

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 2010. 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 2010. 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 Financial Reporting Standards (FRSs).

The statutory financial statements for the year ended 31 December 2010 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 2010, except for the adoption of the following standards, amendments and interpretations:

- FRS 3, *Business Combinations* (revised)
- FRS 127, *Consolidated and Separate Financial Statements* (revised)
- Amendments to FRS 2, *Group Cash-settled Share-based Payment Transactions*
- Amendments to FRS 7, *Improving Disclosures about Financial Instruments*
- Improvements to FRSs (2010)
- IC Interpretation 4, *Determining whether an Arrangement Contains a Lease*

The adoption of the 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.

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 and after the respective dates indicated herein.

| FRS / Interpretation / Amendment | Effective date |
|--|-----------------------|
| IC Interpretation 19, <i>Extinguishing Financial Liabilities with Equity Instruments</i> | 1 July 2011 |
| Amendments to IC Interpretation 14, <i>Prepayments of a Minimum Funding Requirement</i> | 1 July 2011 |
| IC Interpretation 15, <i>Agreements for the Construction of Real Estate</i> | 1 January 2012 |
| FRS 124, <i>Related Party Disclosures</i> | 1 January 2012 |

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The Group plans to apply from the annual period beginning on 1 January 2012 those standards, amendments and interpretations as listed above that are effective for annual periods beginning on and after 1 January 2011, except for Amendments to ICI 14 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 its first adoption.

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 2012, 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.

The revised FRS 124 simplifies the definition of related party, clarifies its intended meaning and eliminates inconsistencies from the definition. The changes from current practice among others include a partial exemption from disclosures for government-related entities. It requires disclosure of related party transactions between government-related entities only if the transactions are individually or collectively significant.

Prior to the issuance of the revised FRS 124, no disclosure is required in financial statements of state-controlled entities of transactions with other state-controlled entities. The partial exemption from disclosures for government-related activities as permitted in the revised FRS 124 is intended to put users on notice that such related party transactions have occurred and to give an indication of their extent.

IC Interpretation 19 provides guidance on accounting for debt for equity swaps. Equity instruments issued to a creditor to extinguish all or a part of a financial liability would be "consideration paid" in accordance with paragraph 41 of FRS 139. The equity instruments would be measured initially at the fair value of those equity instruments unless that fair value cannot be reliably measured, in which case the equity instruments should be measured to reflect the fair value of the financial liability extinguished. Any difference between the carrying amount of the financial liability and the initial measurement of the equity instruments would be recognised as gain or loss in profit or loss.

The adoption of IC Interpretation 19 will result in a change in accounting policy which will be applied retrospectively in accordance with FRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors*.

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.

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 2010 in their report dated 19 April 2011.

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.

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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 2011, the number of ordinary shares repurchased and retained as treasury shares are 199,400 shares.

8 Dividend

The Board of Directors has declared an interim ordinary dividend for the financial year ending 31 December 2011 of 10 sen per ordinary share tax-exempt (corresponding period in Year 2010: nil) to be paid on 30 September 2011 to depositors whose names appear in the Record of Depositors on 12 September 2011.

A depositor shall qualify for entitlement only in respect of:

- (a) Securities transferred into Depositor's Securities Account before 4:00 p.m. on 12 September 2011 in respect of transfers
- (b) Securities bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the rules of the Bursa Malaysia Securities Berhad

9 Segmental Reporting

| | Revenue from external customers | | Profit before tax | |
|----------------------|---------------------------------|---------|-------------------|--------|
| | Period ended 30 June | | | |
| | 2011 | 2010 | 2011 | 2010 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Timber products | 305,588 | 266,804 | 31,361 | 3,551 |
| Oil palm | 152,311 | 99,414 | 77,302 | 18,326 |
| Reforestation | 1,337 | 559 | 447 | 179 |
| Property development | 709 | 959 | 31 | (21) |
| | 459,945 | 367,736 | 109,141 | 22,035 |

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

There were no significant events that have occurred during the interval between the end of the current quarter and the date of this announcement.

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12 Changes in Composition of the Group

On 27 April 2011, two subsidiaries of the Company, Ta Ann Pelita Igan Plantation Sdn Bhd ('Igan') and Europalm Sdn Bhd ('Europalm') each acquired one ordinary share of RM1.00 each in Pelitama Sdn Bhd ('Pelitama') at a consideration of RM1.00 per share. Pelitama has an authorised capital of RM100,000.00 and an issued and paid-up capital of RM2.00. Igan and Europalm have further been allotted 68,729 shares and 31,269 shares in Pelitama. Following the acquisition, Pelitama has become an indirect subsidiary of the Company.

