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 2012. 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 2012. 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 2012 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 2012, except for the adoption of the following standards, amendments and interpretations:

- FRS 10, *Consolidated Financial Statements*
- FRS 13, *Fair Value Measurement*
- FRS 119, *Employee Benefits (2011)*
- FRS 127, *Separate Financial Statements (2011)*
- FRS 128, *Investments in Associates and Joint Ventures (2011)*
- Amendments to FRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
- Amendments to FRS 101, *Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)*
- Amendments to FRS 116, *Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle*
- Amendments to FRS 132, *Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle*
- Amendments to FRS 134, *Interim Financial Reporting (Annual Improvements 2009-2011 Cycle*
- Amendments to FRS 10, *Consolidated Financial Statements: Transition Guidance*

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 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.

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 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 2012 in their report dated 15 April 2013.

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

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

As at 31 March 2013, the number of ordinary shares repurchased in an earlier period and retained as treasury shares is 199,400 shares.

8 Dividend

An interim single-tier ordinary dividend of 5 sen per ordinary share for the financial year ended 31 December 2012, amounting to RM18,526,854 was paid on 28 March 2013 to depositors registered in the Record of Depositors at the close of business on 15 March 2013.

No dividend has been proposed by the Directors for the financial quarter under review (corresponding period in Year 2012: nil)

9 Segmental Reporting

	Revenue from external customers		Profit before tax	
	Period ended 31 March			
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Timber products	96,133	102,918	1,086	1,696
Oil palm	53,567	61,595	4,990	13,921
Reforestation	43	54	(91)	(66)
Property development	539	-	75	(80)
	150,282	164,567	6,060	15,471

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

In the Annual Report 2012, Note 37 to the Financial Statements has highlighted that the outcome of the "forests peace deal" under legislative consideration by the Tasmanian Parliament and the associated contractual negotiation have the potential to materially impact the Group's Tasmanian operation in a pervasive manner.

In April 2013, the legislation on "forest peace deal" was passed by the Tasmanian Parliament. With the passing of the legislation, the Tasmanian subsidiary is negotiating with the Tasmanian Government on the funding for a peeler logs purchase contract agreement so that the Tasmanian operation can move forward with certainty.

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 31 March 2013 RM'000	As At 31 December 2012 RM'000
Current assets		
Trade receivables	46,211	48,577
Interest receivable	11	52
Other receivables	978	1,958
Deposits	2,598	1,267
Prepayments		
-Plant and machinery	896	551
-Land premium	5,743	5,818
-Others	6,099	6,744
Advance to a log supplier	140	170
Other advances	563	334
	63,239	65,471

15 Capital Commitments

	As At 31 March 2013 RM'000
Property, plant and equipment	
- Authorised but not contracted for	45,154
- Authorised and contracted for	46,889
	92,043
Plantation development expenditure	
- Authorised but not contracted for	44,364
Leasehold land held for subsidiaries' use	
- Approved and contracted for	15,885
	152,292

16 Review of Performance

For the quarter under review, a revenue of RM150.28 million was achieved compared to RM164.57 million of the corresponding quarter of 2012. Profit before tax decreased from RM15.47 million to RM6.06 million whereas net profit decreased from RM10.58 million to RM2.74 million.

The performance of the quarter under review was affected by the following factors:

a) the minimum wage implementation caused an increased operating cost in all sectors of the Group's activities;
b) the re-processing of imported eucalyptus veneer which was originally produced for making floor-base plywood, to concrete panel plywood, the product in demand, had resulted in a higher unit cost of the products; and
c) except for export logs and sawmilling products, products average selling prices were lower compared to the corresponding quarter of 2012. Average selling price of plywood and crude palm oil were 9% and 29% lower respectively.

With a lower average selling price and higher cost of sales, the profit was significantly lower.

17 Variation of Results as compared to the Preceding Quarter

Revenue in the quarter under review decreased by 28% from RM209.97 million of the preceding quarter to RM150.28 million. Profit before tax and net profit for the quarter were RM6.06 million and RM2.74 million against a profit before tax and net loss of RM5.42 million and RM0.12 million reported in the preceding quarter respectively.

Compared to the preceding quarter, products average selling prices remained at about the same level. Lower products sales volumes, in particular plywood products, oil palm fresh fruit bunches ('FFB') and crude palm oil ('CPO') which decreased by 23%, 29% and 31% respectively mainly accounted for the drop in revenue. However, profit for the quarter under review was higher as the preceding quarter's profitability was affected by a provision for asset impairment.

18 Current Year Prospects

For the remaining quarters of 2013, increasing revenue contributions are projected from both the timber and palm oil sectors.

Demands for timber and timber products are expected to maintain with the acute shortage of logs in the region. The availability of logs from our planted forests and the import of eucalyptus veneer produced by our Tasmanian subsidiary will sustain our plywood production to meet the anticipated increase in demand from Japan at the end of the second quarter after the "golden week" lax season.

The passing of the legislation by the Tasmanian Parliament enabling a "forest peace deal" to crystallize will enhance the marketing of our eco plywood products.

For the palm oil sector, the commencement of oil palm peak crop season towards the end of the second quarter will produce more FFB. Coupled with increasing palms maturity, higher revenue from sales of FFB and CPO are thus anticipated. CPO selling price is expected to stabilize with the decreasing CPO stock pile in Malaysia and Indonesia.

The management has implemented a number of cost savings measures to cut cost, including reduction of workers at mills to mitigate rising cost brought about by the minimum wage. The benefits of those cost savings and cutting drives will be gradually realized as the workforce gets accustomed to the rationalization.

Barring unforeseen circumstances, the Board is confident that the performance of the second quarter of year 2013 will be better.

