On behalf of the Board of Directors, it gives me great pleasure to present to you the Annual Report and Audited Financial Statements of the Group and the Company for the financial year ended 31 March 2013.

CHAIRMAN’S STATEMENT

In achieving the vision to be a leading regional plantation group and to realise a balanced mix between growth and sustainability, the Group continued to focus on its’ four pillars of sustainability covering productivity and innovations, care for its people, environment and community. These pillars are cornerstones of sustainability which are in line with the widely acceptable “3 Ps” of sustainability namely Profit, People and Planet. The Group views these as essential for sustainable long-term value creation for all stakeholders. The Group continued to employ effective strategies, such as risk management, analysing, adopting and implementing best proven agronomic practices for its’ diverse operating conditions while ensuring both the environment and the surrounding biodiversity are conserved, enhanced and protected. In addition, the Group had improved its plantation facilities to ensure improved living comfort for its employees while at the same time maintain a safe and healthy workplace.
...The planted area in Indonesia surpassed that of the Malaysian operations ending FY13 with a total planted area of 52,863 hectares for the Group. In addition, the Group has successfully commissioned its first palm oil mill in Indonesia.

Tan Sri Dato’ Wong See Wah
Independent Non-Executive Chairman

PERFORMANCE

The forecast of continued support for high commodity prices by some industry experts based on the assumption of tight supply and stock positions, did not materialise. Instead the year under review turned out to be a truly trying period for the industry as it was confronted with unanticipated challenges. Similar to the weakening of global demand for most commodities, the palm commodity market turned bearish. In addition, crude palm oil (“CPO”) prices in Malaysia were adversely impacted by the incongruity caused in the trade by the introduction of the Indonesian export duty. The duty, levied on Indonesian CPO resulted in the Malaysian CPO and refineries being less competitive against their Indonesian counterparts. The slowdown in Malaysian refinery operations in turn led to the decline in palm product prices, particularly during the peak cropping season as inventory piled up. The speed and magnitude of decline in prices towards the end of 2012 caught many industry players by surprise. Likewise, our Group was not spared the consequence from these deteriorating operating conditions. In tandem with lower global prices of palm products, the Group’s average CPO selling price for the year was 14% lower than the previous year at RM2,620 per metric tonne (“mt”) (2012: RM3,049 per mt). This was coupled by a significant 33% decrease in crude palm kernel oil (CPKO) price from RM4,102 per mt in 2012 to RM2,762 per mt in 2013, as demand for lauric oils across the world softened drastically.

Despite being affected by the above unfavorable factors, the Group managed to deliver satisfactory results. Revenue and profit before tax achieved for the year were RM486.28 million (2012: RM590.43 million) and RM156.61 million (2012: 215.25 million) respectively. Profit after tax was RM118.45 million (2012: RM157.31 million) while basic earnings per share attributable to shareholders was 14.91 sen (2012: 19.62 sen). Net tangible assets per share as at 31 March 2013 was RM1.74 (2012: RM1.73).
Fresh fruit brunches ("FFB") production of the Group ended the year with 692,210 mt (2012: 670,832 mt) being harvested. This was an increase of 3% as compared to the previous year, mainly due to more crops harvested in the Indonesian operations. Good recovery, from the adverse impact of change in cropping pattern in the earlier part of the reporting year resulted in the Malaysian operations achieving FFB production of 636,631 mt (FY2012: 648,853 mt). On the other hand, the FFB production from the Indonesian operations increased from 21,979 mt to 55,579 mt, a growth of 153% as more areas came into maturity. Total FFB milled by the Group, inclusive of outside fruit purchases, rose by 8% to 872,878 mt (FY2012: 805,699 mt). Of this, 63,551 mt (FY2012: Nil) were milled by the Group’s first palm oil mill in Indonesia that was successfully commissioned during the year.

Against the backdrop of an environment of escalating labour cost the Group continued to be vigilant and diligent to further improve cost efficiency and effectiveness. This was done by exploring new and alternative operational techniques. Greater focus was given to efficiency in crop recovery, productivity measurements and retention of skilled work force. Cost-mitigating measures, implemented in the previous years, were also reviewed and checked for their effectiveness. The Group’s Research and Development ("R&D") team continued to support the operating units in achieving higher yields.

