

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2023
PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

A1. Basis of Preparation

These condensed consolidated 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 and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad. This interim financial report should be read in conjunction with the audited financial statements for the financial year ended 31 December 2022.

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 2022, 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 2023:-

MFRS 17 Insurance Contracts
Amendments to MFRS 17 Insurance Contracts
Amendments to MFRS 17: Initial Application of MFRS 17 and MFRS 9- Comparative Information
Amendments to MFRS 101: Disclosure of Accounting Policies
Amendments to MFRS 108: Definition of Accounting Estimates
Amendments to MFRS 112: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The initial adoption of the above do not have any or no material financial impact 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
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 16: Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to MFRS 101: Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to MFRS 101: Non-current Liabilities with Covenants	1 January 2024

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 2023.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2023

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 2023.

A7. Dividend

No dividend has been declared or paid during the quarter and period ended 31 March 2023.

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 2023.

A9. Debt and Equity Securities

During the current quarter and period ended 31 March 2023, 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/Period Ended 31 March 2023 No of shares
	RM	
Exercise of ESOS	3.49	469,100

The new ordinary shares ranked 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 2023.

A10. Segmental Information

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

Current Year Year-To-Date 31 March 2023	Asia RM'000	Europe RM'000	USA RM'000	Others RM'000	Group RM'000
Revenue	137,464	59,310	14,298	3,651	214,723
Segment assets	1,564,710	91,646	1,877	-	1,658,233
Capital expenditure	29,214	132	-	-	29,346
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Preceding Year Year-To-Date 31 March 2022	Asia RM'000	Europe RM'000	USA RM'000	Others RM'000	Group RM'000
Revenue	166,665	50,242	18,358	6,339	241,604
Segment assets	1,313,017	65,631	2,145	-	1,380,793
Capital expenditure	61,485	-	-	-	61,485
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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 and period ended 31 March 2023.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2023

A12. Capital Commitments

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

	As at 31 March 2023 RM'000	As at 31 December 2022 RM'000
Purchase of property, plant and equipment	<u>54,010</u>	<u>70,843</u>

A13. Changes in Contingent Liabilities or Contingent Assets

There were no contingent liabilities or contingent assets as at 31 March 2023.

A14. Significant Events During the Reporting Period

There was no significant event during the current quarter and period ended 31 March 2023.

A15. Significant Event After the Reporting Period

There was no significant event subsequent to the end of the financial period reported up to 23 May 2023.

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 2023.

	Current Year Quarter Ended 31 March 2023 RM'000	Preceding Year Quarter Ended 31 March 2022 RM'000
Purchases	61,248	64,336
Rental	<u>57</u>	<u>59</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2023
PART B: ADDITIONAL DISCLOSURE REQUIREMENTS AS SET OUT IN APPENDIX 9B OF BURSA
MALAYSIA SECURITIES BERHAD MAIN MARKET LISTING REQUIREMENTS

B1. Operating Segment review

1Q Year-on-Year Earnings Performance Review

	Current Year	Preceding Year	
	Quarter Ended	Quarter Ended	
	31 March 2023	31 March 2022	% Change
	(RM mil)	(RM mil)	
Revenue			
- Automotive	210.55	233.65	-9.9%
- Non-Automotive	4.17	7.95	-47.5%
	214.72	241.60	-11.1%
Gross Profit	33.87	67.43	-49.8%
<i>Gross margin</i>	15.8%	27.9%	
Net other expense	(1.99)	(1.81)	9.9%
Distribution expenses	(4.27)	(2.38)	79.4%
Administrative expenses	(15.74)	(15.23)	3.3%
R&D expenses	(8.74)	(8.16)	7.1%
Finance costs	(4.33)	(0.70)	518.6%
Share of results of Joint Venture	#	#	
(LBT)/PBT	(1.20)	39.15	-103.1%
Income Tax	1.83	(5.19)	-135.3%
Net Profit	0.63	33.96	-98.1%
<i># - Amount less than RM10,000</i>			
Significant other (expense)/income items			
Loss on foreign exchange	(0.18)	(0.54)	-67%
Gain/(Loss) on derivatives	0.08	(0.60)	-113%
Interest income	2.55	1.28	99%
Inventory impairment	(4.27)	(2.08)	105%

In the current quarter, the Group's revenue was RM214.7 million, representing an 11.1% decrease from the same quarter in the previous year. This was primarily due to an approximately 21% decline in car sales (manufactured in China) in 1Q2023 and an overhang of car inventory in China.

