TSH RESOURCES BERHAD (49548-D)
(Incorporated in Malaysia)

EXPLANATORY NOTES FOR INTERIM FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 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 31 December 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:

	As at 1 Jan 2006
	RM'000
Decrease in retained earnings	(89)
Increase in ESOS reserve (included within capital reserve)	89

	Quarter ended		**YTD ended**	
	31.12.2006	**31.12.2005**	**31.12.2006**	**31.12.2005**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Increase/(decrease) in profit for the period	(188)	7	(305)	(89)

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		
	Previously stated RM'000	FRS 2 (Note 2(a)) RM'000	FRS 101 (Note 2(b)) RM'000	Restated RM'000
As at 31 Dec 2005				
Retained profit	192,670	(89)	-	192,581
12 months ended 31 December 2005				
Profit before tax	49,450	(89)	-	49,361
Profit after tax	35,466	(89)	-	35,377

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

	12 months period ended 31 December 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	371,768	167,139	102,704		
Inter-segment sales					
Total segment revenue	371,768	167,139	102,704		641,612
RESULT					
Segment results	49,550	18,969	9,686		78,205
Unallocated corporate expenses					(6,733)
Operating profit					71,472
Interest expenses					(8,163)
Interest income					1,288
Share of profits/(loss) of jointly controlled entities					512
Income taxes					(5,253)
Profit from ordinary activities					59,856
Gain on disposal of shares in subsidiary					-
Minority interest					(9,284)
Net profit for the period					50,572
OTHER INFORMATION					
Segment assets	434,747	288,255	99,467		822,469
Investment in jointly controlled entities					21,171
Unallocated corporate assets					33,525
Consolidated total assets					877,164
Segment liabilities	141,276	86,727	40,025		268,029
Unallocated corporate liabilities					109,779
Consolidated total liabilities					377,807
Capital expenditure	84,226	8,699	2,822		
Depreciation	13,331	4,939	1,740		
Amortisation	2,961	106	-		
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	528,678	711,894	37,018
Europe	51,017	34,484	9

	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	16,785	9,578	1
Indonesia	45,132	121,208	58,718
	641,612	877,164	95,746

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 31 December 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 31 December 2006. The cumulative shares bought back are held as treasury shares.

The number of treasury shares held as at 31 December 2006 is as follows:

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

The number of issued and fully paid-up ordinary shares of the Company increased from 368,650,263 to 368,777,263 during the quarter ended 31 December 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 September 2006	0.50	-	368,650,263
Exercise of ESOS[1]	0.50	127,000	368,777,263

[1] 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 31 December 2006:-

Ekowood International Bhd, a subsidiary of TSH Resources Bhd had on 1 November 2006 incorporated a wholly-owned subsidiary, Alden SASU in France with a share capital of EURO37,000 which represented by 3,700 share having a par value of EURO10 each.

13. Discontinued operation

There was no discontinued operation during the quarter ended 31 December 2006.

14. Capital commitments

There is no material capital commitments not provided for in the interim financial statements as at 31 December 2006.

Commitment in respect of capital expenditure as at 31 December 2006 is as follow:-

	RM'000
Approved and contracted for	44,087
Approved but not contracted for	107,845

15. Changes in contingent liabilities or contingent assets

There was no change 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:-

As announced on 15 January 2007, TSH Resources Bhd had on the even date incorporated two (2) wholly-owned subsidiaries in the Republic of Singapore namely Abaca Enterprise Pte Ltd ("Abaca") and Jatoba International Pte Ltd ("Jatoba") with share capital of SGD10,000 which represented by 10,000 share having par value of SGD1 each for each subsidiary company.

As announced, Jatoba had on 16 January 2007 entered into a conditional sale and purchase agreement to acquire 3,600 ordinary shares of Rps1 million each, representing 90% of the entire issued and paid-up capital in P.T. Sarana Prima Multi Niaga for a total consideration of USD25.2 million or equivalent to RM88.704 million inclusive of liabilities to be assumed.

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

1. Performance review

The Group registered a turnover of RM641.6 million for the twelve-month ended 31 December 2006 representing an increase of 18.5% as compared to turnover of RM541.4 million for the corresponding period of the preceding financial year.

Profit before tax ("PBT") stood at RM65.1 million for the twelve months ended 31 December 2006 as compared to RM49.4 million for the corresponding period of the preceding financial year.

Palm bio-integration segment registered a higher turnover of RM115.0 million for the quarter under review as compared to the preceding year corresponding quarter of RM68.3 million, due to higher crude palm oil price during the quarter under review and contribution from recently acquired Indonesian-based subsidiary, PT Laras Internusa. Segmental result for the quarter under review also recorded an increase from RM5.9 million during the preceding year corresponding quarter to RM18.9 million for the quarter under review.

Wood products segment posted a higher turnover of RM45.9 million for the quarter under review as compared to the preceding year corresponding quarter of RM30.9 million following increase in sales volume. Strengthened result for the quarter under review of RM4.7 million as compared to RM0.8 million in the preceding year corresponding quarter was attributed primarily to stabilisation of EURO, higher sales volume and improved margin through enhanced cost leadership.

