

**EXPLANATORY NOTES FOR INTERIM FINANCIAL STATEMENTS FOR THE
FINANCIAL PERIOD ENDED 30 JUNE 2006**

Part A – Explanatory Notes Pursuant To FRS 134

1. Basis of preparation

The interim financial statements have been prepared under the historical cost convention, except for the revaluation of leasehold land, buildings and plantations included within property, plant and equipment and investment properties.

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134: Interim Financial Reporting and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”).

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2005. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2005.

2. Changes in accounting policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2005 except for the adoption of the following new/revised Financial Reporting Standards (“FRS”) effective for the financial period beginning 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 128 Investments in Associates
- FRS 131 Investment in Joint Ventures
- FRS 132 Financial Instruments: Disclosure and Presentation
- FRS 133 Earnings Per Share
- FRS 136 Impairment of Assets
- FRS 138 Intangible Assets
- FRS 140 Investment Property

The adoption of FRS 3, 5, 102, 108, 110, 116, 121, 127, 128, 131, 132, 133, 136 138 and 140 does not have significant impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the new/revised FRSs are discussed below:

(a) **FRS 2: Share-based Payment**

This FRS requires an entity to recognize 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 employees of the Group, the TSH Resources Berhad Employee Share Option Scheme (“ESOS”). Prior to 1 January 2006, no compensation expense was recognized in income statement for share options granted. With the adoption of FRS 2, the compensation expense relating to share options is recognized within staff cost in income statement over the vesting periods of the grants with a corresponding increase in equity.

The total amount to be recognized as compensation expense is determined by reference to the fair value of the share options at the date of grant and the number of share options to be vested by the vesting date. The fair value of the share options is computed using binomial model. At every balance sheet date, the Group revises its estimates of the number of share options that are expected to vest by the vesting date. Any revision of this estimate is included in income statement and a corresponding adjustment to equity over the remaining vesting period.

Under the transitional provisions of 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 and accordingly, the comparative amounts for the period ended 30 June 2005 are restated and the opening balance of retained earnings as at 1 January 2006 has been adjusted. The financial impact to the Group arising from this change in accounting policy is as follows:

	<u>As at 1 Jan 2006</u>			
	<u>RM'000</u>			
Decrease in retained earnings				(139)
Increase in ESOS reserve (included within capital reserve)				139
	<u>Quarter ended</u>		<u>YTD ended</u>	
	<u>30.06.2006</u>	<u>30.06.2005</u>	<u>30.06.2006</u>	<u>30.06.2005</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Increase/(decrease) in profit for the period	(78)	(29)	(129)	(36)

As disclosed in Note 3, certain comparatives have been restated due to this change in accounting policy.

(b) FRS 101: Presentation of Financial Statements

The adoption of the revised FRS 101 had affected the presentation of minority interest and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the net profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognized income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

The current period's presentation of the Group's financial statements is based on the revised requirements of FRS 101, with the comparatives restated to conform with the current period's presentation.

3. Comparatives

The following comparative amounts have been restated due to the adoption of new and revised FRSs:

		← Adjustments →		
	<u>Previously stated RM'000</u>	<u>FRS 2 (Note 2(a)) RM'000</u>	<u>FRS 101 (Note 2(b)) RM'000</u>	<u>Restated RM'000</u>
As at 31 Dec 2005				
Retained profit	192,670	(139)	-	192,531
6 months ended 30 June 2005				
Profit before tax	27,101	(36)	-	27,065
Profit after tax	23,279	(36)	-	23,243

4. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2005 was not qualified.

