

# 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 2012. 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 2012.

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 2012 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 2012 as set out below:

IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments  
FRS 124 Related Party Disclosures  
Amendments to FRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters  
Amendments to FRS 7 Disclosures – Transfer of Financial Assets  
Amendments to FRS 112 Deferred Tax : Recovery of Underlying Assets

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 2013:

	Effective for financial periods beginning on or after
Amendments to FRS 101 Presentation of Items of Other Comprehensive Income	1 July 2012
FRS 10 Consolidated Financial Statements	1 January 2013
FRS 11 Joint Arrangements	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
Amendments to FRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to FRS 132 Offsetting Financial Assets and Financial Liabilities	1 January 2014
FRS 9 Financial Instruments	1 January 2015

## **KIM LOONG RESOURCES BERHAD**

(Company Number: 22703-K)

### Malaysian Financial Reporting Standards (MFRS Framework)

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 broadly in line with the FFB yield 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 material effects in the current quarter.

## KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

### A6. Debt and equity securities

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the current quarter ended 30 April 2012 except for the following:

- (a) issuance of 227,100 new ordinary shares of RM1 each under the Company's Employees' Share Option Scheme ("ESOS");
- (b) issuance of 1,508,311 new ordinary shares of RM1 each pursuant to the exercise of 1,508,311 Warrants; and
- (c) the Warrants have expired on 23 April 2012 and consequentially, 116,950 unexercised Warrants were cancelled and delisted from Bursa Malaysia Securities Berhad on 24 April 2012.

### A7. Dividends paid

No dividends have been paid during the current financial year-to-date.

### A8. Segmental information

Major segments by activity:-

	Revenue		Results	
	3 months ended		3 months ended	
	30/04/2012	30/04/2011	30/04/2012	30/04/2011
	RM'000	RM'000	RM'000	RM'000
Plantation operations	33,011	48,448	14,878	34,066
Milling operations	156,382	176,903	9,667	5,299
	189,393	225,351	24,545	39,365
Less:				
Inter-segment eliminations	(31,631)	(50,201)	3,833	(4,150)
	157,762	175,150	28,378	35,215
Less:				
Unallocated expenses			(777)	(387)
Finance income			1,346	757
Finance costs			(342)	(429)
Profit before tax			28,605	35,156
Tax expenses			(6,889)	(8,602)
Profit for the period			21,716	26,554

### 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**

As at 26 June 2012, there were no material subsequent events that have not been reflected in the financial statements for the current financial period except for the following:

- (a) On 5 June 2012, Okidville Plantations Sdn. Bhd. (“OPSB”), a 90% owned subsidiary of the Company previously, increased its issued and paid up capital from RM100 divided into 100 ordinary shares of RM1 each fully paid to RM250,000 by an issue and allotment of 249,900 new ordinary shares of RM1 each at par fully paid, to the Company and Tan Sui Hou at the proportion of 237,410 and 12,490 ordinary shares respectively. As a result of issuance of new ordinary shares, OPSB is now a 95% owned subsidiary of the Company.
- (b) On 5 June 2012, the Company disposed of 100 ordinary shares of RM1 each fully paid representing the entire equity interest in Winsome Jaya Sdn. Bhd. (“WJSB”) to OPSB, a 95% owned subsidiary of the Company, at par (the “Disposal”). As a result of the Disposal, the effective interest of the Company in WJSB reduced from 100% to 95%.
- (c) On 6 June 2012, OPSB and WJSB entered into a Development and Joint Venture Agreement (“DJVA”) with PIJ Property Development Sdn. Bhd. (“PPD”) to develop approximately 118 acres out of the lease of approximately 180 acres of all that piece of land held under HS(D) 13933, PTD 413, Mukim Ulu Sungei Sedili Besar, District of Kota Tinggi, Johor Darul Ta’zim for cultivation of oil palm through WJSB, a joint venture company.

Upon fulfillment and satisfaction of the Conditions Precedent set out in the DJVA, OPSB and PPD shall subscribe new ordinary shares of RM1 each of 69,900 and 30,000 respectively and the eventual equity participation in WJSB by OPSB and PPD will be 70% and 30% respectively.

