

properties



INTRODUCTION

The Group's property businesses comprise property development and investment and property development remains the core business of the Group. These activities are principally carried out by our 65% owned listed subsidiary, IOI Properties Berhad.

The Group's property development projects are mainly located in Puchong in the Klang Valley and Southern Johor, each involving sizeable tracts of land planned for self contained townships whilst property investment comprises office building and retail space are mostly located in our self contained townships.

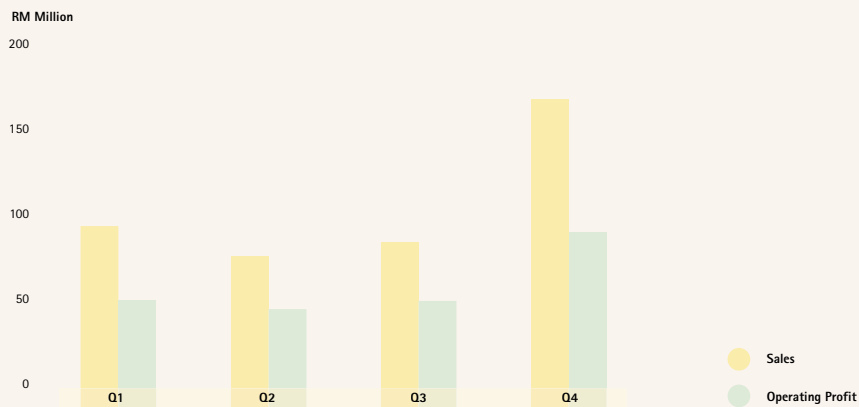
The Group's competitive advantage is in township development where we are well located in growth corridors, have excellent track record to draw demand and have the flexibility in planning and in tailoring product mix to prevailing market conditions.

OPERATIONS

We experienced a declining trend from the first to the third quarter of FY 2003 due principally to the unfolding of a spate of negative events which affected the overall sentiment of house buyers despite the availability of low mortgage rates.



management's discussion and analysis • review of core business operations cont'd



OPERATIONS cont'd

Market sentiment has however improved noticeably in the fourth quarter of FY 2003 with the end of the SARS outbreak and the Iraq war and with a more buoyant stock market and the availability all time low interest rates. The government's stimulus package for the property market which includes stamp duty exemption for properties below RM180,000, tax deductibility of interest cost for first time house buyers and the one year Real Property Gains Tax waiver commencing 1 June 2003, are also expected to keep demand momentum going.



OPERATIONS cont'd

In line with the market environment, the Group did reasonably well again in FY 2003.

The Klang Valley projects comprising Bandar Puteri, Bandar Puchong Jaya and IOI Resort accounts for 70% of Group property sales. Our projects in the Klang Valley which are located in the Puchong, Putrajaya / Cyberjaya corridor continued to receive good response from property buyers because of their locational advantages and easy accessibility through a network of new highways. Despite increased competition from neighbouring developers, these projects managed to record satisfactory level of sales due to our relatively affordable pricing, and support amenities such as shopping mall and hypermarket surrounding our development.

Bandar Putra Kulai ("BPK") in Kulai, Johore, had a relatively good year, enjoying reasonably good response from house buyers despite overall property market in Johore remaining soft. The IOI Mall, Kulai since its opening in the previous financial year, has brought in more commercial activities and boosted the profile of BPK township. Good infrastructure in the township together with the availability of wide range of affordable houses and commercial properties are expected to continue to attract prospective buyers.

Overall, due to a slow first half, the group recorded a decline of 11% in property sales for FY 2003. The Group sold a total of 1,963 units of properties with a total sale value of RM428.9 million as compared to 2,090 units with a total sales value of RM483.5 million for FY 2002. Bandar Puteri, Puchong the flagship development project of the Group accounts for 44% of the total sales.

