Company No : 419232-K

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 2011. 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 2011. 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 2011 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 in the audited financial statements for the year ended 31 December 2011, except for the adoption of the following standards, amendments and interpretations:

- IC Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*
- FRS 124, *Related Party Disclosures* (revised)
- Amendments to FRS 7, *Financial Instruments: Disclosures – Transfers of Financial Assets*

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 Malaysian Financial Reporting Standards (MFRS) Framework

The Malaysian Accounting Standards Board (MASB), in furtherance of its objective of converging the accounting framework for entities other than private entities in Malaysia with International Financial Reporting Standards (IFRS), announced on 19 November 2011 the issuance of Malaysian Financial Reporting Standards (MFRS). Entities other than private entities shall apply the MFRS framework for annual periods beginning on or after 1 January 2012, with the exception of entities subject to the application of MFRS 141 *Agriculture* and/ or IC Interpretation 15 *Agreements for the Construction of Real Estate*.

An entity subject to the application of MFRS 141 and/or IC Interpretation 15 (hereinafter referred to as transitioning entity), and the entity that consolidates or equity accounts or proportionately consolidates the transitioning entity, may continue to apply Financial Reporting Standards (FRS) as its financial reporting framework for annual reporting periods beginning on or after 1 January 2012. These entities were required however, in accordance with MASB's announcement on 19 November 2011, to comply with the MFRS framework for annual periods beginning on or after 1 January 2013.

On 30 June 2012, the MASB made a further announcement to allow transitioning entities to defer the adoption of the MFRS for another year. MFRS will therefore be mandated for all entities other than private entities for annual periods beginning on or after 1 January 2014. This decision was made after an extensive deliberation by MASB and taking into account both local and international developments on accounting standards. Following the deliberation, MASB has decided to give transitioning entities an option to continue with the existing FRS Framework for another year.

The financial statements of the Group will continue to be prepared in compliance with FRS for the financial year ending 31 December 2012 and 31 December 2013. They will be prepared in compliance with MFRS from the financial year beginning on 1 January 2014.

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 2011 in their report dated 16 April 2012.

4 Seasonality or Cyclicality 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

Save as disclosed in Note 25, there were no issuances or repayment of debt or equity securities during the financial quarter under review.

As at 30 June 2012, the number of ordinary shares repurchased and retained as treasury shares is 199,400 shares.

8 Dividend

A second interim single-tier ordinary dividend of 10 sen per ordinary share for the financial year ended 31 December 2011, amounting to RM30,878,125 was paid on 30 March 2012 to depositors registered in the Record of Depositors at the close of business on 14 March 2012.

No dividend has been proposed by the Directors for the financial quarter under review (corresponding period in Year 2011: 10 sen)

9 Segmental Reporting

	Revenue from external customers		Profit before tax	
	6 months ended 30 June			
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Timber products	218,748	305,588	1,929	31,361
Oil palm	133,680	152,311	31,666	77,302
Reforestation	128	1,337	(122)	447
Property development	-	709	(135)	31
	352,556	459,945	33,338	109,141

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.

12 Changes in Composition of the Group

There were no changes in the composition of the Group during the financial quarter under review.

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 2012 RM'000	As At 31 December 2011 RM'000
Non-current assets		
Staff loans	-	2,315
Current assets		
Trade receivables	45,965	17,596
Interest receivable	16	114
Other receivables	355	1,163
Deposits	1,719	1,479
Prepayments		
-Plant & machinery	2,614	2,980
-Land premium	5,750	5,743
-Others	8,242	6,550
Advance to a log supplier	170	170
Other advances	782	292
Staff loans	2,255	95
	67,868	36,182
	67,868	38,497

15 Capital Commitments

	As At 30 June 2012 RM'000
Property, plant and equipment	
- Authorised but not contracted for	100,435
- Authorised and contracted for	36,991
	137,426
Plantation Development Expenditure	
- Authorised but not contracted for	41,447
Leasehold land held for subsidiaries' use	
- Approved and contracted for	17,308
	196,181

16 Review of Performance

(a) For the quarter under review, the Group recorded a revenue of RM187.99 million, 33% lower than RM278.51 million of the corresponding quarter of 2011. Profit before tax and net profit for the quarter were RM17.87 million and RM11.31 million, compared to RM70.48 million and RM51.91 million achieved in the corresponding quarter of 2011 respectively.

