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:-

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(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 RM4,623,000 in the current year.

(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 assets with carrying amount of RM23,150,000 as held for sale and presenting them 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.

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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 year to date as reflected in the financial statements:-

	RM'000
Gain on disposal of quoted shares	1,156
Impairment loss on other investments	(4,515)
Gain on dilution of interest in subsidiaries	117,749
	114,390

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.

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8. Dividends Paid

Dividends paid during the current financial year to date are as follows:-.

	Current Year To Date RM'000	Preceding Year To Date RM'000
Ordinary shares:		
Final dividend, proposed for year 2005, paid in year 2006 (10 sen per share less 28% income tax)	21,346	-
Interim dividend for year 2006 (8 sen per share less 28% income tax)	17,077	-
Final dividend, proposed for year 2004, paid in year 2005 (12 sen per share less 28% income tax)	-	25,615
Interim dividend for year 2005 (8 sen per share less 28% income tax)	-	17,077
	38,423	42,692

9. Segmental Reporting

Current Year To Date	Manufacturing & Trading RM'000	Plantation RM'000	Others RM'000	Total RM'000
Revenue				
External sales	702,492	449,060	87	1,151,639
Results				
Segment results	48,072	65,183	1,005	114,260
Unallocated income				5,630
Unallocated expenses				(14,510)
Profit from operations				105,380
Finance cost				(38,833)
Share of profit of associated company			24	24
Profit before taxation				66,571
Taxation				(15,997)
Profit for the year				50,574

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 year except for the following:-

(a) On 25 May 2004, Tradewinds (M) Berhad ("the Company"), Johore Tenggara Oil Palm Berhad ("JTOP") and Tradewinds Plantation 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 (collectively referred to as the "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 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 JTOP Share held by the JTOP's 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	33,048	100,202
Profit for the period	2,004	5,965

If the Merger had completed on 1 January 2006, the Group revenue and profit for the year would have been RM1,167,453,000 and RM43,468,000 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	369,069	369,069
Plantation development expenditure	173,295	173,295
Other investments	3,047	3,047
Deferred tax assets	887	887
Inventories	6,863	6,863
Trade and other receivables	58,019	58,019
Tax recoverable	4,222	4,222
Cash and bank balances	566	566
Trade and other payables	(16,423)	(16,423)
Tax payables	(98)	(98)
Retirement benefit obligations	(2,431)	(2,431)
Borrowings	(138,743)	(138,743)
Deferred tax liabilities	(106,594)	(106,594)
Total net assets	351,679	351,679
Less: Goodwill diluted	(17,652)	
Less: Minority interest	(216,278)	
Group’s share of net assets	117,749	
Less: Gain on dilution of interest in subsidiaries	(117,749)	
Purchase consideration satisfied by cash	-	

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The cash inflow 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 companies not within the Group.

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.

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(e) On 15 November 2006, the proposed acquisition of the entire issued and fully paid-up share capital of Gula Padang Terap Sdn Bhd 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 completed.

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

	Current Year Quarter RM'000	Current Year To Date RM'000
Revenue	15,419	15,419
Loss for the period	(2,596)	(2,596)

If the acquisition had completed on 1 January 2006, the Group revenue and profit for the year would have been RM1,379,420,000 and RM59,912,000 respectively.

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

	Fair value RM'000	Acquiree's Carrying Amount RM'000
Property, plant and equipment	24,011	24,011
Other investments	801	801
Inventories	130,205	130,205
Trade and other receivables	116,103	116,103
Deposits placed with licensed banks	56,852	56,852
Cash and bank balances	1,758	1,758
Trade and other payables	(9,641)	(9,641)
Tax payables	(556)	(556)
Retirement benefit obligations	(5,538)	(5,538)
Borrowings	(153,469)	(153,469)
Deferred tax liabilities	(4,251)	(4,251)
Total net assets	156,275	156,275
Goodwill on acquisition	31,725	
Purchase consideration	188,000	

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

	Current Year To Date RM'000
Purchase consideration	188,000
Deposits paid in prior year	(56,400)
Balance of purchase consideration satisfied by cash	131,600
Cash and cash equivalents of subsidiary acquired	(58,610)
Net cash outflow of the Group	72,990

13. Capital Commitments

The amount of capital commitments not provided for in the interim financial statements as at 31 December 2006 is as follows:-

	RM'000
Property, plant and equipment	286,085

14. Contingent Liabilities and Contingent Assets

The contingent liabilities as at 31 December 2006 are as follows:-

	RM'000
Corporate guarantee for credit facilities granted to third parties under "Skim Industri Pertanian"	742

There were no contingent assets as at 31 December 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 RM350.7 million, representing an increase of RM91.1 million from RM259.6 million recorded for the corresponding quarter last year. The increase in revenue during the quarter under review was mainly due to the higher sales volume of refined sugar by the Manufacturing and Trading Division. The higher volume of sales contributed by the enlarged plantation hectarage arising from the merger exercise by the Plantation Division also contributed positively to the increase in revenue. The Group's profit before taxation increased by RM8.2 million to RM14.1 million for the quarter under review from RM5.9 million for the preceding year corresponding quarter. The increase in profit before taxation was mainly due to higher sales volume by the Plantation Division.

For the year ended 31 December 2006, the Group recorded revenue of RM1,151.6 million, which represents an increase of RM182.0 million from the previous financial year of RM969.6 million. The increase in revenue was mainly due to the higher sales volume by the Plantation Division and higher sales volume of refined sugar by the Manufacturing and Trading Division. The Group's profit before taxation also increased by RM13.2 million to RM66.6 million from the previous financial year of RM53.4 million. The profit before tax for previous financial year included the loss on disposal of leasehold land, impairment loss on property held for development and write off of goodwill totaling RM13.9 million.

