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IOI Corporation Berhad 9027-W Incorporated in Malaysia

Annual Report 2003

expansion

IOI Corporation Berhad 9027-W Annual Report 2003

expansion • Over a relatively short period, IOI has established itself as a leading palm oil plantation group. However, we believe that in the long term, players with critical mass, integrated operations and a global presence will have the edge.

We are therefore pursuing two core strategies. First, we have continued to expand our oil palm hectarage so as to enhance our market standing and to further increase economies of scale. Second, we are making major downstream investments in oleochemicals and speciality oils and fats by acquiring leading companies in these areas.

These acquisitions are transforming us from a simple oil palm plantation entity into a truly integrated palm oil player.

We believe that these strategies will enable us to evolve with the global market and will provide the basis for continuous growth to the benefit of our stakeholders.

ourvision

... is to be a pre-eminent corporation in our core businesses by providing products and services of superior values and by sustaining consistent long-term growth in volume and profitability.

We shall strive to achieve responsible and balanced commercial success by satisfying our customers' needs, giving superior performance to our shareholders, providing rewarding careers to our people, having mutually beneficial relationship with our business associates, participating and contributing effectively towards nation building and the welfare and advancement of the society in which we operate.

ourkeystrategies

- plan and act with cohesive purpose towards Vision IOI
- focus on core businesses
- create value for all stakeholders
- market focused and oriented
- continuous improvement in quality, productivity and cost efficiencies

Key Indicators

	2003	2002	2001	2000	1999
Financial					
Profit before taxation (RM'000)	812,626	569,311	456,744	501,647	462,190
Net profit attributable to shareholders (RM'000)	502,052	346,501	286,669	303,033	379,662
Shareholders' equity (RM'000)	3,530,192	2,891,919	2,494,974	2,254,090	2,023,754
Return on average equity (%)	15.64	12.86	12.07	14.17	20.60
Basic earnings per share (sen)	53.24	40.69	34.09	35.96	44.97
Gross dividend per share (%)	40.0	30.0	25.0	20.0	12.0
Plantation					
FFB production (MT)	2,396,231	1,920,692	1,926,808	1,565,807	1,279,149
Total oil palm area (Ha)	124,203	98,864	87,605	86,151	85,706
Property					
Sales value (RM'000)	428,897	483,522	435,965	372,137	303,526
Sales (unit)	1,963	2,090	3,564	2,417	2,227
Oleochemical					
Plant utilisation (%)	88	95	97	89	70
Sales (MT)	291,234	221,889	219,205	211,400	168,554

