

**EXPLANATORY NOTES FOR CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED 30  
SEPTEMBER 2010**

**PART A – EXPLANATORY NOTES PURSUANT TO FRS 134**

**1. Basis of preparation**

The condensed consolidated interim financial statements have been prepared in accordance with the requirements of FRS 134: Interim Financial Reporting and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) and should be read in conjunction with the Group’s audited financial statement for the financial year ended 31 December 2009.

These explanatory notes attached to the condensed consolidated interim financial statements provide an explanation of events and transactions that significant to the understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2009.

**2. Significant accounting policies**

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2009 except for the following Financial Reporting Standards (FRSs), Amendments to FRSs and Interpretations with effect from 1 January 2010.

**FRSs, Amendments to FRSs and Interpretations**

FRS 7	Financial Instruments Disclosures
FRS 8	Operating Segments
FRS 101	Presentation of Financial Statement (Revised 2009)
FRS 123	Borrowing Costs
FRS 139	Financial Instruments : Disclosures
Amendment to FRS 1	First Time Adoption of Financial Reporting Standards
Amendment to FRS 2	Share-based Payment – Vesting Conditions and Cancellations
Amendment to FRS 7	Financial Instruments: Disclosures
Amendment to FRS 8	Operating Segments
Amendment to FRS 107	Statement of Cash Flows
Amendment to FRS 108	Accounting policies, Changes in Accounting estimates and Errors
Amendment to FRS 110	Events after the Reporting Period
Amendment to FRS 116	Property, Plant and Equipment

## 2. Significant accounting policies (cont'd)

### FRSs, Amendments to FRSs and Interpretations (cont'd)

Amendment to FRS 117	Leases
Amendment to FRS 118	Revenue
Amendment to FRS 119	Employee Benefits
Amendment to FRS 120	Accounting for Government grants and Disclosures of Government Assistance
Amendment to FRS 123	Borrowing Costs
Amendment to FRS 128	Investments in Associates
Amendment to FRS 132	Financial Instruments: Presentation
Amendment to FRS 134	Interim Financial Reporting
Amendment to FRS 136	Impairment of Assets
Amendment to FRS 139	Financial Instruments: Recognition and Measurement
Amendment to FRS 140	Investment Property
IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 10	Interim Financial Reporting and Impairment
IC Interpretation 11	FRS 2 - Group and Treasury Shares Transactions

Other than for the application of FRS 8, FRS 101, FRS 117 and FRS 139, the application of the above FRSs, Amendments to FRSs and Interpretation did not result in any significant changes in the accounting policies and presentation of the financial results of the Group.

#### **i. FRS 8: Operating Segments**

The Group's segmental reporting had been presented based on the internal reporting to chief operating decision maker who makes decisions on the allocation of resources and assesses the performance of the reportable segments. This Standard only affects the presentation and disclosure aspects and has no impact on the financial position and results of the Group.

#### **ii. FRS 101: Presentation of Financial Statements**

The Consolidated Statement of Changes in Equity will reflect details of transactions with owners and non-owners. All non-owner changes in equity are presented as a single line labeled as total comprehensive income. Comparative information have been re-presented so that it is also in conformity with the revised standard. This Standard only affects the presentation and disclosures aspects and has no impact on the financial position and results of the Group.

#### **iii. Amendment to FRS 117: Leases**

The amendment clarifies the classification of lease of land and requires entities with existing leases of land and buildings to reassess the classification of land as finance or operating lease. Leasehold land which in substance is a finance lease will be reclassified to Property, Plant and Equipment. The adoption of this amendment will result in a change in accounting policy which will be applied retrospectively in accordance with the transitional provisions. The reclassification of leasehold land from prepaid land lease payments to Property, Plant and equipment has been accounted for retrospectively and certain comparatives as at 31 December 2009 have been restated as follows:

## 2. Significant accounting policies (cont'd)

### FRSs, Amendments to FRSs and Interpretations (cont'd)

#### iii. Amendment to FRS 117: Leases (cont'd)

Restated	Previously stated RM'000	Adjustment RM'000	Restated RM'000
<b>Non-current Assets</b>			
Property, Plant & Equipment	527,199	72,066	599,265
Prepaid Lease Payment	191,760	(72,066)	119,694

#### iv. FRS 139: Financial Instruments, Recognition and Measurement

The Standard sets out the new requirements for the recognition and measurement of financial instrument.

