

MESSAGE FROM THE EXECUTIVE CHAIRMAN

Introduction

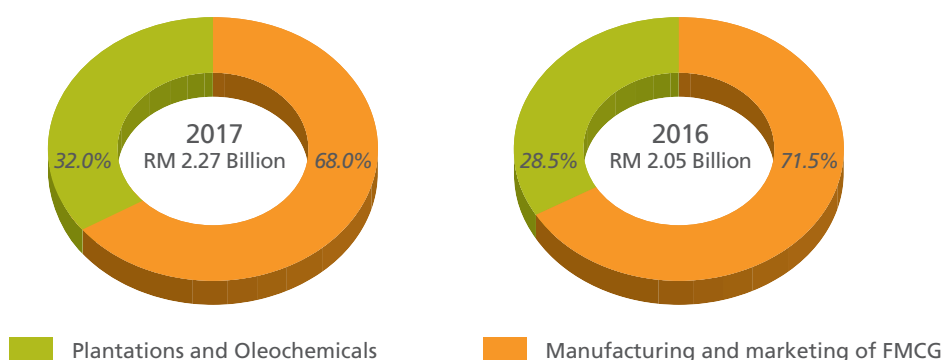
On behalf of the Board of Directors, I am pleased to present the Annual Report of LAM SOON (M) BERHAD for the financial year ended 31 December 2017.

In 2017, Malaysia's yearly crude palm oil (CPO) production increased 15.0%, from 17.32 million tonnes in 2016 to 19.92 million tonnes in 2017 due to more favourable weather conditions and improved rainfall. As a result, palm oil closing inventory for 2017 increased 1.06 million MT or 63% to 2.73 million MT (2016: 1.67 million MT).

The price of CPO averaged higher at RM 2,783/MT (2016: RM 2,653/MT), a rise of RM 130/MT or 4.9%. But there was considerable volatility with the highest daily traded price in February at RM3,380/MT falling to the lowest in December at RM2,339/MT before closing at RM 2,400/MT.

Crude Palm Kernel Oil (CPKO) prices were even more volatile, trading at record high of more than RM 8,400/MT in Q1 2017 before plunging to below RM 4,000/MT in Q2 2017. Thereafter, it climbed back to above RM 6,300/MT in Q3 2017 and closed at less than RM 5,000/MT at the end of the year.

REVENUE BY BUSINESS ACTIVITY



Results

At the consolidated level, your Group sales revenue was 10.7% higher at RM 2.27 billion (2016: RM 2.05 billion) due to higher average selling prices of palm and lauric based products as well as higher sales volume of agency products.

Overall your Group enjoyed higher profit contributions from LAM SOON EDIBLE OILS SDN BHD (LSEO), LAM SOON PLANTATIONS SDN BHD (LSPSB) and PACIFIC OLEOCHEMICALS SDN BHD (POC). These enabled your Group to record a consolidated profit before tax of RM 170.02 million (2016: RM 144.67 million), a year-on-year increase of RM 25.35 million or 17.5%. Likewise, its after tax profit was 16.7% higher at RM 138.20 million (2016: RM 118.42 million). At Company level, profit before tax for the year was 13.1% higher at RM 125.10 million (2016: RM 110.58 million); this was mainly attributable to higher dividend income which amounted to RM 126.26 million (2016: RM 111.48 million).

The retail index sales volume of food and beverage category in the country declined in 2017 as compared with 2016. Nevertheless, LSEO sales revenue for the year increased 4.8% to RM1.53 billion (2016: RM1.46 billion) on the back of higher commodity prices which translated into higher selling prices.

LSEO made a profit before tax of RM76.22 million for the year, which is 5.7% higher compared to the previous year. The higher profit included an insurance claim of RM 4.00 million received in the year. The main volume and profit drivers for 2017 were agency products, especially *Lion* products, the volume of which grew by 8.0%.

Results (cont'd)

Our oleochemical division recorded a significant increase in profit before tax of 84.4% or RM 8.95 million to RM 19.55 million (2016: RM 10.6 million), largely due to higher sales volume, better margins and gains from foreign exchange.

LAM SOON PLANTATIONS SDN BHD (LSPSB) recorded a company level operating profit of RM22.6 million for the year, which is higher than the preceding year by 49.4%. This was attributable to both higher average selling prices and higher sales volume from increased FFB production output. As part of our long term sustainable growth strategy, LSPSB continued its replanting programme this year.

