

# MANAGEMENT DISCUSSION AND ANALYSIS



ON BEHALF OF THE BOARD OF DIRECTORS OF KIM LOONG RESOURCES BERHAD (“KLR”), I AM PLEASED TO PRESENT TO YOU THE ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2023.

**GOOI SEONG LIM**

Executive Chairman

## FINANCIAL HIGHLIGHTS

### RESULTS

The revenue and profit before tax (“PBT”) of the Group were RM679.63 million and RM60.39 million respectively for the financial year 2020 (“FY2020”) compared to RM872.94 million and RM88.23 million respectively for the financial year 2023 (“FY2023”).

The drop in performance was mainly due to lower FFB and CPO production. The average selling prices for FFB and CPO for the current financial year have recorded a marginal drop of 6% and 2% respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS

(cont'd)

### THE RECENT DEVELOPMENT ON RELAXATION OF COVID-19 SOP TRANSITING TO ENDEMIC PHASE AND VACCINATION PROGRESS WORLDWIDE AS WELL AS IN THE COUNTRY IS EXPECTED TO MOVE THE BUSINESS ENVIRONMENT BACK TO NORMALCY. NEVERTHELESS, THE MANAGEMENT WILL REMAIN VIGILANT AND RESILIENT ON DEALING WITH CHALLENGES.

The production of FFB had further dropped by 16% or 49,600 MT to 260,500 MT in FY2020. The lower FFB production for the current financial year was mainly attributable to the Group's estates in Sabah which suffered severe drop in production, especially in the fourth quarter. The drop was partly due to our replanting programme in the Keningau region and was also likely due to the consequential effects on cropping trend after the strong recovery and high yield performance in the period from November 2018 to April 2019.

Nevertheless, the Group's average FFB yield performance was still better than the average National FFB yield as published by Malaysian Palm Oil Board ("MPOB").

During the FY2020, the Group has carried out replanting of about 1,400 hectares.

As a result of significant drop in production, the revenue from plantation dropped by 21% to RM101.9 million whilst the profit dropped by 39% to RM26.5 million.

The performance of milling operations was also affected by the lower FFB production of the oil palm plantations in the vicinity of the operations of the Group's mills. During the year, the processing capacity utilisation was below expectation and the Group's mills processed only 1.14 million MT of FFB which was 23% lower than 1.48 million MT in FY2019. As a result, total CPO production for FY2020 recorded a drop of 22% to 247,700 MT. On the positive side, the Group's average CPO extraction rate has improved from 21.35% to 21.72%.

The performance of milling operations was also affected by the fire incident at our mill at Kota Tinggi, Johor in June 2019 causing disruption to operations for about 1 month. The mill had resumed its full processing capacity in August 2019.

As a result of the unexpected low CPO production at the two mills in Sabah, the Group had faced challenges in meeting contracted schedule for delivery of committed sales to customers.

Lower production and sales quantity of palm oil milling products had resulted a 22% drop in revenue to RM662.9 million.

The profit from milling operations for the current financial year dropped by 26% or RM11.2 million to RM32.2 million. The performance was adversely affected by lower FFB intake as a result of low FFB production suffered by plantations. Shortage of crop supply had led to stiff competitive and more aggressive pricing strategy which had caused impact on processing margin.

On the other hand, our Kota Tinggi milling operations had commenced supply of power to grid since June 2019 and had contributed revenue of approximately RM1.8 million.

#### DIVIDEND

With the recent volatile movements in crude oil commodity price and global outbreak of the COVID-19 health crisis, the Board has adopted a prudent and strategic approach to conserve the cash reserve of the Group for the upcoming replanting programme as well as any potential financial turbulence in near future, therefore the Board has not recommended any final dividend for the FY2020 (FY2019: 3 sen per share). Consequentially, the total single tier dividend for FY2020 is 3 sen per share (FY2019: 6 sen per share).

Nevertheless, the dividend payout represents approximately 68% of the annual profit attributable to owners of the Company.

#### DEVELOPMENT AND PROSPECTS

All the plantations and mills under the Group have passed the Malaysian Sustainable Palm Oil ("MSPO") audit and have obtained MSPO certification.

On 19 February 2020, the Company announced that it entered into four (4) separate conditional Sale and Purchase Agreements with (1) Greenfingers Sdn. Bhd.; (2) R & H Sdn. Bhd.; (3) Bakti Perusahaan Sdn. Bhd.; and (4) Sri Handal Sdn. Bhd. (collectively referred to as "the Vendors") to acquire oil palm plantation lands in Sabah with a total gross land area of approximately 2,862 acres ("the Acquisitions"). The total cash purchase consideration is RM92,538,290 which is approximately RM32,500 per acre.

