CHAIRMAN'S STATEMENT

Manufacturing segment's profit, predominantly from the Oleochemical division, was a tad higher at RM385.6 million compared to RM381.1 million in FY2018 (despite a 13% decrease in revenue to RM8.763 billion) owing to lower prices of raw materials. The Oleochemical division brought in RM376.3 million in profits (FY2018 : RM371.4 million). Our European basic oleo plants fared poorly but fortunately the Malaysian and China operations were able to cushion Europe's weaker results.

Our Property business generated pre-tax profit of RM47.4 million, improving 25% from FY2018, despite the overall depressed environment. However, Bandar Seri Coalfields' recent phased launches of bungalows, semi-detached and superlink homes were well received.

SUSTAINABILITY MATTERS

We remain fully committed to strictly uphold our pledge of NDPE (No Deforestation, No Peatland and No Exploitation). We also adopted, as a Group policy, the integrated High Carbon Stock Approach ("HCSA") and High Conservation Value ("HCV") assessments to determine eligible potential new planting areas.

All our estates in Malaysia have been certified under the Principles and Criteria ("P&C") of Roundtable on Sustainable Palm Oil ("RSPO") and the Malaysian Sustainable Palm Oil ("MSPO") standard. In the case of Indonesia, more than 80% of the estates have been certified under the Indonesian Sustainable Palm Oil ("ISPO") standard and RSPO P&C, with the balance target for certification by 2021.

As for our milling operations, all of the palm oil mills in Malaysia have been certified under the RSPO P&C and the MSPO standard. For Indonesia, 11 out of 12 palm oil mills (92%) have been certified under the ISPO standard and RSPO P&C, with the target of full compliance within the coming year.

We have been practising a zero-burning policy for new plantings and replantings since mid-1990s but despite this, some minor fires broke out in our Indonesian estates in the course of this year's severe drought. Our Indonesian estates are equipped with firefighting equipment, satellite hotspot warning system, fire watch towers, drones and emergency response system to monitor any fire outbreaks within our areas and proximity. Our employees have maintained a close liaison with the local authorities to prevent such hotspots.

DIVIDEND REINVESTMENT PLAN

Pursuant to the Dividend Reinvestment Plan ("DRP") approved by the shareholders on 13 February 2018, shareholders will have the option of electing to participate in the DRP at a 7% discount for the KLK shares or to elect for cash, in full or in part in relation to the final dividend of 35 sen.

The Board feels that this will benefit shareholders who elect to invest for the future, whilst our financial gearing will improve correspondingly.

OUTLOOK

It is a huge relief that the palm prices have rebounded from their low levels from the last FY to a high of above RM2,800/mt for CPO as production costs have risen over the years quite substantially. Our priority remains geared towards the twin objectives of increasing both yields and labour productivity. Progress has been made, albeit slowly but we envisage that our continuing efforts will bear fruit in coming years.

Malaysia and Indonesia have been setting higher biodiesel mandate policies to stabilise palm oil prices. These proactive moves have generated a huge internal demand and together with the anticipated slower growth in supply, have been instrumental for well supported palm prices.

Our Oleochemical operations, despite the current higher feedstock prices and uncertain market environment, should continue to perform satisfactorily through operational efficiencies and our higher margin products.

APPRECIATION

On behalf of the Board, I would like to express our sincere thanks to our employees for their dedication, commitment, flexibility and living the KLK core values of THRIIL (Team Spirit, Humility, Result-Oriented Performance, Integrity, Innovation and Loyalty) as we continually adapt to the challenging business environment.

I would like to thank all our shareholders, partners and all stakeholders for their confidence, trust and on-going support. To my colleagues on the Board, many thanks for their deliberations and wise counsel.

Note: Comparative figures have been restated to reflect the financial impact on transition from Financial Reporting Standards ("FRS") framework to Malaysian Financial Reporting Standards ("MFRS") framework.

KENYATAAN PENGERUSI

Bekalan bahan mentah yang mencukupi dengan permintaan yang lemah menyaksikan harga produk sawit terus merudum sepanjang Tahun Kewangan ("TK") 2019. Di sebalik cabaran sebegini, Kumpulan berupaya mencatat keuntungan bersih sebanyak RM617.5 juta (TK2018 : RM609.4 juta) yang menghasilkan pendapatan sesyer sebanyak 58 sen.

R.M. ALIAS, *Chairman*

Lembaga Pengarah telah mengumumkan dividen akhir tahap tunggal sebanyak 35 sen sesyer, yang mana dicampur dengan dividen interim yang telah dibayar terlebih dahulu menjadikan jumlah dividen bagi tahun ini sebanyak 50 sen. Pembayaran dividen yang tinggi ini mewakili 86% daripada keuntungan bersih tahun ini (TK2018 : 79%).

PRESTASI

Keuntungan sebelum cukai Kumpulan sebanyak RM823.9 juta adalah 17% lebih rendah daripada TK sebelumnya (TK2018 : RM988.8 juta) dengan penurunan dalam hasil sebanyak 16% pada RM15.534 bilion (TK2018 : RM18.384 bilion). Prestasi keseluruhan yang lebih merosot ini adalah terutamanya disebabkan harga jualan yang lebih rendah bagi produk-produk sawit kami dan rosot nilai ladang Butaw di Liberia sebanyak RM145.3 juta. Keuntungan bersih bagi TK2019 adalah stagnan dengan catatan RM617.5 juta (TK2018 : RM609.4 juta).

