

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 2016. 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 2016. 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 2016 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 2016, except for the adoption of the following standards, amendments and interpretations:

- Amendments to FRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to FRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

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 8 September 2015, MASB has confirmed that the effective date of MFRS 15 *Revenue from Contracts with Customers* will be deferred to annual periods beginning on or after 1 January 2018. The MASB has consistently used the effective date of MFRS 15 as the basis for setting the effective date for Transitioning Entities (TEs) to apply MFRS. As a result, the effective date for the TEs to apply MFRS will also be deferred to annual periods beginning on or after 1 January 2018.

Given that certain group entities are TEs, the financial statements of the Group will continue to be prepared in compliance with FRS for the financial year ending 31 December 2017. They will be prepared in compliance with MFRS from the financial year beginning on 1 January 2018.

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 2016 in their report dated 6 April 2017.

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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 March 2017, the number of ordinary shares repurchased in an earlier period and retained as treasury shares is 199,400 shares.

8 Dividend

The Board of Directors has declared an interim single-tier ordinary dividend for the financial year ending 31 December 2017 of 5 sen per ordinary share (corresponding period in Year 2016: 5 sen) to be paid on 28 June 2017 to depositors whose names appear in the Record of Depositors on 7 June 2017.

A depositor shall qualify for entitlement only in respect of:

- (a) Securities transferred into Depositor's Securities Account before 4:00 p.m. on 7 June 2017 in respect of transfers; and
- (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 31 March			
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Timber products	128,252	118,710	13,454	9,482
Oil palm	177,134	99,696	44,221	8,010
Reforestation	180	126	(72)	164
Property development	-	-	(48)	(44)
	<u>305,566</u>	<u>218,532</u>	<u>57,555</u>	<u>17,612</u>

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.

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12 Changes in Composition of the Group

Acquisition of a subsidiary

On 10 March 2017, the Company has completed the acquisition of a wholly-owned subsidiary, Agrogreen Ventures Sdn. Bhd. (“Agrogreen”) for a total purchase consideration of RM209,556,983.

The provisional effect on the acquisition is as follows:

	Carrying value RM'000
Property, plant and equipment	302,238
Plantation development expenditure	63,062
Net current liabilities	(185,097)
Total net assets acquired	<u>180,203</u>
Purchase consideration	<u>209,557</u>
Provisional goodwill on acquisition	<u><u>29,354</u></u>

The cash outflow on the acquisition is as follows:

	RM'000
Purchase consideration	209,557
Less: Cash and cash equivalents acquired	(2,517)
	<u>207,040</u>
Less: Deposit paid in 2016	(21,114)
Net cash outflow on acquisition	<u><u>185,926</u></u>

The effects to the results of the Group for the financial period ended, and all effects on the acquisition at the beginning of the financial year are not material.

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 2017 RM'000	As At 31 December 2016 RM'000
Current assets		
Trade receivables	38,229	64,936
Interest receivable	167	428
Other receivables	4,371	8,252
Deposits	6,304	26,464
Prepayments		
-Plant and machinery	3,020	1,091
-Others	9,033	9,081
Advance to a log supplier	90	90
Other advances	452	321
	<u>61,666</u>	<u>110,663</u>

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15 Capital Commitments

	As At 31 March 2017 RM'000
Property, plant and equipment	
- Contracted but not provided for	2,906
- Authorised but not contracted for	44,136
- Authorised and contracted for	7,180
	<hr/> 54,222
Plantation development expenditure	
- Authorised but not contracted for	35,502
Leasehold land held for subsidiaries' use	
- Approved and contracted for	45,391
	<hr/> 135,115

16 Review of Performance

For the first quarter of 2017, a higher revenue of RM305.57 million was achieved compared to RM218.53 million of the corresponding quarter in 2016. Consequently, profit before tax and net profit for the quarter increased more than threefolds from RM17.61 million and RM11.96 million in the corresponding quarter of 2016 to RM57.56 million and RM42.98 million respectively.

Main factors contributing to the better performance were as follow:

- Increased crude palm oil ('CPO') and fresh fruit bunch ('FFB') production and sales volume by 35% and 21% respectively.
- Higher average selling price for CPO by 32% and 43% respectively in the quarter under review.

17 Variation of Results as compared to the Preceding Quarter

Revenue and net profit in the quarter under review were RM305.57 million and RM42.98 million compared to RM309.58 million and RM28.39 million respectively of the preceding quarter.

The main contributing factors for the surge in profit was higher CPO and FFB average selling price which increased by 15% and 8% respectively.

18 Current Year Prospects

Higher revenue contribution is anticipated from the palm oil sector with the increase in FFB production from growth of matured palms and forward sales of CPO at favourable prices for remainder of FY2017.

The timber division will be impacted by lower logs production and premium increment in second half 2017. However, this would be mitigated by higher selling prices for export logs. Pick up in demand of plywood products for construction activities related to the Tokyo Olympics 2020 is expected.

