

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 2013. 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 2013.

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 2013 except for the adoption of the new and amended FRSs which are relevant to the Group’s operations with effect from 1 February 2013 as set out below:

Amendments to FRS 101 Presentation of Items of Other Comprehensive Income	
FRS 10	Consolidated Financial Statements
FRS 11	Joint Arrangements
FRS 12	Disclosures of Interests in Other Entities
FRS 13	Fair Value Measurement
FRS 119	Employee Benefits
FRS 127	Separate Financial Statements
FRS 128	Investment in Associates and Joint Ventures
Amendments to FRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities	
Improvements to FRSs issued in 2012	
Amendments to FRS 10, FRS 11 and FRS 12 – Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	

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 relevant to the current operations of the Group, which were issued but not yet effective for the financial year ended 31 January 2014:

	Effective for financial periods beginning on or after
Amendments to FRS 10, FRS 12 and FRS 127 – Investment Entities	1 January 2014
Amendments to FRS 132 Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to FRS 136 Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
Amendments to FRS 139 Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
FRS 9 Financial Instruments	1 January 2015

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Malaysian Financial Reporting Standards (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, with the exception of entities that are within the scope of MFRS 141 Agriculture (MFRS 141) and IC Interpretation 15 Agreements for Construction of Real Estate (IC 15), including its parent, significant investor and venturer (herein called 'Transitioning Entities').

Transitioning Entities have been allowed to defer adoption of the new MFRS Framework for an additional three years. Consequently, adoption of the MFRS Framework by Transitioning Entities will be mandatory for annual periods beginning on or after 1 January 2015.

The Group falls within the scope definition of Transitioning Entities and has opted to defer adoption of the new MFRS Framework. Accordingly, the Group will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 31 January 2016. In presenting its first MFRS financial statements, the Group will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening retained profits.

The Group has not completed its assessment of the financial effects of the differences between Financial Reporting Standards and accounting standards under the MFRS Framework.

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 increased by 19% compared to the preceding quarter. It is noted a shift in cropping pattern since last year as the peak crop season was delayed to the 4th quarter instead of 3rd quarter and the low crop season had shifted to the 2nd quarter in this financial year which normally fall in 1st quarter.

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 during the first three quarters ended 31 October 2013 except for the following:

- (a) Issuance of 188,500 new ordinary shares of RM1 each under the Company's Employees' Share Option Scheme ("ESOS"); and

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- (b) Repurchase of 65,000 ordinary shares of RM1 each of its issued share capital from the open market for a total consideration of RM156,972 at the average price of RM2.40 per share.

A6. Dividends paid

During the current financial year-to-date, a final single tier dividend of 7 sen per ordinary share in respect of the financial year 2013 was paid on 30 August 2013.

A7. Segmental information

Major segments by activity:-

	Revenue		Results	
	9 months ended		9 months ended	
	31/10/2013	31/10/2012	31/10/2013	31/10/2012
	RM'000	RM'000	RM'000	RM'000
Plantation operations	84,808	97,171	29,719	45,726
Milling operations	431,766	469,130	28,657	17,861
	516,574	566,301	58,376	63,587
Less:				
Inter-segment eliminations	(73,509)	(93,093)	4,217	2,714
	443,065	473,208	62,593	66,301
Less:				
Unallocated expenses			(2,253)	(2,875)
Finance income			4,696	4,503
Finance costs			(874)	(962)
Profit before tax			64,162	66,967
Tax expenses			(15,424)	(16,542)
Profit for the period			48,738	50,425

A8. Material subsequent events

As at 24 December 2013, 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 8 November 2013, Winsome Plantations Sdn. Bhd. ("WPSB"), a wholly owned subsidiary of the Company, procured the incorporation of a wholly owned subsidiary company called Winsome Pelita (Kranggas) Sdn. Bhd. ("WPKSB"). WPKSB has an authorised capital of RM400,000 divided into 400,000 ordinary shares of RM1 each, of which 2 shares have been issued and are fully paid up.
- (b) On 19 November 2013, Kim Loong Palm Oil Mills Sdn. Bhd. ("KLPOM"), a wholly owned subsidiary of the Company procured the incorporation of a wholly owned subsidiary company called Kim Loong Biomass Sdn. Bhd. ("KLBSB"). KLBSB has an authorised capital of RM400,000 divided into 400,000 ordinary shares of RM1 each, of which 2 shares have been issued and are fully paid up.

