

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 2011. 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 2011.

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 2011 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 2011 as set out below:

FRS 1	First-time Adoption of Financial Reporting Standards
FRS 3	Business Combinations (Revised)
	Amendments to FRS 2 Share-based Payment
	Amendments to FRS 5 Non-current Assets Held for Sale and Discontinued Operations
	Amendments to FRS 127 Consolidated and Separate Financial Statements
	Amendments to FRS 138 Intangible Assets
	Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives
	Amendments to FRS 132 Classification of Rights Issues
	Amendments to FRS 1 Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
	Amendments to FRS 7 Improving Disclosures about Financial Instruments
	Improvements of FRSs (2010)
	Additional Exemptions for First-time Adopters (Amendments to FRS 1)
	Group Cash-settled Share-based Payment Transactions (Amendments to FRS 2)

The Directors do not expect any material impact on the financial statements arising from adoption of the above standards and interpretations.

The Group has not elected for early adoption of the following FRS relevant to the current operations of the Group, which were issued but not yet effective for the financial year ending 31 January 2012:

		Effective for financial periods beginning on or after
FRS 124	Related Party Disclosures	1 January 2012

The above revised FRS is not expected to have any significant impact on the financial statements of the Group upon their initial application.

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

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 RM305,287,441 as at 31 January 2011 to RM305,461,641 as at 30 April 2011 as a result of:

- (a) issuance of 74,800 new ordinary shares of RM1 each under the Company's Employees' Share Option Scheme ("ESOS"); and
- (b) issuance of 99,400 new ordinary shares of RM1 each pursuant to the exercise of 99,400 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.

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

A8. Segmental information

Major segments by activity:-

	Revenue		Results	
	3 months ended		3 months ended	
	30/04/2011	30/04/2010	30/04/2011	30/04/2010
	RM'000	RM'000	RM'000	RM'000
Plantation operations	48,448	26,282	34,066	11,376
Milling operations	176,903	126,128	5,299	8,796
	225,351	152,410	39,365	20,172
Less:				
Inter-segment eliminations	(50,201)	(25,410)	(4,150)	1,369
	<u>175,150</u>	<u>127,000</u>	35,215	21,541
Less:				
Unallocated expenses			(387)	(601)
Finance income			757	410
Finance costs			(429)	(457)
Profit before tax			<u>35,156</u>	<u>20,893</u>
Tax expenses			(8,602)	(5,330)
Profit for the period			<u>26,554</u>	<u>15,563</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 June 2011.

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 end of last annual reporting period at 31 January 2011.

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 were RM175.15 million and RM35.16 million respectively for the current quarter ended 30 April 2011, as compared to RM127.00 million and RM20.89 million respectively for the corresponding period last year.

The 38% and 68% increases in revenue and PBT respectively were mainly due to higher crude palm oil and palm kernel oil prices which were about 38% and 91% respectively higher than the corresponding period last year.

The profit from plantation operation for the period under review was RM34.07 million which was about three times of RM11.38 million recorded for the corresponding period last year. The significant increase in profit was contributed by both higher palm oil prices and FFB production. The FFB production for the period under review was 70,900 MT, an increase of 35% or 18,400 MT as compared to 52,500 achieved in the corresponding period last year. The increase in production was mainly from our estates in Keningau region which had recovered from low crop season in last year.

As for the milling operation, the profit was RM5.30 million which was 40% lower than the RM8.80 million recorded for the corresponding period last year. Total CPO production for the period under review was 46,500 MT, which was 12% higher than 41,700 MT recorded in the corresponding period last year. However, stiff competition for FFB supply had caused drop in margin of milling operations.

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

The PBT for the current quarter was RM35.16 million which was 54% higher than RM22.87 million achieved in the preceding quarter ended 31 January 2011. The increase in PBT was mainly due to increase in FFB production. The FFB production for the current quarter increased by 38% or 19,700 MT to 70,900 MT as compared to 51,200 MT achieved in the preceding quarter. As for the milling operations, FFB intake during the current quarter increased by 25% as compared to the preceding quarter, but squeeze in profit margin also faced due to competition for FFB supply.

B3. Current financial year prospects

For the financial year ending 31 January 2012, we expect the CPO production quantity of the milling operations to be higher than the quantity achieved in the financial year 2011. For the plantation operations, we expect the FFB production to recover from its low production yield cycle in the financial year 2011 and hope to achieve at least 20% increase in the financial year 2012.

We also expect the palm oil prices to remain high but volatile in the financial year 2012. 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 to perform better in the financial year 2012.

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

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

This is not applicable.

B5. Income tax

	Current Quarter 30/04/2011 RM'000	Current Financial Year-to-date 30/04/2011 RM'000
Malaysian Income Tax		
- Current year	10,337	10,337
- over provision in prior year	16	16
	10,353	10,353
Deferred tax		
- Current year	(1,479)	(1,479)
- Realisation of revaluation surplus on land	(72)	(72)
- over provision in prior year	(200)	(200)
	(1,751)	(1,751)
	<u>8,602</u>	<u>8,602</u>

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) There is no investment in quoted securities as at 30 April 2011.

