# DKLS INDUSTRIES BERHAD

(Company No. 369472 – P)
(Incorporated In Malaysia)

## A. Notes to the Interim Financial Statements

### 1. Basis of Preparation

These interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134: *Interim Financial Reporting* and paragraph 9.22 of the Listing Requirements of the Bursa Malaysia Securities Berhad ("BMSB").

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2009. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2009.

### 2. Changes in Accounting Policies

The significant accounting policies and presentation adopted by the Group in these interim financial statements are consistent with those of the Group's consolidated audited financial statements for the year ended 31 December 2009.

The Group has adopted the following new and revised Financial Reporting Standards ("FRSs"), Issues Committee ("IC") Interpretations and amendments to FRSs and IC Interpretations with effect from 1 January 2010:-

| | |
|---|---|
| FRS 4 | Insurance Contracts |
| FRS 7 | Financial Instruments : Disclosures |
| FRS 8 | Operating Segments |
| FRS 101 | Presentation of Financial Statements (Revised) |
| FRS 123 | Borrowing Costs (Revised) |
| FRS 139 | Financial Instruments : Recognition and Measurement |
| IC Interpretation 9 | Reassessment of Embedded Derivatives |
| IC Interpretation 10 | Interim Financial Reporting and Impairment |
| IC Interpretation 11 | FRS 2 : Group and Treasury Share Transactions |
| IC Interpretation 13 | Customer Loyalty Programmes |
| IC Interpretation 14 | FRS 119 : The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |
| TR i-3 | Presentation of Financial Statements of Islamic Financial Institutions |
| Amendments to FRS 1 | First-time adoption of Financial Reporting Standards and FRS 127 : Consolidated and Separate Financial Statements : Costs of Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| Amendments to FRS 5 | Non-Current Assets Held for Sale and Discontinued Operations |
| Amendments to FRS 8 | Operating Segments |
| Amendments to FRS 107 | Statement of Cash Flows |
| Amendments to FRS 108 | Accounting Policies, Changes in Accounting Estimates or Errors |
| Amendments to FRS 110 | Events After the Reporting Period |
| Amendments to FRS 116 | Property, Plant and Equipment |
| Amendments to FRS 117 | Leases |
| Amendments to FRS 118 | Revenue |

2. **Changes in Accounting Policies (Cont'd).**

| | |
|---|---|
| Amendments to FRS 119 | Employee Benefits |
| Amendments to FRS 120 | Accounting for Government Grants and Government Assistance |
| Amendments to FRS 123 | Borrowing Costs |
| Amendments to FRS 128 | Investments in Associates |
| Amendments to FRS 129 | Financial Reporting in Hyper Inflationary Economies |
| Amendments to FRS 131 | Interests in Joint Ventures |
| Amendments to FRS 132 | Financial Instruments : Presentation |
| Amendments to FRS 134 | Interim Financial Reporting |
| Amendments to FRS 136 | Impairment of Assets |
| Amendments to FRS 138 | Intangible Assets |
| Amendments to FRS 139 | Financial Instruments : Recognition and Measurement, FRS 7 : Financial Instruments : Disclosures and IC Interpretation 9 : Reassessment of Embedded Derivatives |
| Amendments to FRS 140 | Investment Property |

The adoption of the new and revised FRSs, amendments to FRSs and the IC Interpretations has no financial impact on the current interim financial statements or on the consolidated financial statements of the previous financial year except for the following which resulted in changes of certain accounting polices and classification adopted by the Group as well as presentation of financial statements:-

(a) FRS 101 : Presentation of Financial Statements (Revised)

Prior to 1 January 2010, the components of a set of financial statements consisted of a balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the financial statements.

Upon the adoption of the revised FRS 101, a set of financial statements shall now comprise a statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the financial statements. The statement of comprehensive income consists of profit or loss for the period and other comprehensive income. All non-owner changes in equity are now presented in the statement of comprehensive income as components in other comprehensive income.

The comparative financial information on the consolidated statement of comprehensive income have been re-presented as summarized below so that it is in conformity with the revised standard:-

| | **Consolidated Income Statement** | **Effects in adoption of FRS 101** | **Consolidated Statement of Comprehensive Income** |
|---|---|---|---|
| | **As previously reported** | | **As restated** |
| | RM | RM | RM |
| **Profit for the period** | 8,814,552 | - | 8,814,552 |
| **Other comprehensive income** | | | |
| Foreign currency translation differences for foreign operations | - | 167,720 | 167,720 |
| Fair value of investment properties | - | - | 552,564 |
| **Total comprehensive income** | - | - | 9,534,836 |

(b) Amendment to FRS 117 : Leases

Prior to the adoption of the Amendment to FRS 117, leasehold land that normally had an indefinite economic life and where title was not expected to pass to the lessee by the end of the lease term was treated as an operating lease. The payment made on entering into or acquiring a leasehold land was accounted for as prepaid lease payments that were amortised over the lease term in accordance with the pattern of benefits provided.