The sales for the various projects are as follows:

Projects	Units		Sale Value (RM million)	
	FY 2003	FY 2002	FY 2003	FY 2002
Bandar Puchong Jaya	216	400	87.9	71.4
Bandar Puteri, Puchong	844	820	187.9	303.3
Bandar Putra, Kulai	711	707	117.5	96.2
Others	192	163	35.6	12.6
Total	1,963	2,090	428.9	483.5

OPERATIONS cont'd

For FY 2003, the average price per unit of properties sold was RM218,000, down from RM231,000 the previous year due to lower sales of properties in the RM250,000-500,000 range. The range of projects sold, summarised by price range are as follows:

Price Range	FY 2003		FY 2002	
	(RM' million)	%	(RM' million)	%
Below RM100,000	45.2	10	47.2	10
Between RM100,000 to RM150,000	45.8	11	54.8	11
Between RM150,000 to RM250,000	42.7	10	50.1	10
Between RM250,000 to RM500,000	112.6	26	206.6	43
Above RM500,000	182.6	43	124.8	26
Total	428.9	100	483.5	100

The Group's property investment portfolio comprises mainly of retails and office space totaling approximately RM1.4 million sq ft of net lettable space (FY 2002 - 1.4 million sq ft), of which about 100,000 sq ft is located in Singapore. The higher occupancy and rental rates for our two IOI shopping malls in Puchong and Kulai have resulted in an increase in the overall gross rental revenue for our investment properties by 10% to RM48.5 million for FY 2003, up from RM44.8 million a year earlier.

The occupancy and rental rates for other investment properties that comprise mainly office space managed to maintain their previous year level except for the IOI Plaza in Singapore which was affected by the economic slowdown and SARS outbreak in Singapore. A revaluation exercise has been carried out for the Group's investment properties in line with the market condition and a net revaluation surplus arising mainly from the two shopping malls (after accounting for deferred tax and minority interests) of RM18.0 million has been credited to Group's revaluation reserves. On the other hand, a revaluation deficit of RM9.2 million in respect of IOI Plaza has been charged against income.

RESULTS

For the financial year under review, the group recognized a total of RM509.9 million revenue from property development activities as compared to RM538.8 million in the previous year. EBIT achieved for FY 2003 was RM241.9 million as compared to RM235.0 million previously. Overall development margin was higher due to product mix variance and write back of contingency cost as more projects were completed and closed off during the financial year.

RESULTS cont'd

The Group's overall property segment EBIT for FY 2003, after taking into account property investment, was RM255.2 million, marginally lower than FY 2002's RM261.2 million due principally to the aforesaid charge of RM14.1 million in revaluation deficit.

Overall NOPAT for FY 2003 was RM168.6 million vs RM168.2 million for FY 2002. Based on an average capital employed of RM1,668.9 million, the ROCE for the Group is 10.10% (FY 2002 - 10.56%). Overall returns is on the low side because of low yields from investment properties. Although the yields are low for investment properties such as the shopping malls, it provides strategic value for our property development business.

TOWARDS BETTER COMMUNITY AND SOCIAL SERVICES

We are committed to provide our customers with better quality homes located within a modern and well-planned township. To date, we have completed major community projects such as the Bandar Puchong Jaya Balai Polis together with apartments, surau, community halls, underpass, interchange and flyovers at a total cost of RM31 million and other community projects, including a town park, with an additional cost of RM15 million are in progress.



TOWARDS BETTER COMMUNITY AND SOCIAL SERVICES cont'd

In addition, the Group's community portal, *myioi.com* was launched for the benefit of Puchong community and our customers.

OUTLOOK/PROSPECT

The housing market should continue to benefit from the improving local economy and the government's recent stimulus package. A more buoyant stock market and continued low interest rates will also provide additional conducive conditions for a more active housing market in FY 2004.





