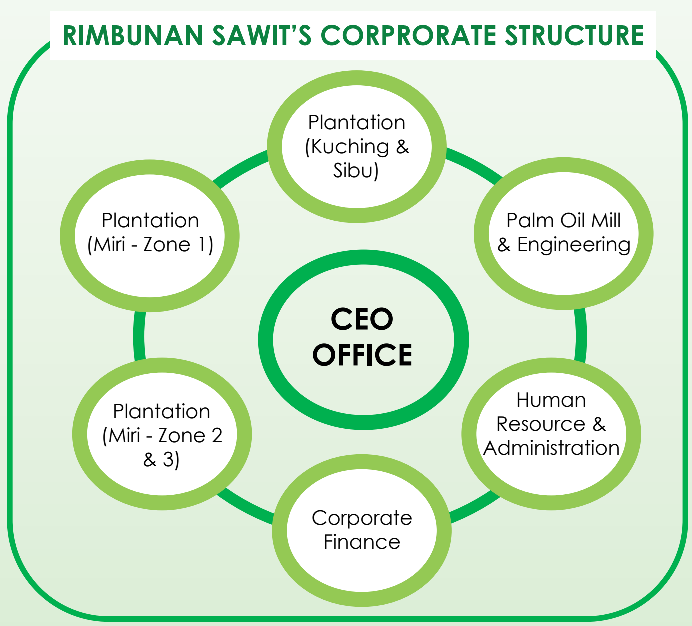
MANAGEMENT DISCUSSION AND ANALYSIS

Overview of Business and Operations, Objectives and Strategies

The Group's core activities remain as cultivator of oil palm and operator of palm oil mill. To be a progressive player in this plantation industry, the Group remains committed to transcend stakeholders' value as we continue to improvise products and services of high quality underpinned by the positive vibes that have been imputed through-out our workplace and the local community.

Our Corporate Structure

Follow-up to our previous initiative to streamline the Corporate Functions at Head Office level, our Corporate Structure revolves around six vital Enablers that spearheaded by CEO Office, which ensure all Enablers work hand in glove and in line with the direction set by Board of Directors.



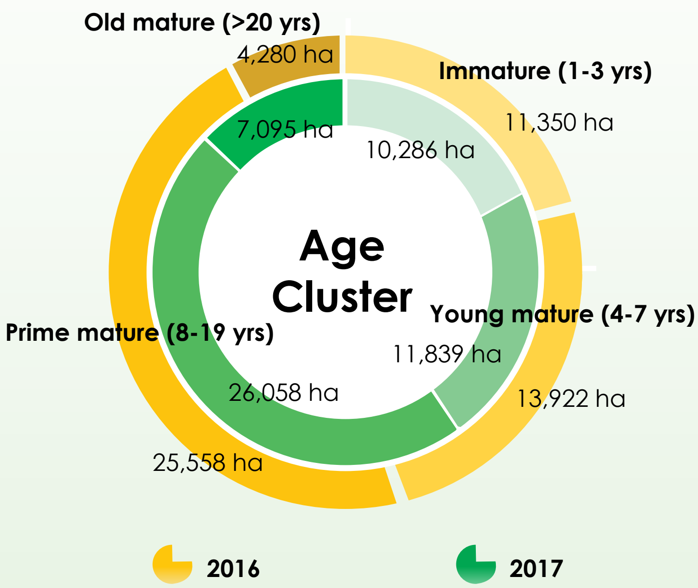
To enhance the cohesiveness among the Enablers, the Group continues to invigorate the supporting units including Information Technology, Agricultural Practices, Internal Audit, Purchasing, Transportation, Geographic Information System, Land and Public Relations.