19 Profit forecast

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

20 Profit for the period

	Individual Quarter		**Cumulative Quarter**	
	3 months ended 31 March		**Period ended 31 March**	
	2013 RM'000	**2012 RM'000**	**2013 RM'000**	**2012 RM'000**
Profit for the period is arrived at after crediting/ (charging):				
Finance income	480	598	480	598
Finance costs	(3,680)	(3,761)	(3,680)	(3,761)
Depreciation and amortisation	(18,270)	(18,065)	(18,270)	(18,065)
Gain on disposal of property, plant and equipment	105	29	105	29

Property, plant and equipment written off	(9)	(60)	(9)	(60)
Foreign exchange (loss)/ gain				
- realised	(24)	513	(24)	513
- unrealised	(8)	(177)	(8)	(177)

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		Cumulative Quarter	
	3 months ended 31 March		Period ended 31 March	
	2013 RM'000	**2012 RM'000**	**2013 RM'000**	**2012 RM'000**
Current tax expense	2,379	3,565	2,379	3,565
Deferred tax expense	940	1,325	940	1,325
Total	3,319	4,890	3,319	4,890

	Individual Quarter		Cumulative Quarter	
	3 months ended 31 March		Period ended 31 March	
	2013 RM'000	**2012 RM'000**	**2013 RM'000**	**2012 RM'000**
Profit for the period	2,741	10,581	2,741	10,581
Total tax expense	3,319	4,890	3,319	4,890
Profit excluding tax	6,060	15,471	6,060	15,471
Tax calculated using Malaysian tax rate of 25%				
- Prima facie income tax expense	1,515	3,868	1,515	3,868
- Non-deductible expenses	1,298	1,276	1,298	1,276
- Double deduction for certain expenses	(1,306)	(1,329)	(1,306)	(1,329)
- Tax exempt income	-	(21)	-	(21)
- Depreciation capitalised	-	(51)	-	(51)
- Movements in unrecognised deferred tax assets	1,812	1,147	1,812	1,147
Income tax expense for the period	3,319	4,890	3,319	4,890

22 Cash and Cash Equivalents

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

	As at 31 March 2013 RM'000	**As at 31 March 2012 RM'000**
Cash in hand	35	28
Cash at banks	52,460	82,104
Fixed deposits with original maturities not exceeding 3 months	128,505	20,386
	181,000	102,518

Fixed deposits of subsidiaries amounting to RM1,296,300 (2012: RM1,292,927) 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

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 March 2013 were as follows: -

		As at 31 March 2013 RM'000
Current		
Denominated in Ringgit Malaysia		
Unsecured -	Bankers' acceptances/ Export Credit Refinancing	41,294
	Revolving Credits	97,000
	Term loans	42,632
Secured -	Finance lease liabilities	12,320
	Term loans	8,000
Denominated in US Dollar		
Unsecured -	Foreign currency loans	11,022
Denominated in Japanese Yen		
Unsecured -	Foreign currency loans	31,431
		243,699

Non-current		
Denominated in Ringgit Malaysia		
Unsecured -	Term loans	228,742
Secured -	Finance lease liabilities	9,796
	Term loans	84,743
		323,281
Total		**566,980**

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 31 March	
	2013	**2012**
	RM'000	**RM'000**
Transactions with associates		
Sales of logs and timber products	(2,226)	(757)
Transactions with companies connected to certain Directors of the Company and its subsidiaries		
Contract fees and fuel surcharge	10,964	12,499
Food ration expenses	911	1,084
Handling fees, transportation & freight charges	5,931	6,057
Hiring of equipment	24	-
Insurance premium	603	1,061
Purchase of property, plant and equipment	18	2
Rental of premises paid	11	14
Purchase of spare parts, fertilizer & consumables	2,680	2,463
Purchase of logs and timber products	1,046	783
Security charges	21	21
Computer hardware & software development fees	90	28
Purchase of diesel and lubricants	5,166	5,024
Road toll received	(52)	(87)
Sales of logs and timber products	(2,407)	(3,841)
Sales of seeds & seedlings	-	(14)
Sales of fresh fruit bunches	(9,103)	(14,064)
Empty bunch subsidised	(3)	-
Hiring income	(4)	-
Income from rental of premises	(31)	(31)
Handling fee received	(486)	(424)
Transport subsidised	(423)	(521)
	=======	=======

29 Key Management Personnel Compensation

Compensations to key management personnel are as follows:

	Period ended 31 March 2013 RM'000	2012 RM'000
Directors		
- Fees	201	228
- Remunerations	568	774
- Other short-term employee benefits	139	138
	908	1,140
Other Key Management Personnel		
- Fees	21	-
- Remunerations	968	830
- Other short-term employee benefits	139	114
	1,128	944
Total	2,036	2,084

30 Earnings Per Share

	3 months ended 31 March 2013	Period ended 31 March 2013
(a) **Basic**		
Net profit attributable to ordinary owners of the Company ('000)	RM4,027	RM4,027
Weighted average number of ordinary shares in issue ('000)	370,537	370,537
Basic earnings per ordinary share (sen)	1.09	1.09
(b) Diluted	1.09	1.09

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 March 2013.

32 Realised and unrealised profits disclosure

The retained earnings is analysed as follows:

	As at 31 March 2013 RM'000	As at 31 March 2012 RM'000
Total retained earnings of the Company and its subsidiaries		
- Realised	837,623	870,056
- Unrealised	(83,676)	(84,171)
	753,947	785,885
Less: Consolidation adjustments	(188,129)	(189,836)
Total Group retained earnings as per consolidated accounts	565,818	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 23 May 2013.