

KRETAM HOLDINGS BERHAD

(Company No.: 168285 - H)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 MARCH 2014

This interim financial report is unaudited and should be read in conjunction with the Company's audited financial statements for the year ended 31 December 2013.

A. CONDENSED CONSOLIDATED INCOME STATEMENT

	CURRENT QUARTER		CUMULATIVE	
	Quarter ended 31 Mar		3 months ended 31 Mar	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Revenue	98,242	88,243	98,242	88,243
Cost of sales and services	(77,565)	(67,705)	(77,565)	(67,705)
Gross profit	20,677	20,538	20,677	20,538
Selling and distribution costs	(7,426)	(6,505)	(7,426)	(6,505)
	13,251	14,033	13,251	14,033
Other income	1,093	149	1,093	149
Administrative expenses	(3,614)	(3,708)	(3,614)	(3,708)
Other expenses	(1,307)	(208)	(1,307)	(208)
	9,423	10,266	9,423	10,266
Finance costs	(817)	(494)	(817)	(494)
Profit before taxation	8,606	9,772	8,606	9,772
Taxation	(3,971)	(2,810)	(3,971)	(2,810)
Profit after taxation	4,635	6,962	4,635	6,962
Profit after taxation attributable to:-				
Shareholders of the Company	4,600	6,897	4,600	6,897
Non-Controlling Interests	35	65	35	65
	4,635	6,962	4,635	6,962
<u>EARNINGS PER SHARE (EPS):-</u>				
	<u>sen</u>	<u>sen</u>	<u>sen</u>	<u>sen</u>
Basic EPS	0.25	0.38	0.25	0.38
Diluted EPS	0.20	0.30	0.20	0.30

B. CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	CURRENT QUARTER		CUMULATIVE	
	Quarter ended 31 Mar		3 months ended 31 Mar	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Profit after taxation	4,635	6,962	4,635	6,962
Other Comprehensive Income (OCI)	0	0	0	0
Income tax relating to components of OCI	0	0	0	0
Other Comprehensive Income net of tax	0	0	0	0
Total Comprehensive Income	4,635	6,962	4,635	6,962
Total Comprehensive Income attributable to:-				
Shareholders of the Company	4,600	6,897	4,600	6,897
Non-Controlling Interests	35	65	35	65
	4,635	6,962	4,635	6,962

C. CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31.03.2014 RM'000	As at 31.12.2013 RM'000
NON-CURRENT ASSETS		
Property, plant and equipment and land use rights	537,670	531,525
Investment property	645	646
Biological assets	400,097	399,810
Intangible assets	42,776	42,777
Trade & other receivables	5,272	5,272
CURRENT ASSETS		
Inventories	67,254	66,430
Receivables	25,395	35,276
Tax refundable	24,784	27,234
Derivatives	0	131
Cash and bank balances	67,101	65,595
	184,534	194,666
CURRENT LIABILITIES		
Payables	47,151	55,693
Loans and borrowings	46,908	58,149
Derivatives	79	592
Income tax payable	29	30
	94,167	114,464
NET CURRENT ASSETS	90,367	80,202
NON-CURRENT LIABILITIES		
Loans and borrowings	59,433	47,329
Deferred taxation	93,775	93,919
	923,619	918,984
EQUITY		
Equity attributable to shareholders of the Company		
Share capital	365,525	365,525
Share premium reserve	157,357	157,357
Equity component of ICPS	222,513	222,513
Revaluation reserve	35,362	35,362
Other reserves	0	0
Retained profits	139,675	135,075
	920,432	915,832
Equity attributable to non-controlling interests	3,187	3,152
	923,619	918,984
NET ASSETS PER SHARE	50.4	50.1

D. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	EQUITY ATTRIBUTABLE TO:-					TOTAL EQUITY
	Shareholders of the Company				Non- controlling Interests	
	Share Capital	Reserves	Retained Profits	TOTAL		
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<u>CURRENT YEAR TO DATE:</u>						
At 1 January 2014	365,525	415,232	135,075	915,832	3,152	918,984
Total Comprehensive Income for the year	0	0	4,600	4,600	35	4,635
At 31 March 2014	365,525	415,232	139,675	920,432	3,187	923,619
<u>PREVIOUS YEAR CORRESPONDING PERIOD:</u>						
At 1 January 2013	365,525	411,317	120,033	896,875	3,221	900,096
Total Comprehensive Income for the period	0	0	6,897	6,897	65	6,962
Dividend paid to non-controlling interests	0	0	0	0	(120)	(120)
At 31 March 2013	365,525	411,317	126,930	903,772	3,166	906,938

The Reserves are not distributable.

E. CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	3 months ended 31 Mar	
	2014	2013
	RM'000	RM'000
Cash flows from operating activities		
Profit before taxation	8,605	9,772
<u>Adjustments for:-</u>		
Depreciation	7,110	6,563
Interest income	(246)	(188)
Finance costs	817	494
Others	148	197
Changes in working capital	356	(17,675)
Income taxes paid, net of refunds	(1,665)	(7,281)
Interest received	219	188
Interest paid	(1,152)	(335)
	14,192	(8,265)
Cash flows from investing activities		
Purchase of property, plant and equipment	(13,502)	(9,518)
Proceeds from disposal of property plant and equipment	76	26
Additions to biological assets	0	(152)
Others	(11)	118
	(13,437)	(9,526)
Cash flows from financing activities		
Repayment of finance lease obligations	(567)	(539)
Drawdown of revolving credit and loan	1,306	7,565
Payment of dividend to non-controlling interests	0	(120)
	739	6,906
Increase/(decrease) in cash and cash equivalents	1,494	(10,885)
Cash and cash equivalents at the beginning of the year	64,756	39,740
Cash and cash equivalents at the end of the period	66,250	28,855
Cash and cash equivalents comprise of the following:		
Cash and bank balances	67,101	28,855
less: Fixed deposits with maturity of more than 3 months	(851)	0
	66,250	28,855

1. ACCOUNTING POLICIES

The interim financial statements are prepared as required by Paragraph 9.22 of the Bursa Malaysia Listing Requirements and comply with Financial Reporting Standard FRS 134 *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board (MASB).

(a) Changes to Accounting Policies

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the preparation of the audited financial statements for the year ended 31 December 2013 except for the adoption of the following new and revised Financial Reporting Standards (“FRSs”; “FRS” when referred to in the singular) and IC Interpretations which became applicable beginning from the Group’s financial year ending 31 December 2014:

Amendments to FRS 10, FRS 12 and FRS 127	<i>Investment Entities</i>
Amendments to FRS 132	<i>Offsetting Financial Assets and Financial Liabilities</i>
Amendments to FRS 136	<i>Recoverable Amount Disclosures for Non-financial Assets</i>
Amendments to FRS 139	<i>Novation of Derivatives and Continuation of Hedge Accounting</i>
IC Interpretation 21	<i>Levies</i>

The new and revised FRSs and IC Interpretations did not have any significant impact on the Group’s results and financial position upon their initial application.

(b) New and Revised FRSs, IC Interpretations and Amendments Issued but are Not Yet Effective for the Current Financial Year

The Group has not yet adopted the following new and revised FRSs, IC Interpretations and Amendments; they will only become effective for the Group’s financial year ending 31 December 2015:

<u>FRS, Amendments to FRS and IC Interpretations</u>	<u>Effective for financial periods beginning on or after</u>
Amendments to FRS 119 <i>Defined Benefit Plans: Employee Contributions</i>	1 July 2014
Annual Improvements to FRSs 2010 - 2012 Cycle	1 July 2014
Annual Improvements to FRSs 2011 - 2013 Cycle	1 July 2014
FRS 9 <i>Financial Instruments</i> (IFRS 9 issued by IASB in November 2009)	To be announced
FRS 9 <i>Financial Instruments</i> (IFRS 9 issued by IASB in October 2010)	To be announced
FRS 9 <i>Financial Instruments: Hedge Accounting</i> and amendments to FRS 9, FRS 7 and FRS 139	To be announced

Adoption of those of the above that become effective on 1 January 2015 (in the next financial year) is not expected to have any material impact on the Group’s results and financial position.

(c) Malaysian Financial Reporting Standards (“MFRS”) and MFRS Framework

On 19 November 2011 the Malaysian Accounting Standards Board (MASB) issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (“MFRS Framework”).

The MFRS Framework is to be applied by all entities other than private entities for annual periods beginning on or after 1 January 2012, except for entities that are within the scope of MFRS 141 *Agriculture* and IC Interpretation 15 *Agreements for Construction of Real Estate*, including their parents, significant investors and venturers (collectively referred to as “Transitioning Entities”). Transitioning Entities are allowed to defer adoption of the MFRS Framework by two years.

