Tradewinds (M) Berhad (19123-K)

A. NOTES TO THE INTERIM FINANCIAL REPORT

1. Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with FRS134 “Interim Financial Reporting" and Chapter 9, Part K of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”).

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2005.

2. Changes in Accounting Policies

The accounting policies and methods of computation adopted for the interim financial report are consistent with those adopted by the Group in the audited financial statements for the year ended 31 December 2005 except for the adoption of the following new/revised Financial Reporting Standards (“FRS”) effective for financial period beginning 1 January 2006: -

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

With the exception of FRS 3, 5, 101 and 136, the adoption of the remaining FRSs does not have significant financial impact on the Group. The principal effects of adopting FRS 3, 5, 101 and 136 are as follows:-

(a) FRS 3 : Business Combinations and FRS 136 : Impairment of Assets

Following the adoption of these new FRSs, the Group has ceased to amortise goodwill arising from consolidation. Goodwill is carried at cost less accumulated impairment losses and is subject to annual impairment test, or more frequently if events or changes in circumstances indicate that it might be impaired. Any impairment loss is recognised immediately in the income statement and subsequent reversal is prohibited. Prior to 1 January 2006, goodwill was amortised on a straight line basis over 25 years. This change in accounting policy has been accounted for prospectively for business combinations where the agreement date is on or after 1 January 2006. In accordance with the transitional provisions of FRS 3, the Group has eliminated the carrying amount of the accumulated amortisation of RM60,294,000 against the carrying amount of goodwill of RM133,506,000 as at 1 January 2006. The cessation of amortisation has the effect of increasing the profit by RM2,334,000 in the current period.

(b) FRS 5 : Non-current Assets Held for Sale and Discontinued Operations

An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Immediately before the classification as held for sale, the carrying amount of the assets shall be measured in accordance with applicable FRSs. Then, on initial classification as held for sale, the assets shall be measured at the lower of its carrying amount and fair value less costs to sell. The adoption of this FRS has resulted in the Group classifying an asset with a carrying amount of RM23,884,000 as held for sale and presenting it separately from other assets in the balance sheet.

(c) FRS 101 : Presentation of Financial Statements

The adoption of this FRS has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. This FRS also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

Certain comparative figures of the Group's financial statements have been restated to conform with the current period's presentation which is based on the revised requirements of this FRS.

3. Audit Report of the Preceding Annual Financial Statements

The auditors' report of the preceding annual financial statements was not subject to any qualification.

4. Seasonal or Cyclical Factors

The operations of the Group are not affected by any seasonal or cyclical factors other than the plantation operation, which is affected by the usual seasonal production of fresh fruit bunches.

5. Unusual Items

The following items occurred during the current financial period as reflected in the financial statements:-

	RM'000
Gain on disposal of quoted shares	1,156
Gain on dilution of interest in subsidiaries	163,755
	164,911

6. Changes in Estimates

There were no changes in estimates of amounts reported in prior quarters of the current financial year or changes in estimates of amounts reported in prior financial years that have a material effect in the current quarter.

7. Changes in Debt and Equity Securities

There have been no issuances, cancellations, repurchases, resales and repayments of debt and equity securities during the current financial year to date.

8. Dividends Paid

There were no dividends paid during the current financial year to date.

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9. Segmental Reporting

Current Year To Date	Manufacturing & Trading RM'000	Plantation RM'000	Others RM'000	Total RM'000
Revenue				
External sales	314,688	184,451	41	499,180
Results				
Segment results	28,427	7,605	(464)	35,568
Unallocated income				2,959
Unallocated expenses				(4,951)
Profit from operations				33,576
Finance cost				(16,473)
Share of profit of associated company			9	9
Profit before taxation				17,112
Taxation				(8,316)
Profit for the period				8,796

10. Valuations of Property, Plant and Equipment

The Group did not revalue its property, plant and equipment.

11. Material Subsequent Events

There were no material events subsequent to the end of the current quarter.