A financial instrument is recognized in the financial statements when, and only when, the Group becomes a party to the contractual provisions of the instrument. A financial instrument is recognized initially, at its fair value.

Subsequent measurement of those instruments at the balance sheet date reflects the designation of the financial instruments. Except for those financial instruments measured at fair value through profit and loss, the Group determines the classification at initial recognition and re-evaluates this designation at each year end.

#### Financial Assets/Liabilities

##### a. Financial Assets/Liabilities at fair value through profit and loss.

Fair value through profit and loss category comprises financial assets/liabilities that are held for trading including derivatives or specifically designated into these categories upon initial recognition.

##### b. Loans and receivables

Prior to 1 January 2010, loans and receivables were stated at gross receivables less provision for doubtful debts. Under FRS 139, loans and receivables are initially measured at fair value and subsequently at amortised cost using effective interest rate method. Gains and losses arising from the derecognition of the loans and receivables, amortization and impairment losses are recognized in the income statement.

##### c. Available for sale (AFS)

Prior to 1 January 2010, AFS financial assets such as investments were accounted for at cost less impairment losses or at the lower of cost and market value. Under FRS 139, AFS financial asset is measured at fair value initially and subsequently with unrealized gains or losses recognized as other comprehensive income in the AFS reserve until the investment is derecognized or impaired. Other AFS financial asset is measured at cost if the unquoted equity instrument is not carried at fair value because its fair value cannot be reliably measured.

## 2. Significant accounting policies (cont'd)

### FRSs, Amendments to FRSs and Interpretations (cont'd)

#### d. Derivatives Financial Instruments

Prior to adoption of FRS 139, derivative contracts are recognized in the financial statements on settlement date. With the adoption of FRS 139, derivative contracts are now required to be initially recognized at fair value on the date the contract is entered into and subsequently at fair value at each period ending. Any gains and losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in income statement, however, where derivatives are designated as hedge instrument which are accounted for in accordance with hedge accounting requirements as described in the hedge accounting policy as detailed below.

#### e. Hedge accounting

##### Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such as asset, liability or firm commitment, that is attributable to a particular risk and could affect the profit and loss.

In a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value is recognized in profit or loss. The gain or loss on the hedged item attributable to the hedged risk is adjusted to the carrying amount of the hedged item and recognized in profit or loss.

#### Impact on opening balances

In accordance with the transitional provisions of FRS 139, the above changes are applied prospectively and the comparatives as at 31 December 2009 are not restated. Instead, the changes have been accounted for by restating the following opening balances in the balance sheet as at 1 January 2010.

	Previously stated RM'000	Effect of FRS 139 RM'000	As restated RM'000
<b>Assets</b>			
Investment in jointly controlled entities	46,668	(33)	46,635
Other investments	17,536	(17,536)	-
Marketable securities	70	(70)	-
AFS investments	-	17,606	17,606
Inventories	232,650	3,003	235,653
Derivative assets	-	208	208
<b>Liabilities</b>			
Deferred tax liabilities	74,004	3	74,007
Derivative liabilities	-	3,003	3,003
<b>Equity</b>			
Reserves	521,263	169	521,432
<b>Minority interest</b>	87,103	3	87,106

**3. Auditors' report on preceding annual financial statements**

The auditors' report on the financial statements for the year ended 31 December 2009 was not qualified.

