Operational Review

Plantation - Malaysia

The year 2012 was characterised by a distinct shift in the palm oil industry landscape that had profound repercussions on Malaysian plantation operators.

Wholesale changes in the Indonesian export duty regime eroded the relative competitiveness of Malaysian palm oil products, shaking up the dynamics of palm oil trading. The subdued global macroeconomic environment did not help matters.

Consequently, the upward trend in Malaysian palm oil exports that the industry had been accustomed to seeing year after year was disrupted in 2012. Palm oil export volumes fell as leading consumers like China and Pakistan scaled down purchases, marking only the second annual contraction in 14 years for the country. The slowdown precipitated a build-up in domestic palm oil inventories, which in turn exerted downward pressure on prices.

Our Group's first Model Estate - Genting Tanah Merah Estate

CPO suffered a surprisingly steep and swift price drop in September to reach a 3-year low. For the rest of 2012, CPO prices remained soft, with the discount against other edible oils at more than double the usual levels.

All in all, the market fluctuations made 2012 a turbulent period for the Malaysian plantation sector. Likewise, our Group was not spared the fallout from the downturn in operating conditions. The Plantation – Malaysia segment registered lower financial results stemming mainly from the weaker palm oil prices and a weather-induced pullback in crop production.

The average selling prices of CPO and palm kernel achieved declined 14% and 30% year-on-year to RM2,794 per metric tonnes and RM1,555 respectively in 2012.

Production of fresh fruit bunches ("FFB") in our Group's Malaysian estates experienced a decrease in 2012 as the spell of El Nino weather that occurred in 2010 had a more severe than expected lagged impact on oil palm yields in the first half of the year, especially in the Sabah region. Although yields recovered in the latter half of the year, it was not sufficient to compensate for the earlier shortfall. As a result, FFB production in the Malaysian estates totalled 1.31 million metric tonnes last year, down 3% from 1.35 million metric tonnes in 2011, while average FFB yield narrowed to 23.0 metric tonnes per hectare from 24.2 metric tonnes per hectare. Total oil palm area in Malaysia stood at 59,623 hectares as at 31 December 2012.

Oil extraction rate improved to 20.77% in 2012 from 20.42% in the previous year on account of more favourable weather conditions and the implementation of efficiency enhancement measures. Kernel extraction rate rose to 5.19% in 2012 from 4.89% a year earlier.

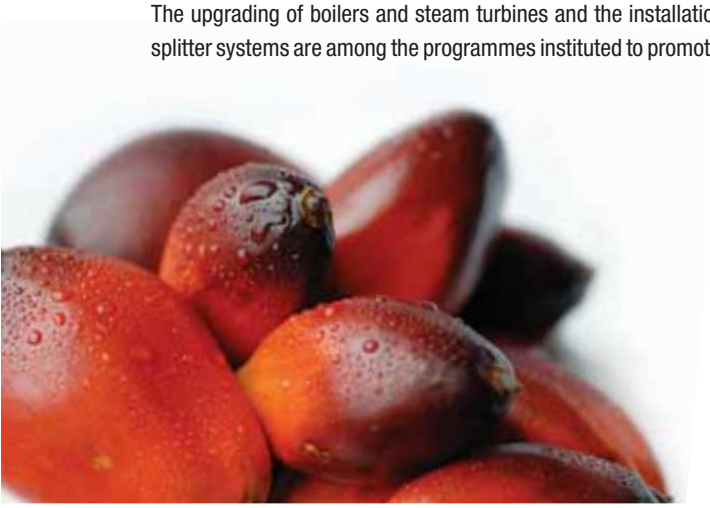
During the year under review, our Group stayed resolute in pursuing productivity and efficiency enhancement across all aspects of plantation operations, carrying through with the roll-out of ongoing programmes and embarking on a range of new initiatives. Such efforts to innovate are taking on added pertinence lately in view of the inflationary cost environment besetting the palm oil industry.

