

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 ending 31 January 2015:

| | Effective for financial periods beginning on or after |
|---|---|
| Amendments to FRS 119 Defined Benefit Plans: Employee Contributions | 1 July 2014 |
| Annual Improvements to FRSs 2010-2012 Cycle | 1 July 2014 |
| Annual Improvements to FRSs 2011-2013 Cycle | 1 July 2014 |
| Annual Improvements to FRSs 2012-2014 Cycle | 1 January 2016 |
| Amendments to FRS 11: Accounting for Acquisitions of Interests in Joint Operations | 1 January 2016 |
| Amendments to FRS 116 and FRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation | 1 January 2016 |
| Amendments to FRS 127 : Equity Method in Separate Financial Statements | 1 January 2016 |
| Amendments to FRS 10 and FRS128 : Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 1 January 2016 |
| FRS 9 Financial Instruments | 1 January 2018 |

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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 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.

On 2 September 2014, MASB announced that Entities Other Than Private Entities shall comply with MFRS Framework for annual periods beginning on or after 1 January 2017. Accordingly, the Group will present its first set of MFRS financial statements from the financial year ending 31 January 2018. 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 increased by 8% 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 three quarters ended 31 October 2014 except for the following:

- (a) Issuance of 1,954,500 new ordinary shares of RM1 each under the Company's Employees' Share Option Scheme ("ESOS"); and

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- (b) Repurchase of 236,000 ordinary shares of RM1 each of its issued share capital from the open market for a total consideration of RM665,523 at the average price of RM2.80 per share.

A6. Dividends paid

During the current financial year-to-date, a final single tier dividend of 8 sen per ordinary share in respect of the financial year 2014 was paid on 29 August 2014.

A7. Segmental information

Major segments by activity:-

| | Revenue | | Results | |
|----------------------------|----------------|----------------|----------------|---------------|
| | 9 months ended | | 9 months ended | |
| | 31/10/2014 | 31/10/2013 | 31/10/2014 | 31/10/2013 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Plantation operations | 109,515 | 84,808 | 50,043 | 29,719 |
| Milling operations | 575,141 | 431,766 | 41,030 | 28,657 |
| | 684,656 | 516,574 | 91,073 | 58,376 |
| Add/(Less): | | | | |
| Inter-segment eliminations | (90,983) | (73,509) | 3,444 | 4,217 |
| | <u>593,673</u> | <u>443,065</u> | 94,517 | 62,593 |
| Less: | | | | |
| Unallocated expenses | | | (2,551) | (2,253) |
| Finance income | | | 6,108 | 4,696 |
| Finance costs | | | (960) | (874) |
| Profit before tax | | | 97,114 | 64,162 |
| Tax expenses | | | (24,665) | (15,424) |
| Profit for the period | | | <u>72,449</u> | <u>48,738</u> |

A8. Material subsequent events

As at 29 December 2014, there were no material subsequent events that have not been reflected in the financial statements for the current financial period.

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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%.
- (b) 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%.
- (c) 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.
- (d) On 8 August 2014, the Company acquired 2 ordinary shares of RM1 each fully paid representing 100% equity interest in Sepulut Plantations Sdn. Bhd. (“SPSB”) from Okidville Jaya Sdn. Bhd., a wholly owned subsidiary of the Company, at par for a total consideration of RM2. As a result, SPSB is now a direct 100% owned subsidiary of the Company.
- (e) On 8 August 2014, the Company disposed of 2 ordinary shares of RM1 each fully paid representing 100% equity interest in Lokan Development Sdn. Bhd. (“LDSB”) to Okidville Plantations Sdn. Bhd. (“OPSB”), a 95% owned subsidiary of the Company, at par for a total consideration of RM2. As a result, LDSB is now a 95% owned subsidiary of the Company via OPSB. On 25 September 2014, LDSB has changed its name to Okidville Resources Sdn. Bhd..

A10. Contingent liabilities or Contingent assets

As at 29 December 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.

