

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 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 and period ended 30 September 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 and period ended 30 September 2020.

A7. Dividend

No dividend paid in the current quarter and period ended 30 September 2020.

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 2020.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2020

A9. Debt and Equity Securities

During the current quarter and period ended 30 September 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 RM	Current Year Quarter Ended 30 September 2020 No of shares	Current Year Period Ended 30 September 2020 No of shares
Exercise of ESOS	0.170	4,080,000	7,000,000
Exercise of ESOS	0.250	62,500	162,500
Exercise of ESOS	0.280	1,781,200	4,993,300
Exercise of ESOS	0.300	1,833,000	3,391,000
Exercise of ESOS	0.495	472,000	2,050,000
Exercise of ESOS	0.725	376,500	571,500
Total		8,605,200	18,168,300

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 2020.

A10. Segmental Information

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

Current Year Year-To-Date 30 September 2020	Asia RM'000	Europe RM'000	USA RM'000	Others RM'000	Group RM'000
Revenue	246,114	80,789	28,058	11,248	366,209
Segment assets	635,833	40,802	1,379	-	678,014
Capital expenditure	38,877	147	-	-	39,024
Preceding Year Year-To-Date 30 September 2019	Asia RM'000	Europe RM'000	USA RM'000	Others RM'000	Group RM'000
Revenue	225,598	79,008	37,283	11,951	353,840
Segment assets	556,350	30,837	3,403	-	590,590
Capital expenditure	58,645	8	3	-	58,656

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 30 September 2020 except for:

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2020

A12. Capital Commitments

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

	As at 30 September 2020 RM'000	As at 31 December 2019 RM'000
Purchase of property, plant and equipment	39,684	26,524

A13. Changes in Contingent Liabilities or Contingent Assets

There were no contingent liabilities or contingent assets as at 30 September 2020.

A14. Significant Event During the Reporting Period

There was no significant event during the financial period reported, except for:

Movement Control Order (“MCO”)

The Malaysia government implemented Movement Control Order (MCO) on 18 March 2020 in response to the Covid-19 pandemic in the country. Dominant continue to operate at approximately 20% capacity from 21 March 2020 until a new approval was granted on 9 April 2020 from MITI to allow Dominant to operate at 50% installed capacity. Subsequently, Dominant was allowed to operate at full capacity starting from 29 April 2020. The underutilisation of capacity during these periods have adversely impacted the Group's revenue as well as costs of production.

A15. Significant Events After the Reporting Period

There was no significant event subsequent to the end of the financial period reported up to 18 November 2020, the latest practicable date which is not earlier than 7 days from the date of issue of these financial statements.

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 2020.

	Current Year Quarter Ended 30 September 2020 RM'000	Preceding Year Quarter Ended 30 September 2019 RM'000	Current Year Period Ended 30 September 2020 RM'000	Preceding Year Period Ended 30 September 2019 RM'000
Purchases	41,651	33,074	97,242	86,628
Rental	47	47	141	121

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2020
PART B: ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA SECURITIES BERHAD
LISTING REQUIREMENTS

B1. Operating Segment review

3Q Year-on-Year Earnings Performance Review

	Current Year Quarter Ended 30 September 2020 (RM mil)	Preceding Year Quarter Ended 30 September 2019 (RM mil)	% Change
Revenue			
- Automotive	154.94	121.04	28.0%
- Non-Automotive	3.92	4.71	-16.8%
	158.86	125.75	26.3%
Gross Profit	44.34	34.44	28.7%
<i>Gross margin</i>	27.9%	27.4%	
Net Other Expense	(0.85)	(4.13)	-79.4%
Distribution expenses	(2.29)	(1.54)	48.7%
Administrative expenses	(13.73)	(11.48)	19.6%
R&D expenses	(6.80)	(4.75)	43.2%
Finance costs	(0.64)	(0.83)	-22.9%
PBT	20.03	11.71	71.1%
Income Tax	(3.60)	(1.67)	115.6%
Net Profit	16.43	10.04	63.6%
Significant other income/(expense) items			
Foreign exchange gain/(loss)	2.51	(1.16)	-316.4%
ESOS	(0.27)	(1.47)	-81.6%
Dividend income	0.51	0.26	96.2%
Inventory impairment	(3.41)	(1.65)	106.7%

The Group reported record revenue in the current quarter, up 26.3% year-on-year to RM158.9 million, bolstered by a 28.0% growth in Automotive Segment revenue to RM154.9 million. This was achieved despite a generally weak global economic environment and was a direct result of new business wins, a testament to improving customer acceptance of Dominant's products.

