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 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 2006. 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 2006.

The MASB issued a total of 21 new and amended FRS and other interpretations (herein thereafter referred as FRSs) effective for financial period commencing 1 January 2006 for 18 FRSs and 1 October 2006 for 3 other FRSs.

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 2006 except for adoption of the following new and amended FRSs effective for the financial period commencing 1 January 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets

The adoption of the above FRSs does not have significant financial impact on the Group except for FRS 2, FRS 3 and FRS 101 as follows:

(a) FRS 2: Share-based Payment

This FRS requires an entity to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.

The Company operates an equity-settled, share-based compensation plan for the eligible employees of the Group, the Kim Loong Resources Berhad's Employees' Share Option Scheme ("ESOS"). Prior to 1 January 2006, no compensation expense was recognised in the income statement for share options granted. With the adoption of FRS 2, the fair value of employee services rendered in exchange for the grant of the share options is recognised as an expense over the vesting period. The fair value of option is measured by the use of Black Scholes model.

Under the transitional provisions in FRS 2, this FRS must be applied to share options that were granted after 31 December 2004 and had not yet been vested on 1 January 2006. The application is retrospective. The financial impact to the Group arising from this change in accounting policy is as follows:

	3 months ended 30/04/2006 RM'000
Decrease in profit for the period due to :	
- prior year under provision of share-based payment expenses	54
- current period's share-based payment expenses	17
	71

No prior year adjustment has been made as the adoption of this FRS has no material effect on the financial position of the Group and of the Company.

(b) FRS 3: Business Combinations

The adoption of the new FRS 3 has resulted in changes in the accounting policy relating to Goodwill and Reserve (Negative Goodwill) on consolidation.

Goodwill on consolidation
Under FRS 3, any subsequent changes to the initial recognition of acquisition cost of a business combination shall not be recognised for the purpose of computing goodwill. In accordance with the transitional provisions of FRS 3 on limited retrospective application to goodwill, the Group has reversed all goodwill arose from subsequent changes in cost of acquisition of subsidiary company. As a result of the change, goodwill on consolidation of RM470,000 has been adjusted via a prior year adjustment with a corresponding decrease in the retained profits

Reserve (Negative Goodwill) on consolidation
Under FRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisitions ("negative goodwill"), after reassessment, is now recognised immediately in the income statement. Prior to 1 February 2006, negative goodwill was treated as a permanent item without amortisation. In accordance with the transitional provisions of FRS 3, the negative goodwill as at 31 January 2006 of RM11,352,722 was derecognised with a corresponding increase in the retained profits.

(c) FRS 101: Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of the minority interests and other disclosures in the income statement, balance sheet and statement of changes in equity.

In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period as oppose to as a deduction before arriving at profit attributable to shareholders.

While in the consolidated balance sheet, minority interests are now presented within total equity. Similarly, the movement of the minority interests for the reported period is presented in the consolidated statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interests.

The revised FRS 101 has also given rise to new classes of assets and liabilities which are required to be reported on the face of the consolidated balance sheet. As a result of this, "Plantation Development Expenditure" previously included in property, plant and equipment is now presented as "Biological Assets" on the face of the condensed consolidated balance sheet.

The effects to the Group's comparative figures on adoption of the above FRSs are as follows:

	As previously stated	Effects on adoption of FRSs		As restated
		FRS 3	FRS 101	
	RM'000	RM'000	RM'000	RM'000
As at 1 February 2006				
Property, plant and equipment	332,506	-	(66,698)	265,808
Biological assets	-	-	66,698	66,698
Goodwill on consolidation	1,624	(470)	-	1,154
Retained profits	35,381	(470)	-	34,911

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 RM170,863,600 as at 31 January 2006 to RM170,878,600 as at 30 April 2006 as a result of issuance of 15,000 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

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

A8. Segmental information

Major segments by activity:-

	Revenue		Results	
	3 months ended		3 months ended	
	30/04/2006	30/04/2005	30/04/2006	30/04/2005
	RM'000	RM'000	RM'000	RM'000
Plantation operations	11,892	9,572	4,715	2,247
Milling operations	46,352	42,988	2,097	1,195
	58,244	52,560	6,812	3,442
Less:				
Inter-segment eliminations	(5,991)	(3,920)	(323)	(23)
	52,253	48,640	6,489	3,419
Less:				
Unallocated expenses			(432)	(586)
Finance costs			(404)	(1,047)
Profit before tax			5,653	1,786

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

There are no material events subsequent to the end of the current financial period that have not been reflected in the financial statements for the current financial period up to 24 June 2006.

A11. Changes in the composition of the Group

There were no changes in the composition of the Group during the current quarter including business combination, acquisition or disposal of subsidiaries and long term investments, restructuring and discontinuing operations except for on 10 February 2006, the Company's 90% owned subsidiary, Winsome Jaya Sdn. Bhd., disposed of its wholly owned subsidiary company, Arab-Malaysian Agriculture Sdn. Bhd. for a consideration of RM110,000.

