In the financial year ended 31 March 2014, the Group steadfastly weathered the volatile economic landscape and challenging backdrop confronting the plantation industry to sustain its profitability. The scenario of high volume of CPO inventory carried forward from the previous year coupled with the industry’s expectation of a higher crop production going forward resulted in the bearish sentiment for CPO prices. In line with this, the prices up to the last quarter of the financial year were negatively affected. The average selling prices per metric tonne (“mt”) hovered around RM2,200 to RM2,400; and only started to break the RM2,500 level towards the end of the year following the Indonesian government’s announcement of its commitment to push for higher consumption of palm-based biodiesel.

However, the Group achieved higher revenue at RM646.98 million (2013: RM486.28 million) due to higher revenue from the Indonesian operations in addition to reduction in closing inventories. In spite of the net impact of losses from unrealised foreign exchange translation on USD denominated borrowings amounting to RM20.8 million and the full effect arising from the implementation of the minimum wage and escalation in other cost components, profit before tax was RM109.08 million (2013: RM156.61 million).

**PLANTED AREA AND AGE PROFILE**

As at 31 March 2014, the Group’s total plantation land in the Malaysian operations stood at 29,140 hectares of which 87% or 25,343 hectares are planted with oil palms. Sugut region made up of 64% of total planted area while the remaining 36% was located in the Sandakan region. From the total planted area, approximately 92% (or 23,401 hectares) are mature while the remaining 8% (or 1,942 hectares) of the area are at immature stage.

The total planted area of the Group’s Indonesian operations increased by 9% to achieve 30,046 hectares (2013: 27,491 hectares) while its mature area increased to 36% as compared to 14% in the previous year.

The details of the Group’s oil palm age profile are as follows:

<table>
<thead>
<tr>
<th></th>
<th>MALAYSIAN OPERATIONS</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HECTARES</td>
<td>%</td>
<td>HECTARES</td>
<td>%</td>
</tr>
<tr>
<td>Mature (&gt; 20 years)</td>
<td>2,076</td>
<td>8%</td>
<td>–</td>
<td>0%</td>
</tr>
<tr>
<td>Mature – Prime (8 – 20 years)</td>
<td>20,339</td>
<td>80%</td>
<td>732</td>
<td>3%</td>
</tr>
<tr>
<td>Mature – Young (4 – 7 years)</td>
<td>986</td>
<td>4%</td>
<td>9,969</td>
<td>33%</td>
</tr>
<tr>
<td>Immature (1 – 3 years)</td>
<td>1,942</td>
<td>8%</td>
<td>19,345</td>
<td>64%</td>
</tr>
<tr>
<td>Total</td>
<td>25,343</td>
<td>100%</td>
<td>30,046</td>
<td>100%</td>
</tr>
</tbody>
</table>
Over the last five (5) years, the Group’s Malaysian operations achieved a respectable average oil yield of 5.3 mt per hectare per year...

CEO’S REVIEW OF OPERATIONS

JOSEPH TEK CHOON YEE
Chief Executive Officer & Managing Director
CEO’S REVIEW OF OPERATIONS

OIL PALM PLANTATIONS

The Group’s FFB production increased by 5% to achieve 729,801 mt (2013: 692,210 mt) mainly due to the significant growth from its Indonesian operations as more areas attained maturity and the oil palms moved into prime age.

It is heartening to note that FFB production from the Indonesian operations more than doubled to end the financial year at 144,275 mt (2013: 55,579 mt).

The Malaysian operations recorded lower FFB production. FFB harvested declined by 8% from 636,631 mt in 2013 to 585,526 mt. The decline was mainly due to change in cropping pattern that resulted in palm stress following high production in the previous year. In addition, the replanting programme of aging palms in Sandakan also reduced the production although a pragmatic replanting is necessary to achieve a healthy mix of mature and immature oil palms across our portfolio of estates. The average yield per hectare was however a respectable 25.02 mt (2013: 26.48 mt).

PALM OIL MILLS

The Group’s strategically located four (4) palm oil mills in the Malaysian operations have a total processing capacity of 180 mt of FFB per hour. Together with outside crop, a total of 840,891 mt (2013: 809,327 mt) of FFB were processed by these mills. The increase in FFB processed by 4% was mainly attributed to the increase in the availability of outside crop. The two (2) mills in Sandakan region processed 302,461 mt (2013: 293,227 mt) of FFB which represent a slight increase of 3% in processed crop volume compared to the previous year. In the other region in Sugut, FFB processed by the other two (2) mills registered a growth of 4% to achieve 538,430 mt (2013: 516,100 mt). The average oil extraction rate (“OER”) achieved by the mills in the Malaysian operations was 20.8% (2013: 20.7%), a slight increase from the previous year while kernel extraction rate (“KER”) remained at 4.8%.

