

**EXPLANATORY NOTES FOR CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS FOR THE FINANCIAL QUARTER ENDED 30 JUNE  
2014**

**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 2013.

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 2013.

**2. Significant accounting policies**

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2013 except for the following Financial Reporting Standards (FRSs), Amendments to FRSs and Interpretations which take effect from 1 January 2014.

<b>Description</b>	<b>Effective for annual periods beginning on or after</b>
Amendments to FRS 132: Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to FRS 10, FRS 12 and FRS 127 : Investment Entities	1 January 2014
Amendments to FRS 136: Recoverable Amount Disclosures for Non-financial Assets	1 January 2014
Amendments to FRS 139: Novation of Derivation and Continuation of Hedge Accounting	1 January 2014
IC Interpretation 21: Levies	1 January 2014

The adoption of the above did not have any significant effects on the interim financial report upon their initial application.

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

### **Malaysian Financial Reporting Standards (MFRS Framework)**

On 19 November 2011, the Malaysian Accounting Standards Board (MASB) issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (MFRS Framework).

The MFRS Framework has been applied by all entities other than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture (MFRS 141) and IC Interpretation 15 Agreements for Construction of Real Estate (IC 15), including its parent, significant investor and venturer (herein called 'Transitioning Entities').

Transitioning Entities would be allowed to defer adoption of the new MFRS framework for additional three year. MFRS will therefore be mandated for all companies for annual period beginning on or after 1 January 2015.

The Group falls within the scope definition of Transitioning Entities and accordingly, will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 31 December 2015. In presenting its first MFRS financial statements, the Group will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening retained earnings.

Accordingly, the consolidated financial performance and financial position as disclosed in these financial statements for the period ended 30 June 2014 could be different if prepared under the MFRS Framework.

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

The auditors' report on the financial statements for the year ended 31 December 2013 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**

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows during the financial period ended 30 June 2014.

## **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

The cumulative shares bought back are currently held as treasury shares. The number of treasury shares held as at 30 June 2014 is as follows:

	<b>No. of shares</b>	<b>Amount (RM)</b>
Balance as at 1 January 2014/ 31 March 2014	6,885,900	12,258,848
Add : Purchase of treasury shares	1,000	3,505
	6,886,900	12,262,353
Less : Sale of treasury shares	-	-
Balance as at 30 June 2014	6,886,900	12,262,353

The movement of the issued and fully paid-up ordinary shares of the Company during the quarter and the financial year to date ended 30 June 2014 are as follows:

<b>Particulars</b>	<b>Par value (RM)</b>	<b>Cumulative number of shares</b>
Balance as at 1 January/ 30 June 2014	0.50	903,828,533

## 8. Dividends paid

A first and final single tier dividend of 3.5 sen per ordinary shares for the year ended 31 Dec 2013, amounted to RM 31,392,957.22 was paid on 23 June 2014.

## 9. Segmental information

### i) Business segments

Cumulative Quarter ended 30 June 2014

	Palm & Bio-Integration RM'000	Wood product manufacturing & forestation RM'000	Others RM'000	Consolidated RM'000
<b>SEGMENT REVENUE</b>	529,851	20,362	38,714	588,927
<b>SEGMENT RESULTS</b>	126,977	365	6,024	133,366
Unallocated expenses				(13,354)
Finance costs				(9,659)
Share of profit of an associate				1,345
Share of profit of jointly controlled entities				4,759
Profit before taxation				116,457
Income taxes				(20,569)
Cumulative profit up to 30 June 2014				95,888
<b>OTHER INFORMATION</b>				
<b>SEGMENTS ASSETS</b>	1,759,110	342,128	26,651	2,127,889
Investment in jointly controlled entities				85,496
Investment in associate				60,865
Unallocated assets				157,974
Consolidated total assets				2,432,224
<b>SEGMENT LIABILITIES</b>	727,296	34,891	10,569	772,756
Unallocated liabilities				432,379
Consolidated total liabilities				1,205,135

### ii) Geographical segments

	Total revenue from external customers RM'000	Segment Assets RM'000
Malaysia	363,219	1,307,280
Europe	4,008	8,731
United States of America	18,758	4,189
Indonesia	192,886	1,110,920
Middle East	1,888	-
South West Pacific	3,272	-
Others	4,896	1,104
<b>Total</b>	<b>588,927</b>	<b>2,432,224</b>

## 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 2013. The land, buildings and plantations of the Group were valued by the Directors in 1993 based on professional appraisals by an independent valuer using open market values on an existing use basis.

## 11. Changes in composition of the Group

- (a) On 6 December 2013, the Company entered into a Share Sale Agreement (“SSA”) to acquire 300,000 ordinary shares of RM1.00 each, representing 60% of the issued and paid-up share capital in Sg Kalabakan Estate Sdn. Bhd. (“SKE”) for a purchase consideration of RM150,000,000 and assumption of liabilities of not more than RM30,000,000 from Ratus Awansari Sdn. Bhd. (“RASB”).

