

# 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 new and amended FRSs and IC Interpretations 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
Amendments to FRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 January 2012
Amendments to FRS 7 Disclosures – Transfer of Financial Assets	1 January 2012
Amendments to FRS 112 Deferred Tax : Recovery of Underlying Assets	1 January 2012

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Amendments to FRS 101 Presentation of Items of Other Comprehensive Income		1 July 2012
FRS 9	Financial Instruments	1 January 2013
FRS 10	Consolidated Financial Statements	1 January 2013
FRS 12	Disclosures of Interests in Other Entities	1 January 2013
FRS 13	Fair Value Measurement	1 January 2013
FRS 119	Employee Benefits	1 January 2013
FRS 127	Separate Financial Statements	1 January 2013
FRS 128	Investment in Associates and Joint Ventures	1 January 2013

The Malaysian Accounting Standards Board, in furtherance of its objective of converging the accounting framework for entities other than private entities in Malaysia with International Financial Reporting Standards, announced on 19 November 2011 the issuance of Malaysian Financial Reporting Standards (“MFRS”). Entities other than private entities shall apply the MFRS framework for annual periods beginning on or after 1 January 2012, with the exception of entities subject to the application of MFRS 141, Agriculture and/or IC Interpretation 15, Agreement for the Construction of Real Estate.

An entity subject to the application of MFRS 141 and/or IC Interpretation 15 may continue to apply Financial Reporting Standards (“FRS”) as its financial reporting framework for annual reporting periods beginning on or after 1 January 2012. This has further extended to their parent company that either consolidates or equity accounts or proportionately consolidates the entity that has chosen to apply FRSs as its financial reporting framework may itself choose to apply FRSs as its financial reporting framework for annual periods beginning on or after 1 January 2012. All of these entities shall comply with the MFRS framework for annual periods beginning on or after 1 January 2013.

The Group is currently assessing the impact of MFRSs, in particular MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards, on the financial statements of the Group and of its subsidiaries. With the exemption given to the entity subject to the application of MFRS 141, the Company will adopt MFRSs to prepare consolidated financial statements from the financial year ending 31 January 2014.

### **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 production of FFB for the current quarter was slightly lower than the preceding quarter which was broadly in line with the FFB yield trend in Sabah.

### **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.

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### A5. Material changes in estimates

There were no changes in estimates that have had material effects 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 RM306,279,612 as at 31 October 2011 as a result of:

- (a) issuance of 105,300 new ordinary shares of RM1 each under the Company's Employees' Share Option Scheme ("ESOS"); and
- (b) issuance of 886,871 new ordinary shares of RM1 each pursuant to the exercise of 886,871 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 single tier tax exempt dividend of 7 sen per ordinary share in respect of the financial year 2011 was paid on 26 August 2011.

### A8. Segmental information

Major segments by activity:-

	<b>Revenue</b>		<b>Results</b>	
	9 months ended		9 months ended	
	31/10/2011	31/10/2010	31/10/2011	31/10/2010
	RM'000	RM'000	RM'000	RM'000
Plantation operations	150,145	91,171	105,774	46,062
Milling operations	589,318	404,427	26,832	21,363
	739,463	495,598	132,606	67,425
Less:				
Inter-segment eliminations	(148,460)	(88,204)	(3,980)	1,929
	591,003	407,394	128,626	69,354
Less:				
Unallocated expenses			(1,162)	(1,903)
Finance income			3,321	1,823
Finance costs			(1,447)	(1,508)
Other investment income			-	1
Profit before tax			129,338	67,767
Tax expenses			(32,199)	(16,538)
Profit for the period			97,139	51,229

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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 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.

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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 hit record high of RM591.00 million and RM129.34 million respectively for the cumulative three quarters ended 31 October 2011, as compared to RM407.40 million and RM67.77 million respectively for the corresponding period last year.

The 45% and 91% increases in revenue and PBT respectively were mainly due to higher production as well as the higher crude palm oil (“CPO”) and palm kernel oil (“PKO”) prices which were about 25% and 40% respectively higher than the corresponding period last year.

The profit from plantation operation for the period under review was RM105.77 million which was 130% higher than RM46.06 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 235,800 MT, an increase of 34% or 59,700 MT as compared to 176,100 MT achieved in the corresponding period last year. The increase in production was mainly from our estates in Keningau region which had recovered from the exceptional low crop season in the corresponding period last year.

