

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 RM206,732,199 as at 31 October 2007 as a result of:

- (a) issuance of 3,278,400 new ordinary shares of RM1 each under the Company's Employees' Share Option Scheme ("ESOS"); and
- (b) issuance of 31,995,099 new ordinary shares of RM1 each pursuant to the exercise of 31,995,099 Warrants.

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

A7. Dividends paid

The gross dividends paid during the current financial year-to-date were a final dividend of 4 sen per ordinary share less income tax, and a special dividend of 3 sen per ordinary share less income tax in respect of the financial year 2007 which were paid on 16 August 2007.

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A8. Segmental information

Major segments by activity:-

	Revenue		Results	
	9 months ended		9 months ended	
	31/10/2007	31/10/2006	31/10/2007	31/10/2006
	RM'000	RM'000	RM'000	RM'000
Plantation operations	76,172	43,287	41,303	13,695
Milling operations	281,603	163,091	14,628	5,431
	357,775	206,378	55,931	19,126
Less:				
Inter-segment eliminations	(38,256)	(21,136)	-	-
	<u>319,519</u>	<u>185,242</u>	55,931	19,126
Less:				
Unallocated expenses			(1,806)	(1,517)
Finance income			1,226	435
Finance costs			(684)	(1,102)
Other investment income			646	2,303
Profit before tax			<u>55,313</u>	<u>19,245</u>
Tax expenses			(13,464)	(4,479)
Profit for the period			<u>41,849</u>	<u>14,766</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 24 December 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 Group benefited from the high palm oil prices and recorded a 72% increase in revenue and 187% increase in profit before tax (“PBT”) for the cumulative three quarters ended 31 October 2007, as compared to RM185.24 million and RM19.25 million respectively for the last year’s corresponding period.

The record-high RM319.52 million revenue and RM55.31 million PBT were mainly contributed by the higher Crude Palm Oil (“CPO”) price which was 64% more than last year’s corresponding period.

The profit from plantation operation for the period under review increased impressively by 202% or RM27.61 million to RM41.30 million as a result of the good palm oil prices and increase in FFB production.

As for the milling operation, the profit also increased by 169% or RM9.20 million to RM14.63 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 RM31.05 million which is RM12.53 million or 68% higher than RM18.52 million achieved last quarter ended 31 July 2007. The higher PBT was mainly contributed by 40% increase in FFB production. 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 13%. 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.

The Board expects the outlook for the fourth quarter will continue to be good and foresee the CPO price to remain high. Barring any unforeseen circumstances, the Group will achieve another year of impressive earning growth.

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 31/10/2007 RM'000	Current Financial Year-to-date 31/10/2007 RM'000
Malaysian Income Tax		
- Current year	4,818	9,407
- Overprovision in prior years	(17)	(17)
	4,801	9,390
Deferred tax		
- Current year	3,436	4,974
- Overprovision in prior years	23	(324)
- Realisation of revaluation surplus on land	(229)	(229)
- Reduction in tax rate	(347)	(347)
	2,883	4,074
	7,684	13,464

The effective tax rate is lower than the statutory tax rate for the current quarter and current financial year-to-date mainly due to adjustments on overprovision of deferred tax in prior years, reduction in tax rate and certain income which 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 31/10/2007 RM'000	Current Financial Year-to-date 31/10/2007 RM'000
Total purchase consideration	-	-
Total sale proceeds	190	2,762
Total gain on disposals	74	613

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

	RM'000
At Cost	362
Allowance for diminution in value	(299)
At Book Value	<u>63</u>
At Market Value	<u>66</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 24 December 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 submitted the master title of the land to the relevant authority on 29 November 2007 to procure the subdivision and registration of the two pieces of land into the names of the respective 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	23,900	350
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>70,105</u>	<u>350</u>

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B9. Group borrowings and debt securities

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

	RM'000
Short term borrowings :	
Overdrafts	1,172
Revolving credit	3,000
Term loans	5,048
	<u>9,220</u>
Long term borrowings :	
Term loans	<u>8,842</u>

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

B10. Financial instruments with off balance sheet risks

There were no financial instruments with off balance sheet risks as at 24 December 2007.

B11. Material litigation

As at 24 December 2007, there was no material litigation against the Group.

B12. Dividend

The Board is pleased to declare a special dividend of 10 sen per share less income tax of 26% in respect of the financial year ending 31 January 2008.

- (a) (i) amount per share: 10 sen less income tax of 26%;
 - (ii) previous corresponding period: Nil;
 - (iii) date payable : 28 January 2008; and
 - (iv) in respect of deposited securities, entitlement to dividends will be determined on the basis of the record of the depositors as at 18 January 2008; and
- (b) total dividend for the current financial year: 13 sen per share 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 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 31/10/2007	Current Financial Year-to-date 31/10/2007
Net profit for the period	(RM'000)	18,974	35,306
Weighted average number of ordinary shares in issue	('000)	202,239	182,830
Basic EPS	(sen)	9.38	19.31

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 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 31/10/2007	Current Financial Year-to-date 31/10/2007
Net profit for the period	(RM'000)	18,974	35,306
Weighted average number of ordinary shares in issue	('000)	202,239	182,830
Adjustment for dilutive effect of unexercised share options	('000)	1,100	910
Adjustment for dilutive effect of warrants	('000)	6,353	5,794
Adjusted weighted average number of shares for Diluted EPS	('000)	209,692	189,534
Diluted EPS	(sen)	9.05	18.63