

**EXPLANATORY NOTES FOR CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS FOR THE FINANCIAL QUARTER ENDED 30
SEPTEMBER 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.

Description	Effective for annual periods beginning on or after
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 four year. MFRS will therefore be mandated for all companies for annual period beginning on or after 1 January 2016.

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 2016. 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 September 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 September 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 September 2014 is as follows:

	No. of shares	Amount (RM)
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 September 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 September 2014 are as follows:

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

8. Dividends paid

There were no dividends paid during the quarter ended 30 September 2014.

9. Segmental information

i) Business segments

Cumulative Quarter ended 30 September 2014

	Palm & Bio-Integration RM'000	Wood product manufacturing & forestation RM'000	Others RM'000	Consolidated RM'000
SEGMENT REVENUE	754,408	32,997	48,469	835,874
SEGMENT RESULTS	172,690	(25)	8,210	180,875
Unallocated expenses				(23,116)
Finance costs				(12,516)
Share of profit of an associate				1,709
Share of profit of jointly controlled entities				3,151
Profit before taxation				150,103
Income taxes				(27,858)
Cumulative profit up to 30 September 2014				122,245
OTHER INFORMATION				
SEGMENTS ASSETS	1,830,646	348,907	23,148	2,202,701
Investment in jointly controlled entities				83,888
Investment in associate				61,229
Unallocated assets				121,836
Consolidated total assets				2,464,654
SEGMENT LIABILITIES	685,911	38,958	12,633	737,502
Unallocated liabilities				485,848
Consolidated total liabilities				1,223,351

ii) Geographical segments

	Total revenue from external customers RM'000	Segment Assets RM'000
Malaysia	529,903	1,267,697
Europe	5,204	8,236
United States of America	14,889	4,633
Indonesia	272,636	1,187,984
Middle East	2,107	-
South West Pacific	6,133	-
Others	5,002	1,104
Total	835,874	2,469,654

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.

- (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 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 final completion.
- (d) 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 will be 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 yet been completed.

12. Discontinued operation

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

13. Capital commitments

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

	As at 30.09.2014 RM'000	As at 31.12.2013 RM'000
Approved and contracted for	14,798	21,037
Approved but not contracted for	17,203	11,505
	<u>32,001</u>	<u>32,542</u>

14. Changes in contingent liabilities or contingent assets

	As at 30.09.2014 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	<u>15,570</u>	<u>14,886</u>

15. Material related party transactions

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

	9 months ended 30 September 2014 RM'000
Sales of crude palm oil	390,977
Sales of palm kernel	68,587

16. Subsequent events

On 23 October 2014, the Company announced the cancellation of 6,886,900 units of treasury shares held. The cancellation will not have any material financial impact on the net assets and earnings of the Group.

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

1. Performance review

The Group's revenue for the Q3, 2014 and current year-to-date advanced to RM246.9 million and RM835.9 million respectively compared to RM220.5 million and RM740.3 million for the previous corresponding period.

Profit before taxation for the quarter decreased to RM33.6 million as compared to RM76.1 million in the previous corresponding quarter. However, excluding the profit on disposal of investment of RM85.3 million in Q3, 2013 and foreign exchange losses of RM43.7 million and RM6.5 million in Q3, 2013 and Q3, 2014 respectively, the core operating profit for this quarter rose to RM40.1 million from RM34.5 million of the corresponding quarter in previous year.

For the cumulative nine months, profit before taxation increased 18.3% to RM 150.1 million compared with RM126.9 million registered last year. The core operating profit increased by 57% to RM146.1 million from RM93.1 million of the previous corresponding period.

Palm and Bio-Integration Business

For Q3, 2014, this segment reported a commendable FFB production growth of 26% from 129,778 metric tonnes in Q3, 2013 to 163,646 metric tonnes as more young plantation areas come into maturity and achieved higher yield. Despite lower average CPO price of RM2,170 compared to RM2,239 in Q3, 2013, the segment operating profit surged 18% mainly resulting from the higher FFB production and on-going initiatives to improve unit production cost and operational efficiencies.

For the year-to-date, FFB production increased by 27% from 379,673 metric tonnes in 2013 to 483,048 metric tonnes in 2014. CPO production also increased from 224,101 metric tonnes to 263,607 metric tonnes in tandem with the increase in production capacity of the mills and higher crop and oil yield.