One fundamental part of our Group's drive to boost operating efficiency is the reduction of labour dependence through mechanisation. In 2012, our Group continued to step up mechanisation in the estates, including the use of Cantas motorised cutters for harvesting, Huka bins for crop evacuation, mechanically-assisted collection, buffalo-assisted collection and mechanically-assisted fertiliser application, where suitable.

Notwithstanding this, plantation activities are by and large still labour-intensive. Our Group's workforce requirements are met through a progressive approach to human resources management that ensures remunerations and incentives offered are kept in tune with evolving labour market conditions. Throughout 2012, our Group provided gratuitous additional monthly payments to eligible staff and workers, thus, raising income levels to stay ahead of the government's imposition of the minimum wage policy. Monetary rewards continued to be complemented by the provision of a variety of amenities such as housing and schools to make the operating units more appealing places for workers and their families to work and live.

Meanwhile, best practices that have proven effective over the years in delivering efficiency and productivity improvements were not only upheld but were advanced further in 2012 as implementation was extended to more operating units. More estates obtained the Malaysian Palm Oil Board's ("MPOB") Code of Good Agricultural Practice certification during the year, taking the total number of estates that have been certified in our Group as at the end of 2012 to 15. Concurrently, our Group's internal Model Estate certification exercise, introduced in 2008 to challenge operating units to reach best-in-class performance benchmarks, remained on track. An additional two estates were awarded Model Estate status in 2012 after having fulfilled stringent selection criteria. With that, a total of four estates have attained the in-house certification as at end 2012.

Further underlining our Group's commitment to operational excellence are the innovative projects undertaken on the crop processing front. Our Group's oil mills continued in 2012 to pursue improvements through increased automation and the adoption of new technologies. The upgrading of boilers and steam turbines and the installation of FFB splitter systems are among the programmes instituted to promote greater energy conservation and processing efficiency. Prompt action was also taken in preparation for stricter regulations coming into effect in 2013 to achieve biological oxygen demand of treated palm oil mill effluents at final discharge of no more than 20 miligrams per litre in certain locations in Sabah. Among the steps initiated by our Group's affected oil mills to meet the more stringent standards were the installation of tertiary treatment plants and Geotube desludging systems as well as the use of mixers and aerators.



1. Mechanically-assisted fertiliser application
2. Buffalo-assisted collection is among measures adopted to enhance operating efficiencies
3. Initiatives are implemented to encourage loose fruit recovery towards better productivity

Having already been certified by MPOB for Code of Good Milling Practice and by SIRIM for Environmental Safety and Health Management Systems, all six of our Group's oil mills have also been approved for ISO 9001:2008 Quality Management System certifications by the end of 2012.

All along, our Group's estates and oil mills kept in mind their responsibility to stakeholders. From environment protection to community development, sustainability-oriented initiatives continued to be stepped up at the operating unit level during the year.

Operational Review (cont'd)

Plantation - Indonesia

In Indonesia, significant strides forward were made in 2012 as our Group's expansion thrust continued in earnest.

Growth in crop production gained momentum, with combined output from our Group's estates in Indonesia rising more than three-fold from the previous year to reach approximately 81,300 metric tonnes in 2012 as harvesting areas increased and as more palms reached higher yielding ages.

As a natural extension to the growing upstream estate activities, our Group's first oil mill in Indonesia was commissioned in September 2012 to cater to the increasing crop production, thus marking another significant milestone. Mulia Oil Mill, part of the PT Sepanjang Intisurya Mulia site in Kabupaten Ketapang, Kalimantan Barat, has a processing capacity of 60 metric tones per hour. Since commencing operations, the mill has been achieving respectable oil and kernel extraction rates. To facilitate the despatch and storage of CPO, our Group procured in September 2012 a 1.3-hectare site near the Ketapang port, where plans are being made for the establishment of a complete bulking station along with a regional office complex.

Mulia Oil Mill - commissioned on 3 September 2012

Construction of a second oil mill, located in Kabupaten Kapuas, Kalimantan Tengah, moved forward speedily in 2012 and was close to completion by the end of the year, staying on schedule for the commencement of operations in early 2013.