**4. 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 Main Market Listing Requirements of Bursa Securities below.

**5. 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 financial period ended 30 September 2010.

**6. Changes in estimates**

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

**7. Debt and equity securities**

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

**Treasury shares**

There was no additional share bought back from the open market during the quarter ended 30 September 2010. The cumulative shares bought back are currently held as treasury shares.

The number of treasury shares held as at 30 September 2010 is as follows:

	<b>No. of shares</b>	<b>Amount (RM)</b>
Balance as at 1 June 2010	4,598,100	5,355,963
Add : Purchase of treasury shares	-	-
	4,598,100	5,355,963
Less : Sale of treasury shares	-	-
Balance as at 30 September 2010	4,598,100	5,355,963

There were no movement of issued and fully paid-up ordinary shares of the Company during the quarter ended 30 September 2010.

**8. Dividends paid**

There were no dividends paid in respect of the quarter ended 30 September 2010.

**9. Segmental information**

i) Business segments

Cumulative Quarter ended 30 September 2010				
	Palm & Bio- Integration RM'000	Wood product manufacturing & forestation RM'000	Cocoa manufacturing RM'000	Consolidated RM'000
<b>SEGMENT REVENUE</b>	554,650	52,521	55,046	662,217
<b>SEGMENT RESULTS</b>	85,608	(2,171)	4,697	88,134
Unallocated expenses				(11,200)
Finance costs				(17,498)
Share of profit of an associate				1,059
Share of profit of jointly controlled entities				2,251
Profit before taxation				62,746
Income taxes				(17,475)
Cumulative profit up to 30 September 2010				45,271
<b>OTHER INFORMATION</b>				
<b>SEGMENTS ASSETS</b>				
Investment in jointly controlled entities	1,175,638	292,514	125,409	1,593,561
Investment in associate				48,885
Unallocated assets				58,672
Consolidated total assets				93,299
				1,794,417
<b>SEGMENT LIABILITIES</b>				
Unallocated liabilities	735,025	54,039	70,144	859,208
Consolidated total liabilities				117,253
				976,461

## 9. Segmental information (cont'd)

### ii) Geographical segments

	Total revenue from external customers RM'000	Segment Assets RM'000
Malaysia	460,341	1,156,691
Europe	42,602	19,596
United States of America	25,534	5,284
Indonesia	102,703	611,567
Middle East	13,134	-
South West Pacific	4,468	-
Others	13,435	1,279
Total	662,217	1,794,417

## 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 2009. 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. Changes in composition of the Group

- (a) On 26 May 2010, the Company had entered into a Share Sale Agreement to acquire 100 ordinary shares of USD1.00 each, representing 100% equity interest in Mildura Investment Pte Ltd ("Mildura") from Portvest Pte Ltd ("the Vendor") for a purchase consideration of USD4,950,132 (approximately RM15,828,047).
- (b) On 12 May 2010, the Company subscribed renounceable right issue of 33,750,000 ordinary shares of RM1.00 each in Innoprise Plantations Berhad, on the basis of 3 new ordinary shares for every 1 existing share held after share consolidation at an issue price of RM1.00 each for a total consideration of RM33,750,000. Subsequently on 11 August 2010, the Company disposed of 1,090,001 shares for a total consideration of RM1,090,001. Following the disposal, the Company holds 23% equity interest in Innoprise Plantations Berhad comprising 43,909,999 ordinary shares of RM1.00 each.

## 12. Discontinued operation

There was no discontinued operation during the quarter ended 30 September 2010.

**13. Capital commitments**

The amount of commitments for capital expenditure as at 30 September 2010 is as follows:

	As at 30.09.2010 RM'000	As at 31.12.2009 RM'000
Approved and contracted for	33,262	70,944
Approved but not contracted for	9,662	5,737
	<u>42,924</u>	<u>76,681</u>

**14. 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 2009.

**15. Material related party transactions**

Significant transactions between the Group and its jointly controlled entities are as follows:

	<b>9 months ended 30 September 2010 RM'000</b>
Sales of crude palm oil	368,060
Sales of palm kernel	53,533
Purchase of crude palm oil	11,122

**16. Subsequent events**

There were no significant events after the quarter ended 30 September 2010.