# MANAGEMENT DISCUSSION AND ANALYSIS

(cont'd)

The Acquisitions are not subject to the shareholders' approval. However, the Acquisitions are subject to the relevant authorities' approvals such as the Sabah's Ministry of Agriculture and Fisheries. Barring any unforeseen circumstances, the Acquisitions are expected to be completed by the third quarter of the year 2020.

The Acquisitions will increase the supply of FFB produce to the Group's palm oil mill at Telupid, Sabah so as to contribute towards optimising utilisation of the mill's processing capacity as well as to reduce dependence on FFB supply from third parties especially during a seasonal low crop period. The Acquisitions will increase the land bank of the KLR Group for oil palm plantations and will contribute positively towards the Group's long-term growth in profitability.

The Group will continue its replanting programme to replant the old palms which are unable to meet the expectation of FFB yield. We expect to replant about 1,000 Ha in the financial year 2021. Moving forward, the Group will continue its prudent approach in sourcing for additional suitable plantation land in Johor, Pahang, Sabah and Sarawak.

However, Roundtable on Sustainable Palm Oil ("RSPO") restriction is a major constraint. To support our plantation operations in Sarawak, we have been actively looking into the possibility of setting up a palm oil mill in Sarawak.

For the financial year 2021, we forecast the FFB production to be about 10% higher than the quantity achieved in the financial year 2020 after taking into consideration of the impending completion of the recent acquisition of landbank and the impact of on-going replanting programme.

For the palm oil milling operations, the management expects to achieve a similar processing quantity in the financial year 2021 as compared with the FY2020.

On the projects to supply power to the grid using biogas engine, the plant at Kota Tinggi mill has commenced supplying power up to 1.8 megawatt per hour to grid since June 2019 and has contributed revenue of approximately RM1.8 million for the current financial year. We expect the annual revenue contribution would be about RM6 million from the financial year 2021 onwards.

We have also started implementation and installation of the plant at our Keningau mill for supplying power up to 2.0 megawatt per hour to grid and expect to commence operation in the first half of year 2021.

As for our mill at Telupid, Sabah, we have obtained approval for net export capacity of 1.5 megawatt per hour from Sustainable Energy Development Authority ("SEDA") in September 2019 and now pending finalisation of Renewable Energy Power Purchase Agreement ("REPPA") with Sabah Electricity Sdn. Bhd. ("SESB").

We foresee the CPO inventory level to remain at low level amid higher usage from implementation of biodiesel mandates in Indonesia and Malaysia. This would cushion the decline from exports across other countries, particularly India and China, stemmed from the COVID-19 outbreak. At the same time, we see the FFB and palm oil production has not been significantly impacted under the Movement Control Order implemented by the Malaysia government since 18 March 2020.

In view of the CPO price is generally perceived to be correlated with crude oil price, we reckon that the CPO price may trade in a volatile manner following OPEC and its allies disagreement to curb their crude oil production and the unprecedented abnormality and large scale volatility in crude oil commodity markets recently. Nevertheless, the prospects of demand for biodiesel may provide some cushion to the CPO price.

## APPRECIATION

I would like to take this opportunity to express my appreciation to the management and staff for their loyal and dedicated services to the Group, and to various government authorities and agencies, bankers, valued customers, suppliers and business associates for their co-operation and continued support.

Finally, I wish to thank my fellow Board members for their support and the shareholders for their confidence in the Board and Management of the Group.

**Gooi Seong Lim**  
Executive Chairman  
Johor Bahru, Johor  
Date: 5 June 2023

# MANAGEMENT DISCUSSION AND ANALYSIS

## DESCRIPTION OF OUR GROUP'S BUSINESS AND STRATEGIES

Kim Loong Resources Berhad and its subsidiaries (the "Group" or "KLR Group") are principally involved in investment holding, cultivation of oil palm, processing of oil palm fresh fruit bunches and marketing of oil palm products, processing of oil palm fibre and biogas and power generation.

The principal activities of the Group can be divided into two main segments, namely plantation operations and palm oil milling operations.



