

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, and the entity that consolidates or equity accounts or proportionately consolidates the first-mentioned entity (herein referred to as transitioning entities), 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

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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.

Given that certain group entities are transitioning entities, 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 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

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 31 December 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.

The Board of Directors has declared an interim single-tier ordinary dividend for the financial year ending 31 December 2012 of 5 sen per ordinary share (corresponding period in Year 2011: 10 sen) to be paid on 28 March 2013 to depositors whose names appear in the Record of Depositors on 15 March 2013. The total dividend declared to date for the financial year ending 31 December 2012 is 5 sen per ordinary share.

A depositor shall qualify for entitlement only in respect of:

- (a) Securities transferred into Depositor's Securities Account before 4:00 p.m. on 15 March 2013 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	
	Year ended 31 December			
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Timber products	484,925	565,836	(13,170)	50,369
Oil palm	312,262	356,266	94,013	167,448
Reforestation	188	506	(414)	112
Property development	-	3,031	(54)	292
	797,375	925,639	80,375	218,221

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.

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14 Trade and Other Receivables

	As At 31 December 2012 RM'000	As At 31 December 2011 RM'000
Non-current assets		
Staff loans	-	2,315
Current assets		
Trade receivables	47,789	17,596
Interest receivable	55	114
Other receivables	538	1,163
Deposits	1,336	1,479
Prepayments		
-Plant & machinery	837	2,980
-Land premium	5,746	5,743
-Others	7,090	6,550
Advance to a log supplier	170	170
Other advances	489	292
Staff loans	478	95
	<u>64,528</u>	<u>36,182</u>
	<u>64,528</u>	<u>38,497</u>

15 Capital Commitments

	As At 31 December 2012 RM'000
Property, plant and equipment	
- Authorised but not contracted for	54,084
- Authorised and contracted for	46,861
	<u>100,945</u>
Plantation Development Expenditure	
- Authorised but not contracted for	54,597
Leasehold land held for subsidiaries' use	
- Approved and contracted for	15,839
	<u>171,381</u>

16 Review of Performance

- (a) For the quarter under review, the Group recorded a revenue of RM209.97 million, slightly lower than the RM211.26 million of the corresponding quarter of 2011. Profit before tax and net loss for the quarter were RM5.42 million and RM0.12 million, compared to a profit before tax and net profit of RM44.12 million and RM31.76 million achieved in the corresponding quarter of 2011 respectively. The loss was due to a provision for asset impairment of RM13 million. The provision for asset impairment was deemed appropriate in view of the weak Japanese plywood market in 2012.

Higher sales volumes were achieved for both timber and oil palm sectors. Plywood division which contributed to 43% of the group revenue registered a higher sales volume of 29%. Oil palm division and logging division which accounted for 37% and 17% of group revenue recorded 16%, 14% and 34% increase in sales volume of fresh fruit bunches ('FFB'), crude palm oil ('CPO') and export logs respectively.

Average selling prices however were significantly lower, by 16%, 33%, 28% and 14% for plywood products, FFB, CPO and export logs respectively resulting in a drop of both revenue and profit.

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- (b) For the year 2012, the revenue, profit before tax and net profit were RM797.38 million, RM80.38 million and RM51.49 million, compared to RM925.64 million, RM218.22 million and RM160.85 million respectively of year 2011.

For the year under review, except for sales volume of export logs and FFB which increased by 21% and 10% respectively, sales volume and average selling price were generally lower.

Sales volume of plywood and CPO decreased by 9% and 3% respectively, whereas average selling price of plywood products, export logs, palm oil products fell by between 13% and 19% for the year 2012 compared to 2011.

With the lower average selling price and reduced margins, the revenue and profit were significantly lower. The provision of asset impairment of RM13 million also contributed to the lower profit.

17 Variation of Results as compared to the Preceding Quarter

Revenue in the quarter under review decreased by 11% from RM234.85 million of the preceding quarter to RM209.97 million. Profit before tax and net loss for the quarter were RM5.42 million and RM0.12 million compared to a profit before tax and net profit of RM41.62 million and RM29.73 million reported in the preceding quarter respectively.

