

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 2008. 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 2008.

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 2008 except for the adoption of the following FRSs effective for the annual periods beginning on or after 1 July 2007 which are relevant to its operations:

FRS 102	Cash Flows Statements
FRS 112	Income Taxes
FRS 118	Revenue
FRS 119	Employee Benefits
FRS 137	Provision, Contingent Liabilities and Contingent Assets

The initial application of the above FRSs and amendments to FRSs does not have any material impact on the financial statements of the Group except for:

FRS 112 Income Taxes

The revised FRS 112 requires that entities with unused reinvestment allowance or other similar allowance in excess of the normal capital allowance to recognise deferred tax asset to the extent that it is probable that the future taxable profit will be available against which the unused reinvestment allowance or other similar allowance can be utilised.

The financial impacts have been accounted for retrospectively and certain comparatives are restated as follows:

	As previously stated RM'000	Effects on adoption of FRS 112 RM'000	As restated RM'000
As at 1 February 2007			
Deferred tax assets	270	2,720	2,990
Retained profits	61,883	2,704	64,587
Minority interests	10,151	1,159	11,310
Deferred tax liabilities	33,935	(1,143)	32,792

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

	As previously stated RM'000	Effects on adoption of FRS 112 RM'000	As restated RM'000
Year ended 31 January 2008			
Tax expenses	23,525	1,048	24,573
Net profit for the year	72,511	(1,048)	71,463
Net profit attributable to equity holders of the Company	59,251	(733)	58,518
Net profit attributable to minority interests	13,260	(315)	12,945
As at 31 January 2008			
Retained profits	92,947	1,971	94,918
Minority interests	15,222	844	16,066
Deferred tax liabilities	41,356	(2,815)	38,541

The adoption of FRS 112 does not have financial impact on the financial results for the preceding year corresponding quarter ended 31 July 2007.

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 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.

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

A6. Debt and equity securities

The Company's issued and paid up capital increased from RM209,956,695 as at 31 January 2008 to RM215,449,192 as at 31 July 2008 as a result of:

- (a) issuance of 1,224,200 new ordinary shares of RM1 each under the Company's Employees' Share Option Scheme ("ESOS"); and
- (b) issuance of 4,268,297 new ordinary shares of RM1 each pursuant to the exercise of 4,268,297 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 dividend paid during the current financial year-to-date was a special dividend of 23 sen per ordinary share less income tax in respect of the financial year 2009 which was paid on 30 May 2008.

A8. Segmental information

Major segments by activity:-

	Revenue		Results	
	6 months ended		6 months ended	
	31/07/2008	31/07/2007	31/07/2008	31/07/2007
	RM'000	RM'000	RM'000	RM'000
Plantation operations	85,736	40,624	56,699	18,149
Milling operations	279,681	158,096	20,592	6,890
	365,417	198,720	77,291	25,039
Less:				
Inter-segment eliminations	(47,024)	(19,582)	1,002	(286)
	318,393	179,138	78,293	24,753
Less:				
Unallocated expenses			(1,442)	(1,235)
Finance income			1,353	645
Finance costs			(352)	(476)
Other investment income			-	572
Profit before tax			77,852	24,259
Tax expenses			(18,938)	(5,780)
Profit for the period			58,914	18,479

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.

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

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 September 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 2008.

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

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 RM318.39 million and RM77.85 million respectively for the cumulative two quarters ended 31 July 2008, as compared to RM179.14 million and RM24.26 million respectively for last year’s corresponding period.

The sharp increases of 78% and 221% in revenue and PBT respectively were mainly contributed by higher crude palm oil price which was about 54% more than last year’s corresponding period as well as higher production.

The profit from plantation operation for the period under review recorded an increase of 212% or RM38.55 million to RM56.70 million as a result of the good palm oil prices and about 40% increase in FFB production by 37,000 MT as compared to last year’s corresponding period.

As for the milling operation, the profit also increased by 199% or RM13.70 million to RM20.59 million mainly contributed by improved margins of the mills and high capacity utilisation rate 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 RM44.65 million which was RM11.45 million or 34% higher than RM33.20 million achieved last quarter ended 30 April 2008. The higher PBT was mainly due to 14,500MT increase in FFB production as well as 32,900 MT increase in FFB processed by mills as compared to the preceding quarter.