The expansion project in Indonesia continued to make good progress. The Group’s success in maintaining a steady pace of development over the years was a result of its ongoing effort to nurture a mutual understanding with the surrounding communities and the Indonesian authorities. The planted area in Indonesia surpassed that of the Malaysian operations in FY13 with a total planted area of 52,863 hectares for the Group. In addition, the Group has successfully commissioned its first palm oil mill in Indonesia.

CORPORATE DEVELOPMENT

On 30 August 2012, a wholly-owned subsidiary, Gunaria Sdn Bhd ("GSB"), entered into a Conditional Share Subscription Agreement ("CSSA") to acquire 23,750 shares of Rp.1,000,000 each, representing 95% of the enlarged share capital of PT Karya Bakti Sejahtera Agrotama ("KBSA") for a total cash consideration of Rp.23,750,000,000 (approximately RM7.7 million).

KBSA, incorporated on 25 January 2010 in Indonesia, is in the midst of cultivating oil palm on a plot of land measuring approximately 4,470 hectares located in Desa Susuk Dalam, Kecamatan Sandaran and Sangkulirang, Kabupaten Kutai Timur, East Kalimantan for which it has successfully obtained the plantation permit (Izin Usaha Perkebunan).
The conditions preceding the shares subscription include the approval of Indonesian Investment Coordinating Board for the change in shareholdings and conversion of KBSA to a foreign capital investment company.

The transaction is part of the long term business strategy of the Group to synergise and expand its oil palm operations.

On the same date, GSB assumed control over the financial and operating policies of KBSA by virtue of the CSSA. As a result, KBSA was consolidated as a subsidiary of the Group with effect from 30 August 2012.

DIVIDEND
The Company is committed to the payment of annual dividends. The quantum of dividends will be determined after taking into account, *inter alia*, the level of available funds, the amount of retained earnings, capital expenditure commitments and other investment planning requirements.

In respect of the financial year ended 31 March 2012, a single-tier interim dividend of 10 sen per share was paid on 3 July 2012 totalling RM80.17 million.

On 28 May 2013, the Directors declared a single-tier interim dividend amounting to 7 sen per share. This dividend was paid on 3 July 2013 to every member who is entitled to receive the dividend at the close of the business on 14 June 2013.

The Directors do not recommend the payment of any final dividend for the financial year ended 31 March 2013.

CORPORATE GOVERNANCE
The Group is committed to good corporate governance which promotes long-term shareholder interests, strengthens board and management accountability and helps build public trust in the Group. These practices are essential for raising the investors’ confidence in the overall operations and performance of the business. The Group’s commitment towards corporate governance remains strong and the guiding principles of this commitment are set out in the Statement on Corporate Governance (pages 34 to 41) and Statement on Risk Management & Internal Control (pages 46 to 48).

The Company, its subsidiaries, Directors and Management were not sanctioned and had no material penalties imposed by any relevant regulatory bodies during the year.

RELATIONED PARTY TRANSACTIONS
Related party transactions of the Group for the financial year are disclosed in Note 29 to the Financial Statements.

Except for those disclosed in Note 29 to the Financial Statements, there were no material contracts of the Group involving Directors and major shareholders during the reporting period.

CARE FOR THE ENVIRONMENT
The Group recognises the importance of good environmental practices and makes a conscious effort in its daily operations to ensure that economic and social development are in harmony with the environment.

In ensuring that the Group’s operating practices are in line with industry standards, all the operating units throughout its supply chain have been certified under the MPOB’s Code of Practices (“CoPs”) for quality, food safety and sustainability.

The Group continued to emphasise on implementing best management practices in resource stewardship of soil, water, air and waste management. All planting and replanting during the year were carried out in accordance to the Group’s environmental-friendly “zero burning policy” and in compliance with the regulations of the Department of Environment. Other key projects include sustaining the centre of excellence called “Hundred Acre Wood” which is dedicated to conservation efforts, *in-situ* tree planting and biodiversity enhancement.

The Group continued to host numerous stakeholders’ engagements during the year. These were part of the Group’s initiative to continuously engage with its stakeholders from different disciplines. These engagements enabled the Group to create awareness among stakeholders and strengthen dialogues on the Group’s sustainability initiatives while obtaining valuable feedback.