Barring unforeseen circumstances, the directors are confident of a satisfactory performance for year 2017.

19 Profit Forecast

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

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20 Profit for the period

	Individual Quarter		Cumulative Quarter	
	3 months ended 31 March		Period ended 31 March	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Profit for the period is arrived at after crediting/ (charging):				
Finance income	2,429	1,889	2,429	1,889
Finance costs	(5,560)	(5,060)	(5,560)	(5,060)
Depreciation and amortisation	(21,532)	(24,604)	(21,532)	(24,604)
Gain on disposal of property, plant and equipment	287	14	287	14
Property, plant and equipment written off	(107)	(77)	(107)	(77)
Foreign exchange gain/ (loss)				
- realised	2,893	2,225	2,893	2,225
- unrealised	(356)	(1,684)	(356)	(1,684)

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 31 March		Period ended 31 March	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Current tax expense				
- Current year	11,965	5,397	11,965	5,397
Deferred tax expense				
- Current year	2,614	251	2,614	251
Total tax expense	14,579	5,648	14,579	5,648

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21 Tax Expense (continued)

Reconciliation of tax expense

	Individual Quarter		Cumulative Quarter	
	3 months ended 31 March		Period ended 31 March	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Profit for the period	42,976	11,964	42,976	11,964
Total tax expense	14,579	5,648	14,579	5,648
Profit excluding tax	57,555	17,612	57,555	17,612
Tax calculated using Malaysian tax rate of 24% (2016: 24%)				
- Prima facie income tax expense	13,813	4,227	13,813	4,227
- Non-deductible expenses	1,449	2,263	1,449	2,263
- Utilisation of previously unrecognised deferred tax assets	(1,510)	-	(1,510)	-
- Movements in unrecognised deferred tax assets	827	(842)	827	(842)
Tax expense for the period	14,579	5,648	14,579	5,648

22 Cash and Cash Equivalents

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

	As at 31 March 2017 RM'000	As at 31 March 2016 RM'000
Cash in hand	83	243
Cash at banks	173,223	135,415
Fixed deposits with original maturities not exceeding three months	118,807	180,576
	292,113	316,234
Fixed deposits pledged to banks	912	1,314
	293,025	317,548

Fixed deposits of subsidiaries amounting to RM912,002 (2016: RM909,309) are pledged to licensed banks for bank facilities granted thereto.

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23 Other Investments

	As at 31 March 2017 RM'000	As at 31 December 2016 RM'000
Fixed deposits with original maturities exceeding three months	15,562	16,921

24 Unquoted Investment and Properties

There was no sale of unquoted investments and/or properties during the financial quarter under review.

25 Quoted Investments

There was no purchase or disposal of quoted securities during the financial quarter under review.

26 Status of Corporate Proposal

There were no corporate proposals announced or pending completion as at the date of this announcement.

27 Group Borrowings and Debt Securities

Total Group borrowings as at 31 March 2017 were as follows: -

		As at 31 March 2017 RM'000
<u>Current</u>		
<i>Denominated in Ringgit Malaysia</i>		
Unsecured -	Bankers' acceptances/ Export Credit Refinancing	37,019
	Revolving Credits	96,000
	Term loans	
	- Conventional	53,531
	- Islamic	49,000
Secured -	Finance lease liabilities	13,514
	Term loans	8,949
		<hr/> 258,013 <hr/>
<u>Non-current</u>		
<i>Denominated in Ringgit Malaysia</i>		
Unsecured -	Term loans	
	- Conventional	58,568
	- Islamic	213,000
Secured -	Term loans	65,662
	Finance lease liabilities	9,144
		<hr/> 346,374 <hr/>
Total		<hr/> 604,387 <hr/>

28 Material Litigation

There are no pending material litigations as at the date of this announcement other than the followings:

- (a) On 16 February 2012, Amba Anak Balleh and 3 others filed a writ of summons against Ta Ann Pelita Igan Plantation Sdn Bhd (“TAPIPSB”), a subsidiary of Ta Ann and four other external defendants not within the Ta Ann Group where the plaintiffs claimed various orders, relief and damages including a declaration that the issuance of the said provisional lease covering the plaintiffs’ claimed areas of approximately 450 hectares within the provisional lease of the state land described as Lot 550 Kabang Land District was unlawful, unconstitutional, null and void. The maximum exposure to liabilities will be confined to the approximately 450 hectares claimed by the plaintiffs and Ta Ann is unable to determine the monetary liability impact pending the outcome of the appeal.

The High Court delivered a ruling on 11 July 2014 allowing the plaintiffs’ claim against the defendants. The defendants had filed appeals against the High Court’s ruling with the Court of Appeal, and a Notice of Application for Stay of Execution was filed on 30 October 2014. The hearing of the appeal scheduled for 20 October 2016 was postponed. No hearing date has been fixed by the Court of Appeal yet.