The Group falls within the definition of Transitioning Entities and has elected to defer adoption of the MFRS Framework. Consequently, the Group will apply the MFRS Framework for the first time in its financial statements for the year ending 31 December 2015. In presenting its first set of financial statements under the MFRS Framework, the Group will be required to restate its comparative financial statements to amounts reflecting the application of the MFRS Framework. The majority of the adjustments required to be made on transition will be made, retrospectively, against opening retained earnings.

2. SEASONAL OR CYCLICAL FACTORS

The Group's production from its plantations generally experiences an "up-down" cycle once a year, with low production usually in the early part of the year, and peak production in the final quarter of the year.

3. SIGNIFICANT ITEMS/EVENTS

There were no items or events which arose, which affected assets, liabilities, equity, net income or cash flows, which are unusual by reason of their nature, size or incidence.

4. MATERIAL CHANGES IN ACCOUNTING ESTIMATES

During the period under review, there were no:

- (i) material changes in estimates of amounts reported in the previous interim periods of the current financial year; and
- (ii) material changes in estimates of amounts reported in prior financial years.

5. DEBT AND EQUITY SECURITIES

There were no cancellations, repurchases, resale and repayments of debt and equity securities during the period under review.

On 9 January 2014 the Company completed its proposed share split involving the subdivision of:

- (a) each existing ordinary share of RM1 each into 5 ordinary shares of RM0.20 each; and
- (b) each existing Irredeemable Convertible Preference Share ("ICPS") of RM1 each into 5 ICPS of RM0.20 each.

6. PAYMENT OF DIVIDENDS

The Company did not pay any dividends during the period under review.

7. SEGMENT REVENUE AND RESULTS FOR THE PERIOD ENDED 31 MARCH 2014

	Plantation & Mill	Refinery	Elimination	TOTAL
	RM'000	RM'000	RM'000	RM'000
<u>REVENUES AND RESULTS:-</u>				
Segment Revenue - external	47,453	50,789	0	98,242
Inter-segment revenue	27,374	0	(27,374)	0
	<u>74,827</u>	<u>50,789</u>	<u>(27,374)</u>	<u>98,242</u>
Segment results	<u>15,724</u>	<u>(6,038)</u>	<u>(493)</u>	<u>9,193</u>
Unallocated Items:-				
Other income				134
Corporate expenses				(597)
Finance costs				(124)
Gain on disposal of subsidiary				0
Profit before taxation				8,606
Taxation				(3,971)
Profit after taxation				<u>4,635</u>
<u>ASSETS:-</u>				
Segment assets	<u>914,238</u>	<u>215,699</u>		1,129,937
Unallocated assets				41,057
Total assets				<u>1,170,994</u>

8. VALUATIONS OF PROPERTY, PLANT AND EQUIPMENT

The valuations of leasehold land, plantations and buildings have been brought forward, without amendment from the previous audited financial statements (for the year ended 31 December 2013).

9. SUBSEQUENT EVENTS

On 11 April 2014 the Company converted 47,391,305 ICPS of RM0.20 each into the same number of ordinary shares of RM0.20 each.

As at the date of this report, there were no other material events which arose subsequent to the end of the period under review.

10. EFFECT OF CHANGES IN THE COMPOSITION OF THE GROUP

During the period under review, there were no:

- (a) acquisitions or disposals of subsidiaries; and
- (b) discontinued operations.

11. CHANGES IN CONTINGENT LIABILITIES OR CONTINGENT ASSETS SINCE THE LAST FINANCIAL YEAR

There were no changes in contingent liabilities or contingent assets since 31 December 2013.

G. EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

12. REVIEW OF PERFORMANCE

For the first quarter of 2013, the Group achieved total revenue of RM98.2 million (Q1 2013: RM88.2 million) and pre-tax profit of RM8.6 million (Q1 2013: RM9.8 million).

Commentary on the performance of the operating segments of the Group is as follows:-

(a) Plantations and Mills

As shown in Note 7, the Group's plantation and mill operations achieved revenues (including inter-segment revenues) of RM74.8 million (Q1 2013: RM72.2 million), and pre-tax profit of RM15.7 million (Q1 2013: RM5.5 million).

