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
Improvements to FRSs issued in 2012	1 January 2013
Amendments to FRS 10, FRS 11 and FRS 12	1 January 2013

Amendments to FRS 132 Offsetting Financial Assets and Financial Liabilities		1 January 2014
FRS 9	Financial Instruments	1 January 2015

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 2014.

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 2015.

A2. 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 57% higher than the second quarter mainly due to recovery of yield after the low yield cycle in the first half of the financial year.

A3. 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.

A4. Material changes in estimates

There were no changes in estimates that have had material effects in the current quarter.

A5. Debt and equity securities

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the cumulative three quarters ended 31 October 2012 except for the following:

(a) Issuance of 603,800 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

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.

(c) Repurchase of 10,000 ordinary shares of RM1 each of its issued share capital from the open market for a total consideration of RM25,586 at the price of RM2.54 per share.

A6. Dividends paid

During the current financial year-to-date, a final single tier tax exempt dividend of 10 sen per ordinary share in respect of the financial year 2012 was paid on 29 August 2012.

A7. Segmental information

Major segments by activity:-

	Revenue		Results	
	9 months ended		9 months ended	
	31/10/2012	31/10/2011	31/10/2012	31/10/2011
	RM'000	RM'000	RM'000	RM'000
Plantation operations	97,171	150,145	45,726	105,774
Milling operations	469,130	589,318	17,861	26,832
	566,301	739,463	63,587	132,606
Less:				
Inter-segment eliminations	(93,093)	(148,460)	2,714	(3,980)
	473,208	591,003	66,301	128,626
Less:				
Unallocated expenses			(2,875)	(1,162)
Finance income			4,503	3,321
Finance costs			(962)	(1,447)
Profit before tax			66,967	129,338
Tax expenses			(16,542)	(32,199)
Profit for the period			50,425	97,139

A8. Material subsequent events

As at 26 December 2012, there were no material subsequent events that have not been reflected in the financial statements for the current financial period.

A9. Changes in the composition of the Group

There were no changes in the composition of the Group during the current financial year-to-date, 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.

(c) 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.

(d) 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%.

A10. Contingent liabilities or Contingent assets

As at 26 December 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 B9, 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.

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 RM473.21 million and RM66.97 million respectively for the cumulative three quarters ended 31 October 2012, as compared to RM591.00 million and RM129.34 million respectively for the corresponding period last year.

The 20% and 48% 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 9% and 29% respectively lower than the corresponding period last year.

Performance analysis by segments:

	Revenue			
	Quarter ended		Year-to-date ended	
	31/10/2012	31/10/2011	31/10/2012	31/10/2011
	RM'000	RM'000	RM'000	RM'000
Plantation operations	35,401	48,690	97,171	150,145
Milling operations	158,742	186,093	469,130	589,318
	194,143	234,783	566,301	739,463

	Results			
	Quarter ended		Year-to-date ended	
	31/10/2012	31/10/2011	31/10/2012	31/10/2011
	RM'000	RM'000	RM'000	RM'000
Plantation operations	17,672	34,688	45,726	105,774
Milling operations	(277)	6,262	17,861	26,832
	17,395	40,950	63,587	132,606

Plantation operations

The revenue from plantation operations dropped by 27% and 35% for the current quarter and year-to-date respectively as compared to the corresponding periods in last year. In terms of profit, the plantation operation recorded RM17.67 million and RM45.73 million for the current quarter and year-to-date respectively, representing a drop of 49% and 57% as compared to the corresponding periods 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 75,600 MT and 175,500 MT, which were 8% and 26% lower than production achieved in the corresponding periods 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 21% and 15% lower for the current quarter and the year-to-date as compared to the corresponding periods in last year.

Palm oil milling operations

The revenue from the milling operations dropped by 15% and 20% for the current quarter and year-to-date respectively as compared to the corresponding periods in last year. Despite higher production, the milling operations suffered a loss of RM0.28 million in the current quarter as compared to RM6.26 million profit achieved in the corresponding period in last year, mainly due to sharp drop in prices of CPO and PKO in the current quarter and compounded by effect of high CPO stock level resulting from the slowdown in deliveries of CPO faced by the industry during the quarter. The CPO price dropped by 26% during the quarter.

For the current year-to-date, the profit achieved was RM17.86 million, represents a drop of 33% as compared to RM26.83 million recorded for the corresponding period in last year. The lower profit for the year-to-date was mainly caused by drop in production due to lower FFB production in the regions as well as lower palm oil prices. The average CPO price for the current year-to-date dropped by 9% compared to the corresponding period in last year.

Total CPO production for the current quarter was 60,400 MT which was 7% higher than production in the corresponding period in last year. For the year-to-date, the CPO production 144,100 MT which was 11% lower than 161,300 MT recorded in the corresponding periods in last year.

