

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 material impact 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

On 7 August 2013, MASB has decided to allow transitioning entities to defer the adoption of Malaysian Financial Reporting Standards (MFRS). Transitioning entities will have to adopt MFRS when mandated by the MASB.

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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 ended 31 December 2013 and will adopt new and/ or amended FRSs and IC Interpretations as and when effective.

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 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

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

As at 31 December 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 2013, amounting to RM18,526,854 was paid on 27 December 2013 to depositors registered in the Record of Depositors at the close of business on 11 December 2013. The total dividend declared to date for the financial year ended 31 December 2013 is 5 sen per ordinary share.

No dividend has been proposed by the Directors for the financial quarter under review (corresponding period in Year 2012: 5 sen)

9 Segmental Reporting

	Revenue from external customers		Profit before tax	
	Year ended 31 December			
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Timber products	490,382	478,994	51,452	(17,778)
Oil palm	283,143	310,754	64,027	96,723
Reforestation	101	188	(655)	(1,059)
Property development	539	-	(123)	(110)
	<u>774,165</u>	<u>789,936</u>	<u>114,701</u>	<u>77,776</u>

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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 31 December 2013 RM'000	As At 31 December 2012 RM'000
Current assets		
Trade receivables	53,789	48,577
Interest receivable	98	52
Other receivables	1,126	1,958
Deposits	1,853	1,267
Prepayments		
-Plant and machinery	1,029	551
-Land premium	5,743	5,818
-Others	6,347	6,744
Advance to a log supplier	90	170
Other advances	578	334
	<u>70,653</u>	<u>65,471</u>

15 Capital Commitments

	As At 31 December 2013 RM'000
Property, plant and equipment	
- Authorised but not contracted for	50,164
- Authorised and contracted for	9,825
	<u>59,989</u>
Plantation development expenditure	
- Authorised but not contracted for	42,893
Leasehold land held for subsidiaries' use	
- Approved and contracted for	15,885
	<u>118,767</u>

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16 Review of Performance

- (a) For the quarter under review, a revenue of RM207.14 million was achieved compared to RM202.53 million of the corresponding quarter of 2012. Profit before tax and net profit for the quarter were RM24.38 million and RM31.98 million, compared to a profit before tax and net loss of RM2.82 million and RM0.28 million achieved in the corresponding quarter of 2012 respectively.

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

- (i) Sales volume of plywood products and oil palm fresh fruit bunches ('FFB') were 12% and 2% lower, while export logs and crude palm oil ('CPO') achieved higher sales volume of 6% and 13% respectively;
 - (ii) Average products selling prices were generally better, particularly for FFB and export logs which recorded 21% and 14% higher prices respectively;
 - (iii) A review of impairment of property, plant and machinery and income tax expense conducted by the Australian subsidiary Ta Ann Tasmania Pty Ltd, concluded that the impairment and income tax provisions were not required for the year 2013. Reversal of the provisions for impairment and income tax expense made on receipt of the first tranche payment of compensation in the second quarter, reduced the expenses of the Group by RM31 million and RM9.52 million respectively; and
 - (iv) Inventory write down/ off of RM21 million was made in the quarter under review.
- (b) For the year 2013, the revenue, profit before tax and net profit were RM774.17 million, RM114.70 million and RM91.46 million, compared to RM789.94 million, RM77.78 million and RM51.33 million respectively of year 2012.

The following factors contributed to the performance of year 2013:

- (i) Sales volume of CPO increased by 17% , though sales volume change for other products were not significant;
- (ii) Export log average selling price increased by 16% but average selling price of FFB and CPO dropped by 19% and 18% respectively;
- (iii) First tranche compensation payment of A\$20.3 million net of GST received by the Australian subsidiary, Ta Ann Tasmania Pty Ltd from the Australian Government for wood supply entitlement returned to them increased the income of the Group; and
- (iv) Inventory write down/ off of RM21 million in year 2013.