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- (c) On 21 November 2013, WPSB entered into a Joint Venture Agreement (“JVA”) with Pelita Holdings Sdn. Bhd. (“PHSB”) for the purpose of developing approximately 1,700 hectares of the State land at Kranggas Pantu, Sri Aman Division, Sarawak into an oil palm plantation together with facilities and the provision of services ancillary to such plantation including palm oil mills (“the Project”) through WPKSB, a joint venture company.

Upon entering into the JVA, the issued and paid up capital of WPKSB were increased to 100 ordinary shares of RM1 each at the equity participation ratio of 70% and 30% by WPSB and PHSB respectively. Currently, WPKSB is effectively 70% owned by the Company.

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.

A10. Contingent liabilities or Contingent assets

As at 24 December 2013, 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 2013. 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.

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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 were RM443.07 million and RM64.16 million respectively for the cumulative three quarters ended 31 October 2013, as compared to RM473.21 million and RM66.97 million respectively for the corresponding period last year.

The 6% and 4% drops in revenue and PBT respectively were mainly due to lower crude palm oil (“CPO”) and palm kernel oil (“PKO”) prices which were about 21% and 28% respectively lower than the corresponding period last year despite 15% higher FFB production achieved.

Performance analysis by segments:

	Revenue			
	Quarter ended		Year-to-date ended	
	31/10/2013	31/10/2012	31/10/2013	31/10/2012
	RM'000	RM'000	RM'000	RM'000
Plantation operations	29,790	35,401	84,808	97,171
Milling operations	159,953	158,742	431,766	469,130
	189,743	194,143	516,574	566,301

	Results			
	Quarter ended		Year-to-date ended	
	31/10/2013	31/10/2012	31/10/2013	31/10/2012
	RM'000	RM'000	RM'000	RM'000
Plantation operations	11,152	17,672	29,719	45,726
Milling operations	12,714	(277)	28,657	17,861
	23,866	17,395	58,376	63,587

Plantation operations

The revenue from plantation operations dropped by 16% and 13% 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 RM11.52 million and RM29.72 million for the current quarter and year-to-date respectively, representing a drop of 37% and 35% respectively as compared to the corresponding periods in last year. The drop in revenue and profit were due to lower palm oil prices but cushioned by higher FFB production. The FFB production for the current quarter and year-to-date were 69,200 MT and 201,500 MT which were 6% and 15% higher than the corresponding periods 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. Average FFB prices were 8% and 24% lower for the current quarter and the year-to-date respectively as compared to the corresponding periods in last year.

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Palm oil milling operations

The revenue from the milling operations for the current quarter was about the same as previous year corresponding period but for current year-to-date, the revenue dropped by 8% as compared to the corresponding periods in last year. The milling operations achieved profit of RM12.71 million for the current quarter while a loss was recorded in the third quarter last year. For the current year-to-date, the milling operations achieved RM28.66 million profit which was 60% higher compared the corresponding period in last year. The higher profits were mainly due to better processing margin and higher processing quantity.

Total CPO production for the current quarter and year-to-date were 61,100 MT and 155,700 MT respectively which were 1% and 8% higher than production 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 were 60,400 MT and 165,800 MT respectively, representing increases of 14% and 20% respectively 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 RM23.58 million which was 43% higher than RM16.52 million achieved in the preceding quarter ended 31 July 2013. The increase in PBT was mainly due to higher FFB production from plantation operations in the current quarter. The FFB production for the current quarter increased by 19% to 69,200 MT as compared to 58,100 MT achieved in the preceding quarter. As for the milling operations, FFB processed during the current quarter was 277,600 MT which was 30% higher compared to the preceding quarter. There were no significant movements in average price of CPO during the current quarter but for PKO, the price has improved by 14% as compared to the preceding quarter.

