



TRADEWINDS CORPORATION BERHAD
(Company No. 6393-A)

(A) NOTES TO THE INTERIM FINANCIAL REPORT

1. Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with FRS 134: Interim Financial Reporting.

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 the 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, 116, 136 and 140, the adoption of the remaining FRSSs does not have a significant financial impact on the Group. The principal effects of adopting FRS 3, 5, 101, 116, 136 and 140 are as follows:



TRADEWINDS CORPORATION BERHAD
(Company No. 6393-A)

(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/reserve arising on consolidation and acquisition. Prior to 1 January 2006, goodwill/reserve on consolidation and acquisition were amortised over the estimated useful life which range from one to twenty five years.

Goodwill is carried at cost less accumulated impairment losses and is now 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. Reserve on consolidation and acquisition, after reassessment, is now recognised immediately in profit or loss.

The changes in these accounting policies have been accounted for prospectively. In accordance with the provisional provisions of FRS 3, the reserve on consolidation and acquisition as at 1 January 2006 of RM25,771,000 was derecognised with a corresponding adjustment to the opening balance of accumulated losses. The cessation of amortisation of goodwill/reserve has the effect of increasing the profit before taxation for the current financial year to date by RM172,000.

(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 Group has applied FRS 5 prospectively in accordance with its transitional provision. The adoption of this FRS has resulted in the Group classifying assets with carrying amount of RM39,448,000 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 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



TRADEWINDS CORPORATION BERHAD

(Company No. 6393-A)

statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to shareholders of the Company 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.

(d) FRS 116: Property, Plant and Equipment

The revised FRS has resulted in a change in the method of determining the residual value of an asset and thus affects the depreciable amount of the underlying asset. The change in estimates has been accounted for prospectively and has the effect of increasing the depreciation charge of property, plant and equipment – hotel properties by RM9,641,000 for the current financial year to date.

(e) FRS 140: Investment Properties

The adoption of this new FRS has resulted in a change in accounting policy for investment properties. Investment properties are now stated at fair value, representing open-market value determined by external valuers. Gain or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the period in which they arise. Prior to 1 January 2006, investment properties were stated at valuation. Revaluations were carried out once every five years and any revaluation increase was taken to equity as a revaluation reserve. In accordance with the transitional provisions of FRS 140, this change in accounting policy is applied prospectively and the comparatives as at 31 December 2005 are not restated. The revaluation reserve in respect of the investment properties of RM1,012,000 as at 1 January 2006 was transferred to the accumulated losses.

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 Group's plantation operations are affected by the usual seasonal production of fresh fruit bunches. The hotel operations are subject to the seasonal fluctuation in occupancy rates of certain resorts and hotels. The Group's other operations are generally not affected by any major seasonal or cyclical factors.



TRADEWINDS CORPORATION BERHAD
(Company No. 6393-A)

5. Unusual Significant Items

The following items occurred during the current financial year to date:

	RM'000
<u>Effect of dilution of interest in subsidiaries</u>	
Decrease in accumulated losses	142,501
Decrease in exchange equalisation reserve	<u>(3,578)</u>

6. Changes in Estimates

The change in estimates in the depreciable amount of property, plant and equipment – hotel properties due to the adoption of revised FRS 116 as mentioned in Note 2(d) has decreased the profit before taxation for the current quarter by RM3,389,000 and increased the loss before taxation for the current year to date by RM9,641,000.

Other than the above, there were no changes in estimates of amounts reported in prior quarters of the financial year or changes in estimates of amounts reported in the prior financial year that have a material effect in the current quarter.

7. Changes in Debt and Equity Securities

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

8. Dividend Paid

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



TRADEWINDS CORPORATION BERHAD
(Company No. 6393-A)

9. Segmental Reporting

Current Year To Date	Hotel RM'00	Properties RM'000	Plantations RM'000	Manufacturing and Trading RM'000	Others RM'000	Group RM'000
Revenue						
Total revenue	140,49	61,255	188,434	326,824	20,400	737,411
Inter-segment revenue		(1,107)	-	(548)	(948)	(2,603)
External revenue	140,49	60,148	188,434	326,276	19,452	734,808
Results						
Segment results	5,85	11,428	3,732	26,409	10,315	57,741
Unallocated income						7,772
Unallocated expenses						(16,002)
Profit from operations						49,511

10. Valuation of Investment Properties, Development Properties and Property, Plant and Equipment

The valuation of investment properties and hotel properties held by the Group as at the end of the current quarter has been brought forward, without amendment from the previous annual report. The Group did not revalue its development properties and other property, plant and equipment.