The higher revenue and pre-tax profit compared to the previous year's corresponding period is mainly due to higher CPO and palm kernel (PK) prices. For an indication, monthly average CPO and palm kernel (PK) prices for Sabah as published by the Malaysian Palm Oil Board (MPOB) are as follows:-

	CPO		PK	
	2014	2013	2014	2013
January	2,510.00	2,162.00	1,760.50	1,024.50
February	2,625.00	2,340.00	1,945.00	1,136.00
March	2,831.00	2,297.50	2,124.50	1,083.00

The following information relates to the Group's plantation and mill operations for the quarter/period under review, and comparison with the Sabah industrial average is provided:

	1st Quarter		
	2014	2013	% change
FFB Production (mt)	82,124	94,472	-13.1%
FFB Yield (mt/hectare):			
The Group's estates	4.86	5.72	-15.0%
MPOB Sabah average	4.95	5.28	-6.3%
Oil Extraction Rate:			
The Group's palm oil mills	20.70%	20.05%	3.2%
MPOB Sabah average	20.99%	20.79%	1.0%

The marginal increase (3.6%) in the division's revenue despite an improvement in average CPO price of some 22.5% (RM2,586 versus RM2,111) had been due mainly to lower FFB production and yields (see table above).

In terms of operating profit, the RM475 per metric tonne improvement in the average CPO price meant that profit margins also increased by close to the same amount, and pre-tax profit was boosted accordingly.

(b) Refinery

Also as shown in Note 7, the Group's refinery operations achieved revenues of RM50.8 million (Q1 2013: RM41.9 million) and suffered a pre-tax loss of RM6.0 million (Q1 2013: pre-tax profit of RM0.74 million).

The higher revenue was in line with improved palm oil prices. However, opportunities for positive contributions from the occasional favourable trade (involving the direct export of CPO) in the first quarter of 2013 did not present themselves in the current quarter, and coupled with unfavourable refining margins and lack of economies of scale, had resulted in the refinery division suffering a loss.

13. COMPARISON WITH THE PREVIOUS QUARTER'S RESULTS

The following is a summary based on the two respective quarters' condensed consolidated income statements:

	Current Quarter RM'000	Previous Quarter RM'000
Revenue	98,242	91,075
Cost of sales and services, including distribution	(84,991)	(78,978)
	13,251	12,097
Other income	1,093	336
Administrative, finance and other expenses	(5,738)	(10,652)
Profit before taxation	8,606	1,781

Higher administrative, finance and other expenses in the previous quarter was due to inclusion of employee bonuses, which were only recognized in that quarter due to their discretionary nature quantum-wise.

14. CURRENT YEAR PROSPECTS

Like other companies in the palm oil industry, the Group's fortunes are closely tied to movements in CPO and refined palm product prices. As shown in Note 12, these had seen an upward trend during the first quarter of 2014 only to slip back to the RM2,500-2,600 level at the time of this report. In the light of these, the Board takes the view that 2014 will be a somewhat challenging year for the Group unless there is a subsequent surge in palm oil prices.

Work on increasing the refinery's processing capacity expected to be completed by the middle of the year.

15. ACHIEVEMENT OF REVENUE/PROFIT ESTIMATES, FORECASTS AND/OR INTERNAL TARGETS

Not applicable as the Company did not provide any revenue or profit estimate, forecast or projection, and did not publish any internal targets, in any public document.

16. EXPLANATION OF VARIANCES FROM PROFIT FORECAST OR PROFIT GUARANTEE

Not applicable as the Company did not provide any profit forecast or guarantee, in any public document.

17. TAXATION

	Quarter ended 31.03.2014 RM'000	3 months ended 31.03.2014 RM'000
Provision in respect of results for the current quarter/period	4,114	4,114
Deferred taxation	(143)	(143)
	<u>3,971</u>	<u>3,971</u>

The Group's effective rate of taxation is significantly higher than the 25% statutory rate due to losses incurred in its refinery operations, for which corresponding no deferred tax assets have been recognized.

18. STATUS OF CORPORATE PROPOSALS ANNOUNCED BUT NOT YET COMPLETED

(a) Proposed Employees' Share Option Scheme ("ESOS")

The Company has not yet implemented the ESOS since the date all the necessary approvals were obtained.

(b) Proposed Share Split

The Company had proposed to undertake the following:

- (i) a share split involving the subdivision of one existing ordinary share of RM1 each into 5 ordinary shares of RM0.20 each; and
- (ii) amendments to the Company's Memorandum and Articles of Association to facilitate the implementation of the proposed share split.

The above proposals were completed on 9 January 2014.

