As at 31 March 2018, the total planted area in the Group stood at 60,981 hectares (2017: 60,570 hectares) with a weighted average age of 9.9 years. It consists of 53,312 hectares (2017: 51,798 hectares) of mature areas and 7,669 hectares (2017: 8,772 hectares) of immature areas. 59% of total planted area is located in Indonesia while the balance 41% is located in Sabah, Malaysia. From the total planted area, 90% of the Malaysian planted areas are mature whereas for Indonesian operations, the mature area increased to 85% as compared to 80% in the previous year.

The more favourable weather conditions and more even rainfall distribution post the 2015-2016 El Nino has created better conditions that assisted in the recovery of FFB production as well as average yields. Although the industry started to witness recovery in fresh fruit bunches (“FFB”) production during the year, the recovery recorded by the Group was slower as the FFB production from older palms continued to be affected by the prolonged dry weather. This was also experienced by the neighbouring plantations in the locations the Group operates.

By geographical segment, FFB production from the Malaysian operations increased by 1% to achieve 470,947 mt (2017: 464,019 mt), net of crops lost from larger areas removed for replanting. As for the Indonesian operations, it registered a growth of more than 16% to end the year with 462,003 mt of FFB (2017: 398,416 mt) as more areas attained maturity and moved towards prime age. Overall, the FFB production of the Group for the year was 932,950 mt (2017: 862,435 mt), an improvement of 8% compared to the previous year.

The increase in FFB productions raised the Group FFB yield to 17.5 mt per hectare (2017: 16.6 mt per hectare). The Malaysian operations recorded 3.5% increase in FFB yield to end the year with 20.8 mt per hectare (2017: 20.1 mt per hectare), whilst Indonesian operations recorded FFB yield of 15.0 mt per hectare (2017: 13.9 mt per hectare). For the coming year, the Group’s crop production is expected to improve due to more areas moving toward prime age, nett of the ongoing replanting programme.
FFB PROCESSED (MT)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysian Operations</td>
<td>464,019</td>
<td>470,947</td>
</tr>
<tr>
<td>Indonesian Operations</td>
<td>273,966</td>
<td>282,454</td>
</tr>
<tr>
<td>Total (mt)</td>
<td>737,985</td>
<td>753,401</td>
</tr>
</tbody>
</table>

Total FFB processed by the Group during the year was 1,095,595 mt (2017: 1,010,111 mt), an increase of 8% compared to the previous year.

A total of 698,614 mt (2017: 659,625 mt) of FFB inclusive of outside crop were processed by the four (4) palm oil mills in the Malaysian operations. With this, a total of 140,496 mt (2017: 135,275 mt) of crude palm oil ("CPO") and 36,303 mt (2017: 32,672 mt) of palm kernel ("PK") were produced. Average oil extraction rate ("OER") and kernel extraction rate ("KER") achieved in the Malaysian operations were 20.1% (2017: 20.5%) and 5.2% (2017: 5.0%) respectively.

FFB processed in the Indonesian operations was 396,981 mt which was 13% higher than the previous year. The higher volume of crop processed was attributed to more palms attaining maturity and moving into prime age and the commissioning of the second palm oil mill the Sinergi mill. 89,113 mt (2017: 76,405 mt) of CPO and 15,519 mt (2017: 13,676 mt) of PK were produced in the Indonesia mills. The average OER and KER achieved in the Indonesian operations were 22.4% (2017: 21.8%) and 3.9% (2017: 3.9%) respectively.

The kernel crushing plant in the Malaysian operations processed 33,531 mt (2017: 32,202 mt) of palm kernel to produce 14,810 mt (2017: 14,669 mt) of crude palm kernel oil ("CPKO") and 16,447 mt (2017: 15,876 mt) palm kernel expellers ("PKE"). Whereas in the Indonesian operations, the kernel crushing plant processed 15,423 mt (2017: 12,394 mt) of palm kernels to produce 5,904 mt (5,206 mt) and 9,433 mt (2017: 7,187 mt) of CPKO and PKE respectively.

OIL YIELD PRODUCTIVITY

Despite areas removed for replanting and larger area of tall palms, oil yield realised for the Malaysian operations was 4.2 mt (2017: 4.1 mt) per hectare due to favourable weather conditions post the 2015/2016 El Nino.
MANAGEMENT DISCUSSION AND ANALYSIS

Notwithstanding the above, the Group’s oil yields realised in 2018 and 2017 were noted to be 17% and 19% respectively higher than the national oil yield average of 3.6 mt and 3.7 mt per hectare over the same period. The Indonesian operations realised an overall oil yield of 3.4 mt (2017: 3.0 mt) per hectare. This was a result of more young areas with start-up yields coming into prime. For the coming year, the Group’s oil yield is expected to improve as the FFB recovery continues and more areas move towards prime age.

