**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 their 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, MASB made a further announcement to allow transitioning entities to defer the adoption of MFRS for another year. Following the deferment, transitioning entities were required to migrate to the MFRS framework from the annual periods beginning on or after 1 January 2014.

On 7 August 2013, MASB has decided to allow transitioning entities to defer the adoption of MFRS for yet another year. This deferment takes into account the latest status of the International Accounting Standards Board's work plan on the two transitional issues that have yet to be resolved. Transitioning entities continue to have the option to either apply the MFRS Framework or the FRS Framework for annual periods beginning on a date before 1 January 2015.

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 and 31 December 2014. They will be prepared in compliance with MFRS from the financial year beginning on 1 January 2015.

**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 30 June 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 30 June** | | | |
| | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** |
| Timber products | 241,083 | 218,748 | 32,499 | 1,929 |
| Oil palm | 108,539 | 133,680 | 11,907 | 31,666 |
| Reforestation | 48 | 128 | (215) | (122) |
| Property development | 539 | - | 14 | (135) |
| | 350,209 | 352,556 | 44,205 | 33,338 |

## 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

On 26 July 2013, the Company announced that the Australian subsidiary, Ta Ann Tasmania Pty Ltd received a letter from the Tasmanian Government advising the inclusion of the subsidiary's plywood mill project as a funded project for A$7.5 million in the A$100 million economic diversification projects which would be funded by the Tasmanian Government.

## 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 2013 RM'000 | As At 31 December 2012 RM'000 |
|---|---|---|
| **Current assets** | | |
| Trade receivables | 68,491 | 48,577 |
| Interest receivable | 15 | 52 |
| Other receivables | 1,957 | 1,958 |
| Deposits | 1,835 | 1,267 |
| Prepayments | | |
| -Plant and machinery | 1,013 | 551 |
| -Land premium | 5,750 | 5,818 |
| -Others | 9,074 | 6,744 |
| Advance to a log supplier | 140 | 170 |
| Other advances | 520 | 334 |
| | 88,795 | 65,471 |

## 15 Capital Commitments

| | As At 30 June 2013 RM'000 |
|---|---|
| **Property, plant and equipment** | |
| - Authorised but not contracted for | 40,761 |
| - Authorised and contracted for | 35,285 |
| | 76,046 |
| **Plantation development expenditure** | |
| - Authorised but not contracted for | 33,486 |
| **Leasehold land held for subsidiaries' use** | |
| - Approved and contracted for | 15,885 |
| | 125,417 |

## 16 Review of Performance

(a) For the quarter under review, a revenue of RM199.93 million was achieved compared to RM187.99 million of the corresponding quarter of 2012. Profit before tax increased from RM17.87 million to RM38.15 million whereas net profit increased from RM11.31 million to RM23.90 million.

The following factors contributed to the performance of the quarter under review:

(i) First tranche compensation of A$20.30 million net of GST received in June 2013 by the Australian subsidiary, Ta Ann Tasmania Pty Ltd, for wood supply entitlement returned to the Australian Government increased the income of the Group.

The Ringgit equivalent of RM62 million has been taken up in 'Other income'. A provision for income tax liability relating thereto for RM equivalent of RM9.52 million has been taken up in 'Income tax expense'. After assessing the impact on operation of returning 42% of the wood supply entitlement to the Australian Government, an impairment loss on plant, property and equipment of RM equivalent of 31 million was also provided and taken up in 'Other expenses';

(ii) For the timber sector, the performance was affected by the yen depreciation and shortage of logs. Plywood sales volume was 38% higher and average selling price was 2% better in Ringgit terms. Export logs average selling price was 18% higher but sales volume was lower by 18%; and

(iii) Fresh fruit bunches (‘FFB’) and crude palm oil (‘CPO’) production were 6% and 14% higher but average selling prices were 35% and 30% lower respectively.

(b) For the first half year of 2013, the revenue, profit before tax and net profit were RM350.21 million, RM44.21 million and RM26.64 million, compared to RM352.56 million, RM33.34 million and RM21.89 million respectively of the corresponding period in 2012.

Similar factors stated in (a) above mainly accounted for the performance of the first half year:

(i) Sales volume of plywood, FFB and CPO increased by 20%, 10% and 21% respectively, whereas average selling price of plywood products, FFB and CPO decreased by 3%, 35% and 29% for the first half year of 2013 compared to 2012;

(ii) Export logs average selling price was 11% higher but sales volume was lower by 8%; and

(iii) Compensation received by Ta Ann Tasmania Pty Ltd accounted for the significant increase in other income, other expenses and income tax expense.

