



2017 Overview

The good weather condition and resumption of rainfall after the El Nino phenomenon in 2016 noticeably boosted productivity in terms of yield per rai and output of palm crop. The global supply of CPO increased by 7% to 62.29 million MT in 2017 (2016 : 58.3 million MT). There was an increase not only of palm oil production, but also other vegetable oils, especially soybean oil. Total CPO production in the Kingdom in 2017 was the highest recorded at 2.6 million MT increasing by 44% (2016 : 1.8 million MT). The nationwide CPO stock maintained at a high level throughout the year.

CPO stock volume at the year-end accumulated to the highest record at 532,651 MT and 485,379 MT in November and December respectively, double the optimum stock level in Thailand. Therefore, the market price of CPO decreased continuously from 32 Baht/Kg at the beginning of 2017 to 18-19 Baht/Kg at the year-end.

To resolve the oversupply situation during the year, the government agencies had asked the Department of Energy Business to coordinate with fuel traders under Section 7 for increasing biodiesel (B100) reserves. The government also requested palm oil refineries to purchase CPO in normal quantity at higher prices of not less than 22 Baht/Kg. However, such measures did not significantly improve the situation. As oil palm and palm oil prices continued their decline, crushing mills began to focus on export market, especially at the year-end (please refer to “**Industry Overview and Competitiveness**” for details).

Because of the low CPO cost in 2017, your Company was able to effectively exercise inventory management and improve its operating results. Moreover, to mitigate the volatility of palm oil business and to sustain the operating performance of the entire Group, your Company has established the Corporate Strategic Direction and begun to diversify into other businesses apart from palm oil category.

The bakery business in Thailand has grown considerably, with a current market value at 39,500 million Baht, or an increased by 35% from 2011. Bakery ingredients are projected to grow in same direction as bakery business. Therefore, your Company aims to utilise its fats knowhow to extend its range of bakery ingredients, with particular emphasis on health, to strengthen its distribution and supply chain. Moreover, alternative investments are being considered having regard to:-

- High margin,
- Potential growth,
- Related to the Company's core business and competencies.

In addition, your Company intends to explore new markets overseas. Furthermore, a well-known international food company has appointed your Company as a distributor for its products in Thailand. By expanding the product portfolio, it is expected that such move would enhance the existing businesses and further create sustainable growth of your Company.

Company's Performance

In 2017, your Company recorded sales revenue at 6,453.6 million Baht, increasing by 322.5 million Baht or 5.26% when compared with 2016 (2016 : 6,131.1 million Baht); gross profit at 658.9 million Baht, an increase of 194.8 million Baht (2016 : 464.1 million Baht). However, this was offset by the lower dividend received from both subsidiaries in 2017. As a consequence, your Company recorded a net profit of 240.4 million Baht, or an increase of 74.1% (2016 : 138.1 million Baht).

United Palm Oil Industry Public Company Limited (UPOIC), a 69.96% subsidiary of the Company, recorded a net loss of 18.3 million Baht (2016 : 72.2 million Baht net profit) on revenue of 763.2 million Baht (2016 : 946.1 million Baht). FFB crops from its own plantations decreased by 2.5% while that from concession lands increased by 4.7%, making the total own crops was unchanged from 2016.

At Universal Food Public Company Limited (UFC), a 98.83% subsidiary of the Company, sales revenue decreased by 4.8% to 2,271.9 million Baht (2016 : 2,385.5 million Baht). Besides Management's decision not to re-bid for a sizeable but non-profitable OEM canned fruit business, the sales revenue was also adversely impacted by the depreciation of the USD versus Baht by about 8.9 % and lower selling prices of

coconut water in particular, in a number of key markets due to very intense price pressures from competitors. Consequently, the net profit from operation dropped by 14.8% to 204.0 million Baht (2016 : 239.4 million Baht, prior to investment impairment loss of 310 million Baht in the subsidiary company).

Overall, the consolidated net profit increased from 354.9 million Baht in 2016 to 400.8 million Baht, or an increase of 12.9%.

Production and Investment

In 2017, your Company continued to carry out its investment programme in its Bangpoo refinery namely the improvement of production efficiency in the packing line including a new tin packing line, the installation of a 1 liter refill packing machine and Bag in Box packing line installation project. The commissioning of all projects were completed and already started running in 2017.

In Q4/2017, the plant was renovated by improving office, warehouse roof and the drum packing area which would keep the plant clean and comply with the GMP standard. It would also improve the logistic efficiency.

Marketing

“Good health can be simply created by yourself” reflects the simple truth that good health comes from living healthy and eating well. Healthy living means to participate in activities which are good for health with regular exercise and getting enough rest. Eating well is based on wisely selection by getting nutrients from 5 food groups at optimal quantities for your individual body’s needs. For example, children need good fats to keep the body warm and to boost vitamin absorption including to create and expand brain cells for enhancing development. Whereas adults need good fat as an essential nutrient for moist skin care and covering organs and bones.

Your Company as a leader in the vegetable oil market under the “Yok” brand has moved ahead by expanding the line of Naturel healthy product to include Naturel Forte 100% Organic Extra Virgin Coconut Oil to provide the good fat for both internal and external usages. Furthermore, a new item, Naturel 100% Organic Riceberry, has been launched to promote better health among the target consumers.

Marketing communications and campaigns have been implemented to provide information regarding the wise consumption of fat and encourage consumers to focus on healthy life via several media channels including TV commercial, radio, printed matter, and online internet, which received good responsiveness from consumers.

For the Margarine and Shortening segment, a Pastry Margarine under our “Zest” brand has been developed to deliver a premium quality for puff and pies bakery menus with trans fat free. This brand is being positioned as a premium quality ingredient for all bakery menus. At bakery seminars led by expert in-house Chef and team, your Company creates in-trend healthy bakery menus with trans fat free but good taste and value added to establish Zest’s leadership in the market segment.

Responsibility to Community, Society and the Environment

Your Company recognises the importance of community, social and environmental responsibility together with conducting the business. The major projects which have been always conducted on every year include:-

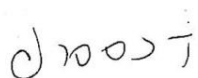
- Local activities to enhance your Company’s image and develop relationship between its crushing mill and nearby communities
- Activities to promote and preserve the cultural heritage of Thailand
- Local youth sports day
- Donation for various occasions

Human Resources and Corporate Culture

Your Company views human resource management as a major part to achieve its vision and missions by strictly committing with the concrete strategic plan. We support and establish positive work environment to enhance the efficient contributions by adhering to the high standards of human resources management. The health care, workplace, safety, welfare, and labor relations are provided to create harmony in the organisation. Your Company was granted the Outstanding Labor and Welfare Award and the Free Drug Workplace Award from the Ministry of Labor, proven that your Company respects the importance of taking care of people.

Furthermore, your Company focuses on creating high-level workforce by building "trainers" as a foundation of team development. It is a direction to sustainably create potential leaders for business, which will strengthen the operation in long term, as well as building trust and continuing to be the best place to work.

We wish to express my sincere thanks and appreciation to the Board of Directors, our Management team, employees, customers, and all stakeholders for rendering their full-fledged support to the Company for all these years. You all are a crucial part of Lam Soon today's eminent standing in the palm oil business in the Kingdom. We look forward to your continued support as the Company seeks to grow further in Thailand.



Art-ong Jumsai Na Ayudhya, Ph.D.
The Chairman



Ms. Anchalee Suebchantasiri
Managing Director