Segmen Perladangan kami terjejas teruk oleh harga jualan purata lebih rendah yang dicatatkan, menyumbang hanya RM394.6 juta kepada keuntungan sebelum cukai berbanding RM826.1 juta tahun sebelumnya. Kos pengeluaran bagi minyak sawit mentah juga meningkat kepada RM1,456/mt (TK2018 : 1,370/mt) dengan kenaikan upah dan hasil yang lembap, walaupun peningkatan keseluruhan 5% dalam pengeluaran buah tandan segar kepada 4.1 juta tan metrik. Walau bagaimanapun, sumbangan positif sebanyak RM55.6 juta daripada operasi penapisan sawit dan perdagangan (TK2018 : Kerugian sebanyak RM34.4 juta) berjaya mengurangkan tekanan harga komoditi.

Keuntungan segmen Perkilangan, terutamanya daripada bahagian Oleokimia, adalah lebih tinggi sedikit iaitu sebanyak RM385.6 juta berbanding RM381.1 juta dalam TK2018, walaupun hasil berkurang 13% kepada RM8.763 bilion disebabkan oleh harga bahan mentah yang lebih rendah. Bahagian Oleokimia menyumbang keuntungan sebanyak RM376.3 juta (TK2018 : RM371.4 juta). Loji oleo asas kami di Eropah mencatat prestasi lemah namun begitu operasi Malaysia dan China berupaya mengurangkan kesan daripada keputusan operasi Eropah tersebut.

Peniagaan Hartanah kami menjana keuntungan sebelum cukai sebanyak RM47.4 juta, bertambah baik sebanyak 25% berbanding TK2018, walaupun dalam persekitaran lebihan bekalan. Para pelanggan menerima baik rumah banglo, rumah berkembar dan rumah berangkai luas di Bandar Seri Coalfields yang kami lancarkan secara berperingkat.

KEPENTINGAN KEMAMPANAN

Kami kekal komited serta mendukung ikrar Tiada Pembasmian Hutan, Tiada Tanah Gambut dan Tiada Eksploitasi (NDPE). Kami juga menerima pakai, sebagai dasar Kumpulan, Pendekatan Bekalan Karbon Tinggi (HCSA) dan Nilai Pemuliharaan Tinggi (HCV) untuk menentukan kawasan-kawasan yang berpotensi untuk penanaman baharu.

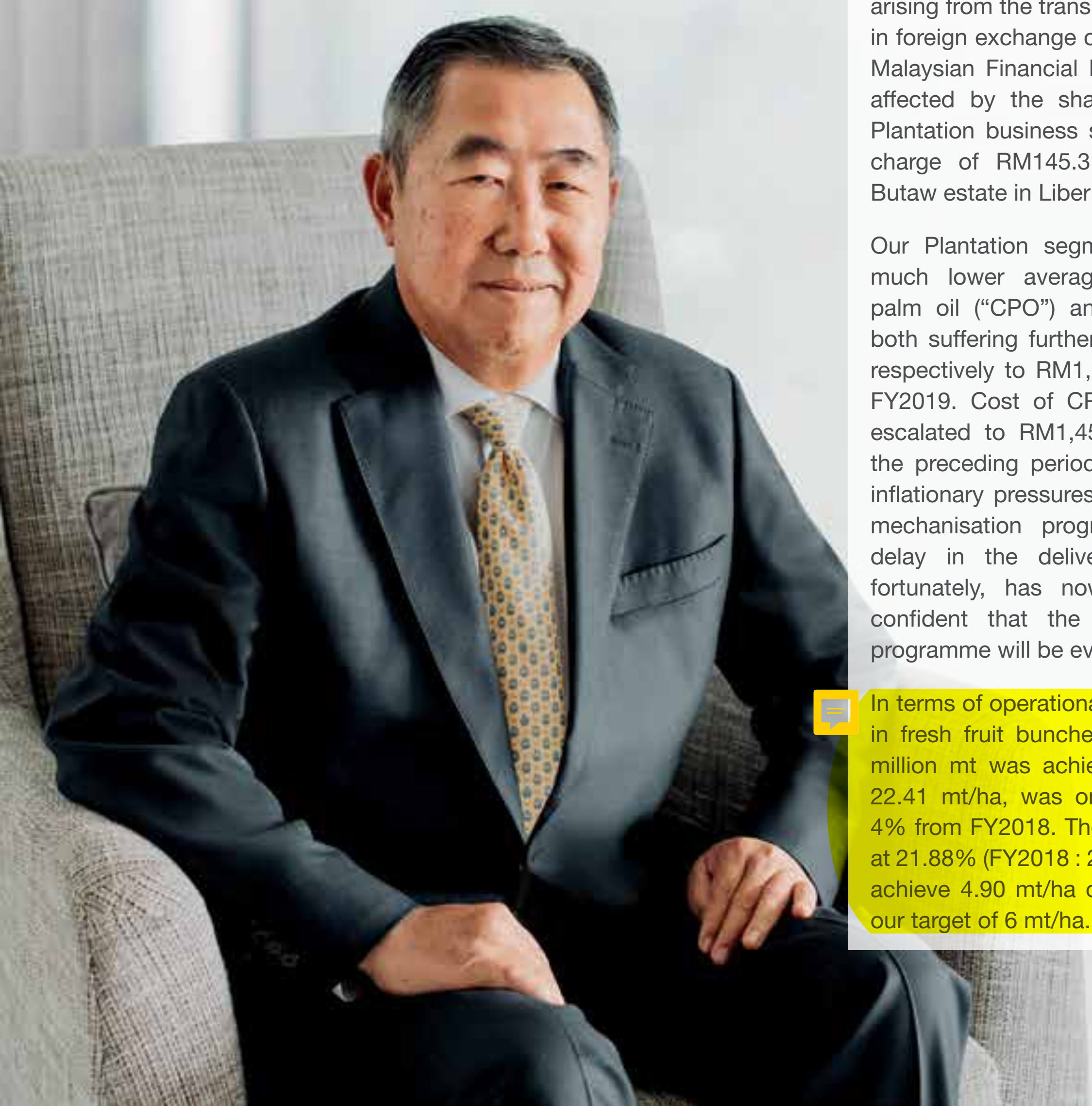
Semua ladang kami di Malaysia menerima pensijilan kemampanan mengikut piawaian prinsip dan kriteria (P&C) Meja Bulat mengenai Minyak Sawit Mampan (RSPO) dan Minyak Sawit Mampan Malaysia (MSPO). Di Indonesia, lebih daripada 80% ladang kami menerima pensijilan kemampanan piawaian Minyak Sawit Mampan Indonesia (ISPO) dan RSPO P&C. Kami menyasarkan pensijilan untuk ladang kami yang selebihnya di negara tersebut menjelang tahun 2021.

