KIM LOONG RESOURCES BERHAD
(Company Number: 22703-K)

EXPLANATORY NOTES

A1. Basis of preparation

These interim financial statements, which are unaudited, have been prepared in accordance with Financial Reporting Standard (FRS) 134: Interim Financial Reporting (previously known as MASB 26) 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 statements should be read in conjunction with the audited financial statements for the financial year ended 31 January 2005. 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 2005.

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 2005.

A2. Audit qualification

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

A3. 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. The production will rise in the second quarter, peak in the third quarter and slowly decline in the fourth quarter. The current quarter production of FFB is broadly in line with the above trend.

A4. 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.

A5. Material changes in estimates

There were no changes in estimates that have had a material effect in the current quarter.

A6. Debt and equity securities

The Company's issued and paid up capital increased from RM106,750,000 as at 31 January 2005 to RM170,863,600 as at 31 October 2005 as a result of the following:

(a) issuance of 64,050,000 new ordinary shares of RM1 each to the shareholders pursuant to a renounceable rights issue with detachable free warrants on the basis of three (3) new ordinary shares with two (2) detachable free warrants for every five (5) existing ordinary shares.

(b) issuance of 63,600 new ordinary shares of RM1 each under the Company's Employees' Share Option Scheme ("ESOS")

There were no cancellations, repurchases, resale and repayments of debt and equity securities for the current financial year-to-date.

A7. Dividends paid

The gross dividend paid during the current financial year-to-date was 4 sen per ordinary share, less tax, in respect of the final dividend for the financial year 2005 which was paid on 15 August 2005.

A8. Segmental information

Major segments by activity:-

	Revenue		Results	
	9 months ended		9 months ended	
	31/10/2005	31/10/2004	31/10/2005	31/10/2004
	RM'000	RM'000	RM'000	RM'000
Plantation operations	37,115	35,475	12,133	13,271
Milling operations	145,330	158,103	3,928	5,232
	182,445	193,578	16,061	18,503
Less:				
Inter-segment eliminations	(16,143)	(11,317)	(72)	(90)
	166,302	182,261	15,989	18,413
Less:				
Unallocated expenses			(1,721)	(1,584)
Profit from operations			14,268	16,829

A9. Valuation of property, plant and equipment

The valuations of property, plant and equipment stated in the previous annual financial statements have been brought forward without amendment.

A10. Material subsequent events

Subsequent material events that have not been reflected in the financial statements for the current financial period up to 17 December 2005 are as follows :

(a) On 5 December 2005, the Company's 90% owned subsidiary, Okidville Jaya Sdn. Bhd., has procured the incorporation of a wholly owned subsidiary company, Sepulut Plantations Sdn. Bhd. ("SPSB"). Currently, the paid-up capital of SPSB is RM2 divided into 2 ordinary shares of RM1 each fully paid and has not commenced operations.

(b) On 9 December 2005, the Company's 80% owned subsidiary, Winsome Jaya Sdn. Bhd., entered into a Share Sale Agreement for the sale of 1,000,000 ordinary shares of RM1 each fully paid representing the entire issued and paid-up capital of Arab-Malaysian Agriculture Sdn. Bhd. for a total consideration of RM110,000 only.

A11. Changes in the composition of the Group

There were no changes in the composition of the Group for the current quarter including business combination, acquisition or disposal of subsidiaries and long term investments, restructuring and discontinuing operations.

A12. Contingent liabilities or Contingent assets

There were no material changes in contingent liabilities at group level since the last annual balance sheet as at 31 January 2005.

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 was RM166.30 million and RM12.02 million respectively for the cumulative three quarters ended 31 October 2005, as compared to RM182.26 million and RM14.26 million respectively for the last year's corresponding period.

The 9% drop in revenue of RM15.96 million is mainly due to drop in Crude Palm Oil ("CPO") price by 16% which affected both the plantation and milling operations.

Despite the lower CPO prices, the revenue of the plantation operations increased by RM1.64 million to RM37.12 million as compared to RM35.47 million achieved for the last year's corresponding period on the account of increase in FFB production by 27,000 MT or 25%. The increase in FFB production is due to a more productive age profile of the palms.

The decline in profit is due to lower CPO price and increase in cost of consumables utilized in the plantations. As a result, the profit from the plantation operations dropped by 9% or RM1.14 million to RM12.13 million as compared to RM13.27 million for the last year's corresponding period. The PBT for the cumulative three quarters ended 31 October 2005 would have increased by additional RM7 million if the weighted average CPO price maintains at last year's corresponding period level.

The revenue from milling operations dropped by RM12.77 million or 8% to RM145.33 million mainly due to lower CPO price. The profit from milling operations dropped by RM1.30 million or 25% to RM3.93 million as compared to RM5.23 million achieved for the last year's corresponding period. The drop in profit is mainly due to the following:

i) under utilisation, which is about 50%, of the processing capacity of our mill at Keningau, Sabah after its processing capacity was expanded from 15 MT of FFB/hour to 45 MT of FFB per hour in July 2004 as our young oil palm tree has yet to reach full yield potential; and
ii) lower processing margin at the Kota Tinggi mill as a result of competition for FFB supplies from surrounding mills.