**17 Variation of Results as compared to the Preceding Quarter**

Revenue in the quarter under review increased by 33% from RM150.28 million of the preceding quarter to RM199.93 million. Profit before tax and net profit for the quarter were RM38.15 million and RM23.90 million against RM6.06 million and RM2.74 million reported in the preceding quarter respectively.

Compared to the preceding quarter, export log sales volume dropped by 3% though average selling price was up by 22%. Plywood sales volume increased by 58% and average selling price was 4% better owing mainly to the sales of higher premium plywood products. Sales volume of FFB and CPO increased by 5% and 7% respectively but average selling prices were only marginally higher.

With other income arising from compensation received from Australian Government, the profit in the quarter under review was significantly higher compared to the preceding quarter.

**18 Current Year Prospects**

Higher sales volume was achieved in the first half year of 2013 but the subdued selling prices of products except for logs affected the first half’s performance.

For the second half of 2013, timber sector is expected to remain the leading revenue contributor, and logging and oil palm divisions are expected to be the main profit contributors.

Continuing orders for logs from India, the main market for Sarawak logs and the general shortage of logs in the market will sustain the log demand.

The victory of the LDP party in the July Japanese upper house election will empower the new Japanese Government to push ahead with economic reforms that are expected to generate higher domestic demand. Japanese plywood market is expected to benefit from the improved housing starts and set on a recovery mode.

Our Tasmanian subsidiary is undertaking an exercise to restructure its operation on reduced wood supply including establishing a plywood line in one of the two veneer mills to produce plywood products for the local Australian market which has a growing demand for our products.

For the palm oil sector, the approaching peak crop season and more maturing palms will increase the Group’s FFB and CPO production, and at current CPO price level, a higher profit contribution would be expected.

Barring unforeseen circumstances, the Board of Directors anticipates a better operational performance from the various divisions of the Group.

## 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 30 June | | 6 months ended 30 June | |
| | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** |
| **Profit for the period is arrived at after crediting/ (charging):** | | | | |
| Finance income | 1,108 | 421 | 1,588 | 1,019 |
| Finance costs | (4,561) | (3,539) | (8,241) | (7,300) |
| Depreciation and amortisation | (18,657) | (18,277) | (36,927) | (36,342) |
| Gain on disposal of property, plant and equipment | 2 | 148 | 107 | 177 |
| Property, plant and equipment written off | (173) | (310) | (182) | (370) |
| Impairment of property, plant and equipment | (31,077) | - | (31,077) | - |
| Foreign exchange gain/ (loss) | | | | |
| - realised | 226 | (387) | 202 | 126 |
| - unrealised | 154 | (514) | 146 | (691) |

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 Income tax expense

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

| | Individual Quarter | | Cumulative Quarter | |
|---|---|---|---|---|
| | 3 months ended 30 June | | 6 months ended 30 June | |
| | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** |
| Current tax expense | 14,981 | 5,792 | 17,360 | 9,357 |
| Deferred tax expense | (732) | 768 | 208 | 2,093 |
| **Total** | 14,249 | 6,560 | 17,568 | 11,450 |

**Reconciliation of income tax expense**

| | Individual Quarter | | Cumulative Quarter | |
|---|---|---|---|---|
| | 3 months ended 30 June | | 6 months ended 30 June | |
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Profit for the period | 23,896 | 11,307 | 26,637 | 21,888 |
| Total tax expense | 14,249 | 6,560 | 17,568 | 11,450 |
| Profit excluding tax | 38,145 | 17,867 | 44,205 | 33,338 |
| Tax calculated using Malaysian tax rate of 25% | | | | |
| - Prima facie income tax expense | 9,536 | 4,467 | 11,051 | 8,335 |
| - Non-deductible expenses | 2,859 | 1,873 | 4,157 | 3,149 |
| - Double deduction for certain expenses | (1,978) | (1,337) | (3,284) | (2,666) |
| - Tax exempt income | - | (6) | - | (27) |
| - Depreciation capitalised | - | (51) | - | (102) |
| - Movements in unrecognised deferred tax assets | 3,832 | 1,614 | 5,644 | 2,761 |
| Income tax expense for the period | 14,249 | 6,560 | 17,568 | 11,450 |

## 22 Cash and Cash Equivalents

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

| | As at 30 June 2013 RM'000 | As at 30 June 2012 RM'000 |
|---|---|---|
| Cash in hand | 29 | 23 |
| Cash at banks | 96,216 | 61,649 |
| Fixed deposits with original maturities not exceeding 3 months | 138,922 | 36,359 |
| | 235,167 | 98,031 |