Bagi operasi perkilangan kelapa sawit kami pula, semua kilang minyak sawit di Malaysia telah menerima pensijilan dalam kategori RSPO P&C dan piawaian MSPO. Di Indonesia, 11 daripada 12 kilang minyak sawit kami (92%) menerima pensijilan piawaian ISPO dan RSPO P&C, dengan sasaran pematuhan penuh dalam tahun akan datang.

MANAGEMENT DISCUSSION & ANALYSIS

The spillover effect of the challenging operating environment in the financial year ("FY") 2018 continued to set the tone for our operations during FY2019. As a consequence, we could only record another dismal performance with a net profit of RM617.5 million (FY2018 : RM609.4 million).

TAN SRI DATO' SERI LEE OI HIAN, *Chief Executive Officer*



OVERVIEW

The unresolved trade negotiations between the United States and China, discriminatory policies and protectionism tariffs on palm products together with ample supply of oilseeds continued to exert downward pressure on prices. Our net profit in FY2019 remained stagnant at RM617.5 million (FY2018 : RM609.4 million after accounting for the huge foreign exchange loss of RM262.3 million arising from the translation of inter-company loans in foreign exchange currencies on the adoption of Malaysian Financial Reporting Standards) mainly affected by the sharp decline in profit of our Plantation business segment and an impairment charge of RM145.3 million in respect of our Butaw estate in Liberia.

Our Plantation segment was badly hit by the much lower average selling prices of crude palm oil ("CPO") and palm kernel ("PK"), with both suffering further declines of 18% and 38% respectively to RM1,924/mt and RM1,210/mt for FY2019. Cost of CPO production (ex-mill) also escalated to RM1,456/mt, a 6% increase from the preceding period, due to higher wages and inflationary pressures. The implementation of our mechanisation programme was hampered by delay in the delivery of machineries, which fortunately, has now been resolved. We are confident that the gains achieved from this programme will be evident in FY2020.

In terms of operational efficiency, a new milestone in fresh fruit bunches ("FFB") production of 4.1 million mt was achieved, although FFB yield at 22.41 mt/ha, was only a marginal increment of 4% from FY2018. The stagnant oil extraction rate at 21.88% (FY2018 : 21.79%) meant we could only achieve 4.90 mt/ha of CPO, still some way from our target of 6 mt/ha.

MANAGEMENT DISCUSSION & ANALYSIS

Grabber for platform collection

With reference to our Liberian plantation operations, High Carbon Stock Approach and High Conversation Value assessments have resulted in insufficient plantable area in Butaw estate, making it uneconomic. As such, we have ceased operations thereat and impaired the assets by RM145.3 million. We will continue to improve the operations of our other Liberian concession in Palm Bay to ensure its viability.

On the upside, the relatively low raw material prices gave some comfort to our Oleochemical division, which recorded a modest profit of RM376.3 million (FY2018 : RM371.4 million). This was despite the pressure on margins, especially in our European markets, in the wake of competitive pricing from producers in Indonesia due to their EU Generalised System of Preferences ("GSP") status.

For the Property Development segment, profit was up by 25% with recognition of profits from products with higher margins such as the superlink and semi-detached homes of Hemingway Residences.

OUTLOOK AND STRATEGIES

Prices of CPO have since improved significantly with the expectation of shrinking supply in the wake of the ambitious biodiesel programmes roll-out by Indonesia (B30) and Malaysia (B20) and anticipated lower FFB production. These factors gave support to the current high price levels.

Operational efficiencies will continue to be our main focus to drive performance. As mentioned earlier, our efforts in the Plantation segment to mechanise most of our estates have yet to produce the desired results in improving productivity. The delay in equipment and machineries delivery has since been resolved, and we will monitor the full impact on productivity of the mechanisation programme.

We will continue to monitor strictly our standards of replants to achieve our FFB yield target of 20 mt/ha in the first year of harvesting. We are hopeful that in FY2020 we would be able to see these efforts come to fruition as initial yields in some of the areas planted in FY2015 have produced more than 20mt/ha. A total of 14,000 ha (or 7% of planted area) is targeted for replanting in FY2020.

The recent rebound of palm products prices may pose a challenge for the Oleochemical division, as there may be further margin squeeze in view of overcapacity and preferential EU duty exemption to Indonesian players. Management will need to ensure operational efficiencies are well sustained, as more capacities come onboard during the coming FY.