ourresults

62%
RM3.91
RM2.41 billion

2002	2003
RM2.41	RM3.91

Revenue

43%
RM813
RM569 million

2002	2003
RM569	RM813

Profit Before Tax

45%
RM502
RM347 million

2002	2003
RM347	RM502

Net Earnings

31%
53.24 SEN
40.69 SEN

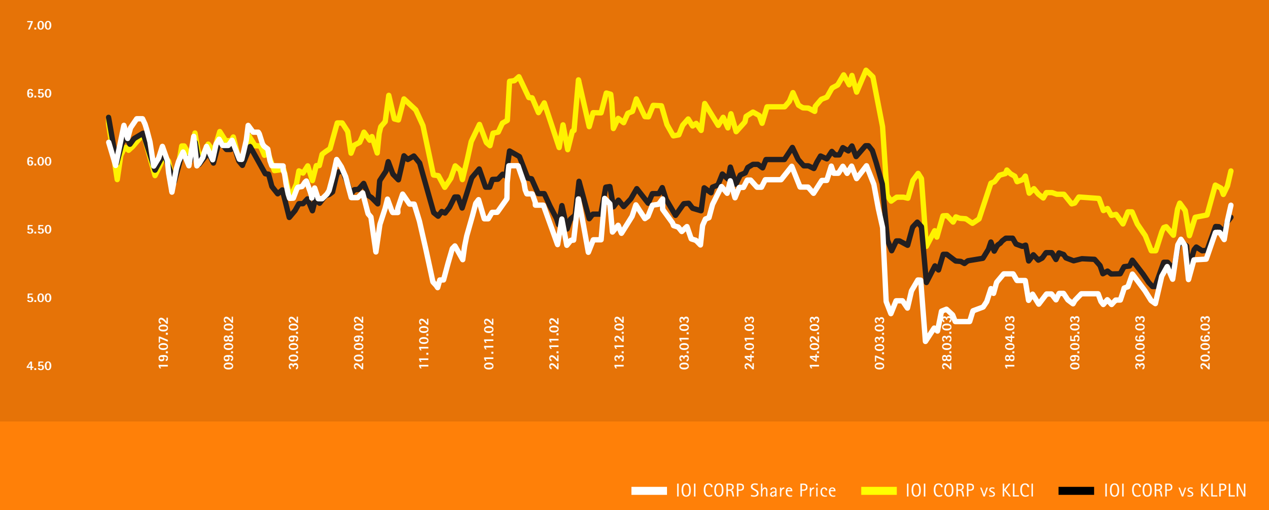
2002	2003
40.69 SEN	53.24 SEN

EPS

22%
RM3.53
RM2.89 billion

2002	2003
RM2.89	RM3.53

Shareholders' Equity



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contents

chairman'sstatement

Dear shareholders,

On behalf of the Board of Directors of **IOI Corporation Berhad,** I am pleased to present to you the Annual Report and Financial Statements of the Company and the Group for the financial year ended 30 June 2003.

Tan Sri Dato' Lee Shin Cheng
Executive Chairman

OPERATING BACKGROUND

The Malaysian economy remained resilient throughout the four quarters that coincide with the Company's financial year under review despite the underlying challenging environment.

The overall economy continued its recovery in 2002 with a growth rate of 5.6% for the second half and ended the full year at 4.2% on the back of sustained domestic demand and a stronger than expected export performance. Despite the occurrence of destabilising events such as the SARS outbreak and the IRAQ war, the growth momentum was sustained by government's monetary and fiscal measures and by higher commodity prices, including palm products, which benefited a fairly wide section of consumers across the country.

The property market recovered strongly in the second quarter of year 2003 as the stock market picked up steam, and in a low interest rate environment categorised by abundant liquidity. The stimulus package announced by the Government on 1 June 2003 to help alleviate the negative impact of SARS on affected industries provided an added boost.

These favourable conditions, together with our growth strategies, enabled the Group to yet again scale new heights.

FINANCIAL OVERVIEW

The Group registered another set of outstanding performance for the financial year under review. Group's revenue for FY 2003 increased by 62% over the preceding year to RM3.91 billion on the back of 36% higher palm oil prices and additional revenue contribution from the two new acquisitions, namely Loders Croklaan and Pamol estates.

Group's earnings before interest and taxation ("EBIT") increased by 43%, from RM605.7 million achieved in FY 2002 to RM867.8 million for FY 2003. Likewise, the Group's pre-tax and net profit attributable to shareholders, continued their growth trend to a new high of RM812.6 million and RM502.1 million respectively.

Consequently, the fully diluted EPS reflected a 32% growth to 50.49 sen as compared to 38.14 sen previously.

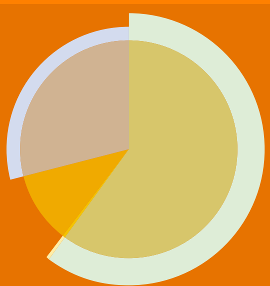
During the financial year, 177,928,072 and 6,897,000 new shares were issued pursuant to the exercise of rights under the Company's 1995/2003 Warrants (which expired on 30 April 2003) and Executive Share Option Scheme ("ESOS") respectively. Proceeds from the allotment of these new shares, together with net earnings for the year, exceeded the RM114.4 million cash outlay on buying back an additional 22,863,000 treasury shares and dividend pay-out and capital distribution totalling RM328.1 million during the year, thus resulting in a 22% increase in shareholders' fund to RM3.53 billion as at 30 June 2003.

FINANCIAL OVERVIEW cont'd

Group's net gearing ratio however increased from 22.1% as at 30 June 2002 to 39.5% as at 30 June 2003 as the Group took on borrowings to finance its acquisitions of Loders Croklaan and the Pamol Group estates from Unilever. Nevertheless, the Group's net gearing ratio is at a conservative level, especially when measured against strong cash flows being generated from operations and the prevailing low interest rate environment.

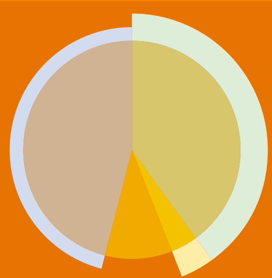
Segmental Contribution to Operating Profit

2003



- Plantation 60%
- Property 29%
- Resource-based Manufacturing 11%
- Others 0%

2002



- Plantation 40%
- Property 46%
- Resource-based Manufacturing 10%
- Others 4%

REVIEW OF RESULTS

Group operating results were significantly higher than in FY 2002 with positive improvements across all businesses and were especially driven by a 132% jump in plantation earnings.

In line with a 36% higher CPO price realised, a 34% increase in CPO output arising from the 5 $^{1}/_{2}$ months contribution from the newly acquired Pamol estates as well as a 12% improvement in CPO oil yield, plantation segment's operating profit increased by 132% to RM530.3 million for the financial year under review, up from RM229.0 million the previous year.