11. Material Subsequent Events

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



TRADEWINDS CORPORATION BERHAD

(Company No. 6393-A)

12. Changes in the Composition of the Group

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

- (a) On 25 May 2004, Tradewinds (M) Berhad (“Tradewinds”), a 53% indirect subsidiary of 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 Tradewinds 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 Tradewinds 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 Tradewinds of the issued and paid-up share capital held by Tradewinds 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 Tradewinds, through the issuance of RM63,520,555 nominal value TPB ICULS to Tradewinds (“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



TRADEWINDS CORPORATION BERHAD
(Company No. 6393-A)

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

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 of Tradewinds. 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 to the following Group results:-

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

If the Merger had been completed on 1 January 2006, the Group revenue and loss for the financial period from 1 January 2006 to 30 June 2006 would have been RM750,622,000 and RM25,349,000 respectively.

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

	Fair value RM'000
Property, plant and equipment	557,007
Other investments	3,047
Deferred tax assets	7,005
Inventories	6,863
Trade and other receivables	58,058
Tax recoverable	4,132
Cash and bank balances	566
Trade and other payables	(18,853)
Tax payables	(98)
Borrowings	(138,743)
Deferred tax liabilities	(59,975)
Total net assets	419,009
Less: Goodwill diluted	(17,815)
Less: Minority interest	(262,271)
Group's share of net assets	138,923
Less: Gain on dilution of interest in subsidiaries	(138,923)
Purchase consideration satisfied by cash	-



TRADEWINDS CORPORATION BERHAD
(Company No. 6393-A)

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 to 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.

- (c) On 7 April 2006, the Group completed the disposal of its 30% equity interest in Meritus Hotels & Resorts Sdn Bhd.
- (d) On 14 April 2006, the Group completed the Second and Final Tranche disposal of 28,892,630 ordinary shares of United Malayan Land Berhad ("UMLand") to Wawasan Perangsang Mewah Sdn Bhd. With the disposal, UMLand ceased to be an associate of the Group.
- (e) 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.

- (f) 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.



TRADEWINDS CORPORATION BERHAD

(Company No. 6393-A)

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

Other than change of composition arising from the Merger, there was no material effect on the results or net assets of the Group arising from the above acquisitions and disposals for the current quarter and financial year to date.

13. Changes in Contingent Liabilities or Contingent Assets

The Group has pledged certain portion of its land held for sale to security trustees for certain private debt securities of RM218 million (31.12.05: RM182 million) issued by its joint venture partners, Hartaplus Realty Sdn Bhd and Oxbridge Height Sdn Bhd pursuant to the term of the joint venture arrangements. The Group is entitled to guaranteed payments amounting to RM431,778,900 from the sale of its land.

The Group has provided corporate guarantee for credit facilities granted to third parties under Skim Industri Pertanian amounting to RM897,000.

The Group has share of litigation claims by subcontractors against its joint venture operation in respect of work performed amounting to RM7,019,000. As the claim has been disputed and the amount of the liability cannot be reliably estimated, no provision for any liability has been made in the financial statements.

Other than the above, there were no changes in contingent liabilities or assets of the Group since 31 December 2005.



TRADEWINDS CORPORATION BERHAD
(Company No. 6393-A)

14. Capital Commitments

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	RM'000
- Hotel properties	87,873
- Property, plant and equipment	240,420
- Acquisition of a subsidiary	131,600
	<hr/>
Authorised capital expenditure	<u>459,893</u>

Pursuant to the Restructuring cum Subscription Agreement dated 12 June 2003 entered into by Khazanah Nasional Berhad ("KNB"), the Company, Tradewinds Hotels & Resorts Sdn Bhd ("THR") and TCB OUE Sdn Bhd both 70% owned subsidiaries of the Company, the Company is required to purchase any remaining 2% Irredeemable Convertible Unsecured Loan Stocks 2004/2013 issued by THR ("2% ICULS 2004/2013") held by KNB up to RM100,000,000 nominal value of 2% ICULS 2004/2013 in five tranches over a period of five years from 1 May 2009 at RM20,000,000 nominal value of 2% ICULS 2004/2013 per annum.



