

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 2007. 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 2007.

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 2007 except for the adoption of the following amended FRSs effective for the financial period which are relevant to its operations:

FRS 117	Leases
FRS 124	Related Party Disclosures

The adoption of FRS 124 does not have significant financial impact on the Group.

Prior to 1 February 2007, leasehold land held for own use was classified as property, plant and equipment and was stated at cost less accumulated amortization and impairment loss, if any. The adoption of the revised FRS 117 has resulted in the change in the accounting policy relating to the classification of leases of land. Leasehold land held for own use is now classified as operating lease and where necessary the minimum lease payments or the up-front payments made are allocated between land and the building elements in proportion to the fair values for leasehold interests in the land element and building element of the lease at the inception of the lease. The up-front payment represents prepaid land lease payments and are amortised on a straight line basis over the lease term.

The Group has applied the change in accounting policy in respect of leasehold land in accordance with the transitional provisions of FRS 117. At 1 February 2007, the unamortised amount of leasehold land is retained as the surrogate carrying amount of prepaid land lease payments as allowed by the transitional provisions. The classification of leasehold land as prepaid land lease payments has been accounted for retrospectively and certain comparatives are restated as follows:

	As previously stated RM'000	Effects on adoption of FRS 117 RM'000	As restated RM'000
As at 31 January 2007			
Property, plant and equipment	272,595	(168,994)	103,601
Prepaid land lease payments	-	168,994	168,994

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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 and will rise in the second quarter, peak in the third quarter and then 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.

A6. Debt and equity securities

The Company's issued and paid up capital increased from RM171,458,700 as at 31 January 2007 to RM174,836,299 as at 31 July 2007 as a result of:

- (a) issuance of 3,051,500 new ordinary shares of RM1 each under the Company's Employees' Share Option Scheme ("ESOS"); and
- (b) issuance of 326,099 new ordinary shares of RM1 each pursuant to the exercise of 326,099 Warrants.

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

A7. Dividends paid

No dividends have been paid during the current financial year-to-date.

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A8. Segmental information

Major segments by activity:-

	Revenue		Results	
	6 months ended		6 months ended	
	31/07/2007	31/07/2006	31/07/2007	31/07/2006
	RM'000	RM'000	RM'000	RM'000
Plantation operations	40,624	25,185	17,863	6,128
Milling operations	158,096	103,354	6,890	3,489
	198,720	128,539	24,753	9,617
Less:				
Inter-segment eliminations	(19,582)	(12,405)	-	-
	<u>179,138</u>	<u>116,134</u>	24,753	9,617
Less:				
Unallocated expenses			(1,253)	(898)
Finance income			645	308
Finance costs			(476)	(773)
Other investment income			572	2,183
Profit before tax			<u>24,259</u>	<u>10,437</u>
Tax expenses			(5,780)	(2,265)
Profit for the period			<u>18,479</u>	<u>8,172</u>

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 25 September 2007.

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 2007.

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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 revenue and profit before tax (“PBT”) of the Group was RM179.14 million and RM24.26 million respectively for the cumulative two quarters ended 31 July 2007, as compared to RM116.13 million and RM10.44 million respectively for last year’s corresponding period.

The large 54% and 132% increases in revenue and PBT respectively were mainly contributed by higher crude palm oil price which was 60% more than last year’s corresponding period.

The profit from plantation operation for the period under review increased by 191% or RM11.73 million to RM17.86 million as a result of the good palm oil prices despite a drop in FFB production from 95,700MT to 93,500MT.

As for the milling operation, the profit also increased by 97% or RM3.40 million to RM6.89 million mainly contributed by good performance of our Keningau mill.

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

The PBT for the current quarter was RM18.52 million which is RM12.78 million or 223% higher than RM5.74 million achieved last quarter ended 30 April 2007. The higher PBT was mainly contributed by 30% increase in FFB production as well as 26% increase in palm oil prices. In addition, the improved rate of utilisation of capacity of our mills also resulted in better profit contribution in the current quarter.

B3. Current financial year prospects

For the financial year ending 31 January 2008, we expect a significant increase in the production from both the plantation and milling operations as compared to financial year 2007. With a more productive age profile of the palms, the plantation operations production is expected to increase about 15%. For the milling operations, the FFB processed by the mill at Keningau is expected to further increase and contribute in boosting the palm oil production for the Group.

Barring any unforeseen circumstances, based on the above factors and high CPO price expected, the Board expects the Group to perform better in the second half as compared to first half of the financial year ending 31 January 2008.

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 31/07/2007 RM'000	Current Financial Year-to-date 31/07/2007 RM'000
Malaysian Income Tax		
- Current year	3,085	4,589
Deferred tax		
- Current year	1,472	1,538
- Overprovision in prior years	-	(347)
	4,557	5,780

The effective tax rate is lower than the statutory tax rate for the current quarter and current financial year-to-date mainly due to adjustment on overprovision of deferred tax in prior years and certain income is 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 31/07/2007 RM'000	Current Financial Year-to-date 31/07/2007 RM'000
Total purchase consideration	-	-
Total sale proceeds	2,572	2,572
Total gain on disposals	539	539

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(b) Total investments in quoted securities as at 31 July 2007:-

	RM'000
At Cost	661
Allowance for diminution in value	(483)
At Book Value	<u>178</u>
At Market Value	<u>233</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 25 September 2007

(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	19,031	5,219
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>65,236</u>	<u>5,219</u>

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B9. Group borrowings and debt securities

As at 31 July 2007, the total secured borrowings, which are denominated in Ringgit Malaysia, are as follows:

	RM'000
Short term borrowings :	
Overdrafts	1,160
Revolving credit	3,000
Term loans	4,965
	<u>9,125</u>
Long term borrowings :	
Term loans	<u>10,145</u>

There was no interest bearing unsecured borrowing as at 31 July 2007.

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

The Board is pleased to declare an interim dividend of 3% less income tax of 26% in respect of the financial year ending 31 January 2008.

- (a) (i) amount per share: 3 sen less income tax of 26%;
 - (ii) previous corresponding period: 3 sen less income tax of 28%;
 - (iii) date payable will be announced at a later date; and
 - (iv) in respect of deposited securities, entitlement to dividends will be determined on the basis of the record of the depositors as at a date to be announced at a later date; and
- (b) total dividend for the current financial year: 3 sen less income tax of 26%

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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 Company for the current quarter and the first six months by the weighted average number of ordinary shares in issue during the current quarter and the first six months respectively:

		Current Quarter 31/07/2007	Current Financial Year-to-date 31/07/2007
Net profit for the period	(RM'000)	11,782	16,332
Weighted average number of ordinary shares in issue	('000)	175,681	172,965
Basic EPS	(sen)	6.71	9.44

Diluted earnings per share (“Diluted EPS”)

The Diluted EPS is calculated by dividing the profit attributable to the equity holders of the Company for the current quarter and the first six months by the weighted average number of ordinary shares in issue during the current quarter and the first six months 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 31/07/2007	Current Financial Year-to-date 31/07/2007
Net profit for the period	(RM'000)	11,782	16,332
Weighted average number of ordinary shares in issue	('000)	175,681	172,965
Adjustment for dilutive effect of unexercised share options	('000)	1,151	957
Adjustment for dilutive effect of warrants	('000)	24,419	22,386
Adjusted weighted average number of shares for Diluted EPS	('000)	201,251	196,308
Diluted EPS	(sen)	5.85	8.32