

Challenge to find land for oil palm expansion

Crude palm oil prices are expected to be well-supported by structural changes in global supply and demand for related commodities, says KL Kepong group plantations director Roy Lim Kiam Chye. PricewaterhouseCoopers managing director Chin Kwai Fatt advises companies to consider an assessment or reassessment of their positions in corporate responsibility and align such initiatives to their business. At Glomac, group managing director Datuk Fateh Iskandar Mohamed Mansor sees plenty of signs that the property market has only started to go on an upswing.



2008
CEO
OUTLOOK

ROY LIM KIAM CHYE
Group Plantations Director
Kuala Lumpur Kepong Bhd

WHAT are your views on the escalating risks in the plantation sector's crucial growth parameters such as the scope of expanding oil palm areas, control of harvesting costs and maintaining high yields?

I would rather use the word challenges than risks that are associated with expansion of oil palm areas in Malaysia. These include the lack of suitable land and experienced planters, and the increasing difficulty of recruiting labour for plantation operations.

The best lands have long been acquired, and the choice of expanding would be limited to either acquisition of existing plantations, if they are available and which is currently expensive, or moving into marginal land.

The other option is to look offshore to Indonesia where land and labour are still available, although the choice pieces have also been taken.

Control of rising cost of production as a result of rising wages and sharply escalating price of fertilisers and general inflationary tendencies is a cause for concern, and may be mitigated by increasing yields through excellent agro management, although this is constrained by the fertility of the soil, terrain and weather in less than ideal locations.

What is the 2008 growth outlook for the biofuel/biodiesel industry in Malaysia amid the international trade limitations, high feedstock (CPO) prices, sustainability and food versus fuel debate?

The growth of the Malaysian biodiesel industry would continue albeit at a slower pace on account of high feedstock prices and thinner margins, and the industry is anxiously awaiting an official policy from the Government.

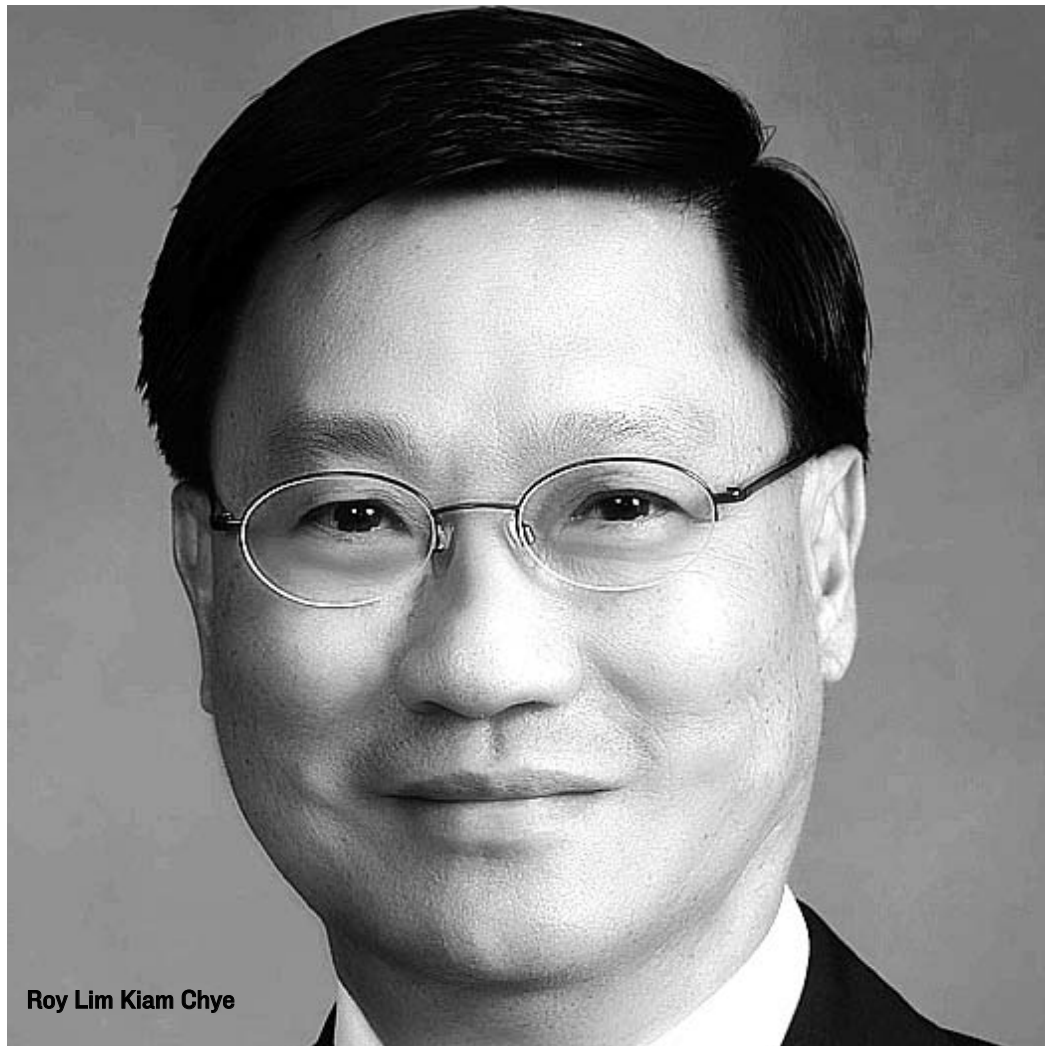
Furthermore, we can expect stiff competition from Indonesia, whose producers currently enjoy a lower CPO price after the government increased CPO export duty by up to 10%.