Higher revenue, coupled with a 0.5%-point increase in gross margin to 27.9%, resulted in the Group registering a 28.7% increase in gross profit to RM44.3 million. Operating profit before other income/expense and finance cost expanded at a faster pace than gross profit growth at 29.1% to RM21.5 million, mainly on a slower rate of increase of 28.4% in distribution, administrative and R&D expenses.

Pre-tax profit growth of 71.1% to RM20.0 million was further boosted by lower net other expenses, which declined mainly due to forex gain and lower ESOS expense, partially offset by higher inventory impairment charge. The Group recorded a RM2.5 million forex gain this quarter, compared to a RM1.2 million forex loss in the same period last year. The forex gain arose mainly from lower reported US Dollar borrowings following a strengthening of Ringgit against the US Dollar.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2020

B1. Operating Segment review (Cont'd)

9-month Year-on-Year Earnings Performance Review

	Current Year Period Ended 30 September 2020 (RM mil)	Preceding Year Period Ended 30 September 2019 (RM mil)	% Change
Revenue			
- Automotive	356.24	343.81	3.6%
- Non-Automotive	9.97	10.03	-0.6%
	366.21	353.84	3.5%
Gross Profit	95.76	96.24	-0.5%
<i>Gross margin</i>	26.1%	27.2%	
Net Other Expense	(7.27)	(9.35)	-22.2%
Distribution expenses	(5.06)	(4.69)	7.9%
Administrative expenses	(37.68)	(35.01)	7.6%
R&D expenses	(16.93)	(16.76)	1.0%
Finance costs	(2.32)	(2.32)	-
PBT	26.50	28.11	-5.7%
Income Tax	(4.91)	(4.57)	7.4%
Net Profit	21.59	23.54	-8.3%
Significant other income/(expense) items			
Foreign exchange loss	(0.48)	(0.58)	-17.2%
ESOS	(0.80)	(4.44)	-82.0%
Customer compensation	(1.05)	(0.11)	854.5%
Inventory impairment	(5.40)	(5.03)	7.4%

Despite a weak 1H2020 (-9% year-on-year) due to the Movement Control Order, revenue in the 9-month period rose 3.5% to RM366.2 million due to strong rebound in sales in the current quarter as explained above.

Gross profit margin for the 9-month period stood at 26.1%, 1.1% lower when compared to the same period last year mainly due to capacity underutilisation during MCO period. Consequently, gross profit for the 9-month period contracted slightly by 0.5% to RM95.8 million.

Pre-tax profit declined 5.7% to RM26.5 million mainly due to higher distribution and administrative expenses partially offset by lower net other expenses. The decrease in other net expenses was mainly due to lower ESOS expenses, while administrative expenses increased as a result of overseas sales office expansion and Dominant's expansion into module manufacturing and integrated circuit design.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2020

B1. Operating Segment review (Cont'd)

Changes in key Balance Sheet items during the 9-months period

	As At 30 September 2020 (RM mil)	As At 31 December 2019 (RM mil)	Explanation
Non-Current Assets			
Property, Plant and Equipment	232.46	222.16	Increase was due to RM39.0 million Capex spending on tools and equipment for new product lines, machinery upgrades, plant automation, QC improvements and construction of new factory, partially offset by RM28.6 million depreciation charge.
Current Assets			
Inventories	178.89	151.64	Increase in minimum stock level (“MSL”) holding for key raw materials to lower the risk of supply interruptions during the Covid-19 pandemic and build up inventory in anticipation of a stronger order book in 4Q2020
Trade Receivables	135.51	117.24	Increase due to higher revenue in 3Q2020 when compared to 4Q2019
Current Liabilities			
Trade Payables	119.26	113.93	Increase was mainly attributable to increase in raw material purchases and CAPEX spending to support higher production output

Cash flow analysis for 9-month period ended 30 September 2020

Before changes in working capital, the Group generated a positive RM64.0 million cash flow from its operations (9M2019:RM67.8 million). Working capital increased RM40.9 million mainly due to higher inventory and trade receivable as explained above. Accordingly, cash flow from operations after changes in working capital, tax and interest paid declined to RM16.9 million (9M2019: RM24.4 million).