Our palms with promising yield

MANAGEMENT DISCUSSION & ANALYSIS

PRE-TAX PROFIT

The Group's pre-tax profit of RM823.9 million decreased 17% from the previous year (FY2018 : RM988.8 million) mainly due to the Plantation segment and RM145.3 million impairment of the Butaw estate, mitigated by a foreign exchange gain of RM55.1 million (FY2018 : Loss of RM262.3 million).

Plantation

Our Plantation segment's profit was substantially reduced to RM394.6 million (FY2018 : RM826.1 million) despite a 4% increase in FFB production to 4.1 million mt and the positive contribution from processing and trading operations of RM55.6 million (FY2018 : Loss of RM34.4 million). The main reasons are as follows:

- Much lower realised average selling prices for the following palm products:

Palm Product	FY2019	FY2018	% Change
CPO (RM/mt ex-mill)	1,924	2,335	(18)
PK (RM/mt ex-mill)	1,210	1,967	(38)

- Increase in cost of production by 6% to RM1,456/mt arising from higher wages and inflationary pressures.

Manufacturing

The Manufacturing segment profit improved marginally to RM385.6 million (FY2018 : RM381.1 million), with its Oleochemical division contributing RM376.3 million (FY2018 : RM371.4 million).

Lower feedstock prices did bring about more demand for oleochemical products but margins were under severe pressure from co-producers who were willing to sacrifice margins to maintain volume. Our Malaysian and China operations performed well helping to offset the lower results of the European operations, which were affected by higher logistics cost and suppressed margins.

In Europe, the low water-level of the River Rhine resulted in a situation where raw materials had to be delivered via road tankers or trucks, a less efficient transportation mode compared to barges. Incoming shipments also had to be stored externally at Rotterdam, further adding to costs.

Property Development

The Property Development segment saw a jump of 25% in profit to RM47.4 million (FY2018 : RM37.8 million) due to recognition of higher-margin products in North Haven, Bandar Seri Coalfields. These include the Hemingway Residences comprising superlink and semi-detached homes.

Others

The farming activities in Australia improved substantially in FY2019, with a profit of RM27.5 million (FY2018 : RM3.3 million) owing to increase in crop production with favourable yields and bigger cropped area.

Corporate

In this segment, the following gains and loss were accounted for:

- foreign currency exchange gain of RM55.1 million (FY2018 : Loss of RM262.3 million) arising from translation of inter-company loans denominated in foreign currencies.
- surplus of RM91.2 million from government acquisition of plantation land, mainly in our Tuan Mee estate.
- an impairment of RM145.3 million on the Butaw estate in Liberia.

CAPITAL EXPENDITURE

The Group spent RM644.6 million for capital expenditure in FY2019 (FY2018 : RM602.1 million) where 78% was for Plantation activities such as replanting, new capital projects (upgrading, expansion of palm oil mills and kernel crushing plant) and other capital items.

BORROWINGS

During FY2019, the Company issued a RM2 billion *Sukuk Wakalah* Islamic Medium Term Notes Programme *("Sukuk Wakalah")* comprising:-

(i) RM1 billion *Sukuk Wakalah* with 3.75% per annum for 10 years tenure tranche; and
(ii) RM1.0 billion *Sukuk Wakalah* with 3.95% per annum for 15 years tenure tranche.

The proceeds of the *Sukuk Wakalah* will be utilised for the Group's future Syariah-compliant acquisitions, investment, capital expenditure, working capital requirements and to refinance the existing borrowings.

As at 30 September 2019, the issuance of the *Sukuk Wakalah* had no impact to the net debt-to-equity ratio as its proceeds have yet to be utilised.

DIVIDENDS

The Board has declared a final single tier dividend of 35 sen per share, making a total of 50 sen for FY2019 for a net pay-out ratio of 86% (FY2018 : 79%).

The Dividend Reinvestment Plan ("DRP"), approved by shareholders on 13 February 2018, will be applied to the entire final single tier dividend where shareholders have the flexibility to either receive cash in full or partially. The issue price of the new shares to be issued pursuant to the DRP will be based on a 5-day volume weighted average market price with a discount of 7% to the theoretical ex-dividend price.

MANAGEMENT DISCUSSION & ANALYSIS

Nursery at Ladang Sungai Silabukan, Lahad Datu, Sabah, Malaysia

Plantation is KLK's core business activity with 275,000 ha plantation landbank spread across Malaysia (Peninsula and Sabah), Indonesia (Belitung Island, Sumatra, Central and East Kalimantan) and Liberia.

Planted areas amount to 224,454 ha, whereby 95% is planted with oil palm. In terms of geographical distribution, 54% of the oil palm planted area is located in Indonesia, 43% in Malaysia and 3% in Liberia. Rubber which makes up the balance of 5% of the planted area is located only in Peninsular Malaysia.

Processing of crop, i.e. fresh fruit bunches ("FFB") is carried out at 25 of KLK's own palm oil mills of various capacities ranging from 20 mt/hour FFB to 120 mt/hour FFB (depending on size of the supplying estates). We also operate four (4) refineries which process crude palm oil ("CPO") into refined bleached deodorised ("RBD") palm oil, RBD olein, RBD stearin and palm fatty acid distillate.

Further value is derived from palm kernels ("PK") which are crushed by four (4) plants to produce crude palm kernel oil ("CPKO") and expellers.

Biogas power plant is another value-add improvement that the Plantation segment has invested in to reduce methane gas emissions. We currently have six (6) power generating biogas plants in our palm oil mills.