17 Variation of Results as compared to the Preceding Quarter

Revenue in the quarter under review decreased by 4% from RM216.81 million of the preceding quarter to RM207.14 million. Profit before tax and net profit for the quarter were RM24.38 million and RM31.98 million against RM46.12 million and RM32.85 million reported in the preceding quarter respectively.

Export log sales volume and average selling price dropped by 7% and 10% respectively and lower sales volume of FFB by 13% mainly accounted for the lower revenue.

Higher income reported by the Australian subsidiary from the reversal of impairment provision made earlier in the year increased the income of the Group. An inventory write down/ off of RM21 million on veneer/ plywood stock was made in the quarter under review, which reduced the profit of the Group.

18 Current Year Prospects

Year 2014 is expected to be a better year than 2013. The Group's timber sector performance will be influenced to a great extent, by the economy of the main log buyer country, India and plywood market in Japan. The general log supply shortage in the market is likely to sustain the log demand and price. Plywood demand is expected to pick up as preparation and infrastructure/ building construction for Tokyo Olympics 2020 are gearing up.

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For oil palm sector, the Group's oil palm estates are anticipating higher production from the growing mature palms. The sector outlook for 2014 is likely to be positive with the upward trend of CPO price in the near term.

The Group shall continue to focus on cost management and higher operational efficiency and apply the appropriate market strategy to raise competitive advantage.

Barring unforeseen circumstances, the Board of Directors expects higher productivity for both timber and palm oil sectors in the year 2014.

19 Profit forecast

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

20 Profit for the period/ year

	Individual Quarter		Cumulative Quarter	
	3 months ended 31 December		Year ended 31 December	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Profit for the period/ year is arrived at after crediting/ (charging):				
Finance income	2,001	752	5,018	2,260
Finance costs	(4,521)	(3,636)	(17,498)	(14,893)
Depreciation and amortisation	(20,969)	(20,691)	(76,772)	(75,847)
Gain/ (Loss) on disposal of property, plant and equipment	13	(35)	104	371
Property, plant and equipment written off	(693)	708	(973)	(197)
Impairment of property, plant and equipment	31,077	(11,513)	-	(11,513)
Write down of inventories	(15,445)	(11,530)	(15,445)	(11,530)
Write off of inventories	(5,783)	-	(5,783)	-
Foreign exchange gain/ (loss)				
- realised	681	(99)	1,841	2,054
- unrealised	(7,786)	55	(7,233)	(69)

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.

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21 Tax (income)/ expense

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	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Current tax (income)/ expense	(8,262)	5,463	21,720	25,353
Deferred tax expense/ (income)	666	(2,357)	1,522	1,092
Total tax (income)/ expense	(7,596)	3,106	23,242	26,445

Reconciliation of tax (income)/ expense

	Individual Quarter		Cumulative Quarter	
	3 months ended 31 December		Year ended 31 December	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Profit/ (loss) for the period/ year	31,976	(283)	91,459	51,331
Total tax (income)/ expense	(7,596)	3,106	23,242	26,445
Profit excluding tax	24,380	2,823	114,701	77,776

Tax calculated using Malaysian tax rate of 25%

- Prima facie income tax expense	6,095	705	28,675	19,444
- Non-deductible expenses	(1,429)	4,878	5,932	9,693
- Double deduction for certain expenses	(1,460)	(1,827)	(6,207)	(6,247)
- Tax exempt income	-	(947)	-	(987)
- Depreciation capitalised	-	153	-	-
- Movements in unrecognised deferred tax assets	(10,802)	(806)	(5,158)	3,592
- Under provision in prior years	-	950	-	950
Tax (income)/ expense for the period/ year	(7,596)	3,106	23,242	26,445

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22 Cash and Cash Equivalents

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

	As at 31 December 2013 RM'000	As at 31 December 2012 RM'000
Cash in hand	28	726
Cash at banks	98,827	40,373
Fixed deposits with original maturities not exceeding 3 months	140,159	87,444
	<u>239,014</u>	<u>128,543</u>

