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
Amendments to FRS 119 Defined Benefit Plans: Employee Contributions	1 July 2014
Amendments to Annual Improvements to FRSs 2010-2012 Cycle	1 July 2014
Amendments to Annual Improvements to FRSs 2011-2013 Cycle	1 July 2014

FRS 9	Financial Instruments	To be announced by MASB

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 are allowed to defer adoption of the new MFRS Framework and may in the alternative, apply Financial Reporting Standards (FRS) as its financial reporting framework for annual periods beginning on or after 1 January 2014.

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 present its first set of MFRS financial statements when the MFRS Framework is mandated by the MASB. 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 24% compared to the preceding quarter and the current quarter is the highest FFB production quarter for the Group. 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 year ended 31 January 2014 except for the following:

(a) Issuance of 290,600 new ordinary shares of RM1 each under the Company's Employees' Share Option Scheme ("ESOS"); and

(b) Repurchase of 175,000 ordinary shares of RM1 each of its issued share capital from the open market for a total consideration of RM442,392 at the average price of RM2.51 per share.

A6. Dividends paid

The gross dividends paid during the current financial year-to-date were as follows:

(a) A final single tier dividend of 7 sen per ordinary share in respect of the financial year 2013 was paid on 30 August 2013.

(b) An interim single tier dividend of 5 sen per ordinary share in respect of the financial year 2014 was paid on 22 November 2013.

A7. Segmental information

Major segments by activity:-

	Revenue		**Results**	
	Year ended		Year ended	
	31/01/2014	31/01/2013	31/01/2014	31/01/2013
	RM'000	RM'000	RM'000	RM'000
Plantation operations	126,840	134,858	54,095	65,725
Milling operations	623,046	629,766	40,624	27,632
	749,886	764,624	94,719	93,357
Less:				
Inter-segment eliminations	(109,402)	(127,386)	571	1,675
	640,484	637,238	95,290	95,032
Less:				
Unallocated expenses			(4,989)	(5,188)
Finance income			6,426	5,921
Finance costs			(1,128)	(1,211)
Profit before tax			95,599	94,554
Tax expenses			(21,958)	(26,034)
Profit for the year			73,641	68,520

A8. Material subsequent events

As at 24 March 2014, there were no material subsequent events that have not been reflected in the financial statements for the current financial year

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 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. On 21 November 2013, 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.

(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.

A10. Contingent liabilities or Contingent assets

As at 24 March 2014, 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.

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 RM640.48 million and RM95.60 million respectively for the financial year ended 31 January 2014, as compared to RM637.24 million and RM94.55 million respectively for the corresponding period last year.

Performance analysis by segments:

	Revenue			
	Quarter ended		Year-to-date ended	
	31/01/2014	31/01/2013	31/01/2014	31/01/2013
	RM'000	RM'000	RM'000	RM'000
Plantation operations	42,032	37,687	126,840	134,858
Milling operations	191,280	160,636	623,046	629,766
	233,312	198,323	749,886	764,624

	Results			
	Quarter ended		Year-to-date ended	
	31/01/2014	31/01/2013	31/01/2014	31/01/2013
	RM'000	RM'000	RM'000	RM'000
Plantation operations	24,376	19,999	54,095	65,725
Milling operations	11,967	9,771	40,624	27,632
	36,343	29,770	94,719	93,357

Plantation operations

The revenue from plantation operations increased by 12% for the current quarter but dropped by 6% for the year-to-date as compared to the corresponding periods in last year. In terms of profit, the plantation operation recorded RM24.38 million for the current quarter, representing an increase of 22% compare to the fourth quarter in previous year. The increase in revenue and profit for the current quarter were due to higher palm oil prices despite lower FFB production.

For the year-to-date, the profit achieved was RM54.10 million which was 18% lower than the preceding year. The drops in revenue as well as profit were mainly due to lower palm oil prices.

The FFB production for the current quarter and year-to-date were 85,700 MT which were 18% lower comparing the corresponding period in last year. For the year-to-date, the FFB production was 287,200 MT which was marginally higher than 280,400 MT achieved in preceding 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 37% higher for the current quarter but 8% lower for the year-to-date as compared to the respective corresponding periods in last year.

