

**EXPLANATORY NOTES FOR CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE FINANCIAL QUARTER ENDED 30 JUNE 2015**

**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 2014.

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 2014.

**2. Significant accounting policies**

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2014 except for the following Amendments to FRs and Annual improvement which take effect from 1 January 2015.

<b>Description</b>	<b>Effective for annual periods beginning on or after</b>
Amendments to FRS 119: Defined Benefit Plans:	
Employee Contributions	1 July 2014
Annual Improvements to FRS 2010 – 2012 Cycle	1 July 2014
Annual Improvements to FRS 2011 – 2013 Cycle	1 July 2014

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

**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’).

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

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

Transitioning Entities would be allowed to defer adoption of the new MFRS framework and continue to use the existing Financial Reporting Standards framework until the MFRS Framework is mandated by the MASB. According to an announcement made by the MASB on 2 September 2014, all Transitioning Entities shall adopt the MFRS framework and prepare their first MFRS financial statements for annual periods beginning on or after 1 January 2017.

The Group and the Company fall within the definition of Transitioning Entities and accordingly, will be required to prepare financial statements using the MFRS Framework in their first MFRS financial statements for the year ending 31 December 2017. In presenting their first MFRS financial statements, the Group and the Company 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 2015 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 2014 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 2015.

## **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 2015 is as follows:

	<b>No. of shares</b>	<b>Amount (RM)</b>
Balance as at 1 January 2015	1,000	2,304
Add : Purchase of treasury shares	1,000	2,293
	2,000	4,597
Less : Sale of treasury shares	-	-
Balance as at 30 June 2015	2,000	4,597

**8. Dividends paid**

A first and final single tier dividend of 2.5 sen per ordinary shares for the year ended 31 Dec 2014, amounted to RM 33,635,261 was paid on 23 June 2015.

## 9. Segmental information

### i) Business segments

Cumulative Quarter ended 30 June 2015

	Palm Product RM'000	Wood product manufacturing & forestation RM'000	Bio-Integration & Others RM'000	Consolidated RM'000
<b>SEGMENT REVENUE</b>	364,220	18,116	29,850	412,186
<b>SEGMENT RESULTS</b>	68,041	(965)	15,069	82,145
Unallocated expenses				(17,245)
Loss on foreign exchange				(33,960)
Finance costs				(8,024)
Share of profit of an associate				2,138
Share of loss of jointly controlled entities				(1,165)
Profit before taxation				23,889
Income taxes				(9,102)
Cumulative profit up to 30 June 2015				14,787
<b>OTHER INFORMATION</b>				
<b>SEGMENTS ASSETS</b>	1,841,304	331,172	403,990	2,576,466
Investment in jointly controlled entities				69,733
Investment in associate				63,358
Unallocated assets				89,640
Consolidated total assets				2,799,197
<b>SEGMENT LIABILITIES</b>	650,942	20,487	85,344	756,773
Unallocated liabilities				742,871
Consolidated total liabilities				1,499,644

### ii) Geographical segments

	Total revenue from external customers RM'000	Segment Assets RM'000
Malaysia	240,466	1,340,331
Europe	1,147	2,754
United States of America	18,329	4,078
Indonesia	150,172	1,450,931
Middle East	-	-
South West Pacific	469	-
Others	1,603	1,103
<b>Total</b>	<b>412,186</b>	<b>2,799,197</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 2014. 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) 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.
- b) 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.
- c) On 14 July 2014, the Company entered into a Share Sale Agreement (“SSA”) 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 RM2.00 comprising 2 ordinary shares of RM1.00 each. Icon would be the beneficial owner of 90% of the entire share capital of PT Prima Usaha Sukses (“PTPUS”).

On 5 January 2015, all conditions precedent pertaining to the acquisition of Icon had been fulfilled by both parties and the acquisition of Icon is completed. Icon and PTPUS are now subsidiaries of the Company.

- d) On 24 December 2014, the Company entered into a Share Sale Agreement (“SSA”) to acquire 70,000 ordinary shares of RM1.00 each, representing the 70% of the issued and paid-up share capital in Rinukut Sdn. Bhd. (“RSB”) for a purchase consideration of RM18,600,000 from TSH Ventures Sdn. Bhd.