Landbank expansion also accelerated in 2012. On 8 October 2012, our Group completed the acquisition and subscription of a 63.2% interest in a joint venture in Kabupaten Kapuas and Barito Selatan, Kalimantan Tengah. The JV holds an initial 62,487 hectares under Izin Lokasi, of which 18,408 hectares had been planted with oil palms at the time of the transaction, including 4,390 hectares developed under a Plasma scheme for the benefit of local smallholders. Following this expansionary move, our Group effectively held rights to an aggregate land area of about 163,000 hectares in Kalimantan Barat and Kalimantan Tengah as at 31 December 2012, up from approximately 100,000 hectares as at the end of the previous year.

Delays in securing land at the ground level can often encumber the progress of plantation development. Nevertheless, constant consultation and the nurturing of mutual understanding with the local communities have enabled our Group to maintain a fairly steady pace of development over the years. 2012 was no different as planting activities continued. The addition of planted areas through organic growth as well as through acquisitions lifted our Group's oil palm area in Indonesia to 58,733 hectares as at 31 December 2012 compared with 33,921 hectares as at close of the previous year.

Over the course of 2012, more areas were prepared for oil palm cultivation, with all necessary permits being obtained where required, paving the way for yet more planting to be carried out in 2013.

1. Press station at Mulia Oli Mill
2. Mulia Estate

Amid the growth of our Group's plantation business in Indonesia, engagement with stakeholders is also concurrently being intensified. Part of our Group's commitment to the surrounding communities includes the development of Plasma schemes for local smallholders. In 2012, our Group completed the setting up and handover of the maiden plasma scheme in Kabupaten Ketapang, West Kalimantan to the farmers' cooperative. The project is now being funded by a local bank while our Group continues to provide plantation management and administration services. A second scheme in the area is at an advanced stage of establishment and is pending approval from the Regency authorities. Consultative meetings held on a regular basis not only help strengthen the goodwill between our Group and the farmers, but also serve as an effective platform for our Group to impart to the farmers technical knowledge on oil palm cultivation and to render the required administrative support.

For the wellbeing and comfort of workers and their families, permanent housing along with utilities and other amenities are being built and enhanced in tandem with the progress of our Group's various development projects.

Property

The Malaysian housing and property market demonstrated resilience in 2012 as demand from domestic buyers remained steady. Yet, 2012 was also a year that saw developers confronting challenges in the form of escalating building material prices and tighter bank lending criteria, with prospective borrowers being assessed based on their net income instead of gross income.

Against this backdrop, the Property Division performed positively, registering significant increases in revenue and EBITDA to RM152.0 million and RM33.0 million, up from RM136.5 million and RM22.1 million a year earlier.

Genting Indahpura
1. Double-storey terrace houses, Diamond III
2. Double-storey shop offices (artist impression)
3. Single-storey terrace houses, Ledang III

Genting Indahpura, our Group's flagship development in Kulaijaya, Johor, emerged once again as the top contributor. Strategically-sited within the Iskandar Malaysia region, Genting Indahpura generated RM150.9 million worth of sales from the sale of residential, commercial and industrial properties.

Genting Pura Kencana in Sri Gading, Batu Pahat, Johor, was the second largest contributor, achieving sales of RM49.1 million in 2012. New double-storey shop houses that were launched were well-received, making up some 56% of Genting Pura Kencana's total sales in 2012. During the year, work on the clubhouse, which serves as an amenity to residents and investors alike, also commenced.

Genting Pura Kencana
1. Clubhouse (artist impression)
2. Single-storey terrace houses (artist impression)

At the Genting Permaipura development in Kedah, sales amounting to RM0.3 million were recorded amid ongoing efforts to clear the inventory of bungalow lots. Elsewhere, Genting Cheng Perdana obtained RM1.0 million in sales from its remaining inventory.

Johor Premium Outlets celebrated its first anniversary of operations on 11 December 2012 with a momentous announcement of plans for a second phase. Scheduled to be opened to the public in the fourth quarter of 2013, Phase II will add more brand names to the current roster, cementing Johor Premium Outlets' positioning as the shopping haven for savvy shoppers and visitors in the region.

