



## Business

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### Plantations (Core Business) Sector Overview



KLK is amongst the largest plantation companies in Malaysia, with a land bank in excess of 250,000 hectares, located in Peninsular Malaysia, Sabah and Indonesia, more specifically Sumatra, Belitung Island, central and east Kalimantan.

In terms of geographical distribution, approximately 28% of the plantation landbank is located in Peninsular Malaysia with 16% in Sabah and 56% in Indonesia.

Oil palm as the predominant crop covers 91% of the planted area with rubber covering 9%.

The oil palm plantations recorded an annual production of approximately 3.3 million metric tonnes fresh fruit bunches for FY12 and is expected to increase rapidly in the years ahead as the vast new plantings in Sabah and Indonesia are progressively brought into harvesting. Further, the age profile of the palms which is currently slightly skewed to the immature and young sector due to the replanting in Malaysia and new planting in Indonesia, will augur well for KLK in the years ahead when the palms fully come into maturity.

KLK's quest to increase productivity is made successful through the implementation of best practices through its Group Agricultural Policy, the use of high quality planting materials and leverage on expert agronomic advice from its highly regarded research and development associate, Applied Agricultural Resources Sdn. Bhd. ("AAR"). AAR not only provides invaluable agronomic services but also high yielding planting materials viz: the AA Hybrida and AA Vitroa raments. AAR's tissue culture laboratory which has the capacity to churn out more than 1 million ramets is ISO 9001:2000 certified. Following the encouraging results of AA Hybrida, a new seed production facility has been set up in Sabah to eventually produce up to 5 million semi clonal AA Hybrida.

Processing of the FFB crop is carried out at KLK's own mills and KLK also operates two refineries which process crude palm oil into RBD palm oil, RBD olien, RBD stearin, and PFAD. Further value is added to the kernels which are crushed by two plants to produce PKO and expellers. The production and engineering department are kept fully employed with the rapid growth in the oil palm plantations and the need to create value through enhancing processing and synergy within the Group and to service the expansion in the Group's downstream activities as there is much focus in synergising the produce, especially the lauric oils, with the Group's oleochemicals businesses.

Being a responsible corporate citizen, KLK is pursuing sustainability via RSPO certification of its CPO production which entails best practices, care of the environment and managing the social aspects. KLK's entire operations in Sabah has been certified in FY2010, making available close to 180,000 mt of certified sustainable palm oil in the market. KLK is committed to full certification of all its operating centers in Malaysia by Year 2013 and in Indonesia by Year 2014.

In addition, KLK's ongoing initiatives in reducing its carbon footprints are made through clean development mechanism ("CDM") projects and green energy projects. CDM projects entail the capture of methane gas from the effluent ponds of palm oil mills which is then used in biogas gensets for electric power generation under green energy projects. The combined effect of these projects reduces greenhouse gases and displaces the use of fossil fuel for power generation.

KLK's rubber plantations, whilst comprising only 9% of total planted area, remain important to KLK's plantation operations. KLK has the largest hectareage for planted rubber amongst the Malaysian listed plantation companies with 8 rubber factories supporting its rubber plantations. The declining rubber area in Peninsular Malaysia in favour of oil palm, has been made up to an extent by the new rubber areas from KLK's plantations in Indonesia thus enabling KLK to maintain a steady yearly production of about 23,000 tonnes of premium SIR/SMR grades and latex concentrate.