

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 31 December 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.

A second 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 29 December 2014 to depositors registered in the Record of Depositors at the close of business on 10 December 2014.

The total dividend declared to date for the financial year ended 31 December 2014 is 20 sen per ordinary share.

No dividend has been proposed by the Directors for the financial quarter under review (corresponding period in Year 2013: nil).

9 Segmental Reporting

	Revenue from external customers		Profit before tax	
	Year ended 31 December			
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Timber products	589,285	491,041	100,213	48,521
Oil palm	431,397	278,227	69,325	65,194
Reforestation	62	113	(595)	(496)
Property development	-	539	(431)	(129)
	1,020,744	769,920	168,512	113,090

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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 2014 RM'000	As At 31 December 2013 RM'000
Current assets		
Trade receivables	35,606	53,790
Interest receivable	435	75
Other receivables	1,074	1,482
Deposits	2,044	1,931
Prepayments		
-Plant and machinery	5,722	853
-Land premium	6,578	5,818
-Others	7,935	4,682
Advance to a log supplier	90	90
Other advances	1,489	378
	<u>60,973</u>	<u>69,099</u>

15 Capital Commitments

	As At 31 December 2014 RM'000
Property, plant and equipment	
- Authorised but not contracted for	43,639
- Authorised and contracted for	2,045
	<u>45,684</u>
Plantation development expenditure	
- Authorised but not contracted for	38,969
Leasehold land held for subsidiaries' use	
- Approved and contracted for	15,421
	<u>100,074</u>

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16 Review of Performance

- (a) A higher revenue of RM278.45 million was achieved in the quarter under review compared to RM202.90 million of the corresponding quarter in 2013. Profit before tax increased by 27% from RM22.77 million of the corresponding quarter in 2013 to RM29.02 million. However, net profit was RM20.46 million compared to corresponding quarter's RM33.27 million as there was a tax expense of RM8.56 million for the current quarter whereas in the corresponding quarter of 2013, there was a net reversal of tax provision amounting to RM10.50 million.

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

- (i) Sales volumes of plywood products, logs and crude palm oil ('CPO') were higher by 15%, 11% and 70% respectively;
 - (ii) Average selling price of plywood and export logs were 8% and 21% higher but CPO price dropped by 11%; and
 - (iii) Higher margin resulting from increased overall sales volume and better average export selling price produced a 50% higher net profit before tax.
- (b) For the year 2014, the revenue of RM1,020.74 million was 33% higher than the corresponding period in 2013. Profit before tax increased by 49% from RM113.09 million to RM168.51 million, while net profit of RM124.51 million was 34% higher than the RM92.75 million of 2013.

The following factors mainly contributed to the better performance of year 2014:

- (i) Plywood sales volume and average sales price were 7% and 6% higher;
- (ii) Export logs sales volume increased by 19% and average selling prices by 16%; and
- (iii) Higher fresh fruit bunches ('FFB') sales volume and average selling price, both by 6% and significantly higher CPO sales volume by 63%.

17 Variation of Results as compared to the Preceding Quarter

Revenue in the quarter under review decreased by 2% from RM284.71 million of the preceding quarter to RM278.45 million. Profit before tax and net profit for the quarter also decreased by 53% and 56% to RM29.02 million and RM20.46 million from RM61.17 million and RM46.94 million reported in the preceding quarter respectively.

Compared to preceding quarter, average selling prices of export log, plywood and CPO were higher, by 6%, 6% and 1% respectively. However the lower products sales volumes in the quarter under review resulted in a drop in revenue and profit.

18 Current Year Prospects

Timber market is expected to continue its uptrend in 2015, with sustained demand for logs from India and plywood products from Japan. The log supply shortage will be expected to maintain the timber product selling prices.

Log supply of the Group will be boosted by the commencement of sustainable harvesting of acacia from our planted forests. Products made from the planted forest timber are popular with the buyers.

The use of only logs from legal source, as verified by an international verifying body, and PEFC certified timber as input material for our manufactured products have created competitive advantage for the Group in the market. The additional new log source from sustainable planted forests will be an added edge.

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The Group's plan forward is to seek the authorities' approval to amalgamate 4 timber licenses and 2 licenses for planted forests into a Forest Management Unit with a license tenure of over 60 years. This would assure forest conservation in tandem with sustainable forest development, and enable and facilitate forest certification to be undertaken by the Group. Future timber resource will be a combination of sustainably harvested timber from natural forests and tree plantations.

The Tasmania subsidiary will be commissioning its plywood mill in Smithton in the first half of 2015 to process our veneer into plywood for sales in local Australian market which will produce cost savings and more effective marketing.

Oil palm sector is anticipated to produce higher volume of FFB and CPO from the growing mature palms. The volatility of crude oil price movement will have a significant bearing on the CPO price, and hence the performance of the palm oil sector.

The Group is well poised to take up the challenges of 2015 and weather changes in the operating environment. Focus of the Group management will be to step up operation fine tuning, enhance operation efficiency and efficacy, implement more stringent cost control and devise strategy to raise competitive advantage.

Barring unforeseen circumstances, the Board of Directors expects a high level of productivity in 2015.