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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 RM593.67 million and RM97.11 million respectively for the cumulative three quarters ended 31 October 2014, as compared to RM443.07 million and RM64.16 million respectively for the corresponding period last year.

Performance analysis by segments:

| | Revenue | | | |
|-----------------------|----------------|----------------|--------------------|----------------|
| | Quarter ended | | Year-to-date ended | |
| | 31/10/2014 | 31/10/2013 | 31/10/2014 | 31/10/2013 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Plantation operations | 31,279 | 29,790 | 109,515 | 84,808 |
| Milling operations | 174,010 | 159,953 | 575,141 | 431,766 |
| | <u>205,289</u> | <u>189,743</u> | <u>684,656</u> | <u>516,574</u> |

| | Results | | | |
|-----------------------|---------------|---------------|--------------------|---------------|
| | Quarter ended | | Year-to-date ended | |
| | 31/10/2014 | 31/10/2013 | 31/10/2014 | 31/10/2013 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Plantation operations | 8,087 | 11,152 | 50,043 | 29,719 |
| Milling operations | 13,753 | 12,714 | 41,030 | 28,657 |
| | <u>21,840</u> | <u>23,866</u> | <u>91,073</u> | <u>58,376</u> |

Plantation operations

The revenue from plantation operations increased by 5% and 29% for the current quarter and year-to-date respectively as compared to the corresponding periods in last year. In terms of profit, the plantation operations have performed well with profit recorded at RM50.04 million for the year-to-date, representing remarkable increase of 68% compare to the corresponding period in last year. The lower profit recorded for the current quarter as compared to the corresponding quarter in last year was mainly due to impairment of assets and provision for contingent liabilities for RM3 million during the quarter in view of the unfavourable outcome of court case where more information is disclosed in Note B9. The good performance in revenue and profit for the year-to-date was due to higher palm oil prices and FFB production.

The FFB production for the current quarter and year-to-date were 77,600 MT and 227,400 MT respectively which were 12% and 13% 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 6% lower for the current quarter but still 14% higher for the year-to-date as compared to the respective corresponding periods in last year.

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Palm oil milling operations

The revenue from the milling operations increased by 9% and 33% for the current quarter and year-to-date respectively as compared to the corresponding periods in last year. The milling operations have also performed well and achieved profit of RM13.75 million and RM41.03 million for the current quarter and year-to-date respectively which were 8% and 43% 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 70,100 MT and 198,100 MT which were 15% and 27% 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 70,600 MT and 204,200 MT respectively, which were 17% and 23% higher than 60,400 MT and 165,800 MT recorded in the respective corresponding periods in last year. The average price of CPO for the current quarter was 9% lower but still marginally 4% higher for the year-to-date compare 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 RM23.25 million which was 18% lower than RM28.40 million achieved in the preceding quarter ended 31 July 2014. The drop in PBT was mainly due to lower palm oil prices in the current quarter and provision for impairment on assets and contingent liabilities. The FFB production for the current quarter increased by 8% to 77,600 MT as compared to 71,900 MT achieved in the preceding quarter. As for the milling operations, FFB processed during the current quarter was 319,700 MT which was 10% higher compared to the preceding quarter. The average prices of CPO and palm kernel oil ("PKO") for the current quarter have further dropped by 13% and 25% 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 at least 15% higher than the quantity achieved in the financial year 2014. For the plantation operations, we expect the FFB production to improve about 10% comparing the FFB production achieved in the financial year 2014.

After recent steep drop in palm oil prices in the third quarter, we expect the palm oil prices to remain stable at current level in the remaining period of the financial year 2015.

The PBT of RM97.11 million achieved for the cumulative three quarters in the current year has surpassed the PBT of RM95.43 million recorded for the whole financial year 2014.

We will reassess the financial implication caused by the unfavourable outcome of the court case when the full ground of judgment is obtained.