### **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 except for the following:

- (a) On 1 February 2012, Kim Loong Palm Oil Mills Sdn. Bhd. (“KLPOM”) disposed of 60,000 ordinary shares of RM1 each fully paid representing 30% equity interest in Sungkit Enterprise Sdn. Bhd. (“SESB”) to Prominent Platform Sdn. Bhd. for a cash consideration of RM60,000 (the “Transfer of Shares”). As a result of the Transfer of Shares, SESB is now a 70% owned subsidiary of KLPOM. KLPOM is a wholly-owned subsidiary of Kim Loong Palm Oil Sdn. Bhd. which in turn is a wholly-owned subsidiary of the Company.
- (b) On 1 March 2012, Desa Kim Loong Palm Oil Sdn. Bhd. (“DKLPO”) acquired 100,000 ordinary shares of RM1 each fully paid representing the entire equity interest in Desa Kim Loong Industries Sdn. Bhd. (“DKLI”) from the Company (70%) and Desa Cattle (Sabah) Sdn. Bhd. (30%). In view of DKLPO is a 70 % owned subsidiary of the Company, there is no changes in Company’s effective interest in DKLI.

### **A12. Contingent liabilities or Contingent assets**

As at 26 June 2012, there were no material changes in contingent liabilities or contingent assets at Group level since the end of last annual reporting period at 31 January 2012. Save for disclosed in Note B10, there were no contingent liabilities or contingent assets, which upon becoming enforceable, may have material effect on the net assets, profits or financial position of our Group.

# 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 RM157.76 million and RM28.61 million respectively for the current quarter ended 30 April 2012, as compared to RM175.15 million and RM35.16 million respectively for the corresponding period last year.

The 10% and 19% drops in revenue and PBT respectively were mainly due to lower production as well as the lower crude palm oil (“CPO”) and palm kernel oil (“PKO”) prices which were about 7% and 31% respectively lower than the corresponding period last year.

Performance analysis by segments:

	<b>Revenue</b>			
	<b>Quarter ended</b>		<b>Year-to-date ended</b>	
	30/04/2012	30/04/2011	30/04/2012	30/04/2011
	RM'000	RM'000	RM'000	RM'000
Plantation operations	33,011	48,448	33,011	48,448
Milling operations	156,382	176,903	156,382	176,903
	<b>189,393</b>	<b>225,351</b>	<b>189,393</b>	<b>225,351</b>

	<b>Results</b>			
	<b>Quarter ended</b>		<b>Year-to-date ended</b>	
	30/04/2012	30/04/2011	30/04/2012	30/04/2011
	RM'000	RM'000	RM'000	RM'000
Plantation operations	14,878	34,066	14,878	34,066
Milling operations	9,667	5,299	9,667	5,299
	<b>24,545</b>	<b>39,365</b>	<b>24,545</b>	<b>39,365</b>

### **Plantation operations**

The revenue from plantation operations dropped by 32% for the current quarter and year-to-date as compared to the corresponding period in last year. In terms of profit, the plantation operation recorded RM14.88 million for the current quarter and year-to-date, representing a drop of 56% as compared to the corresponding period in last year. The significant drop in revenue and profit were due to lower palm oil prices and FFB production. The FFB production for the current quarter and year-to-date were 51,900MT, which was 27% lower than production achieved in the corresponding period in last year.

The plantation operations did not face problem in selling its FFB production as most of the produce was supplied to mills within the Group. FFB price was 11% lower for the current quarter and the year-to-date as compared to the corresponding period in last year.

## KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

### Palm oil milling operations

The revenue from the milling operations dropped by 12% for the current quarter and year-to-date as compared to the corresponding period in last year. The profit increased to RM9.67 million for the current quarter and year-to-date, representing increase of 82% as compared to the corresponding period in last year. The higher profit was contributed by better oil extraction rate and processing margin. Total CPO production for the current quarter and year-to-date was 37,800 MT, which was 19% lower than production recorded in the corresponding period in last year.

