

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2021
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 2020.

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 2020, except for the adoption of the following Amendments and Annual improvement to Standards that came into effect for periods beginning on or after 1 January 2021:-

Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16: Interest Rate Benchmark Reform – Phase 2

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 2023
Amendments to MFRS 3: Reference to the Conceptual Framework	1 January 2022
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred
Amendments to MFRS 17 Insurance Contracts	1 January 2023
Amendments to MFRS 101: Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to MFRS 101: Disclosure of Accounting Policies	1 January 2023
Amendments to MFRS 108: Definition of Accounting Estimates	1 January 2023
Amendments to MFRS 116: Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
Amendments to MFRS 137: Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to MFRS Standards 2018 – 2020	1 January 2022

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 31 March 2021.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2021

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 31 March 2021.

A7. Dividend

No dividend was paid during the quarter and period ended 31 March 2021. The proposed dividend payment in the current quarter ended 31 March 2021 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 and period ended 31 March 2021.

A9. Debt and Equity Securities

During the current quarter and period ended 31 March 2021, 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 2021 No of shares
	RM	
Exercise of ESOS	0.170	99,000
Exercise of ESOS	0.280	3,458,900
Exercise of ESOS	0.300	1,961,000
Exercise of ESOS	0.495	1,906,000
Exercise of ESOS	0.725	5,629,500
Exercise of ESOS	0.740	795,000
Total		<u>13,849,400</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 31 March 2021.

A10. Segmental Information

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

Current Year Year-To-Date 31 March 2021	Asia RM'000	Europe RM'000	USA RM'000	Others RM'000	Group RM'000
Revenue	144,925	44,802	11,616	4,311	205,654
Segment assets	765,611	49,641	6,265	-	821,517
Capital expenditure	<u>24,829</u>	<u>16</u>	<u>-</u>	<u>-</u>	<u>24,845</u>
Preceding 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	<u>6,802</u>	<u>111</u>	<u>-</u>	<u>-</u>	<u>6,913</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2021

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 31 March 2021.

A12. Capital Commitments

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

	As at 31 March 2021 RM'000	As at 31 December 2020 RM'000
Purchase of property, plant and equipment	<u>82,289</u>	<u>60,696</u>

A13. Changes in Contingent Liabilities or Contingent Assets

There were no contingent liabilities or contingent assets as at 31 March 2021.

A14. Significant Event During the Reporting Period

There was no significant event during the current quarter and period ended 31 March 2021.

A15. Significant Events After the Reporting Period

There was no significant event subsequent to the end of the financial period reported up to 18 May 2021, 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, Domi-Star Optoelectronics Corporation

Dominant Opto Technologies Sdn Bhd (“DOTSB”), an 89.79% subsidiary of the Company, had on 10 May 2021 jointly incorporated a new 51%:49% Joint Venture Company with Lighting Investment Corporation, a wholly-owned subsidiary of Epistar Corporation (“Epistar”) known as 耀明光電股份有限公司, or Domi-Star Optoelectronics Corporation (“Domi-Star”) under the Taiwan Companies Act. Domi-Star, with an initial issued and paid-up capital of NTD1,000,000, shall be involved in the design, development, purchase and sales of LED chips for the automotive and other lighting applications.

A16. Significant Related Party Transaction

The Group carried out the following significant transactions with related parties during the current quarter and period ended 31 March 2021.

	Current Year Quarter Ended 31 March 2021 RM'000	Preceding Year Quarter Ended 31 March 2020 RM'000
Purchases	59,052	28,929
Rental	<u>57</u>	<u>47</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2021
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 2021 (RM mil)	Preceding Year Quarter Ended 31 March 2020 (RM mil)	% Change
Revenue			
- Automotive	202.47	115.47	75.3%
- Non-Automotive	3.18	2.72	16.9%
	205.65	118.19	74.0%
Gross Profit	61.35	30.22	103%
<i>Gross margin</i>	29.8%	25.6%	
Net Other Expense	(3.38)	(3.87)	-12.7%
Distribution expenses	(2.20)	(1.80)	22.2%
Administrative expenses	(14.02)	(13.13)	6.8%
R&D expenses	(5.55)	(5.04)	10.1%
Finance costs	(0.53)	(0.90)	-41.1%
PBT	35.67	5.49	549.7%
Income Tax	(5.94)	(1.12)	430.4%
Net Profit	29.73	4.37	580.3%
Significant other expense items			
Foreign exchange loss	(0.71)	(1.70)	-58.2%
ESOS	(0.73)	(0.27)	170.4%
Customer compensation	(0.06)	(0.54)	-88.9%
Inventory impairment	(2.05)	(1.36)	50.7%

A strong global recovery in the automotive industry especially in China, together with a steady and robust stream of new business-wins, has propelled revenue to grow by 74% year-on-year to RM205.7 million in the current quarter.