As for the milling operation, the profit was RM26.83 million which was 26% higher than the RM21.36 million recorded for the corresponding period last year. Total CPO production for the period under review was 161,300 MT, which was 27% higher than 127,300 MT recorded in 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 RM40.30 million which was 25% lower than RM53.88 million achieved in the preceding quarter ended 31 July 2011. The drop in PBT was mainly due to drop in palm oil prices and write-off of development expenditure of RM5.67 million due to change of technology. The FFB production for the current quarter dropped by 2% to 81,800 MT as compared to 83,100 MT achieved in the preceding quarter. As for the milling operations, FFB intake during the current quarter dropped by 3% as compared to the preceding quarter. The average prices for CPO and PKO for the current quarter dropped by 9% and 7% respectively compared to preceding quarter.

#### **B3. Current financial year prospects**

For the financial year ending 31 January 2012, we expect both milling and plantation operations to perform well in view of the good palm oil prices and higher production as compared to 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 31/10/2011 RM'000	Current Financial Year-to-date 31/10/2011 RM'000
<b>Malaysian Income Tax</b>		
- Current year	11,666	34,169
- over provision in prior year	(4)	12
	11,662	34,181
<b>Deferred tax</b>		
- Current year	(729)	(1,565)
- Realisation of revaluation surplus on land	(73)	(217)
- over provision in prior year	-	(200)
	(802)	(1,982)
	<u>10,860</u>	<u>32,199</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 is as follows:

- (a) There was 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 31 October 2011.

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### B8. Status of corporate proposals

Status of corporate proposal not completed as at 21 December 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 31 October 2011, the total secured borrowings, which are denominated in Ringgit Malaysia, are as follows:

	RM'000
Short term borrowings :	
Overdrafts	2,394
Revolving credit	13,500
Term loans	2,392
	<hr/>
	18,286
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Long term borrowings :	
Term loans	27,024
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There were no unsecured interest bearing borrowings as at 31 October 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 outstanding interest rate swap contract as at 31 October 2011 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.	33

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 a 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. All Contracts entered have either matured or been unwound during the current quarter and there is no outstanding Contract as at 31 October 2011.

During the financial year-to-date, the Group has recorded a net realised loss on cash flow hedge of RM3,554,448 for the 7 months period up to the maturity of a Contract on 29 August 2011 and has been fully paid to the counter party by the Group.

On the other hand, the Group has received a unwinding profit of RM1,592,490 from a contract unwound on 4 October 2011.

### **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.

### **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 31/10/2011 RM'000	At as 31/01/2011 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	227,122	184,617
- Unrealised	(21,306)	(21,353)
	<u>205,816</u>	<u>163,264</u>
Less: Consolidation adjustments	(68,776)	(63,879)
Retained earnings as per consolidated accounts	<u>137,040</u>	<u>99,385</u>



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### **B13. Material litigation**

As at 21 December 2011, there were no material litigations against the Group except the following which has been announced on 27 June 2011:

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 4<sup>th</sup> 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.

### **B14. 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 of payment: Not Applicable; and
  - (iv) in respect of deposited securities, 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: 6 sen single tier per share.

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### 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 cumulative three quarters by the weighted average number of ordinary shares in issue during the current quarter and the cumulative three quarters respectively:

		Current Quarter 31/10/2011	Current Financial Year-to-date 31/10/2011
Net profit for the period	(RM'000)	23,591	76,789
Weighted average number of ordinary shares in issue	('000)	306,196	305,853
Basic EPS	(sen)	7.70	25.11

#### 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 cumulative three quarters by the weighted average number of ordinary shares in issue during the current quarter and the cumulative three quarters 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 31/10/2011	Current Financial Year-to-date 31/10/2011
Net profit for the period	(RM'000)	23,591	76,789
Weighted average number of ordinary shares in issue	('000)	306,196	305,853
Adjustment for dilutive effect of unexercised share options	('000)	104	122
Adjustment for dilutive effect of warrants	('000)	953	995
Adjusted weighted average number of shares for Diluted EPS	('000)	307,253	306,970
Diluted EPS	(sen)	7.68	25.02