

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 2014. 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 2014.

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 2014 except for the adoption of the amended FRSs which are relevant to the Group’s operations with effect from 1 February 2014 as set out below:

- Amendments to FRS 10, FRS 12 and FRS 127 – Investment Entities
- Amendments to FRS 132 Offsetting Financial Assets and Financial Liabilities
- Amendments to FRS 136 Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to FRS 139 Novation of Derivatives and Continuation of Hedge Accounting

The Directors do not expect any material impact on the financial statements arising from adoption of the above standards.

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 2015:

	Effective for financial periods beginning on or after
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

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

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

Based on recent observation, the production of Fresh Fruit Bunches ("FFB") from our mature estates is normally low during the second quarter of each year and will rise in the third quarter, peak in the fourth quarter and then slowly decline in the first quarter of the following year. The production of FFB for the current quarter dropped by 9% compared to the preceding 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 quarter ended 30 April 2014 except for issuance of 345,200 new ordinary shares of RM1 each under the Company's Employees' Share Option Scheme ("ESOS").

A6. Dividends paid

No dividends have been paid during the current financial year-to-date.

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

A7. Segmental information

Major segments by activity:-

	Revenue		Results	
	3 months ended		3 months ended	
	30/04/2014	30/04/2013	30/04/2014	30/04/2013
	RM'000	RM'000	RM'000	RM'000
Plantation operations	42,678	30,761	24,121	13,306
Milling operations	210,152	132,806	19,385	7,930
	252,830	163,567	43,506	21,236
Less:				
Inter-segment eliminations	(35,844)	(26,257)	1,199	2,382
	216,986	137,310	44,705	23,618
Less:				
Unallocated expenses			(681)	(672)
Finance income			1,764	1,390
Finance costs			(332)	(267)
Profit before tax			45,456	24,069
Tax expenses			(11,039)	(6,127)
Profit for the period			34,417	17,942

A8. Material subsequent events

As at 24 June 2014, 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 11 June 2014, Winsome Jaya Sdn. Bhd. ("WPSB"), a wholly owned subsidiary of Okidville Plantations Sdn. Bhd. ("OPSB") which in turn a 95% owned subsidiary of the Company, had issued and allotted 69,900 and 30,000 ordinary shares of RM1 each at par fully paid to OPSB and PIJ Property Development Sdn. Bhd. ("PPD") pursuant to the Development and Joint Venture Agreement dated 6 June 2012 entered into between PPD, OPSB and WJSB. As a result of the issuance of the new ordinary shares, the effective interest of the Company in WJSB was reduced from 95% to 66.5%.
- (b) On 11 June 2014, Kim Loong Palm Oil Mills Sdn. Bhd. ("KLPOM"), a wholly owned subsidiary of the Company acquired the remaining 200,000 ordinary shares of RM1 each representing 40% equity interest in Kim Loong Evergrow Sdn. Bhd. ("KLE") at RM1.61 per share for a total cash consideration of RM322,000. As a result of the acquisition, KLE is now a wholly owned subsidiary of KLPOM.

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

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 2 April 2014, Kim Loong Biomass Sdn. Bhd. (“KLBSB”), a wholly owned subsidiary of Kim Loong Palm Oil Mills Sdn. Bhd. (“KLPOM”) which in turn is a wholly owned subsidiary of the Company, increased its issued and paid up capital from RM2 divided into 2 ordinary shares of RM1 each to RM100,000 divided into 100,000 ordinary shares of RM1 each, by an issuance of 99,998 new ordinary shares of RM1 each at par to KLPOM, Wang Ming Rong and Chang Chew Chin at the proportion of 74,998, 15,000 and 10,000 ordinary shares respectively. As a result of the issuance of the new ordinary shares, the effective interest of the Company in KLBSB was reduced from 100% to 75%.

A10. Contingent liabilities or Contingent assets

As at 24 June 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 2014. 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.

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

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 RM216.99 million and RM45.46 million respectively for the current quarter ended 31 January 2014, as compared to RM137.31 million and RM24.07 million respectively for the corresponding period last year.

Performance analysis by segments:

	Revenue			
	Quarter ended		Year-to-date ended	
	30/04/2014	30/04/2013	30/04/2014	30/04/2013
	RM'000	RM'000	RM'000	RM'000
Plantation operations	42,678	30,761	42,678	30,761
Milling operations	210,152	132,806	210,152	132,806
	252,830	163,567	252,830	163,567

	Results			
	Quarter ended		Year-to-date ended	
	30/04/2014	30/04/2013	30/04/2014	30/04/2013
	RM'000	RM'000	RM'000	RM'000
Plantation operations	24,121	13,306	24,121	13,306
Milling operations	19,385	7,930	19,385	7,930
	43,506	21,236	43,506	21,236

Plantation operations

The revenue from plantation operations increased by 39% for the current quarter and year-to-date as compared to the corresponding periods in last year. In terms of profit, the plantation operation recorded RM24.12 million for the current quarter and year-to-date, representing an increase of 81% compare to the corresponding period in last year. The increase in revenue and profit for the current quarter were due to higher palm oil prices and FFB production.

