

TA ANN HOLDINGS BERHAD

Notes to the interim financial report

1 Basis of Preparation

The interim financial report has been prepared in accordance with FRS 134: Interim Financial Reporting and paragraph 9.22 of Listing Requirements of the Bursa Malaysia Securities Berhad.

The preparation of an interim financial report in conformity with FRS 134, Interim Financial Reporting, requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

This interim financial report should be read in conjunction with the audited financial statements for the year ended 31 December 2009. It contains unaudited condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the year ended 31 December 2009. The condensed consolidated interim financial report and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with FRSs.

The statutory financial statements for the year ended 31 December 2009 are available from the Company's registered office.

2 Significant Accounting Policies

2.1 Change in accounting policies

The significant accounting policies adopted in the preparation of this interim financial report are consistent with those of the audited financial statements for the year ended 31 December 2009, except for the adoption of the following standards, amendments and interpretations:

- FRS 7, *Financial Instruments: Disclosures*
- FRS 101, *Presentation of Financial Statements (revised)*
- FRS 123, *Borrowing Costs*
- FRS 139 and Amendments to FRS 139, *Financial Instruments: Recognition and Measurement*
- Amendments to FRS 101, *Presentation of Financial Statements*
- Amendments to FRS 127, *Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- IC Interpretation 10, *Interim Financial Reporting and Impairment*
- Improvements to FRSs (2009)

The principal effects of the changes in presentation, changes or methods of computation and in accounting policies resulting from the adoption of the new and revised FRSs, IC Interpretations and amendments are set out below.

FRS 139, *Financial Instruments: Recognition and Measurement*

The adoption of FRS 139 has resulted in changes to accounting policies relating to recognition and measurement of financial instruments and the new accounting policies are as follows:

D) Initial recognition and measurement

A financial instrument is recognised in the financial statements when, and only when, the Group becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, as its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with the policy applicable to the nature of the host contract.

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Financial instrument categories and subsequent measurement

The Group categorises financial instruments as follows:

Financial assets

a) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a designated and effective hedging instrument) of financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

b) Held-to-maturity investments

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the Group has the positive intention and ability to hold to maturity.

Financial assets categorised as held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

c) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market, trade and other receivables and cash and cash equivalents.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

d) Available-for-sale financial assets

Available-for-sale category comprises investments in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are held for trading, derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

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Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at fair values with the gain or loss recognised in profit or loss.

Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting relates to:

- a) the recognition of an asset to be received and the liability to pay for it on the trade date, and
- b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

Trade receivables

Prior to the adoption of FRS 139, trade receivables were initially recognised at their cost and subsequently stated at cost less allowance for doubtful debts. With the adoption of FRS 139, trade receivables are now recognised initially at their fair values, which are estimated by discounting the expected cash flows using the current market interest rate of a loan with similar risk and tenure. Interest income is recognised in the profit or loss using the effective interest method.

The adoption of the other new and revised FRSs, IC Interpretations and Amendments has no effect to the Group's consolidated financial statements of the current quarter or the comparative consolidated financial statements of the prior financial year.

Effects of Application of New Policies

The application of the above new policies has the following effects:

Group	Retained earnings	
	2010 RM'000	2009 RM'000
At 1 January, as previously stated	485,613	416,044
Adjustments arising from adoption of FRS 139:		
- Remeasurement of trade receivables	(516)	-
At 1 January, as restated	<u>485,097</u>	<u>416,044</u>

2.2 Standards, Amendments and Interpretations yet to be adopted

The Group has not applied the following accounting standards (including their consequential amendments) and interpretations that have been issued by the Malaysian Accounting Standards Board but are only effective for annual periods beginning on or after the respective dates indicated herein.