On our property business, the lacklustre property market in the first three quarters of the financial year under review affected sales take-up on new launches. The housing sector however experienced a strong rebound in the fourth quarter as sentiments turned positive with the end of the SARS outbreak and the Iraq war. The overall operating profit achieved for property development and investment activities for FY 2003 was RM255.2 million, marginally lower than the RM257.8 million achieved in the previous year. Profits from development was in fact RM10.3 million or 4% higher than the previous year but it was offset by lower contribution from the property investment sector because of a revaluation deficit of RM14.1 million in respect of an investment property in Singapore.

With the rationalisation exercise undertaken during the previous financial year which saw the disposal of the Group's interests in industrial gas business and a steel piping company both being non-palm related activities, the Group's manufacturing activities now comprise palm oil refining, oleochemicals, specialty oils and fats which are all palm-based, down-stream manufacturing activities.

REVIEW OF RESULTS cont'd

EBIT contribution from the Group's manufacturing segment, increased by 22% to RM123.5 million for FY 2003, up from RM101.0 million for the previous financial year. The increase was attributable mainly to the oleochemical sub-segment. The contribution of newly acquired Loders Croklaan was however not significant as its results for the period was affected by lower margins due to unfavourable market conditions as well as one-off charges.

A more detail review of the Group's performance is provided under the section on "Management's Discussion and Analysis" in this Annual Report.

DIVIDENDS

In line with the outstanding performance of the Group, the Board has declared a much higher amount of dividends for FY 2003 after taking into account the financial position and cash requirement of the Group.

DIVIDENDS cont'd

The first interim dividend for FY 2003 of 20% (FY 2002 - 12%) less tax was paid to shareholders on 25 April 2003, and your Board had on 15 August 2003 declared a second interim dividend of 20% tax exempt (FY 2002 - 18% taxable) payable to entitled shareholders on 18 September 2003. The two interim dividends will result in a total dividend pay-out of RM179.4 million for the financial year ended 30 June 2003, a 84% increase over the total dividend pay-out of RM97.2 million for the previous financial year.

In addition to the cash dividends, the Company had also made a capital distribution of 38,583,497 Palmco shares for free to shareholders of the Company in October 2002. A sum of RM171.7 million was debited against the Company's share premium account in respect of the capital distribution.

OTHER CORPORATE DEVELOPMENT AND GROWTH STRATEGIES

FY 2003 was a very busy and eventful year for the Group. Apart from being a successful year on the operations front, your Group also successfully resolved the listing status and relisted Palmco Holdings Berhad, completed two major acquisitions, namely Loders Croklaan, a global leader in specialty fats, and the "Pamol Group" plantations comprising about 23,045 hectares of oil palm and two CPO mills for a combined acquisition cost of about RM1.43 billion. Apart from these, the Company has also entered into a conditional agreement to acquire five plantation companies which own about 21,722 hectares of oil palm and a CPO mill in Sabah for a total consideration of RM607.7 million.

OTHER CORPORATE DEVELOPMENT AND GROWTH STRATEGIES cont'd

The proposed acquisition of the aforesaid five plantation companies is a related party transaction that is subject to the approval of shareholders who are not related parties involved. As recently announced, the proposal has been approved by the Securities Commission with a downward revision in the total consideration payable by about 12% to RM535.6 million. Details of the proposals, together with the views and recommendations of the financial adviser and the independent adviser to minority shareholders will be set out in the circular to shareholders for an EGM which should most probably have been held by the time we meet at this coming AGM.

IOI's vision and business strategy is, I believe, well known to shareholders. It may, however, be helpful to recap and to elaborate on the strategic objectives of the above acquisitions in the context of our vision and the anticipated trends in the market place.

Vision IOI is, by design open ended and sets a moving target. As a first milestone, we have, over a relatively short period of time, established ourselves as a leading oil palm plantation group in the country as measured by total quantity of palm oil produced, oil yields and profitability. Looking ahead, the long term prospects for the oil palm industry remains bright. However, we foresee that with increasing production, increased competition, more sophisticated markets and increasing concerns about issues such as "traceability" in the food supply chain, bigger-sized players with integrated operations, traceable supply chain, and a global presence will have distinct advantages. Hence, in order to ensure that we position ourselves as the preferred supplier to our global customers and to remain competitive in an evolving market, we have in recent years:

i Continued to expand our oil palm hectarage to establish our market standing and to further enhance economies of scale; and

ii Made substantial investments downstream into oleochemicals and specialty fats and oils through the acquisitions of the Palmco Group in 1997 and the Loders Croklaan Group in FY 2003. Both these Groups are leading players in their respective fields. These acquisitions have subtly but very significantly transformed IOI from an oil palm plantation entity into an integrated palm oil player. These downstream businesses provide the strategic hedge for the plantation business as well as new applications, new geographical markets bases and value added for the Group's palm oil produce.