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

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 31/10/2014 RM'000 | Financial Year-to-date Ended 31/10/2014 RM'000 |
|--|---|--|
| Malaysian Income Tax | | |
| - Current year | 5,923 | 25,413 |
| - Prior year overprovision | (14) | (17) |
| | 5,909 | 25,396 |
| Deferred tax | | |
| - Current year | 867 | (514) |
| - Realisation of revaluation surplus on land | (73) | (217) |
| | 794 | (731) |
| | <u>6,703</u> | <u>24,665</u> |

B6. Status of corporate proposals

There is no outstanding corporate proposal as at 29 December 2014.

B7. Group borrowings and debt securities

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

| | RM'000 |
|-------------------------|---------------|
| Short term borrowings : | |
| Overdrafts | 5,741 |
| Revolving credit | 7,500 |
| Term loans | 6,252 |
| | <u>19,493</u> |
| Long term borrowings : | |
| Term loans | <u>31,501</u> |

There were no unsecured interest bearing borrowings as at 31 October 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 31/10/2014 RM'000 | At as 31/01/2014 RM'000 |
|---|-------------------------------|-------------------------------|
| Total retained profits of the Company and its subsidiaries: | | |
| - Realised | 286,168 | 272,186 |
| - Unrealised | (22,767) | (22,732) |
| | <u>263,401</u> | <u>249,454</u> |
| Less: Consolidation adjustments | (57,077) | (58,825) |
| Retained earnings as per consolidated accounts | <u>206,324</u> | <u>190,629</u> |

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B9. Material litigation

As at 29 December 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 that subsidiary company has development rights over.

On 18 February 2011, the High Court Civil Suit No. 22-10-2005-I (SG) gave judgment 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 an Appeal against the said High Court decision and our Memorandum and Record of Appeal subsequently filed on 11 April 2011. The Appeal was heard on 17 October 2012 but the Court of Appeal reserved Ruling.

On 29 December 2014, more than 2 years after the hearing of the said Appeal, the decision of the Court of Appeal was delivered. Only a summary of the grounds of judgment was read out by the Senior Assistant Registrar and the Court of Appeal dismissed the Appeal. The full ground of judgment was not read out nor made available to the Company's lawyers.

The Group has accounted for impairment of assets and provision of contingent liabilities of RM3 million and will reassess the financial implication caused by the unfavourable outcome of the court case when the full ground of judgment is available.

The Group intends to Appeal against the Court of Appeal Decision and has instructed our lawyers to file to the Federal Court a Notice of Motion for Leave to Appeal and will also file to the Court of Appeal, a Notice of Motion for an extension of Court of Appeal Order to stay the High Court Judgment.

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: 7 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 31/10/2014 | Financial Year-to-date Ended 31/10/2014 |
|--|----------|---|--|
| Net profit for the period | (RM'000) | 15,156 | 61,632 |
| Weighted average number of ordinary shares in issue | ('000) | 310,355 | 309,555 |
| Basic EPS | (sen) | 4.88 | 19.91 |

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 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 31/10/2014 | Financial Year-to-date Ended 31/10/2014 |
|--|----------|---|--|
| Net profit for the period | (RM'000) | 15,156 | 61,632 |
| Weighted average number of ordinary shares in issue | ('000) | 310,355 | 309,555 |
| Adjustment for dilutive effect of unexercised share options | ('000) | 176 | 207 |
| Adjusted weighted average number of shares for Diluted EPS | ('000) | 310,531 | 309,762 |
| Diluted EPS | (sen) | 4.88 | 19.90 |

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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 31/10/2014 RM'000 | Financial Year-to-date Ended 31/10/2014 RM'000 |
|---|---|--|
| (a) Interest income | (2,211) | (6,108) |
| (b) Other income including investment income | (323) | (1,043) |
| (c) Interest expense | 322 | 960 |
| (d) Depreciation and amortization | 6,557 | 19,308 |
| (e) Provision for and write off of receivables | - | 2 |
| (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 | 2,548 | 2,548 |
| (i) Foreign exchange gain or loss | - | - |
| (j) Gain or loss on derivatives | 421 | 2,186 |
| (k) Exceptional items | - | - |