5. Segmental information

i) Business segments

	6 months period ended 30 June 2006				
	Palm & Bio-Integration RM'000	Wood product manufacturing & trading & forestation RM'000	Cocoa manufacturing & trading RM'000	Elimination RM'000	Consolidated RM'000
REVENUE					
External sales	167,208	82,703	57,770		
Inter-segment sales					
Total segment revenue	167,208	82,703	57,770		307,681
RESULT					
Segment results	18,315	9,386	7,131		34,833
Unallocated corporate expenses					(3,919)
Operating profit					30,914
Interest expenses					(2,421)
Interest income					90
Share of profits/(loss) of jointly controlled entities					(39)
Income taxes					(4,563)
Profit from ordinary activities					23,980
Gain on disposal of shares in subsidiary					-
Minority interest					(3,406)
Net profit for the period					20,574
OTHER INFORMATION					
Segment assets	396,400	269,588	105,238		771,226
Investment in jointly controlled entities					12,369
Unallocated corporate assets					23,799
Consolidated total assets					807,394
Segment liabilities	118,544	77,566	41,271		237,381
Unallocated corporate liabilities					104,652
Consolidated total liabilities					342,033
Capital expenditure	64,501	1,412	2,450		
Depreciation	6,257	2,579	849		
Amortisation	1,157	63	-		
Other non-cash expenses					

ii) Geographical segments

	Sales revenue to external customers RM'000	Carrying amount of segment assets RM'000	Additions to property, plant, equipment and intangible assets RM'000
Malaysia	248,949	669,064	21,946
Europe	24,190	30,368	1

	Sales revenue to external customers RM'000	Carrying amount of segment assets RM'000	Additions to property, plant, equipment and intangible assets RM'000
United States of America	9,179	9,874	-
Indonesia	25,362	98,088	46,417
	307,681	807,394	68,363

6. Unusual items due to their nature, size of incidence

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows during the period ended 30 June 2006 except as disclosed in Note 2.

7. Changes in estimates

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

8. Comments on seasonal or cyclical factors

The effects of seasonal or cyclical fluctuations, if any, are explained under Paragraphs 1 and 2 of Part B i.e. Explanatory Notes Pursuant To Appendix 9B of the Listing Requirements of Bursa Malaysia below.

9. Dividends paid

Dividends paid on 18 May 2006 were declared on 24 February 2006, in respect of the financial year ended 31 December 2005 being interim tax exempt dividend of 5.0 sen on 368,002,863 ordinary shares of RM0.50, amounting to RM18.4 million.

10. Carrying amount of revalued assets

Valuations of land, buildings and plantations of the Group have been brought forward without amendment from the financial statements for the year ended 31 December 2005. The land, buildings and plantations of the Group were valued by the Directors in 1993 and 1998 based on professional appraisals by independent valuers using open market values on an existing use basis.

11. Debt and equity securities

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities except for the following:

Treasury shares

No share was bought back from the open market during the quarter ended 30 June 2006. The cumulative shares bought back are held as treasury shares.

The number of treasury shares held as at 30 June 2006 is as follows:

	No. of shares	Amount (RM)
Balance as at 31 March 2006	127,400	165,534
Add : Purchase of treasury shares	-	-
	127,400	165,534
Less : Treasury shares resold	-	-
Balance as at 30 June 2006	127,400	165,534

The number of issued and fully paid-up ordinary shares of the Company increased from 364,933,263 to 368,130,263 during the quarter ended 30 June 2006 and the details of the share movements are as follows:

Particulars	Par value (RM)	No. of shares	Cumulative number of shares
Balance as at 31 March 2006	0.50	-	364,933,263
Exercise of ESOS ¹	0.50	3,197,000	368,130,263

¹ Exercise price of ESOS is between RM0.51 and RM0.78.

12. Changes in composition of the Group

Save as disclosed below, there were no other changes in the composition of the Group during the quarter ended 30 June 2006.

- (i) The Group had on 26 April 2006 announced that its 70%-owned subsidiary, PT Andalas Agro Industri had enter into a conditional agreement to acquire 100% equity interest in PT Laras Internusa comprising 300 ordinary shares of Rp.1,000,000.00 each for a total acquisition cost inclusive of liabilities to be assumed of approximately Rp.85 billion. The proposed acquisition was completed on 1 May 2006 upon receipt of all relevant approvals.

13. Discontinued operation

There were no discontinued operations during the quarter ended 30 June 2006.