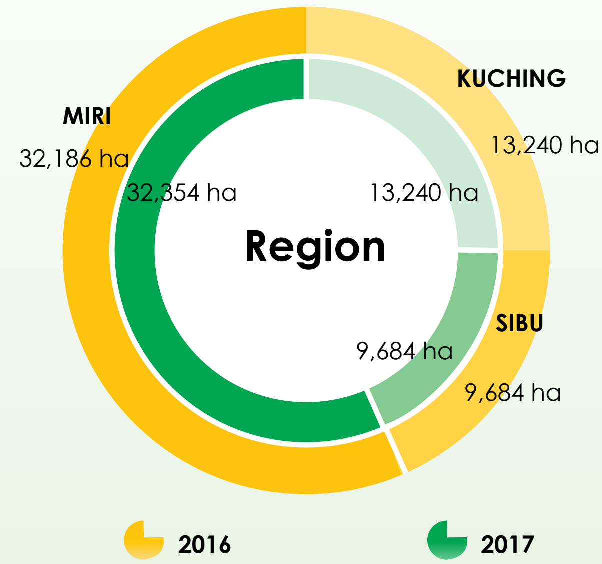
Our Plantation Estates

Total planted area expanded by 168 hectares to 55,278 hectares, representing 61% of our total land bank of 90,940 hectares. The land bank has been adjusted downward by 1,373 hectares as compared to last year, following the issuance of permanent land title on 13 February 2017 for our Lumiera estate consisting of area with 4,698 hectares replacing the previous provisional lease title, which constitute an area of 6,071 hectares.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

The following charts entail our planted area by age cluster and region.





For our palm age, more than 45% are in prime mature cluster while another 40% are below aged of seven years. The old palms continued to weigh on our yield by adding another 2,816 hectares to the old mature cluster. As such, the Group has kick start the replanting program since 2014 at our Bakong estate. As at 31 December 2017, 1,021 hectares have been replenished with high-yielding seedlings while the remaining 3,417 hectares are to be completed within three to four years. The next in line is Timrest estate with 4,251 hectares, which is slated for replanting, commencing from 2019 onwards.

In 2016, the Group has initiated the review of our plantation's value chain as part of our three main initiatives to enhance our crops collection and distribution channels. Mechanization has becoming more vital as the manpower conundrum continues to badger our operation.

As such, the Group has loaded another thirteen units of mini crawlers and tractors to facilitate and spur the crops evacuation while another twenty five units of heavy machineries such as excavators, tractors, and loaders have been brought on-board to expedite the ground works preparation including compaction and levelling, which is expected to be ready by 2019. More importantly, all the developments at replanted areas have been tailored to pave the way for mechanization.

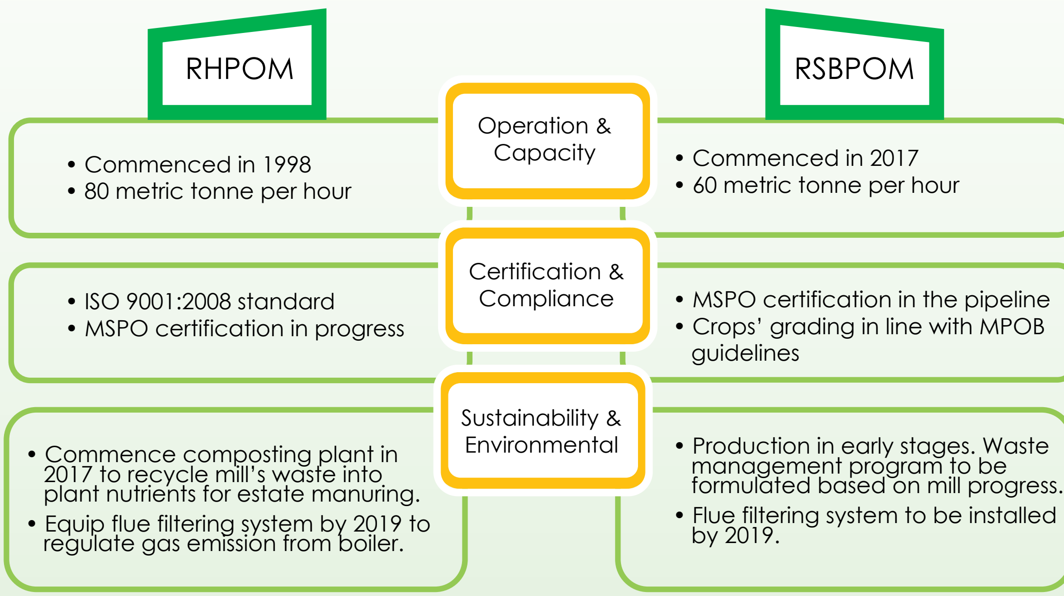
The pursuit for mechanization has to be elevated to other operating processes as the Group is venturing into mechanizing its fertilizer and chemical application. Aside from mechanization, our pre grading of crops harvested has been refined to reaffirm the quality of the crops delivered to mills while the implementation of bin system to facilitate the collection and evacuation of crops at peat soil areas has been put in the pipeline.

