DURING THE FINANCIAL YEAR ENDED 31 MARCH 2016, the Group weathered a very challenging year confronted with demanding operating environment where both volatility and uncertainty were recurring themes.

JOSEPH TEK CHOON YEE
Chief Executive Officer & Managing Director
The Group’s results reflect a year of uncertainty in the global economic context, a slowdown of economic growth in China and its contagion effects, bearish commodity prices and volatile foreign exchange rates. In addition, the effects of a full blown El Niño, the continued decline in crude petroleum prices resulting in the virtual wipe out of discretionary palm-based biodiesel demand and softer palm oil demand from major consumers like China were other contributory bearish factors. As a result, CPO experienced dramatic price declines which added pressure to the palm oil’s profit margins. All these challenges continue to test the Group’s resilience as we continuously strive to improve operational efficiencies and productivity.

Against the backdrop of the above business landscape, the Group delivered a lower revenue of RM557.61 million (2015: RM667.67 million). The lower performance was mainly due a decline in sales volume coupled with lower CPO prices. For the year under review, the Group’s Malaysian operations achieved a lower average CPO price of RM2,142 per mt (2015: RM 2,289 per mt) whilst the average CPO price achieved in the Group’s Indonesian operations saw a steeper decline to RM1,899 per mt (2015: RM2,140 per mt) due to the new levy implemented by Indonesian Government in July 2015. Profit before tax for the year under review stood at RM50.41 million (2015: RM89.41 million), was 44% lower than prior year. In addition to the lower FFB production and CPO price, profitability was also impacted by RM15.32 million fair value losses from its CPO swap transactions. The Group entered into CPO swap transactions as part of its hedging strategy. The fair value loss was recorded as the CPO price staged a strong recovery towards the end of the year when the Group had locked in transactions at lower prices.

Notwithstanding the Group’s weaker financial performance, it continues to make good progress in achieving its strategic and operational objectives. This will help the Group to weather the current challenges as we unlock the potential of the Group’s enlarged land-bank and prepare it for recovery in the business cycle of commodities.

PLANTED AREA AND AGE PROFILE

The Group is a mid-size oil palm plantation company. As at 31 March 2016, total plantation land in the Malaysian operations stood at 29,245 hectares of which 86% or 25,051 hectares are planted with oil palms. From the total planted area, approximately 92% or 23,064 hectares are mature while the remaining 8% or 1,987 hectares of the area are at immature stage. The total planted area of the Indonesian operations increased by 851 hectares or 3% to achieve 34,544 hectares (2015: 33,693 hectares). The mature area increased to 25,108 hectares or 73% as compared to 52% 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>Indonesian Operations</th>
<th>Group Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Hectares   %</td>
<td>Hectares   %</td>
<td>Hectares   %</td>
</tr>
<tr>
<td>Mature (&gt; 20 years)</td>
<td>1,771 7%</td>
<td>– 0%</td>
<td>1,771 3%</td>
</tr>
<tr>
<td>Mature – Prime (8 – 20 years)</td>
<td>19,265 77%</td>
<td>1,049 3%</td>
<td>20,314 34%</td>
</tr>
<tr>
<td>Mature – Young (4 – 7 years)</td>
<td>2,028 8%</td>
<td>24,059 70%</td>
<td>26,087 44%</td>
</tr>
<tr>
<td>Immature (1 – 3 years)</td>
<td>1,987 8%</td>
<td>9,436 27%</td>
<td>11,423 19%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>25,051 100%</strong></td>
<td><strong>34,544 100%</strong></td>
<td><strong>59,595 100%</strong></td>
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</tbody>
</table>
CEO’S REVIEW OF OPERATIONS

OIL PALM PLANTATIONS

The El Niño dry weather had severely affected production of the Group. As a result, its FFB production from the Malaysian operations, which has been the main profitability driver for past years, recorded a significant drop of 18% to 480,591 mt (2015: 589,384 mt). The average yield per hectare for the year was lower at 20.84 mt (2015: 25.59 mt).

The Group’s Indonesian operations which are not yet a significant generator of profitability, as most of its areas are still in young age saw a larger area coming into maturity. The Indonesian operations recorded a significant jump in FFB production to end the year at 367,923 mt (2015: 273,071 mt). In terms of yield, the young oil palms averaged 14.64 mt (2015: 15.60 mt) per hectare for the year. With this significant crop jump from the Indonesian operations, the Group managed to cushion most of the FFB production drop in its Malaysian operations. As a result, the Group’s overall FFB production only declined by 2% to end the year at 848,059 mt (2015: 862,455 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 684,349 mt (2015: 826,254 mt) of FFB were processed by these mills. The drop in FFB processed was attributed to the decrease in the availability of crop. The two (2) mills in Sandakan region processed 237,923 mt (2015: 296,494 mt) of FFB which represent a drop of 19% in processed crop volume compared to the previous year due to the dry weather. FFB processed by the other two (2) mills in Sugut region also registered a decline of 16% to achieve 446,426 mt (2015: 529,760 mt).