**Plantation Operations**

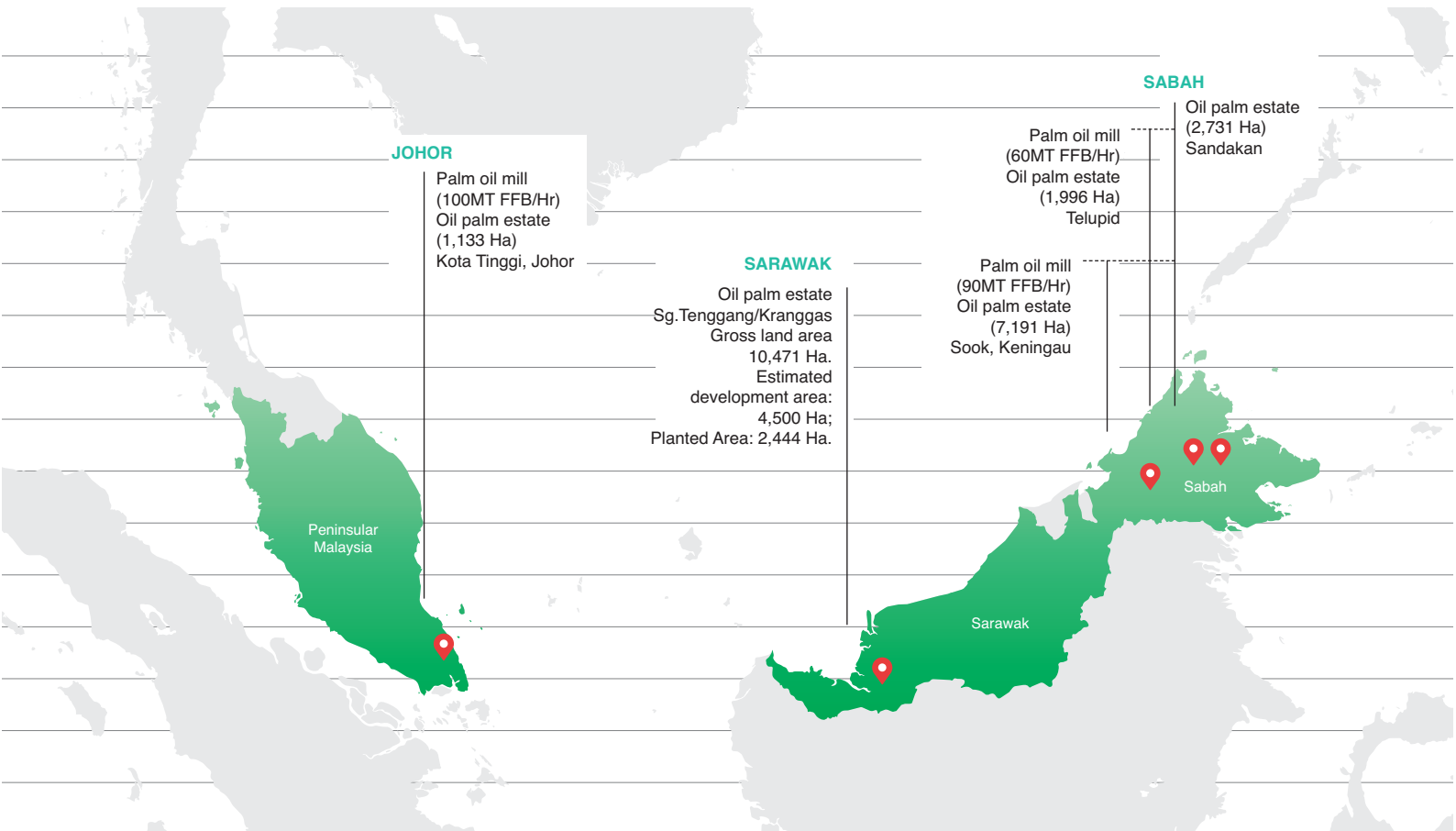


**Palm Oil Milling**

As at 31 January 2020, the Group's total plantation land holdings stood at 15,826 hectares ("Ha") of which 92% are fully planted with oil palms. Out of the total planted area, approximately 83% are mature above 6 years old, 6% are young mature below 6 years old while the remaining 11% are at immature stage. Our plantations are located in the states of Johor, Sabah and Sarawak.

The Group also owns and operates three (3) palm oil mills which are strategically located within the vicinity of our plantations in Kota Tinggi, Johor and in Keningau and Telupid, Sabah. Our palm oil mills have a total FFB processing capacity of 1.5 million MT per annum.