Gross profit slightly more than doubled to RM61.4 million from RM30.2 million a year ago, underpinned by strong revenue growth and gross margin expansion from 26% to 30% on efficiency improvements, higher capacity utilisation and tighter control over factory overhead expenses.

With a much slower rate of increase in operating expenses, the Group registered a 384% increase in operating EBIT before net other expenses from RM10.3 million to RM39.6 million. Net profit for the Group rose at an even sharper rate of 580% from RM4.37 million to RM29.7 million on lower net other expenses and finance charges, and lower effective income tax rate.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2021

B1. Operating Segment review (Cont'd)

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

	As At 31 March 2021 (RM mil)	As At 31 December 2020 (RM mil)	Explanation
Non-Current Assets			
Property, Plant and Equipment	269.41	255.41	RM24.8 million was spent on capital expenditure to expand production capacity, improve machine efficiencies and quality control and plant automation, partially offset by a RM10.8 million depreciation charge for the period.
Current Assets			
Inventories	187.87	179.58	Increased inventory holding in anticipation of a stronger order book in 2Q2021.
Trade Receivables	180.97	176.37	Trade receivable was largely stable on largely stable sequential revenue base between 4Q2020 and the current quarter.
Current Liabilities			
Trade Payables	182.18	171.32	Increase was mainly attributable to an increase in raw material purchases and CAPEX spending to support higher production output

Cash flow analysis for 3-month period ended 31 March 2021

The Group generated a positive after tax net operating cash flow of RM35.8 million in the current quarter, representing a 362% increase from RM9.9 million in the same period last year. A further RM7.2 million was raised during the current period from the issuance of new shares arising from the exercise of ESOS.

In the same period, the Group spent RM24.8 million on capital expenditure. Consequently, the Group's net debt position improved from RM36.7 million at 31 December 2020 to RM19.5 million at the end of the reporting period, representing a net-debt-to-equity ratio of 4.0%.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2021

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

	Current Year Quarter Ended 31 March 2021 (RM mil)	Preceding Year Quarter Ended 31 December 2020 (RM mil)	% Change
Revenue			
- Automotive	202.47	206.35	-1.9%
- Non-Automotive	3.18	3.22	-1.2%
	205.65	209.57	-1.9%
Gross Profit	61.35	62.24	-1.4%
<i>Gross margin</i>	29.8%	29.7%	
Net Other (Expense)/Income	(3.38)	0.87	-488.5%
Distribution expenses	(2.20)	(3.04)	-27.6%
Administrative expenses	(14.02)	(13.02)	7.7%
R&D expenses	(5.55)	(6.66)	-16.7%
Finance costs	(0.53)	(0.56)	-5.4%
PBT	35.67	39.83	-10.4%
Income Tax	(5.94)	(6.05)	-1.8%
Net Profit	29.73	33.78	-12.0%
Significant other (expense)/income items			
Foreign exchange (loss)/gain	(0.71)	3.93	-118.1%
ESOS	(0.73)	(0.12)	508.3%
Inventory impairment	(2.05)	(4.14)	-50.5%
Dividend income	-	1.79	NM

The first quarter is typically the weakest quarter in any given calendar year due mainly to a shorter operating period resulting from the Lunar New Year holidays and seasonal decline in demand for cars. In the past three years between 2018 and 2020, the Group's first quarter revenue had declined sequentially between 15% and 20%.

Despite the on-going tight IC chip supply due to a sudden surge in demand from broad-based electronic applications and the seasonality factor alluded to above, the sequential decrease in the current quarter at 1.9% was considered benign. It is an attestation to the economic vigour of the industry and Dominant's growing traction gained from Tier-1 automotive customers.

In spite of the marginal decline in revenue, the gross profit margin edged up slightly from 29.7% to 29.8%, resulting in the Group posting a 1.4% reduction to RM61.4 million. Operating EBIT before net other expense was however flat at RM39.6 million on a slight overall decline in operating expenses.

Pre-tax profit fell 10.4% from 39.8 million to RM35.7 million mainly due to forex losses of RM0.7 million compared to a forex gain of RM3.9 million in the previous quarter, the absence of RM1.8 million dividend income recorded in the 4Q2020 and higher ESOS expense, partially offset by lower inventory impairment.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2021

B3. Commentary on Prospects

With global vaccination programmes and the world economic recovery steadfastly underway, the automotive industry is expected to continue its growth trajectory. Our capacity expansion program is well in progress to meet the customers' positive demands. Barring any unforeseen circumstances, management is optimistic about the revenue and earnings growth moving forward.

