

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 2013. 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 2013. 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 2013 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 2013, except for the adoption of the following standards, amendments and interpretations:

- Amendments to FRS 10, *Consolidated Financial Statements: Investment Entities*
- Amendments to FRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- Amendments to FRS 136, *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to FRS 139, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*

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 2 September 2014, MASB has announced that transitioning entities shall be required to apply Malaysian Financial Reporting Standard (MFRS) for annual period beginning on or after 1 January 2017.

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 2014, 31 December 2015 and 31 December 2016. They will be prepared in compliance with MFRS from the financial year beginning on 1 January 2017.

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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 2013 in their report dated 7 April 2014.

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 30 September 2014, 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 10 sen per ordinary share for the financial year ending 31 December 2014, amounting to RM37,053,708 was paid on 27 June 2014 to depositors registered in the Record of Depositors at the close of business on 10 June 2014.

The Board of Directors has declared a second interim single-tier ordinary dividend for the financial year ending 31 December 2014 of 10 sen per ordinary share (corresponding period in Year 2013: 5 sen) to be paid on 29 December 2014 to depositors whose names appear in the Record of Depositors on 10 December 2014.

A depositor shall qualify for entitlement only in respect of:

- (a) Securities transferred into Depositor's Securities Account before 4:00 p.m. on 10 December 2014 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	
	Period ended 30 September			
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Timber products	433,737	369,375	88,423	49,652
Oil palm	308,497	197,034	51,850	41,489
Reforestation	57	75	(487)	(797)
Property development	-	539	(298)	(23)
	742,291	567,023	139,488	90,321

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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 30 September 2014 RM'000	As At 31 December 2013 RM'000
Current assets		
Trade receivables	53,354	53,790
Interest receivable	24	75
Other receivables	1,427	1,482
Deposits	2,058	1,931
Prepayments		
-Plant and machinery	4,048	853
-Land premium	6,097	5,818
-Others	7,385	4,682
Advance to a log supplier	90	90
Other advances	770	378
	<u>75,253</u>	<u>69,099</u>

15 Capital Commitments

	As At 30 September 2014 RM'000
Property, plant and equipment	
- Authorised but not contracted for	22,987
- Authorised and contracted for	6,855
	<u>29,842</u>
Plantation development expenditure	
- Authorised but not contracted for	18,736
Leasehold land held for subsidiaries' use	
- Approved and contracted for	15,421
	<u>63,999</u>

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16 Review of Performance

- (a) A higher revenue of RM284.71 million was achieved in the quarter under review compared to RM216.81 million of the corresponding quarter in 2013. Profit before tax increased by 33% from RM46.12 million of the corresponding quarter in 2013 to RM61.17 million, and net profit also rose by 43% from RM32.85 million to RM46.94 million.

The following factors mainly accounted for the performance of the quarter under review:

- (i) Higher overall sales volumes, in particular crude palm oil ('CPO') by 81%, export logs by 20% and plywood products by 25%;
 - (ii) Average selling price of export logs was 3% higher but oil palm fresh fruit bunches ('FFB') and CPO were 3% and 9% lower respectively; and
 - (iii) The second and final tranche of compensation payment net of GST of Australian dollar 5.7 million received in the third quarter boosted the income by RM16.999 million.
- (b) For the first 9 months of 2014, the revenue of RM742.29 million was 31% higher than the corresponding period in 2013. Profit before tax increased by 54% from RM90.32 million to RM139.49 million, while net profit of RM104.05 million was 75% higher than the RM59.48 million of 2013.

Higher sales volume in plywood products by 4%, export logs by 30%, FFB by 9% and CPO by 63% and improved average selling price of plywood products by 3%, export logs by 7%, FFB by 13% and CPO by 4% accounted for the better performance of the 9 months under review.

17 Variation of Results as compared to the Preceding Quarter

Revenue in the quarter under review increased by 16% from RM245.77 million of the preceding quarter to RM284.71 million. Profit before tax and net profit for the quarter also increased by 55% and 65% to RM61.17 million and RM46.94 million from RM39.35 million and RM28.37 million reported in the preceding quarter respectively.

Increased sales volume of products, especially CPO by 68%, FFB by 53% and export logs by 22%, and compensation payment from the Australian Government accounted for the higher income and profit, although the drop in average selling prices of FFB and CPO, by 19% and 16% respectively reduced the quantum of profit increase.

18 Current Year Prospects

Demand for logs is expected to be firm in the last quarter of 2014 as market continues to be affected by the repercussion of the Myanmar's export log ban.

With a weakening yen, Japanese export becomes cheaper and is likely to stimulate Japanese economic growth and raise consumer demand. Given this scenario and our product quality and specifications meeting Japanese consumers' expectation and requirements, the Group is confident of a continuing flow of orders for plywood products from Japan. In the Australian market, sales of our plywood products is growing, and an increasing market share is anticipated.

Palm oil sector will remain one of the main contributors to the Group's revenue and profit, even though FFB production has reached its peak crop in the third quarter. The recent recovery in CPO price if sustained as forecast, will raise the contribution from the palm oil sector.

Barring unforeseen circumstances, the Directors expect a better performance for 2014 than the preceding year.