## LOCATIONS OF OPERATIONS



# MANAGEMENT DISCUSSION AND ANALYSIS

(cont'd)

## FINANCIAL REVIEW

### Revenue

The revenue of the Group was RM679.63 million for the financial year 2020 ("FY2020") compared to RM872.94 million recorded for the financial year 2019 ("FY2019").

The drop of 22% in revenue was primarily attributable to lower FFB and CPO production as compared to the last financial year. Before inter-segments adjustments and eliminations, revenue from plantation operations has dropped by 21% whilst the revenue from milling operations also dropped by 22% compared to the last financial year.

The average selling prices and production of Crude Palm Oil ("CPO"), Palm Kernel ("PK") and Fresh Fruit Bunches ("FFB") for FY2020 and FY2019 of the Group are as follows:

Average selling price per metric ton ("MT"):-

	FY2023 (RM)	FY2022 (RM)	Change (%)
CPO	2,118	2,169	(2.35%)
PK	1,228	1,656	(25.85%)
FFB	391	416	(6.01%)

Sales quantity:-

	FY2023 (MT)	FY2022 (MT)	Change (%)
Main palm oil milling products:			
CPO	268,070	329,489	(18.64%)
PK	60,704	74,257	(18.25%)
Plantation produce:			
FFB : to own mills	215,765	259,690	(16.91%)
to external parties	44,747	50,392	(11.20%)
Total	260,512	310,082	(15.99%)

### Other Income

Other income for the year was RM16.54 million which was RM4.34 million higher as compared to FY2019. It consisted mainly of interest income which was 51% (2019: 72%). In the current financial year, the other income also included recognition of net gain on compulsory acquisition and derivatives of RM2.98 million (2019: Nil) and RM1.24 million (2019: Nil) respectively. The net gain on compulsory recognition was arising from compulsory land acquisition in year 2013 and has been recognised pursuant to the judgment of the Court of Appeal in May 2019.

### Cost of Sales

Generally, the production of CPO and PK, the major palm oil milling products, by the Group during the year has decreased by more than 20%. The summary of production of major products by the Group is tabulated below:-

	FY2023 (MT)	FY2022 (MT)	Change (%)
CPO	247,659	316,268	(21.69%)
PK	60,119	75,336	(20.20%)
FFB	260,512	310,082	(15.99%)

In order to meet sales contracts committed, the Group has purchased 3,600 MT (2019: 14,400 MT) of CPO from external parties at prevailing market price during the year.

In view of lower production from both plantation and milling operations, the cost of sales decreased by 21% or RM156.69 million to RM585.63 million, mainly due to lower cost of FFB purchased in milling operations resulted from lower volume of FFB intake.

### Unit Cost of Production of CPO

The unit cost of production (excluding raw materials) of CPO has increased by 29% to RM270 per MT of CPO. The total unit cost of production of CPO has also increased by 16% to RM1,540 per MT of CPO. The increase in unit cost of production was mainly caused by:

- lower production throughput of mills as well as lower FFB production yield at plantations;
- increase in upkeep and maintenance for buildings and machineries, especially substantial repair cost resulted from the fire incident at Kota Tinggi mill; and
- increase in labour cost partly caused by shortage of workers in plantation industry.

### Finance Cost

Finance cost recognised in profit or loss has decreased by 34% or RM0.37 million to RM0.71 million as compared to FY2019 due to repayment of bank borrowings.

### Profit before Tax ("PBT")

The Group's PBT of RM60.39 million for the FY2020 was lower than RM88.23 million for the FY2019. The average selling prices and production of Crude Palm Oil ("CPO"), Palm Kernel ("PK") and Fresh Fruit Bunches ("FFB") for FY2020 and FY2019 of the Group are as follows:

# MANAGEMENT DISCUSSION AND ANALYSIS

(cont'd)

Out of the drop in the Group's PBT by nearly RM28 million or 32%, approximately RM17 million was attributable to the plantation operations. The drop in PBT was mainly due to lower FFB and CPO production. On the other hand, the average selling prices for FFB and CPO for the current financial year have recorded marginal drop of 6% and 2% respectively.

## Taxation

The effective tax rate for FY2020 of 24.56% was slightly higher than statutory tax rate. This was mainly due to certain expenses were not deductible for tax purpose and deferred tax assets for unabsorbed losses brought forward were partially derecognised in view of the uncertainty that sufficient taxable profit will be generated within the maximum 7-year period for utilisation.

