

**EXPLANATORY NOTES FOR INTERIM FINANCIAL STATEMENTS FOR THE  
FINANCIAL PERIOD ENDED 30 SEPTEMBER 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 September 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
	<hr/>			
	<u>Quarter ended</u>		<u>YTD ended</u>	
	<u>30.09.2006</u>	<u>30.09.2005</u>	<u>30.09.2006</u>	<u>30.09.2005</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Increase/(decrease) in profit for the period	12	(60)	(117)	(96)

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:

	<u>Adjustments</u>			
	<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>
<b>As at 31 Dec 2005</b>				
Retained profit	192,670	(139)	-	192,531
<b>9 months ended 30 September 2005</b>				
Profit before tax	41,432	(96)	-	41,336
Profit after tax	33,645	(96)	-	33,549

**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

	9 months period ended 30 September 2006				
	<u>Palm &amp; Bio-Integration</u> RM'000	<u>Wood product manufacturing &amp; trading &amp; forestation</u> RM'000	<u>Cocoa manufacturing &amp; trading</u> RM'000	<u>Elimination</u> RM'000	<u>Consolidated</u> RM'000
<b>REVENUE</b>					
External sales	256,761	121,246	81,686		
Inter-segment sales					
Total segment revenue	256,761	121,246	81,686		459,694
<b>RESULT</b>					
Segment results	30,656	14,284	8,164		53,103
Unallocated corporate expenses					(5,018)
Operating profit					48,085
Interest expenses					(3,615)
Interest income					237
Share of profits/(loss) of jointly controlled entities					(73)
Income taxes					(6,209)
Profit from ordinary activities					38,425
Gain on disposal of shares in subsidiary					-
Minority interest					(5,624)
Net profit for the period					32,801
<b>OTHER INFORMATION</b>					
Segment assets	399,456	278,717	93,868		772,041
Investment in jointly controlled entities					19,836
Unallocated corporate assets					31,500
Consolidated total assets					823,377
Segment liabilities	126,712	84,566	33,459		244,736
Unallocated corporate liabilities					99,304
Consolidated total liabilities					344,041
Capital expenditure	75,873	1,780	2,366		
Depreciation	8,993	3,863	1,295		
Amortisation	2,642	84	-		
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	372,758	675,880	25,389
Europe	38,476	32,902	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	12,342	8,676	-
Indonesia	36,118	105,919	54,629
	459,694	823,377	80,019

**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 September 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 September 2006. The cumulative shares bought back are held as treasury shares.

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

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

The number of issued and fully paid-up ordinary shares of the Company increased from 368,130,263 to 368,650,263 during the quarter ended 30 September 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 30 June 2006	0.50	-	368,130,263
Exercise of ESOS <sup>1</sup>	0.50	520,000	368,650,263

<sup>1</sup> Exercise price of ESOS is at RM0.62.

## 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 September 2006:-

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.

## 13. Discontinued operation

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

## 14. Capital commitments

There is no material capital commitments not provided for in the interim financial statements as at 30 September 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:-

On 1 November 2006, a wholly-owned subsidiary, Alden SASU has been incorporated in France with a share capital of EURO37,000 which represented by 3,700 share having a par value of EURO10 each. The company was incorporated for trading of wooden flooring in France and abroad.

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

### **1. Performance review**

The Group recorded turnover of RM459.7 million for the nine-month ended 30 September 2006 representing an increase of 10.3% as compared to turnover of RM416.6 million for the corresponding period of the preceding financial year.

Profit before tax (“PBT”) stood at RM44.6 million for the nine months ended 30 September 2006 as compared to RM41.3 million for the corresponding period of the preceding financial year.

Palm bio-integration segment registered a higher turnover of RM89.6 million for the quarter under review as compared to the preceding year corresponding quarter of RM83.1 million, due to higher crude palm oil price during the quarter under review. Segmental result for the quarter under review also recorded an increase from RM10.1 million during the preceding year corresponding quarter to RM12.3 million for the quarter under review.

Wood products segment posted a higher turnover of RM38.5 million for the quarter under review as compared to the preceding year corresponding quarter of RM35.9 million following increase in sales volume. Strengthened result for the quarter under review of RM4.9 million as compared to RM3.9 million in the preceding year corresponding quarter was attributed primarily to improved margin following a better sales mix and enhanced cost leadership. Despite inclement weather condition, losses from timber sub-segment continued to be mitigated with better logging practices, higher recovery rate and higher log price.

Turnover of cocoa manufacturing and marketing business improved to RM23.9 million for the quarter under review compared to RM19.6 million in the preceding year corresponding quarter following an increase in throughput. However, profitability of this segment was adversely affected by lower cocoa butter ratio.