During the period, the Group spent RM39.0 million on capex (as explained above), which was funded by a combination of operational cash flow, new equity (RM5.1 million) from the exercise of ESOS and bank borrowings.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2020

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

	Current Year Quarter Ended 30 September 2020 (RM mil)	Current Year Quarter Ended 30 June 2020 (RM mil)	% Change
Revenue			
- Automotive	154.94	85.84	80.5%
- Non-Automotive	3.92	3.32	18.1%
	158.86	89.16	78.2%
Gross Profit	44.34	21.20	109.2%
<i>Gross margin</i>	27.9%	23.8%	
Net Other Expense	(0.85)	(2.55)	-66.7%
Distribution expenses	(2.29)	(0.97)	136.1%
Administrative expenses	(13.73)	(10.82)	26.9%
R&D expenses	(6.80)	(5.09)	33.6%
Finance costs	(0.64)	(0.78)	-17.9%
PBT	20.03	0.99	1,923.2%
Income Tax	(3.60)	(0.20)	1,700.0%
Net Profit	16.43	0.79	1,979.7%
Significant other income/(expense) items			
Foreign exchange gain/(loss)	2.51	(1.29)	-294.6%
ESOS	(0.27)	(0.27)	-
Customer compensation	(0.02)	(0.49)	-95.9%
Inventory impairment	(3.41)	(0.64)	432.8%
Dividend income	0.51	-	NM

Sales rebounded strongly to post its best performance ever in the current quarter after the global automotive industry emerged from production halts in the second quarter, imposed to contain the Covid-19 pandemic. Turnover grew 78.2% quarter-on-quarter to RM158.9 million, led by an 80.5% increase in Automotive segment sales to RM154.9 million.

Higher capacity utilisation, coupled with better cost management and productivity improvements pushed gross margin up by 4.1% to 27.9%, resulting in a 109.2% increase in gross profit to RM44.3 million.

Pre-tax profit surged 20-fold from RM1.0 million to RM20.0 million mainly on slower increase in operating expenses and higher forex (as represented in lower net other expense).

B3. Commentary on Prospects

China has been reporting robust monthly car sales growth numbers in the past three months, propelled by strong domestic demand. Car sales in Europe and the US are also gradually recovering, albeit more slowly than in China. Worldwide sales of electric vehicles (EV) are projected to grow exponentially including China, Europe and US.

The Group is expected to continue to benefit from a recovery in the global automotive industry. To cope with the strong demand growth, management has brought forward its capacity expansion plan since June 2020. Based on the order book, we expect the fourth quarter results to be stronger than the current quarter. We also expect the full year results in 2020 to be ahead of 2019 despite a weak first half.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2020

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 2020 RM'000	Preceding Year Quarter Ended 30 September 2019 RM'000	Current Year Period Ended 30 September 2020 RM'000	Preceding Year Period Ended 30 September 2019 RM'000
Current tax	2,264	1,427	5,283	4,127
Withholding tax on dividend received	-	32	-	32
Over provision in prior year	-	(790)	-	(790)
Deferred tax	1,332	997	(372)	1,204
	<u>3,596</u>	<u>1,666</u>	<u>4,911</u>	<u>4,573</u>

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

B6. Unquoted Investments

Details of investment in unquoted investments are as follows:

Other unquoted investments

	As At 30 September 2020 RM'000	As At 31 December 2019 RM'000
Investment in unquoted shares (outside Malaysia) At the beginning of year, at fair value	-	5,123
Fair value adjustment	-	(5,123)
At the end of the period, at fair value	<u>-</u>	<u>-</u>

B7. Borrowings

The Group's borrowings are as follows:

	Exchange rate*	Long term		As at 30 September 2020 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	4.16	22,184	-	24,644	-	46,828	-
-EURO	4.87	-	-	3,406	-	3,406	-
-RM		-	18,281	-	6,346	-	24,627
<i>Revolving Credit Bankers acceptances</i>							
-USD	4.16	-	-	28,416	-	28,416	-
		<u>22,184</u>	<u>18,281</u>	<u>56,466</u>	<u>8,346</u>	<u>78,650</u>	<u>26,627</u>
Sub-total			<u>40,465</u>		<u>64,812</u>		<u>105,277</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2020

B7. Borrowings (Cont'd)

	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	-
		<u>22,342</u>	<u>15,007</u>	<u>52,925</u>	<u>8,835</u>	<u>75,267</u>	<u>23,842</u>
Sub-total			<u>37,349</u>		<u>61,760</u>		<u>99,109</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.

