

DKLS INDUSTRIES BERHAD

(Company No. 369472 – P)

(Incorporated In Malaysia)

A. Notes to the Interim Financial Report

1. Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with the requirements of FRS B4: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of the Bursa Malaysia Securities Berhad (“BMSB”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the audited financial statements for the year ended 31 December 2007.

The interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2007. These explanatory notes attached to the interim financial report 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 2007.

2. Audit Opinion

The audit report for the audited financial statement for the year ended 31 December 2007 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 financial year to date.

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 amounting to RM3,429,885.20 in respect of financial year ended 31 December 2007 was paid on 20 August 2008.

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 activity

	Revenue		Profit/(Loss) before tax	
	9 months ended 30 September		9 months ended 30 September	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Continuing Operations:				
Investment	5,251	356	26,745	(305)
Construction	104,756	69,477	6,750	2,158
Manufacturing	48,791	45,353	9,449	5,824
Property development	21,188	2,308	3,882	(1,346)
Others	23,215	33,651	(13)	7,890
	203,201	151,145	46,813	14,221
Inter-segment elimination	(22,944)	(13,999)	(4,895)	-
	180,257	137,146	41,918	14,221
Group's share of associates results	-	-	211	(14)
	180,257	137,146	42,129	14,207
Discontinued Operations:				
Others	-	1,426	-	208
	180,257	138,572	42,129	14,415

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.

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 20 February 2008, the Company acquired 2 ordinary shares of RM1.00 each in DKLS Oil & Gas Sdn Bhd (formerly known as DKLS Homefields Sdn Bhd) ("DOG") representing the entire issued and paid up share capital of DOG for a total cash consideration of RM2.00 and upon acquisition, DOG becomes a wholly-owned subsidiary of the Company.

On 21 March 2008, the Company entered into a Share Sale Agreement with Kar Sin Berhad to dispose off its entire 30% equity interest in D'Kiara Plance Sdn Bhd (DKP), comprising 4,230,000 ordinary shares of RM1 each, for a total consideration of RM33,895,776. The disposal was completed on 4 July 2008 and accordingly, DKP ceased to be an associate of the Company.

11. Discontinued Operations

The discontinued operations comprised the disposal of the entire 30% equity interest in D'Kiara Place Sdn Bhd.

The revenue and results of the disposal groups are as follows:-

	Current Quarter 3 months ended 30 September		Cumulative Quarter 9 months ended 30 September	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Revenue	-	-	-	1,426
Other income	-	6	-	10
Expenses	-	21	-	(1,228)
Profit before tax	-	27	-	208
Tax expense	-	(7)	-	(56)
Profit for the period from discontinued operations	-	20	-	152

12. Changes in Contingent Liabilities

The guarantees given to financial institutions for facilities granted to subsidiaries decreased from RM199,782,539 as at 31 December 2007 to RM189,390,292 as at 30 September 2008.

The guarantees given to third parties for credit facilities granted to subsidiaries increased from RM17,520,000 as at 31 December 2007 to RM24,520,000 as at 30 September 2008.

The guarantees given to financial institutions for facilities granted to main contractors in connection with contracts awarded to a subsidiary company amounted to RM46,850,000 as at 30 September 2008.

13. Capital Commitments

	30 September 2008
	RM'000
Property, plant and equipment	
Approved and contracted for	7,280
Approved but not contracted for	498

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. These transactions are within the ambit of the approval granted under the Shareholders' Mandate for recurrent related transactions obtained at a general meeting.

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 the BMSB's Listing Requirements

1. Review of Performance

The Group recorded a pre-tax profit (excluding discontinued operations) of RM42.129 million on a revenue of RM180.257 million for the financial year to date as compared to a pre-tax profit of RM14.207 million on a revenue of RM137.146 million for the previous year corresponding period. The Group recorded a higher profit from its core operating business as a result of a higher turnover achieved. In addition, the Group recognised certain exceptional gains, such as gain arising from disposal of investment amounting to RM18.13 million, gain on disposal of plant and machinery of RM3 million and profit from China operation of RM3.9 million during the financial period under review.