The Group has intensified its effort towards sustainable and best agricultural practices across its estates. During the year, our Jayamax estate has completed the 2nd stage Malaysian Sustainable Palm Oil (MSPO) audit under the SIRIM QAS certification body, in which the certification was obtained in February 2018. In addition, the rest of our estates have commenced preparatory works for MSPO 1st stage audit.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Our Palm Oil Mills

Our mills situated in Miri region, namely RHP palm oil mill (RHPOM) and RSB palm oil mill (RSBPOM). RSBPOM made its mark in May 2017 with trial production and subsequently booked its first commercial sales in July 2017. The following chart depicts the profile of our Mills.



Our Ongoing Corporate Proposals

In 2016, one of the Group's three key initiatives is to reexamine its business model and to relook into its portfolio of estates and mills from the aspects of feasibility and returns. Subsequently, on 22 February 2017, the Group has entered into agreements to acquire Lundu palm oil mill situated in Kuching and Sastat estate located in Miri while at the same time, disposing our Simunjan estate in Kuching region ("Corporate Proposals").

The completion of the Corporate Proposals is conditional upon securing the approval and consent from the relevant authorities on the transfer of the Licence Rights for Simunjan estate and the Lundu Land title for the Lundu palm oil mill. The timeline to complete the conditions precedent as stipulated in the agreements was initially extended to 21 February 2018 on 21 August 2017 and eventually, it was set to 22 February 2019 based on mutual agreements by all the relevant parties.

The extensions were required due to some technical aspects of the licence rights and the land title that require extensive clarity and conformity. The Group has intensified the correspondence with the relevant authorities and is expecting the Corporate Proposals to go through by fourth quarter of 2018.

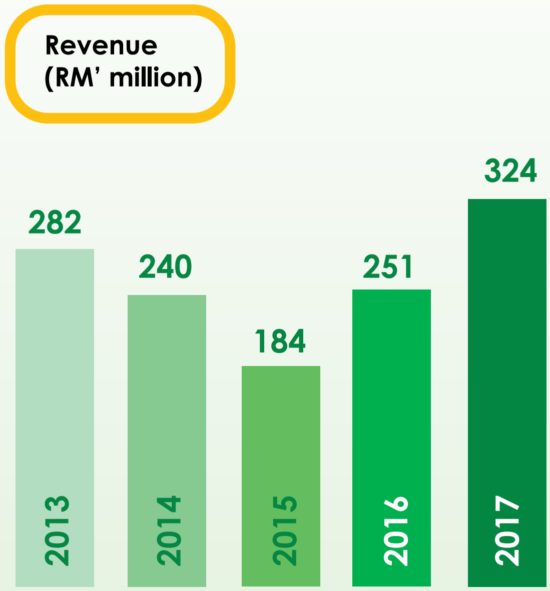
In ensuring that our initiative would not be hamstrung in entirety by the timeline, the Group has conferred the operating and commercial rights of Simunjan estate to Palmlyn Sdn. Bhd. ("Palmlyn"), a related party in exchange for a monthly flat rate ("FFB Fee") charged via our subsidiary, Timrest Sdn. Bhd. commencing April 2017. The move has to be prodded considering that the Group has to shift it resources and focus on areas that have been earmarked in our earlier initiative.

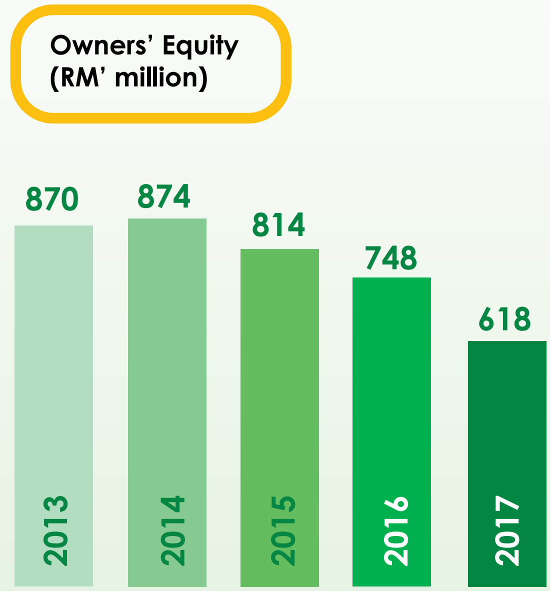
Concurrently, we took a step in advance by engaging RH Lundu Palm Oil Mill Sdn. Bhd. ("RHLPOM"), a related party as their contractor to manage the Lundu palm oil mill in return for a monthly contract income receivable via our subsidiary, RSB Lundu Palm Oil Mill Sdn. Bhd. ("RSBLPOM") commencing April 2017. On 19 January 2018, RSBLPOM has secured its MPOB licence to operate, process, and sell all the produces from Lundu palm oil mill, which will further boost our Group's revenue