B3. Current financial year prospects

For the financial year ending 31 January 2009, we expect an 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 downstream activities such as sales of carbon credits, bio-fertilizers and palm fibre oil.

Despite the recent drop of the CPO price to approximately RM2,400 per MT, we expect our average CPO selling price for the financial year 2009 to be higher than the financial year 2008 average CPO selling price of RM2,550 per MT because the Group has achieved an average CPO selling price of RM3,520 per MT for the first half of the financial year 2009. Furthermore, the Group has sold forward part of the second half year’s FFB production at the equivalent CPO price of approximately RM3,350 per MT.

Barring any unforeseen circumstances, the Group expects to perform significantly better than financial year 2008.

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

This is not applicable.

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

B5. Income tax

	Current Quarter 31/07/2008 RM'000	Current Financial Year-to-date 31/07/2008 RM'000
Malaysian Income Tax		
- Current year	8,777	15,103
Deferred tax		
- Current year	2,609	4,700
- Realisation of revaluation surplus on land	(74)	(150)
- Reduction in tax rate	-	(715)
	2,535	3,835
	<u>11,312</u>	<u>18,938</u>

The effective tax rate is lower than the statutory tax rate for the current financial year-to-date mainly due to adjustments on reduction in tax rate 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) There is no purchase or disposal of quoted securities during the current quarter and financial year-to-date.
- (b) Total investments in quoted securities as at 31 July 2008:-

	RM'000
At Cost	362
Allowance for diminution in value	(306)
At Book Value	<u>56</u>
At Market Value	<u>21</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.

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

B8. Status of corporate proposals

Status of corporate proposals not completed as at 24 September 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.

On 11 August 2008, the Group received a letter from Desa Cattle (Sabah) Sdn. Bhd. informing us that the subdivided draft land titles together with the Memorandum of Payment have been issued by Lands and Surveys Department. The issuance of subdivided land titles is currently pending acceptance and payment of the balance land premium by the respective beneficial owners.

(B) Proposed Bonus Issue

On 15 August 2008, the Company completed its proposal for bonus issue by issuing and allotting 86,247,636 bonus shares of RM1 each in the Company which were credited as fully paid-up share capital on the basis of two (2) new ordinary shares for every five (5) existing ordinary shares ("Bonus Issue"). On the even date, a total number of 1,341,483 additional Warrants 2005/2012 have been issued pursuant to the adjustment arising from the Bonus Issue.

B9. Group borrowings and debt securities

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

	RM'000
Short term borrowings :	
Overdrafts	1,401
Revolving credit	3,000
Term loans	5,214
	<u>9,615</u>
Long term borrowings :	
Term loans	<u>4,931</u>

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

B10. Financial instruments with off balance sheet risks

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

B11. Material litigation

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

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

B12. Dividend

The Board is pleased to declare a interim dividend of 10 sen per share less income tax of 25% in respect of the financial year ending 31 January 2009.

- (a) (i) amount per share: 10 sen less income tax of 25%;
 - (ii) previous corresponding period: 3 sen less income tax of 26%;
 - (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: 33 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 first six months by the weighted average number of ordinary shares in issue during the current quarter and the current year-to-date respectively:

		Current Quarter 31/07/2008	Current Financial Year-to-date 31/07/2008
Net profit for the period	(RM'000)	<u>27,735</u>	<u>48,737</u>
Weighted average number of ordinary shares in issue	('000)	<u>214,714</u>	<u>212,720</u>
Basic EPS	(sen)	<u>12.92</u>	<u>22.91</u>

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

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 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 31/07/2008	Current Financial Year-to-date 31/07/2008
Net profit for the period	(RM’000)	27,735	48,737
Weighted average number of ordinary shares in issue	(’000)	214,714	212,720
Adjustment for dilutive effect of unexercised share options	(’000)	675	653
Adjustment for dilutive effect of warrants	(’000)	2,573	2,529
Adjusted weighted average number of shares for Diluted EPS	(’000)	217,962	215,902
Diluted EPS	(sen)	12.72	22.57