TRADEWINDS CORPORATION BERHAD
(Company No. 6393-A)

(B) ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (PARAGRAPH 9.22 AND APPENDIX 9B)

1. Review of Performance

For the quarter under review, the Group recorded revenue of RM424.5 million, representing an increase of RM26.4 million from RM398.1 million recorded in the corresponding quarter last year. The increase in revenue was mainly due to higher volume of sales contributed by the enlarged oil palm plantation hectareage arising from the merger exercise and higher average selling price of refined sugar. The Group's profit before taxation increased by RM10.9 million to RM13.0 million for the quarter under review from RM2.1 million for the preceding year corresponding quarter. The increase in profit before taxation was mainly due to higher sales of refined sugar and improved operational performance by the hotel division.

In line with the above and boosted by higher sales achieved by the hotel division and insurance business, for the six months ended 30 June 2006, the Group recorded revenue of RM734.8 million, representing an increase of RM20.4 million from the previous corresponding period of RM714.4 million. The increase in revenue was however partially offset by the lower revenue from sale of land. Despite the increase in revenue, the Group recorded a loss before taxation of RM4.0 million as compared to a profit before taxation of RM3.0 million achieved in the preceding period. The loss was mainly due to higher depreciation charge on hotel properties, retrenchment benefits of Mutiara Beach Resort Penang, lower crop yield per hectare by the oil palm plantation division and lower contribution from the associates. Excluding the higher depreciation and effect of retrenchment benefits, profit from operations improved on the back of better performance from hotel, higher insurance brokerage income and higher sales of refined sugar.

2. Material Changes in the Profit/(Loss) Before Taxation for the Quarter Reported on as Compared to the Immediate Preceding Quarter

	Quarter Reported On RM'000	Immediate Preceding Quarter RM'000	Increase RM'000
Profit/(loss) before taxation	13,001	(16,997)	29,998



TRADEWINDS CORPORATION BERHAD

(Company No. 6393-A)

The significant improvement in profit before taxation in the current quarter as compared to the immediate preceding quarter was mainly due to higher sales of oil palm products, higher sales of refined sugar, income from sale of land and higher insurance brokerage income. There was also a one off retrenchment benefits incurred by Mutiara Beach Resort Penang in the preceding quarter.

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.

The contribution from the hotel division is expected to be lower in 2006 due to the refurbishment exercise carried out on Mutiara Beach Resort Penang, higher depreciation charge as a result of the adoption of revised FRS 116 and write down on replacement of refurbished items.

The development properties is expected to provide a stream of cash flows to the Group. The remaining investment properties will continue to generate recurring rental income.

Based on the above circumstances, the Directors expect the performance of the Group for the financial year ending 31 December 2006 to be satisfactory.

4. Variance on Profit / Profit Guarantee

The Group has not provided any profit forecast or profit guarantee in a public document during the current financial period.



TRADEWINDS CORPORATION BERHAD
(Company No. 6393-A)

5. Taxation

Taxation comprises:

	Current Year Quarter RM'000	Current Year To Date RM'000
Current period charge	10,265	18,248
Reversal of over provision of income tax in respect of prior years	(10)	-
Real property gains tax	67	70
Deferred taxation	822	2,240
	11,144	20,558

The Group incurred tax charge for the current quarter and current year to date notwithstanding its loss position due principally to the absence of Group relief for losses suffered by certain subsidiaries and certain expenses that were not deductible for tax purposes, despite utilisation of tax losses by certain subsidiaries.

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

- (a) There were no sale of unquoted investments during the current quarter and year to date.
- (b) There were no profits/(losses) on properties disposed during the current quarter and year to date.

7. Quoted Securities other than Securities in Existing Subsidiaries and Associated Companies

- (a) Total purchases and disposals of quoted securities and profit arising therefrom are as follows:

	Current Year Quarter RM'000	Current Year To Date RM'000
Total purchase consideration	-	-
Total sale proceeds	708	8,082
Total profit on disposals	166	1,181



TRADEWINDS CORPORATION BERHAD
(Company No. 6393-A)

- (b) Investment in quoted securities of the Group as at the reporting period are as follows:

	RM'000
At cost	141,217
At carrying value	29,675
At market value	<u>35,241</u>

8. Corporate Proposals

(a) Status of Corporate Proposals

The status of corporate proposals announced but not completed as at 24 August 2006 (being the latest practical date) are as follows:

- (i) Proposed acquisition of the entire issued and fully paid-up share capital of Gula Padang Terap Sdn Bhd ("GPTSB") by Tradewinds from Jalinan Semangat Sdn Bhd, Perbadanan Kemajuan Negeri Kedah and PPB Group Berhad for a total cash consideration of RM188.0 million.

