

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 2009. 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 2009.

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 2009.

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.

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A6. Debt and equity securities

The Company's issued and paid-up capital increased from RM302,252,972 as at 31 January 2009 to RM304,042,152 as at 31 October 2009 as a result of:

- (a) issuance of 780,600 new ordinary shares of RM1 each under the Company's Employees' Share Option Scheme ("ESOS"); and
- (b) issuance of 1,008,580 new ordinary shares of RM1 each pursuant to the exercise of 1,008,580 Warrants.

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

A7. Dividends paid

During the current financial year-to-date, a final dividend of 2.5 sen less income tax and 0.5 sen tax exempt per ordinary share in respect of the financial year 2009 was paid on 18 August 2009.

A8. Segmental information

Major segments by activity:-

	Revenue		Results	
	9 months ended		9 months ended	
	31/10/2009	31/10/2008	31/10/2009	31/10/2008
	RM'000	RM'000	RM'000	RM'000
Plantation operations	83,807	120,651	41,062	76,098
Milling operations	339,556	373,761	21,928	15,759
	423,363	494,412	62,990	91,857
Less:				
Inter-segment eliminations	(75,785)	(67,470)	(43)	128
	347,578	426,942	62,947	91,985
Less:				
Unallocated expenses			(1,957)	(2,189)
Finance income			1,220	1,955
Finance costs			(936)	(499)
Profit before tax			61,274	91,252
Tax expenses			(14,945)	(21,146)
Profit for the period			46,329	70,106

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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 21 December 2009.

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 2009.

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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 were RM347.58 million and RM61.27 million respectively for the cumulative three quarters ended 31 October 2009, as compared to RM426.94 million and RM91.25 million respectively for last year’s corresponding period.

The 19% and 33% drop in revenue and PBT respectively were mainly due to lower crude palm oil price which was about 27% lower than last year’s corresponding period.

The profit from plantation operation for the period under review was RM41.06 million which was RM35.04 million or 46% lower than RM76.10 million recorded for last year’s corresponding period. The drop in profit was mainly due to lower FFB price. The FFB production for the period under review was 196,900 MT, a drop of 3% or 5,800 MT as compared to last year’s corresponding period. The drop in FFB production was broadly in line with the trend of national FFB yield.

As for the milling operation, the profit increased by 39% or RM6.17 million to RM21.93 million as compared to RM15.76 million recorded for the last year’s corresponding period mainly due to sharp drop in CPO price which has pulled down the profit for the last year’s corresponding period. Total CPO production for the period under review was 127,400 MT, which represented a 17% increase as compared to 108,800 MT recorded in last year’s corresponding period. Our new mill in Telupid, Sabah contributed 19,100 MT.

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

The PBT for the current quarter was RM22.99 million which was marginally higher than RM22.69 million achieved in the last quarter ended 31 July 2009. The FFB production for the current quarter increased by 4,500 MT to 71,300 MT as compared to 66,800 MT achieved in the preceding quarter while the average CPO price dropped by 7% as compared to preceding quarter.

B3. Current financial year prospects

For the financial year ending 31 January 2010, we expect further increase in the production quantity of the milling operations as compared to financial year 2009. For the plantation operations, we expect the FFB production quantity to be slightly below the quantity achieved in the financial 2009 which is broadly in line with the trend of national FFB yield.

In view of the volatility of commodity price, the Group will continue to take measures to monitor the CPO price trend closely.

Based on the above and barring any unforeseen circumstances, the Board expects the Group’s results to be satisfactory in the financial year 2010.

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 31/10/2009 RM'000	Current Financial Year-to-date 31/10/2009 RM'000
Malaysian Income Tax		
- Current year	5,327	14,839
- Under provision in prior year	103	103
	5,430	14,942
Real Property Gains Tax		
- Over provision in prior year	-	(26)
Deferred tax		
- Current year	(70)	245
- Realisation of revaluation surplus on land	(72)	(216)
	(142)	29
	<u>5,288</u>	<u>14,945</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 availability of tax incentives such as reinvestment allowance, pioneer status and investment tax allowance.

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

Status of 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 October 2009:-

	RM'000
At Cost	362
Allowance for diminution in value	(349)
At Book Value	<u>13</u>
At Market Value	<u>40</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.

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B8. Status of corporate proposals

Status of corporate proposal not completed as at 21 December 2009:

(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 28 July 2009, the remaining amount of land premium due was paid to Jabatan Tanah and Ukur, Kota Kinabalu (“JTU”) in respect of the subdivision and conversion. The duly executed and accepted draft subdivided land titles were submitted and acknowledged by JTU on 30 July 2009.

The Group is currently waiting for the final subdivided land titles to be issued by JTU.

(b) Acquisition of Tetangga Akrab Pelita (Pantu) Sdn. Bhd. (“TAPPSB”)

On 1 December 2009, the Company announced that a wholly owned subsidiary, Kim Loong Corporation Sdn. Bhd., had on 30 November 2009 entered into a conditional Sale and Purchase Agreement with Tetangga Akrab Sdn. Bhd. (“TASB”) for the acquisition of 2,016,000 ordinary shares of RM1.00 each representing 60% equity interests in TAPPSB from TASB for a cash consideration of RM25 million (“Proposed Acquisition”).

The Proposed Acquisition is currently pending completion.

B9. Group borrowings and debt securities

As at 31 October 2009, the total secured borrowings, which are denominated in Ringgit Malaysia, are as follows:

	RM'000
Short term borrowings :	
Overdrafts	1,666
Revolving credit	3,000
Term loans	445
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	5,111
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Long term borrowings :	
Term loans	30,167
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There were no unsecured interest bearing borrowings as at 31 October 2009.

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B10. Financial instruments with off balance sheet risks

Commodity future contracts entered into by the Company and outstanding as at 21 December 2009 are as follows:.

Description	Ringgit Equivalent (RM'000)	Maturity Period
Purchase contracts	3,186	February 2010 to March 2010

The above exchange traded commodity contracts were entered into to manage the exposure of adverse movements in CPO price.

The associated credit risk is minimal as these contracts were entered into with a brokerage firm registered with commodity exchanges. Gains or losses arising from contracts entered into as hedges of anticipated future transactions are deferred until the date of such transactions, at which time they are included in the measurement of such transactions. Gains and losses on contracts which are no longer designated as hedges are included in the income statement.

B11. Material litigation

As at 21 December 2009, there were no material litigations against the Group.

B12. Dividend

No dividend has been declared or proposed since the end of the previous financial quarter.

- (a) (i) amount per share: Nil;
 - (ii) previous corresponding period: Nil;
 - (iii) date payable : Not Applicable; and
 - (iv) in respect of deposited securities, the date of entitlement to dividends will be determined on the basis of the record of the depositors: Not Applicable; and
- (b) total dividend for the current financial year: 4 sen per share.

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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 current year-to-date respectively:

		Current Quarter 31/10/2009	Current Financial Year-to-date 31/10/2009
Net profit for the period	(RM'000)	14,574	36,581
Weighted average number of ordinary shares in issue	('000)	303,647	302,995
Basic EPS	(sen)	4.80	12.07

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 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 31/10/2009	Current Financial Year-to-date 31/10/2009
Net profit for the period	(RM'000)	14,574	36,581
Weighted average number of ordinary shares in issue	('000)	303,647	302,995
Adjustment for dilutive effect of unexercised share options	('000)	233	231
Adjustment for dilutive effect of warrants	('000)	1,599	1,590
Adjusted weighted average number of shares for Diluted EPS	('000)	305,479	304,816
Diluted EPS	(sen)	4.77	12.00