A. NOTES TO THE INTERIM FINANCIAL REPORT

1. **Basis of Preparation**

The interim financial statements are unaudited and have been prepared in accordance with Financial Reporting Standard (“FRS”) 134 “Interim Financial Reporting” and Chapter 9, Part K of the Main Market 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 2009.

1. **Changes in Accounting Policies**

The accounting policies and methods of computation adopted for the interim financial statements are consistent with those adopted by the Group in the audited financial statements for the year ended 31 December 2009 except for the adoption of the following new and revised FRSs, Issues Committee (“IC”) Interpretations and amendments to FRSs and IC Interpretations which are relevant to the Group’s operations with effect from 1 January 2010:-

|  |  |
| --- | --- |
| FRS 7 | Financial Instruments: Disclosures |
| FRS 8  | Operating Segments |
| FRS 101 | Presentation of Financial Statements (revised) |
| FRS 123 | Borrowing Costs |
| FRS 139 | Financial Instruments: Recognition and Measurement |
| Amendments to FRS 1  | First-time Adoption of Financial Reporting Standards  |
| Amendment to FRS 5 | Non-current Assets Held for Sale and Discontinued  Operations |
| Amendments to FRS 7  | Financial Instruments: Disclosures  |
| Amendment to FRS 8 | Operating Segments |
| Amendment to FRS 107 | Statement of Cash Flows |
| Amendment to FRS 108 | Accounting Policies, Changes in Accounting Estimates  and Errors |
| Amendment to FRS 110 | Events after the Reporting Period |
| Amendment to FRS 116 | Property, Plant and Equipment |
| Amendment to FRS 117 | Leases |
| Amendment to FRS 118 | Revenue |
| Amendment to FRS 119 | Employee Benefits |
| Amendment to FRS 123 | Borrowing Costs |
| Amendments to FRS 127 | Consolidated and Separate Financial Statements |
| Amendment to FRS 128 | Investments in Associates |
| Amendment to FRS 131 | Interests in Joint Ventures |
| Amendments to FRS 132 | Financial Instruments: Presentation |
| Amendment to FRS 134 | Interim Financial Reporting |
| Amendment to FRS 136 | Impairment of Assets |
| Amendments to FRS 139 | Financial Instruments: Recognition and Measurement |
| IC Interpretation 9 | Reassessment of Embedded Derivatives |
| IC Interpretation 10 | Interim Financial Reporting and Impairment |
| Amendments to IC  Interpretation 9  | Reassessment of Embedded Derivatives |

The initial application of the above new and revised FRSs, IC Interpretations and amendments to FRSs and IC Interpretations do not have any significant impact on the financial statements of the Group other than as explained below:-

(a) FRS 101 *Presentation of Financial Statements (revised)*

This Standard introduces the titles ‘statement of financial position’ and ‘statement of cash flows’ to replace the current titles ‘balance sheet’ and ‘cash flow statement’ respectively. A new statement known as the ‘statement of comprehensive income’ is also introduced in this Standard whereby all non-owner changes in equity are required to be presented in either one statement of comprehensive income or in two statements (i.e. a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity.

(b) Amendment to FRS 117 *Leases*

This amendmentremoves the classification of leases of land and of buildings, and instead, requires assessment of classification based on the risks and rewards of the lease itself. The reassessment of land elements of unexpired leases shall be made retrospectively in accordance with FRS 108. The Group has reassessed and determined that all leasehold land of the Group are in substance finance leases and has reclassified the leasehold land from prepaid lease payments for land to property, plant and equipment.

The reclassification has been made retrospectively and the comparative figures have been restated as follows:-

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Effect of** |  |
|  |  | **adopting** |  |
|  | **As reported** | **Amendment** |  |
|  | **previously** | **to FRS 117** | **As restated** |
|  | **RM’000** | **RM’000** | **RM’000** |
|  |  |  |  |
| Property, plant and equipment | 1,369,910 | 1,127,554 | 2,497,464 |
| Prepaid lease payments for land | 1,127,554 | (1,127,554) | - |

The adoption of Amendment to FRS 117 does not have any impact to the financial results of the Group for the current financial year to date and corresponding period last year.

(c) FRS 139 *Financial Instruments: Recognition and Measurement*

This Standard establishes the principles for the recognition and measurement of financial assets and financial liabilities including circumstances under which hedge accounting is permitted.