At our 40% associate DARA LAM SOON SDN BHD (DLSSB), the replanting programme has been completed. Its production improved and helped company achieve an operating profit of RM 43.14 million for the year, or 6.4% higher than preceding year.

SOUTHERN LION SDN BHD (SLSB) achieved sales growth of 7.6% following successful consumer engagement for its brands and closer collaboration with retailers. *Top*, already the strong market leader in the powder detergent segment, reached another milestone when it attained the No. 1 position in the liquid detergent segment as of November 2017, as tracked by Nielsen. *Systema* grew 4% market share points and strengthened its No. 1 position within the tapered toothbrush segment. However, as SLSB faced the double impact from volatile foreign exchange rates and surging raw material prices, profit margins were eroded.

Manufacturing

Your Group continues to maintain its commitment to producing high quality, safe and innovative products while safeguarding our environment. In 2017, both LSEO's factories, in Telok Panglima Garang (TPG) and in Pasir Gudang (PSG) successfully upgraded their quality management system from ISO9001:2008 to ISO9001:2015.

In addition, its TPG Factory also upgraded its environmental management system from ISO14001:2004 to ISO14001:2015. These accreditations highlight our continuous improvement in adopting the risk based approach in our manufacturing and business management. A brand new wraparound machine with automatic case packer was commissioned in 2017, improving the speed, efficiency and productivity output at the factory.

An Integrated Visitor Management System has been implemented at both factories. This will enhance the security and traceability for the receiving of incoming oils up to dispatching of bulk oil, and is a stepping stone to brace ourselves for upgrading to version 4.1 of Food Safety System Certification (FSSC 22000), announced in July 2017.

In the Chemical Industries Council of Malaysia Responsible Care Programme Awards, POC won the following awards for year 2016/2017:-

- | | |
|---|----------------|
| - Product Stewardship Code | - Silver award |
| - Community Awareness Emergency Response Code | - Silver award |
| - Pollution Prevention | - Silver award |
| - Distribution Code | - Silver award |

Our commitment to Sustainable Palm Oil

On 25 August 2017, LSPSB was awarded with Roundtable on Sustainable Palm Oil (RSPO) Principles & Criteria certificate. With this certificate we are now recognised as a company that produces sustainable CPO and palm kernel using the Identity Preserved (IP) supply chain model. Moreover, its associate company DLSSB, having completed its RSPO Principles & Criteria certification audit on 16 January 2018, has likewise been recommended for RSPO certificate under the "Identity Preserved" supply chain model.

Our commitment to Sustainable Palm Oil (cont'd)

During the year, the following projects were completed:

- A new 35MT/hour water tube boiler at LSPSB's palm oil mill in Lahad Datu, Sabah. This comes with wet scrubber to reduce dust particles emission into the air from previous 400mg/cubic meter to 150mg/cubic meter.
- Building of a biogas plant at DLSSB palm oil mill in Pahang to reduce the release of greenhouse gas into the air. The captured methane gas is used as renewable energy.

These demonstrate our commitment to minimise negative impact on the environment in our daily operations.

For us at Lam Soon, sustainability includes attending to our workers' well-being. In particular, we believe that providing access to education for our foreign worker's children is of paramount importance so that they will have a better future. We have accordingly begun to construct a permanent primary school and kindergarten building in Lahad Datu, Sabah to house 180 students who are the children of our workers. Meanwhile, DLSSB has been extending free health care to "Orang Asli" (natives) living nearby its estate.

Lam Soon Group held a regional conference on sustainability on 26 and 27 March 2018. The aim of the conference is to raise the awareness of and express our commitment to sustainable practices, of which compliance with the requirements of RSPO is an important aspect. It was attended by the Group's senior management.

Marketing

With the cessation of the Cooking Oil Price Stabilisation Scheme (COSS) on 31 October 2016, the Group was free to adjust its supply and trade activities in tandem with market forces. As a result, *Knife* brand's leading share in the blended oil segment strengthened to 62.5% whilst *Cap Buruh*'s share improved to 18.3% in the refined oil (olein) segment. *Naturel*, our 21st century brand, continues to maintain its dominance with brand shares in Sunflower Oil of 72.6% and Olive Oil of 35.9% respectively.