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

The Group posted a lower turnover of RM152.0 million for the quarter under review as compared to RM158.8 the immediate preceding quarter following drop in sales volume of wood products segment and adverse impact of lower cocoa butter ratio on cocoa manufacturing and marketing division. The decrease in turnover translated to a lower pre-tax of RM16.1 million as compared to RM17.3 million in the immediate preceding quarter.

Palm bio-integration registered a marginally higher turnover and profit contribution of RM89.6 million and RM12.3 million respectively against a corresponding turnover and profit contribution of RM89.5 million and RM11.2 million in the immediate preceding quarter. The improvement is attributed to higher crop yield, positive movements in crude palm oil price and increase in electricity output from our biomass cogeneration power plant during the quarter under review. The favourable impact was however softened by drop in kernel price.



Performance of wood products segment for the quarter under review was slightly dampened by lower sales volume with a 10.0% drop in turnover from RM42.8 million in the immediate preceding quarter to RM38.5 million for the quarter under review. Profitability of this segment remained resilient registering only a marginal drop from RM5.0 million in the immediate preceding quarter to RM4.9 million for the quarter under review.

Cocoa manufacturing and marketing business continued to be challenged by poor cocoa butter ratio resulting in 9.9% drop in turnover from RM26.5 million in the immediate preceding quarter to RM23.9 million for the quarter under review. This resulted in a reduction in profit contribution from RM4.0 million in the immediate preceding quarter to RM1.0 million for the quarter under review.

### **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 rising raw material cost and from new entrants in the industry. Meanwhile, gross margin of this segment continued to be exposed to foreign currencies risk particularly EURO and USD. As mitigation, the Group will continue to adopt a prudent hedging policy of these currencies. The Group will also focus its strategic 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 be challenged by poor cocoa butter ratio. Nonetheless, this segment will continue its effort to remain resilient through strengthening of its supply chain management and optimization of its 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 September</u> <u>2006</u> <u>RM'000</u>	<u>30 September</u> <u>2005</u> <u>RM'000</u>
Current tax:		
Malaysian income tax	6,723	7,476
Foreign tax	-	-
Under/(over) provided in prior years:		
Malaysian income tax	(411)	(54)
Foreign tax	-	9
Deferred tax:		
Relating to origination and reversal of temporary differences	(93)	356
Under/(over) provided in prior years	(10)	-
	<u>6,209</u>	<u>7,787</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.

## 9. Group Borrowings and Debt Securities

	As at 30 Sep 06 RM'000	As at 31 Dec 05 RM'000
<b>Total Group borrowings</b>		
- secured	114,142	63,900
- unsecured	55,639	47,568
<b>Short term borrowings</b>		
- secured	53,316	15,000
- unsecured	55,639	47,568
<b>Long term borrowings</b>		
- secured	60,826	48,900
- unsecured	-	-

Included in long and short term borrowings are RM80.0 million Al-Murabahah Papers/Medium Term Notes at a nominal value of RM1.0 million each, with a carrying value of RM80.0 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	18,460

## 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>30.09.2006</u>	<u>31.12.2005</u>
	<u>RM'000</u>	<u>RM'000</u>
Forward foreign exchange contracts	14,532	14,213
Ratio forward agreements	3,667	-
	<b>18,199</b>	<b>14,213</b>

## 11. Changes in material litigation

There is no change to the status of the material litigations since the last quarter.

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 suit is now fixed for trial on 9 July 2007 to 13 July 2007.

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 fixed for 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 September 2006 (30 September 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</u>	
	<u>September</u>	<u>September</u>	<u>September</u>	<u>September</u>
	2006	2005	2006	2005
		(restated)		(restated)
Net profit for the period/quarter (RM'000)	12,226	8,911	32,801	28,168
Weighted average number of ordinary shares in issue ('000)	366,541	329,462	366,541	329,462
Basic earnings per ordinary share (sen)	3.34	2.70	8.95	8.55

**Diluted earnings per share**

	<u>Quarter ended 30</u>		<u>YTD ended 30</u>	
	<u>September</u>	<u>2005</u>	<u>September</u>	<u>2005</u>
	2006	(restated)	2006	(restated)
Net profit for the period/quarter (RM'000)	12,226	8,911	32,801	28,168
Weighted average number of ordinary shares in issue ('000)	370,426	337,967	370,426	337,967
Diluted earnings per ordinary share (sen)	3.30	2.64	8.85	8.33

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 3,885,090 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)	366,541
Effect of ESOS ('000)	3,885
Weighted average number of ordinary shares (diluted) ('000)	<u>370,426</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 24 November 2006.