

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 was not in line with the above trend as the FFB production peak was delayed to the fourth quarter instead of the third quarter which was in line with Sabah state production 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 RM209,956,695 as at 31 January 2008 as a result of:

- (a) issuance of 3,575,400 new ordinary shares of RM1 each under the Company's Employees' Share Option Scheme ("ESOS"); and
- (b) issuance of 34,922,595 new ordinary shares of RM1 each pursuant to the exercise of 34,922,595 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 as follows:

- (a) A final dividend of 4 sen per ordinary share less tax and a special dividend of 3 sen per ordinary share less tax in respect of the financial year 2007 were paid on 16 August 2007.
- (b) An interim dividend of 3 sen per ordinary share less tax in respect of the financial year 2008 was paid on 21 December 2007.
- (c) A special dividend of 10 sen per ordinary share less tax in respect of the financial year 2008 was paid on 28 January 2008.

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A8. Segmental information

Major segments by activity:-

	Revenue		Results	
	Year ended		Year ended	
	31/01/2008	31/01/2007	31/01/2008	31/01/2007
	RM'000	RM'000	RM'000	RM'000
Plantation operations	124,183	63,976	74,007	22,750
Milling operations	411,776	230,681	23,790	8,461
	535,959	294,657	97,797	31,211
Less:				
Inter-segment eliminations	(66,083)	(31,594)	-	-
	<u>469,876</u>	<u>263,063</u>	97,797	31,211
Less:				
Unallocated expenses			(3,327)	(2,736)
Finance income			1,954	735
Finance costs			(880)	(1,386)
Other investment income			655	2,619
Profit before tax			96,199	30,443
Tax expenses			(24,036)	(7,769)
Profit for the year			<u>72,163</u>	<u>22,674</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 year that have not been reflected in the financial statements for the current financial period up to 24 March 2008.

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 continued to benefit from the high palm oil prices and achieved an impressive 78% increase in revenue and 216% increase in profit before tax (“PBT”) for the current financial year ended 31 January 2008, as compared to RM263.06 million and RM30.44 million respectively for the last financial year.

The record-high RM469.88 million revenue and RM96.20 million PBT were mainly contributed by the higher Crude Palm Oil (“CPO”) price which was 65% more than last year’s corresponding period.

The profit from plantation operation for the period under review registered a significant jump of 225% or RM51.26 million to RM74.01 million as a result of the good palm oil prices and increase in FFB production by 27,000 MT.

As for the milling operation, the profit also increased by 181% or RM15.33 million to RM23.79 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 RM40.89 million which is RM9.84 million or 32% higher than RM31.05 million achieved last quarter ended 31 October 2007. The higher PBT was mainly contributed by 9% increase in FFB production and 16% increase in CPO price. 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 2009, we expect a continued increase in the production from both the plantation and milling operations as compared to financial year 2008. Furthermore, the Group expects additional revenue and profit contribution from the third mill near Telupid, the sales of carbon credits, palm fibre oil and palm kernel shell.

The Board expects the outlook for the current year prospects to continue to be good and foresees the CPO price to remain high. Barring any unforeseen circumstances, the Group will achieve another year of significant 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 31/01/2008 RM'000	Current Financial Year-to-date 31/01/2008 RM'000
Malaysian Income Tax		
- Current year	6,856	16,263
- Overprovision in prior years	-	(17)
	6,856	16,246
Malaysian Real Property Gains Tax		
- Underprovision in prior year	47	47
Deferred tax		
- Current year	3,664	8,638
- Overprovision in prior years	(24)	(348)
- Realisation of revaluation surplus on land	(72)	(301)
- Reduction in tax rate	101	(246)
	3,669	7,743
	<u>10,572</u>	<u>24,036</u>

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 31/01/2008 RM'000	Current Financial Year-to-date 31/01/2008 RM'000
Total purchase consideration	-	-
Total sale proceeds	-	2,762
Total gain on disposals	-	613

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(b) Total investments in quoted securities as at 31 January 2008:-

	RM'000
At Cost	362
Allowance for diminution in value	(306)
At Book Value	<u>56</u>
At Market Value	<u>56</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 proposals

Status of corporate proposals not completed as at 24 March 2008:

(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) Proposed Bonus Issue

On 2 January 2008, the Company announced a proposed bonus issue of up to 88,007,120 ordinary shares of RM1 each in the Company to be credited as fully paid-up on the basis of two (2) new ordinary shares for every five (5) existing ordinary shares held on an entitlement date to be determined later ("Proposed Bonus Issue").

Subsequently, the Company had on 28 March 2008 announced that the Proposed Bonus Issue will be implemented after the release of the Company's audited financial statements for the financial year ended 31 January 2008, and that an updated announcement and a Circular to shareholders will be issued in due course.

B9. Group borrowings and debt securities

As at 31 January 2008, the total secured borrowings, which are denominated in Ringgit Malaysia, are as follows:

	RM'000
Short term borrowings :	
Overdrafts	1,520
Revolving credit	3,000
Term loans	<u>5,131</u>
	<u>9,651</u>
Long term borrowings :	
Term loans	<u>7,538</u>

There was no unsecured interest bearing borrowing as at 31 January 2008.

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B10. Financial instruments with off balance sheet risks

There were no financial instruments with off balance sheet risks as at 24 March 2008.

B11. Material litigation

As at 24 March 2008, there was no material litigation against the Group.

B12. Dividend

The Board is pleased to propose a final dividend of 5 sen per share less income tax of 25% in respect of the financial year ended 31 January 2008.

- (a) (i) amount per share: 5 sen less income tax of 25%;
 - (ii) previous corresponding period: 7 sen less income tax of 27%;
 - (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: 13 sen per share less income tax of 26% and 5 sen per share less income tax of 25%.

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 current year-to-date by the weighted average number of ordinary shares in issue during the current quarter and the current year-to-date respectively:

		Current Quarter 31/01/2008	Current Financial Year-to-date 31/01/2008
Net profit for the period	(RM'000)	<u>23,597</u>	<u>58,903</u>
Weighted average number of ordinary shares in issue	('000)	<u>207,711</u>	<u>189,101</u>
Basic EPS	(sen)	<u>11.36</u>	<u>31.15</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 Company for the current quarter and the current year-to-date by the weighted average number of ordinary shares in issue during the current quarter and the current year-to-date 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 31/01/2008	Current Financial Year-to-date 31/01/2008
Net profit for the period	(RM’000)	<u>23,597</u>	<u>58,903</u>
Weighted average number of ordinary shares in issue	(’000)	207,711	189,101
Adjustment for dilutive effect of unexercised share options	(’000)	1,296	1,051
Adjustment for dilutive effect of warrants	(’000)	5,399	4,809
Adjusted weighted average number of shares for Diluted EPS	(’000)	<u>214,406</u>	<u>194,961</u>
Diluted EPS	(sen)	<u>11.01</u>	<u>30.21</u>