FRS / Interpretation	Effective date
Amendments to FRS 132, <i>Financial Instruments</i> :	
<i>Presentation – Classification of Right Issues</i>	1 March 2010
FRS 1, <i>First-time Adoption of Financial Reporting Standards</i> (revised)	1 July 2010
FRS 3, <i>Business Combinations</i> (revised)	1 July 2010
FRS 127, <i>Consolidated and Separate Financial Statements</i> (revised)	1 July 2010
Amendments to FRS 2, <i>Share-based Payment</i>	1 July 2010
Amendments to FRS 5, <i>Non-current Assets Held for Sale and Discontinued Operations</i>	1 July 2010
Amendments to FRS 138, <i>Intangible Assets</i>	1 July 2010

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Amendments to IC Interpretation 9, <i>Reassessment of Embedded Derivatives</i>	1 July 2010
IC Interpretation 12, <i>Service Concession Agreements</i>	1 July 2010
IC Interpretation 15, <i>Agreements for the Construction of Real Estate</i>	1 July 2010
IC Interpretation 16, <i>Hedges of Net Investment in Foreign Operation</i>	1 July 2010
IC Interpretation 17, <i>Distribution of Non-cash Assets to Owners</i>	1 July 2010
Amendments to FRS 1,	1 January 2011
- <i>Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters</i>	
- <i>Additional Exemption for First-time Adopters</i>	
Amendments to FRS 7, <i>Improving Disclosures about Financial Instruments</i>	1 January 2011
Amendments to FRS 2, <i>Group Cash-settled Share-based Payments Transactions</i>	1 January 2011
IC Interpretation 4, <i>Determining whether an Arrangement Contains a Lease</i>	1 January 2011
IC Interpretation 18, <i>Transfer of Assets from Customers</i>	1 January 2011

The Group plans to apply:

- From the annual period beginning on 1 January 2011 those standards, amendments and interpretations as listed above that are effective for annual periods beginning on or after 1 March 2010, except for FRS 1 (revised), Amendments to FRS 2, Amendments to FRS 5, Amendments to FRS 132, Amendments to ICI 9, ICI 12, ICI 16, ICI 17 and ICI 18 which are not applicable to the Group.

The initial application of a standard, an amendment or an interpretation, which is to be applied prospectively, is not expected to have any financial impacts to the financial statements for the current and prior periods upon their first adoption.

FRS 3 (revised), which is to be applied retrospectively, incorporates the following changes to the existing FRS 3:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.
- Transaction costs, other than share and debts issue costs, will be expensed as incurred.
- Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.
- Any minority (will be known as non-controlling) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

The amendments to FRS 127 require changes in group composition to be accounted for as equity transactions between the group and its minority (will be known as non-controlling) interest holders.

The amendments to FRS 127 further require all losses attributable to minority interest to be absorbed by minority interest i.e., the excess and any further losses exceeding the minority interest in the equity of a subsidiary are no longer charged against the Group's interest.

The above changes to FRS 127 are not expected to have material impacts to the Group.

The amendments to FRS 138, to be applied retrospectively, clarify, inter-alia, that other amortisation methods, apart from the straight line method, may be used for intangible assets with finite useful lives. The adoption of any of the amendments to FRS 138 will result in a change in accounting policy.

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ICI 4 provides guidance for determining whether certain arrangements are, or contain, leases that are required to be accounted for in accordance with FRS 117, *Leases*. Where an arrangement is within the scope of FRS 117, the Group applies FRS 117 in determining whether the arrangement is a finance or an operating lease. The adoption of ICI 4 will result in a change in accounting policy.

ICI 15 replaces the existing FRS 201₂₀₀₄, *Property Development Activities* and provides guidance on how to account for revenue from construction of real estate. The adoption of IC Interpretation 15 by the Group for the year ending 31 December 2011, to be applied retrospectively, will result in a change in accounting policy in that the recognition of revenue from the property development activities will change from the percentage of completion method to the completed method.

Financial Reporting Standards will be fully converged with International Financial Reporting Standards by 1 January 2012. The financial impact and effects on disclosures and measurement consequent on such convergence are dependent on the issuance of such new or revised standards, amendments and interpretations by Malaysian Accounting Standards Board as are necessary to effectuate the full convergence.

