

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

EXPLANATORY NOTES

A1. Basis of preparation

The interim financial report is unaudited and has 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 report should be read in conjunction with the audited financial statements for the financial year ended 31 January 2010. 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 2010.

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 2010 except for the adoption of the new and revised FRSs, Amendment to FRSs and IC Interpretations which are relevant to the Group’s operations with effect from 1 February 2010 as set out below:

FRS 7	Financial Instruments: Disclosures
FRS 8	Operating Segments
FRS 101	Presentation of Financial Statements
FRS 123	Borrowing Costs
FRS 139	Financial Instruments: Recognition and Measurement
Amendment to FRS 117	Leases
IC Interpretation 10	: Interim Financial Reporting and Impairment
IC Interpretation 11	: FRS 2 – Group and Treasury Share Transactions

Other than the effect of the application of FRS 101, Amendment to FRS 117 and FRS 139 described below, the initial application of the above new and revised FRS and IC Interpretations did not result in any significant changes in the accounting policies and presentation of the financial results of the Group.

(i) FRS 101 Presentation of Financial Statements

FRS 101 requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (i.e comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the reclassification of items in the financial statements. FRS 101 does not have any impact on the financial position or results of the Group and of the Company.

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(ii) Amendment to FRS 117 Leases

Prior to the adoption of the Amendment to FRS 117, leasehold land that normally had an indefinite economic life and where title was not expected to pass to the lessee by end of the lease term was treated as an operating lease. The payment made on entering into or acquiring a leasehold land was accounted for as prepaid land lease payments that were amortised over the lease term in accordance with the pattern of benefit provided.

Upon the adoption of the Amendment to FRS 117 in relation to classification of lease of land, the Group reassessed the classification of a leasehold land as a finance lease or an operating lease based on the extend of risks and rewards associated with the land. The Group has determined that all leasehold land of the Group are in substance finance leases and has reclassified its leasehold land from “Prepaid land lease payments” to “Property, plant and equipment”.

The reclassification has been made retrospectively in accordance with the transitional provision and does not affect the results of the Group.

The effects of the reclassification to the comparatives following the adoption of the Amendments to FRS 117 are as follows:

	As previously reported RM'000	Effects of Amendment to FRS 117 RM'000	As restated RM'000
Property, plant and equipment	185,197	178,735	363,932
Prepaid land lease payments	178,735	(178,735)	-

(iii) FRS 139 Financial Instruments : Recognition and Measurement

The new Standard on FRS 139 Financial Instruments : Recognition and Measurement establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Financial instruments are recorded initially at fair value. Subsequent measurement of those instruments at balance sheet date reflects the designation of the financial instruments.

(1) Payables

Under FRS 139, payables are initially measured at fair value and subsequently at amortised cost using the effective interest rate method. Gains or losses are recognised in the consolidated income statement when the liabilities are derecognised or through amortisation process.

(2) Derivative Financial Instruments

The Group designates certain derivative as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge). The Group has entered into :

- an interest rate swap which is a cash flow hedge for the Group's exposure to interest rate risk on a borrowing entered by a subsidiary company; and
- a commodity swap which is a cash flow hedge for the Group's exposure to fluctuation of CPO price.

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Prior to 1 February 2010, derivatives are not recognised on the financial statement. Under FRS 139, the fair value changes on the effective portion of interest rate swap and commodity swap designated as cash flow hedges are recognised in the hedging reserve and transferred to the income statement when the interest expenses on the borrowing (interest rate swap) / physical sales (commodity swap) are recognised in income statement. The fair value changes on the ineffective portion of swaps are recognised immediately in income statement.

The carrying amount of a derivative designated as a hedge is presented as a non-current asset or liability if the remaining expected life of the hedged item is more than 12 months, and as current asset or liability if the remaining expected life of the hedged item is less than 12 months.

Prior to 1 February 2010, the Group has also stated certain non-current financial liabilities at undiscounted amount payable. With the adoption of FRS 139, these financial liabilities are initially measured at fair value and subsequently at amortised cost using the effective interest rate method.

In accordance with the transitional provisions for the first time adoption of FRS 139, the above changes in accounting policy have been accounted for prospectively and the comparatives as at 31 January 2010 are not restated. The effects of the changes have been accounted for by adjusting the following opening balances on 1 February 2010:

	As previously reported RM'000	Effects of adopting FRS 139 RM'000	After effects of adopting FRS 139 RM'000
Quoted investment	42	(42)	-
Available-for-sale financial assets	-	42	42
Other borrowings	12,801	(1,004)	11,797
Minority interests	37,787	321	38,108
Retained earnings	73,090	683	73,773

The Group has not elected for early adoption of the following new and revised FRSs relevant to the current operations of the Group, which were issued but not yet effective for the financial year ending 31 January 2011:

		Effective for financial periods beginning on or after
FRS 1	First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 3	Business Combinations	1 July 2010
FRS 127	Consolidated and Separate Financial Statements	1 July 2010

The above new and revised FRSs are not expected to have any significant impact on the financial statements of the Group upon their initial application.