All financial instruments are recognised initially at fair value plus in the case of financial instruments not at fair value through profit or loss, transaction costs directly attributable to the acquisition of the financial instruments. Subsequent to the initial recognition, the financial instruments are measured in accordance with the designation of the financial instruments.

In accordance with the transitional provisions of FRS 139, the impact of applying FRS 139 upon first adoption is applied prospectively with adjustments to be made to the opening balances in the statement of financial position. Comparative figures need not be adjusted.

Non-current investments in equity

Prior to 1 January 2010, non-current investments in equity are stated at cost and an allowance for diminution in value is made where there is a decline other than temporary in the value of the investments.

Following the adoption of FRS 139, the non-current investments in equity are now categorised as available-for-sale financial assets and measured at fair value after the initial recognition.

The adoption of FRS 139 has the following effects on the opening balances in the consolidated statement of financial position as at 1 January 2010:-

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Balance as at** |  | **Balance as at** |
|  | **1 January 2010** | **Effect of**  | **1 January 2010** |
|  | **before adopting**  | **adopting** | **after adopting**  |
|  | **FRS 139** | **FRS 139** | **FRS 139** |
|  | **RM’000** | **RM’000** | **RM’000** |
|  |  |  |  |
| Fair value reserve | - | 111 | 111 |
| Other investments | 925 | (925) | - |
| Available-for-sale investments | - | 814 | 814 |

The effects on the adoption of FRS 139 on the current interim financial statements are as follows:-

|  |  |  |
| --- | --- | --- |
|  | **Current Year** | **Current Year** |
|  | **Quarter** | **To Date** |
|  | **Decrease** | **Increase** |
|  | **RM’000** | **RM’000** |
| **Consolidated statement of financial position** |  |  |
| Fair value reserve | (89) | 50 |
| Available-for-sale investments | (89) | 50 |
|  |  |  |
| **Consolidated statement of comprehensive** **income** |  |  |
| Other comprehensive income | (89) | 50 |
| Total comprehensive income | (89) | 50 |

1. **Seasonal or Cyclical Factors**

The Group’s plantation operations are affected by seasonal production of fresh fruit bunches, weather condition and fluctuating commodity prices. Generally, the production of fresh fruit bunches is relatively lower in the first half of the year.

1. **Unusual Items**

There was no unusual item for the current financial year to date.

1. **Change in Estimates**

There was no change in estimates of amounts reported in prior quarter of the current financial year or change in estimates of amounts reported in prior financial year that has a material effect in the current quarter.

1. **Changes in Debt and Equity Securities**

There has been no issuance, repurchase and repayment of debt and equity securities during the current financial year to date other than the following:-

* 1. the Group redeemed RM50 million of Murabahah Commercial Papers on 15 January 2010; and
	2. the Group raised RM50 million each from the issuance of Murabahah Medium Term Notes on 15 January 2010 and 11 February 2010 and RM25 million from the issuance of Murabahah Commercial Papers on 11 February 2010 to part-finance the development of the Group’s plantations and the Group’s working capital requirement.
1. **Dividends Paid**

There was no dividend paid during the current financial year to date.

1. **Segmental Reporting**

No segmental information has been prepared as the Group’s principal activities in the current financial year to date involve predominantly the cultivation of oil palm and rubber trees, processing and sales of fresh fruit bunches and sales of crude palm oil and palm kernel which are wholly carried out in Malaysia**.**

1. **Material Subsequent Event**

On 9 August 2010, the Company received two separate striking-off notices, both dated 27 July 2010, from the Companies Commission of Malaysia (“CCM”) pursuant to the Company’s application for the striking-off of two dormant subsidiaries, namely Gugusan Induk Sdn Bhd (“GISB”) and JTOP Lebir Plantation Sdn Bhd (“JTOP Lebir”), under Section 308 of the Companies Act, 1965. Accordingly, GISB and JTOP Lebir’s name will be struck-off from CCM’s register within one month from the date of the notices.

Other than the above, there was no material event subsequent to the end of the current quarter.

1. **Changes in the Composition of the Group**

There was no change in the composition of the Group during the current financial year to date other than the acquisition of the remaining 60% equity interest in Hak JTOP Sdn Bhd (“Hak JTOP”) by the Company’s wholly-owned subsidiary, Johore Tenggara Oil Palm Berhad (“JTOP”), for a cash consideration of RM3.2 million on 9 June 2010. Consequently, Hak JTOP is now a wholly-owned subsidiary of JTOP.