2. Variance of Results Against Preceding Quarter

	^{3rd} quarter ended 30 September 2008	^{2nd} quarter ended 30 June 2008	Increase/ (Decrease)
	RM'000	RM'000	RM'000
Revenue from continuing operations	73,989	69,149	4,840
Profit for the quarter from continuing operations	26,848	11,185	15,663

The higher profit for this quarter is mainly due to the gain on disposal of investment amounting to RM18.13 million as compared to the previous quarter's gain on disposal of plant and machinery of RM3 million. If these gains are excluded, the profit margin for the current quarter under review is consistent with the preceding quarter.

3. Current Year Prospects

The Group's current operating environment remains challenging in view of the global financial crisis and competitive business environment. Despite the current economic scenario, the directors are satisfied with the improved performance of the Group's core operating business for the financial year ending 31 December 2008. Together with the exceptional gains arising from the disposal of investment and plant and machinery, the directors expect the Group's financial results for the financial year to be better than the previous financial year.

4. Profit Forecast

Not applicable as no profit forecast was published

5. Tax expense

	9 months ended 30 September	
	2008	2007
	RM'000	RM'000
Continued operations		
Current tax expense	4,606	1,621
Deferred taxation	569	204
Under provision of tax in respect of prior years	(15)	3
Under/(Over) provision of deferred tax in respect of prior years	-	(18)
	<u>5,160</u>	<u>1,810</u>
Discontinued operations		
Foreign current tax	-	56
	<u>5,160</u>	<u>1,866</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 except for the following:-

On 8 May 2008 a subsidiary company, DKLS Construction Sdn Bhd completed the sale of 1 unit double storey shop office for a total consideration of RM235,000 which resulted in a loss on disposal of RM5,000. The loss has been recognized as impaired loss in previous year.

On 29 July 2008, a subsidiary company, DKLS Development Sdn Bhd completed the sale of 1 unit double storey shop office for a total consideration of RM235,000 which resulted in a loss on disposal of RM5,000.

On 1 August 2008, a subsidiary company, DKLS Construction Sdn Bhd completed the sale of 2 units double storey shop office for a total consideration of RM588,000 which resulted in a gain of RM33,000.

On 8 August 2008, a subsidiary company, DKLS Quarry & Premix Sdn Bhd completed the sale of 1 unit double storey shop office for a total consideration of RM200,000 realising a gain of RM20,000.

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 investments in quoted securities were as follows:

	30 September 2008
	RM'000
Included within other investment:	
At cost	23
Less : Impairment loss	(11)
At carrying value	12
At market value	<u>7</u>

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

	<u>30 September 2008</u>
	RM'000
Short term borrowings	
Bankers' acceptance (unsecured)	8,653
Bank overdraft (unsecured)	2,136
Revolving credits (unsecured)	1,800
Hire purchase creditors (current portion)	<u>5,270</u>
	17,859
Long term borrowings	
Hire purchase creditors	<u>2,270</u>
	<u><u>20,129</u></u>

Borrowings are de nominated 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.

13. Basic Earnings Per Share

Basic earnings per share

	Current quarter	Financial year to-date
	RM	RM
Net profit attributable to equity holders of the parent	25,386,954	37,000,638
<i>Weighted average number of ordinary shares</i>		
Issued ordinary shares at beginning of the quarter	92,699,600	92,699,600
Effect of shares issued	-	-
Weighted average number of ordinary shares	<u>92,699,600</u>	<u>92,699,600</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 amounted to RM31.93 million on behalf of the main contractors. As at the end of the reporting period, the Company has given guarantees amounted to RM46.850 million to financial institutions for facility granted to a subsidiary company's main contractors. The financial assistance provided has no financial impact on the Company as a Group.

By Order of the Board

Cheai Weng Hoong
Company Secretary

Dated: 25 November 2008