## **PART B - EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA SECURITIES**

### **1. Performance review**

For the current quarter, the Group recorded an increase of 5.2% in revenue to RM214.3 million as compared to RM203.7 million in the previous corresponding quarter. For the period ended 30 September 2010, Group revenue was at RM662.2 million compared with RM696.4 million recorded in preceding year corresponding period.

The Group posted a profit before taxation of RM27.1 million as compared to RM26.9 million in the previous corresponding quarter. For the period ended 30 September 2010, profit before taxation was RM62.7 million compared with RM62.1 million registered last year.

The Palm and Bio-Integration business segment's performance improved as a result of higher CPO prices and better FFB yield per Ha. The Cocoa Manufacturing segment also reported a better result due to improved margin. The Wood Products segment continues to be affected by its competitive environment and given the bulk of the revenue are export orientated, it was affected by the strong Ringgit Malaysia against the foreign currencies.

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

The Group's revenue of RM214.3 million for the quarter under review was 3.3% higher than the immediate preceding quarter of RM207.5 million. The Group posted a profit before taxation of RM27.1 million as compared to RM17.7 million in the immediate preceding quarter.

As mentioned above, the results under Palm and Bio-Integration segment is favourable owing to higher CPO prices and better FFB yield. The Wood Products segment also recorded higher revenue against previous quarter due to strengthening of Euro denominated sale. This segment registered a marginal profit due to contribution from forestry operation. The results of Cocoa Manufacturing segment also improved albeit with lower revenue.

### **3. Commentary on the prospects**

Wood Products segment is currently operating in a competitive environment and given the current strong Ringgit Malaysia currency against the foreign currencies, the contribution from this segment is not expected to be significant. For the Cocoa Manufacturing segment, performance in the coming months is expected to be challenging given the volatility of demand and supply of its finished products in the global market.

In the Palm and Bio-Integration business segment, palm oil prices are currently trading at reasonably good level in tandem with the surge in agricultural prices and increase in cooking oil consumption in China and India. With the palm oil prices expected to remain at the current level in the coming months, the Group is expected to achieve a satisfactory level of profitability.

#### 4. Profit forecast or profit guarantee

The Group is not involved in any profit guarantee arrangement or providing any forecast profit.

#### 5. Income Tax Expense

	Year to date 30.09.2010 <u>RM'000</u>	Year to date 30.09.2009 <u>RM'000</u>
Current tax:		
Malaysian income tax	8,247	6,598
Foreign tax	4,749	5,527
Under/(over) provision in prior year		
Malaysian income tax	10	(4,640)
Foreign tax	-	(4)
Deferred tax:		
Relating to origination and reversal of temporary differences	4,469	(1,762)
	<u>17,475</u>	<u>5,719</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

##### a) Status of corporate proposals

As at the date of this report, the status of corporate proposal announced but not completed is as follows:

As announced, the Company had on 7 January 2010 entered into Conditional Share Sale Agreement to acquire 500 ordinary shares of Rp1 million each, representing 100% equity interest in PT Bulungan Citra Agro Persada ("PTBCAP") for a total purchase consideration of USD5.0 million (approximately RM17.0 million based on an exchange rate of USD1.00 for RM3.40) inclusive of liabilities to be assumed ("Proposed Acquisition").

PTBCAP was incorporated in the Republic of Indonesia on 15 February 2005 as a limited liability company established and existing under the Laws of the Republic of Indonesia with an authorized capital of Rp2 billion comprising 2,000 ordinary shares of Rp1 million each of which 500 ordinary shares have been issued and fully paid up.