19. GROUP BORROWINGS

	As at 31.03.2014 RM'000	As at 31.12.2013 RM'000
Current secured:		
Hire purchase	1,707	1,788
Bankers' acceptances	42,800	54,369
Term loan	370	0
Current unsecured: Liability component of ICPS	2,031	1,992
	46,908	58,149
Non-current secured:		
Hire purchase	2,918	3,403
Term loans	51,954	39,450
Non-current unsecured: Liability component of ICPS	4,561	4,476
	59,433	47,329
TOTAL BORROWINGS	106,341	105,478

* - ICPS: Irredeemable Convertible Preference Shares

Except where indicated otherwise, the above borrowings are denominated in Malaysian Ringgit.

20. ADDITIONAL DISCLOSURES

(a) Financial Derivatives

Outstanding financial derivatives held by the Group as at 31 March 2014 are as follows:

	Currency	Contract/ Notional Amount '000	Fair Value	
			Assets RM'000	Liabilities RM'000
US Dollar forward contracts - less than 1 year	USD	7,730	0	79

(b) Gains/(Losses) Arising from Fair Value Changes of Financial Liabilities

For the quarter ended 31 March 2014, there were no gains or losses arising from changes to fair values of the Group's financial liabilities.

(c) **Breakdown of Realised and Unrealised Profits and Losses**

	As at <u>31.03.2014</u> RM'000	As at <u>31.12.2013</u> RM'000
Total retained profits of the Company and its subsidiaries		
- Realized	184,749	177,885
- Unrealized	(31,919)	(32,046)
	<hr/> 152,830	<hr/> 145,839
less: Consolidation adjustments	(13,156)	(10,764)
Total retained profits	<hr/> <hr/> 139,674	<hr/> <hr/> 135,075

21. CHANGES IN STATUS OF MATERIAL LITIGATION UP TO 23 MAY 2014

Not applicable as the Group is not involved in any material litigation.

22. DIVIDENDS DECLARED

No dividend has been declared or recommended in respect of the period under review.

23. EARNINGS PER SHARE (“EPS”)

Basic and diluted EPS for the period under review is calculated based on the following:

	Quarter ended <u>31.03.2014</u>	3 months ended <u>31.03.2014</u>
Weighted average number of shares in issue	1,827,627,135	1,827,627,135
Potential number of shares from conversion of ICPS *	500,000,000	500,000,000
Number of shares used in calculating diluted EPS	<u>2,327,627,135</u>	<u>2,327,627,135</u>
Profit after taxation	4,634	4,634
less: (profit)/loss after taxation attributable to non-controlling interests	<u>(35)</u>	<u>(35)</u>
Profit after taxation attributable to shareholders of the Company	4,599	4,599
Finance costs saved from potential conversion of ICPS	<u>124</u>	<u>124</u>
Adjusted profit/(loss) after taxation	<u>4,723</u>	<u>4,723</u>
EPS:	<u>sen</u>	<u>sen</u>
- Basic	<u>0.25</u>	<u>0.25</u>
- Diluted	<u>0.20</u>	<u>0.20</u>

* - ICPS: Irredeemable Convertible Preference Shares

Basic EPS is calculated by dividing “Profit after taxation attributable to shareholders of the Company” by the “Weighted average number of shares in issue” during the period.

Diluted EPS is calculated by dividing “Adjusted profit/(loss) after taxation” by the “Number of shares used in calculating diluted EPS”.

24. AUDITOR’S REPORT ON THE PREVIOUS YEAR’S FINANCIAL STATEMENTS

The auditors’ report on the Group’s consolidated financial statements for the year ended 31 December 2013 was not qualified.

25. STATEMENT OF COMPREHENSIVE INCOME

The statement of comprehensive income includes the following items:-

	Quarter ended <u>31.03.2014</u> RM'000	3 months ended <u>31.03.2014</u> RM'000
Interest income	246	246
Other income, including investment income	(482)	(482)
Interest expense	817	817
Depreciation and amortization	6,702	6,702
Provision for and write-off of receivables	0	0
Foreign exchange gain/(loss)	129	129
Provision for and write-off of inventories	(9)	(9)
Gain/(loss) on disposal of quoted or unquoted investments or properties	0	0
Impairment of assets	0	0
Gain/(loss) on derivatives	(1,165)	(1,165)
Exceptional items	0	0

By Order of the Board,

WONG LEN KEE
Executive Director
26 May 2014