

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

EXPLANATORY NOTES

A1. Basis of preparation

These interim financial statements, which are unaudited, have been prepared in accordance with Financial Reporting Standard (FRS) 134 : Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”) and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”).

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 January 2006. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to the understanding of the changes in the financial position and performance of the Group since the financial year ended 31 January 2006.

The MASB issued a total of 21 new and amended FRS and other interpretations (herein thereafter referred as FRSs), out of which 18 FRSs became effective for financial period commencing on or after 1 January 2006.

The accounting policies and methods of computation adopted by the Group in these interim financial statements are consistent with those adopted in the audited financial statements for the financial year ended 31 January 2006 except for the adoption of the following new and amended FRSs effective for the financial period commencing 1 January 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets

The adoption of the above FRSs does not have significant financial impact on the Group except for FRS 2, FRS 3 and FRS 101 as follows:

(a) FRS 2: Share-based Payment

This FRS requires an entity to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.

The Company operates an equity-settled, share-based compensation plan for the eligible employees of the Group, the Kim Loong Resources Berhad’s Employees’ Share Option Scheme (“ESOS”). Prior to 1 January 2006, no compensation expense was recognised in the income statement for share options granted. With the adoption of FRS 2, the fair value of employee services rendered in exchange for the grant of the share options is recognised as an expense over

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the vesting period. The fair value of the share options is measured by the use of Black Scholes model.

Under the transitional provisions in FRS 2, this FRS must be applied to share options that were granted after 31 December 2004 and had not yet been vested on 1 January 2006. The application is retrospective. The financial impact to the Group arising from this change in accounting policy is as follows:

	9 months ended 31/10/2006 RM'000
Decrease in profit for the period due to :	
- prior year under provision of share-based payment expenses	54
- current period's share-based payment expenses	50
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No prior year adjustment has been made as the adoption of this FRS has no material effect on the financial position of the Group and of the Company.

(b) FRS 3: Business Combinations

The adoption of the new FRS 3 has resulted in changes in the accounting policy relating to Goodwill and Reserve (Negative Goodwill) on consolidation.

Goodwill on consolidation

Under FRS 3, any subsequent changes to the initial recognition of acquisition cost of a business combination shall not be recognised for the purpose of computing goodwill. In accordance with the transitional provisions of FRS 3 on limited retrospective application to goodwill, the Group has reversed all goodwill which arose from subsequent changes in cost of acquisition of subsidiary company. As a result of the change, goodwill on consolidation of RM470,000 has been adjusted via prior year adjustment with a corresponding decrease in the retained profits

Reserve (Negative Goodwill) on consolidation

Under FRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisitions ("negative goodwill"), after reassessment, is now recognised immediately in the income statement. Prior to 1 February 2006, negative goodwill was treated as a permanent item without amortisation. In accordance with the transitional provisions of FRS 3, the negative goodwill as at 31 January 2006 of RM11,352,722 was derecognised with a corresponding increase in the retained profits.

(c) FRS 101: Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of the minority interests and other disclosures in the income statement, balance sheet and statement of changes in equity.

In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period as opposed to as a deduction before arriving at profit attributable to shareholders.

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While in the consolidated balance sheet, minority interests are now presented within total equity, similarly, the movement of the minority interests for the reported period is presented in the consolidated statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, of total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interests.

The revised FRS 101 has also given rise to new classes of assets and liabilities which are required to be reported on the face of the consolidated balance sheet. As a result of this, “Plantation Development Expenditure” previously included in property, plant and equipment is now presented as “Biological Assets” on the face of the condensed consolidated balance sheet.

The effects to the Group’s comparative figures on adoption of the above FRSs are as follows:

	As previously stated RM’000	Effects on adoption of FRSs		As restated RM’000
		FRS 3 RM’000	FRS 101 RM’000	
As at 31 January 2006				
Property, plant and equipment	332,506	-	(66,698)	265,808
Biological assets	-	-	66,698	66,698
Goodwill on consolidation	1,624	(470)	-	1,154
Retained profits	35,381	(470)	-	34,911

A2. Audit qualification

The auditors’ report of the preceding annual financial statements of the Group did not contain any qualification.

A3. Seasonal or cyclical factors

The production of Fresh Fruit Bunches (“FFB”) from the estates and palm oil from the mill is normally low during the first quarter of each year. The production will rise in the second quarter, peak in the third quarter and slowly decline in the fourth quarter. The current quarter production of FFB is broadly in line with the above trend.

