europe gradually reopens and production halts lifted, we expect automotive LED demand in these two major markets to recover progressively in 2H2020.

Overall, Dominant has seen LED demand orders picking up strongly to near pre-pandemic levels in June 2020. With continuous recovery of Dominant's largest market, China, and expected progressive recovery in the US and Europe, management is optimistic of the LED demand outlook for the second half of this year.

In the longer term, management is bullish of the prospects of the automotive LED industry. We believe it holds tremendous growth potential due to rapidly rising LED intensity in new car designs as automakers pursue better safety features, higher aesthetic appeal and comfort standards. To capture a larger slice of this evolving trend, Dominant will continue to focus its resources in developing innovative products, including Smart RGB LED to meet changing customer demands and requirements.

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 2020 RM'000	Preceding Year Quarter Ended 31 March 2019 RM'000
Current tax	2,882	1,469
Deferred tax	(1,762)	-
	<u>1,120</u>	<u>1,469</u>

The effective tax rate for the current quarter was lower than the 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 2020

B6. Borrowings

The Group's borrowings are as follows:

	Exchange rate*	As at 31 March 2020					
		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>Term loan</i>							
-USD	4.31	19,663	-	27,828	-	49,491	-
-EURO	4.74	-	-	3,315	-	3,315	-
-RM		-	17,492	-	6,799	-	24,291
<i>Revolving credit</i>							
Bankers acceptances							
-USD	4.31	-	-	33,395	-	33,395	-
		19,663	17,492	64,538	8,799	86,201	26,291
Sub-total			37,155		73,337		110,492

	Exchange rate*	As at 31 December 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>Term loan</i>							
-USD	4.09	22,342	-	26,781	-	49,123	-
-EURO	4.59	-	-	3,213	-	3,213	-
-RM		-	15,007	-	6,835	-	21,842
<i>Revolving credit</i>							
Bankers acceptances							
-USD	4.09	-	-	22,931	-	22,931	-
		22,342	15,007	52,925	8,835	75,267	23,842
Sub-total			37,349		61,760		99,109

*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 2020

B8. Earnings per Share

1. *Basic*

	Current Year Quarter Ended 31 March 2020	Preceding Year Quarter Ended 31 March 2019
Continuing operations		
Profit after taxation (RM'000)	4,371	6,783
Non-controlling interests (RM'000)	(457)	(743)
Profit attributable to Owners of the Company (RM'000)	<u>3,914</u>	<u>6,040</u>
Weighted average number of ordinary shares:-		
Issued ordinary shares at 1 January ('000)	1,119,001	1,102,434
Effect of new ordinary shares issued under ESOS ('000)	5,211	2,835
Weighted average number of ordinary shares for the period ('000)	<u>1,124,212</u>	<u>1,105,269</u>
Basic earnings per share (sen)	<u>0.35</u>	<u>0.55</u>

2. *Diluted*

	Current Year Quarter Ended 31 March 2020	Preceding Year Quarter Ended 31 March 2019
Continuing operations		
Profit attributable to Owners of the Company (RM'000) (as above)	<u>3,914</u>	<u>6,040</u>
Weighted average number of ordinary shares for the period ('000) (as above)		
Weighted average number of shares deemed to have been issued under ESOS at no consideration ('000)	1,124,212	1,105,269
Weighted average number of shares deemed to have been issued under ICPS at no consideration ('000)	22,786	38,229
Weighted average number of ordinary shares for diluted earnings per share computation ('000)	<u>377,074</u>	<u>377,074</u>
Diluted earnings per share (Sen)	<u>1,524,072</u>	<u>1,520,572</u>
	<u>0.26</u>	<u>0.40</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2020

B9. Detailed Disclosure for Statement of Comprehensive Income

	Current Year Quarter Ended 31 March 2020 RM'000	Preceding Year Quarter Ended 31 March 2019 RM'000
After crediting:		
Interest income	150	23
After debiting:		
Amortisation of intangible assets	264	54
Depreciation	9,572	7,889
Depreciation on right-of-use assets	280	194
Interest expense	811	568
Interest expense on lease liabilities	14	15
Inventories written down	1,357	1,224
Loss/(Gain) on foreign exchange	1,702	(498)
Property, plant and equipment written off	51	79

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

- a) gain or loss on disposal of quoted investments

B10. Corporate Proposals

There was no corporate proposal announced but not completed as at 10 June 2020, 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 10 June 2020, the latest practicable date which is not earlier than 7 days from the date of issue of these financial statements.

B12. Material Litigation

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

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 16 June 2020.