## Profit Attributable to Equity Holders of the Company

Profit attributable to equity holders of the Company and earnings per share of the Group decreased significantly by 21% year-on-year to RM41.06 million and 4.40 sen respectively as compared to RM52.12 million and 5.58 sen recorded for the preceding financial year.

## Share Price Performance

Our Company's share price performance for the period from February 2019 till 13 May 2023:



Source: Bursa Malaysia

During the financial year, the share price was traded between the range of RM1.08 to RM1.64 and closed at RM1.26 at end of the financial year.

## Cash Flows

The Group's cash and cash equivalents (excluding short term funds) decreased by 24% or RM45.96 million to RM145.88 million mainly due to the following:

- (i) more capital expenditure incurred in respect of acquisition of land, replanting programme, purchase of biogas engines and upgrading plan.
- (ii) more investment in short term funds with expectation of higher tax-exempt return as compared to conventional deposits with bank.

Despite the drop in revenue, the Group's cash flows from operating activities has increased by over RM10 million which was benefited from realisation of inventories.

The Group's investment in short term funds has increased by 20% or RM16.04 million to RM94.48 million as compared to FY2019.

It is the Group's practice to include short term funds as an important instrument in its cash flows and liquidity management. As at the end of the financial year, total short term funds and cash and cash equivalents was RM240.36 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

(cont'd)

Our average oil yield per Ha for Sabah estates has decreased to 4.53 MT per Ha in FY2020 compared to 5.13 MT per Ha in FY2019 mainly due to the estates in Sabah had recorded a lower production over the relatively high production records in the preceding year. Our overall Group average oil yield has also decreased to 4.23 MT per Ha as compared to 4.77 MT per Ha in FY2019.

The yield per Ha analysis for FY2020 and FY 2019 can be analysed as follows:

(%)	FY2023	FY2022	Change
<b>FFB Yield:</b>			
KLR Group FFB Yield (MT per Ha) (11.85%)	19.20	21.78	
Malaysia National FFB Yield* (MT per Ha) 0.17%	17.19	17.16	

\* The statistics for Malaysia National CPO and PK extraction rates are extracted from MPOB web-site based on calendar year 2019 and 2018 whilst the figures from KLR Group are based on its financial year (Feb - Jan).

## REVIEW OF OPERATING ACTIVITIES

### PALM OIL MILLING OPERATIONS

The profit from the palm oil milling operations recorded a drop of 26% or RM11.16 million to RM32.21 million as compared to RM43.37 million recorded for the last financial year. The lower profit was due to substantial drop in CPO production.

Despite a marginal increase in the CPO extraction rate to 21.72%, the operations have achieved lower processing margin which was due to lower processing volume as well as competitions for crops in Sandakan region resulting a squeeze in processing margin. During the year, the Group's mills processed a total FFB quantity of 1.14 million MT, representing a 23% drop as compared with last financial of 1.48 million MT.

In addition, the performance of milling operations was also affected by the fire incident at our mill at Kota Tinggi, Johor in June 2019 causing disruption to operations for about 1 month. The mill resumed its full processing capacity in August 2019. Cost of repair and write-off of assets of nearly RM3.5 million had been recognised accordingly in the income statement but the relevant insurance compensation had not been accrued for at the reporting date pending confirmation from insurance company. Nevertheless, we expect the loss would be substantially covered by insurance.

Total CPO production for the year under review was 247,659 MT, which was about 22% lower than 316,268 MT recorded in the last financial year. The market condition and demand for the Group's main milling products has been good and steady during the financial year.

As a result of unexpected low CPO production at the two mills in Sabah, the Group had faced challenges in meeting contracted schedule for delivery of committed sales to customers. The Group also purchased 3,600 MT of CPO from external parties in order to meet sales contracts committed. Consequentially, the sale of CPO, the main product, dropped by 19% to 268,070 MT compared to 329,489 MT in the last financial year. As of the year end, the CPO inventory level has reduced significantly to 5,500 MT as compared to the 22,000 MT at preceding financial year end. The average selling price of CPO of the Group for the current financial year was RM2,118 per MT which was marginally lower than RM2,169 per MT in the last financial year.