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12. Changes in the Composition of the Group

There were no changes in the composition of the Group during the period except for the following:-

(a) On 25 May 2004, the Company, Johore Tenggara Oil Palm Berhad ("JTOP") and Tradewinds Plantation Berhad (formerly known as Jubilant Century Berhad) ("TPB") entered into a Merger Agreement where the Company and JTOP have agreed to undertake and implement a scheme of amalgamation of companies and a merger exercise ("the Merger") to consolidate and rationalise oil palm businesses of the Company and JTOP via TPB, a special purpose vehicle set up to facilitate the implementation of the Merger. The Merger involves the following:-

(i) Proposed acquisitions by TPB from the Company of the issued and paid-up share capital held by the Company in its plantation subsidiaries for a total purchase consideration of RM687,124,750 to be satisfied by the issuance of 369,153,315 new ordinary shares of RM1.00 each in TPB ("TPB Shares") at an issue price of RM1.60 per TPB Share and RM96,479,445 nominal value 10-year 3% irredeemable convertible unsecured loan stocks ("ICULS") in TPB ("TPB ICULS") at an issue price of RM1.00 per nominal value TPB ICULS ("Proposed Acquisitions");

(ii) Proposed exchange of the entire issued and paid-up share capital of JTOP comprising 160,000,000 ordinary shares of RM1.00 each in JTOP ("JTOP Shares") with 160,000,000 new TPB Shares between TPB and JTOP's existing shareholders pursuant to a proposed members' scheme of arrangement under Section 176 of the Companies Act, 1965, on the basis of one new TPB Share for every one existing JTOP Share held by the JTOP's existing shareholders ("Proposed Share Exchange");

(iii) Proposed assumption by TPB of RM63,520,555, being part of the net inter-company advances owing by certain plantation subsidiaries to the Company, through the issuance of RM63,520,555 nominal value TPB ICULS to the Company ("Proposed Debt Assumption");

(iv) Proposed placement of certain number of TPB Shares and TPB ICULS at a placement price to be determined later to enable TPB to meet the minimum public shareholding spread for the listing of the TPB Shares and TPB ICULS in accordance with the Listing Requirements of Bursa Malaysia Securities Berhad; and

(v) Proposed transfer of the listing status of JTOP on the Main Board of Bursa Malaysia Securities Berhad to TPB.

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The Proposed Acquisitions, Proposed Share Exchange and Proposed Debt Assumption were completed on 28 February 2006 and thereafter, TPB became a 69.76% owned subsidiary company of the Company. On 15 March 2006, the entire 529,153,415 TPB Shares and RM160,000,000 nominal value TPB ICULS were officially listed on the Main Board of Bursa Malaysia Securities Berhad.

The Merger has contributed the following results to the Group:-

	Current Year Quarter RM'000	**Current Year To Date RM'000**
Revenue	30,038	36,845
Profit/(Loss) for the period	314	(1,279)

If the Merger had completed on 1 January 2006, the Group revenue and profit for the period from 1 January 2006 to 30 June 2006 would have been RM514,994,000 and RM8,001,000 respectively.

The assets and liabilities arising from the Merger are as follows:-

	Fair value RM'000	**Acquiree's Carrying Amount RM'000**
Property, plant and equipment	557,007	557,007
Other investments	3,047	3,047
Deferred tax assets	7,005	7,005
Inventories	6,863	6,863
Trade and other receivables	58,058	58,058
Tax recoverable	4,132	4,132
Cash and bank balances	566	566
Trade and other payables	(16,422)	(16,422)
Tax payables	(98)	(98)
Retirement benefit obligations	(2,431)	(2,431)
Borrowings	(138,743)	(138,743)
Deferred tax liabilities	(59,975)	(59,975)
Total net assets	419,009	419,009
Less: Goodwill diluted	(17,652)	
Less: Minority interest	(237,602)	
Group's share of net assets	163,755	
Less: Gain on dilution of interest in subsidiaries	(163,755)	
Purchase consideration satisfied by cash	-	

The cash outflow on the completion of the Merger is as follows:-

	Current Year To Date RM'000
Purchase consideration satisfied by cash	-
Cash and cash equivalents of subsidiaries acquired	(558)
Net cash inflow of the Group	(558)

(b) On 29 March 2006, TPB acquired the entire shareholding of Tradewinds Plantation Management Sdn Bhd ("TPMSB") and Tradewinds Plantech Sdn Bhd ("TPSB") for a cash consideration of RM2 for each company.

TPMSB is principally involved in the provision of plantation management and advisory services and TPSB is principally involved in the provision of technical support and advisory services to subsidiaries within the Group.