A4. Unusual items

There were no unusual items that have material effects on the assets, liabilities, equity, net income or cash flows for the current financial year-to-date.

A5. Material changes in estimates

There were no changes in estimates that have had a material effect in the current quarter.

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A6. Debt and equity securities

The Company's issued and paid up capital increased from RM170,863,600 as at 31 January 2006 to RM171,097,000 as at 31 October 2006 as a result of issuance of 233,400 new ordinary shares of RM1 each under the Company's Employees' Share Option Scheme ("ESOS").

There were no cancellations, repurchases, resale and repayments of debt and equity securities for the current financial year-to-date.

A7. Dividends paid

The gross dividend paid during the current financial year-to-date was 4 sen per ordinary share, less tax, in respect of the final dividend for the financial year 2006 which was paid on 18 August 2006.

A8. Segmental information

Major segments by activity:-

	Revenue		Results	
	9 months ended		9 months ended	
	31/10/2006	31/10/2005	31/10/2006	31/10/2005
	RM'000	RM'000	RM'000	RM'000
Plantation operations	43,287	37,115	15,919	12,133
Milling operations	163,091	145,330	6,015	3,928
	206,378	182,445	21,934	16,061
Less:				
Inter-segment eliminations	(21,136)	(16,143)	(150)	(72)
	185,242	166,302	21,784	15,989
Less:				
Unallocated expenses			(1,437)	(1,721)
Finance costs			(1,102)	(2,250)
Profit before tax			19,245	12,018

A9. Valuation of property, plant and equipment

The valuations of property, plant and equipment stated in the previous annual financial statements have been brought forward without amendment.

A10. Material subsequent events

There are no material events subsequent to the end of the current financial period that have not been reflected in the financial statements for the current financial period up to 23 December 2006.

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A11. Changes in the composition of the Group

There were no changes in the composition of the Group for the current quarter including business combination, acquisition or disposal of subsidiaries and long term investments, restructuring and discontinuing operations.

A12. Contingent liabilities or Contingent assets

There were no material changes in contingent liabilities at group level since the last annual balance sheet as at 31 January 2006.

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ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES

B1. Review of the performance of the Company and its principal subsidiaries

The Group recorded a 60% or RM7.23 million increase in profit before tax (“PBT”) with a 11% or RM18.94 million increase in revenue for the cumulative three quarters ended 31 October 2006 as compared to corresponding period last year.

The large increase in PBT is mainly contributed by higher production from both the plantation and milling operations which led to better profit margin for both operations.

The FFB produced by the plantation operations and FFB processed by the milling operations increased by 19% or 26,000 MT and 11% or 45,000 MT respectively from 134,500 MT and 421,000 MT achieved for corresponding period last year.

B2. Comparison of profit before tax for the quarter reported on with the immediate preceding quarter

The PBT for the 3rd quarter increased by 84% or RM4.03 million higher than RM4.78 million achieved last quarter ended 31 July 2006. The increase in PBT is mainly contributed by the plantation operations due to a significant increase in FFB production of 27% or 14,000 MT as 3rd quarter is usually a high crop season.

B3. Current financial year prospects

For the financial year ending 31 January 2007, we expect a significant jump in the production quantities from both the plantation and milling operations as compared to financial year 2006. With a more productive age profile of the palms, the plantation operations production is expected to increase more than 20%. For the milling operations, the FFB processed to-date by the mill at Keningau has currently exceeded last year and will continue to contribute in boosting up the palm oil production quantity for the Group.

Barring unforeseen circumstances and based on the current palm oil prices, the Board expects the Group’s profit to be significantly higher for the financial year ending 31 January 2007 as compared to last financial year.

B4. Variance of actual profit from forecast profit and shortfall in profit guarantee

This is not applicable

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B5. Income tax

	Current Quarter 31/10/2006 RM'000	Current Financial Year-to-date 31/10/2006 RM'000
Malaysian Income Tax		
- Current year	2,655	4,984
- Overprovision in prior years	-	-
Real Property Gains Tax	9	9
Deferred tax		
- Current year	38	(26)
- Overprovision in prior years	(488)	(488)
	2,214	4,479

The effective tax rate is lower than the statutory tax rate for the current financial quarter mainly due to adjustment on overprovision of deferred tax in prior year.

The effective tax rate is lower than the statutory tax rate for the current financial year-to-date mainly due to adjustment on overprovision of deferred tax in prior year and certain income which are not taxable.