The proposed acquisition was approved by the Ministry of International Trade and Industry and the shareholders of Tradewinds 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.

- (ii) Proposed disposal of leasehold land by TCB Realty Sdn Bhd, a wholly owned subsidiary of Tradewinds Properties Sdn Bhd, which in turn is a wholly owned subsidiary of the Company to Syarikat Kapasi Sdn Bhd for RM16.3 million.

The proposed disposal is pending the approval from the relevant authorities.

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

Not applicable.



TRADEWINDS CORPORATION BERHAD
(Company No. 6393-A)

9. Group Borrowings and Debt Securities

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

	RM'000
<u>Short Term Borrowings</u>	
Secured:	
Revolving credit	25,000
Revolving credit under Islamic financing	120,000
	145,000
Unsecured:	
Bank overdrafts	19,892
Trade bills	42,051
Revolving credits	435,361
Short term advance	54,200
	551,504
Current portion of long term borrowings	136,898
Hire purchase and lease creditors	5
	833,407
<u>Long Term Borrowings</u>	
Secured:	
9.0% Bonds 2000/2008	100,000
Term loans	895,885
Term loans under Islamic financing	101,500
	1,097,385
Unsecured:	
Irredeemable Convertible Unsecured Loan Stocks (debt component)	
- 2% ICULS 2004/2014	70,533
- 2% ICULS 2005/2013	45,107
Advances from minority shareholders of subsidiaries	
- Interest bearing	805
- Non-interest bearing	132,212
	248,657
Less: Repayment due within 12 Months	(136,898)
	1,209,144



TRADEWINDS CORPORATION BERHAD
(Company No. 6393-A)

10. Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risk as at 30 June 2006.

11. Material Litigation

As at 24 August 2006, being a date not earlier than 7 days from the date of issue of this quarterly report, there were no changes in material litigation since the last annual balance sheet date.

12. Dividend

The Board of Directors does not recommend any dividend for the period ended 30 June 2006.

13. Loss per share

(i) Basic loss per share

The basic loss per share for the current year to date has been calculated based on the Group's loss for the current period to date attributable to the shareholders of the Company of RM24,590,000 and on the weighted average number of 623,032,231 ordinary shares in issue during the period.

(ii) Fully diluted loss per share

The fully diluted loss per share is calculated after taking into consideration subsidiaries potential ordinary shares in issue that are convertible into ordinary shares of the subsidiaries, the Company's warrants and ICULS in issue. The subsidiaries potential ordinary shares comprising Tradewinds Plantation Berhad's ("TPB") 160,000,000 ICULS issued on 28 February 2006, Tradewinds Hotels & Resorts Sdn Bhd's ("THR") 371,641,345 ICULS and 153,447,612 RCULS in issue since 2004. In determining whether potential ordinary shares are dilutive or anti-dilutive, each issue or series of potential ordinary shares is considered separately and in sequence from the most dilutive to the least dilutive. The warrants are considered dilutive when they would result in the issue of new ordinary shares for less than the market value of the shares. As the exercise price of the warrants is higher than the market value of the ordinary shares, there is no impact on dilution in the loss per share.



TRADEWINDS CORPORATION BERHAD
(Company No. 6393-A)

After taking into consideration the above, the Company's ICULS and THR's ICULS have anti-dilutive effect on the loss per share to the shareholders of the Company.

The loss attributable to the shareholder of the Company in computing fully diluted loss per share is reconciled as follows:-

	RM'000
Loss attributable to shareholders of the Company	(24,590)
Less: Effect on conversion of THR RCULS	(1,293)
Less: Effect on conversion of TPB ICULS	<u>(273)</u>
Loss attributable to the shareholders of the Company including assumed conversions of THR RCULS and TPB ICULS	<u><u>(26,156)</u></u>

As the fully diluted loss 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 fully diluted loss per share is the same as the basic loss per share.

BY ORDER OF THE BOARD

SAKINAH BT ABDUL KADIR (MAICSA 7000087)
MUHAMMAD HAFIDZ BIN NURUDDIN (MAICSA 7005820)
Company Secretaries

Kuala Lumpur
30 August 2006