The SSA had automatically lapsed following the non-fulfilment of certain conditions precedent on or before the extended Conditional Period of 5 July 2014. These conditions precedent relate to the non-receipt of the relevant written consents and/or documents.

- (b) PT Aramico Komoditi (“PTAK”), a 74.42% owned subsidiary of the Company has been placed under voluntary winding-up in accordance with the laws in Indonesia since 26 October 2011. The voluntary winding-up of PTAK is currently pending for final completion.
- (c) Afromal Cocoa Limited (“Afromal”), a dormant and wholly-owned subsidiary of CocoaHouse Sdn. Bhd., which in turn is a wholly-owned subsidiary of TSH has on 13 December 2013 commenced a voluntary winding-up in accordance with the laws of Accra, Ghana. The voluntary winding-up of Afromal is currently pending for final completion.

## 12. Discontinued operation

There was no discontinued operation during the quarter ended 30 June 2014.

## 13. Capital commitments

The amount of commitments for capital expenditure as at 30 June 2014 is as follows:

	As at 31.03.2014 RM’000	As at 31.12.2013 RM’000
Approved and contracted for	16,654	21,037
Approved but not contracted for	24,997	11,505
	<u>41,651</u>	<u>32,542</u>

**14. Changes in contingent liabilities or contingent assets**

	As at 30.06.2014 RM'000	As at 31.12.2013 RM'000
Guarantee given to PT. Bank CIMB Niaga, TBK, to secure loan for Pembangunan Kebun Kelapa Sawit Plasma under a Plasma Scheme	15,654	14,886

**15. Material related party transactions**

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

	<b>6 months ended 30 June 2014 RM'000</b>
Sales of crude palm oil	272,783
Sales of palm kernel	50,241

**16. Subsequent events**

- (a) On 14 July 2014, the Company entered into a Share Sale Agreement to acquire 2 ordinary shares of RM1.00 each, representing the entire issued and paid-up share capital in Icon Field Ventures Sdn Bhd ("Icon") for a total purchase consideration of USD7,650,000 (approximately RM24,480,000 based on an exchange rate of USD1.00 for RM3.20) from Wingate Consolidation Limited.

Icon is a private limited company, incorporated in Malaysia on 9 June 2014 with an issued and paid-up share capital of RM2 comprising 2 ordinary shares of RM1 each. Icon is the beneficial owner of 90% of the entire share capital of PT Prima Usaha Sukses.

As at to-date, certain condition precedents pertaining to the acquisition of Icon had not been fulfilled by both parties and the acquisition of icon has not completed.

- (b) On 11, August, 2014, the Company proposed to undertake a bonus issue of up to 451,914,266 new TSH Shares to be credited as fully paid-up on the basis of one (1) Bonus Share for every two (2) existing TSH Shares held on an entitlement date to be determined later.

The proposed Bonus Issues, subject to all relevant approvals being obtained, is expected to be completed by the fourth quarter of 2014.

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

### **1. Performance review**

The Group's revenue for the 2<sup>nd</sup> Qtr 2014 and current year-to-date rose to RM301.8 million and RM588.9 million respectively compared to RM239.2 million and RM519.8 for the previous corresponding period.

Profit before taxation for the quarter and current year-to-date increased by 77% and 129% to RM43.5 million and RM 116.5 million respectively against the previous corresponding period of RM24.6 million and RM50.8 million. The significant increase was mainly due to increase in crop production and higher palm product prices.

#### **Palm and Bio-Integration Business**

For Q2, 2014, this segment chalked up an impressive FFB production growth of 34% from 121,675 metric tonnes in Q2, 2013 to 162,675 metric tonnes as more young plantation areas come into maturity and achieve higher yield age. Buoyed by the higher production and higher average CPO price of RM2,463 compared to RM2,204 in Q2, 2013, the operating profit excluding exchange losses surged 80%. The significant increase in profit was also attributed to continuous measures instituted to improve unit production cost and operational efficiencies.

For the year-to-date, FFB production increased by 27% from 250,730 metric tonnes in 2013 to 319,417 metric tonnes in 2014. CPO production also increased from 148,558 metric tonnes to 175,781 metric tonnes in tandem with the increase in production capacity of the mills and higher crop and oil yield.

#### **Wood Product Manufacturing & Others**

For Q2, 2014, wood product segment achieved a lower revenue of RM10.5 million and higher loss before finance cost of RM0.2 million mainly due to lower export. For the year to date, this segment reported a marginal operational loss before finance cost of RM4k compared to RM1.5 million operating profit in 2013, mainly attributed to lower demand from the European market.

Other segment achieved lower profit due to lower sales revenue.

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

For the Q2, 2014 the Group registered revenue of RM301.8million and profit before tax of RM43.5million respectively compared with the immediate preceding quarter of RM287.1 million and RM72.9million. Lower profit was mainly attributed to the exchange loss of RM 7.4 million and share of loss of jointly controlled entities of RM2.3 million. Lower profit is also due to lower average CPO price in Q 2, 2014 at RM2,463 compared to RM2,543 in Q1, 2014.