RETURNING TO COMMUNITY
Despite the challenging business environment, the Group stayed on course with its outreach endeavours to forge links with the local communities. The Group’s aspiration to contribute something more sustainable has motivated it to focus and be committed on several key social initiatives. This include promotion of sports excellence among schoolchildren using rugby as the stage, empowering women and school girls through breast health awareness, promoting education by setting up learning centres and attachment trainings for local youths, medical outreach to surrounding rural *kampungs*, and continuing with voluntary charitable activities.
The objective of youth development through sports is to encourage schoolchildren to be well-rounded, i.e. healthy in body and mind. In this respect, the Group continued to nurture rugby development through the Academy of Rugby Excellence, a platform established in collaboration with the Sabah Education Department and Sabah Rugby Union. The target group is the schoolchildren in Sabah, both in primary and secondary schools. During the year, 75 schools and over 3,000 children were involved in this development project.

On another front, the Group continues to enlighten the surrounding community and work in partnership with local NGOs such as Kinabalu Pink Ribbon and Sandakan Breast Health Awareness Committee to organise public breast health awareness programmes. The programmes include talks on breast cancer and demonstrations on breast self-examination. During the year under review, these programmes were conducted in the district of Beluran in Sabah, targeting approximately 300 school girls.

The Group believes that access to basic education builds a brighter future. Educational facilities that were provided for the children of its’ guest workers, were also extended to the surrounding communities. In addition to the existing two purpose-built learning centres in Desa Talaisi Estate and Excellent Challenger II, the Group expanded and established another centre in Kg. Sabang Estate during the year. This initiative was carried out in collaboration with a social NGO, Borneo Child Aid Society from Sabah. These learning centres now cater for more than 500 children.

One of the core values adopted by the Group is to ensure a healthy working environment for its employees. This is needed to increase the employees sense of belonging and motivate them to strive for higher levels of productivity. Employees in the operating units were provided with decent living quarters, complete with adequate amenities which include medical care, crèche, recreational and sports facilities, making each unit a more appealing place for the employees and their families to work and live. As in previous years, “Family Day” events and inter-estate games were held with the participation of all level of employees. These activities have led and encouraged them to lead harmonious and healthier lifestyles.

To encourage good communication between employees and management, Joint Consultative Committees (“JCC”) have been established in all operating units. Scheduled meetings were held during the year to discuss various issues and concerns affecting the operations and the employees. These sessions allowed the JCC to perform their intended roles and act as a good communication channel.

The Group continued with its training and retraining programmes for all levels of employees. Both formal and on-the-job training programmes were extended to equip the employees with key skills and support career development goals and targets. The Cadetship programme continued during the year to meet the needs of the
Indonesian expansion project. The Group also focused on identifying and developing new and young talents as part of its succession plan. Greater emphasis was placed on employees’ performance. To remain competitive in the evolving job market and in order to retain and motivate the right talents, employees were rewarded with appropriate incentives, including the introduction of a long-term incentive plan by the Group’s parent company comprising an employee share option scheme and employees share grant plan.

PROSPECTS AND OUTLOOK

The year ending March 2014 will be another challenging year for the Group as the fundamentals for the industry continues to be bearish amidst uncertainty in the global trading environment. Major economies of the world have yet to recover from their downturn. Policies and strategies pursued by the United States and European nations separately have created ripple adverse effects on other parts of the world. Economic analysts however expect petroleum market to undergo lesser volatility. This implies that palm and other commodity markets could take awhile before they recover from the 2012 declines. Malaysian palm oil producers are also expected to face continued margin pressure as production costs are expected to be higher with the full implementation of the minimum wage. Notwithstanding this, the crop production in the Group’s Malaysian operations is expected to sustain in the absence of any climatic changes, while that of the Indonesian operations will increase significantly as more areas come into production. Our efforts for the coming year will focus on intensifying harvesting and milling operations in Indonesia while maintaining high yields from the Malaysian operations.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to accord my tribute to the Group’s management and all other employees whose passion, concerted efforts and dedication has contributed to the Group’s performance. I also wish to thank my distinguished colleagues in the Board for their invaluable support, insight and sound advice during the year. On behalf of the Board, I also wish to take this opportunity to welcome Mr. Pushpanathan a/l S A Kanagarayar to the Board. He was appointed as a Non-Executive Director on 12 November 2012. I am confident his wealth of experience will benefit both the Board and the Group. Last but not least, I would also like to take this opportunity to thank our shareholders, customers, business partners and all other stakeholders for their unwavering support and resolute confidence in the Group.