

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 financial year to date.

7. Dividend Paid

A first and final dividend amounted to a net payout of RM2,085,741 in respect of financial year ended 31 December 2010 was paid on 18 August 2011.

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	
	6 months ended 30 June		6 months ended 30 June	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Continuing Operations:				
Investment	2,606	3,078	890	1,464
Construction	40,486	60,496	3,387	3,147
Manufacturing	32,637	35,351	5,358	5,609
Property development	20,994	8,817	5,263	1,244
Others	9,320	5,212	(338)	(219)
	106,043	112,954	14,559	11,245
Inter-segment elimination	(21,869)	(13,333)	(2,000)	(3,145)
	84,174	99,621	12,559	8,100
Group's share of associates results	-	-	(1,104)	(1,837)
	84,174	99,621	11,455	6,263

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 statements for the current quarter.

10. Changes in Composition of the Group

There are no changes in composition of the Group for the financial year to date except for the following:

On 3 June 2011, DKLS Management Sdn Bhd ("DMSB"), a wholly owned subsidiary of the Company, has subscribed for 40% interest in the 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 a total consideration of USD0.8 million (equivalent to RM2,417,904), thus making JBL an associate company of DMSB. The principal activity of JBL is consistent with that of manufacturing concern. However, JBL is currently dormant.

On 10 June 2011, the Company acquired 2 ordinary shares of RM1.00 each in DKLS Premierhome Sdn Bhd ("DPSB"), representing the entire issued and paid up share capital of DPSB for a total cash consideration of RM2.00, thus making DPSB a wholly-owned subsidiary of the Company. DPSB is presently dormant. However, its intended principal activity is that of property development.

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 RM182.026 million as at 30 June 2011.

The guarantees given to third parties for credit facilities granted to subsidiaries increased from RM11.85 million as at 31 December 2010 to RM11.9 million as at 30 June 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 30 June 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

	<u>30 June 2011</u> RM'000
Approved and contracted for	
Property, plant and equipment	1,131
Land held for development	50,552
	<u>51,683</u>
Approved but not contracted for	
Property, plant and equipment	3,174
Land held for development	1,156
	<u>4,330</u>

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 RM11.455 million on revenue of RM84.174 million for the current financial year to date as compared to a pre-tax profit of RM6.263 million on revenue of RM99.621 million for the previous year corresponding period. Despite the lower revenue recorded, the Group has achieved a higher pre-tax profit as compared to the previous year corresponding period. This was due to the impairment loss on trade and other receivables amounted to RM4.9 million provided for and reported in the corresponding period. If the provision for impairment loss is to be excluded in the corresponding period, the Group would have maintained a consistent profit margin.

2. Variance of Results Against Preceding Quarter

The revenue for the current quarter has increased by 11.7% as compared to the revenue of RM39.763 million registered for the immediate preceding quarter. The pre-tax profit of RM6.438 million for the current quarter was substantially higher as compared to the pre-tax profit of RM5.017 million recorded in the immediate preceding quarter. The higher pre-tax profit was achieved due to the higher turnover recorded as a result of the completion of development projects.

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

	6 months ended 30 June	
	2011	2010
	RM'000	RM'000
Continued operations		
Current tax expense	3,578	2,092
(Over)/Under provision in prior year	(16)	5
Deferred taxation – current year	(102)	50
Deferred taxation – under/(over) provision in prior year	1	(158)
	<u>3,461</u>	<u>1,989</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 financial year to date.

7. Particulars of Purchase or Disposal of Quoted Securities

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

The investment in quoted securities, stated at fair value as at 30 June 2011, was as follows:

	Original cost/share	Market value/share
	RM	RM
LBS Bina Group Bhd	1.00	0.86

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 2011
	RM'000
Short term borrowings	
Bankers' acceptance (unsecured)	4,007
Bank overdraft (unsecured)	9,807
Revolving credits (unsecured)	1,800
Hire purchase creditors (current portion)	1,591
	<u>17,205</u>
Long term borrowings	
Hire purchase creditors	1,041
Non-cumulative redeemable preference shares	9,702
	<u>10,743</u>
Total borrowings	<u><u>27,948</u></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 for financial year to date.

13. Basic Earnings Per Share

Basic earnings per share

	Current quarter	Financial year to date
	RM'000	RM'000
Net profit attributable to equity holders of the parent	5,185	8,804
<i>Weighted average number of ordinary shares</i>	('000 shares)	('000 shares)
Issued ordinary shares at beginning of the quarter	92,700	92,700
Effect of shares issued	-	-
Weighted average number of ordinary shares	<u>92,700</u>	<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 RM22.824 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 financial period/year:	As at 30 June 2011	As at 31 December 2010
	Group RM'000	Group RM'000
Total retained profits of the Group		
- Realised profits	208,727	207,593
- Unrealised losses	(17,667)	(18,731)
	<u>191,060</u>	<u>188,862</u>
Total share of accumulated losses from associated companies		
- Realised losses	(7,786)	(6,746)
- Unrealised losses	(92)	(28)
	<u>(7,878)</u>	<u>(6,774)</u>
Less : Consolidated adjustments	<u>(28,513)</u>	<u>(36,223)</u>
Retained profits as per Statement of Financial Position	<u>154,669</u>	<u>145,865</u>

By Order of the Board

Cheai Weng Hoong
Chan May Yoke
Company Secretaries

Dated: 19 August 2011