The acquisition is not expected to have a material effect on the results of the Group for the current financial year other than the recognition of reserve on consolidation amounting to RM1,601,000 in other operating income.

The details of net assets acquired are as follows:-

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Acquiree’s** |  |  |
|  | **carrying** |  |  |
|  | **amount** |  | **Fair value** |
|  | **RM’000** |  | **RM’000** |
|  |  |  |  |
| Other receivable  | 4,888 |  | 4,888 |
| Other payables | (87) |  | (87) |
| Group’s share of net assets | 4,801 |  | 4,801 |
| Reserve on consolidation |  |  | (1,601) |
| Total cost of acquisition |  |  | 3,200 |

1. **Capital Commitments**

The amount of capital commitments not provided for in the financial statements as at 30 June 2010 were as follows:-

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  | **RM’000** |
| Property, plant and equipment |  |  |  |
| - Approved and contracted for |  |  | 61,584 |
| - Approved and not contracted for |  |  | 206,922 |
|  |  |  | 268,506 |
| Acquisition of subsidiary |  |  |  |
| - Approved and contracted for |  |  | 150,000 |
|  |  |  |  |
| Additional investment in jointly controlled entity |  |  |  |
| - Approved and contracted for |  |  | 5,000 |
|  |  |  | **423,506** |

1. **Contingent Liabilities and Contingent Assets**

There was no contingent liability or contingent asset as at 30 June 2010.

1. **ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES**
2. **Review of Performance**

For the quarter under review, the Group’s revenue increased to RM193.4 million from RM149.3 million achieved for the corresponding quarter last year. The increase in revenue was mainly due to the higher prices of palm products and the increase in production of fresh fruit bunches. In line with the increase in revenue coupled with lower share of losses in jointly controlled entity, the Group recorded a profit before tax of RM44.5 million for the current quarter as compared to a loss before tax of RM0.3 million for the same quarter last year.

For the six months ended 30 June 2010, the Group’s revenue increased to RM376.8 million from RM282.3 million achieved for the corresponding period last year. The increase in revenue was mainly due to the higher prices of palm products and the increase in production of fresh fruit bunches. As a result, the Group recorded a profit before taxation of RM84.3 million for the first half of the current financial year as compared to a loss before tax of RM12.0 million for the corresponding period last year. In addition, lower share of losses in jointly controlled entity for the period under review also contributed to the improved performance.

1. **Material Change 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****RM'000** |
|  |  |  |  |  |  |
| Profit before taxation | 44,489 |  | 39,844 |  | 4,645 |

 For the current quarter under review, the Group recorded profit before taxation of RM44.5 million, representing an increase of RM4.6 million from RM39.8 million recorded for the immediate preceding quarter. The increase in profit before taxation was mainly due to higher production of fresh fruit bunches and recognition of reserve on consolidation of RM1.6 million arising from the acquisition of Hak JTOP Sdn Bhd.

1. **Prospects**

Based on the prevailing prices of palm products and the expected increase in production in the second half of the year, the Board of Directors expects the results for the second half to be better than that of the first half of the current financial year.

1. **Variance of Actual Profit from Forecast Profit**

The Group has not provided any profit forecast for the current financial year in a public document.

1. **Taxation**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Current Year Quarter RM’000 |  | Current Year To Date RM’000 |
| Income tax expense | 14,045 |  | 24,222 |
| Deferred tax | 681 |  | 3,140 |
|  | 14,726 |  | 27,362 |

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

1. **Sale of Unquoted Investments and/or Properties**

There was no sale of unquoted investments and/or properties during the current financial year to date except for the disposal of a parcel of leasehold land for a cash consideration of RM1.4 million. The gain arising from the disposal amounted to RM0.4 million.

1. **Quoted Securities other than Securities in Existing Subsidiaries and Associated Company**
2. There was no purchase or disposal of quoted securities.
3. Investments in quoted securities classified as available-for-sale investments as at the end of the current quarter were as follows:-

|  |  |
| --- | --- |
|  | **RM'000** |
| (i) at cost | 2,312 |
| (ii) at carrying value | 697 |
| (iii) at fair value | 697 |

(c) The gain on fair value changes of the available-for-sale investments recognised in other comprehensive income for the current financial year to date amounted to RM­­­­­­­­­50,000.