Lifestyle changes have seen the emergence of a number of fast growing premium supermarkets and chain pharmacies in Malaysia. The Group continues to invest its resources to build effective engagements with these emerging retail partners whilst strengthening existing key relationships through collaborations in category and supply chain management.

In line with our focus on innovation to broaden product offering, we have launched healthier products such as *Naturel* Organic Pasta, which received good response from our consumers in selected premium supermarket outlets. In addition, the Group has expanded into chilled dairy products by partnering with Arla Food of Denmark. LSEO was appointed national distributor for Arla butter and cheese products effective November 2017. To ensure that we are bringing consumers fresher products on time, we are improving our cold chain capability.

In recognition of the consumers' strong acceptance of our brands and products, we are inspired by the accolades and awards received as below:

<u>Brands</u>	<u>Awards</u>
<i>Knife</i>	2017 Reader's Digest Trusted Brand Award (Platinum) 2017 Brand Laureate Award (Best Cooking Oil)
<i>Buruh</i>	2017 Reader's Digest Trusted Brand Award (Gold)
<i>Naturel</i>	2017 Reader's Digest Trusted Brand Award (Gold) 2017 Brand Laureate Award (Most Favourite Brand) 2017 Domestic Diva Award (Best Pure Olive Oil and Soft Margarine) 2017 Her World Kitchen Award (Best Cooking Oil, Olive Oil and Soft Margarine)
<i>Antabax</i>	2017 Brand Laureate Award 2017 Her World Beauty Award (Wipes and Hand Sanitizers) 2017 Health & Wellness Award (Wipes and Shower Cream)

Land Under Compulsory Acquisition

In February 2018, 8.0 acres of land in Shah Alam owned by RENNES PROPERTIES SDN BHD (RPSB) was acquired by the Government under the Land Acquisition Act 1960 for the construction of LRT 3 line. The management is now negotiating with the Government for the compensation of the land acquired.

Prospects

With the strong headwinds coming from the volatile commodity prices and foreign exchange rates, the Group continues to prudently manage costs. At the same time, the Group will focus on product and marketing innovations as well as production efficiency, quality, service, and management of resources.

As at the end of 2017, the CPKO price was around RM 4,900/MT to RM 5,000/MT but as of end April 2018, the price for CPKO ranges from RM 3,700/MT to RM 3,900/MT. The steep decline has adversely affected sales and profits for our plantation and oleochemical segments, and dampened the outlook for 2018.

LSEO's new Distribution Centre (DC) in Cyberjaya is progressing as scheduled. Our 277,000 sq ft warehouse will be completed and fully operational by Q3 2018. It will be followed by the construction of our new Central Region Sales Office which is adjacent to the DC and is expected to be completed in 2H 2019. The property, when completed, will further enhance the Group's operating efficiencies.

Dividends

During the year, your Company had paid a single tier interim dividend of 9.0% amounting to net payment of RM 19.33 million for the financial year ended 31 December 2017 (2016: 9.0%, RM 19.33 million).

Your Board is proposing for shareholders' approval at the forthcoming Annual General Meeting, the payment of a Final single tier dividend of 21.0%, amounting to RM 45.09 million (2016: 21.0%, RM 45.09 million).

The proposed Final dividend will bring the total net dividend payments for the financial year ended 31 December 2017 to 30.0% or RM 64.42 million (2016: 30.0% or RM 64.42 million).

Appreciation

On behalf of my fellow Directors, I would like to take this opportunity to record our sincere thanks and appreciation to Y. Bhg. Dato' Afifuddin bin Abdul Kadir for his contribution during his tenure on the Board. Dato' Afifuddin has been succeeded by En Nik Abdul Hamid Shukri bin Nik Abdullah. I would like to extend a warm welcome to En Nik Abdul Hamid.

On behalf of the Board, I would like to express our sincere appreciation to our business associates and customers for their continuous support.

My heartfelt appreciation goes to the management staff and employees for their relentless hard work, commitment and dedication throughout the year, and to our shareholders for the trust and confidence towards our Group.

I would like to express my deepest gratitude to fellow Board members who have contributed to the Group with their invaluable advice and guidance.

Whang Shang Ying

Executive Chairman

8 May 2018