- (b) On 26 August 2014, Sumen Bin Gasan and 6 others claiming to be inhabitants of Melanau and Iban communities and villages situated at Kampung Kebuaw Lama, Kampung Baru Sungai Sah, Kebuaw and Sungai Ilas Batang Igan within the provisional lease of the state land known as Lot 2 Block 3 Lassa Land District held by TAPIPSB and four other external defendants not within the Ta Ann Group filed a claim with the Sibu High Court for various orders, relief and damages including a declaration that the issuance of the said provisional lease covering the plaintiffs’ claimed areas of approximately 719 hectares was unlawful, unconstitutional, null and void. The maximum exposure to liabilities will be confined to the approximately 719 hectares claimed by the plaintiffs and Ta Ann is unable to determine the monetary liability impact pending the outcome of the trial.

At the pre-trial case management hearing for this suit in March 2015, the plaintiffs’ claim was struck out by the Court with liberty to file afresh due to non-compliance with pre-trial directions.

On 13 October 2015, the plaintiff refiled the Writ and Statement of Claim. The trial of the case has ended on 4 November 2016. The High Court has given directions to prepare written submissions and bundles of authorities.

During the clarification hearing on 3 February 2017, the Plaintiffs’ counsel had informed the Court in light of the decision of the Federal Court case of TR Sandah (which clearly recognise the temudak and cultivated lands although rejecting the claims on pulau galau and pemakai menoa as having no force of law) that he was considering whether to proceed with the case or to concede with survey of the cleared area based on the aerial photograph of the area in question. His clients brought this matter back to their village for discussion but they have not come to a decision yet.

The Honourable Judge asked if the parties could come to an agreement or settlement perhaps to allow the Plaintiffs’ claim for the temudak (cleared or cultivated lands), and agree for a survey to be done for the temudak and cleared or cultivated lands guided by the aerial photograph interpretation. This would mean that the Plaintiff will concede their claim for the pemakai menoa and pulau galau. All these will be done on without admission of liability basis.

The Plaintiffs can only confirm their decision in writing within two weeks time and forward their proposal to us, the Defendants in due course. However todate, no proposal has been received from the plaintiff.

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29 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 30), during the current financial period:

	Period ended 31 March	
	2017	2016
	RM'000	RM'000
Transactions with an associate		
Sales of logs and timber products	(1,154)	(1,699)
Transactions with companies connected to certain Directors of the Company and its subsidiaries		
Contract fees and fuel surcharge	8,908	11,821
Food ration expenses	70	859
Handling fees, transportation & freight charges	4,063	3,591
Repair and maintenance	109	-
Hiring of equipment	-	2
Insurance premium	1,305	795
Purchase of fresh fruit bunches	737	159
Purchase of property, plant and equipment	1,021	54
Rental of premises paid	29	22
Purchase of spare parts, fertilizer & consumables	2,312	2,519
Purchase of logs and timber products	890	1,515
Security charges	21	21
Advisory fee	12	12
Computer hardware & software development fees	184	7
Purchase of diesel and lubricants	5,220	4,286
Road toll received	-	(23)
Sales of logs and timber products	(1,750)	(2,369)
Sales of fresh fruit bunches	(16,965)	(9,545)
Sales of spare parts, fertilizer & consumables	(11)	-
Empty bunch subsidised	(2)	(1)
Hiring income	(4)	-
Income from rental of premises	(29)	(35)
Handling fee received	(989)	(707)
Transport subsidised	(176)	(95)
	=====	=====

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30 Key Management Personnel Compensation

Compensations to key management personnel are as follows:

	Period ended 31 March	
	2017 RM'000	2016 RM'000
Directors		
- Fees	169	271
- Remunerations	1,119	910
	<u>1,288</u>	<u>1,181</u>
Other key management personnel		
- Fees	27	33
- Remunerations	1,168	1,191
	<u>1,195</u>	<u>1,224</u>
Total	<u>2,483</u>	<u>2,405</u>

31 Earnings Per Share

	3 months ended 31 March 2017	Period ended 31 March 2017
(a) Basic		
Net profit attributable to ordinary owners of the Company ('000)	<u>RM39,487</u>	<u>RM39,487</u>
Weighted average number of ordinary shares in issue ('000)	444,645	444,645
Basic earnings per ordinary share (sen)	<u>8.88</u>	<u>8.88</u>
(b) Diluted	<u>8.88</u>	<u>8.88</u>

32 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 2017.

33 Realised and Unrealised Profits Disclosure

The retained earnings is analysed as follows:

	As at 31 March 2017 RM'000	As at 31 March 2016 RM'000
Total retained earnings of the Company and its subsidiaries		
- Realised	1,222,300	1,124,814
- Unrealised	(143,572)	(80,193)
	<u>1,078,728</u>	<u>1,044,621</u>
Less: Consolidation adjustments	(232,353)	(235,895)
Total Group retained earnings as per consolidated accounts	<u>846,375</u>	<u>808,726</u>

34 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 2017.