KLK's rubber business, although only constituting 5% of total planted area, remains an alternative crop diversification to the Plantation operations. KLK continues to maintain a strong position in the latex concentrate market due to our long-established EXCELTEX® brand name.

MANAGEMENT DISCUSSION & ANALYSIS

TOTAL PLANTED AREA
224,454 HA

Oil Palm
95%

Malaysia
91,609 HA

Indonesia
115,298 HA

Rubber
5%

Malaysia
11,077 HA

PRODUCTION FACILITIES & CAPACITY

FACILITY

Palm Oil Mills
25

Refineries
4

Kernel Crushing Plants
4

CAPACITY

from
20 to 120 FFB mt/hr

Physical
3,400 CPO mt/day

2,000 PK mt/day

Biogas Power Plants
6

Total Installed Power
16mw (Electricity)

Certified Sustainable Palm Oil
707,383 mt
(70% of total production of CPO)

Certified Sustainable Palm Kernel
145,332 mt
(74% of total production of palm kernels)

MANAGEMENT DISCUSSION & ANALYSIS

Unloading of FFB at Tuan Mee Palm Oil Mill, Selangor, Malaysia

SEGMENTAL FINANCIAL PERFORMANCE

The profits of our Plantation segment were adversely affected by the much lower palm products prices registered during the FY. The segment only managed to register a disappointing profit of RM394.6 million, a 52% plummet from last FY (FY2018 : RM826.1 million). The increase in cost of production to RM1,456/mt (FY2018 : RM1,370/mt) arising from higher wages also put further pressure on the segment's profitability.

Our average selling price ("ASP") of CPO for every Quarter during the FY were below the RM2,000 mark and we were only able to realise an ASP of RM1,924/mt for the year, a decrease of 18% from FY2018.

ASP	1QFY2019 (RM/mt ex-mill)	2QFY2019 (RM/mt ex-mill)	3QFY2019 (RM/mt ex-mill)	4QFY2019 (RM/mt ex-mill)	FY2019 (RM/mt ex-mill)
CPO	1,840	1,969	1,973	1,920	1,924
PK	1,375	1,301	1,085	1,070	1,210

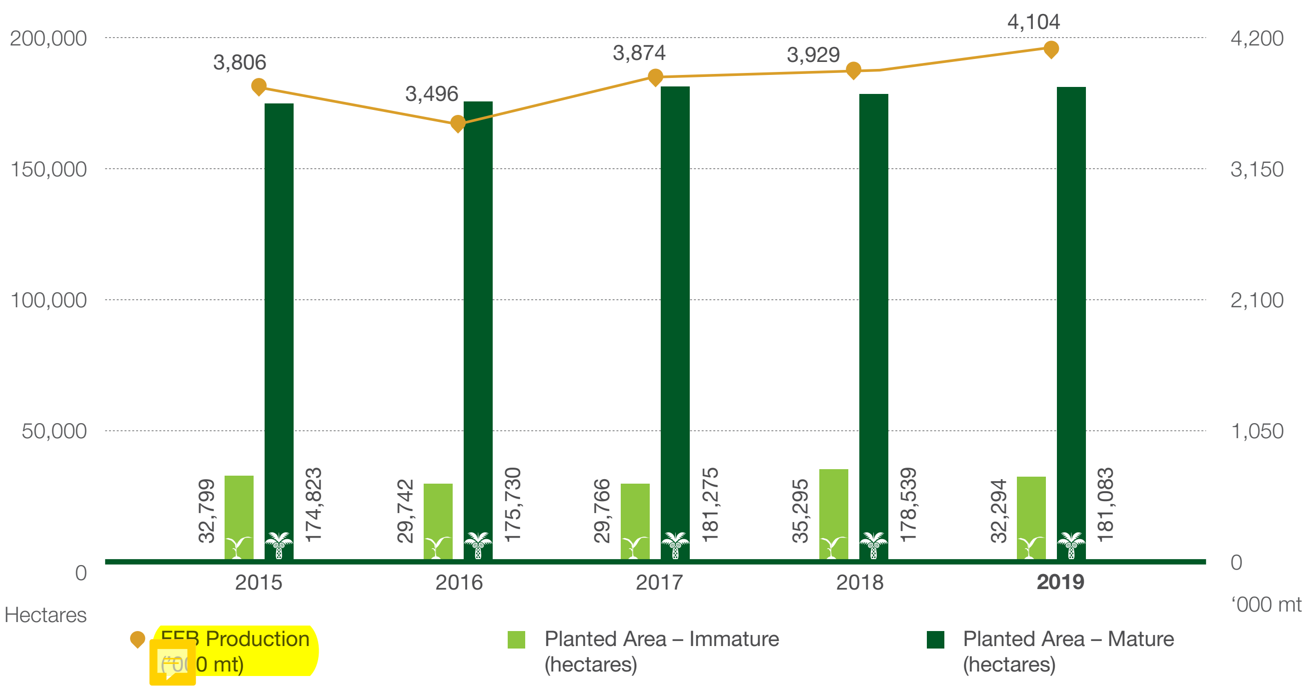
The much lower realised prices affected our estate operations' profits although there was a 4% improvement in FFB production to 4.1 million mt. Operations profits declined 58% to RM375.8 million, a far cry from the RM898.3 million recorded in FY2018. Palm products accounted for the entire profits, with a corresponding average profit per matured hectare at RM1,912/ha (FY2018 : RM4,769/ha).

Our processing and trading businesses benefited from the lower feedstock prices and contributed RM55.6 million in FY2019, recovering from its loss of RM34.4 million in FY2018.

