



27th May 2011

Acting General Manager
Research & Monitoring Division
Minority Shareholder Watchdog Group
Tingkat 11, Bangunan KWSP,
No.3, Changkat Raja Chulan,
Off Jalan Raja Chulan,
50200 Kuala Lumpur.

Attention: Mr. Chong Chee Fern

Dear Mr. Chong,

RE: FOURTEENTH (14TH) ANNUAL GENERAL MEETING (AGM) OF TA ANN HOLDINGS BERHAD (TA ANN OR THE COMPANY)

Thank you for your letter dated 18 May 2011 on Ta Ann's year 2010 performance and corporate governance practices and issues relating thereto.

We wish to advise that we have addressed the points raised in the annual general meeting held today as follows:

1. a) **QUESTION: How does the Board ensure a better result of the plywood division given the increase in demand for plywood from Japan for the rebuilding of their township destroyed by the earthquake and tsunami, amidst the continuing strengthening of Ringgit and Australian dollar?**

A better result of the plywood division may be achieved by reducing the product loss margin or turning the loss margin around to profit margin, by raising the selling price and/or lowering the unit cost of sales.

Average selling price of eco-plywood products in the first quarter of 2011 has increased by more than USD100/m³, compared to average selling price of USD471/m³ for year 2010. Average contract prices for May and June 2011 have moved higher.

Average unit cost of sales has also increased marginally from USD580/m³ for year 2010 to USD600/m³. Depending on log supply cost and forex movements, average unit cost could fluctuate either way.

Eco-products are marketed as premium plywood products commanding premium price. The anticipated rebuilding of damaged township in Japan would raise plywood demand and import of plywood into Japan.

Increase plywood production to plywood mill's maximum capacity to cope with market demand.

b) **QUESTION:** What is the utilization rate of the production capacity of plywood division amidst the expected increase in demand from Japanese market in the short to medium term?

Monthly production target has been raised from 18,000m³ to 24,000m³, which is 90% of our plywood mill's installed capacity.

c) **QUESTION:** Is there any plan to improve the CPO's average oil extraction rate of 20.82% (2009: 20.84%) given that the oil palm division contributed 82% to the profit before tax while the Group focus was still on planting expansion?

Our oil palm plantations are relatively young plantation compared to mature palms in Peninsular estates. OER is expected to increase as the palms become more mature. For your information, for April 2011, the OER of our CPO mill ranks No. 8 of the 37 CPO mills in Sarawak, with an OER of 22.03%. For the same period, average OER of CPO mills for Peninsular Malaysia is 19.63% and for Sarawak, 21.57%.

d) **QUESTION:** How does the Board propose to contain the surge in distribution costs and other operating expenses amounting to RM63.90 million (2009: RM54.45 million) and RM10.56 million (2009: RM2.15 million) respectively?

A rise in distribution cost was due to increased ocean freight charges associated with higher sales volume, while higher other operating expenses were due mainly to writing off of old/damaged veneer stock, which is not expected to recur.

Cost is closely monitored by operating units, which have been implementing cost savings measures to control cost, and negotiating with service providers and shippers for best rate.

2. **QUESTION:** Kindly explain how was it that net profit margin could range from 2% to 33% for certain wholly-owned subsidiaries involved in timber concession licensee and trading of logs (see page 54)?

The margin of profit for log extracted is dependent on species and sizes of logs and hauling distance of logs extracted from a concession area.

Raplex Sdn Bhd's concession is a first re-entry area which produces more higher value logs fetching higher average log price while logs from concessions of Woodley Sdn Bhd and Tanjong Manis Holdings Sdn Bhd are of moderate value. Timber concession area in Pasin Sdn Bhd contains more smaller logs and produces less logs for export at much lower average selling price.

3. **QUESTION:** What was the reason for the substantial increase in amount due from subsidiaries from RM92.01 million in 2009 to RM222.35 million in 2010 (see Note 9)? Which are the subsidiaries that owe to the Company?

Rechanneling of excess funds from subsidiaries through holding company to meet short term operational funding requirements of other subsidiaries is a part of funds management strategy.

As at end of 2010, you will note that the net increase in non-trade amount due from subsidiaries is RM24 million, as follows:

	2010 RM	2009 RM
Amount due from subsidiaries (Note 9)		
- Non current	1,564,454	72,121,077
- Non-trade	222,345,809	92,007,962
Amount due to subsidiaries (Note 18)	(136,505,108)	(101,185,176)
Net due from subsidiaries	87,405,155	62,943,863

4. **MSWG is promoting certain standards of corporate governance best practices in PLCs. In this regard, we hope that Board would give due consideration to address the following issues:-**

- a) **QUESTION: It is recommended that the contact number and e-mail address of the Senior Independent Non-Executive Director be stated in the Annual Report to facilitate shareholders and stakeholders to express any concerns that they may have concerning the Company.**

Independent Non-Executive Directors, Datuk Abang Haji Abdul Karim Bin Tun Abang Haji Openg, Dato' Awang Bemee Bin Awang Ali Basah and Mr. Chia Chu Fatt may be contacted at the following e-mail address:

E-mail : inddirector@taann.com.my

- b) **QUESTION: Given the increasing contribution from palm oil plantation, would the Board consider having a membership in the Roundtable on Sustainable Palm Oil?**

The Group is studying a membership in RSPO or equivalent organization.

- c) **QUESTION: Board diversity is encouraged to improve the quality of decision-making and to reduce the risk of "group think". In this regard, we would like to encourage the Board to establish a policy on boardroom diversity, including measures to bring about greater gender diversity on the board.**

As our director's profiles show, the Board is a well balanced board with members from diverse disciplines and experience.

The Board will be most willing to consider gender diversity when such opportunity arises.

We hope the above clarification have adequately addressed the issues raised.

Thank you.

Yours faithfully,



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AUGUSTINE SIAW
Company Secretary