The potential impacts on the financial statements for the year ended 30 June 2010 and 30 June 2009 on initial application of ICI 15 are summarized as follows:

	As currently stated DR/(CR) RM'000	Effects on adoption of IC Interpretation 15 DR/(CR) RM'000	If restated DR/(CR) RM'000
30 June 2010			
Balance sheet			
Property development costs	2,515	-	2,515
Inventories	191,880	-	191,880
Accrued billings	20	-	20
Deferred tax assets	631	-	631
Retained earnings	(500,562)	-	(500,562)

	As currently stated RM'000	Effects on adoption of IC Interpretation 15 RM'000	If restated RM'000
Income statement			
Revenue	367,736	-	367,736
Cost of sales	292,824	-	292,824
Profit before tax	22,035	-	22,035
Tax expense	7,551	-	7,551
Profit for the year	14,484	-	14,484

* Property development project completed in FY2009.

	As currently stated DR/(CR) RM'000	Effects on adoption of IC Interpretation 15 DR/(CR) RM'000	If restated DR/(CR) RM'000
30 June 2009			
Balance sheet			
Property development costs	4,319	6,548	10,867
Inventories	160,943	-	160,943
Deferred tax assets	5,624	255	5,879
Retained earnings	(447,521)	764	(446,757)

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	As currently stated RM'000	Effects on adoption of IC Interpretation 15 RM'000	If restated RM'000
Income statement			
Revenue	298,328	(5,309)	293,019
Cost of sales	224,545	(4,555)	219,990
Profit before tax	43,916	(754)	43,162
Tax expense	10,595	(188)	10,407
Profit for the year	33,321	(565)	32,756

3 Auditors' Report on Preceding Annual Financial Statements

The auditors have expressed an unqualified opinion on the audited financial statements for the year ended 31 December 2009 in their report dated 14 April 2010.

4 Seasonality or Cyclicity of Operations

The Group's operations were not subject to any seasonal or cyclical changes for the current quarter under review.

5 Unusual Items

There are no unusual items that have any material impact on the interim financial report.

6 Changes in Estimates

There were no changes in estimates that have had a material effect on the current quarter and financial year-to-date results.

7 Debt and Equity Securities, Share Buy-back

There were no issuances or repayment of debt or equity securities during the financial quarter under review.

As at 30 June 2010, the number of ordinary shares repurchased and retained as treasury shares are 199,400 shares.

8 Dividend

An interim franked dividend of 3 sen per ordinary share less tax at 25% for the financial year ended 31 December 2010 amounting to RM4,824,714 was paid on 15 July 2010 to depositors registered in the Record of Depositors at the close of business on 30 June 2010.

9 Segmental Reporting

	Revenue from external customers		Profit before tax	
	Period ended 30 June			
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Timber products	266,804	222,672	3,551	29,973
Oil palm	99,414	69,147	18,326	12,767
Reforestation	559	450	179	63
Property development	959	6,059	(21)	1,113
	367,736	298,328	22,035	43,916

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10 Valuation of property, plant and equipment

The valuations of buildings, wharf and jetty have been brought forward, without amendment from the previous audited financial statements.

11 Subsequent Events

The Board of Directors announced after the quarter ended 30 June 2010 that Ta Ann has notified the Chinese authorities of its intention to withdraw from investing in Yang Zhou, China as the container flooring market is not expected to be conducive for the establishment of a plywood mill in the short to medium term. Since the contribution from the China subsidiary is relatively small, the withdrawal of China venture will not have any material impact on the Group operation, earnings, net assets or gearing of Ta Ann Group.

12 Changes in Composition of the Group

On 29 December 2009, a subsidiary of the Company, Multi Maximum Sdn Bhd entered into a sale and purchase agreement for the acquisition of 2 million ordinary shares of RM1.00 each representing the entire issued and paid-up capital, in Europalm Sdn Bhd at a total purchase consideration of RM20,500,000.00 of which RM2,050,000.00 was paid upon the execution of the S&P on 29 December 2009 and the balance of RM18,450,000.00 was settled in June 2010.

13 Contingent Liabilities or Assets

There were no material changes in the contingent liabilities or assets since the last annual balance sheet date.