REPLANTING AND NEW PLANTING

In 2018, a total of 1,292 hectares (2017: 805 hectares) were replanted in the Malaysian operations. 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. Failure to implement this critical aspect of plantation management will inevitably lead to stagnated yields and decline in 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 pedigree, which have demonstrated early and encouraging yields as well as other favourable phenotypic attributes during the reporting year.

All the plantable land in the Malaysian operations have been planted. There are no further landbank for expansion in the Malaysian operations. Whereas, the Indonesian operations has reached the tail end of the development project, whereby 381 hectares (2017: 906 hectares) were planted during the reporting year.

CAPITAL EXPENDITURE

The Group’s capital expenditure of RM83.55 million (2017: RM90.72 million) consists mainly of its Indonesia development expenditure including the commencement of earthworks for the third palm oil mill and related infrastructure establishment.

On plantation development expenditure, the Group incurred RM29.84 million in the current year compared to RM31.90 million incurred in 2017. The lower spend is due to lesser immature area.

RESEARCH AND DEVELOPMENT

The Group’s Quality, Training and Research Centre (“QTRC”) located in Sandakan with its sub-stations in Sugut and Kutai Timur continued to be testimony that the Group recognises the imperatives of research and development in order to contribute towards sustaining and achieving higher productivity in the longer term and also to implement environmental stewardship in the Group’s upstream practices. While the main focus is directed on oil palm trials for better crop yields, QTRC also provides in-house agronomy and advisory services along with the promotion of integrated pest management (“IPM”). The QTRC sub-stations in Sugut and Kutai Timur regions provide the necessary agro-technical support for the Group’s estates in that region. They also render support to the Group’s various sustainability initiatives including engaging with various project collaborators. In addition, they also engage with visiting stakeholders as well as share technical know-how to smallholders and surrounding communities as part of the Group’s continued out-reach programme.

The Group’s long term oil palm breeding, selection and progeny testing programme will enable it to improve the oil palm planting materials to meet its present and future requirements and ensure better yields and 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 pedigrees. The seed production unit had been accredited with SIRIM’s MS157:2005 certification. Selected mother palms from the genetic blocks located in Sijas Estate had also been certified by SIRIM and were being used for commercial seed production. For the last 14 years, the entire oil palm planting material requirements in the Group’s Malaysian operations and replanting programme, as well as the Group’s permissible requirement in the Indonesian operations; were all planted with IJM DxP planting materials.

Fertiliser recommendations were based on soil and foliar analysis coupled with technical observations from field visits. The recommendations are prepared by the agronomist and the team in QTRC as part of agronomic and technical advisory services for the estates. QTRC staff were also responsible for estate field audits, pest and disease census and reviewing the quality grading of crops received by the palm oil mills. In addition, QTRC also acted as a training centre for many agronomic and plantation management programmes for the Group’s employees.
OUTLOOK

FFB production recovery, post the 2015-2016 El Nino is expected to continue into FY2019. In addition to the reduced crop due to areas removed for replanting, production in the Malaysian operations will face the challenge of harvesting more tall palms against the shortage of labour scenario. However, with more areas attaining prime production age in the Indonesian operations, the Group anticipates an overall increase in FFB production in FY2019. The Group however remains cautious about global markets in the year ahead. Several risk factors from the previous years remain. These include the potential of a United States of America and China trade war, increase in level of protectionism in the form of tariff hikes, potential European ban or phasing out on use of palm oil based biodiesel, revised and new sustainable certification standards by the European Union (“EU”), currency fluctuations against the US Dollar, unexpected changes in weather patterns, movement in crude petroleum prices, ample supply of oilseeds as substitute, and government policies that result in uncertainties on trade continuity and interest rates. All these factors have varying degree of influence on commodity prices. Although the future prospects of the business remain dependent mainly on prices of the palm produce, the demand and supply dynamics of palm-based commodities favours the industry due to demographic progression and arable land availability mentioned earlier.

The Group will work to mitigate the above risks and continue its efforts to manage controllable items that include increasing labour productivity, prudently managing costs escalation, introduction of selective mechanisation, increasing crop yields through BMP and improving processes.

ACKNOWLEDGEMENT

Tan Sri Dato’ Wong See Wah who completes his 12-years tenure as an independent director in August 2018 will be retiring from the Board at the conclusion at this forthcoming AGM to be held on 27 August 2018.

The Group would like to record its sincere appreciation for his invaluable and dedicated services during his tenure of service as an Independent Non-Executive Director and Independent Non-Executive Chairman.

JOSEPH TEK CHOON YEE
Chief Executive Officer & Managing Director