Both oil palm and timber segments registered lower sales volume with the exception of export log section. Fresh fruit bunch ("FFB") production was lower in the quarter under review due to delay in commencement of peak crop season which in 2011 began in May/ June. Plywood mill reduced production in the quarter by 30% in view of the weak plywood market. Sales volume of FFB, crude palm oil ("CPO") and plywood products, thus, fell by 11%, 24% and 35% respectively though export log sales volume was 8% higher. Selling prices were all significantly lower with FFB, CPO, plywood products and export logs recording 8%, 7%, 15% and 23% lower average selling prices respectively.

The drop in sales volume and average selling prices accounted for the lower revenue reported in the quarter while the significant reduction in product selling price margin resulted in a lower profit before tax and net profit for the quarter.

(b) For the first half year of 2012, the revenue, profit before tax and net profit were RM352.56 million, RM33.34 million and RM21.89 million, compared to RM459.95 million, RM109.14 million and RM79.35 million respectively of the corresponding period in 2011.

The same factors, namely lower sales volume and weaker average selling prices identified in (a), contributed mainly to the poorer results.

17 Variation of Results as compared to the Preceding Quarter

Revenue in the quarter under review increased by 14% from RM164.57 million of the preceding quarter to RM187.99 million. Profit before tax and net profit for the quarter increased from RM15.47 million and RM10.58 million in the preceding quarter to RM17.87 million and RM11.31 million respectively.

Higher sales volume and better average selling prices of export logs, FFB and CPO accounted for the higher revenue.

Plywood division in the timber segment also reported a 13% rise in sales volume but suffered a 6% drop in average selling price, resulting in higher loss and a lower profit. However, with a higher profit achieved by the oil palm segment from a better profit margin, the Group registered a marginal increased profit for the quarter under review.

18 Current Year Prospects

For the second half year of 2012, a rise in FFB production is expected in the peak crop season. With the projected sustainability of CPO price at RM3,000/mt level, increasing revenue contribution is anticipated from the oil palm segment.

Timber market trend, to a great extent will be influenced by the direction of the plywood market. Demand for export logs from the main buyer country, India, is anticipated to be sustained. Thus, any increase in demand for plywood products, in particular, arising from the township reconstruction in Japan, will improve the market price of timber and timber products in general and plywood products specifically. A recovery in plywood price will accelerate the turnaround of the current loss-making plywood operation, which is under fine-tuning and cost-cutting drive to reduce operating costs.

Barring unforeseen circumstances, the Board expects a better performance in the coming third quarter.

19 Profit forecast

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

20 Profit for the period

	Individual Quarter 3 months ended 30 June		Cumulative Quarter 6 months ended 30 June	
	2012 RM'000	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**
Profit for the period is arrived at after crediting/ (charging):				
Interest income	421	678	1,019	929
Interest expenses	(3,539)	(3,687)	(7,300)	(6,231)
Depreciation and amortisation	(18,277)	(17,672)	(36,342)	(32,081)
Gain on disposal of property, plant and equipment	148	172	177	208
Foreign exchange (loss)/ gain				
- realised	(387)	1,620	126	2,294
- unrealised	(514)	(966)	(691)	(516)

Save as disclosed above, the other items required to be disclosed under Appendix 9B, Part A(16) of the Bursa Listing Requirements are not applicable.

21 Taxation

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

	Individual Quarter 3 months ended 30 June		Cumulative Quarter 6 months ended 30 June	
	2012 RM'000	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**
Current tax expense	5,792	8,758	9,357	13,585
Deferred tax expense	768	9,817	2,093	16,202
Total	6,560	18,575	11,450	29,787

Reconciliation of tax expense

	Individual Quarter 3 months ended 30 June		Cumulative Quarter 6 months ended 30 June	
	2012 RM'000	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**
Profit for the period	11,307	51,909	21,888	79,354
Total tax expense	6,560	18,575	11,450	29,787
Profit excluding tax	17,867	70,484	33,338	109,141

Tax calculated using Malaysian tax rate of 25%				
- Prima facie income tax expense	4,467	17,621	8,335	27,285
- Non-deductible expenses	1,873	2,427	3,149	4,725
- Double deduction for certain expenses	(1,337)	(1,873)	(2,666)	(3,286)
- Tax exempt income	(6)	(13)	(27)	(50)
- Depreciation capitalised	(51)	(57)	(102)	(114)
- Movements in unrecognised deferred tax assets	1,614	470	2,761	1,227
Income tax expense for the period	6,560	18,575	11,450	29,787

22 Cash and Cash Equivalents

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

	As at 30 June 2012 RM'000	**As at 30 June 2011 RM'000**
Cash in hand	23	27
Cash at bank	61,649	65,261
Fixed deposits with original maturities not exceeding 3 months	36,359	81,347
	98,031	146,635

Fixed deposits of subsidiaries amounting to RM1,020,872 (2011: RM519,651) are pledged to licensed banks for bank facilities granted thereto.