The FFB production for the current quarter and year-to-date were 77,900 MT which were 5% higher comparing 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. Average FFB prices were 32% higher for the current quarter and year-to-date as compared to the respective corresponding periods in last year.

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

Palm oil milling operations

The revenue from the milling operations for the current quarter and year-to-date increased by 58% as compared to the corresponding periods in last year. The milling operations have performed very well and achieved a record high profit of RM19.39 million for the current quarter and year-to-date which was remarkably 144% higher compared the corresponding periods in last year. The good performance was mainly due to better processing margin and higher processing quantity.

Total CPO production for the current quarter and year-to-date were 63,300 MT which was 33% 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 was 66,300 MT which 28% higher than 51,600 MT recorded in the respective corresponding periods in last year. The average price of CPO for the current period was 16% higher than the corresponding period 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 RM45.46 million which was 45% higher than RM31.36 million achieved in the preceding quarter ended 31 January 2014. The increase in PBT was mainly due to better palm oil prices in the current quarter despite lower production. The FFB production for the current quarter dropped by 9% to 77,900 MT as compared to 85,700 MT achieved in the preceding quarter. As for the milling operations, FFB processed during the current quarter was 277,400 MT which was 11% lower compared to the preceding quarter. The average prices of CPO and palm kernel oil ("PKO") for the current quarter has further improved by 7% and 19% 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 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.

We expect the CPO price to improve from the current level of RM2,400 per MT in the financial year 2015 if the predictions for El Nino effect materialize in the next few months.

Based on the above, we expect the Group's performance for the financial year 2015 to be better than preceding year.

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

This is not applicable.

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

B5. Income tax

	Current Quarter Ended 30/04/2014 RM'000	Financial Year-to-date Ended 30/04/2014 RM'000
Malaysian Income Tax		
- Current year	10,351	10,351
Deferred tax		
- Current year	760	760
- Realisation of revaluation surplus on land	(72)	(72)
	688	688
	<u>11,039</u>	<u>11,039</u>

B6. Status of corporate proposals

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

B7. Group borrowings and debt securities

As at 30 April 2014, the total secured borrowings, which are denominated in Ringgit Malaysia, are as follows:

	RM'000
Short term borrowings :	
Overdrafts	3,844
Revolving credit	7,500
Term loans	6,252
	<u>17,596</u>
Long term borrowings :	
Term loans	<u>29,089</u>

There were no unsecured interest bearing borrowings as at 30 April 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 30/04/2014 RM'000	At as 31/01/2014 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	301,983	272,186
- Unrealised	(22,733)	(22,732)
	<u>279,250</u>	<u>249,454</u>
Less: Consolidation adjustments	(60,053)	(58,825)
Retained earnings as per consolidated accounts	<u>219,197</u>	<u>190,629</u>

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

B9. Material litigation

As at 24 June 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

No dividend has been declared or proposed for the current financial period ended 30 April 2014 and previous year corresponding period ended 30 April 2013.

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 first 3 months by the weighted average number of ordinary shares in issue during the current quarter and the first 3 months respectively, excluding treasury shares held by the Company:

		Current Quarter Ended 30/04/2014	Financial Year-to-date Ended 30/04/2014
Net profit for the period	(RM'000)	28,361	28,361
Weighted average number of ordinary shares in issue	('000)	308,868	308,868
Basic EPS	(sen)	9.18	9.18

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

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 first 3 months by the weighted average number of ordinary shares in issue during the current quarter and the first 3 months respectively, which has been adjusted for 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 30/04/2014	Financial Year-to-date Ended 30/04/2014
Net profit for the period/year	(RM’000)	28,361	28,361
Weighted average number of ordinary shares in issue	(’000)	308,868	308,868
Adjustment for dilutive effect of unexercised share options	(’000)	344	344
Adjusted weighted average number of shares for Diluted EPS	(’000)	309,212	309,212
Diluted EPS	(sen)	9.17	9.17

B12. Audit qualification

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

KIM LOONG RESOURCES BERHAD

(Company Number: 22703-K)

B13. Profit before tax

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

	Current Quarter Ended 30/04/2014 RM'000	Financial Year-to-date Ended 30/04/2014 RM'000
(a) Interest income	(1,764)	(1,764)
(b) Other income including investment income	(303)	(303)
(c) Interest expense	332	332
(d) Depreciation and amortization	6,324	6,324
(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	(4)	(4)
(k) Exceptional items	-	-