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	Decrease RM'000
Profit before taxation	14,113	35,346	(21,233)

For the current quarter under review, the Group recorded a decline of RM21.2 million in profit before taxation as compared to the third quarter. The decline in profit before taxation was mainly due to the impairment loss on other investments and the lower contribution by the Manufacturing and Trading Division and the Plantation Division.

3. Prospects

Based on the prevailing palm products prices and the expected increase in production, the financial performance of the Plantation Division for the financial year ending 31 December 2007 is expected to be better than 2006.

The Manufacturing and Trading Division is expected to perform satisfactorily for the financial year ending 31 December 2007.

Based on the above circumstances, the Directors expect the performance of the Group for the financial year ending 31 December 2007 to be better.

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
Income tax	8,703	31,492
Deferred tax	(10,239)	(15,498)
Real property gains tax	-	3
	(1,536)	15,997

The Group recorded taxation income for the current quarter and a lower effective rate than the statutory income tax rate for the financial year to date mainly due to the effect of reduction in income tax rate on the deferred taxation.

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

There were no sales of unquoted investments during the current quarter. The Group recorded a loss of RM57,732 on the sale of unquoted investment during the financial year to date. There were no sales of properties during the current quarter and financial year to date.

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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	-	7,981
(iii) Gain on disposal of quoted securities	-	1,156

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

	RM'000
(i) at cost	45,135
(ii) at carrying value	7,312
(iii) at market value	7,577

8. (a) Status of Corporate Proposals

The status of corporate proposals announced but not completed as at 20 February 2007, being the latest practicable date, are as follows:

On 22 September 2006, Tradewinds (M) Berhad ("TWS") entered into 2 conditional sale and purchase agreements:-

(a) Conditional Sale and Purchase Agreement of Shares ("CSPA Shares") for the disposal of its entire 100% equity interest in Tenaga Lestari (M) Sdn Bhd ("TLSB") to Willalpha Investments Limited for a total cash consideration of USD2,286,316; and

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(b) Conditional Sale and Purchase Agreement of Loan ("CSPA Loan") for the disposal of TWS's right, tittle and interest to:-

(i) all moneys owing and payable by P.T. Bumipermai Suryalestari ("BPSL") to TWS by virtue of the advances made by TWS ("TWS' Advances") in relation to the Loan Agreement dated 5 November 1996 between BPSL and Maybank International (L) Limited for the principal amount of USD10 million ("Bank Loan") and the Novation Agreement dated 30 June 1998 between BPSL, Maybank International (L) Limited and Malayan Banking Bhd ("Maybank") and the subrogation of TWS to the rights of Maybank as creditor in respect to TWS' Advances;

(ii) Pledge of Shares Agreement dated 5 September 1997 between PT Sadin Multiagro Sentosa, TWS, BPSL and P.T. Bumibangka Lestari ("BBL") as amended by an Amendment to the Pledge of Shares Agreement dated 22 August 2000 and the shares pledged by PT Sadin Multiagro Sentosa in BPSL and BBL in consideration of TWS entering into and assuming obligations under the Guarantee and Indemnity dated 5 November 1996 in relation to the Bank Loan; and

(iii) Upon execution of the Company Assignment, all moneys owing and payable by BPSL to TWS as assignee of TLSB's rights, title and interest in and to all moneys (denominated in United States Dollars) owing and payable by BPSL to TLSB by virtue of the advances made by TLSB ("TLSB's Advances") and the subrogation of TLSB to the rights of Maybank as creditor with respect to TLSB's Advances,

(collectively, the "Assigned Rights") to Labuan Agri Investment (L) Bhd for a total cash consideration of USD10,713,684.

The completion of the CSPA Shares and CSPA Loan is pending the fulfillment of the conditions precedent obtained in the CSPA Shares and CSPA Loan.

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

There was no corporate proposal involving fund raising.

9. Group Borrowings and Debt Securities

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

	RM'000
Long Term Borrowings	
Secured term loan	727,299
Less: Current portion of long term borrowings	(166,820)
	560,479
Short Term Borrowings	
Secured	
Revolving credit	120,000
Bankers' acceptance	10,000
	130,000
Unsecured	
Revolving credit	106,000
Bankers' acceptance	206,469
	312,469
Current portion of long term borrowings	166,820
	609,289
Total	1,169,768

10. Off Balance Sheet Financial Instruments

There were no off balance sheet financial instruments as at 20 February 2007, being the latest practicable date.

11. Changes in Material Litigation

There was no pending material litigation as at 20 February 2007, being the latest practicable date.

12. Dividend

An Interim Dividend of 8.0 sen (2005: 8.0 sen) per share less 28% income tax was declared on 24 August 2006 in respect of the financial year ended 31 December 2006 and was paid on 25 September 2006.

The Board of Directors recommends a Final Dividend of 12.0 sen (2005: 10.0 sen) per share less income tax of 27% for the financial year ended 31 December 2006 subject to the approval of the shareholders at the forthcoming 33rd Annual General Meeting payable on a date to be determined later.

The Final Dividend, if approved, will result in a total dividend declared of 20.0 sen (2005: 18.0 sen) amounting to RM43,047,514 (net of tax) for the financial year ended 31 December 2006.

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 for the period attributable to equity holders of the parent of RM47.4 million and the weighted average number of ordinary shares outstanding during the current year to date of 296,470,484.

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(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	47,415
Effect of assumed conversion of TPB ICULS	(29)
Profit attributable to equity holders of the parent including assumed conversion of TPB ICULS	47,386

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
27 February 2007