There was no material effect on the results or net assets of the Group arising from the above acquisitions for the current quarter and financial year to date.

(c) On 28 April 2006, TPB acquired the entire shareholding of Tradewinds Agro Services Sdn Bhd (formerly known as Sparkling Crest Sdn Bhd) ("TASSB") for a cash consideration of RM2.

TASSB is principally involved in the provision of plantation management and advisory services to non-group companies.

There was no material effect on the results or net assets of the Group arising from the above acquisition for the current quarter and financial year to date.

(d) On 7 June 2006, TPB acquired 6,340,587 ordinary shares of RM1.00 each representing 30% of the issued and fully paid-up share capital of Ladang Serasa Sdn Bhd ("LSSB"), which was previously a 70% owned subsidiary of TPB, for a cash consideration of RM16.5 million.

LSSB is principally involved in the business of cultivation of oil palm and production of crude palm oil.

There was no material effect on the results or net assets of the Group arising from the above acquisition for the current quarter and financial year to date.

13. Capital Commitments

The amount of capital commitments not provided for in the interim financial statements as at 30 June 2006 is as follows:-

	RM'000
Property, plant and equipment	214,927
Acquisition of subsidiary company	131,600
	346,527

14. Contingent Liabilities and Contingent Assets

The contingent liabilities as at 30 June 2006 are as follows:-

	RM'000
Corporate guarantee for credit facilities granted to third parties under "Skim Industri Pertanian"	897

There were no contingent assets as at 30 June 2006.

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B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES

1. Review of Performance

For the quarter under review, the Group achieved revenue of RM280.3 million, representing an increase of RM34.9 million from RM245.4 million recorded for the corresponding quarter last year. The increase in revenue during the quarter under review was mainly due to the higher volume of sales contributed by the enlarged plantation hectarage arising from the merger exercise by the Plantation Division. The higher average selling price of refined sugar by the Manufacturing and Trading Division also contributed positively to the increased revenue. The Group's profit before taxation increased by RM2.3 million to RM11.5 million for the quarter under review from RM9.2 million for the preceding year corresponding quarter. The increase in profit before taxation was mainly due to higher sales of refined sugar by the Manufacturing and Trading Division.

In line with the above, for the six months period ended 30 June 2006, the Group recorded revenue of RM499.2 million, which represents an increase of RM33.5 million from the previous corresponding period of RM465.7 million. However, the Group's profit before taxation declined by RM4.5 million to RM17.1 million from the preceding corresponding period of RM21.6 million. Pre-tax profit of the Plantation Division declined during the period under review due to the lower crop yield per hectare. However, the lower profit contribution by the Plantation Division was partially mitigated by the higher pre-tax profit recorded by the Manufacturing and Trading Division resulted from higher sales of refined sugar.

2. Material Changes in the Profit Before Taxation for the Quarter Reported On as Compared with the Immediate Preceding Quarter

	Quarter Reported On RM'000	Immediate Preceding Quarter RM'000	Increase/ (Decrease) RM'000
Profit before taxation	11,463	5,649	5,814

For the current quarter under review, the Group recorded an increase of RM5.8 million in profit before taxation as compared to the immediate preceding quarter. The increase was mainly due to higher sales of oil palm products by the Plantation Division and higher sales of refined sugar by the Manufacturing and Trading Division.

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3. Prospects

The financial performance of the Plantation Division is expected to improve in the second half of the current financial year given the current trend of firmer palm products prices and the expected increase in crop production.

Despite facing the challenging environment, the Manufacturing and Trading Division is expected to perform satisfactorily for the remaining period of the current financial year.

4. Variance on Forecast Profit/Shortfall in Profit Guarantee

Not applicable.

5. Taxation

Taxation comprises:-

	Current Year Quarter RM'000	Current Year To Date RM'000
Current period provision	7,718	13,927
Transfer from deferred taxation	(2,577)	(5,614)
Real property gains tax	-	3
	5,141	8,316

The taxation charge of the Group for the current quarter and financial year to date reflects an effective tax rate which is higher than the statutory income tax rate mainly due to certain expenses that are not deductible for tax purposes and tax losses of subsidiaries which are not available for group relief.

6. Profits/(Losses) on Sale of Unquoted Investments and/or Properties

There were no sales of unquoted investments or properties during the current quarter and financial year to date.