manufacturing



INTRODUCTION

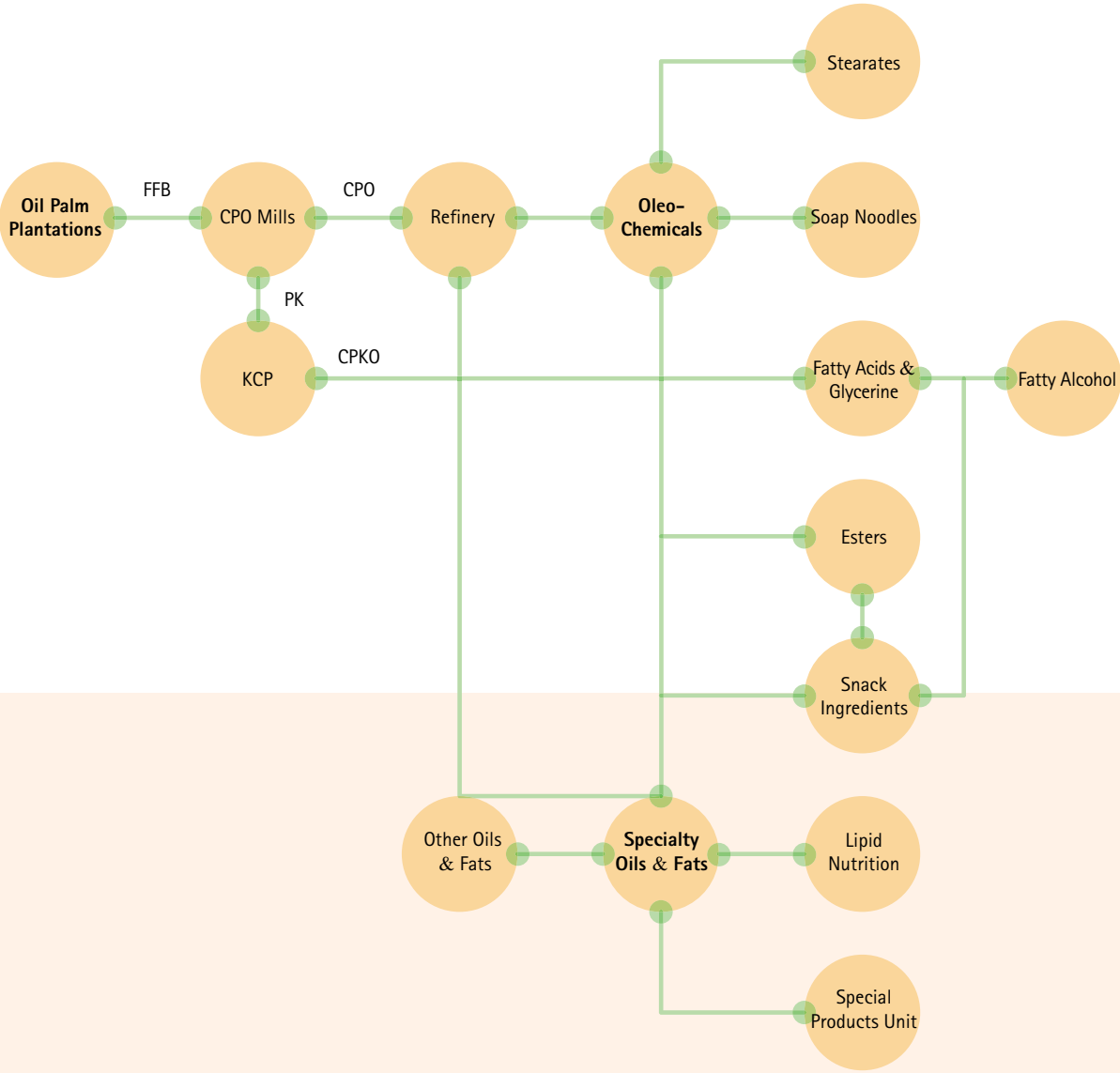
The Group's manufacturing segment comprises mainly downstream processing of oil palm produce. Crude palm oil and palm kernel oil are further processed in different ways into products that find multifarious usage in industries ranging from food, pharmaceuticals, cosmetics, personal care, to tyres and chemicals.

The principal subsidiary companies in this segment are:

	Industry	Effective Interest
IOI Edible Oils Sdn Bhd	Palm Oil Refining and Kernel Crushing	100%
Palmco Holdings Berhad	Oleochemicals	51%
Loders Croklaan	Specialty Oils and Fats	100%

The substantial extension and expansion into downstream operations in recent years has effectively transformed the Group from an oil palm plantation entity into a leading integrated palm oil player. The integration of the Group's palm oil business is illustrated as follows:





OPERATIONS

The Group's palm oil refinery and kernel crushing plant ("KCP") are located in Sandakan, Sabah with a refining capacity of 700,000 MT and kernel crushing capacity of 250,000 MT per annum. The refinery and KCP process mostly the CPO and kernels of the Group's own oil mills in Sabah.

