

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 134: 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 current financial year.

5. Change in Estimates

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

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 financial year.

7. Dividend Paid

A first and final dividend amounted 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	
	12 months ended 31 December		12 months ended 31 December	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Continuing Operations:				
Investment	9,216	1,474	30,960	3,806
Construction	131,967	97,060	5,480	4,294
Manufacturing	69,768	61,149	11,266	6,795
Property development	30,217	8,460	4,921	(955)
Others	27,748	43,144	(55)	353
	268,916	211,287	52,572	14,293
Inter-segment elimination	(30,407)	(20,429)	(8,795)	(1,000)
	238,509	190,858	43,777	13,293
Group's share of associates results	-	-	(65)	359
	238,509	190,858	43,712	13,652
Discontinued Operations:				
Others	-	1,426	36	6,410
	238,509	192,284	43,748	20,062

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 financial year.

10. Changes in Composition of the Group

There are no changes in composition of the Group for current the financial year 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 group are as follows:-

	Current Quarter 3 months ended 31 December		Cumulative Quarter 12 months ended 31 December	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Revenue	-	-	-	1,426
Other income	-	-	-	11
Expenses	-	-	-	(1,229)
Profit before tax	-	-	-	208
Tax expense	-	-	-	(56)
Profit for the period from discontinued operations	-	-	-	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 RM176,010,569 as at 31 December 2008.

The guarantees given to third parties for credit facilities granted to subsidiaries increased from RM17,520,000 as at 31 December 2007 to RM22,090,000 as at 31 December 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 31 December 2008.

13. Contingent assets

During the financial year, DKLS Energy Sdn Bhd, ("DESB") a wholly-owned subsidiary received RMB8,517,795 (equivalent to RM3,984,478) being compensation for loss of return on capital pursuant to the Joint Venture Agreement signed for the period 1 June 2006 to 31 December 2007.

Currently, DESB is in the process of finalizing the figure for the period from 1 January 2008 to 31 December 2008 and the amount is estimated to be RMB5,957,610 (equivalent to RM3,024,014).

14. Capital Commitments

	31 December 2008
	RM'000
Property, plant and equipment	
Approved and contracted for	786
Approved but not contracted for	5,306

15. 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 profit of RM37.709 million on a revenue of RM238.509 million for the current financial year as compared to a profit of RM16.816 million on a revenue of RM190.858 million for the previous financial year.

The Group generally recorded higher profits from its core operating businesses as a result of higher turnover achieved. In addition, the Group recognised certain exceptional gains, such as gain on disposal of investment amounted to RM18.13 million, gain on disposal of plant and machinery of RM2.2 million, reversal of impairment loss of plant and machinery amounted to RM0.914 million and profit from China operation of RM4 million during the financial year under review.

2. Variance of Results Against Preceding Quarter

	^{4th} quarter ended 31 December 2008	^{3rd} quarter ended 30 September 2008	Increase/ (Decrease)
	RM'000	RM'000	RM'000
Revenue for the quarter	58,252	73,989	(15,737)
Profit for the quarter	741	25,380	(24,639)

Notwithstanding the lower revenue achieved, the lower profit in comparison is primarily due to the losses arising from associates and the lower profit margins recognised for the quarter under review as a result of unprecedented escalation in the price of fuel and steel resulting in the prices hike of petroleum based products, raw materials and transportation costs.

3. Current Year Prospects

The Board expects the Group's current operating environment to remain challenging in view of the prevailing global economic crisis and competitive business environment. Despite the lowering of basic raw material and fuel prices, the directors expect the search for new projects, lower anticipated sales and competitive pricing will provide the challenge to the Group for its core businesses to remain profitable in the financial year 2009.

4. Profit Forecast

Not applicable as no profit forecast was published

5. Tax expense

	12 months ended 31 December	
	2008	2007
	RM'000	RM'000
Continued operations		
Current tax expense	6,367	2,687
Deferred taxation	(305)	440
(Over)/Under provision of tax in respect of prior years	(13)	4
(Over)/Under provision of deferred tax in respect of prior years	(10)	59
	<u>6,039</u>	<u>3,190</u>
Discontinued operations		
Foreign current tax	-	56
	<u>6,039</u>	<u>3,246</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 current financial year 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 current financial year.

The investments in quoted securities were as follows:

	31 December 2008
	RM'000
Included within other investment:	
At cost	23
Less : Impairment loss	(18)
At carrying value	5
At market value	<u>5</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

	31 December 2008
	RM'000
Short term borrowings	
Bankers' acceptance (unsecured)	4,480
Bank overdraft (unsecured)	2,377
Revolving credits (unsecured)	1,800
Hire purchase creditors (current portion)	5,473
	<u>14,130</u>
Long term borrowings	
Hire purchase creditors	2,021
	<u><u>16,151</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

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 dividend of 3% less 25% income tax.
- (b)
 - (i) Amount per share : 2.25 sen (net) per share.
 - (ii) Previous corresponding period : 3.70 sen (net) per share.
 - (iii) Total dividend for the current financial year : 2.25 sen (net). [2007 : 3.70 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 (loss)/profit attributable to equity holders of the parent	746,407	37,747,045

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 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 RM46.85 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 February 2009