During the financial year ended 31 March 2015, the Group was confronted with continued uncertainties and volatility in the edible commodity markets. Crude palm oil ("CPO") experienced significant price swings. The dissipation of an expected full blown El Nino, crash in crude petroleum prices, dampening biodiesel demand, soya bean bumper crop production, softer palm oil demand from major consumers like China and volatility in foreign exchange rates were amongst the many contributory bearish factors.

The Group delivered a satisfactory performance against the backdrop of the above volatile landscape. Revenue for the financial year was higher at RM667.66 million (2014: RM646.98 million) mainly due higher sales volume. Profit before tax for the year under review stood at RM89.41 million (2014: 109.08 million). The decline in profitability was mainly due to a significant net unrealised foreign exchange loss of RM51.36 million resulting from the translation of the US Dollar denominated borrowings. The borrowings were in relation to the Group expansion in Indonesia.

**PLANTED AREA AND AGE PROFILE**

As at 31 March 2015, total plantation land in the Malaysian operations stood at 29,165 hectares of which 87% or 25,207 hectares are planted with oil palms. Sugut region makes up 64% of total planted area while the remaining 36% is located in Sandakan region. From the total planted area, approximately 91% or 23,030 hectares are mature while the remaining 9% or 2,177 hectares of the area are at immature stage.

The total planted area of the Indonesian operations increased by 12% to achieve 33,693 hectares (2014: 30,046 hectares) while its mature area increased to 52% as compared to 36% in the previous year.

**CEO’s Review**

JOSEPH TEK CHOON YEE  
Chief Executive Officer & Managing Director
of Operations

THE GROUP’S TOTAL FRESH FRUIT BUNCHES (“FFB”) production saw a double-digit increase, a hike of 18% to achieve 862,455 mt (2014: 729,801 mt).
The details of the Group’s oil palm age profile are as follows:

<table>
<thead>
<tr>
<th></th>
<th>MALAYSIAN OPERATIONS</th>
<th>INDIAN OPERATIONS</th>
<th>GROUP TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HECTARES</td>
<td>%</td>
<td>HECTARES</td>
</tr>
<tr>
<td>Mature (&gt; 20 years)</td>
<td>2,640</td>
<td>10%</td>
<td>–</td>
</tr>
<tr>
<td>Mature – Prime (8 – 20 years)</td>
<td>19,296</td>
<td>77%</td>
<td>1,049</td>
</tr>
<tr>
<td>Mature – Young (4 – 7 years)</td>
<td>1,094</td>
<td>4%</td>
<td>16,451</td>
</tr>
<tr>
<td>Immature (1 – 3 years)</td>
<td>2,177</td>
<td>9%</td>
<td>16,193</td>
</tr>
<tr>
<td>Total</td>
<td>25,207</td>
<td>100%</td>
<td>33,693</td>
</tr>
</tbody>
</table>

OIL PALM PLANTATIONS

The Group’s total fresh fruit bunches (“FFB”) production saw a double-digit increase, a hike of 18% to achieve 862,455 mt (2014: 729,801 mt) mainly due to the significant production from the Indonesian operations as more areas attained maturity or moved towards prime age.

The Malaysian operations achieved 589,384 mt (2014: 585,526 mt) of FFB production, net of a pragmatic replanting programme implemented to achieve a healthy mix of mature and immature oil palms in the estates. The average yield per hectare was slightly higher at 25.59 mt (2014: 25.02 mt).

FFB production from the Indonesian operations almost doubled to end the financial year at 273,071 mt (FY2014: 144,275 mt). In term of yields, the young oil palms averaged 15.6 mt (2014: 13.5 mt) per hectare.
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 826,254 mt (2014: 840,891 mt) of FFB were processed by these mills. The drop in FFB processed was attributed to the decrease in the availability of outside crop. The two (2) mills in Sandakan region processed 296,494 mt (2014: 302,461 mt) of FFB which represent a slight drop of 2% in processed crop volume compared to the previous year. FFB processed by the other two (2) mills in Sugut region also registered a decline of 2% to achieve 529,760 mt (2014: 538,430). The average oil extraction rate ("OER") achieved by the mills in the Malaysian operations was 20.9% (2014: 20.8%), a slight increase from the previous year; while kernel extraction rate ("KER") also showed improvement to 4.9% (2014: 4.8%).