The Malaysian biodiesel industry currently depends on export, as there is now no mandatory blending policy in the country and may face artificial trade barriers into EU on account of sustainability issues.

The expected strong growth in the edible oils sector, particularly from China and India, and the anticipated tight supply of oilseeds in 2008 would pose difficulties for the biodiesel industry in terms of competition for raw materials and their resultant firm prices.

However, for the rest of the world, based on either vegetable oils (palm oil, rapeseed oil etc) or agricultural products (corn or sugar cane), the biodiesel industry would continue to flourish in countries that are prepared to subsidise or introduce mandatory blending ratios.

Do you agree that the structural changes in global commodities supply and demand patterns, i.e. the biodiesel market, the fight for hectare to plant corn for ethanol instead of soy-



Roy Lim Kiam Chye

bean and rapeseed in the US and South America, trans fatty acid concerns, and China and India relaxing their palm oil import tariffs, will lend support to higher CPO prices in 2008?

Most commodities – metal, rubber, petroleum and vegetable oils – are going through a bull market. We agree that the price of CPO would be well supported by the structural changes in the complex global supply and demand for a host of related commodities. CPO price is now closely correlated to that of mineral oil and often moves in tandem with it.

Besides, supply pressure from the growth in the edible oil sector and the expected competition for acreage between grains (corn and wheat) and oilseeds (primarily soybeans) in the next planting season in the northern hemisphere would lend further support to the price of CPO.

Health issues like trans fatty acids have boosted the demand for palm oil, particularly in the US, and elsewhere the vagaries of weather and smaller crops in consuming countries would require the necessary imports to meet demand and reduce inflationary pressure.

Please comment on your company's strategies in 2008 and the rationale behind it, with regard to overseas expansion, refineries, mills, biomass, biodiesel projects or carbon credit initiatives.

Our strategy for plantations going into 2008 would continue to leverage on our 13 years' experience in Indonesia to scout for opportunities to expand our landbank as opportunities in Malaysia are limited. Infrastructure and processing facili-

ties would be put in to support our increasing mature areas in Indonesia.

Our refining operations will mainly concentrate in our new and enlarged plant in Lahad Datu, which is linked up to our edible oils and oleochemical operations in China.

Expanded palm kernel crushing in East Malaysia and a new facility in Sumatra would constitute a major supply chain for our fast growing oleochemical operations in Malaysia, China and Europe.

We will further our efforts to address "sustainable issues" through good practices, recycling of waste and earn carbon credits in the process.

The current volatility in CPO price of RM2,900 to RM3,000 per tonne have made it very difficult for planters to lock in their selling prices. At what price would your company be "comfortable" for FY2008 and FY2009. (Kindly indicate your average cost of production annually).

The current price of CPO is very comfortable for all plantation companies. Although strong fundamentals would support the CPO price in 2008, whether they will soar further from the RM3,000 per tonne mark is left to be seen.

We have adopted a prudent approach to commit sales at each level of improvement in prices to minimise any risk that may arise from the uncertainty that may arise in the global economy from the sub-prime problems in the US.

We expect our CPO cost to be inflated by high price of fertilisers and operating costs to about RM890 per tonne.

DATUK FATEH ISKANDAR
MOHAMED MANSOR
Group Managing Director
Glomac Bhd

WHAT is your outlook for the property market next year?

The outlook for the property market next year remains good despite suggestions by the vast majority of slower economic growth in the US, and escalating prices of oil and other commodities, including external factors such as the sub-prime crisis.

I feel we are securely insulated from these adverse external factors.

Let's put it this way – there are plenty of signs to suggest that the property market has only started to go on an upswing. You couple that with other factors like our well-diversified economy, strong fundamentals, strong ringgit and the Government's policies to boost consumption, plus favourable domestic factors and strong economic growth.