The market condition and demand for the Group's milling products has been good and steady for the current quarter and year-to-date. The sale of CPO, the main product, for the current quarter and year-to-date was 42,100 MT representing an increase of 3% compared to the corresponding period in 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 RM28.61 million which was 20% lower than RM35.70 million achieved in the preceding quarter ended 31 January 2012. The drop in PBT was mainly due to drop in production. The FFB production for the current quarter dropped by 33% to 51,900 MT as compared to 77,200 MT achieved in the preceding quarter. As for the milling operations, FFB intake during the current quarter dropped by 22% as compared to the preceding quarter. However, the impact of drop in production has been cushioned by better palm oil prices. The average prices for CPO and PKO for the current quarter increased by 5% and 4% respectively compared to preceding quarter.

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

For the financial year ending 31 January 2013, we expect the Group to perform well based on the current good palm oil prices.

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

This is not applicable.

### **B5. Income tax**

	Current Quarter Ended 30/04/2012 RM'000	Financial Year-to-date Ended 30/04/2012 RM'000
<b>Malaysian Income Tax</b>		
- Current year	6,862	6,862
<b>Deferred tax</b>		
- Current year	99	99
- Realisation of revaluation surplus on land	(72)	(72)
	27	27
	<u>6,889</u>	<u>6,889</u>

## KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

### B6. Status of corporate proposals

There is no outstanding corporate proposal as at 26 June 2012.

### B7. Group borrowings and debt securities

As at 30 April 2012, the total secured borrowings, which are denominated in Ringgit Malaysia, are as follows:

	RM'000
Short term borrowings :	
Overdrafts	2,530
Revolving credit	7,500
Term loans	2,232
	<u>12,262</u>
Long term borrowings :	
Term loans	<u>25,908</u>

There were no unsecured interest bearing borrowings as at 30 April 2012.

### B8. 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.

### B9. 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 30/04/2012 RM'000	At as 31/01/2012 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	267,411	251,896
- Unrealised	<u>(21,172)</u>	<u>(20,742)</u>
	246,239	231,154
Less: Consolidation adjustments	<u>(71,493)</u>	<u>(74,125)</u>
Retained earnings as per consolidated accounts	<u>174,746</u>	<u>157,029</u>

## **KIM LOONG RESOURCES BERHAD**

(Company Number: 22703-K)

### **B10. Material litigation**

As at 26 June 2012, 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. Our solicitor is of the view that we have a fair prospect of succeeding in this Appeal.

### **B11. Dividend**

No dividend has been declared or proposed for the current financial period ended 30 April 2012 and previous corresponding period ended 30 April 2011.



## KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

### B12. 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 Ended 30/04/2012	Financial Year-to-date Ended 30/04/2012
Net profit for the period	(RM'000)	17,390	17,390
Weighted average number of ordinary shares in issue	('000)	307,068	307,068
Basic EPS	(sen)	5.66	5.66

#### 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.

Shares that are anti-dilutive are ignored in the computation of Diluted EPS.

		Current Quarter Ended 30/04/2012	Financial Year-to-date Ended 30/04/2012
Net profit for the period	(RM'000)	17,390	17,390
Weighted average number of ordinary shares in issue	('000)	307,068	307,068
Adjustment for dilutive effect of unexercised share options	('000)	278	278
Adjusted weighted average number of shares for Diluted EPS	('000)	307,346	307,346
Diluted EPS	(sen)	5.66	5.66

**KIM LOONG RESOURCES BERHAD**

(Company Number: 22703-K)

**B13. Profit before tax**

Profit before tax is arrived at after charging/(crediting) the following items:

	Current Quarter Ended 30/04/2012 RM'000	Financial Year-to-date Ended 30/04/2012 RM'000
(a) Interest income	(1,346)	(1,346)
(b) Other income including investment income	(314)	(314)
(c) Interest expense	342	342
(d) Depreciation and amortization	6,030	6,030
(e) Provision for and write off of receivables	2	2
(f) Provision for and write off of inventories	17	17
(g) Gain or loss on disposal of quoted or unquoted investment or properties	-	-
(h) Impairment of assets	-	-
(i) Foreign exchange gain or loss	-	-
(j) Gain or loss on derivatives	-	-
(k) Exceptional items	-	-

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