

MESSAGE FROM THE EXECUTIVE CHAIRMAN

Introduction

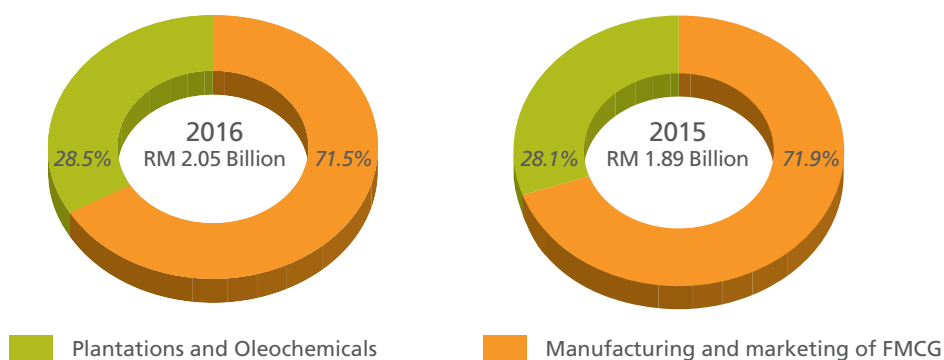
On behalf of the Board of Directors, I am pleased to present the Annual Report of LAM SOON (M) BERHAD for the financial year ended 31 December 2016.

The global economy was generally weak during the year. Malaysia's GDP is likewise reported to grow at a slower pace of 4.2% in 2016 (2015: 5.0%) due to volatile commodity prices. In addition, Goods and Services Tax and the sharp depreciation of the Malaysian Ringgit resulted in higher cost of living, adversely affecting consumer sentiment and overall business environment.

The prolonged effects of the El Nino weather phenomenon caused Malaysia's yearly crude palm oil (CPO) production to decline 13%, from 19.96 million tonnes in 2015 to 17.32 million tonnes in 2016. As inventories of CPO were depleted, prices began to rise. From the low of RM 2,200/MT at the beginning of the year, the price of CPO climbed to above RM 3,200/MT at the end of the year, and averaging RM 2,656/MT (2015: RM 2,172/MT), a rise of RM 484/MT or 22.3%.

Crude Palm Kernel Oil (CPKO) prices were even more volatile, trading from around RM 4,000/MT at the beginning of the year to end the year at record high of more than RM 7,200/MT. The average CPKO price for the year was RM 5,367/MT (2015: RM 3,431/MT), an increase of 56.4%.

REVENUE BY BUSINESS ACTIVITY



Results

At the consolidated level, your Group sales exceeded the RM 2 billion mark for a second time; the first was in 2011. Group sales revenue was 8.4% higher at RM 2.05 billion (2015: RM 1.89 billion), in tandem with higher selling prices of palm and lauric based products.

Overall your Group recorded a consolidated profit before tax of RM 144.67 million (2015: RM 154.02 million), a year-on-year decline of RM 9.35 million or 6.1% because of reduced profit contributions from its manufacturing subsidiaries, LAM SOON EDIBLE OILS SDN BHD (LSEO), PACIFIC OLEOCHEMICALS SDN BHD (POC) and PACIFIC ESTERS SDN BHD (PES). Likewise, its after tax profit was 3.4% lower at RM 118.42 million (2015: RM 122.65 million). At Company level, on the other hand, profit before tax for the year was 6.1% higher at RM 110.58 million (2015: RM 104.23 million); this was mainly attributable to higher dividend income. Total dividend income received during the year was RM 111.48 million (2015: RM 101.81 million).

Profit before tax at LSEO declined by 7.4% to RM 72.10 million (2015: RM 77.87 million) largely due to cost pressure from higher raw material cost for margarine and household and personal care products. The depreciation of the Malaysian Ringgit has increased the cost for imported products.