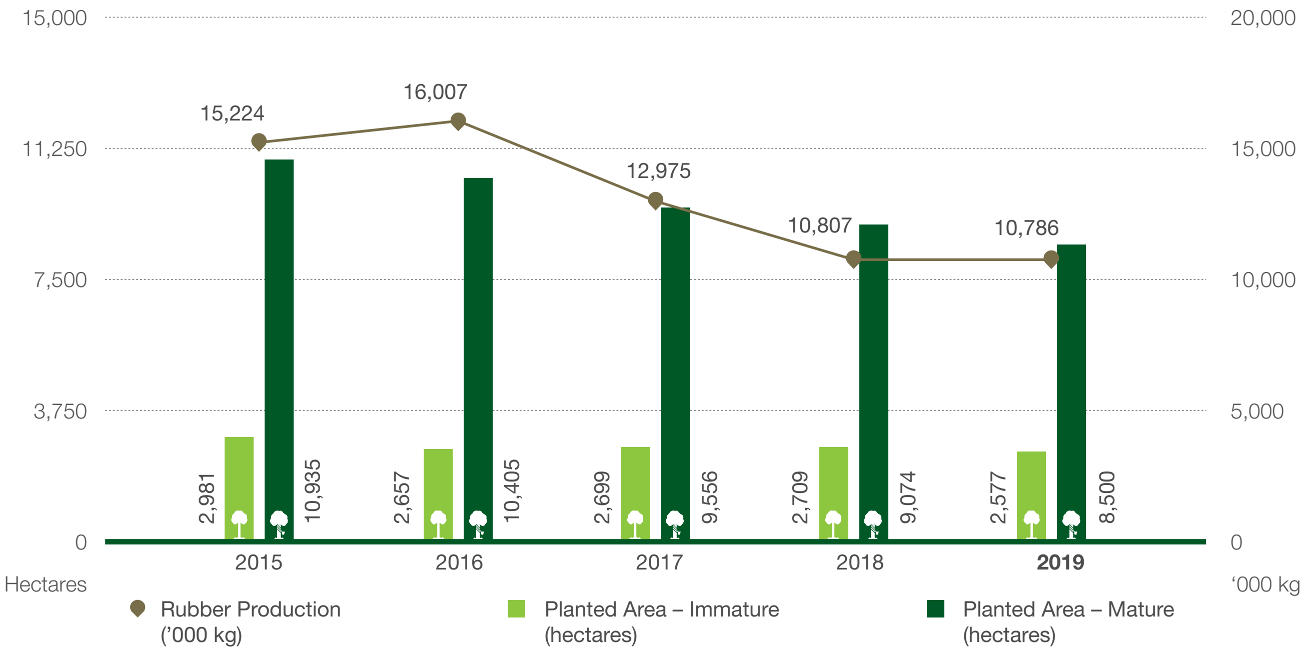
Rubber operations on the other hand, only managed to break-even as price of rubber dropped 11% to RM7.13/kg (FY2018 : RM8.03/kg).

MANAGEMENT DISCUSSION & ANALYSIS

OIL PALM PLANTED AREA/FFB PRODUCTION



RUBBER PLANTED AREA/RUBBER PRODUCTION



MANAGEMENT DISCUSSION & ANALYSIS

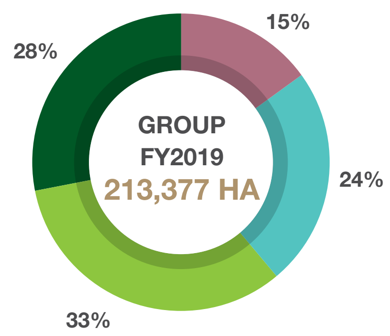
5-YEAR PLANTATION STATISTICS

		2019	2018	2017	2016	2015
OIL PALM						
FFB Production						
- Own estates	(mt)	**4,103,861**	3,928,616	3,873,805	3,495,931	3,806,043
- Sold	(mt)	**142,960**	139,455	85,964	58,461	36,373
- Purchased	(mt)	**716,642**	800,014	791,128	715,644	886,918
- Total processed	(mt)	**4,677,543**	4,589,175	4,578,969	4,153,114	4,656,588
Weighted Average Hectarage						
- Mature	(ha)	**183,108**	181,559	181,139	176,391	173,313
- Immature	(ha)	**41,308**	41,996	33,686	35,183	35,936
Total planted area	(ha)	**224,416**	223,555	214,825	211,574	209,249
FFB yield per mature hectare	(mt/ha)	**22.41**	21.64	21.39	19.82	21.96
CPO yield per mature hectare	(mt/ha)	**4.90**	4.72	4.64	4.42	4.91
Mill Production						
- CPO	(mt)	**1,023,484**	999,981	992,524	925,421	1,040,171
- PK	(mt)	**197,147**	200,576	199,157	187,986	217,310
Oil Extraction Rate						
- CPO	(%)	**21.88**	21.79	21.68	22.28	22.34
- PK	(%)	**4.21**	4.37	4.35	4.53	4.67
Cost of Production						
- FFB	(RM/mt ex-estate)	**260**	244	240	244	222
- CPO (exclude windfall profit levy and Sabah sales tax)	(RM/mt ex-mill)	**1,456**	1,370	1,389	1,381	1,268
Average Selling Prices						
- CPO	(RM/mt ex-mill)	**1,924**	2,335	2,735	2,270	2,106
- PK	(RM/mt ex-mill)	**1,210**	1,967	2,534	1,881	1,424
Average profit per mature hectare	(RM)	**1,912**	4,769	6,815	4,014	4,381
RUBBER						
Production						
- Own estates	('000 kg)	**10,786**	10,807	12,975	16,007	15,224
Weighted Average Hectarage						
- Mature	(ha)	**8,640**	9,047	9,746	10,305	10,777
- Immature	(ha)	**3,243**	3,367	3,309	3,364	3,500
Total planted area	(ha)	**11,883**	12,414	13,055	13,669	14,277
Yield per mature hectare	(kg/ha)	**1,248**	1,194	1,331	1,553	1,413
Cost of Production	(sen/kg ex-estate)	**484**	467	420	382	409
Average Selling Prices (net of cess)	(sen/kg)	**713**	803	895	667	681
Average (loss)/profit per mature hectare	(RM)	**(233)**	(868)	3,256	974	404