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

B8. Status of corporate proposals

Status of corporate proposal not completed as at 24 June 2011:

- (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 30 April 2011, the total secured borrowings, which are denominated in Ringgit Malaysia, are as follows:

	RM'000
Short term borrowings :	
Overdrafts	915
Revolving credit	5,500
Term loans	8,532
	<hr/>
	14,947
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Long term borrowings :	
Term loans	30,464
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There were no unsecured interest bearing borrowings as at 30 April 2011.

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 30 April 2011 is as follows:

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

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.	31

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 Commodity Swaps (the "Contract") with a reputable bank to hedge against the exposure of adverse movement of CPO price. The Contracts entered into by the Group and outstanding as at 30 April 2011 are as follows:

i) Crude Palm Oil – Target Redemption Swap

Date of Contract	Notional Quantity	Fixed price	Settlement
6 August 2010	Total 12,000 MT or equivalent to 1,000 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 September 2010.

Termination Date : 31 August 2011, or the date immediately after the Group's accumulated Intrinsic Value is equal to or exceed RM 700,000, 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 Malaysia 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 Futures 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. RM700,000).

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

ii) Crude Palm Oil – [Sell] Swap (Asian)

Date of Contract	Notional Quantity	Fixed price	Settlement
9 February 2011	Total 3,000 MT or equivalent to 500 MT per calendar month	RM3,430 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 : 3 January 2012.

Termination Date : 29 June 2012.

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 Futures Contract, for the applicable third nearby month, stated in Malaysia Ringgit on each commodity business day.

These derivatives had been recorded on the Consolidated Statement of Financial Position for this reporting period in compliance with FRS 139. The fair value liability of these derivatives recognised as at 30 April 2011 was RM1,809,860.

Under the Contracts entered, the Group has recorded a net realised loss on cash flow hedge of RM2,087,108 for the 3 months ended 30 April 2011, which has been fully paid to the counter party by the Group.

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

B11. Gains and losses arising from fair value changes of financial liabilities

The Group has no financial liabilities measured at fair value through profit or loss for the current quarter and current year-to-date.

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

B12. Breakdown of realised and unrealised profits or losses of the Group

The breakdown of the retained profits of the Group is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

	At as 30/04/2011 RM'000	At as 31/01/2011 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	217,815	184,617
- Unrealised	(21,343)	(21,353)
	<u>196,472</u>	<u>163,264</u>
Less: Consolidation adjustments	(76,974)	(63,879)
Retained earnings as per consolidated accounts	<u>119,498</u>	<u>99,385</u>

B13. Material litigation

As at 24 June 2011, 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.

On 18 February 2011, the following Judgment for the High Court Civil Suit No. 22-10-2005-I (SG) was delivered at Kuching High Court, which had been announced to Bursa Securities on 22 February 2011:

1. the Plaintiffs are entitled to their claim to land under native customary rights in the Sg. Tenggang Native Customary Rights Development area at Pantu;
2. the destruction of the Plaintiffs' respective native customary rights land by the first 3 Defendants, namely Lembaga Pembangunan dan Lindungan (Land Custody and Development Authority), Pelita Holdings Sdn. Bhd. and Tetangga Akrab Pelita (Pantu) Sdn. Bhd. (currently known as Winsome Pelita (Pantu) Sdn. Bhd.), was unlawful and damages to be assessed by the Deputy Registrar be paid by the first 3 Defendants with interest at 4% per annum from the date hereof until settlement;
3. the first 3 Defendants forthwith give vacant possession of the Plaintiffs' native customary rights land;
4. the first 3 Defendants and their servants, agents, assignees and successors are restrained from entering, occupying, clearing, harvesting or in any way howsoever carrying out works in the Plaintiffs' native customary rights land; and
5. Costs to the Plaintiffs to be paid by the first 3 Defendants to be taxed unless agreed. No order as to costs against the 4th Defendant, namely State Government of Sarawak, as it is a nominal Defendant.

On 9 March 2011, the Court of Appeal had granted a stay of execution of the Judgment delivered by the High Court.

The Group has filed our Memorandum and record of Appeal on 11 April 2011. No date has been fixed for the hearing of the Appeal.

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

B14. Dividend

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

B15. 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 3 months by the weighted average number of ordinary shares in issue during the current quarter and the first 3 months respectively:

		Current Quarter 30/04/2011	Current Financial Year-to-date 30/04/2011
Net profit for the period	(RM'000)	19,906	19,906
Weighted average number of ordinary shares in issue	('000)	305,387	305,387
Basic EPS	(sen)	6.52	6.52

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 3 months by the weighted average number of ordinary shares in issue during the current quarter and the first 3 months 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 30/04/2011	Current Financial Year-to-date 30/04/2011
Net profit for the period	(RM'000)	19,906	19,906
Weighted average number of ordinary shares in issue	('000)	305,387	305,387
Adjustment for dilutive effect of unexercised share options	('000)	162	162
Adjustment for dilutive effect of warrants	('000)	1,476	1,476
Adjusted weighted average number of shares for Diluted EPS	('000)	307,025	307,025
Diluted EPS	(sen)	6.48	6.48