**8. (a) Status of Corporate Proposals**

Save as disclosed below, there was no corporate proposal announced but not completed as at 11 August 2010, being the latest practicable date:-

(i) The merger exercise between the plantation subsidiaries of Tradewinds (M) Berhad and Johore Tenggara Oil Palm Berhad was completed on 28 February 2006. The approval of the merger exercise by the Securities Commission was subject to compliance of certain conditions imposed on the landed properties of the Group. The status of compliance was announced to Bursa Securities on 20 July 2010.

(ii) On 30 October 2009, Prisma Spektra Sdn Bhd (“PSSB”), a wholly-owned subsidiary of the Company, entered into a conditional Share Sale Agreement (“SSA”) with Semi Bayu Sdn Bhd (“SBSB”) for the acquisition of 125,709,000 ordinary shares of RM1.00 each, representing the entire issued and paid-up ordinary share capital, of MARDEC Berhad (“Mardec”) for a total purchase consideration of RM150.0 million (“Proposed Acquisition of Mardec”), which shall be payable in the following manner:-

1. a first instalment of RM45.0 million or 30% of the purchase consideration to be paid on the completion date; and
2. a second instalment of RM105.0 million or 70% of the purchase consideration to be paid on or before the last day of a period of 9 months from the completion date (or such longer period as the parties may mutually agree in writing).

Mardec is an investment holding company and through its local and overseas subsidiaries and associates, is involved in the processing and trading of natural rubber and the manufacturing of value-added rubber and polymer products.

The Proposed Acquisition of Mardec is conditional upon the fulfilment and satisfaction of the following conditions precedent:-

(a) the approval of the Economic Planning Unit of the Prime Minister’s Department;

(b) the approval of the existing financier(s) of Mardec, if required;

(c) the approval of the shareholders of the Company at a general meeting to be convened;

(d) the Company and PSSB being satisfied with the results and findings of the financial and legal due diligence investigations into Mardec and its subsidiaries and if applicable, the satisfactory resolution and determination of any issues arising from the due diligence investigations; and

(e) other requisite approvals, if any.

On 30 April 2010, PSSB and SBSB have mutually agreed to extend the period to fulfill the conditions precedent under the SSA to 30 October 2010.

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

 There was no corporate proposal involving fund raising.

1. **Group Borrowings and Debt Securities**

Group borrowings and debt securities as at the end of the reporting period were as follows:-

|  |  |
| --- | --- |
|  | **RM’000** |
| Short term |  |
| Term loans – secured | 96,962 |
| Sukuk Ijarah – secured | 25,000 |
| Murabahah Commercial Papers – secured | 25,000 |
| Revolving credits – secured | 75,000 |
| Revolving credits – unsecured | 68,000 |
| Irredeemable convertible unsecured loan stocks | 3,452 |
| (debt component) – unsecured |  |
|  | 293,414 |
| Long term |  |
| Term loans – secured | 286,676 |
| Sukuk Ijarah – secured | 185,000 |
| Murabahah Medium Term Notes – secured | 100,000 |
| Irredeemable convertible unsecured loan stocks | 19,007 |
| (debt component) – unsecured |  |
|  | 590,683 |
| Total borrowings | 884,097 |

 All of the above borrowings are denominated in Ringgit Malaysia.

1. **Derivative Financial Instruments**

There was no derivative financial instrument issued as at the end of the current quarter.

1. **Gains or Losses arising from Fair Value Changes of Financial Liabilities**

All financial liabilities were measured using the amortised cost effective interest method. Accordingly, there was no fair value gain or loss arising from fair value changes of financial liabilities for the current financial year to date.

1. **Material Litigation**

There was no material litigation as at 11 August 2010, being the latest practicable date.

1. **Dividend**

The Board of Directors does not recommend any dividend for the quarter ended 30 June 2010.

1. **Earnings Per Share**
2. **Basic earnings per share**

The basic earnings per share for the current year to date is calculated by dividing the profit for the period attributable to equity holders of the Company of RM52,781,000 by the weighted average number of ordinary shares (after assuming conversion of ICULS into ordinary shares) outstanding during the current year to date of 629,153,415.

1. **Diluted earnings per share**

 Diluted earnings per share is not applicable and not presented because there are no dilutive potential ordinary shares to be issued as the ICULS have been included in the basic earnings per share calculation.

1. **Audit Report of the Preceding Year’s Consolidated Financial Statements**

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

By Order of the Board

ZAINAL RASHID BIN AB RAHMAN (LS007008)

Company Secretary

Kuala Lumpur

18 August 2010