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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 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 RM304,237,352 as at 31 January 2010 to RM304,517,012 as at 31 July 2010 as a result of:

- (a) issuance of 198,500 new ordinary shares of RM1 each under the Company's Employees' Share Option Scheme ("ESOS"); and
- (b) issuance of 81,160 new ordinary shares of RM1 each pursuant to the exercise of 81,160 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	
	31/07/2010	31/07/2009	31/07/2010	31/07/2009
	RM'000	RM'000	RM'000	RM'000
Plantation operations	56,057	52,962	25,828	25,160
Milling operations	264,024	217,643	13,440	13,834
	320,081	270,605	39,268	38,994
Less:				
Inter-segment eliminations	(54,059)	(45,585)	1,765	514
	<u>266,022</u>	<u>225,020</u>	41,033	39,508
Less:				
Unallocated expenses			(1,088)	(1,377)
Finance income			1,039	761
Finance costs			(993)	(606)
Other investment income			1	-
Profit before tax			<u>39,992</u>	<u>38,286</u>
Tax expenses			(9,938)	(9,657)
Profit for the period			<u>30,054</u>	<u>28,629</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 25 September 2010.

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 2010.

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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 RM266.02 million and RM39.99 million respectively for the half year ended 31 July 2010, as compared to RM225.02 million and RM38.29 million respectively for the corresponding period last year.

The 18% increase in revenue was mainly due to higher crude palm oil and palm kernel oil prices which were about 12% and 40% respectively higher than the corresponding period last year.

The profit from plantation operation for the period under review was RM25.83 million which was marginally higher than RM25.16 million recorded for the corresponding period last year. The benefit of higher palm oil prices had been offset by lower FFB production. The FFB production for the period under review was 112,900 MT, a drop of 10% or 12,600 MT as compared to the corresponding period last year. The drop was mainly from our estates in Keningau region and it was broadly in line with the drop in FFB production in this region.

As for the milling operation, the profit was RM13.44 million which was slightly lower than as compared to RM13.83 million recorded for the corresponding period last year. The drop is mainly due to lower profit margin as a result of competition for FFB supply partly caused by low FFB production during the period under review. Total CPO production for the period under review was 85,100 MT, which represented a marginal increase of 5.6% as compared to 80,600 MT recorded in the corresponding period last year despite our new mill in Telupid, Sabah contributed an increase of 8,700 MT in the period under review as compared to the corresponding period last year.

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

The PBT for the current quarter was RM19.10 million which was 9% lower than RM20.89 million achieved in the preceding quarter ended 30 April 2010. The average CPO price in the current quarter was 3% lower as compared to the preceding quarter. The FFB production for the current quarter increased by 15% or 7,900 MT to 60,400 MT as compared to 52,500 MT achieved in the preceding quarter. As for the milling operations, although the FFB intake during the current quarter marginally increased by 5%, the profit margin dropped mainly due to stiff competition for FFB supply.

B3. Current financial year prospects

For the financial year ending 31 January 2011, we expect marginal increase in the production quantity of the milling operations as compared to financial year 2010. For the plantation operations, in line with the usual crop trend, we expect the FFB production to increase in the second half of the current financial year.

In the first half year, the average selling price of CPO achieved was RM2,518 per MT, we expect palm oil prices to remain high in the second half of the financial year. Nevertheless, the Group will continue to monitor the CPO price closely and take appropriate measures to reduce the impact of volatility of CPO price.

Based on the above and barring any unforeseen circumstances, the Board expects the Group’s results to be better in the financial year 2011.

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

This is not applicable.

B5. Income tax

	Current Quarter 31/07/2010 RM'000	Current Financial Year-to-date 31/07/2010 RM'000
Malaysian Income Tax		
- Current year	4,423	9,307
Deferred tax		
- Current year	257	775
- Realisation of revaluation surplus on land	(72)	(144)
	185	631
	4,608	9,938

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 July 2010:-

	RM'000
(i) At Cost	362
(ii) At Carrying Value	45
(iii) At Market Value	45

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B8. Status of corporate proposals

Status of corporate proposal not completed as at 25 September 2010:

- (a) As one of the conditions set by the Securities Commission upon approval in respect of the issuance of the Company's Prospectus vide their letter dated 17 July 2000, the Company was requested to report in its quarterly announcement the status of the application for the registration of separate land titles of two pieces of plantation land until completion ("Subdivision"). The status of the Subdivision is as follow:

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.

B9. Group borrowings and debt securities

As at 31 July 2010, the total secured borrowings, which are denominated in Ringgit Malaysia, are as follows:

	RM'000
Short term borrowings :	
Overdrafts	940
Revolving credit	5,000
Term loans	6,552
	<u>12,492</u>
Long term borrowings :	
Term loans	<u>33,142</u>

There were no unsecured interest bearing borrowings as at 31 July 2010.