The Group’s first palm oil mill in Indonesia with a processing capacity of 60 mt of FFB per hour entered into its second year of operation and processed a total of 221,178 mt (2013: 63,551 mt) of FFB, a significant increase of three and a half folds in processed crop volume. Total CPO produced from this mill during the financial year was 51,313 mt (2013: 14,272 mt). The average OER improved to 23.2% (2013: 22.5%) and KER was also higher at 3.5% (2013: 3.2%).

The Group’s palm oil mills in Malaysia processed a total of 37,431 mt (2013: 37,098 mt) of palm kernel to produce 16,850 mt (2013: 16,752 mt) of crude palm kernel oil (“CPKO”) and 17,879 mt (2013: 17,167 mt) palm kernel expellers (“PKE”). The average extraction rate for CPKO was 45.0% (2013: 45.2%) and that for PKE was 47.8% (2013: 46.3%). Across in Indonesia, the maiden kernel crushing plant which started operation during the year crushed 5,720 mt of kernels to produce 2,379 mt and 2,748 mt of CPKO and PKE respectively.
HIGH OIL YIELD ACHIEVEMENT

Oil yield is one of the key performance indicators in the palm oil business. It tells the total amount of CPO produced over a mature planted oil palm area. The Group strives to achieve high oil yields within a cost effective range. Over the last five (5) years, the Group’s Malaysian operations achieved a respectable average oil yield of 5.3 mt per hectare per year. In the current financial year, the oil yield per annum achieved was 5.2 mt per hectare as against the Malaysian national average yield of 3.8 mt per hectare which was higher by 37% – a commendable feat. Oil yield in the Indonesian operations is currently set against a start-up yield of younger palms which will be nurtured towards higher yields.

OPERATIONAL EXCELLENCE

As the Group moves forward, it will continue to deliver the value proposition as a spirited, resilient and a highly competitive plantation player. The availability of guest workers remains one of the key challenges for the plantation sector. In order to sustain high productivity and address these challenges, the Group continued to explore various incentives which include rolling out mechanisation initiatives on site-specific areas for in-field crop evacuation in the estates, competitive harvesting rates and engaging in different modes of recruiting guest workers.

The Group’s oil palms continued to be nourished with effective nutrient management while soil and water conservation initiatives were unrelentingly implemented and further enhanced at critical areas to sustain yields and improve productivity.

In the Malaysian operations, the Group’s total supply chain of 11 estates, 4 palm oil mills, a nursery and the kernel crushing plant that were certified under the MPOB Code of Practices for quality, food safety and sustainability were successfully endorsed in the annual audits to retain the certification accreditation. Across in the Indonesian operations, working requirements continued and were geared towards the implementation of the mandatory Indonesian ISPO certification. These certifications form the Group’s commitment to raise performance standards and benchmark against the best in the industry. The Group will subsequently embark on global certification schemes.

During the year, the Group continued to place utmost priority in enhancing environmental sustainability footprints. These include environmental impact assessments (“EIA”) that were carried out for the replanting programme in Sandakan estates. Integrated pest management (“IPM”) was followed through in the field operations as a holistic endeavor to mitigate the impact of chemical pesticides. This involves a combination of different techniques covering cultural, biological control and an effective pest and disease census system. Undertakings involving collection, breeding and multiplication of predatory insects continued to be diligently pursued by the Group’s insectarium. In addition to the diverse natural vegetation already being preserved on the ground, specific beneficial plants such as Antigonon and Turnera continued to be propagated and distributed for planting throughout the estates. These plants act as effective alternative food sources for the predatory insects. For the control of Rhinoceros beetles, both pheromone trapping and biopesticides are used when necessary.
Integrated waste management continued to be practiced to ensure effective recycling of palm product waste. Shredded empty fruit bunches ("EFB") are composted with palm oil mill effluent ("POME"). The biocompost produced was applied to the field as organic fertilisers to enhance the soil condition while improving nutrient uptake. In effluent management, tertiary POME treatment technology involving membrane technology has been implemented.

**PEOPLE ASSET**

The Group strongly believes that its people are the cornerstone of its sustainability and success. The workforce had been increasing from year to year as the development in Indonesia come into production stage. Our people are engaged for gainful employment which also helps in sustaining the livelihood of their dependents. As at 31 March 2014, the total direct workforce engaged in the Group’s operations involved 9,921 people. This can be segmented to 3,653 people employed in the Malaysian operations and the balance 6,268 people working in the Indonesian operations.

Various measures are being pursued to ensure the adequacy of the workforce to meet changing operational needs. Additional workers will be recruited and trained in the coming years to cater for new maturing areas in the Indonesian operations. Affirmative employee engagements between management and the workers continue to be carried out in the operations through the ICC platform.