13 Contingent Liabilities or Assets

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

14 Trade and Other Receivables

| | As At 30 June 2011 RM'000 | As At 31 December 2010 RM'000 |
|----------------------------|--|--|
| Non-current assets | | |
| Staff loans | 2,322 | 2,291 |
| Current assets | | |
| Trade receivables | 54,171 | 24,569 |
| Interest receivable | 17 | 16 |
| Other receivables | 1,660 | 1,392 |
| Deposits | 777 | 1,518 |
| Prepayments | | |
| -Plant & machinery | 4,017 | 9,173 |
| -Land premium | 6,513 | 5,743 |
| -Others | 13,720 | 7,195 |
| Advance to a log supplier | 170 | 170 |
| Advance to sub-contractors | 1,641 | 1,641 |
| Staff loans | 155 | 400 |
| | <u>82,841</u> | <u>51,817</u> |
| | <u>85,163</u> | <u>54,108</u> |

'Advances to sub-contractor' is the balance of unsecured, interest-free advances previously made to a logging 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-contractor.

15 Capital Commitments

| | As At 30 June 2011 RM'000 |
|--|--|
| Property, plant and equipment | |
| - Authorised but not contracted for | 46,759 |
| - Authorised and contracted for | 4,089 |
| | <u>50,848</u> |
| Plantation Development Expenditure | |
| - Authorised but not contracted for | 54,395 |
| - Authorised and contracted for | - |
| Leasehold land held for subsidiaries' use | |
| - Approved and contracted for | 15,497 |
| | <u>120,740</u> |

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16 Review of Performance

For the quarter under review, a revenue of RM278.51 million was achieved, 48% higher than the RM187.80 million registered in the corresponding quarter of 2010. Profit before tax increased by 588% from 10.25 million to RM70.48 million. Profit for the period also jumped by 636% to RM51.91 million from RM7.05 million obtained in the corresponding quarter of 2010.

Increase in sales volumes at significantly higher selling prices of timber, timber products and crude palm oil brought about a record quarterly profit. Plywood division also reported a profit after 3 years of losses.

For the financial year-to-date, the revenue and net profit increased by 25% and 448% from RM367.74 million and RM14.48 million of the corresponding period in 2010 to RM459.95 million and RM79.35 million respectively.

17 Variation of Results as compared to the Preceding Quarter

Compared to the preceding quarter, Group revenue in the quarter under review increased by RM97.07 million or 53% to RM278.51 million whereas profit before tax increased by 82% from RM38.66 million in the preceding quarter to RM70.48 million.

Higher revenue and profit contribution from logging, plywood and oil palm divisions accounted for the better performance in the quarter under review.

18 Current Year Prospects

Continuing import of timber and timber products by timber consuming countries and anticipated building material requirement for reconstruction work in Japan are expected to sustain the demand for timber and timber products.

Oil palm division is projected to achieve higher revenue in the peak crop season of the second half year.

Barring unforeseen circumstances, the Board expects a higher profit for the year 2011.

19 Profit forecast

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

20 Taxation

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

| | Current Quarter | | Cumulative Quarter | |
|-----------------------------|-----------------|--------------|-----------------------------------|--|
| | 30 June 2011 | 30 June 2010 | Current Year To Date 30 June 2011 | Preceding Year Corresponding Period 30 June 2010 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Current tax expense | | | | |
| - Current | 8,758 | 4,385 | 13,585 | 8,733 |
| - Prior | - | - | - | - |
| Deferred tax expense | 9,817 | (1,182) | 16,202 | (1,182) |
| Total | 18,575 | 3,203 | 29,787 | 7,551 |

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21 Cash and Cash Equivalents

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

| | As at 30 June 2011 RM'000 | As at 30 June 2010 RM'000 |
|---------------------------------------|--|--|
| Deposits (excluding pledged deposits) | 82,714 | 38,534 |
| Cash and bank balances | 63,921 | 45,625 |
| | 146,635 | 84,159 |

Fixed deposits of subsidiaries amounting to RM1,367,349 (2010: RM1,367,349) 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

Pursuant to shareholders' approval on 27 May 2011 of a bonus issue of one bonus share for every five existing ordinary shares held, 51,463,206 bonus shares were issued by the Company, which were listed and quoted on Bursa Malaysia Securities Berhad on 17 June 2011.