23 Unquoted Investment and Properties

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

24 Quoted Investments

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

25 Status of Corporate Proposal

Pursuant to shareholders' approval on 24 May 2012 for a bonus issue of one bonus share for every five existing ordinary shares held, 61,755,834 bonus shares were issued by the Company, which were listed and quoted on Bursa Malaysia Securities Berhad on 19 June 2012.

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

26 Group Borrowings and Debt Securities

Total Group borrowings as at 30 June 2012 were as follows: -

		As at 30 June 2012 RM'000
Current		
Denominated in Ringgit Malaysia		
Unsecured -	Bankers' acceptances/ Export Credit Refinancing	58,594
	Revolving Credits	97,000
	Term loans	27,896
Secured -	Finance lease liabilities	14,124
	Term loans	3,000
Denominated in US Dollar		
Unsecured -	Foreign currency loans	12,949
Denominated in Japanese Yen		
Unsecured -	Foreign currency loans	13,519
		227,082
Non-current		
Denominated in Ringgit Malaysia		
Unsecured -	Revolving Credits	2,250
	Term loans	149,906
Secured -	Finance lease liabilities	13,669
	Term loans	85,193
		251,018
Total		**478,100**

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:

	6 months ended 30 June 2012 RM'000	2011 RM'000
Transactions with associates		
Contract fees	-	4,445
Handling fees, transportation & freight charges	-	12
Hiring of equipment	-	112
Purchase of consumables	-	1
Income from rental of premises	-	(9)
Freight charges received	-	(4)
Sales of logs and timber products	(1,949)	(3,375)

Transactions with companies connected to certain Directors of the Company and its subsidiaries		
Contract fees and fuel surcharge	31,113	19,125
Food ration expenses	2,125	2,494
Handling fees, transportation & freight charges	12,050	10,548
Hiring of equipment	42	135
Insurance premium	2,108	1,836
Purchase of property, plant and equipment	2	8
Rental of premises paid	27	14
Purchase of spare parts, fertilizer & consumables	7,353	11,990
Purchase of logs and timber products	1,318	3,163
Purchase of seedlings	-	22
Purchase of petty assets	-	3
Security charges	42	42
Computer hardware & software development fees	244	259
Purchase of fresh fruit bunches	-	275
Purchase of diesel and lubricants	11,347	9,344
Road toll received	(205)	(194)
Sales of logs and timber products	(6,586)	(8,144)
Sales of seeds & seedlings	(56)	-
Sales of consumables	-	(7)
Sales of fresh fruit bunches	(27,529)	(7,098)
Income from rental of premises	(60)	(37)
Handling fee received	(921)	(9)
Transport subsidised	(974)	(225)

29 Key Management Personnel Compensation

Compensations to key management personnel are as follows:

	6 months ended 30 June	
	2012	**2011**
	RM'000	**RM'000**
Directors		
- Fees	480	482
- Remunerations	1,493	1,949
- Other short-term employee benefits	294	454
	2,267	2,885
Other Key Management Personnel		
- Salaries, allowances and bonuses	1,612	1,533
- Other short-term employee benefits	356	201
	1,968	1,734
Total	4,235	4,619

30 Earnings Per Share

	3 months ended 30 June 2012	**6 months ended 30 June 2012**
(a) **Basic**		
Net profit attributable to ordinary owners of the Company ('000)	RM13,317	RM24,756
Weighted average number of ordinary shares in issue ('000)	370,537	370,537

30 Earnings Per Share (continued)

Basic earnings per ordinary share (sen)	3.59	6.68
(b) Diluted – after the bonus issue as disclosed in Note 25	3.59	6.68

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 2012.

32 Realised and unrealised profits disclosure

The retained earnings is analysed as follows:

	As at end of current quarter 30 June 2012 RM'000	**As at end of preceding quarter 31 March 2012 RM'000**
- Realised	633,214	680,220
- Unrealised	(85,603)	(84,171)
	547,611	596,049

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 17 August 2012.