MESSAGE FROM THE EXECUTIVE CHAIRMAN

Introduction

On behalf of the Board of Directors, I am pleased to present the Annual Report of Lam Soon (M) Berhad for the financial year ended 31st December 2014.

2014 was a challenging year for your Group. The volatile global economic environment and rising inflation in the domestic market affected your Group’s overall performance. At the same time the withdrawal of government subsidies and the increase in energy cost had affected consumer disposable income. Inflation in the country averaged at 3.2% in 2014 (2013: 2.1%). With consumers becoming more price sensitive, the intense market competition and with the higher operating cost, profit margins were depressed, especially for its fast moving consumer goods (FMCG) business segment.

The export market likewise remained difficult with stiff competition from Indonesian producers. In addition, the higher production of palm, soybean and other vegetable oils during the year and the moderation in demand from major economies, especially China, put pressure on price and profit margins.

Crude Palm Oil (CPO) was on the uptrend at the beginning of the year, rising from about RM2,620/MT to a high of RM2,940/MT in March. Thereafter it declined gradually to close at about RM2,300/MT at the end of July 2014. It continued to decline sharply to a low of RM1,900/MT in September and closed at about RM2,300/MT at end of year. However, the average CPO price for the whole year of 2014 was about RM2,380/MT (2013: RM2,370/MT) which is marginally higher by RM10/MT.

The sharp decline in palm oil price in the last quarter of 2014 was due largely to the sharp drop in crude oil price and the higher output of other vegetable oils globally.

Results

Because of the more challenging market conditions, your Group recorded a lower consolidated profit before tax of RM144.91 million for the year under review compared to the previous year (2013: RM151.19 million), a decline of 4.2% (-RM6.28 million). Group consolidated profit after tax was likewise lower at RM113.26 million (2013: RM116.20 million) down 2.5% (-RM2.94 million), with lower tax provision of RM31.65 million (2013: RM34.99 million).

Group sales revenue was 4.4% higher at RM1.90 billion as against RM1.82 billion for 2013, due to overall higher selling prices.

At company level, profit after tax recorded for the year under review was RM96.07 million (2013: RM319.27 million). The profit for the previous year included an extraordinary gain on disposal of land and building of RM230.85 million; exclude the extraordinary gain, the 2013 profit after tax was RM88.42 million. This gave an improvement at company level after tax profit of RM7.65 million for the year 2014. The improvement was due to higher dividend income of RM90.36 million (2013: RM85.34 million).
MESSAGE FROM THE EXECUTIVE CHAIRMAN (cont’d)

Results (cont’d)

The lower Group profit was due to the drop in profit contribution from its FMCG and oleo chemicals business units compared to the previous year. In the FMCG business, although Lam Soon Edible Oils Sdn Bhd (LSEO) continued to maintain its strong brand leadership in its product segments with sustained sales volume in the domestic market, the inflationary cost pressure and higher raw material cost, especially in the first half of the year, eroded the company’s profits. The company regained some of its profits in the second half of the year when commodity and fuel prices were lower. LSEO pre-tax profit declined 8.6% compared to previous year.

Similarly, in the Household and Personal Care segment, Southern Lion Sdn Bhd (Southern Lion) faced intense price competition and rising raw material cost. It registered a negative sales volume growth for the year. However, with price adjustments at the beginning of the year and concerted promotional efforts together with strong brand differentiation, Southern Lion managed to register a 4.8% improvement in profit before tax for the whole year.

In the oleo chemical business, Pacific Oleochemicals Sdn Bhd (POC) and Pacific Esters Sdn Bhd (PES) likewise operated in a very competitive environment. With a subdued export market and stiff competition from both local and Indonesian producers, the combined oleo chemical business recorded a 20.8% decline in pre-tax profits.

Profits from plantation improved with the higher average CPO price. Lam Soon Plantations Sdn Bhd (LSPSB’S) operating profits increased 13.4% over the previous year and those of its 40% associate Dara Lam Soon Sdn Bhd (DLS) increased by 37.0%.

Manufacturing

During the year, LSEO continued to revamp its production operations at its factories to further improve its production efficiency and product quality and safety. Its effort paid off with the award of the prestigious FSSC 22000 certification for its Pasir Gudang Factory in October 2014. The certification demonstrated the company’s commitment to food safety management and had a system in place that met the requirement of its customers and consumers. The FSSC 22000 is fully recognised by the Global Food Safety Initiative (GFSI) and is one of the highest Food Safety Management Systems.

In addition to food safety, LSEO has also established a HALAL policy and HALAL assurance system to ensure that its manufacturing facilities used and products manufactured meet the HALAL requirements. This initiative has earned the recognition of JAKIM who have now placed the company on its privilege HALAL Fast-Track Programme. This is advantageous as it will hasten the company’s application for HALAL certification for any new products in the future.