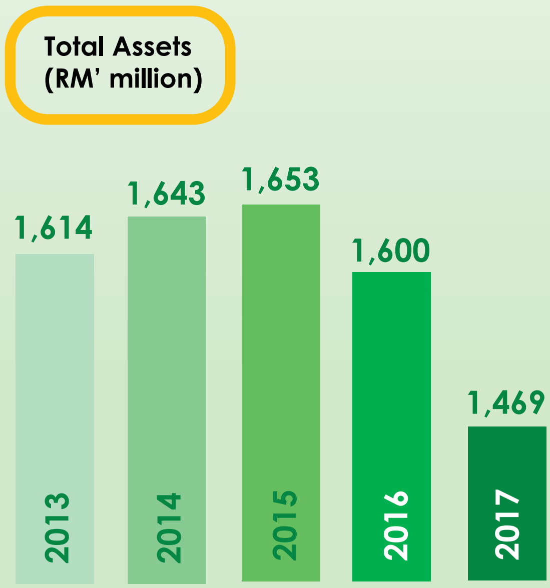
MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

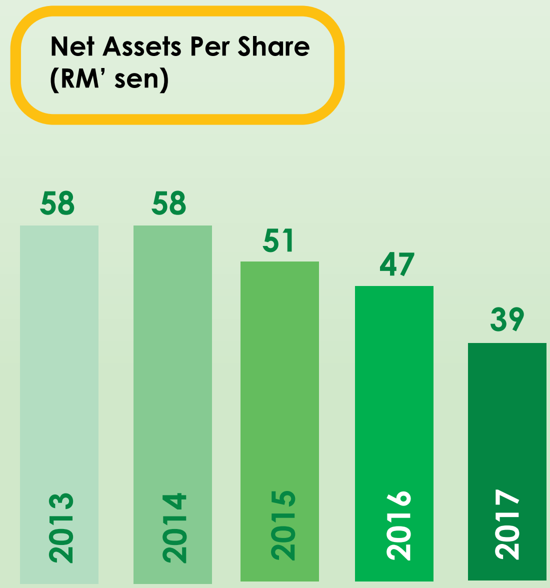
Review of Financial Results

The following charts highlight our five-year key financial information.