B8. Earnings per Share

1. *Basic*

	Current Year Quarter Ended 30 September 2020	Preceding Year Quarter Ended 30 September 2019	Current Year Period Ended 30 September 2020	Preceding Year Period Ended 30 September 2019
Continuing operations				
Profit after taxation (RM'000)	16,434	10,042	21,593	23,537
Non-controlling interests (RM'000)	(1,703)	(1,028)	(2,261)	(2,518)
Profit attributable to Owners of the Company (RM'000)	14,731	9,014	19,332	21,019
Dividend on ICPS (RM'000)	-	-	-	(1,885)
	<u>14,731</u>	<u>9,014</u>	<u>19,332</u>	<u>19,134</u>
Weighted average number of ordinary shares:-				
Issued ordinary shares at 1 January ('000)	1,119,001	1,102,434	1,119,001	1,102,434
Effect of new ordinary shares issued under ESOS ('000)	15,591	7,831	9,702	5,414
Weighted average number of ordinary shares for the period ('000)	<u>1,134,592</u>	<u>1,110,265</u>	<u>1,128,703</u>	<u>1,107,848</u>
Basic earnings per share (sen)	<u>1.30</u>	<u>0.81</u>	<u>1.71</u>	<u>1.73</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2020

B8. Earnings per Share (Cont'd)

2. *Diluted*

	Current Year Quarter Ended 30 September 2020	Preceding Year Quarter Ended 30 September 2019	Current Year Period Ended 30 September 2020	Preceding Year Period Ended 30 September 2019
Continuing operations				
Profit attributable to Owners of the Company (RM'000) (as above)	14,731	9,014	19,332	21,019
Weighted average number of ordinary shares for the period ('000) (as above)	1,134,592	1,110,265	1,128,703	1,107,848
Weighted average number of shares deemed to have been issued under ESOS at no consideration ('000)	18,856	32,412	18,856	32,412
Weighted average number of shares deemed to have been issued under ICPS at no consideration ('000)	377,074	377,074	377,074	377,074
Weighted average number of ordinary shares for diluted earnings per share computation ('000)	1,530,522	1,519,751	1,524,633	1,517,334
Diluted earnings per share (Sen)	0.96	0.59	1.27	1.39

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2020

B9. Detailed Disclosure for Statement of Comprehensive Income

	Current Year Quarter Ended 30 September 2020 RM'000	Preceding Year Quarter Ended 30 September 2019 RM'000	Current Year Period Ended 30 September 2020 RM'000	Preceding Year Period Ended 30 September 2019 RM'000
After crediting:				
Interest income	82	70	361	189
Gain/(Loss) on foreign exchange	2,506	(1,163)	(485)	(589)
After debiting:				
Amortisation of intangible assets	267	54	796	162
Depreciation	9,791	8,952	28,564	26,124
Depreciation on right-of-use assets	343	246	906	599
Interest expense	509	697	2,031	1,902
Interest expense on lease liabilities	42	8	62	33
Inventories written down	3,408	1,652	5,406	5,026
Loss/(Gain) on disposal of property, plant and equipment	117	(16)	117	(15)
(Reversal of)/Property, plant and equipment written off	(57)	115	52	242

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

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

B10. Corporate Proposals

There was no corporate proposal announced but not completed as at 18 November 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 18 November 2020, the latest practicable date which is not earlier than 7 days from the date of issue of these financial statements.

B12. Dividend

Ordinary Shares

The Board of Directors proposed a first interim dividend of 0.65 sen per ordinary share in respect of the financial year ending 31 December 2020. The entitlement and payment dates of the proposed dividend are 10 December 2020 and 28 December 2020 respectively. The proposed dividend has not been included as a liability in these financial statements.

Irredeemable Convertibles Preference Shares ("ICPS")

The Board of Directors proposed a first interim dividend of 0.65 sen per ICPS in respect of the financial year ending 31 December 2020 based on the terms of the ICPS. The entitlement and payment dates of the dividend are 10 December 2020 and 28 December 2020 respectively. The proposed dividend has not been included as a liability in these financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2020

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 24 November 2020.