The Palmco Group has enjoyed tremendous growth since coming into the fold of IOI but for newly acquired Loders Croklaan, much remains to be done over the next 2 years to integrate, synergise and enhance its business potential.

OTHER CORPORATE DEVELOPMENT AND GROWTH STRATEGIES cont'd

Nevertheless, I am very positive that it will be much better positioned than before for its traditional business. Loders Croklaan, with its cutting edge oils and fats expertise and market standing is also playing a lead role in developing new applications and new markets for palm oil.

All the above acquisitions have or will add significantly to the income generating capacities of the Group and will provide the basis for continuous growth in coming years.

HUMAN RESOURCE MANAGEMENT

In tandem with the Group's focus on increasing its business efficiencies and human capital effectiveness, human resource training and development continued to receive prime attention and emphasis during FY 2003.

The training and development programmes conducted were multi-faceted, competency-based and cut across various operating departments within the Group. Key areas such as customer service training, product and selling skills reinforcement, basic estate management/practices and agronomic-related courses were ran in-house as and where relevant to both old and new staff.

The Property Quality Management series continued into its second year of running and the Property Division was indeed proud to have had achieved the prestigious MS ISO 9001:2000 Award in its maiden attempt in 2003.

The Plantation Cadetship Programme continued to attract able and willing young graduates who wish to develop a long term challenging vocation in estate management and operations with the IOI Group. The IOI Research Centre in Batang Melaka again served as the training ground to inculcate the various aspects of plantation management to these aspiring young planters, infusing classroom lectures with real-life examples and practices in the fields.

Core operating processes and procedures continued to be reviewed, revised and realigned to further enhance the overall yield, performance standards and future growth of the Group's businesses. No effort was spared to ensure that the management and staff worked as a coordinated and purpose-driven team in achieving the Group's targets and objectives as set out in its Vision IOI.

SOCIAL CONTRIBUTIONS

As a responsible corporate citizen, the Group continued to fund and support many worthy charitable causes and institutions that foster the Malaysian ideals of a caring and sharing society. Through the scholarships and educational grants extended by the Yayasan Tan Sri Dato' Lee Shin Cheng Foundation, bright young students especially those who are from estate family background, get to fulfil their aspirations of excelling in their tertiary studies even to the post-graduate level. Young school achievers who excelled in their secondary and primary public examinations were also given monetary awards to encourage them to continue to study hard and excel in their academic pursuits, thereby creating a critical base for new knowledge workers and experts for Malaysia's continued advancement.

The Company-sponsored Kelab Keluarga IOI has had a most eventful and active year in 2003, providing many avenues for closer interaction and socialisation among the Group's employees and their families away from the workplace. Such fun-filled sports and family activities helped to foster strong team spirit among the Group's employees besides cultivating intra-group solidarity and cohesiveness between different operating units.

PROSPECTS

As mentioned, we have invested substantially and in a low interest rate environment, to enlarge the income generating capacities of our integrated palm oil business to ensure sustainable growth in coming years. The focus for this year will be to ensure that the integration process for the new acquisitions continues smoothly, that concerted efforts on enhancement in productivity and cost efficiencies at all levels continue and that market opportunities are fully capitalised on.

Whilst palm oil prices are expected to be softer, the volume growth in production should be more than sufficient to offset the impact of lower prices and to sustain a decent growth in plantation earnings. Conversely, on the downstream side, with softer prices, margins should improve to boost manufacturing earnings. On the housing market front, the positive outlook and market upturn experienced in the fourth quarter of FY 2003 is expected to be sustained against a backdrop of continued low interest rates and better economic growth prospects. Overall, your Board is therefore confident of an even better operating performance for the current financial year.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to extend my highest appreciation to the management team and all members of the IOI family for their dedication and commitment. Our outstanding performance and the Group's continuous growth are the result of a concerted effort and contribution of the entire IOI team. I wish also to thank our valued customers, business partners, associates, bankers for their support and loyalty without which our success will not be possible and we look forward for their continued trust and support to the Company and the Group.

I would also like to extend my heartfelt thanks to the relevant government authorities for their assistance and support and my gratitude to my fellow directors for their invaluable support and advice.

Finally, my special thanks to our shareholders, for your continued support and confidence in the Group and we assure you that we will continue to work to uphold your trust in us.

Thank you.

Tan Sri Dato' Lee Shin Cheng
Executive Chairman

boostingshareholdersreturns

"During the year, we continued to implement strategies aimed at sustaining long term growth. Synergistic acquisitions that create value, increase income generating capacities and enhance the quality of future income stream were made. We continue to improve on productivity and cost efficiencies to ensure we are ahead on profitability in our industries. We continue to enhance returns on equity by increasing dividend payouts, buying back shares when appropriate and by being conducive for capital growth."