MANAGEMENT DISCUSSION & ANALYSIS

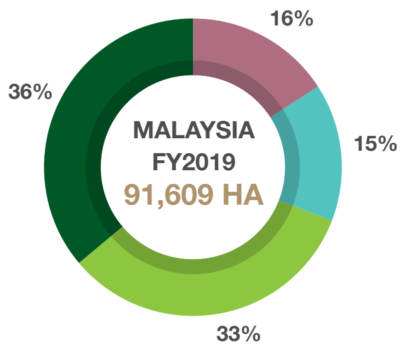
OPERATIONAL PERFORMANCE

AGE PROFILE OF PALMS



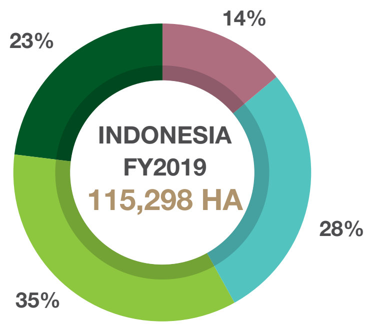
Immature	32,294 HA	**15%**
4-9 years	51,914 HA	**24%**
10-18 years	71,193 HA	**33%**
19 years & above	57,976 HA	**28%**

Weighted Average Age of Palms
12.4 years



Immature	14,769 HA	**16%**
4-9 years	13,938 HA	**15%**
10-18 years	30,512 HA	**33%**
19 years & above	32,390 HA	**36%**

Weighted Average Age of Palms
13.9 years



Immature	16,211 HA	**14%**
4-9 years	32,820 HA	**28%**
10-18 years	40,681 HA	**35%**
19 years & above	25,586 HA	**23%**

Weighted Average Age of Palms
11.6 years

OIL PALM

FFB Production & Yields

The Group's overall crop production improved marginally by 4% from FY2018 to reach 4.1 million mt. Intermittent shortage of labour and operational holdups were the main attributors to the less than stellar performance in production.

Indonesian operations constituted 56% of the Group's total production and recorded an annual growth of only 6% in FY2019. Our Sabah operations are still in the negative growth period due to the continuing progressive replanting programme, especially in the Lahad Datu region.

The FFB yield per hectare also improved by 4% to 22.41 mt/ha (FY2018 : 21.64 mt/ha).

Age Profile of Palms

The age profile of our palms is favourable with young and prime palms accounting for 57% of our planted area, with another 15% of immature palms.

The weighted average Group age of 12.4 years old.

Oil Extraction Rates ("OER")

The OER was just a tad higher at 21.88%, producing 4.90 mt/ha of CPO for FY2019. At this level, we remain far from our 6 mt/ha of CPO target. With the introduction of mechanisation to improve harvesting efficiencies, we hope to see better OER in the future as we continue to close identified gaps.

Costs

As a result of the marginal improvement in the yields and increased labour wages, both the Group's FFB and CPO cost escalated to RM260/mt ex-estate and RM1,456/mt ex-mill respectively. Focus on mechanisation to improve productivity and yields will be central to managing cost for FY2020.

Replanting and New Plantings

We had embarked on an aggressive Group replanting programme since FY2017 (post El Nino). In FY2019, approximately 11,000 ha were replanted with the main focus areas covering the Lahad Datu region (Sabah), Peninsular Malaysia, Belitung Island and North Sumatera accounting for 82% of the total replant.

MANAGEMENT DISCUSSION & ANALYSIS

New Facilities

The Tanjung Keliling Palm Oil Mill in North Sumatra commissioned on schedule in the Second Quarter of FY2019, bringing the total milling facilities to 25 for the Group.

During the year, we also commissioned a new kernel crushing plant ("KCP") in Rawang to facilitate the supply of feedstock for our Oleochemical plant in the same vicinity.

Our 3-MCPD & GE mitigation plant in Pasir Gudang, Johor is expected to be commissioned by Second Quarter of FY2020.

The proposed new refinery and jetty in East Kalimantan, Indonesia are still pending regulatory approvals and construction will only commence thereafter.

SUSTAINABILITY RELATED MATTERS

We continue to uphold our sustainability commitment towards NDPE (No Deforestation, No Peatland and No Exploitation).

No Deforestation

During the FY, we undertook the integrated High Conservation Value ("HCV") and High Carbon Stock Approach ("HCSA") assessments in the Butaw estate in Liberia (with an existing planted area of approximately 1,400 ha). Results of the assessments showed that there were limited plantable area in this estate. Due to its uneconomical size, it was no longer feasible to continue operations thereat. Hence, the Group has ceased operations in Butaw estate since July 2019.