14 Trade and Other Receivables

	As At 30 June 2010 RM'000	As At 31 December 2009 RM'000
Non-current assets		
Trade receivables	2,735	5,442
Current assets		
Trade receivables	21,895	17,196
Interest receivable	7	16
Other receivables	804	1,421
Deposits	891	1,083
Prepayments		
-Plant & machinery	3,179	217
-Land premium	5,904	5,294
-Others	8,524	5,308
Advance to a log supplier	170	950
Advances to sub-contractors	1,741	1,741
Other advances	-	3
Deposit paid for acquisition of a subsidiary	-	2,050
	<u>43,115</u>	<u>35,279</u>
	<u>45,850</u>	<u>40,721</u>

'Advances to sub-contractor' is unsecured, interest-free and was made to allow the sub-contractor to finance the purchase of machinery and equipment. The advances will be off-set against the cost of acquisition of the right to use a road owned by the sub-contractors.

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15 Capital Commitments

	As At 30 June 2010 RM'000
Property, plant and equipment	
- Contracted but not provided for in the financial statements	9,485
- Authorised but not contracted for	72,415
- Authorised and contracted for	210
	<hr/> 82,110
Plantation Development Expenditure	
- Authorised but not contracted for	58,712
- Authorised and contracted for	272
	<hr/> 12,039
Leasehold land held for subsidiaries use	
- Approved and contracted for	12,039
	<hr/> 153,133 <hr/>

16 Review of Performance

For the quarter under review, Group revenue was higher by RM25.83 million at RM187.80 million compared to RM161.97 million in the corresponding quarter of 2009. Profit before tax was RM10.25 million as against RM32.50 million reported in the corresponding quarter of 2009.

Lower log production hampered by the exceptionally wet weather resulted in a significant drop in log export. Coupled with a higher raw material input cost for plywood production and unrealised foreign exchange loss of RM3.43 million compared to an exchange gain of RM7.71 million in the corresponding quarter in 2009, a lower profit was registered for the quarter under review.

17 Variation of Results as compared to the Preceding Quarter

Compared to the preceding quarter, Group revenue in the quarter under review increased by RM7.87 million or 4% to RM187.80 million whereas profit before tax was RM10.25 million compared to RM11.79 million in the preceding quarter. The higher log prices compensated for the lower export volume though strengthening of the Ringgit has the effect of reducing foreign currency export proceeds when converted into Ringgit.

18 Current Year Prospects

For the third quarter of 2010, demands for timber and timber products are expected to sustain. Main profit contribution from the timber segment will come from the logging division. An improvement in weather condition will facilitate log production and boost log export. Oil palm division is anticipated to generate higher earning in the third quarter with the coming of the peak crop season and stabilised CPO prices.

Barring unforeseen circumstances, the Board is confident that the performance for the third quarter of year 2010 will be better.

19 Profit forecast

Not applicable as the Group did not publish any profit forecast.

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20 Taxation

The taxation charges of the Group for the period under review are as follows:

	Current Quarter		Cumulative Quarter	
	30 June 2010	30 June 2009	Current Year To Date 30 June 2010	Preceding Year Corresponding Period 30 June 2009
	RM'000	RM'000	RM'000	RM'000
Current tax expense				
- Current	4,385	7,257	8,733	10,238
Deferred tax expense	(1,182)	(43)	(1,182)	357
Total	<u>3,203</u>	<u>7,214</u>	<u>7,551</u>	<u>10,595</u>

21 Cash and Cash Equivalents

Cash and cash equivalents included in the cash flow statement comprise the following amounts:

	As at 30 June 2010 RM'000	As at 30 June 2009 RM'000
Deposits (excluding pledged deposits)	38,534	18,760
Cash and bank balances	<u>45,625</u>	<u>31,991</u>
	<u>84,159</u>	<u>50,751</u>

Fixed deposits of subsidiaries amounting to RM1,196,558 (2009: RM1,196,558) are pledged to licensed banks for bank facilities granted thereto.

22 Unquoted Investment and Properties

There was no sale of unquoted investments and/or properties during the financial quarter under review.

23 Quoted Investments

There was no purchase or disposal of quoted securities during the financial quarter under review.