14. Capital commitments

There is no material capital commitments not provided for in the interim financial statements as at 30 June 2006.

15. Changes in contingent liabilities or contingent assets

There were no changes in contingent liabilities or contingent assets since the last annual balance sheet as at 31 December 2005.

16. Subsequent events

There were no material events subsequent to the end of the current quarter save and except for the following:-

The Group had on 2 August 2006 announced that TSH Industries Sdn Bhd, a wholly-owned subsidiary of TSH Resources Bhd had on the even date incorporated and subscribed for 99,000 shares of Rp.9,320 each, representing 99% shareholding in PT Sinar Bersatu.

Part B - Explanatory Notes Pursuant To Appendix 9B of the Listing Requirements of Bursa Malaysia

1. Performance review

The Group recorded turnover of RM307.7 million for the six-month ended 30 June 2006 representing an increase of 10.7% as compared to turnover of RM277.9 million for the corresponding period of the preceding financial year.

Profit before tax (“PBT”) stood at RM28.5 million for the six months ended 30 June 2006 as compared to RM27.1 million for the corresponding period of the preceding financial year.

Palm bio-integration segment registered a marginally lower turnover of RM89.5 million for the quarter under review as compared to the preceding year corresponding quarter of RM91.4 million, due to lower crude palm oil and palm kernel prices during the quarter under review. Nonetheless, segmental result for the quarter under review improved from RM10.6 million during the preceding year corresponding quarter to RM11.0 million for the quarter under review following the increase in volume of crude palm oil sold.

Wood products segment posted a higher turnover of RM42.8 million for the quarter under review as compared to the preceding year corresponding quarter of RM36.1 million following increase in sales volume. Result for the quarter under review strengthened to RM5.0 million as compared to the preceding year corresponding quarter of RM2.1 million in view of the appreciation of major functional revenue currencies of Ekowood such as EURO and USD against Ringgit, better sales mix and enhanced cost leadership resulting from improved production practices. Despite increase in timber royalty and inclement weather condition, losses from timber sub-segment were mitigated with introduction of better logging practices and higher recovery rate.

Turnover of cocoa manufacturing and marketing business continued to improve with RM26.5 million recorded for the quarter under review compared to RM17.0 million in the preceding year corresponding quarter following an increase in throughput, contributing favourably to segmental result.

2. Material changes in the profit before taxation for the quarter reported on as compared with the immediate preceding quarter.

The PBT of the Group for the current quarter increase by 53.1% to RM17.3 million as compared to the immediate preceding quarter of RM11.3 million on the back of higher turnover recorded in palm bio-integration and wood products segments. Despite a lower turnover, cocoa manufacturing and marketing business registered an improved segmental result following optimisation of production efficiency.

3. Commentary on the prospects

The performance of the palm bio-integration segment for the next quarter is expected to remain favourable on the back of higher palm product prices in view of stronger demand and satisfactory FFB crop from own estates.

Operational efficiency of the biomass cogeneration plant is expected to improve further and continue its positive contribution to the Group.

Despite the expected increase in global demand for hardwood timber flooring following the growing market share of this niche in the total flooring market, business environment is likely to remain competitive with keen competition from new industry entrants, especially from emerging countries such as Indonesia and China, primarily for market share. Movement major functional revenue currencies particularly EURO and USD will continue pose an impact on margin. The Group will continue its emphasis in enhancing cost efficiency and brand building to improve Ekowood's competitiveness as part of its continuous efforts to penetrate and tap into new markets.

Profitability of cocoa segment is expected to improve through strengthening of supply chain management and optimization of production capacity.

4. Explanatory notes for any variance of actual profit from forecast profit and shortfall in the profit guarantee (only applicable to the final quarter)

Not applicable.