The extraction rate for CPO and recovery rate for PK for FY2020 and FY2019 can be analysed as follows:

	FY2023	FY2022	Change (%)
<b>CPO:</b>			
KLR Group CPO extraction rate (%)	21.72	21.35	1.73%
Malaysia National CPO extraction rate* (%)	20.21	19.95	1.30%
<b>PK:</b>			
KLR Group PK recovery rate (%)	5.27	5.08	3.74%
Malaysia National PK recovery rate* (%)	4.98	4.97	0.20%

\* The statistics for Malaysia National CPO extraction and PK recovery rates are extracted from MPOB web-site based on calendar year 2019 and 2018 whilst the figures from KLR Group are based on its financial year (Feb - Jan).

# MANAGEMENT DISCUSSION AND ANALYSIS

(cont'd)

## RISKS EXPOSURE AND MITIGATION

The Group's business operations are within the plantation industry that is generally subject to the following major risks that may have a material effect on the Group's operations, performance, financial condition and liquidity:

- Volatility in palm oil commodity prices as well as foreign currency exchange rate;
- Fluctuation in production of FFB due to seasonal cyclical as well as weather factors such as El Nino phenomenon.
- Demand in palm oil products that may be adversely affected by alternative supply of oils and fats worldwide;
- Import policies of major importing countries;
- Shortage in skilled labour in plantation sector; and
- Increase in operation cost partly caused by up-going trend of minimum wages as well as increased recruitment cost for foreign workers.

There have been no significant changes in the above-mentioned risks since the previous financial year.

The Management constantly monitors the movements in palm oil commodity prices and may take steps to mitigate unfavourable movement in commodity prices, where necessary, to reduce impact on the Group's financial performance. To achieve this, the Group may use derivatives such as Futures and Swap contract to hedge against cash flow risks faced by the Group arising from its forecasted probable production.

Considering plantation is still a labour intensive industry, it is unlikely to operate without manual labour, therefore the Group has been putting its best efforts to manage its operations with limited labour force and where possible, to invest in mechanization and automation in its plantations as well as palm oil milling operations to reduce dependency on labour.

The Group also observes best practices in managing its plantation and milling operations such as adhering to manuring programmes recommended by Agronomists, strict control to minimize oil loss, so as to achieve optimal operation efficiency in terms of both production quantity and quality.

## DEVELOPMENT AND PROSPECTS

### Plantation operations:

On 19 February 2020, the Company announced that it entered into four (4) separate conditional Sale and Purchase Agreements with (1) Greenfingers Sdn. Bhd.; (2) R & H Sdn. Bhd.; (3) Bakti Perusahaan Sdn. Bhd.; and (4) Sri Handal Sdn. Bhd. (collectively referred to as "the Vendors") to

acquire oil palm plantation lands in Sabah with a total gross land area of approximately 2,862 acres ("the Acquisitions"). The total cash purchase consideration is RM92,538,290 which is approximately RM32,500 per acre.

The Acquisitions are not subject to the shareholders' approval. However, the Acquisitions are subject to the relevant authorities' approvals such as the Sabah's Ministry of Agriculture and Fisheries. Barring any unforeseen circumstances, the Acquisitions are expected to be completed by the third quarter of the year 2020.

The Acquisitions will increase the supply of FFB produce to the Group's palm oil mill at Telupid, Sabah so as to contribute towards optimising utilisation of the mill's processing capacity as well as to reduce dependence on FFB supply from third parties especially during a seasonal low crop period. The Acquisitions will increase the land bank of the KLR Group for oil palm plantations and will contribute positively towards the Group's long-term growth in profitability.

The Group will continue its replanting programme to replant the old palms which are unable to meet the expectation of FFB yield. We expect to replant about 1,000 Ha in the financial year 2021.

Moving forward, the Group will continue its prudent approach in sourcing for additional suitable plantation land in Johor, Pahang, Sabah and Sarawak. However, Roundtable on Sustainable Palm Oil ("RSPO") restriction is a major constraint. To support our plantation operations in Sarawak, we have been actively looking into the possibility of setting up a palm oil mill in Sarawak.

For the financial year ending 31 January 2021, we forecast the FFB production to be about 10% higher than the quantity achieved in the financial year 2020 after taking into consideration of the impending completion of the recent acquisition of landbank and the impact of on-going replanting programme.

### Milling operations:

The management expects the milling operations to achieve similar processing quantity as recorded in the financial year 2020.

On the projects to supply power to the grid using biogas engine, the plant at Kota Tinggi mill has commenced supplying power up to 1.8 megawatt per hour to grid since June 2019. We expect the annual revenue contribution would be about RM6 million from the financial year 2021