The drop in average CPO price by 22% in the quarter under review coupled with a reduced sales volume of export logs in the year-end monsoon season resulted in a lower revenue and a decrease in operating profit. The provision of asset impairment in the quarter under review accounted for the loss.

18 Current Year Prospects

The year 2013 will be another challenging year for the Group with uncertainty in global economies and unclear market direction. The implementation of the minimum wage will increase the cost of operation and bear a significant impact on the bottom line, as the Group is in the labour intensive sector.

For the timber sector, the continuity in log demand is expected to be sustained. The performance of the plywood division which suffered operating loss in 2012 will be dependent on the recovery of Japanese plywood market, the main plywood market of the division. The implementation of the declared fiscal policy to counter deflation by the Japanese government that includes increased infrastructure spending is expected to boost the Japanese timber market.

Increased revenue contribution is anticipated from the palm oil sector with the growing maturity of palms in the Group's oil palm estates. The scheduled commissioning of a second CPO mill of the Group at Igan at the end of 2013 will enable a more efficient processing of FFB harvested from estates in the Igan area.

The Group has conducted fine-tuning and rationalization of its operating units to cut manpower. The Board of Directors are of the view that a continued review of operating activities with cost management and higher efficiency as the major focus is vital to mitigate the adverse impact of minimum wage.

19 Profit forecast

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

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20 Profit for the period/ year

	Individual Quarter		Cumulative Quarter	
	3 months ended 31 December		Year ended 31 December	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Profit for the period/ year is arrived at after crediting/ (charging):				
Interest income	494	1,440	2,002	3,076
Interest expenses	(4,081)	(5,485)	(15,338)	(14,672)
Write down of inventories	(5,579)	(2,906)	(5,579)	(2,906)
Write off of inventories	(1,465)	-	(1,465)	-
Depreciation and amortisation	(18,664)	(19,419)	(73,820)	(67,914)
Gain/ (loss) on disposal of property, plant and equipment	274	(163)	680	23
Foreign exchange (loss)/ gain				
- realised	(883)	1,727	1,270	6,154
- unrealised	(461)	2,762	(585)	(252)
Impairment of property, plant and equipment	(13,153)	(9,722)	(13,153)	(9,722)

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/ year under review are as follows:

	Individual Quarter		Cumulative Quarter	
	3 months ended 31 December		Year ended 31 December	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Current tax expense	5,947	8,250	25,837	48,221
Deferred tax expense	(403)	4,116	3,046	9,148
Total	5,544	12,366	28,883	57,369

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Reconciliation of tax expense

	Individual Quarter		Cumulative Quarter	
	3 months ended 31 December		Year ended 31 December	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
(Loss)/ Profit for the period/ year	(122)	31,758	51,492	160,852
Total tax expense	5,544	12,366	28,883	57,369
Profit excluding tax	5,422	44,124	80,375	218,221
Tax calculated using Malaysian tax rate of 25%				
- Prima facie income tax expense	1,356	11,031	20,094	54,555
- Non-deductible expenses	4,054	1,554	8,869	6,528
- Double deduction for certain expenses	(1,674)	(1,451)	(6,094)	(6,422)
- Tax exempt income	26	(193)	(14)	(350)
- Depreciation capitalised	(46)	(56)	(199)	(227)
- Movements in unrecognised deferred tax assets	939	1,266	5,338	3,070
- Under provision in prior years	889	215	889	215
Income tax expense for the period/ year	5,544	12,366	28,883	57,369

22 Cash and Cash Equivalents

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

	As at 31 December 2012 RM'000	As at 31 December 2011 RM'000
Cash in hand	35	29
Cash at bank	39,105	66,670
Fixed deposits with original maturities not exceeding 3 months	89,848	108,260
	<u>128,988</u>	<u>174,959</u>

Fixed deposits of subsidiaries amounting to RM1,292,196 (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.