5. Income Tax Expense

	<u>30 June</u> <u>2006</u> <u>RM'000</u>	<u>30 June</u> <u>2005</u> <u>RM'000</u>
Current tax:		
Malaysian income tax	5,837	5,393
Foreign tax	-	-
Under/(over) provided in prior years:		
Malaysian income tax	6	(42)
Foreign tax	(10)	-
Deferred tax:		
Relating to origination and reversal of temporary differences	(1,270)	(1,529)
Under/(over) provided in prior years	-	-
	<u>4,563</u>	<u>3,822</u>

6. Sale of unquoted investments and/or properties

There were no sales of unquoted investments and/or other properties during the financial quarter under review.

7. Quoted securities

There were no purchases or disposals of quoted securities during the financial quarter under review.

8. Corporate Proposals

i) Status of corporate proposals

As at the date of this report, there was no other corporate proposal announced but not completed as at the date of this report.

ii) Status of utilisation of proceeds

Islamic Private Debt Securities Issuance Programme of up to RM100 million in nominal value Al-Murabahah Papers / Medium Term Notes

The utilization of proceeds amounting to RM9.0 million which were originally earmarked for part financing of the biomass cogeneration energy plant had been revised on 3 May 2006 to be utilized as working capital instead.

9. Group Borrowings and Debt Securities

	As at 30 Jun 06 RM'000	As at 31 Dec 05 RM'000
Total Group borrowings		
- secured	122,631	63,900
- unsecured	65,035	47,568
Short term borrowings		
- secured	58,261	15,000
- unsecured	65,035	47,568
Long term borrowings		
- secured	64,370	48,900
- unsecured	-	-

Included in long and short term borrowings are RM85.0 million Al-Murabahah Papers/Medium Term Notes at a nominal value of RM1.0 million each, with a carrying value of RM85.0 million.

All borrowings are denominated in Ringgit Malaysia, except for a USD5.0 million loan in the books of sub-subsidiary PT Andalas Agro Industri as follows:

	USD'000	RM'000 Equivalent
Borrowings denominated in United States Dollars	5,000	18,250

10. Off balance sheet financial instruments

The Group had entered into the following foreign currency derivatives maturing within 1 year to hedge trade receivables.

	<u>Notional amount as at</u>	
	<u>30.06.2006</u>	<u>31.12.2005</u>
	<u>RM'000</u>	<u>RM'000</u>
Forward foreign exchange contracts	9,007	14,213
Ratio forward agreements	5,408	-
	<u>14,415</u>	<u>14,213</u>

11. Changes in material litigation

There is no change to the status of the material litigations since the last quarter as reported below except that the court has fixed for trial on 1 to 3 November 2006:

Save as disclosed below, neither the Company nor any of its subsidiaries is engaged in any material litigation either as plaintiff or defendant as at the date of this report and the Directors do not have any knowledge of any proceeding pending or threatened against the Company or its subsidiaries or of any facts likely to give rise to any proceedings which might materially affect the position of the Company and its subsidiaries:

- (i) Ekowood International Berhad (“Ekowood”) had on 19 September 1997 filed a suit via Suit No. 22-118-1997 in Ipoh High Court against Gopeng Land & Properties Sdn. Bhd. (“Gopeng”), Villa Technobuild Sdn. Bhd. (“Villa”) and Chuah Cheng Hoe (“CCH”) (practising as CH Chuah Associates) for loss and damages arising from the breach of contract and/or negligence on the part of the defendants as follows:
 - (a) breach of contract and/or negligence by Gopeng in carrying out the infilling works on a piece of land in the Gopeng Industrial Park in accordance with a Sale and Purchase Agreement dated 18 January 1995 between Ekowood and Gopeng resulting in severe damage to the factory buildings and associated external works (“Works”) located within and/or nearby the aforesaid land;
 - (b) breach of contract by Villa of the construction contract dated 15 March 1995 in failing to construct the Works in a good or workmanlike manner or with good or proper materials and therefore the Works are not fit for its purpose and cannot be properly used as a wood product factory; and
 - (c) breach by CCH of his contract of employment with Ekowood as consultant engineer and/or negligence in failing to exercise due professional skill and care in the performance of his services resulting in the Works containing serious and substantial defects which prevent the Works from being properly and efficiently used as a wood product factory.