Gross profit margin in 1Q2023 was 15.8%, which represents a 12.1% decrease compared to 1Q2022. This decline resulted from capacity expansion in 2022 and the effects of the minimum wage increase with effect from May 2022. The Group's lower gross profit and higher inventory impairment resulted in a pre-tax loss of RM1.2 million, compared to a profit of RM39.2 million in 1Q2022.

To improve long-term efficiency and profitability, the Group continues to implement proactive measures such as streamlining production processes, automating tasks, improving yields, and optimising headcount. Additionally, the management has taken necessary steps to rebalance the Group's currency exposure to better hedge against future foreign exchange volatility.

The Group reported a net profit in 1Q2023 after the recognition of unutilised capital allowance and reinvestment allowance from capital expenditure investment.

Although the Group faced short-term margin pressure due to the expanded capacity, the excess capacity will enable the Group to take advantage of an anticipated increase in demand for car sales in 2023 while also being more responsive to changes in market conditions.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2023

B1. Operating Segment review (Cont'd)

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

	As At	As At	
	31 March 2023	31 December 2022	Explanation
	(RM mil)	(RM mil)	
Non-Current Assets			
Property, Plant and Equipment	510.93	499.32	The increase was due to RM29.3 million Capex spent on tools and equipment for new product lines, machinery upgrades, plant automation and QC improvements partially offset by RM18.2 million depreciation charge.
Current Assets			
Inventories	476.17	445.69	The rise in inventory is attributed to the combination of process yield improvement activities and stable production loading, in anticipation of stronger orders in the upcoming quarters.
Trade Receivables	245.49	274.46	Trade receivable is within normal range of credit terms.
Current Liabilities			
Trade Payables	245.12	242.80	The trade payables balance has stabilised as a result of stricter controls over raw material purchases and capital expenditure investments.

Cash flow analysis for 3-month period ended 31 March 2023

Although the Group reported a loss before tax, it generated a positive cash flow of RM2.1 million from its operations, compared to a negative cash flow of RM13.6 million in the same period last year. The positive cash flow was due to improvements in collection and tighter controls on cash outflow for operating expenses.

In 1Q2023, the Group spent RM29.3 million on capital expenditure. The cash outflow from investing activities were partially financed by banking facilities and RM1.6 million new capital raised from the exercise of ESOS. Despite the additional borrowings, the Group's balance sheet remains healthy and strong, with the net gearing ratio at 22%.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2023

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

	Current Year	Preceding Year	
	Quarter Ended	Quarter Ended	
	31 March 2023	31 December 2022	% Change
	(RM mil)	(RM mil)	
Revenue			
- Automotive	210.55	240.86	-12.6%
- Non-Automotive	4.17	6.34	-34.2%
	214.72	247.20	-13.1%
Gross Profit	33.87	56.75	-40.3%
<i>Gross margin</i>	15.8%	23.0%	
Net other expense	(1.99)	(11.93)	-83.3%
Distribution expenses	(4.27)	(4.45)	-4.0%
Administrative expenses	(15.74)	(15.93)	-1.2%
R&D expenses	(8.74)	(8.74)	-
Finance costs	(4.33)	(3.22)	34.5%
Share of results of Joint Venture	#	#	
(LBT)/PBT	(1.20)	12.50	-109.6%
Income Tax	1.83	2.45	-25.3%
Net Profit	0.63	14.93	-95.8%

- Amount less than RM10,000

Significant other (expense)/income items

Loss on foreign exchange	(0.18)	(2.42)	-93%
Gain/(Loss) on derivatives	0.08	(0.61)	-113%
Inventory impairment	(4.27)	(8.39)	-49%
Interest income	2.55	0.70	264%

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 current quarter, China's car sales decreased 33% compared to 4Q2022 and high inventory level in the supply chain, negatively affecting the current quarter's automotive order. As a result, Group's turnover registered a 13.1% decline quarter-on-quarter to RM214.7 million.