Turnover of cocoa manufacturing and marketing business decreased to RM21.0 million for the quarter under review compared to RM26.1 million in the preceding year corresponding quarter due to lower cocoa butter ratio despite improved throughput. Profitability for the quarter under review was also affected by a drop in 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 higher turnover of RM181.9 million for the quarter under review as compared to RM152.0 the immediate preceding quarter following improved crude palm oil and palm kernel prices and higher sales volume achieved in wood products segment. Nonetheless, turnover was slightly softened by further adverse movement in cocoa butter ratio in last quarter of 2006. The improvement in turnover translated to a higher pre-tax of RM20.4 million as compared to RM16.1 million in the immediate preceding quarter.

Palm bio-integration registered a higher turnover and profit contribution of RM115.0 million and RM18.9 million respectively against a corresponding turnover and profit contribution of RM89.5 million and RM12.3 million in the immediate preceding quarter. The improvement is attributed to positive movements in crude palm oil and palm kernel prices as well as increase in electricity output from our biomass cogeneration power plant during the quarter under review.

Higher sales volume recorded in wood products segment for the quarter under review resulted in a 19.1% growth in turnover from RM38.5 million in the immediate preceding quarter to RM45.9 million for the quarter under review. However, profitability of this segment was slightly dampened by decrease in margin due to strengthening of Ringgit against major trading currencies and variation in sales mix, resulting in a marginal drop from RM4.9 million in the immediate preceding quarter to RM4.7 million for the quarter under review.

Cocoa manufacturing and marketing business continued to be challenged by poor cocoa butter ratio resulting in 12.1% drop in turnover from RM23.9 million in the immediate preceding quarter to RM21.0 million for the quarter under review. Nonetheless, profitability remained resilient with marginal increase in profit contribution from RM1.0 million in the immediate preceding quarter to RM1.5 million for the quarter under review.

3. Commentary on the prospects

The performance of the palm bio-integration segment for 2007 is expected to remain favourable on expectation of satisfactory FFB crop from own estate and favourable palm product prices.

Existing Indonesian-based subsidiaries are envisaged to contribute positively towards the Group while another in the Group’s acquisition pipeline is expected to promote further growth.

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 continue its focus and 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

	31 December 2006 RM'000	31 December 2005 RM'000
Current tax:		
Malaysian income tax	8,757	4,470
Foreign tax	389	55
Under/(over) provided in prior years:		
Malaysian income tax	(411)	(572)
Foreign tax	-	-
Deferred tax:		
Relating to origination and reversal of temporary differences	(2,753)	1,158
Under/(over) provided in prior years	(728)	9,352
	5,253	14,463

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 except for the following:-

As announced on 5 December 2006, TSH Resources Bhd had the even date acquired a total of 10,000,000 ordinary shares of RM1.00 each, representing 10% equity interest in Sinora Industries Berhad, a company listed on the Main Board of Bursa Malaysia.

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 except for the following:-

As announced, Jatoba had on 16 January 2007 entered into a conditional sale and purchase agreement to acquire 3,600 ordinary shares of Rps1 million each, representing 90% of the entire issued and paid-up capital in P.T. Sarana Prima Multi Niaga for a total consideration of USD25.2 million or equivalent to RM88.704 million inclusive of liabilities to be assumed.

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 31 Dec 06 RM'000	**As at 31 Dec 05 RM'000**
Total Group borrowings		
- secured	123,621	63,900
- unsecured	62,498	47,568
Short term borrowings		
- secured	65,252	15,000
- unsecured	62,498	47,568
Long term borrowings		
- secured	58,369	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	17,738

10. Off balance sheet financial instruments

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

	Notional amount as at	
	31.12.2006 RM'000	**31.12.2005 RM'000**
Forward foreign exchange contracts	14,075	14,213
Ratio forward agreements	1,098	-
	15,173	**14,213**

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

(a) (i) No interim ordinary dividend had been declared for the current quarter ended 31 December 2006.

(ii) An interim tax exempt dividend of 10% or 5.0 sen per ordinary shares of RM0.50 each for the financial year ended 31 December 2005 had been declared.

(b) Save for the above, the Company has not declared any dividend for the financial year ended 31 December 2006.

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.

	Quarter ended 31 December		YTD ended 31 December	
	2006	**2005 (restated)**	**2006**	**2005 (restated)**
Net profit for the period/quarter (RM'000)	17,771	604	50,572	28,772
Weighted average number of ordinary shares in issue ('000)	367,113	316,867	367,113	316,867
Basic earnings per ordinary share (sen)	4.84	0.19	13.78	9.08

Diluted earnings per share

	Quarter ended 31 December		YTD ended 31 December	
	2006	**2005 (restated)**	**2006**	**2005 (restated)**
Net profit for the period/quarter (RM'000)	17,771	604	50,572	28,772
Weighted average number of ordinary shares in issue ('000)	371,055	324,952	371,055	324,952
Diluted earnings per ordinary share (sen)	4.79	0.19	13.63	8.85

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 3,942,000 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)	367,113
Effect of ESOS ('000)	3,942
Weighted average number of ordinary shares (diluted) ('000)	371,055

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 February 2007.