B6. Profits/(losses) on sale of unquoted investments and/or properties

There were no profits/(losses) derived from the sale of unquoted investments and/or properties for the current quarter and financial year-to-date.

B7. Purchase or disposal of quoted securities

Changes in the quoted securities held during the financial year-to-date are as follows:

- (a) Total purchase consideration and sale proceeds of quoted securities for the current quarter and financial year-to-date are as follows:-

	Current Quarter 31/10/2006 RM'000	Current Financial Year-to-date 31/10/2006 RM'000
Total purchase consideration	-	-
Total sale proceeds	504	4,644
Total gain on disposals	2	428

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(b) Total investments in quoted securities as at 31 October 2006:-

	RM'000
At Cost	2,560
Allowance for diminution in value	(641)
At Book Value	<u>1,919</u>
At Market Value	<u><u>1,878</u></u>

Allowance is made for any diminution in value of quoted securities if, in the opinion of the Directors, the decline in value is not temporary in nature.

B8. Status of corporate proposalsStatus of corporate proposals not completed as at 23 December 2006

(A) Status of subdivision and transfer of titles of two pieces of plantation land acquired :

The two pieces of the land are registered in favour of two subsidiary companies as the owners of 10,781/12,881 undivided share and 100/12,881 undivided share. The Group has taken steps to procure the subdivision and registration of the two pieces of land into the names of the relevant subsidiaries.

(B) Renounceable Rights Issue with detachable free warrants

The issuance and quotation of the rights shares on Bursa Securities were completed on 29 April 2005.

The total gross proceeds of RM70,455,000 arising from the Rights Issue were utilised as follows:

	Approved by Securities Commission	Amount utilised	Balance to be utilised
	RM'000	RM'000	RM'000
Repayments of bank borrowings	30,000	30,000	-
Property, plant and equipment	24,250	14,460	9,790
Working capital	15,205	15,205	-
Estimated expenses relating to the Rights Issue	1,000	1,000	-
Total proceeds from the Rights Issue	<u>70,455</u>	<u>60,665</u>	<u>9,790</u>

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B9. Group borrowings and debt securities

As at 31 October 2006, the total secured borrowings, which are denominated in Ringgit Malaysia, are as follows:

	RM'000
Short term borrowings :	
Overdrafts	2,121
Revolving credit	2,000
Term loans	6,468
	<u>10,589</u>
Long term borrowings :	
Term loans	<u>13,112</u>

There were no interest bearing unsecured borrowings as at 31 October 2006.

B10. Financial instruments with off balance sheet risks

There were no financial instruments with off balance sheet risks for the current financial year-to-date.

B11. Material litigation

The Group is not engaged in any material litigation for the current financial year-to-date.

B12. Dividend

No dividend has been declared or proposed for the current quarter ended 31 October 2006.

Total dividend for the current financial year: 3 sen less income tax of 28%

B13. Earnings per share

Basic earnings per share ("Basic EPS")

The Basic EPS is calculated by dividing the profit attributable to the equity holders of the parent for the current quarter and the cumulative three quarters by the weighted average number of ordinary shares in issue during the current quarter and the cumulative three quarters respectively:

		Current Quarter 31/10/2006	Current Financial Year-to-date 31/10/2006
Net profit for the period	(RM'000)	<u>6,234</u>	<u>15,036</u>
Weighted average number of ordinary shares in issue	('000)	<u>171,067</u>	<u>170,962</u>
Basic EPS	(sen)	<u>3.64</u>	<u>8.79</u>

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Diluted earnings per share (“Diluted EPS”)

The Diluted EPS is calculated by dividing the profit attributable to the equity holders of the parent for the current quarter and the cumulative three quarters by the weighted average number of ordinary shares in issue during the current quarter and the cumulative three quarters respectively, which has been adjusted for the following:

- (i) the number of ordinary shares that could have been issued under the Company’s ESOS; and
- (ii) the number of ordinary shares that could have been converted from the warrants issued by the Company.

Shares that are anti-dilutive are ignored in the computation of Diluted EPS.

		Current Quarter 31/10/2006	Current Financial Year-to-date 31/10/2006
Net profit for the period	(RM'000)	6,234	15,036
Weighted average number of ordinary shares in issue	('000)	171,067	170,962
Impact on shares under option that would have been issued at fair value	('000)	1,407	1,143
Assumed exercise of warrants	('000)	42,700	42,700
Adjusted weighted average number of shares for Diluted EPS	('000)	215,174	214,805
Diluted EPS	(sen)	2.90	7.00