The Group’s first palm oil mill in Indonesia with processing capacity of 60 mt of FFB per hour entered into its third year of operation. A total of 278,818 mt (2014: 221,178 mt) was processed, a significant growth due to more palms attaining maturity. Total CPO produced from this mill during the financial year was 64,822 mt (2014: 51,313 mt). The average OER remained constant at 23.2% while KER was higher at 4.0% (2014: 3.5%).

The kernel crushing plant in the Malaysian operations processed 36,366 mt (2014: 37,431 mt) of palm kernel to produce 16,413 mt (2014: 16,850 mt) of crude palm kernel oil ("CPKO") and 18,333 mt (2014: 17,879 mt) palm kernel expellers ("PKE"). The average extraction rate for CPKO was 45.1% (2014: 45.0%) and that for PKE was 50.4% (2014: 47.8%). Across in Indonesia, the maiden kernel crushing plant which was into its second year of operation processed 10,960 mt (2014: 5,720 mt) of palm kernels to produce 4,761 mt (2014: 2,379 mt) and 6,170 mt (2014: 2,748 mt) of CPKO and PKE respectively.
HIGH OIL YIELD ACHIEVEMENT

Oil yield is one of the key performing indicators in the palm oil business. It highlights the total amount of CPO produced over a mature planted oil palm area. The Group continues to achieve high oil yields within a cost effective range. The Group’s Malaysian operations continue to realise a respectable average oil yield of 5.3 mt per hectare per year over the last six (6) years. In the financial year, the oil yield per annum achieved was 5.4 mt per hectare as against the Malaysian 2014 national average yield of 3.8 mt per hectare, 42% higher. In recognition of the high FFB yields, the Malaysian Palm Oil Board (“MPOB”) awarded to Rakanan Jaya North, the Group’s 3,621 ha estate, as the Best Estate in Sabah/Malaysia. This estate had consistently averaged 29 mt per hectare of FFB over the last 6 years, assisted by the implementation of best management initiatives. 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 its value proposition as a resilient and 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 labour issues, the Group focuses on innovations relating to site-specific mechanisation on in-field crop evacuation, implementing 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.
The Group’s continuous efforts in promoting innovation were recognised when Desa Talisai palm oil mill was the winner of the IJM Ace Innovation Award 2014 for its “Innovative Double Threshing System in Palm Oil Milling Process”.

In the Malaysian operations, the Group’s operating units comprising of 11 estates, 4 palm oil mills, a nursery and a kernel crushing plant that are certified under the MPOB Code of Practices for quality, food safety and sustainability were successfully endorsed in their annual audits to retain the certification accreditation. Moving on to the next phase of certification, the Group’s Desa Talisai Palm Oil Mill has also successfully achieved certifications under the International Sustainability and Carbon Certification (“ISCC”) and the Malaysian Sustainable Palm Oil (“MSPO”). 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 other 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 the Sandakan region. The Group conducted its operations under the best principles of agriculture, compatible with the natural environment and in full support of integrated pest management (“IPM”) which involves a combination of an effective pest and disease census system along with different control techniques covering cultural, chemical and biological control. Other undertakings involving collection, breeding and multiplication of predatory insects continued to be diligently pursued at 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 source for the predatory insects. In the control of Oryctes rhinoceros beetles, both pheromone trapping and biopesticides are used when necessary.

With emphasis on good agricultural practices, the recycling of palm product residues continued to be practiced. These measures have improved soil fertility and enhanced palm growth. Shredded empty fruit bunches (“EFB”) are composted with palm oil mill effluent (“POME”) and applied to the field as organic fertilisers to enhance the soil condition while improving nutrient uptake. In the effluent management, tertiary POME treatment technology involving membrane technology has been implemented.
CEO's Review of Operation (cont'd)

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 made progress. Our people are engaged for gainful employment which also helps in sustaining the livelihood of their dependents. As at 31 March 2015, the total direct workforce engaged in the Group’s operations involved 11,262 (2014: 9,921) people. This can be segmented to 3,227 (2014: 3,653) people employed in the Malaysian operations and the balance 8,035 (2014: 6,628) people working in the Indonesian operations.

