

## **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 financial year ended 31 December 2010. 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 year ended 31 December 2010.

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 2010.

#### **2. Audit Opinion**

The audit report for the audited financial statement for the year ended 31 December 2010 was not subject to any qualification.

#### **3. Seasonal or Cyclical Factors**

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

#### **4. 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.

#### **5. Change in Estimates**

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

#### **6. 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 quarter.

#### **7. Dividend Paid**

No dividend has been paid during the current quarter.

## 8. 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.

### Analysis by activities

|                                     | Revenue                 |         | Profit/(Loss) before tax |         |
|-------------------------------------|-------------------------|---------|--------------------------|---------|
|                                     | 3 months ended 31 March |         | 3 months ended 31 March  |         |
|                                     | 2011                    | 2010    | 2011                     | 2010    |
|                                     | RM'000                  | RM'000  | RM'000                   | RM'000  |
| <b>Continuing Operations:</b>       |                         |         |                          |         |
| Investment                          | 308                     | 33      | (638)                    | (1,203) |
| Construction                        | 19,824                  | 36,006  | 2,451                    | (166)   |
| Manufacturing                       | 14,913                  | 17,653  | 1,675                    | 2,863   |
| Property development                | 10,978                  | 2,142   | 2,170                    | 1,298   |
| Others                              | 4,243                   | 3,015   | (195)                    | (88)    |
|                                     | 50,266                  | 58,849  | 5,463                    | 2,704   |
| Inter-segment elimination           | (10,503)                | (5,752) | -                        | -       |
|                                     | 39,763                  | 53,097  | 5,463                    | 2,704   |
| Group's share of associates results | -                       | -       | (446)                    | (296)   |
|                                     | 39,763                  | 53,097  | 5,017                    | 2,408   |

## 9. 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 except for the following:

On 8 April 2011, DKLS Management Sdn Bhd ("DMSB"), a wholly owned subsidiary of the Company has committed to subscribe for 40% interest in the newly registered capital of Jin Bao Long (Fujian) Electronic Co Ltd ("JBL"), a corporation incorporated in the People's Republic of China, comprising USD2 million for USD0.8 million (equivalent to RM2.4 million). The principal activity of JBL is consistent with that of manufacturing concern. JBL is currently dormant.

## 10. Changes in Composition of the Group

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

## 11. Changes in Contingent Liabilities

The guarantees given to financial institutions for facilities granted to subsidiaries decreased from RM183.520 million as at 31 December 2010 to RM182.266 million as at 31 March 2011.

The guarantees given to third parties for credit facilities granted to subsidiaries decreased from RM11.85 million as at 31 December 2010 to RM11.1 million as at 31 March 2011.

The guarantees given to financial institutions for facilities granted to main contractors in connection of contracts awarded to a subsidiary company amounted to RM11.85 million as at 31 March 2011.

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 the statement of financial position.

## 12. Capital Commitments

|  | 31 March 2011 |
|--|---------------|
|  | RM'000        |
| <b>Approved and contracted for</b>     |               |
| Property, plant and equipment          | 8,505         |
| <b>Approved but not contracted for</b> |               |
| Property, plant and equipment          | 3,751         |
| Investment properties                  | 3,500         |
|  | 7,251         |

## 13. 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 RM5.017 million on revenue of RM39.763 million for the current quarter as compared to a pre-tax profit of RM2.408 million on revenue of RM53.097 million for the previous year corresponding quarter. Despite the lower revenue recorded, the Group has achieved a higher pre-tax profit as compared to the previous year corresponding quarter due to the impairment loss on trade and other receivables amounted to RM4.9 million provided for and reported in that quarter. If the provision for impairment loss is to be excluded in the previous year corresponding quarter, the Group would have maintained a consistent profit margin.

### 2. Variance of Results Against Preceding Quarter

The revenue for the current quarter has decreased by 14.4% as compared to the revenue of RM46.454 million registered for the immediate preceding quarter. The pre-tax profit of RM5.017 million for the current quarter was substantially higher as compared to the pre-tax loss of RM1.118 million recorded in the immediate preceding quarter. The pre-tax loss in the immediate preceding quarter was primarily due to the impairment loss on trade receivables amounted to RM4.9 million provided for in that quarter and the provision for impairment loss on plant and equipment of one of the associates resulted in additional share of loss of the associate of RM3.5 million.

### 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 financial year 2011 is expected to be satisfactory under the current operating environment.

### 4. Profit Forecast

Not applicable as no profit forecast was published.

## 5. Tax expense

|                             | 3 months ended 31 March |              |
|-----------------------------|-------------------------|--------------|
|                             | 2011                    | 2010         |
|                             | RM'000                  | RM'000       |
| <b>Continued operations</b> |                         |              |
| Current tax expense         | 1,701                   | 1,001        |
| Deferred taxation           | (69)                    | 132          |
|                             | <u>1,632</u>            | <u>1,133</u> |

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 quarter under review.

## 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 31 March 2011, was as follows:

|                    | Original cost/share | Market value/share        |
|--------------------|---------------------|---------------------------|
|                    | RM                  | As at 31 March 2011<br>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 March 2011 |
|---|---------------|
|   | RM'000        |
| <b>Short term borrowings</b>                |               |
| Bankers' acceptance (unsecured)             | 2,439         |
| Bank overdraft (unsecured)                  | -             |
| Revolving credits (unsecured)               | 1,800         |
| Hire purchase creditors (current portion)   | 809           |
|   | <u>5,048</u>  |
| <b>Long term borrowings</b>                 |               |
| Hire purchase creditors                     | 625           |
| Non-cumulative redeemable preference shares | 9,548         |
|   | <u>10,173</u> |
| <b>Total borrowings</b>                     | <u>15,221</u> |

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 in respect of the current quarter ended 31 March 2011.

The Board of Directors has recommended a first and final single tier dividend of 2.25 sen per ordinary share in respect of the financial year ended 31 December 2010. The proposed dividend is subject to shareholders' approval at the forthcoming Annual General Meeting to be held on 23 May 2011. If the approval is obtained, the dividend 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*

|   |                        |
|---|------------------------|
|   | <u>Current quarter</u> |
|   | RM'000                 |
| Net profit attributable to equity holders of the parent | <u>3,620</u>           |
| <i>Weighted average number of ordinary shares</i>       | ('000 shares)          |
| Issued ordinary shares at beginning of the quarter      | 92,700                 |
| Effect of shares issued                                 | -                      |
| Weighted average number of ordinary shares              | <u>92,700</u>          |

### *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 RM16.775 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<br>ended 31 March 2011 | Preceding quarter<br>ended 31 December 2010 |
|--|--|---|
|  | Group                                  | Group                                       |
|  | RM'000                                 | RM'000                                      |
| Total retained profits of the Group                            |  |   |
| - Realised profits   | 204,351                                | 207,593                                     |
| - Unrealised losses  | (18,731)                               | (18,731)                                    |
|  | <u>185,620</u>                         | <u>188,862</u>                              |
| Total share of accumulated losses<br>from associated companies |  |   |
| - Realised losses  | (7,128)                                | (6,746)                                     |
| - Unrealised losses  | (92)                                   | (28)  |
|  | <u>(7,220)</u>                         | <u>(6,774)</u>                              |
| Less : Consolidated adjustments                                | <u>(28,916)</u>                        | <u>(36,223)</u>                             |
| Retained profits as per financial<br>statements                | <u>149,484</u>                         | <u>145,865</u>                              |

By Order of the Board

Cheai Weng Hoong  
Chan May Yoke  
Company Secretaries

Dated: 23 May 2011