RSB is a private limited company, incorporated in Malaysia on 29 August 2012 with an issued and paid-up share capital of RM100,000 comprising 100,000 ordinary shares of RM1.00 each. RSB is the beneficial owner of 60% of the entire share capital of Rinukut Plantations Sdn. Bhd. (“RPSB”).

On 23 January 2015, all conditions precedent pertaining to the acquisition of RSB had been fulfilled by both parties. RSB and RPSB are now subsidiaries of the Company.

- e) On 17 April 2015, the Company acquired one shelf company, namely Restu Muhibbah Sdn. Bhd. (“RMSB”) comprising two subscribers’ shares of RM1.00 each for a total consideration of RM2.00. With the completion of the acquisition, RMSB becomes a wholly-owned subsidiary of the Company. On 30 April 2015, RMSB changed its name to TSH Sukuk Murabahah Sdn. Bhd.

**12. Discontinued operation**

There was no discontinued operation during the quarter ended 30 June 2015.

**13. Capital commitments**

The amount of commitments for capital expenditure as at 30 June 2015 is as follows:

	As at 30.6.2015 RM'000	As at 31.12.2014 RM'000
Approved and contracted for	9,635	12,753
Approved but not contracted for	32,053	15,478
	<u>41,688</u>	<u>28,231</u>
Balance of purchase price for new subsidiaries	-	35,464
	<u>41,688</u>	<u>63,695</u>

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

	As at 30.6.2015 RM'000	As at 31.12.2014 RM'000
Guarantee given to PT. Bank CIMB Niaga, TBK, to secure loan for Pembangunan Kebun Kelapa Sawit Plasma under a Plasma Scheme	<u>16,455</u>	<u>16,356</u>

**15. Material related party transactions**

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

	<b>6 months ended 30 June 2015 RM'000</b>
Sales of crude palm oil	179,571
Sales of palm kernel	32,595

**16. Subsequent events**

There was no material subsequent event to the end of this reporting.

## **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 2015 and current year-to-date were RM206.2million and RM412.2 million respectively compared to RM302.0million and RM589.0 million for the preceding year corresponding period.

Core operating profit for this quarter was RM26.4 million against RM51.0 million for the corresponding quarter in preceding year. Likewise, profit before taxation for the quarter and current year to date were also lower compared to preceding year corresponding period mainly attributed to lower CPO price, lower crop production and foreign exchange differences.

#### **Palm Product**

For Q2, 2015, this segment reported a lower operating profit of RM 32.2 million due to lower crop production of 153,963 metric tonnes compared to 162,675 metric tonnes in Q2, 2014 and lower average CPO price of RM2,107, compared to RM2,463 in Q2, 2014. Generally, FFB yield during Q2, 2015 remains low due to the lagged impact from drought in Kalimantan, Indonesia in 2014. While the average CPO price had also eased due to sustained weak demand from China and India.

For the year to date, average CPO selling price decreased by 14% from RM2,501 in 2014 to RM2,152. FFB production also reduced from 319,417 metric tonnes in 2014 to 297,221 metric tonnes and resulted in lower operating profit of RM68.0 million.

#### **Wood Product Manufacturing**

For Q2, 2015, wood product segment achieved revenue of RM8.0 million and operating loss of RM0.8 million mainly due to lower export. For the year to date, this segment reported an operating loss of RM1 million compared to breakeven in 2014, mainly attributed to full recognition of deferred investment capital grant in respect of the carbon credit in 2014.

#### **Bio integration and Other**

For Q2, 2015, this segment reported revenue and operating profit of RM 14.0 million and RM9.1 million against RM 21.9 million and RM6.2 million for the preceding year corresponding period respectively mainly due to higher profit from cocoa manufacturing and write back of impairment of property and plant and machinery on disposal. For the year to-date, operating profit was slightly lower due to lower production of electricity and steam.

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

For the Q2, 2015 the Group registered revenue of RM206.2 million compared with the immediate preceding quarter of RM206.0 million. Core operating profit for this quarter was RM 26.4 million against RM 31.5 million for the preceding quarter. Lower profit was mainly attributed to share of losses of Jointly Controlled entities and lower profit contribution from palm division due to lower average CPO price partially mitigated by higher FFB production.