Upon the adoption of the Amendment to FRS 117 in relation to classification of lease of land, the Group reassessed the classification of a leasehold land as a finance lease or an operating lease based on the extent of risks and rewards associated with the land. The Group has determined that all leasehold land of the Group are in substance is a finance lease and has reclassified its leasehold land from prepaid lease payments to property, plant and equipment.

The reclassification has been made retrospectively and does not affect the profit or loss for the current quarter ended 30 June 2010 and the preceding year corresponding quarter ended 30 June 2009.

The following comparatives figures have been restated following the adoption of the amendments to FRS 117:

| | **31 December 2009** | |
|---|---|---|
| **Group** | **As restated** | **As previously stated** |
| **Cost** | RM | RM |
| Property, plant and equipment | 59,404,950 | 51,863,802 |
| Prepaid lease payments | - | 7,541,148 |

(c) FRS 139 : Financial Instruments : Recognition and Measurement

The adoption of FRS 139 has resulted in financial instruments of the Group to be categorized and measured using the accounting policies summarized below:

(i) Initial recognition and measurement

A financial instrument is recognized in the financial statements when, and only when, the Group becomes a party to the contractual provisions of the instrument.

A financial instrument is recognized initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognized separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorized at fair value through profit or loss. The host contract, in the event an embedded derivative is recognized separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(c) FRS 139 : Financial Instruments : Recognition and Measurement (Cont'd)

(ii) Financial instrument categories and subsequent measurement

Financial assets

(a) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading including derivatives (except for a derivative that is a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Financial assets at fair value through profit or loss are subsequently measured at fair value with gain or loss recognized in profit or loss. This category of financial assets is classified as current assets.

(b) Loans and receivables

Loans and receivables category comprises trade and other receivables, debt instruments that are not quoted in an active market, cash and cash equivalents.

Financial assets categorized as loans and receivables are subsequently measured at amortised cost using the effective interest method. This category of financial assets is classified as current assets unless the maturities are greater than twelve months in which case they are classified as non-current assets.

(c) Available-for-sale financial assets

Available-for-sale financial assets comprise investment in equity and debt securities instruments that are not held for trading. Investments in equity that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other available-for-sale financial assets are subsequently measured at their fair values with gain or loss recognized in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognized in profit or loss. On derecognition, the cumulative gain or loss recognized in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using effective interest method is recognized in profit or loss.

(d) Held-to-maturity investments

Held-to-maturity investments comprise debt instruments that are quoted in an active market and the Group has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are subsequently measured at amortised cost using the effective interest method.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment.

c) FRS 139 : Financial Instruments : Recognition and Measurement (Cont'd)

(ii) Financial instrument categories and subsequent measurement (cont'd)

Financial liabilities

Financial liabilities of the Group comprise trade and other payables and borrowings. All financial liabilities are subsequently measured at amortised cost using effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

The Company has provided various financial guarantees to banks and suppliers for the guarantee of credit facilities granted to its various subsidiaries and also for the guarantee of credit facilities granted to main contractors in connection with the contracts awarded to one of its subsidiaries. The Company monitors the performance of its subsidiaries closely to ensure they meet all their financial obligations. In view that there is minimal risk of default, the Company has not carried the value of the financial guarantee in its books.

Following the adoption of FRS 139, the changes to accounting policies relating to recognition and measurement of the Group's financial instruments are as follows:

(i) Investment in non-current equity securities

Prior to 1 January 2010, investment in non-current equity securities, other than investments in subsidiaries and associates were stated at cost less allowance for any permanent diminution in value other than temporary.

With the adoption of FRS 139, such investments are now categorized as available-for-sale financial assets and measured as follows:-

(a) Quoted shares – at fair value through profit or loss
(b) Unquoted shares – at cost

(ii) Long term receivables

Prior to the adoption of FRS 139, long term receivables were recorded at cost. With adoption of FRS 139, long term receivables are now recognized initially at their fair values, which are estimated by discounting the expected cash flows using the current market interest rate of a loan with similar risk and tenure. Interest income is recognized in the profit or loss using the effective interest method.

FRS 139 has been applied prospectively in accordance with the transitional provisions of the standard. In accordance to the transitional provisions for first-time adoption of FRS 139, adjustments arising from re-measuring the financial instruments as at 1 January 2010 were recognized as adjustments of the opening balance of retained profits or other appropriate reserves. Comparatives are not adjusted.