At the POC plant in Pasir Gudang efforts are being made to improve plant efficiency and product range. For its care towards the environment and its employee’s welfare, POC was awarded four Gold awards by CICM (Chemical Industries Council of Malaysia) in its Responsible Care Awards 2013/14. The awards are in the following categories:

- Product Stewardship Code – Gold
- Distribution Code – Gold
- Employee Health and Safety Code – Gold
- Process Safety Code – Gold
- Community Awareness & Emergency Response Code – Silver

LSEO has undertaken a reconfiguration of the office block in its Teluk Panglima Garang factory to free up more staging area for the finished goods warehouse. The project, which is expected to be completed in mid-2015, will ease the supply chain bottleneck.
Marketing

Your Group continues to achieve sales growth in the FMCG industry despite stiff competition and a weak consumer sentiment. Our diversified product portfolio and multi-brand strategy are serving us well. LSEO enjoys leading brand shares in cooking oil, chilled margarine, sauces and bath care. Our star brands, *Naturel* and *Antabax* created new milestones in 2014. In the short span of two years, *Naturel* has become the No. 1 Olive Oil brand in the segment, while *Antabax* continued to make inroads in the Medicated Personal Wash segment.

We are gratified by the trust Malaysian consumers have placed in our brands, which continue to receive numerous products and consumer accolades:

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<tr>
<th>Brands</th>
<th>Awards</th>
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<tbody>
<tr>
<td><em>Knife</em></td>
<td>2014 Reader's Digest Trusted Brand Award (Platinum)</td>
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<td>2014 Brand Laureate Award</td>
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<td></td>
<td>2014 Reader’s Choice Award (Best Soy Sauce)</td>
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<td><em>Buruh</em></td>
<td>2014 Reader’s Digest Trusted Brand Award</td>
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<td><em>Naturel</em></td>
<td>2014 Domestic Diva Award (Sunflower Oil)</td>
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<td></td>
<td>2014 Reader’s Choice Award (DHA Cooking Oil and Spread)</td>
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<td><em>Antabax</em></td>
<td>2014 Brand Laureate Award</td>
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<td>2014 Chicago Good Design Award</td>
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<td>2014 The Star SOBA Gold Award</td>
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<td>2014 AREA Asia Responsible Entrepreneurship Award (Best in CSR)</td>
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<td>2014 Sin Chew Business Excellent Award</td>
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<td>2014 Her World Beauty Award</td>
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<td><em>Bio-home</em></td>
<td>2014 Reader’s Choice Award (Best Eco Dishwash)</td>
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<td><em>May</em></td>
<td>2014 LISA Beauty Trophy (Best Shower Cream)</td>
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Furthermore, a special mention is in order for my fellow Director Mr Kuek Bak Heng, who was named in this year’s Brand Laureate Award FMCG Man of the Year. Though Lam Soon is synonymous with cooking oil, Mr Kuek has been instrumental in the company successfully diversifying into new FMCG product categories with young and vibrant brands. Under his leadership, LSEO achieved an important milestone in 2012 when its revenue exceeded RM1 billion. My colleagues and I share his pride and delight with the well-deserved accolade.

Part of LSEO’s strategic focus is to grow “Out of Home” or food service channels. It has accordingly expanded product offerings on mayonnaise, chicken stocks, chilli sauces, etc., in partnership with Spices & Seasonings Specialities Sdn. Bhd.

In the retail channel, we upgraded our customer service level by the implementation of nationwide PDA capability in our sales force.
Prospects

The global economy is expected to be even more challenging in 2015. The sharp decline in crude oil price and the uncertainty over its future and its effects on the price of other commodities further compounds the challenges faced by oil and commodity dependent economy like Malaysia.

The weakening of the ringgit and the introduction of Goods and Services Tax (GST) in April 2015 will see further softening of consumer demand at least until the third quarter of the year. Prices of goods and services are expected to increase by up to 6% affecting consumer purchasing power.

In view of these challenges, profits from our FMCG business are expected to come under pressure. However, the Group will take measures to mitigate the effects of the softer consumer market and will maximise the advantage of the lower commodity and fuel price.

In the export market, especially for the oleo chemicals business, emphasis will be placed on further enhancing its customer service and delivery efficiency.

Plantation profits, as ever, depend largely on CPO price. With the low crude oil price and the slow growth expected in major economies, the price of CPO may remain subdued in 2015. As such, plantation profits may decline significantly.

In spite of the challenges, the Group will remain focused on building its respective businesses, actively looking for new channels and products to strengthen its profit base. At the same time, it will monitor the market closely and take all steps necessary to mitigate any adverse market developments to ensure it stays on course to achieve its best, given the market condition.

Dividends

Your Company had during the year paid a single tier interim dividend of 8.0% amounting to net payment of RM17.18 million for the financial year ended 31 December 2014.

Your Board is proposing for shareholders’ approval at the forthcoming Annual General Meeting, the payment of a Final single tier dividend of 18.0% amounting to RM38.65 million.

The proposed Final dividend will bring the total net dividend payments for the financial year ended 31 December 2014 to RM55.83 million (2013: RM66.56 million).

Appreciation

On behalf of the Board, I would like to thank you, especially all our customers and business associates for your continued support. We value your support immensely and we strive to provide you with products and services of high standards.

The Board wishes to also express its appreciation to all our employees who have worked hard to help the Group overcome the many challenges during this trying time.

Once again, I would like to thank our fellow Board members and that of the Group for their invaluable advice and counsel that have helped us through this difficult period. To all our shareholders, thank you for the trust and confidence in us to bring you the best returns for your investment.

Whang Shang Ying
Executive Chairman
30 April 2015