Your Company's 50% associate, SOUTHERN LION SDN BHD (SLSB), achieved a remarkable growth of 50.3% in profit before tax due to favourable material prices, prudent procurement and costs savings. Sales increased by 14.2% following successful customer initiatives and brand relaunches. *Top* relaunched its powder and concentrated liquid detergent with Micro Clean Tech enhanced by anti-sebum technology. *Bio Zip* was relaunched with improved fragrance and performance. Both *Top* and *Bio Zip* are market leaders in the regular powder and polybag powder detergent segments respectively, each with a value share in excess of 40%.

Results (cont'd)

To prepare for its next stage of growth, SLSB has invested RM 10.0 million in a new building which houses a modernised cafeteria, additional office space, and a new Research & Development centre equipped with the latest analytical and research facilities. The building has been certified with the Green Building Index.

LAM SOON PLANTATIONS SDN BHD (LSPSB) recorded a company level operating profit of RM15.3 million for the year, which is higher than the preceding year by 2.5%. This was mainly attributable to higher average selling price being realised even though sales volume declined. FFB production output during the year was affected by the severe and prolonged dry weather in Sabah caused by the El Nino weather phenomenon and on-going replanting programme. In 2016, LSPSB incurred RM 5.77 million in expenses for the on-going replanting and maintenance of immature oil palms.

Similarly, production at our 40% associate DARA LAM SOON SDN BHD declined due to the El-Nino effect. Nevertheless it was able to achieve company level operating profit of RM 40.6 million for the year, or 22.1% higher than preceding year, due to higher average selling price of CPO and palm kernel.

The dwindling supply of CPO and CPKO and their significant price increases in 2016 adversely affected POC and PES. We were compelled to raise prices to remain profitable. As a result, aggregate sales value increased by 9.2%, even as total sales volumes declined by 4.8%. Many customers, unwilling to accept the drastic increases, held back from re-stocking and kept inventories at low levels. Moreover, the continuous overcapacity situation has exacerbated the intense competition among local and Indonesian players. For the reasons mentioned, the combined profit before tax of POC and PES declined by 53.2% from RM 22.7 million to RM 10.6 million.

Manufacturing

We continue to place emphasis on food safety and product quality. Our management systems are subject to various quality assurance, environmental, safety & health and regulatory audits by various certification bodies.

LSEO's factory in Teluk Panglima Garang is now ready to be certified in 2017 to the latest version of Integrated Management System based on ISO9001 and Environmental Management System based on ISO14001.

LSEO's Pasir Gudang factory attained the Veterinary Health Mark certification under Department of Veterinary Services of Ministry of Agriculture in April 2016. With this certification we will be able to export without the need to submit additional application.

The same factory also passed the 4-Pillar (labour standards, health & safety, environment and business ethnics) Sedex Members Ethical Trade Audit being conducted by an independent certification body in April 2016, thereby demonstrating our commitment towards the sustainable and ethical supply chains.

We recognise the importance of new product development and improvement to our existing products. In 2016, we successfully developed margarine that is free from peanut allergen. With this innovation, we are now able to export our margarine to new markets.

In the Chemical Industries Council of Malaysia Responsible Care Programme Awards, POC has won the following awards for year 2015/2016:-

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|---|----------------|
| - Product Stewardship Code | - Silver award |
| - Community Awareness Emergency Response Code | - Silver award |
| - Process Safety Code | - Silver award |
| - Distribution Code | - Merit award |

Corporate Social Responsibility and our commitment to Sustainable Palm Oil

LSPSB is a member of the Roundtable on Sustainable Palm Oil (RSPO). As such, it is committed to producing palm oil in a sustainable manner that complies with RSPO Principles and Criteria. Our commitment to care for the environment and people's wellbeing is reflected in our policies, which entails best practices and continual improvement. The principles that we uphold are transparency, compliance to government laws, environmental responsibilities, care for our employees and communities affected by our operations.

In 2016, for example, LSPSB constructed an additional 24 units of new brick quarters in its estate in Lahad Datu, Sabah, to improve the living conditions of its workers. These replaced the earlier wooden quarters. In preparation for RSPO Principles & Criteria certification audit for the "Identity Preserved" category plan in May 2017, LSPSB has provided training to all its employees to create awareness of RSPO practices.