Strict Zero Burning Policy

The Group has adopted Zero Burning practices in relation to land clearing since mid-1990s. We abide by the certification standards of the Roundtable on Sustainable Palm Oil ("RSPO"), Malaysian Sustainable Palm Oil ("MSPO"), Indonesian Sustainable Palm Oil ("ISPO") and International Sustainability and Carbon Certification ("ISCC"), which strictly adhere to the zero-burning principle. We do not tolerate any slash-and-burn practice or open burning to get rid of the biomass but instead they are pulverised.

We are committed to an effective firefighting agenda and are constantly on high alert. In Indonesia, we have fully equipped firefighting teams in our estates, which carry out yearly firefighting training and practice monitoring system which include setting up of fire towers to inform ground patrol of any occurrence of fire, drones and emergency response system. We work closely with local authorities and communities surrounding our operating centres to forge an understanding for better coordination of action in times of need.

Nevertheless, the prolonged extremely dry spell experienced in Sumatra and Central Kalimantan during the Fourth Quarter of the FY led to several minor fire incidents inside and outside our concessions, which were promptly put out by our response team.

Status of Certification of Estates and Mills

Estates

All of our operations in Malaysia are fully certified under the Principles and Criteria ("P&C") of RSPO and the MSPO standard.

In the case of Indonesia, more than 80% of the estates have been certified under the ISPO and RSPO P&C, with the balance target for certification by 2021.

Mills

All of our mills in Malaysia and Indonesia, save for the newly commissioned Tanjung Keliling Palm Oil Mill in North Sumatra, are fully certified under the RSPO P&C and where relevant, MSPO and ISPO certification standards.

We target the certification for the Tanjung Keliling Palm Oil Mill to take place in 2020.

Vigorous and uniform palm growth of our replant in Ladang Ringlet in Sabah, Malaysia

Drone Technologies

Over the years, AAR has also developed numerous applications using drone technologies. KLK's plantations use drones to carry out autonomous flight missions which are used for mapping, infrastructure, drainage and terrace planning and design, automated palm counting and monitoring. Processed images acquired including orthomosaic generation and various GIS analyses and monitoring of various plantation operations are available via cloud-computing services.

High Yielding Materials

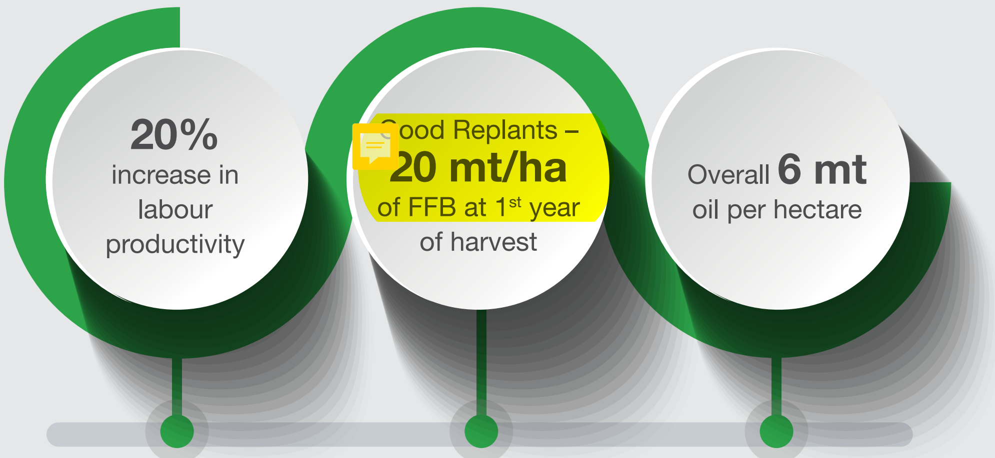
AAR has identified a high yielding tenera clone, capable of producing oils with carotenoid levels exceeding 1,100 ppm. In addition, this clone has high oil-to bunch (32-33%) and 0% mantling. This elite, high carotenoid ramet results in enhanced beta carotene extraction and fulfil market demand of value-added oils and fats products significantly as compared to the norm. The first batch of these clones is expected to be planted in 2021.

Bunches of high yielding elite clones with high oil to bunch (average of 263 analysis = 32.6%) and high carotenoid levels (> 1,100 ppm)

OUTLOOK

Prices of palm products have since rallied during the Fourth Quarter of 2019, boosted by the anticipated tighter supply of CPO in 2020 from lower than expected palm oil production, coupled with the implementation of the B20 and B30 biofuel policies by Malaysia and Indonesia respectively. Whilst these have prompted the positive sentiments on prices and push for demand, Management will remain focused on improving operational efficiencies to realise the Group's targets below.

Targets



- The shift towards mechanisation for estates, automation in mills and other innovative ideas to improve existing practices remain high on our list to improve labour productivity in the wake of rising wages and inflationary pressures. We hope to be able to see more meaningful gains from FY2020 onwards.
- High standards of replants to achieve our FFB yield target of 20 mt/ha at the first year of harvesting will continue to be applied. We are hopeful that in FY2020 we would be able to see our efforts come to fruition after receiving encouraging results in some areas planted in FY2015 producing more than 20mt/ha.
- We will continue with our aggressive replanting programme that has been in place since FY2017. We have targeted 14,000 ha (or 7% of planted area) for replanting in FY2020.

MANAGEMENT DISCUSSION & ANALYSIS

INTEGRATED BUSINESS VALUE CHAIN

The vertical integration between the upstream business (Plantation) and downstream business of oleochemical is able to generate synergic benefits to the KLK Group. This value chain enables the Group to further diversify into different market segments and mitigate risks of volatilities in the respective business segments.