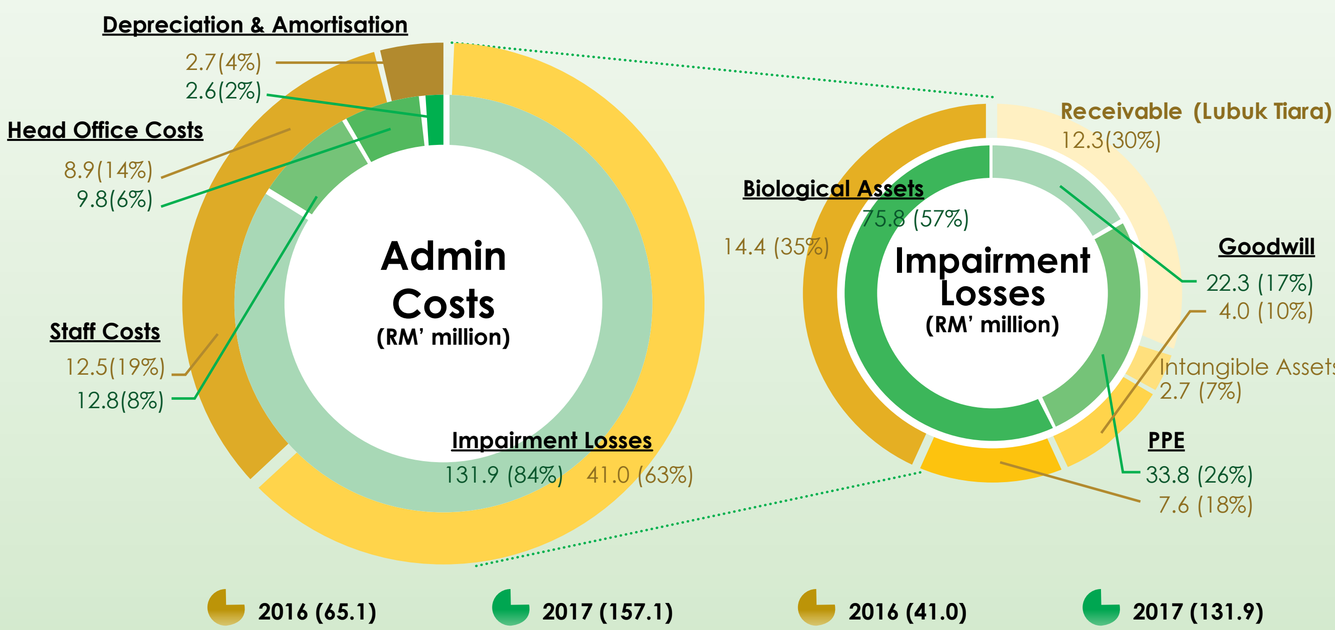
MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Our Financial Performance

The Group notched another 30% growth in 2017 for its Revenue to arrive at RM324.4 million. The resounding growth was mainly propelled by the RM49.0 million increase in CPO sales as the selling volume climbed by another 32% to 65,814 metric tonne backed by 4% improvement in the average selling price of RM2,691 per metric tonne. Our PK sales have chipped in RM8.9 million of the growth on the back of higher volume sold by 42% despite lower average selling price of RM2,319 per metric tonne as compared to 2016 of RM2,439 per metric tonne. More importantly, our RSBLPOM has contributed RM14.3 million of the growth in the form of contract income receivable from RHLPOM.

Cost of Sales surged by 23% to RM301.1 million mainly due to the RM34.9 million jump in FFB purchased from external parties, which approximate 1.8 times of 2016's volume. The upsurge was also driven from higher plantation administrative expenses and manuring costs, which was in correspond to higher round of manuring completed. With the growth outweigh the upsurge, our Gross Profit ("GP") soared from RM5.1 million to RM23.3 million, bolstered by higher GP margin of 7% compared to 2016 of 2%.

Despite the soaring GP, our pre-tax loss swelled by RM87.3 million to RM164.4 million owing mainly to the administrative costs, which was bloated with impairment losses as shown in the following charts.



The impairment losses have to be effected after taking into account the recoverable amount that have been measured in accordance with Financial Reporting Standard (FRS) 136 – Impairment of Assets, which is less than the carrying amount of the respective assets including Biological assets ("BA"), Property, Plant and Equipment ("PPE"), and Goodwill.

The recoverable amount measured is based on the respective asset's value in use, which is mainly hinge on the projected CPO price, FFB yield per hectare, remaining useful life of the asset, and discount rate used to estimate the future cash flows to be expected from the asset.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

As our initiative is to relook into our plantation assets lock, stock, and barrel together with all the number crunching to best estimate their value in use, the Group was compelled to impair seven of its plantation estates as enlisted in the following table.

ESTATE	Net Book Value (Company)	Revaluation Surplus (Group)	Total Carrying Amount	Recoverable Amount	Shortfall subject to Impairment	Impairment Allocation		
						BA	PPE	Goodwill
(RM'million)								
Biawak	26.8	58.4	**85.2**	**46.9**	**(38.3)**	16.7	10.6	11.0
Jayamax	82.6	39.5	**122.1**	**85.3**	**(36.8)**	31.4	5.4	-
Lundu	24.2	88.0	**112.2**	**93.7**	**(18.5)**	6.7	2.0	9.8
Selangau	27.9	33.2	**61.1**	**39.1**	**(22.0)**	10.2	11.8	-
Selangor	75.7	-	**75.7**	**62.2**	**(13.5)**	10.2	3.3	-
Splendid	3.6	8.5	**12.1**	**9.3**	**(2.8)**	0.6	0.7	1.5
TOTAL	**240.8**	**227.6**	**468.4**	**336.5**	**(131.9)**	75.8	33.8	22.3

Our Lundu and Biawak estates

Lundu and Biawak have been exerting positively to the Group's result. For Lundu, 20% of its planted area is under old mature while another 60% will be approaching old mature in two to three year times. Similarly for Biawak, almost three quarters of its planted area will be entering old mature by 2020. With less than five productive years to be spared and further compounded by diminishing FFB yield, their estimated recoverable amount is insufficient to cover their carrying amount.