Since FRS 139 is applied prospectively, its adoption does not affect the profit or loss for the preceding year corresponding quarter ended 30 June 2009.

c) FRS 139 : Financial Instruments : Recognition and Measurement (Cont'd)

(iii) Effects on adoption of FRS 139

The effects on adoption of FRS 139 on the items of the consolidated statement of financial position as at 1 January 2010 are as follows:-

| | Balance as at 1 January 2010 before adoption of FRS 139 RM | Effects on adoption of FRS 139 RM | Balance as at 1 January 2010 after the adoption of FRS 139 RM |
|---|---|---|---|
| Other investments | 13,843 | (13,843) | - |
| Available-for-sale investments | - | 13,843 | 13,843 |
| Long term receivables | 2,041,247 | (122,554) | 1,918,693 |
| Retained profits | 138,778,465 | (122,554) | 138,655,911 |

## 3. Audit Opinion

The audit report for the audited financial statements for the year ended 31 December 2009 was not subject to any qualification.

## 4. Seasonal or Cyclical Factors

The business operations of the Group were not affected by any significant seasonal or cyclical factors.

## 5. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence during the current quarter.

## 6. Change in Estimates

There were no changes in estimation that have a material effect in the quarter under review.

## 7. Debt and Equity Securities

There were no issuance and repayment of debt and equity securities, share buy-back and share held as treasury shares during the financial year to date.

## 8. Dividend Paid

No dividend has been paid during the current quarter.

## 9. Segment Information

Segment information is presented in respect of the Group's business segment.

All inter-segment transactions have been entered into in the normal course of business and have been established under terms and conditions that are not materially different from that obtainable in transactions with unrelated parties.

**<u>Analysis by activity</u>**

| | Revenue | | Profit/(Loss) before tax | |
|---|---|---|---|---|
| | 6 months ended 30 June | | 6 months ended 30 June | |
| | 2010 | 2009 | 2010 | 2009 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Investment | 3,078 | 4,092 | 1,464 | 2,735 |
| Construction | 60,496 | 63,574 | 3,147 | 1,851 |
| Manufacturing | 35,351 | 33,350 | 5,609 | 6,800 |
| Property development | 8,817 | 22,740 | 1,244 | 4,538 |
| Others | 5,212 | 8,645 | (219) | (48) |
| | 112,954 | 132,401 | 11,245 | 15,876 |
| Inter-segment elimination | (13,333) | (7,539) | (3,145) | (4,000) |
| | 99,621 | 124,862 | 8,100 | 11,876 |
| Group's share of associates results | - | - | (1,837) | 306 |
| | 99,621 | 124,862 | 6,263 | 12,182 |

## 10. Material Subsequent Events

There were no material events subsequent to the end of the interim period that have not been reflected in the interim financial report for the current quarter.

## 11. Changes in Composition of the Group

There are no changes in composition of the Group for the financial year to date.

## 12. Changes in Contingent Liabilities

The guarantees given to financial institutions for facilities granted to subsidiaries increased from RM176,010,569 as at 31 December 2009 to RM194,139,952 as at 30 June 2010.

The guarantees given to third parties for credit facilities granted to subsidiaries decreased from RM22,090,000 as at 31 December 2009 to RM14,140,000 as at 30 June 2010.

The guarantees given to financial institutions for facilities granted to main contractors in connection of contracts awarded to a subsidiary company amounted to RM11,850,000 as at 30 June 2010.

The Company monitors the performance of its subsidiaries closely to ensure they meet all their financial obligations. In view that there is minimal risk of default, the Company has not recognized the value of the obligation under the Financial Guarantee in its books.

**13. Capital Commitments**

| | 30 June 2010 |
|---|---|
| | RM'000 |
| **Property, plant and equipment** | |
| Approved and contracted for | 2,021 |
| Approved but not contracted for | 3,426 |

**14. Related Party Transactions**

All related party transactions entered into in the ordinary course of business have been undertaken at arms' length basis on normal commercial terms.

There were no transactions with the directors and key management personnel other than the remuneration package paid to them in accordance with the terms and conditions of their appointment.

## B. Additional information required by BMSB's Listing Requirements

**1. Review of Performance**

The Group recorded a pre-tax profit of RM6.263 million on a revenue of RM99.621 million for the current financial period for the six months ended 30 June 2010 as compared to a pre-tax profit of RM12.182 million on a revenue of RM124.862 million for the previous year corresponding period. Despite the lower revenue recorded, the Group would have achieved a higher pre-tax profit if not for the provision for doubtful debt of RM4.9 million in the previous quarter.