## 8. Corporate Proposals (cont'd)

### a) Status of corporate proposals (cont'd)

PTBCAP owns 20,000 hectares of land located at Desa Tanah Kuning, Mangkupadi, Kecamatan Tanjung Palas Timur, Kabupaten Bulungan, Propinsi Kalimantan Timur, Indonesia with “ijin lokasi” and “ijin usaha perkebunan” status of which approximately 1,200 hectares have been planted with oil palm since 2007.

The Proposed Acquisition is subject to the fulfilment of certain conditions precedent, inter-alia, the approval of the Indonesian Investment Co-ordinating Board (“BKPM”) for the conversion of PTBCAP into a foreign investment component and fulfilment of the Plasma development programme.

The Proposed Acquisition will increase the Group’s oil palm plantation area in Indonesia.

None of the Directors or substantial shareholders of TSH or any person connected to the Directors and substantial shareholders has any interest, direct or indirect, in the Proposed Acquisition.

## 9. Group Borrowings and Debt Securities

Comprised :

	As at 30.09.2010 RM'000	As at 31.12.2009 RM'000
<b>Total Group borrowings</b>		
- secured	394,187	365,338
- unsecured	308,719	237,686
<b>Short term borrowings</b>		
- secured	128,266	105,137
- unsecured	278,635	191,484
<b>Long term borrowings</b>		
- secured	265,921	260,201
- unsecured	30,084	46,202

All borrowings are denominated in Ringgit Malaysia, except for the following loans:

	USD'000	RM'000 Equivalent
PT Laras Internusa	9,490	29,281
PT Sarana Prima Multi Niaga	21,250	65,567
TSH Resources Berhad	9,509	29,340
Jatoba International Pte Ltd	13,000	40,112
Total	<u>53,249</u>	<u>164,300</u>

#### 10. Financial instruments

As a result of adoption of FRS 139: Financial instruments, Recognition and Measurement, forward foreign currency contracts and commodity futures contracts which were previously classified as off balance sheet financial instruments have now been recognized in the balance sheet as derivative instruments as follows:

Type of Derivatives	Contract / Notional amount RM'000	Fair Value RM'000
<b>Forward Foreign Exchange Contracts</b> - Less than 1 year	69,788	1,277
<b>Commodity Futures Contracts</b> - Less than 1 year	64,174	8,462

The management objectives and policies in respect of the above derivatives and its various risk management are consistent with those adopted during the last financial year ended 31 December 2009.

#### 11. Changes in material litigation

The Group is not engaged in any material litigation and is not aware of any proceedings which might materially affect the Group for the current financial period.

#### 12. Proposed Dividend

The Company did not declare any interim dividend for the current quarter ended 30 September 2010.

### 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 Berhad by the weighted average number of ordinary shares in issue during the period, excluding treasury shares held by the Company.

	<u>Quarter ended</u> <u>30 September</u>		<u>YTD ended</u> <u>30 September</u>	
	2010	2009	2010	2009
Net profit for the period/quarter (RM'000)	18,242	23,433	40,831	51,840
Weighted average number of ordinary shares in issue ('000)	409,490	409,031	409,490	409,031
Basic earnings per ordinary share (sen)	4.45	5.73	9.97	12.67

#### (b) Diluted earnings per share

	<u>Quarter ended</u> <u>30 September</u>		<u>YTD ended</u> <u>30 September</u>	
	2010	2009	2010	2009
Net profit for the period/quarter (RM'000)	18,242	23,433	40,831	51,840
Weighted average no. of ordinary shares in issue ('000)	409,490	409,031	409,490	409,031
Effect of ESOS ('000)	1,565	3,378	1,565	3,378
Weighted average no. of ordinary shares in issue ('000)	411,055	412,409	411,055	412,409
Diluted earnings per ordinary share (sen)	4.44	5.68	9.93	12.57

The diluted earnings per share is calculated by dividing the net profit for the period by the weighted average number of ordinary shares in issue during the period.

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.

### 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 18 November 2010.