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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 September		9 months ended 30 September	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Profit for the period is arrived at after crediting/ (charging):				
Finance income	1,878	1,429	4,936	3,017
Finance costs	(5,465)	(4,736)	(15,734)	(12,977)
Depreciation and amortisation	(19,001)	(18,876)	(57,780)	(55,803)
(Loss)/ Gain on disposal of property, plant and equipment	(274)	(16)	(15)	91
Impairment of property, plant and equipment	-	-	-	(31,077)
Property, plant and equipment written off	(15)	(98)	(199)	(280)
Foreign exchange gain/ (loss)				
- realised	132	958	1,721	1,160
- unrealised	164	407	(79)	553

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 Tax expense

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

	Individual Quarter		Cumulative Quarter	
	3 months ended 30 September		9 months ended 30 September	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Current tax expense	13,104	12,622	32,706	29,982
Deferred tax expense	1,132	648	2,731	856
Total tax expense	14,236	13,270	35,437	30,838

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21 Tax expense (continued)

Reconciliation of tax expense

	Individual Quarter		Cumulative Quarter	
	3 months ended 30 September		9 months ended 30 September	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Profit for the period	46,935	32,846	104,051	59,483
Total tax expense	14,236	13,270	35,437	30,838
Profit excluding tax	61,171	46,116	139,488	90,321
Tax calculated using Malaysian tax rate of 25%				
- Prima facie income tax expense	15,293	11,529	34,872	22,580
- Non-deductible expenses	3,983	3,204	8,854	7,361
- Double deduction for certain expenses	(1,754)	(1,463)	(5,003)	(4,747)
- Movements in unrecognised deferred tax assets	-	-	-	5,644
- Utilisation of tax losses not recognized in prior year	(3,286)	-	(3,286)	-
Tax expense for the period	14,236	13,270	35,437	30,838

22 Cash and Cash Equivalents

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

	As at 30 September 2014 RM'000	As at 30 September 2013 RM'000
Cash in hand	35	33
Cash at banks	171,766	62,585
Fixed deposits with original maturities not exceeding 3 months	163,337	176,340
	335,138	238,958

Fixed deposits of subsidiaries amounting to RM1,247,739 (2013: RM1,214,749) 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

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 September 2014 were as follows: -

		As at 30 September 2014 RM'000
<u>Current</u>		
<i>Denominated in Ringgit Malaysia</i>		
Unsecured -	Bankers' acceptances/ Export Credit Refinancing	1,044
	Revolving Credits	76,000
	Term loans	19,892
Secured -	Finance lease liabilities	11,919
	Revolving Credits	17,000
	Term loans	19,950
<i>Denominated in US Dollar</i>		
Unsecured -	Foreign currency loans	10,097
<i>Denominated in Japanese Yen</i>		
Unsecured -	Foreign currency loans	9,392
		<u>165,294</u>
<u>Non-current</u>		
<i>Denominated in Ringgit Malaysia</i>		
Unsecured -	Term loans	275,625
Secured -	Finance lease liabilities	12,451
	Term loans	57,944
		<u>346,020</u>
Total		<u>511,314</u>

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:

	9 months ended 30 September	
	2014	2013
	RM'000	RM'000
Transactions with an associate		
Sales of logs and timber products	(7,893)	(9,121)

28 Significant Related Party Transactions (continued)

Transactions with companies connected to certain Directors of the Company and its subsidiaries

Contract fees and fuel surcharge	51,046	42,430
Food ration expenses	2,606	2,504
Handling fees, transportation & freight charges	18,920	19,122
Hiring of equipment	146	42
Insurance premium	3,518	2,863
Repair and maintenance	1	-
Purchase of fresh fruit bunches	554	-
Purchase of seeds & seedlings	104	-
Purchase of property, plant and equipment	9	35
Rental of premises paid	33	33
Purchase of spare parts, fertilizer & consumables	11,322	11,853
Purchase of logs and timber products	-	1,046
Security charges	63	63
Computer hardware & software development fees	259	253
Purchase of diesel and lubricants	16,746	15,153
Road toll received	(140)	(134)
Sales of logs and timber products	(9,032)	(7,706)
Sales of fresh fruit bunches	(30,011)	(29,696)
Sales of property, plant and equipment	-	(12)
Sales of spare parts, fertilizer & consumables	-	(28)
Empty bunch subsidized	(2)	(18)
Hiring income	(46)	(30)
Income from rental of premises	(66)	(98)
Handling fee received	(2,252)	(1,680)
Transport subsidised	(827)	(1,277)
	=====	=====

29 Key Management Personnel Compensation

Compensations to key management personnel are as follows:

	9 months ended 30 September	
	2014 RM'000	2013 RM'000
Directors		
- Fees	628	582
- Remunerations	2,837	1,798
- Other short-term employee benefits	559	437
	<u>4,024</u>	<u>2,817</u>
Other Key Management Personnel		
- Fees	87	77
- Remunerations	3,632	2,945
- Other short-term employee benefits	431	370
	<u>4,150</u>	<u>3,392</u>
Total	<u>8,174</u>	<u>6,209</u>

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30 Earnings Per Share

	3 months ended 30 September 2014	9 months ended 30 September 2014
(a) Basic		
Net profit attributable to ordinary owners of the Company ('000)	<u>RM43,605</u>	<u>RM102,039</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>11.77</u>	<u>27.54</u>
(b) Diluted	<u>11.77</u>	<u>27.54</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 30 September 2014.

32 Realised and unrealised profits disclosure

The retained earnings is analysed as follows:

	As at 30 September 2014 RM'000	As at 30 September 2013 RM'000
Total retained earnings of the Company and its subsidiaries		
- Realised	992,612	901,843
- Unrealised	<u>(84,726)</u>	<u>(83,980)</u>
	907,886	817,863
Less: Consolidation adjustments	<u>(209,864)</u>	<u>(195,925)</u>
Total Group retained earnings as per consolidated accounts	<u>698,022</u>	<u>621,938</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 25 November 2014.