Our Jayamax, Selangau, and Selangor estates

Jayamax has half of its planted area aged more than 16 to 19 years old while Selangau has more than 75% in that age cluster, which indicates that both will be approaching old mature in one to three year times. As for Selangor, almost 90% is classified as old mature. Their FFB yields have been significantly low and consistently flattish, which may stifle any recovery potential from their limited lifespans. As a consequences, their performance have been aggravated resulted in lower recovery amount estimated as compared to their carrying amount.

For Splendid estate, the planted area aged 17 years old and is fast approaching old mature in three-year times. Logistically, the estate is less than accommodative, which render eclectic set of challenges to our resources. FFB yield continued to dwindle while its performance has been peripheral, which have pulled down its estimated recovery amount.

Back to our pre-tax loss, the increase has also been exacerbated by higher finance cost, which widen by 80% to RM22.6 million mainly due to lower quantum of finance costs capitalized under BA in line with additional planted area declared mature in 2017.

The Group's loss after taxation fixed at RM155.8 million, an increase of RM80.0 million compared to 2016 after incorporating higher tax income of RM8.6 million as compared to 2016 of RM1.4 million. The increase in tax income is mainly arising from reduction in deferred tax liabilities by RM24.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Our Financial Position

The Group's non-current assets contracted by RM304.8 million mainly due to the RM131.9 million impairment losses provided on the BA, PPE, and goodwill. In addition, we have reclassified RM143.8 million from non-current assets to assets classified as held for sale for all the BA, PPE, and intangible assets in relation to our Simunjan estate. The reclassification was provided in view that the Corporate Proposals will be accomplished by fourth quarter of 2018.

Trade receivables retracted by 36% as compared to 2016 of RM20.3 million mainly attributable to prompt collection of CPO, PK, and FFB sales to refineries and mills. On contrary, other receivables, deposits and prepayments inflated by RM36.8 million to RM54.2 million mainly due to the RM33.6 million deposit advanced to RHLPOM arising from the Corporate Proposals.

Trade payables surged by 16% to set at RM70.4 million as purchase of fertilizers was stepped up towards end of the year. Other payables, deposits and accruals enlarged by RM41.5 million to RM75.2 million as a result of the RM30.0 million security deposit received from Palmlyn under the FFB Fee arrangement. Further than that, the Group has received RM15.0 million refundable deposit from Tiasa Mesra Sdn. Bhd. in relation to the Corporate Proposals.

The Group's total borrowings reduced marginally by RM0.4 million to RM584.9 million. During 2017, the Group has paid down the term loans and bankers' acceptance by RM39.0 million and RM7.2 million respectively. Apart from that, the Group has drawndown additional RM43.5 million revolving credit to bridge our working capital in view of the expanding milling activities. Our outstanding hire purchase has also increased by RM1.8 million in line with the fleet of machineries acquired for mechanization.