However, the average oil extraction rates (“OER”) achieved by the mills in the Malaysian operations was higher at 21.2% (2015: 20.9%), while kernel extraction rate (“KER”) also saw an improvement to 5.1% (2015: 4.9%). Overall, the total palm products yield in the Malaysian mills improved to 26.3% (2015: 25.8%).

The Group’s first palm oil mill in Indonesia continued to operate well in its fourth year of operation and achieve a good oil extraction rate. A total of 310,453 mt (2015: 278,818 mt) was processed due to more palms attaining maturity. Total CPO produced from this mill during the financial year was 74,629 mt (2015: 64,822 mt). The average OER and KER achieved were also higher at 24.0% (2015: 23.2%) and 4.1% (2015: 4.0%) respectively. The second Indonesian palm oil mill which is slated for operation by the end of 2016 will contribute towards future CPO production. Overall, the total palm products yield for the mill in Indonesia improved to 28.1% (2015: 27.2%).

The kernel crushing plant in the Malaysian operations processed 35,311 mt (2015: 36,366 mt) of palm kernel (“PK”) to produce 16,272 mt (2015: 16,413 mt) of crude palm kernel oil (“CPKO”) and 17,455 mt (2015: 18,333 mt) of palm kernel expellers (“PKE”). There was also improvement in average extraction rate for CPKO at 46.1% (2015: 45.1%) while the extraction for PKE was at 49.4% (2015: 50.4%). Across in Indonesia, the maiden kernel crushing plant which was in its third year of operation processed 12,742 mt (2015: 10,960 mt) of PK to produce 5,311 mt (2015: 4,761 mt) and 6,724 mt (2015: 6,170 mt) of CPKO and PKE respectively.
OIL YIELD BENCHMARK

Oil yield is one of the prominent performance indicators in the oil palm supply chain, incorporating both the estates FFB yields and the mills’ OER. It highlights the total amount of CPO produced over a mature planted oil palm area. The Group’s Malaysian operations had realised a respectable average oil yield of 5.3 mt per hectare per year over the last seven (7) years. However, the oil yield achieved for the current financial year was significantly affected by the El Niño dry weather phenomenon, which started as early as late February 2015 in the Sugut region of Sabah where 2/3 of the planted areas are located. Notwithstanding this, oil yield achieved by the Group of 4.4 mt per hectare was noted to be 19% higher than the Malaysian oil yield average of 3.7 mt per hectare over the same period.
CEO’S REVIEW OF OPERATIONS

OPERATIONAL ASPECTS
As the Group moves forward, it will continue to deliver its value proposition as a resilient and highly competitive plantation player, with respectable social environmental footprints.

The availability of skilled 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 implementing site-specific agro-management practices and enhanced mechanisation in better in-field crop evacuation, implementing competitive harvesting rates and engaging in different modes of recruiting guest workers. Concurrently, the Group’s oil palm trees continued to be nourished with effective nutrient management, while soil and water conservation initiatives were relentlessly implemented and further enhanced at critical areas to sustain yields and improve productivity.

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 in all the “zero burning” replanting areas in Sandakan region. The Group conducted its operations under the best management practices of tropical agriculture, compatible with the natural environment and in full support of integrated pest management (“IPM”) involving a combination of an effective pest and disease census system along with different control techniques comprised of cultural, chemical and biological control. Tree conservation and biodiversity enhancement initiatives continue to be pursued in the Group’s operations in Malaysia and Indonesia.

PARTNERSHIPS AND CERTIFICATIONS
The Group is actively involved in collaborations and partnerships with several NGOs and governmental bodies such Borneo Child Aid in educating guest workers’ children, Sabah Rugby Union and Education Department in sport development, Kinabalu Pink Ribbon in grass-root breast health awareness, Borneo Bird Club in avian fauna surveys and awareness programme, The Forest Trust in smallholders Rurality project, Sabah Wildlife department in relocation of animals, Sabah Forestry department in environmental education and information exchange, UMS and MPOC in palm oil boot-camp for students, local hospital in blood donations and many others.