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

25 Group Borrowings and Debt Securities

Total Group borrowings as at 30 June 2011 were as follows: -

| | | Repayable within 12 months | Repayable after 12 months |
|--------------------|---|---------------------------------------|--------------------------------------|
| | | RM'000 | RM'000 |
| Unsecured - | Foreign currency loans | 10,040 | 7,052 |
| | Bankers' acceptances/Export Credit Refinancing | 50,759 | - |
| | Revolving Credits | 97,000 | 5,250 |
| | Term loans | 24,499 | 153,236 |
| | | | |
| Secured - | Hire purchase loans | 20,704 | 13,230 |
| | Term loans | 1,500 | 85,044 |
| Total | | 204,502 | 263,812 |

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

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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 | |
|---|-----------------------------|---------------|
| | 2011 | 2010 |
| | RM'000 | RM'000 |
| Transactions with associates | | |
| Contract fees | 4,445 | 3,584 |
| Handling fees, transportation & freight charges | 12 | 59 |
| Hiring of equipment | 112 | 39 |
| Purchase of consumables | 1 | - |
| Income from rental of premises | (9) | (9) |
| Freight charges received | (4) | - |
| Sales of logs and timber products | (3,375) | (2,646) |
| Transactions with companies connected to certain Directors of the Company and its subsidiaries | | |
| Contract fees and fuel surcharge | 19,125 | 25,143 |
| Food ration expenses | 2,494 | 2,395 |
| Handling fees, transportation & freight charges | 10,548 | 10,611 |
| Hiring of equipment | 135 | 8 |
| Insurance premium | 1,836 | 1,353 |
| Purchase of equipments | 8 | 3 |
| Rental of premises paid | 14 | 57 |
| Purchase of spare parts, fertilizer & consumables | 11,990 | 14,301 |
| Purchase of logs and timber products | 3,163 | 14,596 |
| Purchase of seedlings | 22 | - |
| Purchase of petty asset | 3 | - |
| Security charges | 42 | 42 |
| Computer hardware & software development fees | 259 | 342 |
| Purchase of fresh fruit bunches | 275 | 6,574 |
| Purchase of diesel and lubricants | 9,344 | 6,580 |
| Road toll received | (194) | (321) |
| Sales of logs and timber products | (8,144) | (10,515) |
| Sales of seeds & seedlings | - | (135) |
| Sales of consumables | (7) | (28) |
| Sales of fresh fruit bunches | (7,098) | - |
| Sales of property, plant and equipment | - | (220) |
| Income from rental of premises | (37) | (2) |
| Handling fee received | (19) | (280) |

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29 Key Management Personnel Compensation

Compensations to key management personnel are as follows:

| | Period ended 30 June | |
|--------------------------------------|----------------------|----------------|
| | 2011 RM'000 | 2010 RM'000 |
| Directors | | |
| - Fees | 482 | 498 |
| - Remunerations | 1,949 | 1,965 |
| - Other short-term employee benefits | 454 | 411 |
| | <u>2,885</u> | <u>2,874</u> |
| Other Key Management Personnel | | |
| - Salaries, allowances and bonuses | 1,533 | 1,485 |
| - Other short-term employee benefits | 201 | 203 |
| | <u>1,734</u> | <u>1,688</u> |
| Total | <u>4,619</u> | <u>4,562</u> |

30 Earnings Per Share

| | Current quarter ended 30 June 2011 | Current Year-To-Date 30 June 2011 |
|--|---------------------------------------|--------------------------------------|
| (a) Basic | | |
| Net profit attributable to ordinary owners of the Company ('000) | <u>RM50,734</u> | <u>RM77,295</u> |
| Weighted average number of ordinary shares in issue ('000) | <u>308,781</u> | <u>308,781</u> |
| Basic earnings per ordinary share (sen) | <u>16.43</u> | <u>25.03</u> |
| (b) Diluted | <u>16.43</u> | <u>25.03</u> |

31 Gain/Losses arising from fair value changes of financial liabilities

There were no gains or losses arising from fair value changes of financial liabilities for the current quarter ended 30 June 2011.

32 Realised and unrealised profits disclosure

The retained earnings may be analysed as follows:

| | As at end of current quarter 30 June 2011 RM'000 | As at end of preceding quarter 31 March 2011 RM'000 |
|--------------|---|--|
| - Realised | 660,432 | 650,679 |
| - Unrealised | (89,544) | (80,845) |
| | <u>570,888</u> | <u>569,834</u> |

33 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 22 August 2011.