Fixed deposits of subsidiaries amounting to RM1,300,529 (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 30 June 2013 were as follows: -

| | | As at 30 June 2013 RM'000 |
|---|---|---|
| **Current** | | |
| *Denominated in Ringgit Malaysia* | | |
| **Unsecured -** | Bankers' acceptances/ Export Credit Refinancing | 5,432 |
| | Revolving Credits | 88,250 |
| | Term loans | 52,552 |
| **Secured -** | Finance lease liabilities | 13,537 |
| | Revolving Credits | 17,000 |
| | Term loans | 9,900 |
| *Denominated in US Dollar* | | |
| **Unsecured -** | Foreign currency loans | 6,447 |
| *Denominated in Japanese Yen* | | |
| **Unsecured -** | Foreign currency loans | 35,653 |
| | | 228,771 |
| **Non-current** | | |
| *Denominated in Ringgit Malaysia* | | |
| **Unsecured -** | Term loans | 221,835 |
| **Secured -** | Finance lease liabilities | 7,473 |
| | Term loans | 81,343 |
| | | 310,651 |
| **Total** | | **539,422** |

## 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 | |
|---|---|---|
| | 2013 | 2012 |
| | RM'000 | RM'000 |
| **Transactions with associates** | | |
| Sales of logs and timber products | (5,380) | (1,949) |
| | | |
| **Transactions with companies connected to certain Directors of the Company and its subsidiaries** | | |
| Contract fees and fuel surcharge | 27,127 | 31,113 |
| Food ration expenses | 1,716 | 2,125 |
| Handling fees, transportation & freight charges | 12,373 | 12,050 |
| Hiring of equipment | 35 | 42 |
| Insurance premium | 1,505 | 2,108 |
| Purchase of property, plant and equipment | 25 | 2 |
| Rental of premises paid | 22 | 27 |
| Purchase of spare parts, fertilizer & consumables | 6,743 | 7,353 |
| Purchase of logs and timber products | 1,046 | 1,318 |
| Security charges | 42 | 42 |
| Computer hardware & software development fees | 202 | 244 |
| Purchase of diesel and lubricants | 10,056 | 11,347 |
| Road toll received | (96) | (205) |
| Sales of logs and timber products | (4,969) | (6,586) |
| Sales of seeds & seedlings | - | (56) |
| Sales of fresh fruit bunches | (17,118) | (27,529) |
| Empty bunch subsidised | (11) | - |
| Hiring income | (4) | - |
| Income from rental of premises | (63) | (60) |
| Handling fee received | (986) | (921) |
| Transport subsidised | (751) | (974) |
| | ======= | ======= |

## 29 Key Management Personnel Compensation

Compensations to key management personnel are as follows:

| | 6 months ended 30 June | |
|---|---|---|
| | 2013 | 2012 |
| | RM'000 | RM'000 |
| Directors | | |
| - Fees | 399 | 480 |
| - Remunerations | 1,136 | 1,493 |
| - Other short-term employee benefits | 293 | 294 |
| | 1,828 | 2,267 |
| Other Key Management Personnel | | |
| - Fees | 50 | - |
| - Remunerations | 1,881 | 1,612 |
| - Other short-term employee benefits | 247 | 356 |
| | 2,178 | 1,968 |
| Total | 4,006 | 4,235 |

## 30 Earnings Per Share

| | 3 months ended 30 June 2013 | 6 months ended 30 June 2013 |
|---|---|---|
| (a) **Basic** | | |
| Net profit attributable to ordinary owners of the Company ('000) | RM24,204 | RM28,231 |
| Weighted average number of ordinary shares in issue ('000) | 370,537 | 370,537 |
| Basic earnings per ordinary share (sen) | 6.53 | 7.62 |
| (b) Diluted | 6.53 | 7.62 |

## 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 2013.

## 32 Realised and unrealised profits disclosure

The retained earnings is analysed as follows:

| | As at 30 June 2013 RM'000 | As at 30 June 2012 RM'000 |
|---|---|---|
| Total retained earnings of the Company and its subsidiaries | | |
| - Realised | 861,331 | 823,130 |
| - Unrealised | (83,733) | (85,603) |
| | 777,598 | 737,527 |
| Less: Consolidation adjustments | (187,576) | (189,916) |
| Total Group retained earnings as per consolidated accounts | 590,022 | 547,611 |

## 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 27 August 2013.