In the abovementioned suit, Ekowood claimed against Gopeng and Villa, inter alia, for damages of RM45,160,104.10 and general damages for loss of goodwill to be assessed by the Court and against

CCH, inter alia, for the sum of RM16,284,872.89 being the amount paid to Villa under the construction contract, or alternatively, for damages to the sum of RM45,160,369.00 and general damages for loss of goodwill to be assessed by the Court.

The Board of Directors, in consultation with the lawyers, is of the opinion that the Company has a fair chance of succeeding in this suit.

- (ii) Gopeng had on 8 November 2001 filed a suit against Ekowood via Suit No. 22-219-01 in Ipoh High Court in relation to the abovementioned Sale and Purchase Agreement dated 18 January 1995 made between Gopeng and Ekowood whereby Gopeng has agreed to sell and Ekowood has agreed to purchase the land in Gopeng Industrial Park.

In the abovementioned suit, Gopeng claimed against Ekowood inter alia for specific performance of the Sale and Purchase Agreement in that Ekowood be ordered to pay to Gopeng the sum of RM3,434,457.04, interests thereon from 1 July 1997 or such other date deemed appropriate, or alternatively for vacant possession of the aforesaid land and damages pursuant to the Sale and Purchase Agreement, and general damages for breach of contract, and costs.

Payment of the principal sum has been provided for in the accounts of Ekowood.

Ekowood has filed its defence and counter-claim to the above suit. Ekowood counter-claimed against Gopeng for general damages, for special damages of RM45,160,104.10 being the cost of inter alia rectification of works damaged by the subsidence of the land and loss of profits, and also claimed for interest from date of judgment and costs. Gopeng has thereafter filed its reply and defence to the counter-claim.

The suit is now pending the trial mentioned in paragraph (i) above as the 2 suits are inter-related.

The Board of Directors, in consultation with the lawyers, is of the opinion that the Company has a fair chance of defending the claim and succeeding in the counter-claim.

12. Dividend Payable

No interim ordinary dividend had been declared for the current quarter ended 30 June 2006 (30 June 2005: Nil)

13. Earnings per share

(a) Basic earnings per share

Basic earnings per share amounts are calculated by dividing profit for the period attributable to ordinary shareholders of TSH Resources Bhd by the weighted average number of ordinary shares in issue during the period, excluding treasury shares held by the Company.

	<u>Quarter ended 30</u>		<u>YTD ended 30 June</u>	
	<u>June</u>			
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Net profit for the period/quarter (RM'000)	13,554	9,120	20,574	19,256
Weighted average number of ordinary shares in issue ('000)	378,988	303,508	378,988	303,508
Basic earnings per ordinary share (sen)	3.58	3.00	5.43	6.34

Diluted earnings per share

	<u>Quarter ended 30</u>		<u>YTD ended 30 June</u>	
	<u>June</u>			
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Net profit for the period/quarter (RM'000)	13,554	9,120	20,574	19,256
Weighted average number of ordinary shares in issue ('000)	383,073	351,189	383,073	351,189
Diluted earnings per ordinary share (sen)	3.54	2.60	5.37	5.48

For the purpose of calculating diluted earnings per share, the net profit for the period and the weighted average number of ordinary shares in issue during the financial period under review have been adjusted for all the unissued shares under options granted pursuant to the Employee Share Options Scheme of 4,085,452 shares.

The share options was calculated based on the number of shares which would have been acquired at the market price (average annual share price of the Company's share) based on the monetary value of the subscription rights attached to the outstanding share options. No adjustment is made to the net profit attributable to the shareholders for the share options calculation.

(b) Weighted average number of ordinary shares (diluted) is as follows:

Weight average no. of ordinary shares ('000)	378,988
Effect of ESOS ('000)	4,085
Weighted average number of ordinary shares (diluted) ('000)	<u>383,073</u>

14. Authorisation for Issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 28 August 2006.