The Group's gross profit margin for the current quarter was 15.8% (4Q2022: 23.0%) as a result of lower plant utilisation. This resulted in a pre-tax loss of RM1.2 million, as compared to a pre-tax profit of RM12.5 million in the previous quarter.

However, the Group's forex losses decreased significantly from RM2.42 million to RM0.18 million following management's rebalancing of the Group's foreign currency exposure.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2023

B3. Commentary on Prospects

Based on the latest report by LMC Automotive in 1Q2023, it is projected that global light vehicle sales will experience a year-on-year increase of 6.2% to reach a total of 86.05 million units in 2023. Although the global light vehicle market is currently experiencing weakness, there is an expectation that the situation will improve in 2Q2023, primarily due to an anticipated increase in semiconductor supply. For China car sales (manufactured in China), sales fell 41% in January 2023, compared to December 2022, and subsequently shown a recovery trend from February to April 2023.

Despite being significantly affected by the China automotive market in 1Q2023, D&O's performance is now recovering in line with the market trend. With its ready capacity, D&O is well-positioned to capitalise on the expected recovery in China's car sales. Barring any unforeseen circumstances, the management remains optimistic that the remaining period of 2023 will deliver year-on-year revenue growth.

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 2023 RM'000	Preceding Year Quarter Ended 31 March 2022 RM'000
Current tax	181	2,804
Deferred tax	(2,010)	2,385
	<u>(1,829)</u>	<u>5,189</u>

The effective tax rate for the current quarter and period ended 31 March 2023 was lower than the Malaysia statutory tax rate of 24% mainly due to the unutilised capital allowance and reinvestment allowance from capital expenditure investment.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2023

B6. Borrowings

The Group's borrowings are as follows:

	Exchange rate*	As at 31 March 2023					
		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:							
Term loan							
-USD	4.41	115,547	-	51,874	-	167,421	-
-RM	-	-	39,634	-	6,316	-	45,950
Revolving credit							
-USD	4.41	-	-	3,975	-	3,975	-
-RM	-	-	-	-	37,900	-	37,900
-EURO	4.81	-	-	17,076	-	17,076	-
-RMB	0.64	-	-	17,996	-	17,996	-
Bankers acceptances							
-USD	4.41	-	-	1,472	-	1,472	-
-RM	-	-	-	-	22,000	-	22,000
-EURO	4.81	-	-	9,765	-	9,765	-
-RMB	0.64	-	-	109,705	-	109,705	-
Hire purchase							
-RM	-	-	189	-	109	-	298
Sub-total		115,547	39,823	211,863	66,325	327,410	106,148
			155,370		278,188		433,558

	Exchange rate*	As at 31 December 2022					
		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:							
Term loan							
-USD	4.39	109,049	-	58,919	-	167,968	-
-RM	-	-	25,951	-	6,263	-	32,214
Revolving credit							
-USD	4.39	-	-	13,170	-	13,170	-
-RM	-	-	-	-	7,000	-	7,000
-EURO	4.68	-	-	19,441	-	19,441	-
-RMB	0.63	-	-	24,340	-	24,340	-
Bankers acceptances							
-USD	4.39	-	-	22,910	-	22,910	-
-RM	-	-	-	-	22,000	-	22,000
-EURO	4.68	-	-	4,099	-	4,099	-
-RMB	0.63	-	-	91,672	-	91,672	-
Hire purchase							
-RM	-	-	205	-	137	-	342
Sub-total		109,049	26,156	234,551	35,400	343,600	61,556
			135,205		269,951		405,156