For the oleochemical operations, the activities are undertaken through the subsidiary companies of Palmco namely, Acidchem Sdn Bhd ("Acidchem"), Derichem Sdn Bhd and Stabilchem Sdn Bhd that produce fatty acids, glycerine, soap noodles and metallic stearates as well as through Palmco's 30% owned associated company, Fatty Chemicals Malaysia Sdn Bhd ("FCM") for the production of fatty alcohol. Acidchem which has completed its plant expansion in the previous financial year with a production capacity of about 330,000 MT is the largest fatty acid producer in Asia.

The acquisition of Loders Croklaan expanded our palm-based down stream manufacturing activities significantly, both in terms of product portfolio and geographical presence. Loders Croklaan which has manufacturing facilities in the Netherlands, North America and Egypt has a long tradition of innovation and R&D excellence. The specialty oils and fats manufacturer has three main operating divisions, i.e. Snack Ingredients ("SI"), Lipid Nutrition ("LN") and Special Products Unit ("SPU"). The SI division produced value added fractionated oils and fats to the food industry whilst the LN division was established in recent years to develop highly modified lipid products with specific health functionalities for the supplement industry. The SPU is the smallest operation of Loders Croklaan that supplies both food and animal feed ingredients.

The location map of the Group's palm-based manufacturing facilities is shown on page 100-101 of the Annual Report.

RESULTS

The refinery business reported an operating profit of RM28.5 million for FY 2003, significantly higher than the RM12.3 million achieved previously as a result of better refining margins and more favourable trading conditions.

The oleochemical operations of the Palmco Group, including associate FCM contributed RM94.7 million to Group EBIT, an increase of 7% over FY 2002's contribution of RM88.7 million.

Aggressive volume growth, stemming from the expansion in capacities by both Acidchem and FCM, has mitigated the effects of lower product margins caused by higher raw material prices and increased competition from new capacities coming into the market. Our oleochemical business has continued to perform well with production levels reaching new highs for the third consecutive year. Sales volume was 34% higher as we were able to make market penetration based on the superior quality of our products and also because of a growing preference for vegetable based oleochemicals as oppose to those derived from animal fats.

The acquisition of Loders Croklaan was completed in December 2002. For the post acquisition period, Loders Croklaan contributed an operating profit of RM2.5 million, significantly lower its previous corresponding period. The lower profits were due to difficult prevailing market conditions as well as to one-off charges and cost adjustments such as severance pay, insurance costs and currency effects. On the market front, higher raw material input prices and other cyclical factors which gives rise to suppliers with seasonally cheaper alternative raw materials, such as illipe leaves versus sheabutter substantially compressed trading margins for the core snack ingredient business. Whilst its core business performed below expectations for the period reviewed, the new business lines, lipid nutritional and flavour delivery systems performed above expectations with strong growth. The initial objectives to ensure a smooth integration of Loders Croklaan and to commence the process of positioning it as a key integral part of the IOI Group's global palm oil business strategy for the future, was achieved during the period.

PROSPECTS

The oleochemical sub-segment should see further progress in performance as raw material prices soften to provide better margins whilst capacity utilization continues to increase. Despite increasing competition, we are confident of maintaining our leadership position in the industry based on our established portfolio of customers and long-standing reputation as a reliable quality producer.

On Loders Croklaan, although trading conditions are still expected to be difficult for the snack ingredient sub-segment, gradual improvements are expected as we continue to lower cost structure, enhance efficiency and capitalise on the strong supply chain linkage within the IOI Group. Loders Croklaan, with its leading oils and fats technology and geographical location, will also benefit from new businesses as it plays a lead role in securing new demand application for palm oil.

This Annual Report contains statements relating to the future that are based on management's estimates, assumptions and projections at the time of publication. These statements reflect our current views with respect to future events and are subject to risks and uncertainties. Some factors include, but are not limited to, changes in general economic and business conditions, exchange rates, exceptional climatic conditions and competitive activities could cause actual results to differ materially from expectations.