24 Status of Corporate Proposal

On 31 May 2010, the company announced a bonus issue of one (1) bonus share for every five (5) existing ordinary shares held at an entitlement date to be determined by the Board. Approval for the listing and quotation of the bonus shares to be issued was approved by Bursa Malaysia on 12 July 2010. The bonus issue was approved by shareholders in the extraordinary general meeting held today. The entitlement date has been fixed by the Board to be on 20 September 2010.

There were no other corporate proposals announced or pending completion as at the date of this announcement.

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25 Group Borrowings and Debt Securities

Total Group borrowings as at 30 June 2010 were as follows: -

		Repayable within 12 months	Repayable after 12 months
		RM'000	RM'000
Unsecured -	Foreign currency loans	30,948	14,706
	Bankers' acceptances/Export Credit Refinancing	69,753	-
	Revolving Credits	54,000	9,000
	Term loans	23,130	149,504
Secured -	Hire purchase loans	15,579	15,105
	Foreign currency loans	29,344	-
	Term loans	600	61,557
Total		223,354	249,872

All borrowings are denominated in Ringgit Malaysia except for the foreign currency loans which are denominated in Japanese Yen, Australian Dollar or US Dollar.

26 Off Balance Sheet Financial Instruments

The Group does not have any financial instruments with off balance sheet risk as at the date of this announcement.

27 Material Litigation

There are no pending material litigations as at the date of this announcement.

28 Significant Related Party Transactions

The Group entered into the following transactions with related parties, other than compensations to Directors and other key management personnel (see Note 29), during the current financial period:

	Period ended 30 June	
	2010	2009
Transactions with associates	RM'000	RM'000
Contract fees	3,584	7,144
Purchase of consumables	-	9
Handling fees, transportation & freight charges	59	-
Hiring of equipment	39	45
Income from rental of premises	(9)	(9)
Sale of equipment	-	(130)
Sales of logs and timber products	(2,646)	(938)
Transactions with companies connected to certain Directors of the Company and its subsidiaries		
Contract fees and fuel surcharge	25,143	26,992
Food ration expenses	2,395	2,183
Handling fees, transportation & freight charges	10,611	9,020
Hiring of equipment	8	3
Insurance premium	1,353	1,091
Purchase of equipment	3	-
Rental of premises paid	57	13
Purchase of spare parts, fertilizer & consumables	14,301	2,561

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	Period ended 30 June	
	2010 RM'000	2009 RM'000
Purchase of logs and timber products	14,596	8,991
Security charges	42	42
Computer hardware & software development fees	342	48
Purchase of fresh fruit bunches	6,574	7,417
Purchase of diesel and lubricants	6,580	5,757
Road toll received	(321)	(394)
Sales of logs and timber products	(10,515)	(8,679)
Sales of empty drum	-	(8)
Sales of kernel shell	-	(5)
Sales of seeds & seedlings	(135)	(24)
Sales of consumables	(28)	-
Sales of property, plant and equipment	(220)	-
Income from rental of premises	(2)	(11)
Handling fee received	(280)	-

29 Key Management Personnel Compensation

Compensations to key management personnel are as follows:

	Period ended 30 June	
	2010 RM'000	2009 RM'000
Directors		
- Fees	498	320
- Remunerations	1,965	1,233
- Other short-term employee benefits	411	268
	<u>2,874</u>	<u>1,821</u>
Other Key Management Personnel:		
- Salaries, allowances and bonuses	1,485	1,249
- Other short-term employee benefits	203	272
	<u>1,688</u>	<u>1,521</u>
Total	<u>4,562</u>	<u>3,342</u>

30 Earnings Per Share

	Current quarter ended 30 June 2010	Current Year-To-Date 30 June 2010
(a) Basic		
Net profit attributable to ordinary owners of the Company ('000)	<u>RM7,480</u>	<u>RM15,465</u>
Weighted average number of ordinary shares in issue ('000)	<u>214,432</u>	<u>214,432</u>
Basic earnings per ordinary share (sen)	<u>3.49</u>	<u>7.21</u>
(b) Diluted	<u>3.49</u>	<u>7.21</u>

31 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 27 August 2010.