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	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Profit for the period/ year is arrived at after crediting/ (charging):				
Finance income	2,830	2,090	7,766	5,107
Finance costs	(5,985)	(4,960)	(21,719)	(17,937)
Depreciation and amortisation	(20,004)	(22,768)	(77,784)	(78,571)
Gain on disposal of property, plant and equipment	216	50	201	141
Inventories written off	(7,036)	(5,783)	(7,036)	(5,783)
Write down of inventories to net realisable value	(1,459)	(15,228)	(1,459)	(15,228)
Property, plant and equipment written off	(128)	18	(327)	(262)
Foreign exchange gain/ (loss)				
- realised	908	555	2,629	1,715
- unrealised	(1,961)	(7,583)	(2,040)	(7,030)

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 expense/ (income)

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	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Current tax expense/ (income)	5,211	(6,908)	37,917	23,074
Deferred tax expense/ (income)	3,352	(3,589)	6,083	(2,733)
Total tax expense/ (income)	8,563	(10,497)	44,000	20,341

Reconciliation of tax expense/ (income)

	Individual Quarter		Cumulative Quarter	
	3 months ended 31 December		Year ended 31 December	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Profit for the period/ year	20,461	33,266	124,512	92,749
Total tax expense/ (income)	8,563	(10,497)	44,000	20,341
Profit excluding tax	29,024	22,769	168,512	113,090
Tax calculated using Malaysian tax rate of 25%				
- Prima facie income tax expense	7,256	5,693	42,128	28,273
- Non-deductible expenses	(587)	2,560	8,267	9,921
- Double deduction for certain expenses	(1,674)	(1,459)	(6,677)	(6,206)
- Tax exempt income	-	(14)	-	(14)
- Change in tax rate		(2,172)	-	(2,172)
- Movements in unrecognised deferred tax assets	1,214	(282)	1,214	5,362
- Utilisation of tax losses not recognized in prior year	3,286	(11,876)	-	(11,876)
- (Over) provision in prior years	(932)	(2,947)	(932)	(2,947)
Tax expense/ (income) for the period/ year	8,563	(10,497)	44,000	20,341

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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 2014 RM'000	As at 31 December 2013 RM'000
Cash in hand	38	270
Cash at banks	159,126	102,342
Fixed deposits with original maturities not exceeding 3 months	142,797	156,750
	<u>301,961</u>	<u>259,362</u>

Fixed deposits of subsidiaries amounting to RM702,550 (2013: RM977,397) 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 2014 were as follows: -

	As at 31 December 2014 RM'000
<u>Current</u>	
<i>Denominated in Ringgit Malaysia</i>	
Unsecured - Bankers' acceptances/ Export Credit Refinancing	3,724
Revolving Credits	76,000
Term loans	15,932
Secured - Finance lease liabilities	12,401
<i>Denominated in Japanese Yen</i>	
Unsecured - Foreign currency loans	18,549
	<u>126,606</u>
<u>Non-current</u>	
<i>Denominated in Ringgit Malaysia</i>	
Unsecured - Term loans	377,064
Secured - Finance lease liabilities	12,694
	<u>389,758</u>
Total	<u><u>516,364</u></u>

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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	
	2014	2013
	RM'000	RM'000
Transactions with an associate		
Sales of logs and timber products	(9,257)	(11,615)
Transactions with companies connected to certain Directors of the Company and its subsidiaries		
Contract fees and fuel surcharge	64,911	61,498
Food ration expenses	3,524	3,406
Handling fees, transportation & freight charges	25,579	28,456
Hiring of equipment	146	43
Insurance premium	4,404	3,710
Purchase of fresh fruit bunches	554	-
Purchase of seeds & seedlings	146	-
Purchase of property, plant and equipment	15	29
Rental of premises paid	44	44
Purchase of spare parts, fertilizer & consumables	14,694	15,223
Purchase of logs and timber products	1,564	1,046
Security charges	84	84
Computer hardware & software development fees	571	477
Purchase of diesel and lubricants	22,197	21,496
Road toll received	(182)	(189)
Sales of logs and timber products	(12,115)	(10,320)
Sales of fresh fruit bunches	(40,207)	(39,856)
Sales of property, plant and equipment	-	(12)
Sales of spare parts, fertilizer & consumables	-	(58)
Empty bunch subsidised	(3)	(24)
Log compensation received	-	(23)
Hiring income	(49)	(31)
Income from rental of premises	(132)	(136)
Handling fee received	(3,113)	(2,324)
Transport subsidised	(1,139)	(1,556)
	=====	=====

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29 Key Management Personnel Compensation

Compensations to key management personnel are as follows:

	Year ended 31 December	
	2014	2013
	RM'000	RM'000
Directors		
- Fees	994	930
- Remunerations	4,185	5,362
- Other short-term employee benefits	5,286	-
	<u>10,465</u>	<u>6,292</u>
Other Key Management Personnel		
- Fees	180	-
- Remunerations	6,014	7,243
- Other short-term employee benefits	733	-
	<u>6,927</u>	<u>7,243</u>
Total	<u>17,392</u>	<u>13,535</u>

30 Earnings Per Share

	3 months ended	Year ended
	31 December 2014	31 December 2014
(a) Basic		
Net profit attributable to ordinary owners of the Company ('000)	<u>RM20,459</u>	<u>RM122,498</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>5.52</u>	<u>33.06</u>
(b) Diluted	<u>5.52</u>	<u>33.06</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 2014.

32 Realised and unrealised profits disclosure

The retained earnings is analysed as follows:

	As at	As at
	31 December 2014	31 December 2013
	RM'000	RM'000
Total retained earnings of the Company and its subsidiaries		
- Realised	979,863	914,691
- Unrealised	(88,425)	(87,962)
	<u>891,438</u>	<u>826,729</u>
Less: Consolidation adjustments	(210,010)	(193,692)
Total Group retained earnings as per consolidated accounts	<u>681,428</u>	<u>633,037</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 February 2015.