### 3. Commentary on the prospects

In the near term, following the recent correction on CPO price due to the narrowing price spread between CPO and soyabean oil, and the anticipated modest impact of El Nino phenomenon, CPO price is expected to consolidate at current level.

In the medium to long term, support will depend on various factors like supply of competitive oils, continuing demands from major countries like China and India, biodiesel programme in Malaysia and Indonesia, the likelihood of El Nino phenomenon. These will have a significant effect on the CPO price.

The Board remains optimistic on the long term prospect of the palm oil industry and will continue to focus on oil palm planting programme in Indonesia while exploring to expand its plantation land in Malaysia. With FFB production expected to increase significantly in 2014, the group can expect to achieve improved profit in the coming quarters.

Apart from focusing on profit generation and cost optimisation in the operation, the Group is also committed to sustainability initiatives and the Board strongly believes in contributing positively towards social and environmental causes which in the long term, will create businesses sustainability and enhancement in value.

### 4. Profit forecast or profit guarantee

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

### 5. Profits Before Tax

The following (gain)/loss have been included in arriving at profit before tax:

	Quarter 30.06.2014 <u>RM'000</u>	Year to date 30.06.2014 <u>RM'000</u>
Interest income	(306)	(563)
Interest expenses	3,618	9,659
Dividend income	(652)	(1,162)
Rental income	(222)	(454)
Allowance for doubtful debts provided / (written back)	32	(148)
Depreciation and amortization	13,247	26,063
Fair value (gain)/loss on derivatives		
- Forward currency contracts	(1,193)	(1,245)
- Commodity future contracts	(251)	205
Impairment loss on inventories	1,129	1,129
Net foreign exchange (gain)/ loss		
- Realised	(3,841)	(5,029)
- Unrealised	12,463	(4,192)
Gain on disposal of property, plant and equipment	(224)	(590)



## 6 Income Tax Expense

	Quarter 30.06.2014 <u>RM'000</u>	Year to date 30.06.2014 <u>RM'000</u>
Current tax:		
Malaysian income tax	794	4,000
Foreign tax	7,452	14,260
(Over)/Under provision in prior year		
Malaysian income tax	470	-
Foreign tax	(131)	435
Deferred tax:		
Relating to origination and reversal of temporary differences	(2,984)	1,874
Over provision in prior year	30	-
	<u>5,631</u>	<u>20,569</u>

The effective tax rate of the Group for the financial year-todate is lower than the statutory tax rate mainly due to the tax incentives in respect of Pioneer and BioNexus status.

## 7. Corporate proposals

There was no corporate proposal announced at the date of this quarterly report other than those disclose in Paragraph 16 (b) of Part A ie. Explanatory Notes pursuant to FRS134 .

## 8. Group Borrowings and Debt Securities

Comprised:

	As at 30.06.2014 RM'000	As at 31.12.2013 RM'000
<b>Total Group borrowings</b>		
- secured	607,344	607,557
- unsecured	308,690	316,812
<b>Short term borrowings</b>		
- secured	145,431	89,262
- unsecured	308,690	316,812
<b>Long term borrowings</b>		
- secured	461,913	518,295

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

	Foreign currencies (’000)	RM Equivalent (’000)
EURO	19	83
USD	112,685	361,833
Total		<u>361,916</u>

## 9 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 year.

## 10. Proposed Dividend

There were no dividends proposed during the quarter ended 30 June, 2014.

## 11. Earnings per share

### (a) Basic earnings per share

Basic earnings per share amounts is 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>YTD ended</u>	
	<u>30 June</u>		<u>30 June</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Net profit for the period/quarter (RM'000)	35,376	17,250	87,551	37,175
Weighted average number of ordinary shares in issue ('000)	896,942	834,364	896,942	834,365
Basic earnings per ordinary share (sen)	3.94	2.07	9.76	4.46

### (b) Diluted earnings per share

This is not applicable to the Group.

**12. Supplementary information – breakdown of retained earnings into realised and unrealised**

The breakdown of the retained earnings of the Group and of the Company as at 30 June 2014 into realised and unrealised profits is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No.1, Determination of Realised and Unrealised Profit or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

	<b>As at end of current quarter 30.06.2014 RM'000</b>	<b>As at end of preceding year 31.12.2013 RM'000</b>
Total retained profits of TSHR and its Subsidiaries		
- Realised	748,456	720,069
- Unrealised	(171,499)	(215,192)
	<b>576,957</b>	<b>504,877</b>
Total share of retained profits from associated Company		
- Realised	11,213	9,714
- Unrealised	(3,043)	(3,433)
Total share of retained profits from jointly controlled entities		
- Realised	68,614	64,092
- Unrealised	(3,744)	(3,707)
Add: Consolidation adjustments	649,997 30,371	571,543 52,667
Total group retained profits as per consolidated accounts	<b>680,368</b>	<b>624,210</b>

**13. 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 26 August 2014.