The Group manages the inter-generational shift involving Gen-Y staff by empowering them to take up management leadership in the operating units while their seniors continued to provide them with mentoring support. During the year, the Group conducted a total of 33 (2013: 25) in-house training sessions and workshops covering a wide range of subjects including agronomic practices, occupational safety and health, general management, leadership skills and quality systems for the relevant employees. A total of 335 participants (2013: 350) have benefited directly from the training sessions. The intensive cadet training programme for young new recruits continued in Indonesia while others were given on-the-job refresher training and exposure.

Injecting new and young blood is one way of keeping the workforce rejuvenated. The Group continued to attract talent through scholarships and direct engagements with the local universities and private vocational training centres. During the financial year, a total of 17 youths (2013: 36) were given the opportunity and first hand exposure on practical and plantation related work to enable them to build their skills and knowledge in plantation sector.
**Research and Development**

The establishment of the Quality, Training and Research Centre ("QTRC") located in the Group’s Sijas Estate, Sandakan and its sub-station in Sugut are testimony that the Group recognises the importance of research and development in order to contribute towards balancing growth performance and environmental sustainability. While the main attention is directed towards oil palm breeding and seed production for better crop yields, the centre also carried out in-house agronomy and advisory services along with the promotion of IPM. The sub-station in Sugut provided the necessary support for the Group’s estates in that region while ploughing with the Group’s various sustainability initiatives.

Fertiliser recommendations are prepared at QTRC as part of agronomy and technical advisory to the estates based on soil and foliar analysis coupled with technical observations from field visits. Diligent testing and analysis of fertilisers were also carried out. QTRC staff are also responsible for estate field audits, pest and disease census and reviewing the quality grading of crop received at palm oil mills. QTRC also acts as a training centre for many agronomy and plantation management training programmes conducted for the Group’s employees.

**Oil Palm Breeding and Seed Production**

The Group has an on-going collaboration with the Malaysian Palm Oil Board ("MPOB") on long term yield improvement through conventional breeding and testing of oil palm germplasm. New parental genetic blocks were established to evaluate and select the next generation of improved parental palms in the Group’s seed gardens. Progeny testing trials were carried out for the purpose of evaluating newer and high quality DXP crosses. The all-inclusive breeding and testing programme will allow the Group to continuously pursue improved planting materials to meet its future needs thus ensuring better yields in the long run.

The seed production unit in QTRC is able to produce over one million five hundred thousand DXP seeds annually. The unit was accredited with the MS157:2005 certification. Selected mother palms from the genetic blocks located in Sijas Estate have also been certified by SIRIM and are used for commercial seed production. Since 2003, the entire planting material requirement in the Group’s Malaysian operations including the replanting programme as well as all the allowable requirements in the Group’s Indonesian operations are planted with IJM DXP planting materials. Encouraging yield results have been achieved with the Group’s in-house planting material derived from Deli Dura and AVROS pedigrees. The Group conducted various seminars regularly with the objective of promoting its commercial seeds for the consumption by external parties together with educational briefings pertaining to oil palm planting materials.
The Group continued collaborating with ACGT Sdn Bhd and Genting Green Tech Sdn Bhd, subsidiaries of Genting Plantations Bhd, to undertake research and development projects in relation to oil palm biotechnology. This involves an oil palm material transfer for marker validation and a high yield biomarker screening project. The Group is also working together with the International Plant Nutrition Institute (IPNI) on best management practices and plantation intelligence for oil palm.

SAFETY, HEALTH AND QUALITY
Commitment towards occupational safety and health ("OSH") remains a key focus for the Group. Regular engagements were held by the safety and health committee of the respective operating units to deliberate on matters and concerns relating to OSH towards ensuring a safe and healthy working environment. The Group also regularly conduct trainings through various demonstrations and talks among employees in order to raise awareness on OSH.

Regular internal monitoring and inspections were conducted to ensure that quality management systems are effective. These practices and management systems were guided by standards established by Hazard Analysis Critical Control Point ("HACCP"), Good Manufacturing Practice ("GMP"), Good Agricultural Practice ("GAP") and MPOB’s CoP throughout the supply chain.

CONCLUSION
Amid the cautiously optimistic outlook and barring any unforeseen circumstances, the Group expects to continue delivering a satisfactory performance in the coming financial year as more areas in its Indonesian operations attain maturity and progressively move into prime productive age. In addition, work on the second palm oil mill in Indonesia will advance. The Group will continue to be cost conscious, ensure efficiency and effectiveness throughout its entire supply chain and continue striving to realise high yields. Overall, the Group remains optimistic about the prospects of the palm oil industry and will endeavour to deliver its best to all of its stakeholders.
RETURNING TO COMMUNITY

...social aspect focused on sharing organisational prosperity with targeted groups in the community.

Promotion of rugby in schools

Blood donation campaign

Volunteerism at Borneo Bird Festival

IJM Give Day Out at the centre for the blind

Health outreach local

Grassroot breast health awareness programme