B3. Current financial year prospects

For the financial year ending 31 January 2014, we expect the CPO production quantity of the milling operations to be higher than the quantity achieved in the financial year 2013. For the plantation operations, we expect the FFB production to be slightly higher than the FFB production achieved in the financial year 2013.

Palm oil prices have improved since the end of the third quarter and we hope the CPO and PKO prices to be stable at the current levels of RM2,500 per MT and RM3,500 per MT respectively in the remaining period of our financial year 2014.

Based on the above, we expect the Group's performance to be satisfactory for the financial year 2014.

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

This is not applicable.

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B5. Income tax

	Current Quarter Ended 31/10/2013 RM'000	Financial Year-to-date Ended 31/10/2013 RM'000
Malaysian Income Tax		
- Current year	4,705	13,434
- under provision in prior year	95	95
	4,800	13,529
Deferred tax		
- Current year	489	2,112
- Realisation of revaluation surplus on land	(73)	(217)
	416	1,895
	<u>5,216</u>	<u>15,424</u>

B6. Status of corporate proposals

There is no outstanding corporate proposal as at 24 December 2013.

B7. Group borrowings and debt securities

As at 31 October 2013, the total secured borrowings, which are denominated in Ringgit Malaysia, are as follows:

	RM'000
Short term borrowings :	
Overdrafts	2,047
Revolving credit	7,500
Term loans	4,242
	<u>13,789</u>
Long term borrowings :	
Term loans	<u>30,550</u>

There were no unsecured interest bearing borrowings as at 31 October 2013.

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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 31/10/2013 RM'000	At as 31/01/2013 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	249,153	246,946
- Unrealised	(23,215)	(21,574)
	<u>225,938</u>	<u>225,372</u>
Less: Consolidation adjustments	(55,352)	(59,583)
Retained earnings as per consolidated accounts	<u>170,586</u>	<u>165,789</u>

B9. Material litigation

As at 24 December 2013, there were no material litigations against the Group except for the following:

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 Judgment for the High Court Civil Suit No. 22-10-2005-I (SG) against the subsidiary company was delivered at Kuching High Court, which had been announced to Bursa Securities on 22 February 2011.

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.

There is no significant progress on the case and our solicitor is of the view that we have a fair prospect of succeeding in this Appeal. Accordingly, the Directors are of the opinion that no liabilities are required to be accrued.

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.

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B11. 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, excluding treasury shares held by the Company:

		Current Quarter Ended 31/10/2013	Financial Year-to-date Ended 31/10/2013
Net profit for the period	(RM'000)	15,732	41,223
Weighted average number of ordinary shares in issue	('000)	308,783	308,647
Basic EPS	(sen)	5.09	13.36

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 31/10/2013	Financial Year-to-date Ended 31/10/2013
Net profit for the period	(RM'000)	15,732	41,223
Weighted average number of ordinary shares in issue	('000)	308,783	308,647
Adjustment for dilutive effect of unexercised share options	('000)	122	118
Adjusted weighted average number of shares for Diluted EPS	('000)	308,905	308,765
Diluted EPS	(sen)	5.09	13.35

B12. Audit qualification

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

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B13. Profit before tax

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

	Current Quarter Ended 31/10/2013 RM'000	Financial Year-to-date Ended 31/10/2013 RM'000
(a) Interest income	(1,625)	(4,696)
(b) Other income including investment income	(298)	(1,310)
(c) Interest expense	282	874
(d) Depreciation and amortization	6,071	18,179
(e) Provision for and write off of receivables	-	-
(f) Provision for and write off of inventories	-	-
(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	(982)	1,537
(k) Exceptional items	-	-