Marketing

2016 ended with weak sentiment indices for both the consumer and retailer. According to the Malaysian Institute of Economic Research (MIER), consumer spending was affected by unfavourable current finances, subdued income prognosis with flat job outlook and expectations of rising prices. Despite the pessimistic outlook, our Group's sales performance in Fast Moving Consumer Goods (FMCG) was positive. Furthermore, many of our brands have recorded improvements in market share.

In particular, your Company's *Naturel* olive oil and *Antabax* medicated personal care products have shown outstanding performance. *Naturel* olive oil improved its brand share leadership from 27.9% to 38.1% (Nielsen Audit). *Antabax* registered an impressive sales growth of 35.6%, lifting its market share in the liquid medicated soap segment from 7.5% to 11.0% (Nielsen Audit).

Our brands and products continue to receive various awards and recognitions, reflecting their superior value proposition.

<u>Brands</u>	<u>Awards</u>
<i>Knife</i>	2016 Reader's Digest Trusted Brand Award (Platinum) 2016 Brand Laureate Award (Best Cooking Oil) 2016 Her World Kitchen Award (Best Cooking Oil)
<i>Buruh</i>	2016 Reader's Digest Trusted Brand Award (Gold)
<i>Naturel</i>	2016 Reader's Digest Trusted Brand Award (Gold) 2016 Domestic Diva Award (Best Cooking Oil and Margarine) 2016 Her World Kitchen Award (Best Cooking Oil and Olive Oil)
<i>Antabax</i>	2016 Brand Laureate Award 2016 Her World Beauty Award
<i>Bio-home</i>	2016 Natural Health Magazine Reader's Choice Award - Best Eco Friendly Floor Cleaner

Prospects

The domestic economy is expected to grow at a moderate pace in 2017 compared to 2016. Bank Negara Malaysia has forecast Malaysia's GDP to grow between 4.3% to 4.8% in 2017 (2016: 4.2%), with inflation rising to between 3.0% to 4.0% (2016: 2.1%). The continued adjustment to higher cost of living and the uncertainties in the global economic environment will continue to weigh on consumer sentiments.

The selling prices of our palm based products are expected to remain volatile. As production levels recover, CPO is expected to face price pressure in 2H 2017, which would adversely affect our plantation business. In the oleochemicals business, Indonesian producers are expected to take advantage of a favourable export tax structure and utilise surplus capacities, thereby further eroding profit margins.

Prospects (cont'd)

In addressing these challenges, the Group will exercise prudent cost management and strengthen efficiency and productivity across all business units, while seeking opportunities to expand our earnings base to drive our expansion plans.

In the FMCG business, we will strive to boost operational and financial performance by further diversifying our product range and enhancing our supply chain capabilities. LSEO's new Distribution Centre (DC) in Cyberjaya is designed with this in mind.

The third of our 21st Century DCs - after Senai DC in Johor and Bukit Minyak DC in Penang - the Cyberjaya DC will cater for our growth in volumes and position ourselves for the booming e-Commerce that is sweeping the world now. Construction is scheduled to commence in May 2017. The total investment cost for this project is estimated at RM 220.0 million and will be financed mainly by the Group's internal funds.

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 2016 (2015: 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 (2015: 21.0%, RM 45.09 million).

The proposed Final dividend will bring the total net dividend payments for the financial year ended 31 December 2016 to 30.0% or RM 64.42 million (2015: 30.0% or RM 64.42 million).

Appreciation

On the backdrop of a challenging environment, the accomplishment of resilience during trying times is made possible with the good team work of our employees and support from our customers, business associates and shareholders.

On behalf of the Board and Management, I would like to put on record our sincere thanks and appreciation for your confidence and continued strong support to the Group.

I would like to thank my fellow Directors for their invaluable advice, contributions and guidance in leading the Group. We are committed to strive further to improve our market position and continue to deliver sustainable value to our shareholders despite the challenging environment.

Whang Shang Ying

Executive Chairman

4 May 2017