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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 31 December 2012 were as follows: -

		As at 31 December 2012 RM'000
<u>Current</u>		
<i>Denominated in Ringgit Malaysia</i>		
Unsecured -	Bankers' acceptances/ Export Credit Refinancing	35,338
	Revolving Credits	97,000
	Term loans	32,732
Secured -	Finance lease liabilities	13,739
	Term loans	6,150
<i>Denominated in US Dollar</i>		
Unsecured -	Foreign currency loans	8,934
<i>Denominated in Japanese Yen</i>		
Unsecured -	Foreign currency loans	34,840
		<u>228,733</u>
<u>Non-current</u>		
<i>Denominated in Ringgit Malaysia</i>		
Unsecured -	Revolving Credits	750
	Term loans	143,562
Secured -	Finance lease liabilities	10,792
	Term loans	87,543
		<u>242,647</u>
Total		<u>471,380</u>

27 Material Litigation

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

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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 year:

	Year ended 31 December	
	2012 RM'000	2011 RM'000
Transactions with associates		
Contract fees	-	7,520
Handling fees, transportation & freight charges	-	27
Hiring of equipment	-	130
Income from rental of premises	-	(14)
Freight charges received	-	(5)
Sales of logs and timber products	(6,166)	(6,777)
Transactions with companies connected to certain Directors of the Company and its subsidiaries		
Contract fees and fuel surcharge	66,906	51,112
Food ration expenses	4,032	4,831
Handling fees, transportation & freight charges	27,611	25,190
Hiring of equipment	104	377
Insurance premium	4,708	4,355
Repair and maintenance	3	-
Purchase of property, plant and equipment	4	13
Rental of premises paid	52	23
Purchase of spare parts, fertilizer & consumables	17,247	21,262
Purchase of logs and timber products	4,309	9,539
Purchase of wastewood	-	260
Forklift rental expense	-	12
Security charges	84	84
Computer hardware & software development fees	896	1,035
Purchase of fresh fruit bunches	-	275
Purchase of diesel and lubricants	22,573	19,346
Road toll received	(281)	(403)
Sales of logs and timber products	(12,527)	(16,559)
Sales of seeds & seedlings	(56)	(24)
Sales of consumables	-	(22)
Sales of fresh fruit bunches	(59,474)	(38,931)
Sales of property, plant and equipment	(8)	-
Other income	(53)	-
Income from rental of premises	(125)	(84)
Handling fee received	(2,087)	(433)
Transport subsidised	(2,391)	(1,508)
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29 Key Management Personnel Compensation

Compensations to key management personnel are as follows:

	Year ended 31 December	
	2012	2011
	RM'000	RM'000
Directors		
- Fees	1,011	1,075
- Remunerations	3,180	4,390
- Other short-term employee benefits	3,075	240
	<u>7,266</u>	<u>5,705</u>
Other Key Management Personnel		
- Salaries, allowances and bonuses	3,630	3,170
- Other short-term employee benefits	608	-
	<u>4,238</u>	<u>3,170</u>
Total	<u>11,504</u>	<u>8,875</u>

30 Earnings Per Share

	3 months ended	Year ended
	31 December 2012	31 December 2012
(a) Basic		
Net profit attributable to ordinary owners of the Company ('000)	<u>RM3,086</u>	<u>RM58,305</u>
Weighted average number of ordinary shares in issue ('000)	<u>370,537</u>	<u>370,537</u>
Basic earnings per ordinary share (sen)	<u>0.83</u>	<u>15.74</u>
(b) Diluted	<u>0.83</u>	<u>15.74</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 31 December 2012.

32 Realised and unrealised profits disclosure

The retained earnings is analysed as follows:

	As at	As at
	31 December 2012	31 December 2011
	RM'000	RM'000
Total retained earnings of the Company and its subsidiaries		
- Realised	869,900	889,481
- Unrealised	(86,449)	(82,824)
	<u>783,451</u>	<u>806,657</u>
Less: Consolidation adjustments	(202,291)	(191,169)
Total Group retained earnings as per consolidated accounts	<u>581,160</u>	<u>615,488</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 26 February 2013.