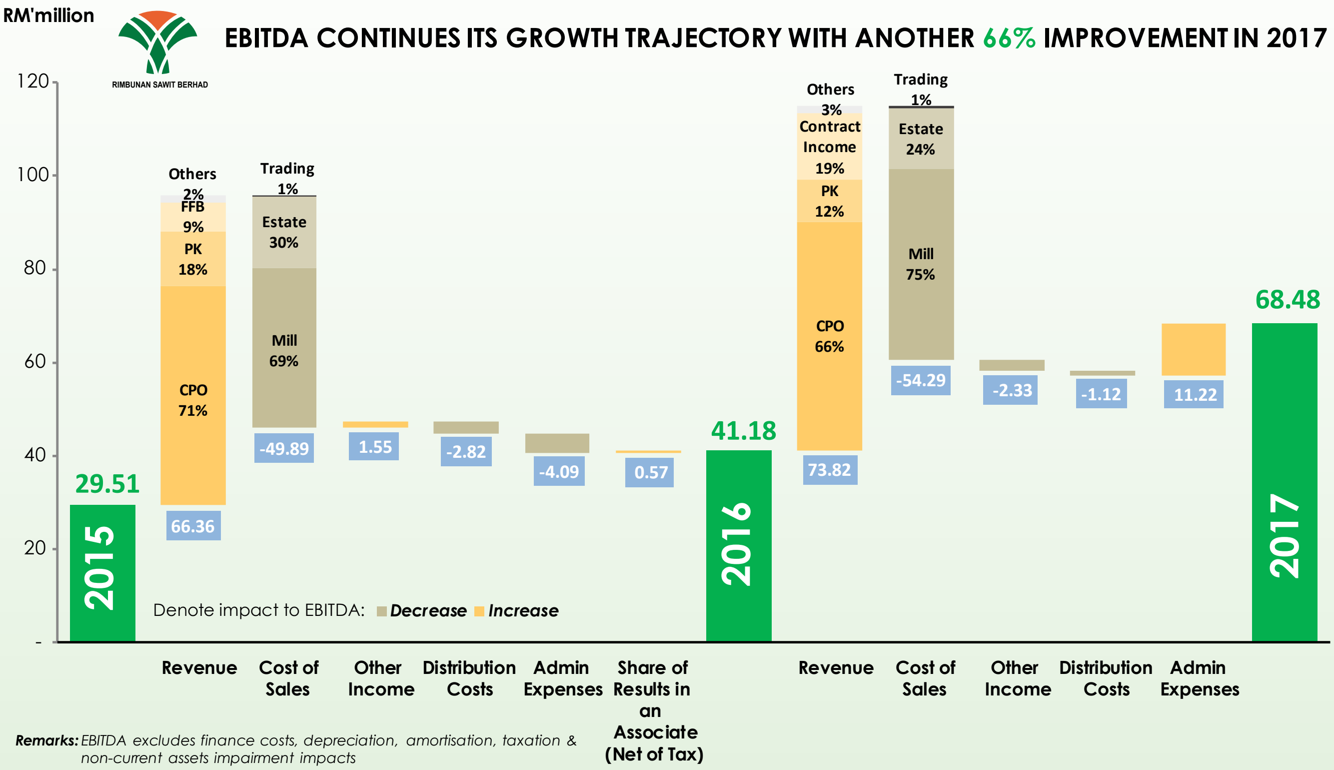
Despite marginal change to our total borrowings, the Group's debt to equity ratio has increased to 0.93 times as compared to 0.74 times in 2016. The increase was mainly attributable to the significant drop in our total equity as a result of the impairment losses. However, the gearing ratio is expected to trim down in 2018 in anticipation that the Corporate Proposals will be completed by fourth quarter of 2018.

The following is an overview of our Group's key financial indicators for the past five financial years.

Key Financial Indicators	2017	2016	2015	2014	2013
(RM'thousand)					
Revenue	324,392	250,573	184,209	239,684	282,234
EBITDA	68,479	41,184	29,505	77,587	62,939
Profit/(Loss) after taxation	(155,766)	(75,729)	(67,175)	2,753	(1,892)
Equity attributable to owners	617,504	747,701	814,366	874,311	869,541
Total assets	1,468,588	1,600,136	1,652,814	1,642,537	1,613,877
Borrowings	584,853	585,205	557,330	483,218	455,625
Debt to Equity Ratio	0.93	0.74	0.64	0.51	0.48
Earnings / (Loss) per share (sen)	(6.38)	(3.27)	(2.94)	0.23	0.11
Net assets per share (RM)	0.39	0.47	0.51	0.58	0.58

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Review of Operating Activities



Remarks: *EBITDA excludes finance costs, depreciation, amortisation, taxation & non-current assets impairment impacts*

Our Group delivered another 66% growth in its EBITDA on the back of buoyed revenue as CPO production stoked by 37% to land at 67,374 metric tonne, the best since 2006. Likewise, our PK production has increased by 46% to 15,470 metric tonne, the highest since 2013. The production for FFB has recovered by 3% equivalent to 11,872 metric tonne despite conferring our Simunjan estate to Palmlyn under the FFB Fee arrangement in April 2017. As such, our FFB yield improved marginally by 1% from 7.89 metric tonne per hectare to 7.94 metric tonne per hectare.