### 3. Commentary on the prospects

CPO is currently trading at around RM2,000 level. Prices has weakened from the beginning of the year driven by the weak demand, ample supply and declining prices of competitive edible oil. Given the current scenario of a weak economy in China and an ample supply of palm oil as well as other competitive vegetable oil, CPO price is likely to remain at current level.

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 and further expand its plantation land in Malaysia and Indonesia. While FFB production can be expected to increase for the full year of 2015, the Board is nonetheless mindful of the longer term impact of unfavourable weather on FFB yield in 2015 as seen in the crop production for 1<sup>st</sup> half 2015. The palm products segment which accounts for more than 85% of the revenue and profit for the Group will remain a significant contributor to Group profit.

### 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 30.6.2015 RM'000	Year to date 30.6.2015 RM'000
Interest income	(491)	(783)
Interest expenses	4,769	8,024
Dividend income	-	(3)
Rental income	(559)	(1,938)
Depreciation and amortization	14,921	28,979
Fair value (gain)/loss on derivatives		
- Forward currency contracts	598	133
- Commodity future contracts	140	195
Net foreign exchange (gain)/ loss		
- Realised	(200)	(497)
- Unrealised	10,601	34,324
Property, plant and equipment written off	5	14
Gain on disposal of property, plant and equipment	(18)	(278)
Write back of impairment loss on trade and other receivables	(1,017)	(1,749)
Write back of impairment loss for PPE	(2,306)	(2,306)
Write back of impairment loss on inventories	(19)	(1,054)



## 6 Income Tax Expense

	Quarter 30.6.2015 <u>RM'000</u>	Year to date 30.6.2015 <u>RM'000</u>
Current tax:		
Malaysian income tax	4,606	8,632
Foreign tax	3,597	6,775
 (Over)/Under provision in prior year		
Malaysian income tax	-	1
Foreign tax	(1,179)	(1,179)
 Deferred tax:		
Relating to origination and reversal of temporary differences	(3,023)	(8,511)
Under provision in prior year	3,384	3,384
	<u>7,385</u>	<u>9,102</u>

The effective tax rate of the Group for the financial year-to date is higher than the statutory tax rate due to higher non deductible expenses.

## 7. Corporate proposals

There was no corporate proposal announced at the date of this quarterly report.

## 8. Group Borrowings and Debt Securities

Comprised:

	As at 30.6.2015 RM'000	As at 31.12.2014 RM'000
<b>Total Group borrowings</b>		
- secured	601,747	582,319
- unsecured	617,376	453,090
 <b>Short term borrowings</b>		
- secured	109,192	115,808
- unsecured	617,376	453,090
 <b>Long term borrowings</b>		
- secured	492,555	466,511

## 8. Group Borrowings and Debt Securities (continued)

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

	<b>Foreign currencies (’000)</b>	<b>RM Equivalent (’000)</b>
EURO	47	197
USD	44	169
Total		<u>366</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

The Company did not declare any interim dividend for the current quarter ended 30 June, 2015.

## 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 June</u>		<u>YTD ended</u> <u>30 June</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Net profit for the quarter/ year (RM’000)	7,083	35,377	13,519	87,552
Weighted average number of ordinary shares in issue (’000)	1,345,411	1,345,413	1,345,412	1,345,413
Basic earnings per ordinary share (sen)	0.53	2.63	1.00	6.51

The weighted average number of shares for 2014 takes into account of the following:

- a) the weighted average effect of changes in treasury shares transactions during the year.
- b) bonus issue of 448,470,810 new ordinary shares of RM 0.50 each.

### (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 2015 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 30.6.2015 RM'000</b>	<b>As at end of preceding Year 31.12.2014 RM'000</b>
Total retained profits of TSHR and its Subsidiaries		
- Realised	761,917	696,804
- Unrealised	(197,441)	(151,754)
	564,476	545,050
Total share of retained profits from associated Company		
- Realised	14,048	11,486
- Unrealised	(4,055)	(3,490)
Total share of retained profits from jointly controlled entities		
- Realised	52,735	70,166
- Unrealised	(3,636)	(6,554)
Add: Consolidation adjustments	623,568 (37,062)	616,658 (10,053)
Total group retained profits as per consolidated accounts	586,506	606,605

**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 25 August 2015.