B2. Comparison of profit before tax for the quarter reported on with the immediate preceding quarter

The Group recorded a PBT of RM7.36 million for the quarter ended 31 October 2005 as compared to RM2.87 million for the preceding quarter ended 31 July 2005 mainly due to higher profit contribution from the plantation operations. The 156% or RM4.49 million increase in PBT is mainly on account of higher FFB production during the current quarter. The increase in FFB production as compared to the second quarter is broadly in line with the seasonal production trend.

B3. Current financial year prospects

For the financial year ending 31 January 2006, the production quantity for both the plantation and milling operations is expected to be higher than the financial year 2005. The increase in production for the plantation operations is expected to be more than 20% due to the increased mature acreage and a more productive age profile of the palms. For the milling operations, the rate of utilization of processing capacity of the mill at Keningau will improve with the increasing FFB production of our estates at Keningau and hence boost the palm oil production quantity for the Group.

Barring unforeseen circumstances and based on the current palm oil prices, the Board expects the Group's profit to remain satisfactory for the financial year ending 31 January 2006.

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

This is not applicable

B5. Income tax

	Current Quarter 31/10/2005 RM'000	Current Financial Year-to-date 31/10/2005 RM'000
Malaysian Income Tax		
- Current year	2,273	3,255
- Underprovision in prior years	15	15
Deferred tax		
- Current year	(139)	192
- Underprovision in prior years	-	-
	2,149	3,462

There is no significant difference between the effective tax rate and the statutory tax rate for the current financial quarter and financial year-to-date.

B6. Profits/(losses) on sale of unquoted investments and/or properties

There were no profits/(losses) derived from the sale of unquoted investments and/or properties for the current quarter and financial year-to-date.

B7. Purchase or disposal of quoted securities

Changes in the quoted securities held during the financial year-to-date are as follows:

(a) Total purchase consideration and sale proceeds of quoted securities for the current quarter and financial year-to-date are as follows:-

	Current Quarter 31/10/2005 RM'000	Current Financial Year-to-date 31/10/2005 RM'000
Total purchase consideration	-	724
Total sale proceeds	-	1,440
Total gain on disposals	-	100

(b) Total investments in quoted securities as at 31 October 2005:-

	RM'000
At Cost	6,435
Allowance for diminution in value	(444)
At Book Value	5,991
At Market Value	6,060

Allowance is made for any diminution in value of quoted securities if, in the opinion of the Directors, the decline in value is not temporary in nature.

B8. Status of corporate proposals

Status of corporate proposals not completed as at 17 December 2005

(A) Status of subdivision and transfer of titles of two pieces of plantation land acquired :

The two pieces of the land are registered in favour of two subsidiary companies as the owners of 10,781/12,881 undivided share and 100/12,881 undivided share. The Group has taken steps to procure the subdivision and registration of the two pieces of land into the names of the relevant subsidiaries.

(B) Renounceable Rights Issue with detachable free warrants

The issuance and quotation of the rights shares on Bursa Securities were completed on 29 April 2005.

The total gross proceeds of RM70,455,000 arising from the Rights Issue were utilised as follows:

	Approved by Securities Commission	Amount utilised	Balance to be utilised
	RM'000	RM'000	RM'000
Repayments of bank borrowings	30,000	30,000	-
Property, plant and equipment	27,750	11,618	16,132
Working capital	11,705	11,705	-
Estimated expenses relating to the Rights Issue	1,000	1,000	-
Total proceeds from the Rights Issue	70,455	54,323	16,132

B9. Group borrowings and debt securities

As at 31 October 2005, the total secured borrowings, which are denominated in Ringgit Malaysia, are as follows:

	RM'000
Short term borrowings :	
Overdrafts	2,809
Term loans	12,588
	15,397
Long term borrowings :	
Term loans	19,580

There is no interest bearing unsecured borrowings as at 31 October 2005.

B10. Financial instruments with off balance sheet risks

There were no financial instruments with off balance sheet risks for the current financial year-to-date.

B11. Material litigation

The Group is not engaged in any material litigation for the current financial year-to-date.

B12. Dividend

No dividend has been declared or proposed for the current quarter ended 31 October 2005.

Total dividend for the current financial year: 3 sen less income tax of 28%

B13. Earnings per share

<u>Basic earnings per share ("Basic EPS")</u>

The Basic EPS is calculated by dividing the Group's net profit 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:

		Current Quarter 31/10/2005	Current Financial Year-to-date 31/10/2005
Net profit for the period	(RM'000)	5,160	9,183
Weighted average number of ordinary shares in issue	('000)	170,864	152,073
Basic EPS	(sen)	3.02	6.04

Diluted earnings per share ("Diluted EPS")

The Diluted EPS is calculated by dividing the Group's net profit 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; and
(ii) the number of ordinary shares that could have been converted from the warrants issued by the Company.

Shares that are anti-dilutive are ignored in the computation of Diluted EPS.

		Current Quarter 31/10/2005	Current Financial Year-to-date 31/10/2005
Net profit for the period	(RM'000)	5,160	9,183
Weighted average number of ordinary shares in issue	('000)	170,864	152,073
Impact on shares under option that would have been issued at fair value	('000)	293	-
Assumed exercise of warrants	('000)	42,700	42,700
Adjusted weighted average number of shares for Diluted EPS	('000)	213,857	194,773
Diluted EPS	(sen)	2.41	4.71