Wood Product Manufacturing & Others

For Q3, 2014, wood product segment achieved a lower revenue of RM12.6 million and higher operating loss mainly due to lower export. For the year to date, this segment also reported a operating loss of RM0.3 million compared to RM2.0 million operating profit in 2013, mainly attributed to lower demand from the European market and impairment losses on trade receivable and inventories.

Other segment achieved higher profit due to higher cocoa sales revenue.

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

For the Q3, 2014 the Group registered revenue of RM246.9 million and profit before tax of RM33.6 million respectively compared with the immediate preceding quarter of RM301.8 million and RM43.5 million. Lower profit was mainly attributed to lower average CPO price in Q3, 2014 at RM2,170 compared to RM2,463 in Q2, 2014.

3. Commentary on the prospects

Following the recent sharp fall in palm oil prices, CPO prices have since rebounded moderately boosted by the increased biodiesel mandate and scrapping of export tax by Malaysian and Indonesia Government. The recent dry weather in Indonesia and the off peak production season may also curb supplies and provide support for CPO price.

In the medium to long term, the CPO will likely to find its support from the biofuel programme in Malaysia and Indonesia, as well as the growth in demand of oils and fats which is expected to outstrip the supply of edible oil. These will have a significant positive 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 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 30.09.2014 <u>RM'000</u>	Year to date 30.09.2014 <u>RM'000</u>
Interest income	(527)	(1,089)
Interest expenses	2,856	12,516
Dividend income	(62)	(1,223)
Rental income	(245)	(699)
Allowance for doubtful debts provided net of write back	220	72
Depreciation and amortization	13,648	39,711
Fair value (gain)/loss on derivatives		
- Forward currency contracts	(119)	(1,364)
- Commodity future contracts	881	1,086
Impairment loss on inventories	-	1,129
Impairment loss on receivable (non-trade)	358	358
Net foreign exchange (gain)/ loss		
- Realised	2,268	(2,761)
- Unrealised	4,304	112
Gain on disposal of property, plant and equipment	(645)	(1,236)

6 Income Tax Expense

	Quarter	Year to date
	30.09.2014	30.09.2014
	<u>RM'000</u>	<u>RM'000</u>
Current tax:		
Malaysian income tax	4,481	8,481
Foreign tax	4,255	18,515
(Over)/Under provision in prior year		
Malaysian income tax	334	334
Foreign tax	(4)	431
Deferred tax:		
Relating to origination and reversal of temporary differences	(1,397)	477
Relating to changes in tax rates	(7)	(7)
Over provision in prior year	(373)	(373)
	<u>7,289</u>	<u>27,858</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

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 entitlement date. The proposed Bonus Issue was approved by shareholders during the EGM held on 13 October 2014. Subsequently, 448,470,810 Bonus Shares was listed and quoted on the Main Market of Bursa Malaysia Securities Berhad on Thursday, 30 October 2014.

8. Group Borrowings and Debt Securities

Comprised:

	As at 30.09.2014 RM'000	As at 31.12.2013 RM'000
Total Group borrowings		
- secured	571,882	607,557
- unsecured	356,743	316,812
Short term borrowings		
- secured	99,208	89,262
- unsecured	356,743	316,812
Long term borrowings		
- secured	472,674	518,295

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

	Foreign currencies ('000)	RM Equivalent ('000)
EURO	42	174
USD	111,296	365,108
Total		<u>365,282</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 September, 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>30 September</u>		<u>YTD ended</u> <u>30 September</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Net profit for the period/quarter (RM'000)	24,281	83,272	111,832	120,447
Weighted average number of ordinary shares in issue ('000)	896,942	856,131	896,942	841,646
Basic earnings per ordinary share (sen)	2.71	9.73	12.47	14.31

(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 September 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.

	As at end of current quarter 30.09.2014 RM'000	As at end of preceding year 31.12.2013 RM'000
Total retained profits of TSHR and its Subsidiaries		
- Realised	775,045	720,069
- Unrealised	(185,162)	(215,192)
	589,883	504,877
Total share of retained profits from associated Company		
- Realised	11,399	9,714
- Unrealised	(3,447)	(3,433)
Total share of retained profits from jointly controlled entities		
- Realised	68,614	64,092
- Unrealised	(3,682)	(3,707)
Add: Consolidation adjustments	662,767 41,882	571,543 52,667
Total group retained profits as per consolidated accounts	704,649	624,210

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 18 November 2014.