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 2006.

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 RM52.25 million and RM5.65 million respectively for the quarter ended 30 April 2006, as compared to RM48.64 million and RM1.79 million respectively for last year's corresponding period.

The 7% increase in revenue of RM3.61 million is mainly due to increase in production in both the plantation and milling operations.

Despite the marginally lower CPO prices, the revenue of the plantation operations increased by RM2.32 million to RM11.89 million as compared to RM9.57 million achieved for last year's corresponding period on the account of increase in FFB production by 11,000 MT or 32% to 45,000 MT. The increase in FFB production is due to a more productive age profile of the palms.

The profit from plantation operations increased by more than 100% or RM2.47 million was also partly due to gain from assignment of debts in a subsidiary company of RM1.61 million.

The revenue from milling operations improved by RM3.36 million or 8% to RM46.35 million mainly due to increase in production. The profit from milling operations increased by RM0.90 million or 75% to RM2.10 million as compared to RM1.20 million achieved for last year's corresponding period. The increase in profit was mainly due to better processing margin and higher production.

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

The Group recorded a PBT of RM5.65 million for the quarter ended 30 April 2006 as compared to RM2.23 million for the preceding quarter ended 31 January 2006 due to higher profit contribution from both milling and plantation operations. The 153% or RM3.42 million increase in PBT is mainly on account of higher FFB and palm oil production as well as a gain from assignment of debts in a subsidiary company of RM1.61 million during the current quarter. The increase in FFB production is broadly in line with the seasonal production trend.

B3. Current financial year prospects

For the financial year ending 31 January 2007, the production quantity for both the plantation and milling operations is expected to be higher than the financial year 2006. The increase in production for the plantation operations is expected to be about 30% due to the increased mature acreage and a more productive age profile of the palms. For the milling operations, the rate of utilisation 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 improve for the financial year ending 31 January 2007.

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

This is not applicable

B5. Income tax

	Current Quarter 30/04/2006 RM'000	Current Financial Year-to-date 30/04/2006 RM'000
Malaysian Income Tax		
- Current year	1,088	1,088
- Overprovision in prior years	-	-
Deferred tax		
- Current year	(40)	(40)
- Overprovision in prior years	-	-
	1,048	1,048

The effective tax rate is lower than the statutory tax rate for the current financial quarter and financial year-to-date mainly due to certain income which is not taxable.

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 30/04/2006 RM'000	Current Financial Year-to-date 30/04/2006 RM'000
Total purchase consideration	-	-
Total sale proceeds	3,990	3,990
Total gain on disposals	375	375

(b) Total investments in quoted securities as at 30 April 2006:-

	RM'000
At Cost	2,898
Allowance for diminution in value	(380)
At Book Value	2,518
At Market Value	2,625

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 24 June 2006

(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	24,250	12,958	11,292
Working capital	15,205	15,205	-
Estimated expenses relating to the Rights Issue	1,000	1,000	-
Total proceeds from the Rights Issue	70,455	59,163	11,292

B9. Group borrowings and debt securities

As at 30 April 2006, the total secured borrowings, which are denominated in Ringgit Malaysia, are as follows:

	RM'000
Short term borrowings :	
Overdrafts	1,815
Term loans	10,488
	12,303
Long term borrowings :	
Term loans	15,386

There were no interest bearing unsecured borrowings as at 30 April 2006.

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 since the end of the previous financial quarter.

B13. Earnings per share

Basic earnings per share ("Basic EPS")

The Basic EPS is calculated by dividing the profit attributable to the equity holders of the parent for the current quarter and the first three months by the weighted average number of ordinary shares in issue during the current quarter and the first three months respectively:

		Current Quarter 30/04/2006	Current Financial Year-to-date 30/04/2006
Net profit for the period	(RM'000)	4,643	4,643
Weighted average number of ordinary shares in issue	('000)	170,867	170,867
Basic EPS	(sen)	2.72	2.72

Diluted earnings per share ("Diluted EPS")

The Diluted EPS is calculated by dividing the profit attributable to the equity holders of the parent for the current quarter and the first three months by the weighted average number of ordinary shares in issue during the current quarter and the first three months 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 30/04/2006	Current Financial Year-to-date 30/04/2006
Net profit for the period	(RM'000)	4,643	4,643
Weighted average number of ordinary shares in issue	('000)	170,867	170,867
Impact on shares under option that would have been issued at fair value	('000)	398	398
Assumed exercise of warrants	('000)	42,700	42,700
Adjusted weighted average number of shares for Diluted EPS	('000)	213,965	213,965
Diluted EPS	(sen)	2.17	2.17