7. Quoted Securities Other Than Securities in Existing Subsidiaries and Associated Company

(a) The purchases and disposals of quoted securities are as follows:-

	Current Year Quarter RM'000	Current Year To Date RM'000
(i) Purchase consideration of quoted securities	-	-
(ii) Total sales proceeds of quoted securities	712	7,981
(iii) Gain on disposal of quoted securities	171	1,156

(b) Investments in quoted securities as at the reporting period are as follows:-

	RM'000
(i) at cost	41,839
(ii) at carrying value	10,470
(iii) at market value	11,110

8. (a) Status of Corporate Proposals

The status of corporate proposals announced but not completed as at 17 August 2006, being the latest practicable date, are as follows:-

The proposed acquisition of the entire issued and fully paid-up share capital of Gula Padang Terap Sdn Bhd ("GPTSB") by the Company from Jalinan Semangat Sdn Bhd, Perbadanan Kemajuan Negeri Kedah and PPB Group Berhad for a total cash consideration of RM188.0 million was approved by the Ministry of International Trade and Industry and the shareholders of the Company on 27 May 2005 and 9 September 2005 respectively.

The completion of the proposed acquisition is pending the fulfillment of the conditions precedent contained in the Share Sale Agreement for the proposed acquisition of GPTSB.

(b) Status of Utilisation of Proceeds Raised from Corporate Proposal

There was no corporate proposal involving fund raising.

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9. Group Borrowings and Debt Securities

Group borrowings as at the end of the reporting period are as follows:-

	RM'000
<u>Long Term Borrowings</u>	
Secured term loan	514,964
Less: Current portion of long term borrowings	(61,375)
	453,589
<u>Short Term Borrowings</u>	
Secured	
Revolving credit	136,400
Overdraft	12
	136,412
Unsecured	
Revolving credit	120,630
Short term advance	54,200
Bankers' acceptance	40,000
Overdraft	80
	214,910
Current portion of long term borrowings	61,375
	412,697
Total	866,286

10. Off Balance Sheet Financial Instruments

There were no off balance sheet financial instruments as at 17 August 2006, being the latest practicable date.

11. Changes in Material Litigation

There was no pending material litigation as at 17 August 2006, being the latest practicable date.

12. Dividend

The Board of Directors has declared an interim dividend of 8.0 sen per share less 28% income tax (2005: Nil) in respect of the financial year ending 31 December 2006 payable on 25 September 2006 to depositors registered in the Records of Depositors at the close of business on 13 September 2006.

A depositor shall qualify for entitlement only in respect of:-

(a) Shares deposited into the Depositor's Securities Account before 12.30 p.m on 11 September 2006 in respect of shares which are exempted from Mandatory Deposit;

(b) Shares transferred into the Depositor's Securities Account before 4.00 p.m on 13 September 2006 in respect of ordinary transfers; and

(c) Shares bought on the Bursa Securities on a cum entitlement basis according to the rules of the Bursa Securities.

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13. Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share for the current year to date is based on the profit the period attributable to equity holders of the parent of RM13.1 million and the weighted average number of ordinary shares outstanding during the current year to date of 296,470,484.

(b) Diluted earnings per share

Diluted earnings per share is calculated after taking into consideration subsidiary's potential ordinary shares in issue that are convertible into ordinary shares of the subsidiary. The subsidiary's potential ordinary shares comprise 160,000,000 TPB ICULS issued on 28 February 2006. The profit for the period attributable to equity holders of the parent used in computing the diluted earnings per share has been adjusted as follows:-

	Current Year To Date RM'000
Profit attributable to equity holders of the parent	13,144
Effect of assumed conversion of TPB ICULS	(567)
Profit attributable to equity holders of the parent including assumed conversion of TPB ICULS	12,577

As the diluted earnings per share is derived from the assumed conversion of the subsidiary's potential ordinary shares, the weighted average number of ordinary shares used in computing the diluted earnings per share is the same as that used in computing the basic earnings per share.

BY ORDER OF THE BOARD

MOHAMAD AFFENDI BIN YUSOFF (LS007158)
SAKINAH BINTI ABDUL KADIR (MAICSA 7000087)
Company Secretaries

Kuala Lumpur
24 August 2006