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.

On 1 January 2010, the Group and the Company adopted the following applicable new and amended Financial Reporting Standards ("FRSs"), Issues Committee ("IC") Interpretations mandatory for annual financial periods beginning on or after 1 January 2010:-

FRS 7 : Financial Instruments : Disclosures
FRS 8 : Operating Segments
FRS 101 : Presentation of Financial Statements (revised)
FRS 123 : Borrowing Costs
FRS 139 : Financial Instruments : Recognition and Measurement
Amendments to FRS 1 : First–time adoption of Financial Reporting Standards and
FRS 127 : Consolidated and Separate Financial Statements : Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
Amendments to FRS 132 : Financial Instruments : Presentation
Amendments to FRS 139 : Financial Instruments : Recognition and Measurement,
FRS 7 : Financial Instruments : Disclosures and IC Interpretation 9 : Reassessment of Embedded Derivatives
Improvements to FRSs issued in 2009
IC Interpretation 9 : Reassessment of Embedded Derivatives
IC Interpretation 10 : Interim Financial Reporting and Impairment

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

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**
31 December 2009	**RM**	**RM**	**RM**
Profit for the year	15,484,113	-	15,484,113
Other comprehensive income			
Foreign currency translation differences for foreign operations	-	83,837	83,837
Fair value adjustment for transfer from property, plant and equipment	-	419,063	419,063
Total other comprehensive income	-	502,900	502,900
Total comprehensive income	15,484,113	-	15,987,013

(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 financial year ended 31 December 2010 and the preceding year corresponding financial year ended 31 December 2009.

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

			31 December 2009
Group	**As restated**	**Adjustment**	**As previously stated**
Consolidated statements of financial position			
Cost	RM	RM	RM
Property, plant and equipment	59,193,514	7,329,712	51,863,802
Prepaid lease payments	-	(7,541,148)	7,541,148
Land use rights	211,436	211,436	-
Consolidated statements of comprehensive income			
Other expenses	23,585,646	(39,683)	23,625,329
Administrative expenses	6,406,020	(39,666)	6,445,686
Depreciation	2,714,878	79,349	2,635,529

(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, 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 derivate is recognized separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(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 comprise 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) FRS 139 : Financial Instruments : Recognition and Measurement (cont'd)

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

(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.

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.

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

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 financial year ended 31 December 2009.

(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	(1,003,581)	1,037,666
Quarry extraction exclusive rights	-	892,583	892,583
Retained profits	138,778,465	(110,997)	138,667,468

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 financial year.

6. Change in Estimates

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

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 current financial year.

8. Dividend Paid

A first and final dividend amounting to RM2,085,741 in respect of financial year ended 31 December 2009 was paid on 20 August 2010.

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 before tax	
	12 months ended 31 December		12 months ended 31 December	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Investment	5,658	4,198	2,888	714
Construction	103,178	192,845	7,380	11,220
Manufacturing	75,407	80,077	12,237	11,401
Property development	18,792	29,213	2,364	5,887
Others	14,841	25,616	495	166
	217,876	331,949	25,364	29,388
Inter-segment elimination	(27,134)	(55,760)	(5,500)	(4,000)
	190,742	276,189	19,864	25,388
Group's share of associates results	-	-	(1,201)	(2,032)
	190,742	276,189	18,663	23,356

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 statements for the current financial year.

11. Changes in Composition of the Group

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

12. Changes in Contingent Liabilities

The guarantees given to financial institutions for facilities granted to subsidiaries increased from RM176.01 million as at 31 December 2009 to RM183.52 million as at 31 December 2010.

The guarantees given to third parties for credit facilities granted to subsidiaries decreased from RM22.09 million as at 31 December 2009 to RM11.85 million as at 31 December 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

	31 December 2010
Approved and contracted for	RM'000
Property, plant and equipment	606
Purchase of merchantable timbers	1,640
	2,246
Approved but not contracted for	
Property, plant and equipment	10,454
Investment properties	4,211
Land held for future development	7,332
	21,997

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 RM18.663 million on a revenue of RM190.742 million for the current financial year as compared to a pre-tax profit of RM23.356 million on a revenue of RM276.189 million for the previous year. Despite the lower revenue recorded and the impairment loss on trade receivables of RM11.25 million [2009 : RM1.71 million] recognised in the current financial year, the Group recorded a respectable profit primarily due to the higher profit recognised upon the completion of certain construction projects. Overall, profit margins have also improved slightly as compared to the previous year.

2. Variance of Results Against Preceding Quarter

The revenue for the current quarter has increased by 4% as compared to the revenue of RM44.667 million registered for the immediate preceding quarter. The pre-tax profit for the current quarter was substantially lower as compared to the pre-tax profit of RM9.974 million recorded in the immediate preceding quarter. The higher pre-tax profit recorded for the immediate preceding quarter was primarily due to the higher profit recognised upon the completion of certain construction projects and also additional impairment loss on trade receivables of RM4.9 million recognised in the current quarter.

3. Current Year Prospects

The directors expect the Group's operating environment to remain challenging and competitive. Barring any unforeseen circumstances, the directors expect the performance of the Group to remain profitable for the financial year ending 31 December 2011.

4. Profit Forecast

Not applicable as no profit forecast was published.

5. Tax expense

	12 months ended 31 December	
	2010	2009
	RM'000	RM'000
Current tax expense	5,439	6,760
Underprovision for tax expenses in prior year	306	900
Deferred taxation – current year	685	179
Deferred taxation – overprovision in prior year	(300)	33
	6,130	7,872

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 current financial year.

7. Particulars of Purchase or Disposal of Quoted Securities

There were no purchases or disposals of quoted securities for the current financial year.

The investment in quoted securities, stated at fair value as at 31 December 2010, was as follows:

	Original cost/share	Market value/share as at 31 December 2010
	RM	RM
LBS Bina Group Bhd	1.00	0.58

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

	31 December 2010
	RM'000
Short term borrowings	
Bankers' acceptance (unsecured)	1,823
Bank overdraft (unsecured)	874
Revolving credits (unsecured)	1,800
Hire purchase creditors (current portion)	1,164
	5,662
Long term borrowings	
Hire purchase creditors	573
Non-cumulative redeemable preference shares	9,394
	15,629

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

The directors are pleased to recommend the payment of first and final dividend for the shareholders' approval at the forthcoming Annual General Meeting as follows:-

(a) A first and final single tier dividend of 2.25 sen [2009 : 3.00 sen less 25% income tax].

(b) (i) Amount per share : 2.25 sen (net) per share.

(ii) Previous corresponding period : 2.25 sen (net) per share.

(iii) Total dividend for the current financial year : 2.25sen (net) [2009 : 2.25 sen (net) per share].

(c) Date of payment will be determined at a later date.

(d) Date of entitlement will be determined at later date.

13. Basic Earnings Per Share

Basic earnings per share

	Current quarter	Current financial year
	RM	RM
Net profit attributable to equity holders of the parent	763,815	12.845,218
Weighted average number of ordinary shares		
Issued ordinary shares at beginning of the quarter	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 RM23.132 million on behalf of the main contractors. As at the end of the reporting period, the Company had given guarantees amounting to RM11.85 million to financial institutions 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.

15. Realised and Unrealised Profits/(Losses)

	Current quarter ended 31 December 2010	Preceding quarter ended 30 September 2010
	Group	Group
	RM'000	RM'000
Total retained profits of the Group		
- Realised profits	158,299	154,145
- Unrealised losses	(8,872)	(5,493)
	149,427	148,652

By Order of the Board

Cheai Weng Hoong
Company Secretary

Dated: 23 February 2011