**2. Variance of Results Against Preceding Quarter**

The revenue for the current quarter has decreased by 12.4% as compared to the revenue of RM53.097 million registered for the immediate preceding quarter. However, the pre-tax profit of RM3.855 million for the current quarter was higher as compared to the pre-tax profit of RM2.408 million recorded in the immediate preceding quarter. The lower pre-tax profit in the immediate preceding quarter was primarily a result of the provision for doubtful debt of RM4.9 million reported in that quarter.

**3. Current Year Prospects**

The directors expect the Group's operating environment to remain challenging and competitive. Barring any unforeseen circumstances, the directors are of the opinion the performance of Group for the current financial year is expected to be satisfactory under the current operating environment.

**4. Profit Forecast**

Not applicable as no profit forecast was published.

## 5. Tax expense

| | 6 months ended 30 June | |
|---|---|---|
| | 2010 | 2009 |
| | RM'000 | RM'000 |
| **Continued operations** | | |
| Current tax expense | (2,092) | (3,309) |
| Underprovision for tax expenses in prior year | (5) | - |
| Deferred taxation – current year | (50) | (58) |
| Deferred taxation – overprovision in prior year | 158 | - |
| | 1,989 | (3,367) |

The effective tax rate was higher than the statutory tax rate principally due to the losses of certain subsidiaries which cannot be set off against taxable profits made by other subsidiaries and certain expenses which are not deductible for tax purposes.

## 6. Profit/(Loss) on Sale of Unquoted Investments and/or Properties

There were no sales of unquoted investments and/or properties for the financial year to date.

## 7. Particulars of Purchase or Disposal of Quoted Securities

There were no purchases or disposals of quoted securities for the quarter under review.

The investment in quoted securities, stated at fair value as at 30 June 2010, was as follows:

| | Original cost/share | Market value/share As at 30 June 2010 |
|---|---|---|
| | RM | RM |
| LBS Bina Group Bhd | 1.00 | 0.50 |

## 8. Status of Corporate Proposals

There were no corporate proposals announced and not completed as at the latest practicable date.

## 9. Borrowing and Debt Securities

| | 30 June 2010 |
|---|---|
| | RM'000 |
| **Short term borrowings** | |
| Bankers' acceptance (unsecured) | 7,980 |
| Bank overdraft (unsecured) | 9,750 |
| Revolving credits (unsecured) | 1,800 |
| Hire purchase creditors (current portion) | 873 |
| | 20,403 |
| **Long term borrowings** | |
| Hire purchase creditors | 237 |
| Non-cumulative redeemable preference shares | 9,106 |
| | 29,746 |

Borrowings are denominated in Ringgit Malaysia.

**10. Off Balance Sheet Financial Instruments**

There were no off balance sheet financial instruments entered into by the Group as at the date of this report.

**11. Changes in Material Litigation**

As at the date of this report, the Group is not engaged in any material litigation which in the opinion of the Board of Directors will have a material effect on the financial position or the business of the Group.

**12. Dividend**

No dividend has been proposed or declared for the financial year to date.

The Board of Directors has recommended a first and final dividend of 3 sen per ordinary share less 25% income tax for the financial year ended 31 December 2009. The proposed dividend was approved at the Annual General Meeting on 24 May 2010 and is payable on 20 August 2010 to shareholders whose names appear in the Record of Depositors on 30 July 2010.

**13. Basic Earnings Per Share**

***Basic earnings per share***

| | Current quarter | 6 months ended 30 June 2010 |
|---|---|---|
| | RM | RM |
| Net profit attributable to equity holders of the parent | 4,043,008 | 5,706,877 |

*Weighted average number of ordinary shares*

| | | |
|---|---|---|
| Issued ordinary shares at beginning of the period | 92,699,600 | 92,699,600 |
| Effect of shares issued | - | - |
| Weighted average number of ordinary shares | 92,699,600 | 92,699,600 |

***Diluted earnings per share***

Not applicable

**14. Financial Assistance in the Ordinary Course of Business**

As at the end of the reporting period, DKLS Construction Sdn Bhd, a wholly-owned subsidiary of the Company, in the ordinary course of business has caused certain financial institutions to issue Performance Bond and Advance Bond guarantees amounting to RM14.853 million on behalf of the main contractors. As at the end of the reporting period, the Company had given guarantees amounting to RM11.850 million to financial institutisons for facility granted to a subsidiary company's main contractors. The Company monitors the performance of its subsidiaries closely to ensure they meet all their financial obligations. In view that there is minimal risk of default, the Company has not recognized the value of the obligation under the Financial Guarantee in its books.

By Order of the Board

Cheai Weng Hoong
Company Secretary

Dated: 19 August 2010