B10. Derivative instruments

Interest rate swap contracts

The Group has entered into interest rate swap contract that is designated as a cash flow hedge to convert floating rate liabilities to fixed rate liabilities to reduce the Group's exposure from adverse fluctuations in interest rate on underlying debts instruments. The differences between the rates calculated by reference to the agreed notional principal amounts were exchanged at periodic intervals. The interest rate swap contract as at 31 July 2010 is as follows:

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Notional Amount (RM'000)	Effective Period	Interest Rate	Fair value liability (RM'000)
6,000	2 February 2010 to 3 February 2015	The Group will pay the Bank based on fixed rate 3.66% per annum while the Bank will pay the Group based on MYR KLIBOR 1M rate, every month based upon amortised notional amount.	39

This derivative had been recorded on the Consolidated Statement of Financial Position for this reporting period in compliance with FRS 139.

There is minimal credit risk as the swap was entered into with reputable bank.

The Group is exposed to minimal cash flow risk in view of immaterial fair value liability.

Commodity swap contracts

The Group has entered into “Crude Palm Oil – Target Redemption Swap” (the “Contract”) with a reputable bank to hedge against the exposure of adverse movement of CPO price. The salient terms of the Contract are as follows:

Date of Contract	Notional Quantity	Fixed price	Settlement
1 March 2010	Total 9,000 MT or equivalent to 750 MT per calendar month	RM2,800 per MT	The Bank will pay the Group the amount by which the Valuation Price is below the Fixed Price. If the Valuation Price is above the Fixed Price, the Group will pay the difference to the Bank.

Effective Date : 1 April 2010.

Termination Date : 31 March 2011, or the date immediately after the Group’s accumulated Intrinsic Value is equal to or exceed RM 525,000, whichever is earlier.

Valuation price : With respect to a Calculation Period, the unweighted arithmetic mean of the price of the Commodity Reference Price stated in Malaysian Ringgit during that Calculation Period.

Commodity Reference Price : CRUDE PALM OIL “FCPO” – BMDB means that the price for a Pricing Date will be that day’s Specified Price per metric tonne of deliverable grade Crude Palm Oil on the Bursa Malaysia Derivatives Berhad (“BMDB”) for the Future Contract, for the applicable third nearby month, stated in Malaysia Ringgit on each commodity business day.

Intrinsic Value : For each settlement, subject to a minimum of zero:

MAX {0, Fixed Price – Valuation Price}

Target Value : RM 700 per metric tonne (i.e. RM525,000).

This Contract is considered terminated as at 30 June 2010 as the Group’s accumulated Intrinsic Value exceed RM525,000. The Group has received total RM525,000 from the bank as at the end of the current quarter.

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B11. Material litigation

As at 25 September 2010, there were no material litigations against the Group except the following:

Prior to the acquisition of the subsidiary company, Tetangga Akrab Pelita (Pantu) Sdn. Bhd. (currently known as Winsome Pelita (Pantu) Sdn. Bhd.), announced by the Company on 1 December 2009, there were several legal claims made against that subsidiary company by natives for customary rights to land belonging to that subsidiary company.

Based on the legal opinion and in view of the advice by LCDA that the necessary procedures in obtaining the consent from the landowners had been complied with, the Directors of the Company are of the opinion that any other claims by landowners other than those that have been supported and approved by the Tuai Rumah and the Development Committee appointed for that purpose is likely to have no basis. Therefore, no provision for contingent liabilities was made for these legal claims.

B12. Dividend

The Board is pleased to declare an interim single tier tax exempt dividend of 5 sen per share in respect of the financial year ending 31 January 2011.

- (a) (i) amount per share: 5 sen single tier tax exempt;
 - (ii) previous corresponding period: 4 sen single tier tax exempt;
 - (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: 5 sen per share.

B13. Earnings per share

Basic earnings per share ("Basic EPS")

The Basic EPS is calculated by dividing the profit attributable to the owners of the Company for the current quarter and the first half year by the weighted average number of ordinary shares in issue during the current quarter and the first half year respectively:

		Current Quarter 31/07/2010	Current Financial Year-to-date 31/07/2010
Net profit for the period	(RM'000)	<u>11,944</u>	<u>25,302</u>
Weighted average number of ordinary shares in issue	('000)	<u>304,455</u>	<u>304,376</u>
Basic EPS	(sen)	<u>3.92</u>	<u>8.31</u>

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Diluted earnings per share (“Diluted EPS”)

The Diluted EPS is calculated by dividing the profit attributable to the owners of the Company for the current quarter and the first half year by the weighted average number of ordinary shares in issue during the current quarter and the first half year 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 31/07/2010	Current Financial Year-to-date 31/07/2010
Net profit for the period	(RM’000)	11,944	25,302
Weighted average number of ordinary shares in issue	(’000)	304,455	304,376
Adjustment for dilutive effect of unexercised share options	(’000)	154	163
Adjustment for dilutive effect of warrants	(’000)	1,524	1,571
Adjusted weighted average number of shares for Diluted EPS	(’000)	306,133	306,110
Diluted EPS	(sen)	3.90	8.27