In the Malaysian operations, the Group’s total supply chain involving the nursery, estates, mills and the kernel crushing plant were re-certified under the MPOB Code of Practices for quality, food safety and sustainability. Desa Talisai palm oil mill and its supplying internal estates were also re-certified this year under the International Sustainability & Carbon Certification (“ISCC”) and also received its Malaysian Sustainable Palm Oil (“MSPO”) certification. Premiums were received in selling ISCC palm oil. The Group’s grander achievement was to have in its entirety the Sugut region, which comprise both the two palm oil mills and the supplying internal estates certified under ISCC in the reporting year covering both ISCC-EU and ISCC-Plus certificates for biodiesel and food respectively. Across in the Indonesian operations, working requirements continued and were geared towards the implementation of the mandatory Indonesian ISPO certification. Three (3) estates namely Binal, Sajau and Pertama in Indonesian operations were successfully audited under ISPO certification in the reporting year. While not compromising on the ongoing sustainability initiatives, the Group continues to embrace the principles and criteria relating to sustainable palm oil production. The above certification journey is also part of an overall financial prudence exercise in mitigating unabated cost increases in production experienced over the recent years.
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 a mid-size organisation like ours recognises the importance of research and development in order to contribute towards productivity drive and also strive to balance growth with environmental stewardship. While the main focus is directed on oil palm breeding and seed production for better crop yields, QTRC also provides in-house agronomy and advisory services along with the promotion of IPM. The QTRC sub-station in Sugut provides the necessary agro-technical support for the Group’s estates in that region. It also rendered support to the Group’s various sustainability initiatives include engaging visiting stakeholders, smallholders and surrounding communities with technical know-hows as part of the Group’s out-reach programme.

Fertiliser recommendations are prepared by the agronomist and the 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 staff are also responsible for estate field audits, pest and disease census and reviewing the quality grading of crop received by the palm oil mills. QTRC also acts as a training centre for many agronomy and plantation management training programmes conducted for the Group’s employees and also in outreach programmes for smallholders.

The Group’s on-going oil palm breeding, selection and progeny testing programme will enable it to improve the planting materials to meet its present and future needs thus ensuring better yields and realising other desired oil palm characteristics. The seed production unit in QTRC is able to produce over 1.5 million DxP seeds annually derived from Deli Dura and AVROS pedigree. The seed production unit is 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 also being used for commercial seed production. For the last 13 years, the entire oil palm planting material requirements in the Group’s Malaysian operations, including all the replanting programme and the Group’s allowable requirement in the Indonesian operations were all planted with IJM DxP planting materials. The Group also continues organising various oil palm planting material seminars with the objective of promoting its commercial seeds for the consumption of external parties. The Group continued 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 collaborating with the International Plant Nutrition Institute ("IPNI") on best management practices and plantation intelligence in oil palm management.

REPLANTING EXCELLENCE

The Group’s pragmatic replanting policy remains a high priority and is adhered to, both in times of low as well as high palm product prices in order to achieve the desired age profile for the Group’s oil palm plantations. Delays to implement this critical aspect of plantation management will inevitably lead to lower yields and declining crop production. All the replanting continued to be carried out in accordance with the environmentally friendly “zero burning policy” where old palm stands are felled, chipped and left to decompose at site as per the regulations set by the Department of Environment. Other best management practices pertaining to replanting were also carried out in accordance with the Group’s agricultural policy. The replanting were all planted with the Group’s internally produced DxP planting materials of Deli Dura and AVROS parentage, which have demonstrated early and encouraging yields as well as other favourable palm product attributes.

MOVING FORWARD

The economy is seen slowly edging up as we move into the first quarter of financial year 2017. Business sentiment however has been hurt by lacklustre prospects for exports and a relatively sharp depreciation of the Malaysian Ringgit. In the short term, these will be key concerns for the Group, along with the incoming increase in minimum wages which is scheduled to take effect from 1st July 2016 onwards and other higher input costs.

However, the Group is confident that the long term prospects for the palm oil industry remain promising in the long term as palm oil continues to be the most consumed, healthier vegetable oil and the demand fundamental forecasts of palm oil continue to be robust. As population and per capita income continue to chart its growth, this will continue to drive growth in palm oil demand, in addition to further potential demand to be driven by biodiesel mandates. Global vegetable oil demand is expected to grow at a Compounded Annual Growth Rate (“CAGR”) of 3% to over 200 million metric tonnes by 2025. Palm oil market share currently at 35% is expected to grow, largely driven by consumption in the Asia Pacific region.

In the short term, we can expect the CPO prices to continue to be stimulated and well supported mainly due to the lag effects from the El Niño ‘dry’ weather phenomenon which is expected to drive down crop production. Although El Niño effect may have peaked, the biological stress inflicted on the oil palm trees has already been manifested. Lack of moisture will result in the lowers and fruitlets aborting and increase the proportion of male lowers which do not produce fruitlets. This will point to a further tightening in palm oil supply with inventories remaining low and possibly lead to rising palm oil prices. Back to back with the El Niño, the weather experts are now forecasting an increasing risk of La Niña ‘wet’ weather phenomenon. While a strong La Niña can be additional good news for palm oil prices, it may result in loodings which can potentially impact operations, again leading to tighter supply of palm oil products.

With the on-going pragmatic replanting initiative in the Malaysian operations synergising with a relatively young age profile of the Indonesian operations, the Group is in a strategic and sustained position to nurture and realise the long term prospects of the edible oils and fats market.