Quite frankly, even if we're affected by these global developments, it might have a modest impact by constricting robust growth to a certain extent.

Still, we look forward to next year positively, despite the challenges.

What are some of the opportunities and challenges for industry players, going forward?

We have a peculiar set of circumstances affecting us right now, such as adverse external forces and favourable domestic conditions.

I believe the year ahead promises strong performance in an environment increasingly filled with greater risks and uncertainties.

By and large, our predominant concerns will rely on how we deal with

CHIN KWAI FATT
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THIS year has been a year of increased awareness of accounting standards and professional integrity for corporate Malaysia. What will the trend be, going forward?

The trend is expected to continue. On the financial reporting standards front, the International Accounting Standards Board gave the corporate world a four-year reprieve from the last big wave of financial reporting standards in 2005.

The next big wave is expected to be in 2009. Malaysia, through the Malaysian Accounting Standards Board, is expected to follow closely after going through the due process, of course.

On professional integrity, PricewaterhouseCoopers (PwC) is supportive of the government's decision to set up a public company accounting oversight board.

With this board, we are moving towards an environment of "co-regulation" – a mixture of independent regulation by the oversight board, complemented by professional bodies – the ethics and integrity of accountants and auditors will be under deeper scrutiny, driving chief financial officers and accounting firms to continually deliver good governance quality work.

What are some of the improvements put in place and how should these put the corporate sector in a stronger

certain prevailing challenges, such as volatile prices of major commodities, especially oil, and the ever increasing costs of building materials, thus increasing development costs.

The next challenge is to accelerate the speed of reforms and improve further our delivery system. We must remain competitive as an open investment destination. Otherwise, we will always be the bridesmaid to our neighbours like Singapore, Thailand, and Vietnam, not to mention the Gulf countries, and of course, China and India.

Notwithstanding those challenges, we need to make the most of the opportunities around us. I feel we should capitalise on the Muslim majority population, which means easy accessibility and availability of *halal* food.

We have a booming and established Islamic financial system; we are a top-class tropical tourist destination, a shopping haven, and increasingly a popular destination for tertiary education students and medical tourism.

So, we are an attractive proposition to wealthy Muslims from all over the world like Europe and the US, and especially so from the Organisation of the Islamic Conference countries and of course, India and China.

Which property sector and development types offer the best potential for your company?

We will go wherever opportunities lead. There is no limit to the scope or types of property and we will certainly look for opportunities in every nook and cranny of the property market, locally or abroad.

There is currently demand for prime-city office locations, which is

»There is demand for prime-city office locations«
DATUK FATEH ISKANDAR

driving up prices to new records in the KLCC area; yet ironically they are by comparison to other countries in the region, far cheaper and too cheap to ignore, although they offer far better yields.

There is certainly sustainable demand for lifestyle concepts, especially secure residential developments, while there is increasing evidence that hotel/resort developments seem to have picked up somewhat, noticeably among foreigners.

Of course, commercial properties in prime locations have also been our specialty. We are preparing to launch projects to tap the buoyant property market conditions, ranging from our bread and butter township developments to medium and high-end residential and commercial projects.

The latest would be developing an iconic office tower.

What are the challenges faced by the industry and what is the possible impact on your company?

The new market dynamics continue to gain strength and are now forcing enormous changes in the property development industry.

The importance of harnessing innovation that is both responsive to market demand and attractive to



Datuk Fateh Iskandar Mohamed Mansor

consumers is hard to deny.

Developers need to look at offering exciting and inventive products that provide bona fide value such as lifestyle concepts, improving after-sales services and ensuring quality.

These are all driven by changing trends that create value-added propositions and push the industry to new heights.

We are also experiencing an exodus of skilled and experienced workers to greener pastures due to the property boom in the Gulf States and

Singapore. This will have a potentially adverse effect on the implementation of development corridors and projects due to the outflow of skilled workers.

What are some of the interesting property launches that can be expected from your company in the coming months?

I'm genuinely excited by what the future holds for us and I cannot hide my enthusiasm when I speak of our future launches.

Currently, we have 13 ongoing sizeable development projects and among the most exciting right now is Glomac Tower, a RM600mil landmark grade "A" office tower opposite the KLCC. It will be a new addition to the KL skyline, so close to the Petronas Twin Towers.

We will also launch a mixed commercial development with a gross development value (GDV) of RM500mil along Jalan Damansara, next to Kuala Lumpur's Taman Tun Dr Ismail. In Desa Sri Hartamas, we will launch 4 1/2-storey shop offices with a GDV of RM85mil.

In Bandar Baru Bangi township, we will launch a gated mixed development project with a GDV of about RM120mil.

What is your expectation on project take-up rate, sales revenue and earnings for the company next year?