To meet the Group’s operational needs, various measures are being pursued to ensure the adequacy of workforce. Additional workers will be recruited and trained in the coming years to cater for the new maturing areas in the Indonesian operations. Affirmative employee engagements between management and the workers continue to be carried out in the operations. An employees engagement survey conducted in the financial year revealed a higher level of employee engagement score at 91% (from 82% in 2011) with strong sense of pride and support of company’s values and also a significantly higher favourable score on overall satisfaction level (up by 26%) and staff intention to stay (up by 34%) as compared to previous survey in 2011. The Group will continue to drive towards a positive culture in the working place emphasising on performance, employees engagement and shared destiny.

The Group manages inter-generational shift involving Gen-Y by empowering them to take up various leadership roles in the operating units while their seniors continue to provide mentorship. During the year, the Group continue to conduct 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. All the relevant employees had 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 31 youths (2014: 17) 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.
FOCUSED RESEARCH AND DEVELOPMENT

The Group’s Quality, Training and Research Centre (“QTRC”) located in Sijas Estate in 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 and productivity performance with environmental stewardship. While the main attention is directed on oil palm breeding and seed production for better crop yields, the centre also provides in-house agronomy and advisory services along with the promotion of IPM. The sub-station in Sugut provides the necessary support for the Group’s estates in that region while ploughing with the Group’s various sustainability initiatives.

Fertiliser recommendations are prepared by the agronomist and his team in QTRC as part of agronomic and technical advisory to the estates based on soil and foliar analysis coupled with technical observations from their field visits. Diligent testing and analysis of fertilisers were also carried out. QTRC staffs 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.

The Group’s on-going breeding, selection and progeny testing programme will enable the Group to continuously pursue for improved planting materials to meet its present and future needs thus ensuring better yields in the long run. The seed production unit in QTRC is able to produce over 1.5 million DXP seeds annually. The unit was accredited with the SIRIM’s 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 requirements in the Group’s Malaysian operations including the replanting programme as well as the Group’s allowable requirement in the Indonesian operations were all planted with IJM DXP planting materials. The Group continues to conduct various seminars with the objective of promoting its commercial seeds for the consumption of external parties.

The Group continues its collaboration with ACGT Sdn Bhd and Genting Green Tech Sdn Bhd to undertake research and development projects in relation to oil palm biotechnology. This involves 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.
CEO’s Review of Operation (cont’d)

PRAGMATIC REPLANTING PROGRAMME

The Group’s long term replanting policy remains a high priority, both in times of low as well as high palm product prices. Failure to implement this critical aspect of plantation management will inevitably lead to stagnating yields and declining production. All the replantings continued to be carried out in accordance with the environmentally friendly “zero burning policy”, thereby complying fully with the regulations laid down by the Department of Environment. Other best management practices pertaining to replantings were also carried out in accordance with the Group’s agricultural policy. The replantings were all planted with IJM DxP planting materials derived from Deli Dura and AVROS pedigree which have demonstrated early and encouraging yields as well as other favourable palm product attributes.

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 provides trainings and supervision through various demonstrations and talks to all levels of employees to raise awareness on OSH and to promote a safe and healthy work environment.

Regular internal monitoring and inspections were conducted to ensure the 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.
Employees in the operating units are also equipped and trained to use appropriate protective equipment while in the field to develop safety conscious workers and to build a culture of individual accountability for the employee’s own well-being.

CONCLUSION

Lacklustre economic and industry trends are expected to continue dominating the business and operational landscape of the plantation industry in the coming financial year. In the short term, weak commodity prices and volatility in the foreign exchange environment will be key concerns for the Group. However, the Group is confident that with continuous improvements in productivity and implementation of best management practices together with cost effective strategies, it would be able ride out the challenges ahead. The Group also 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. The Group’s position of strength with these new areas coming into maturity will pave the way for a new phase of growth. Riding on the momentum in place, the game plan is to leverage on the operational excellence throughout the Group’s supply chain to raise productivity and achieve cost effectiveness while remaining true to our goal to create and nurture a sustainable future.

The long term prospects for palm oil remain attractive as rising global demand for oils and fats will be effectively and efficiently met by the commodity with the highest yield per land area. It is expected that palm oil having an undisputable biological productivity advantage and renowned for its health benefits will continue to be an attractive and sustainable commodity for both producers and consumers. In this respect, the Group remains optimistic on the prospect of a sustainable palm oil industry and will endeavour to deliver its best for shareholders value creation.