*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 2023

B7. Earnings per Share

1. Basic

	Current Year Quarter Ended 31 March 2023	Preceding Year Quarter Ended 31 March 2022
Continuing operations		
Profit after taxation (RM'000)	626	33,963
Non-controlling interests (RM'000)	237	(3,464)
Profit attributable to Owners of the Company (RM'000)	863	30,499
Weighted average number of ordinary shares:-		
Issued ordinary shares at 1 January ('000)	1,237,261	1,237,142
Effect of new ordinary shares issued under ESOS ('000)	312	-
Weighted average number of ordinary shares for the period ('000)	1,237,573	1,237,142
Basic earnings per share (sen)	0.07	2.47

2. Diluted

	Current Year Quarter Ended 31 March 2023	Preceding Year Quarter Ended 31 March 2022
Continuing operations		
Profit attributable to Owners of the Company (RM'000) (as above)	863	30,499
Weighted average number of ordinary shares for the period ('000) (as above)		
	1,237,573	1,237,142
Weighted average number of shares deemed to have been issued under ESOS at no consideration ('000)	289	-
Weighted average number of shares deemed to have been issued under ICPS at no consideration ('000)	377,074	377,074
Weighted average number of ordinary shares for diluted earnings per share computation ('000)	1,614,936	1,614,216
Diluted earnings per share (Sen)	0.05	1.89

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2023

B8. Detailed Disclosure for Statement of Comprehensive Income

	Current Year Quarter Ended 31 March 2023 RM'000	Preceding Year Quarter Ended 31 March 2022 RM'000
After crediting:		
Interest income	2,554	1,276
After debiting:		
Amortisation of intangible assets	409	308
Depreciation	18,157	13,704
Depreciation on right-of-use assets	289	331
Interest expense	4,203	600
Interest expense on lease liabilities	10	15
Inventories written down	4,266	2,075
Property, plant and equipment written off	1	-
Loss on foreign exchange	182	543
Fair value (gain)/loss on derivatives	(78)	604

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

B9. Derivatives

As at 31 March 2023, the contract amount, fair value and maturity tenor of the outstanding forward foreign currency contracts are as follows:

	As At 31 March 2023	
	Contract/ Nominal Amount	Fair Value of the Statement of Financial Position Asset/(Liability)
	RM'000	RM'000
Forward Foreign Currency Contracts – Less than 1 year	45,936	(705)

The Group entered into forward foreign currency contracts to hedge against its future receipt of trade receivable denominated in Euro. The settlement dates of the outstanding forward foreign currency contracts at the end of the reporting period range between 1 and 9 months.

There is no significant change in the credit risk, market risk and liquidity risk associated with the derivatives, the cash requirements of the derivatives and the risk management objectives and policies on financial derivatives since the previous financial year ended 31 December 2022.

B10. Corporate Proposals

There was no corporate proposal announced before the end of period but not completed as at 23 May 2023, the latest practicable 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 FIRST QUARTER ENDED 31 MARCH 2023

B11. Status of Utilisation of Proceeds

The Company received proceeds from the Private Placement of RM216,370,000 from the issuance of 38,500,000 D&O Shares at the issue price of RM5.62 per Placement Shares. The proceeds have been utilised in the following manner as at 31 March 2023:

Details	Proposed Utilisation RM'000	Proposed Utilisation (Revised) RM'000 (Note 1)	Actual Utilisation RM'000	Unutilised Proceeds RM'000	Intended timeframe of utilisation from the listing date of the Placement Shares (1.12.2021)
1. Capital expenditure	202,985	214,008	699	213,309	Within 4 years
2. Estimated expenses relating to the Proposed Private Placement	2,220	2,362	2,362	-	
	205,205	216,370	3,061	213,309	

(Note 1)

Revised following the actual receipt of proceeds of RM216,370,000

The unutilised funds have been placed in interest bearing deposits with licensed financial institution and short term money market instruments.

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 Securities at the Board meeting held on 29 May 2023.