In a hyper-competitive industry, where only those with a trusted brand, innovative value propositions, established credentials and formidable financial muscle would withstand the test of time.

We're preparing to launch new products in the year ahead. New sales from our existing township projects are enjoying strong momentum.

Our earnings are on an uptrend, and we believe we're able to deliver strong financial performance due to the high unbilled sales, the sizeable line-up of strong launches in prime locations in the pipeline next year, and also being a direct beneficiary from the Government's incentives to induce consumption and spending.

We also stand to gain from the added boost from the normalisation of the tax rate and certain land sales gains.

position?

● Financial Reporting Standards (FRS): The decision internationally for a single set of high quality financial reporting standards was aimed at reducing the gaps between financial statements of countries where local generally-acceptable accounting principles are applied.

With the convergence of Malaysian financial reporting standards to that of international financial reporting standards, gaps in financial statements are reduced and are more comparable.

This, in turn, reduces reconciliation costs, and puts Malaysian companies on the same reporting platform as their global counterparts, at least where financial reporting is concerned.

● Corporate Governance (CG): Revisions made in October to enhance the CG practices, including the requirements for a fully non-executive Audit Committee, a mandatory internal audit function for public listed companies (PLCs), and enhanced criteria for board member qualifications.

All these developments will enhance companies' best practice and position Malaysian companies favourably where international benchmarking is concerned.

● Corporate Responsibility (CR): Dedicated resources (e.g. CR committee, CR officer, etc) enable a company to focus on its CR plans, to consider the appropriate initiatives that can be symbiotic with the business.

Stakeholder engagement is also a key. If stakeholders are kept abreast of the company's actions, they can provide constructive feedback that the company can consider in its future decisions, thereby addressing stakeholders' expectations.

Staff training on ethics and code of



Chin Kwai Fatt

conduct would also help to inculcate a culture of integrity and responsibility within the organisation.

With the appropriate improvements in place, a company may be in a stronger position to do business with customers, who are increasingly looking to buy from "green" companies.

Recognition as the "employer of choice" reduces recruitment/retention costs, as potential employees will be knocking on the doors and existing employees would be proud to be associated with a CR-con-

scious company.

What should companies do to further enhance corporate responsibility and transparency?

The good news is that CR is not new to corporate Malaysia. Many are already practising some form of CR, be it in the form of philanthropic initiatives (donations and charity) or sustainable ones that are aligned to the company's business.

To further enhance CR, companies may consider an assessment or reassessment of their position in CR

and align such initiatives to their business.

There is a responsibility for companies to make money in order to meet shareholders' expectations, but there is also a need to make money responsibly to meet other stakeholders' (e.g. employees, customers, etc) expectations.

Companies should put in place sustainable initiatives that can impact well into the future, rather than ad hoc activities. Capacity building is the key – it is more impactful when CR initiatives are able to "provide for the future", thereby propagating the positive effect.

Transparency can only be enhanced when a company communicates its CR initiatives and their impact transparently.

What are some of the practices already put in place among companies in Malaysia that will benchmark them among the best in the world?

The establishment of a Financial Reporting Standards Interpretations Committee, which deliberates on the interpretation of Financial Reporting Standards (FRS), helps to eradicate arbitrary application of the FRS in areas where there are unsatisfactory or conflicting interpretations.

This results in reliable and comparable financial statements, which is expected to enhance investors' confidence in Malaysia as a preferred investment destination.

CG is a critical component of good CR, and PLCs in Malaysia have been actively practising this since 2000. The CG Code was recently revised (effective Oct 1) to enhance the practice thereof.

Many PLCs have also established a whistle-blowing policy to manage

the code of conduct within the organisation, thus inculcating a culture of responsible and ethical business practices among its employees.

The Bursa Malaysia Listing Requirements for PLCs to disclose CR activities or practices (beginning financial year ending Dec 31) will provide more non-financial information that should enhance shareholders' understanding of the operations of a company.

This, in turn, will assist in the decision-making process, i.e. shareholders can make informed decisions.

Is your organisation planning any events or additional measures to assist companies achieve best practices?

The PwC network has to its avail global resources on the CR/sustainability and financial reporting fronts. There are many PwC publications, both general and industry-specific, to assist companies in their CR agenda; and most are freely available in hardcopies and/or on our website.

We also share our views with clients as well as the general public through the media, and leverage on global resources to assist the development of the CR agenda of corporate Malaysia.

In November, we organised a CR briefing to bring awareness to boards and highlight the implications to PLCs, in particular the reporting of CR activities for the financial year ending Dec 31, as required by Bursa listing requirements.

Going forward, PwC will continue to keep companies updated on the developments and issues on this front through interactive sessions like briefings and workshops as well as publications.