Johor Premium Outlets

Operational Review (cont'd)

Biotechnology

ACGT Sdn Bhd ("ACGT") is a biotechnology company committed to be a world-class genomic centre of excellence. Using genomics-based technologies, ACGT aims to develop solutions to help increase the productivity and enhance value creation from oil palm, jatropha and other crops.

ACGT's pioneering approach was recognised in 2006 by Malaysian Biotechnology Corporation Sdn Bhd (Biotech Corp), which accorded ACGT with the BioNexus status.

In 2012, ACGT continued to make progress in its research and commercialisation programmes. To expedite research in core product development, ACGT expanded its DNA sequencing and bioinformatics capabilities. The ACGT Next Generation Laboratory ("ANGeL") was thus established, and the lab currently has a daily throughput of more than 51 Gbps. ANGeL is equipped with first and second, or next, generation sequencers for complementary sequencing technology. The high throughput capability of the Next Generation Sequencers ("NGS") has expedited progress in several of ACGT's key research projects, especially in the development of biomarkers associated with traits of interest.

In addition, ANGeL is fully supported by bioinformatics analytical expertise and information technology ("IT") infrastructure to ensure the data analysis pipeline is seamless and well integrated.

ACGT is making good progress in developing products intended to rapidly screen and identify pathogenic Ganoderma in the field, bio-control agents that are antagonistic to Ganoderma, and bio-fertilisers with specific formulations, catering to wide planting needs. Potentially useful microbes are being tested both in the nursery and field.

A key milestone was reached on 3 December 2012 as a research collaboration was inked between ACGT and DuPont, a world leader in market-driven innovation and science, with expertise spanning 200 years in diverse industries covering more than 90 countries.

R&D activities at ACGT Laboratories

DuPont and ACGT signed the Master Research Collaboration Agreement which aims to work towards improving oil palm yields

This research collaboration offers a technological advantage for ACGT, granting ACGT access to specific DuPont crop yield innovations that will apply to marker-assisted selection (MAS) in crops of interest. Such technology has the potential to shorten product development time and lowers ACGT's research and development costs. As part of the transfer-of-technology intent, ACGT scientists received training from DuPont Pioneer in December 2012 at the DuPont Pioneer Global Marker Technologies Laboratory in Waimea, Hawaii, USA.

Meanwhile, Genting Green Tech Sdn Bhd ("GGT"), another subsidiary of Genting Plantations, is developing superior oil palm planting materials using biomarkers in its breeding programme. In 2012, GGT continued to expand its germplasm collection by establishing three trials consisting of dura and pisifera materials at its research station in Tangkak. These germplasm materials were acquired from Malaysian Palm Oil Board (MPOB).

Yield recording was initiated in June 2012 for the first breeding trial that was established in April 2010. More trials, including those established at its research station in Sandakan, are scheduled for harvesting and yield recording in 2013. Elite palms from these trials will be selected and used for future seed production.

The Department of Agriculture Sabah-GGT collaboration on the Joint Marker Assisted Oil Palm Breeding Programme is progressing well. Under this partnership, GGT participated in Perayaan Hari Peladang, Penternak dan Nelayan 2012, highlighting its breeding programme in a poster exhibit. This event was held from 14-18 November at Tapak Pemasaran KPD, Tanjung Lipat in Kota Kinabalu.

GGT was also involved in the Ulu Dusun Agriculture Research Station Open Day 2012 and 50th Anniversary Celebration event, which was held at Ulu Dusun, Sandakan from 22-24 November. Visitors to GGT's booth included Sabah Chief Minister Datuk Seri Panglima Musa Haji Aman, Deputy Chief Minister cum Minister of Agriculture and Food Production Datuk Seri Panglima Haji Yahya Hussin, State Agriculture Department Director Datuk M.C. Ismail Salam and Agriculture Department Deputy Director (Research) Julia Hj. Lamdin. GGT scientists at the event engaged with industry representatives, university students and other visitors, highlighting GGT's capability in marker-assisted breeding.