Fixed deposits of subsidiaries amounting to RM1,230,507 (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 December 2013 were as follows: -

	As at 31 December 2013 RM'000
<u>Current</u>	
<i>Denominated in Ringgit Malaysia</i>	
Unsecured - Bankers' acceptances/ Export Credit Refinancing	9,198
Revolving Credits	70,000
Term loans	66,232
Secured - Finance lease liabilities	11,766
Revolving Credits	17,000
Term loans	13,800
<i>Denominated in US Dollar</i>	
Unsecured - Foreign currency loans	8,467
<i>Denominated in Japanese Yen</i>	
Unsecured - Foreign currency loans	19,196
	<u>215,659</u>

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<u>Non-current</u>		
<i>Denominated in Ringgit Malaysia</i>		
Unsecured -	Term loans	219,333
Secured -	Finance lease liabilities	8,952
	Term loans	74,443
		<hr/>
		302,728
		<hr/>
Total		518,387
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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 year:

	Year ended 31 December	
	2013	2012
	RM'000	RM'000
Transactions with associates		
Sales of logs and timber products	(11,615)	(6,166)
 Transactions with companies connected to certain Directors of the Company and its subsidiaries		
Contract fees and fuel surcharge	59,595	66,906
Food ration expenses	3,406	4,032
Handling fees, transportation & freight charges	26,356	27,611
Hiring of equipment	43	131
Insurance premium	3,712	4,708
Repair and maintenance	-	3
Purchase of property, plant and equipment	29	4
Rental of premises paid	44	52
Purchase of spare parts, fertilizer & consumables	16,613	17,247
Purchase of logs and timber products	1,046	4,309
Security charges	84	84
Computer hardware & software development fees	453	896
Purchase of diesel and lubricants	21,496	20,343
Road toll received	(189)	(281)
Sales of logs and timber products	(10,320)	(12,528)
Sales of seeds & seedlings	-	(56)
Sales of fresh fruit bunches	(39,856)	(59,474)
Sales of property, plant and equipment	(12)	(8)
Sales of spare parts, fertilizer & consumables	(58)	-
Empty bunch subsidized	(24)	-
Hiring income	(31)	(27)
Log compensation received	-	(53)
Income from rental of premises	(136)	(125)
Handling fee received	(2,347)	(2,087)
Transport subsidised	(1,556)	(2,391)
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29 Key Management Personnel Compensation

Compensations to key management personnel are as follows:

	Year ended 31 December	
	2013	2012
	RM'000	RM'000
Directors		
- Fees	846	1,088
- Remunerations	3,072	4,062
- Other short-term employee benefits	659	2,452
	<u>4,577</u>	<u>7,602</u>
Other Key Management Personnel		
- Fees	166	-
- Remunerations	5,033	3,734
- Other short-term employee benefits	1,531	-
	<u>6,730</u>	<u>3,734</u>
Total	<u>11,307</u>	<u>11,336</u>

30 Earnings Per Share

	3 months ended	Year ended
	31 December 2013	31 December 2013
(a) Basic		
Net profit attributable to ordinary owners of the Company ('000)	<u>RM30,569</u>	<u>RM92,062</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>8.25</u>	<u>24.85</u>
(b) Diluted	<u>8.25</u>	<u>24.85</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 2013.

32 Realised and unrealised profits disclosure

The retained earnings is analysed as follows:

	As at	As at
	31 December 2013	31 December 2012
	RM'000	RM'000
Total retained earnings of the Company and its subsidiaries		
- Realised	920,179	849,201
- Unrealised	(91,772)	(84,339)
	<u>828,407</u>	<u>764,862</u>
Less: Consolidation adjustments	(196,201)	(186,045)
Total Group retained earnings as per consolidated accounts	<u>632,206</u>	<u>578,817</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 24 February 2014.