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 2021 RM'000	Preceding Year Quarter Ended 31 March 2020 RM'000
Current tax	5,781	2,882
Deferred tax	162	(1,762)
	<u>5,943</u>	<u>1,120</u>

The effective tax rate for the current quarter and period ended 31 March 2021 was lower than the Malaysia statutory tax rate of 24% mainly due to capital allowances and reinvestment allowances.

B6. Unquoted Investments

Details of investment in unquoted investments are as follows:

Other unquoted investments

	As At 31 March 2021 RM'000	As At 31 December 2020 RM'000
Investment in unquoted shares (outside Malaysia), at fair value:-		
At the beginning of period/year	8,269	8,269
Less: Accumulated impairment losses		
- At the beginning of the period/year	(8,269)	(8,269)
- Additions during the period/year	-	-
- At the end of the period/year	(8,269)	(8,269)
	<u>-</u>	<u>-</u>
At the end of the period/year, at fair value	-	-

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2021

B7. Borrowings

The Group's borrowings are as follows:

	Exchange rate*	As at 31 March 2021					
		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	4.15	28,390	-	21,851	-	50,241	-
-RM	-	-	14,938	-	6,418	-	21,356
<i>Revolving credit</i>							
-USD	-	-	-	-	8,292	-	8,292
<i>Bankers acceptances</i>							
-USD	4.15	-	-	32,900	-	32,900	-
		28,390	14,938	54,751	14,710	83,141	29,648
Sub-total			43,328		69,461		112,789

	Exchange rate*	As at 31 December 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	4.02	32,339	-	22,497	-	54,636	-
-EURO	4.94	-	-	3,459	-	3,459	-
-RM	-	-	16,453	-	6,567	-	23,020
<i>Revolving credit</i>							
-USD	-	-	-	-	803	-	803
<i>Bankers acceptances</i>							
-USD	4.02	-	-	27,518	-	27,518	-
		32,339	16,453	53,474	7,370	85,613	23,823
Sub-total			48,792		60,844		109,436

*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 2021

B8. Earnings per Share

1. Basic

	Current Year Quarter Ended 31 March 2021	Preceding Year Quarter Ended 31 March 2020
Continuing operations		
Profit after taxation (RM'000)	29,735	4,371
Non-controlling interests (RM'000)	(3,230)	(457)
Profit attributable to Owners of the Company (RM'000)	<u>26,505</u>	<u>3,914</u>
Dividend on ICPS (RM'000)	-	-
	<u>26,505</u>	<u>3,914</u>
Weighted average number of ordinary shares:-		
Issued ordinary shares at 1 January ('000)	1,153,943	1,119,001
Effect of new ordinary shares issued under ESOS ('000)	10,246	5,211
Weighted average number of ordinary shares for the period ('000)	<u>1,164,189</u>	<u>1,124,212</u>
Basic earnings per share (sen)	<u>2.28</u>	<u>0.35</u>

2. Diluted

	Current Year Quarter Ended 31 March 2021	Preceding Year Quarter Ended 31 March 2020
Continuing operations		
Profit attributable to Owners of the Company (RM'000) (as above)	<u>26,505</u>	<u>3,914</u>
Weighted average number of ordinary shares for the period ('000) (as above)		
	1,164,189	1,124,212
Weighted average number of shares deemed to have been issued under ESOS at no consideration ('000)	16,815	22,786
Weighted average number of shares deemed to have been issued under ICPS at no consideration ('000)	<u>377,074</u>	<u>377,074</u>
Weighted average number of ordinary shares for diluted earnings per share computation ('000)	<u>1,558,078</u>	<u>1,524,072</u>
Diluted earnings per share (Sen)	<u>1.70</u>	<u>0.26</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2021

B9. Detailed Disclosure for Statement of Comprehensive Income

	Current Year Quarter Ended 31 March 2021 RM'000	Preceding Year Quarter Ended 31 March 2020 RM'000
After crediting:		
Interest income	113	150
After debiting:		
Amortisation of intangible assets	296	264
Depreciation	10,833	9,572
Depreciation on right-of-use assets	272	280
Interest expense	422	811
Interest expense on lease liabilities	20	14
Inventories written down	2,049	1,357
Property, plant and equipment written off	6	51
Loss on foreign exchange	711	1,702

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 May 2021, 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 May 2021, 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 0.75 sen per ordinary share for the financial year ending 31 December 2021. The proposed dividend has not been included as a liability in these financial statements. The entitlement and payment dates can be found in the announcement to Bursa Malaysia dated 18 May 2021.

Irredeemable Convertible Preference Shares (“ICPS”)

The Board of Directors proposes an interim single-tier-tax dividend of 0.75 sen per ICPS share for the financial year ending 31 December 2021, based on the terms of the ICPS. The proposed dividend has not been included as a liability in these financial statements. The entitlement and payment dates can be found in the announcement to Bursa Malaysia dated 18 May 2021.

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 May 2021.