

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 2015. 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 2015.

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 2015 except for the adoption of the amended FRSs and IC Interpretation which are relevant to the Group’s operations with effect from 1 February 2015 as set out below:

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

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 2016:

	Effective for financial periods beginning on or after
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
Amendments to FRS 101: Disclosure Initiative	1 January 2016
Amendments to FRS 10, FRS 12 and FRS 128: Investment Entities: Applying the Consolidation Exception	1 January 2016
FRS 9 Financial Instruments	1 January 2018

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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. Consequently, adoption of the MFRS Framework by Transitioning Entities will be mandatory for annual periods beginning on or after 1 January 2017.

The Company falls within the scope definition of Transitioning Entities and accordingly, will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 31 January 2018. In presenting its first MFRS financial statements, the Company 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 and the Company are in the midst of assessing the impact of adopting 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 was 17% lower comparing to the preceding quarter mainly caused by sharp drop in the first half of the quarter. The production has started showing significant improvement in the third month of the 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 2015 except for issuance of 695,100 new ordinary shares of RM1 each under the Company's Employees' Share Option Scheme ("ESOS").

The ESOS has expired 17 March 2015.

A6. Dividends paid

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

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A7. Segmental information

Major segments by activity:-

	Revenue		Results	
	3 months ended		3 months ended	
	30/04/2015	30/04/2014	30/04/2015	30/04/2014
	RM'000	RM'000	RM'000	RM'000
Plantation operations	27,976	42,678	10,184	24,121
Milling operations	158,650	210,152	10,951	19,385
	186,626	252,830	21,135	43,506
Add/(Less):				
Inter-segment eliminations	(23,751)	(35,844)	742	1,199
	<u>162,875</u>	<u>216,986</u>	21,877	44,705
Less:				
Unallocated expenses			(604)	(681)
Finance income			2,236	1,764
Finance costs			(282)	(332)
Profit before tax			<u>23,227</u>	<u>45,456</u>
Tax expenses			(5,493)	(11,039)
Profit for the period			<u>17,734</u>	<u>34,417</u>

A8. Material subsequent events

As at 25 June 2015, 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.

A10. Contingent liabilities or Contingent assets

As at 25 June 2015, 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 2015. 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 recorded lower at RM162.88 million and RM23.23 million respectively for the current quarter ended 30 April 2015, as compared to RM216.99 million and RM45.46 million respectively for the corresponding period last year.

Performance analysis by segments:

	Revenue			
	Quarter ended		Year-to-date ended	
	30/04/2015	30/04/2014	30/04/2015	30/04/2014
	RM'000	RM'000	RM'000	RM'000
Plantation operations	27,976	42,678	27,976	42,678
Milling operations	158,650	210,152	158,650	210,152
	186,626	252,830	186,626	252,830

	Results			
	Quarter ended		Year-to-date ended	
	30/04/2015	30/04/2014	30/04/2015	30/04/2014
	RM'000	RM'000	RM'000	RM'000
Plantation operations	10,184	24,121	10,184	24,121
Milling operations	10,951	19,385	10,951	19,385
	21,135	43,506	21,135	43,506

Plantation operations

The revenue from plantation operations dropped by 34% for the current quarter and year-to-date as compared to the corresponding periods in last year. In terms of profit for the current quarter and year-to-date, it dropped by 58% or RM13.94 million compared to the corresponding period in last year. The lower revenue and profit for the current quarter was mainly due to lower production and FFB price by 18% and 21% respectively.

The FFB production for the current quarter and year-to-date was 64,200 MT which were 18% lower comparing the corresponding period 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.

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Palm oil milling operations

The revenue and profit from the milling operations dropped by 25% and 44% for the current quarter and year-to-date as compared to the corresponding period in last year. The performance was mainly affected by lower palm oil prices and processing margin.

Total CPO production for the current quarter and year-to-date was 62,300 MT which was marginally lower than 63,300 MT 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 was 59,900 MT respectively, which was 10% lower than 66,300 MT recorded in the respective corresponding periods in last year. The average price of CPO for the current quarter was 18% lower compare to 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 RM23.23 million which was marginally higher than RM21.75 million achieved in the preceding quarter ended 31 January 2015. The FFB production for the current quarter was 64,200 MT which was 17% lower than 77,300 MT achieved in the preceding quarter. As for the milling operations, FFB processed during the current quarter was 283,700 MT which was 4% lower than 296,500 MT recorded in the preceding quarter. The average price of CPO for the current quarter stood at RM2,200 per MT which was very close to the preceding quarter.

B3. Current financial year prospects

For the financial year ending 31 January 2016, we expect the FFB and CPO production to be close to the quantity achieved in the financial year 2015 based on recent observation.

We expect the CPO price to remain stable and might improve from the current level in the financial year 2016 if the predictions for El Nino effect materialize.

Based on the above, we expect the Group's performance for the financial year 2016 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 30/04/2015 RM'000	Financial Year-to-date Ended 30/04/2015 RM'000
Malaysian Income Tax		
- Current year	4,605	4,605
Deferred tax		
- Current year	957	957
- Realisation of revaluation surplus on land	(69)	(69)
	888	888
	<u>5,493</u>	<u>5,493</u>

B6. Status of corporate proposals

There is no outstanding corporate proposal as at 25 June 2015.

B7. Group borrowings and debt securities

As at 30 April 2015, the total secured borrowings, which are denominated in Ringgit Malaysia, are as follows:

	RM'000
Short term borrowings :	
Overdrafts	6,970
Revolving credit	7,500
Term loans	5,799
	<u>20,269</u>
Long term borrowings :	
Term loans	<u>31,625</u>

There were no unsecured interest bearing borrowings as at 30 April 2015.

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 30/04/2015 RM'000	At as 31/01/2015 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	315,404	298,292
- Unrealised	(22,783)	(22,784)
	<u>292,621</u>	<u>275,508</u>
Less: Consolidation adjustments	(56,743)	(55,237)
Retained earnings as per consolidated accounts	<u>235,878</u>	<u>220,271</u>

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B9. Material litigation

As at 25 June 2015, 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 issued on 26 January 2015.

The Group has accounted for impairment of assets and provision of liabilities of RM3.2 million.

The Group has filed its Appeal against the Court of Appeal Decision to the Federal Court a Notice of Motion for Leave to Appeal and has also filed to the Court of Appeal, a Notice of Motion for an extension of Court of Appeal Order to stay the High Court Judgment in January 2015.

B10. Dividend

The Board is pleased to declare a special single tier dividend of 10 sen per share in respect of the financial year ending 31 January 2016.

- (a) (i) amount per share: 10 sen single tier;
 - (ii) previous corresponding period: Nil;
 - (iii) date of payment: 28 August 2015; and
 - (iv) in respect of deposited securities, entitlement to dividends will be determined on the basis of the record of the depositors as at 12 August 2015; and
- (b) total dividend for the current financial year: 10 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 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 30/04/2015	Financial Year-to-date Ended 30/04/2015
Net profit for the period	(RM'000)	14,779	14,779
Weighted average number of ordinary shares in issue	('000)	310,992	310,992
Basic EPS	(sen)	4.75	4.75

Diluted earnings per share (“Diluted EPS”)

Not applicable

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 30/04/2015 RM'000	Financial Year-to-date Ended 30/04/2015 RM'000
(a) Interest income	(2,236)	(2,236)
(b) Other income including investment income	(360)	(360)
(c) Interest expense	282	282
(d) Depreciation and amortization	6,805	6,805
(e) Provision for and write off of receivables	38	38
(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	-	-
(k) Exceptional items	-	-