The following table highlights key operating indicators for the past five years.

Key Operating Indicators	2017	2016	2015	2014	2013
CPO Production Volume (MT)	67,374	49,105	40,739	43,936	67,214
PK Production Volume (MT)	15,470	10,595	9,206	10,782	16,592
FFB Production Volume (MT)	357,052	345,180	396,561	436,380	479,751
OER (%)	20.14	20.31	20.35	20.03	20.62
KER (%)	4.62	4.38	4.60	4.92	5.09
Mature Area (Ha)	44,992	43,760	43,072	39,122	36,867
FFB Yield per Ha (MT/Ha)	7.94	7.89	9.21	11.15	13.01
CPO Sales Volume (MT)	65,814	49,706	39,524	46,818	69,591
PK Sales Volume (MT)	14,896	10,502	9,310	10,598	16,831
FFB Processed (MT)	334,506	241,782	200,153	219,306	326,016

If excluding the contribution from Simunjan estate for both 2017 and 2016, the FFB production volume would be adjusted to 351,514 metric tonne and 313,154 metric tonne respectively. This demonstrated a recovery of 12% amounting to 38,360 metric tonne from 2016 to 2017. Concurrently, our adjusted FFB yield would indicate an improvement of 9% from 7.68 metric tonne to 8.41 metric tonne.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Anticipated or Known Risks

Risks remain an integral part of our day-to-day undertakings. Due to its dynamism, the Group has constantly review and rejig its approaches to ensure these risks are properly addressed and alleviated. Our risks are categorized into four main categories mainly market risks, operational risks, regulatory risks, and liquidity risks.

Risk Category	Description / Rationales	Impact	Mitigation Plans
Market	Fluctuation of CPO price due to changes in currency exchange rate, foreign government policies (such as import tariff), and restrictions imposed on palm oil usage.	Reduction in revenue that will significantly deteriorate our EBITDA	The Group will relook into the cost and benefit of hedging into crude palm oil futures (FCPO) considering the enhanced flexibilities that was recently announced by Bursa Malaysia.
Operational	Shortage of labor remains a pivotal challenge to the plantation estates due to increase competition while inclement weather can be damaging depending on its scale.	FFB yield and quality in terms of OER will be adversely affected resulted in lower returns	It has been our key initiative since 2016 to focus on mechanization in our plantation estates so as to allay and balanced the estate dependencies on manpower.
Regulatory	Changes in government policies and regulations can be a double-edged sword such as those related to hiring of foreign labor, compliance to MSPO, and CPO export tax suspension.	Additional costs incurred to employ foreign workers. Monetary repercussion for non-compliance	The Group remain committed to enhance the efficiency of its operation including mechanization and ensure compliance with MSPO requirement by 2019.
Liquidity	The Group's gearing ratio has been on the upward trend as our borrowings have increased while our equity has contracted partly due to the impairment losses.	Higher funding costs with limited room to maneuver our working capital requirement	One of our key initiatives is to relook into our portfolio of assets so as to realign our resources on productive areas. With our Corporate Proposals near completion, other plans are in the pipeline to enhance our liquidity.

Forward-looking Statements

The Group has been gearing towards maximizing our Revenue as clearly demonstrated in our initiatives. Having secure the MPOB licence for RSBLPOM in January 2018, the Group is expecting higher turnover for 2018 anchored by our CPO sales. With our RSBPOM still in the earlier stage of production since commissioning in May 2017, any improvement in terms of consistency and stability will be a shot in the arm for our CPO production.

In terms of CPO price, the Group remains cautious due to the ongoing strengthening of Ringgit Malaysia against the US Dollars, the direction of the import tax set by India on edible oil, the potential repercussions from European Union's proposal to ban palm oil from biodiesel from 2021, and the uncertainty arising from the trade war between China and United States.

Dividend Policy

In considering that the Group is still in loss after taxation position, we did not recommend dividend to be paid for the financial year ended 31 December 2017. In fact, the Group will continue to reinvest any excess operating cash flows to improve our plantation estates especially for those undergoing replanting so to ensure continuous growth and sustainability in our yield, and more importantly, is to tone down our debt to equity ratio.

Dato' Jin Kee Mou
Chief Executive Officer