Palm oil milling operations
The revenue from the milling operations for the current quarter increased by 19% as compared to the corresponding period in last year, but for current year-to-date, the revenue only dropped marginally by 1% as compared to the preceding year. The milling operations achieved profit of RM11.97 million and RM40.62 million for the current quarter and year-to-date which were 22% and 47% higher compared the corresponding periods 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 69,500 MT and 225,200 MT respectively which were 9% and 8% higher than production in the corresponding periods 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 64,800 MT and 230,600 MT respectively, as compared to 64,900 MT and 203,100 MT recorded in the respective 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 RM31.44 million which was 33% higher than RM23.58 million achieved in the preceding quarter ended 31 October 2013. The increase in PBT was mainly due to higher FFB production and better palm oil prices in the current quarter. The FFB production for the current quarter increased by 24% to 85,700 MT as compared to 69,200 MT achieved in the preceding quarter. As for the milling operations, FFB processed during the current quarter was 310,600 MT which was 12% higher compared to the preceding quarter. The average prices of CPO and palm kernel oil ("PKO") for the current quarter has improved by 9% and 31% as compared to the preceding quarter.

B3. Current financial year prospects

For the financial year ending 31 January 2015, we expect the CPO production quantity of the milling operations to be slightly higher than the quantity achieved in the financial year 2014. For the plantation operations, we expect the FFB production to improve comparing the FFB production achieved in the financial year 2014.

Palm oil prices have improved since the end of the financial year 2014 and we expect the current good CPO and PKO prices will contribute positively to the financial performance of the Group in the financial year 2015.

Based on the above, we expect the Group to perform better in the financial year 2015.

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

This is not applicable.

B5. Income tax

	Current Quarter Ended 31/01/2014	Financial Year-to-date Ended 31/01/2014
	RM'000	RM'000
Malaysian Income Tax		
- Current year	8,485	21,919
- under provision in prior year	1	96
	8,486	22,015
Deferred tax		
- Current year	(97)	2,015
- Overprovision of liabilities in prior year	(409)	(409)
- Underprovision of assets in prior year	(1,374)	(1,374)
- Realisation of revaluation surplus on land	(72)	(289)
	(1,952)	(57)
	6,534	21,958

B6. Status of corporate proposals

There is no outstanding corporate proposal as at 24 March 2014.

B7. Group borrowings and debt securities

As at 31 January 2014, the total secured borrowings, which are denominated in Ringgit Malaysia, are as follows:

	RM'000
Short term borrowings :	
Overdrafts	7,155
Revolving credit	7,500
Term loans	5,247
	19,902
Long term borrowings :	
Term loans	30,652

There were no unsecured interest bearing borrowings as at 31 January 2014.

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 31/01/2014 RM'000	At as 31/01/2013 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	272,509	246,946
- Unrealised	(22,772)	(21,574)
	249,737	225,372
Less: Consolidation adjustments	(58,826)	(59,583)
Retained earnings as per consolidated accounts	190,911	165,789

B9. Material litigation

As at 24 March 2014, 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

The Board is pleased to propose a final single tier dividend of 8 sen per share in respect of the financial year ended 31 January 2014.

(a) (i) amount per share: 8 sen;
(ii) previous corresponding period: 7 sen;
(iii) date payable will be announced at a later date; and
(iv) in respect of deposited securities, entitlement to dividends will be determined on the basis of the record of the depositors as at a date to be announced at a later date; and

(b) total dividend for the current financial year: 13 sen single tier per share.

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 financial year by the weighted average number of ordinary shares in issue during the current quarter and the financial year respectively, excluding treasury shares held by the Company:

		Current Quarter Ended 31/01/2014	Financial Year-to-date Ended 31/01/2014
Net profit for the period/year	(RM'000)	20,118	61,341
Weighted average number of ordinary shares in issue	('000)	308,697	308,577
Basic EPS	(sen)	6.52	19.88

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 financial year by the weighted average number of ordinary shares in issue during the current quarter and the financial year 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 31/01/2014	Financial Year-to-date Ended 31/01/2014
Net profit for the period/year	(RM'000)	20,118	61,341
Weighted average number of ordinary shares in issue	('000)	308,697	308,577
Adjustment for dilutive effect of unexercised share options	('000)	249	139
Adjusted weighted average number of shares for Diluted EPS	('000)	308,946	308,716
Diluted EPS	(sen)	6.51	19.87

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 31/01/2014 RM'000	Financial Year-to-date Ended 31/01/2014 RM'000
(a)	Interest income	(1,730)	(6,426)
(b)	Other income including investment income	(269)	(1,579)
(c)	Interest expense	254	1,128
(d)	Depreciation and amortization	6,264	24,443
(e)	Provision for and write off of receivables	67	67
(f)	Provision for and write off of inventories	32	32
(g)	Gain or loss on disposal of quoted or unquoted investment or properties	-	-
(h)	Impairment of assets	1,800	1,800
(i)	Foreign exchange gain or loss	-	-
(j)	Gain or loss on derivatives	110	1,647
(k)	Exceptional items	-	-