The market condition and demand for the Group's milling products has been steady for the first half year and became challenging in the third quarter mainly due to industry slowdown in deliveries of CPO resulting in higher CPO stock at the end of the reporting period. The sale of CPO, the main product, for the current quarter and year-to-date was 52,900 MT and 138,200 MT respectively, representing drop of 1% and 10% compared to the corresponding periods 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 RM16.15 million which was 27% lower than RM22.21 million achieved in the preceding quarter ended 31 July 2012. The drop in PBT was mainly due to sharp drop in palm oil prices in the current quarter. The FFB production for the current quarter increased by 57% to 75,600 MT as compared to 48,000 MT achieved in the preceding quarter. As for the milling operations, FFB intake during the current quarter increased by 29% as compared to the preceding quarter. The average prices for CPO and PKO for the current quarter dropped by 15% and 24% respectively compared to preceding quarter.

B3. Current financial year prospects

For the financial year ending 31 January 2013, we expect the CPO production quantity of the milling operations to be similar to the quantity achieved in the financial year 2012. For the plantation operations, we expect the FFB production to peak in the fourth quarter and project to achieve about 90% compared to FFB production achieved in the financial year 2012.

The CPO stock level remains high resulting from the slowdown in deliveries of CPO faced by the industry for the past few months and if the situation does not improve in near future, it would adversely affect the Group's operations as well as performance for the current financial year. We expect the palm oil prices to remain at the current level in the remaining period of the financial year 2013.

Nevertheless, the Group will continue to monitor the CPO price closely and take appropriate measures to mitigate the impact of high CPO stock level.

Based on the above, we expect the Group's performance to be satisfactory for the financial year 2013.

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

This is not applicable.

B5. Income tax

	Current Quarter Ended 31/10/2012 RM'000	Financial Year-to-date Ended 31/10/2012 RM'000
Malaysian Income Tax		
- Current year	6,528	18,011
- under provision in prior year	35	35
	6,563	18,046
Deferred tax		
- Current year	(2,478)	(1,287)
- Realisation of revaluation surplus on land	(73)	(217)
	(2,551)	(1,504)
	4,012	16,542

B6. Status of corporate proposals

There is no outstanding corporate proposal as at 26 December 2012:

B7. Group borrowings and debt securities

As at 31 October 2012, the total secured borrowings, which are denominated in Ringgit Malaysia, are as follows:

	RM'000
Short term borrowings :	
Overdrafts	3,277
Revolving credit	7,500
Term loans	2,232
	13,009
Long term borrowings :	
Term loans	24,792

There were no unsecured interest bearing borrowings as at 31 October 2012.

B8. 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 31/10/2012 RM'000	At as 31/01/2012 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	242,530	251,896
- Unrealised	(20,029)	(20,742)
	222,501	231,154
Less: Consolidation adjustments	(70,969)	(74,125)
Retained earnings as per consolidated accounts	151,532	157,029

B9. Material litigation

As at 26 December 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 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. Hearing of the Appeal has been carried out on 17 October 2012.

The Court of Appeal informed that the verdicts would be delivered on 28 November 2012 but it was postponed and no date has been fixed for the delivery of verdict.

Our solicitor is of the view that we have a fair prospect of succeeding in this Appeal.

B10. 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: 5 sen single tier per share.

B11. Earnings per share

<u>Basic earnings per share ("Basic EPS")</u>

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, excluding treasury shares held by the Company:

		Current Quarter Ended 31/10/2012	Financial Year-to-date Ended 31/10/2012
Net profit for the period	(RM'000)	8,822	39,894
Weighted average number of ordinary shares in issue	('000)	308,612	308,050
Basic EPS	(sen)	2.86	12.95

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.

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

		Current Quarter Ended 31/10/2012	Financial Year-to-date Ended 31/10/2012
Net profit for the period	(RM'000)	8,822	39,894
Weighted average number of ordinary shares in issue	('000)	308,612	308,050
Adjustment for dilutive effect of unexercised share options	('000)	83	123
Adjusted weighted average number of shares for Diluted EPS	('000)	308,695	308,173
Diluted EPS	(sen)	2.86	12.95

B12. Audit qualification

The auditors' report of the preceding annual financial statements of the Group did not contain any qualification.

B13. Profit before tax

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

		Current Quarter Ended 31/10/2012 RM'000	Financial Year-to-date Ended 31/10/2012 RM'000
(a)	Interest income	(1,564)	(4,503)
(b)	Other income including investment income	(187)	(1,060)
(c)	Interest expense	294	962
(d)	Depreciation and amortization	6,120	18,022
(e)	Provision for and write off of receivables	2	14
(f)	Provision for and write off of inventories	1	20
(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	2,732	2,732
(k)	Exceptional items	-	-