

## MESSAGE FROM THE EXECUTIVE CHAIRMAN

### Introduction

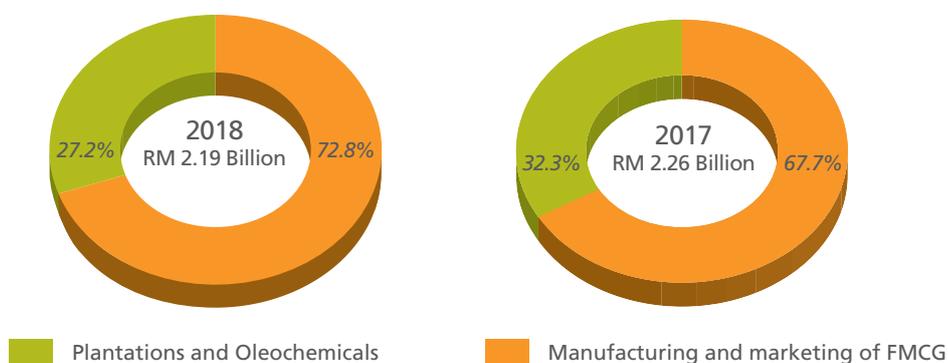
On behalf of the Board of Directors, I am pleased to present the Annual Report of LAM SOON (M) BERHAD for the financial year ended 31 December 2018.

Malaysia's 2018 GDP growth was lower at 4.7% as compared with 5.9% in 2017. Escalating global trade tensions and lower commodity prices gave rise to uncertainty for the economy, and commodity export prices growth declined to 8.6% (2017: 11.5%).

The prices of both Crude Palm Oil (CPO) and Crude Palm Kernel Oil (CPKO) were very volatile. The price of CPO averaged lower at RM 2,233/MT, a drop of 19.8% from a year ago. CPO prices fell to the lowest in December at RM1,717/MT from the highest in March at RM2,556/MT, before closing at RM 1,971/MT.

From a high of more than RM 5,200/MT in Q1 2018, CPKO prices plunged to below RM 2,800/MT in Q4 2018. Thereafter, it climbed back to close at RM 3,200/MT at the end of the year.

### REVENUE BY BUSINESS ACTIVITY



### Results

At the consolidated level, your Group sales revenue was RM 2.19 billion (2017: RM 2.26 billion), 3.1% lower due to lower average selling prices of palm and lauric based products.

Overall, your Group recorded a consolidated profit before tax of RM 155.85 million (2017: RM 173.25 million). The year-on-year decline of RM 17.40 million or 10.0% was due to lower profit contribution from our plantation segment. Likewise, your Group's after tax profit was RM 124.57 million (2017: RM 140.80 million), or 11.5% lower. At Company level, profit before tax for the year was 36.6% lower at RM 79.32 million (2017: RM 125.10 million); this was mainly attributable to lower dividend income, which amounted to RM 80.70 million (2017: RM 126.26 million).

The weaker results in the plantation business was compensated by the improved performance of the fast moving consumer goods (FMCG) business, which helped sustain the overall Group profit. Profit before tax at LAM SOON EDIBLE OILS SDN BHD (LSEO) increased by 8.8% to RM 82.90 million (2017: RM 76.22 million). LSEO benefitted from management having made appropriate hedging positions during the year to take advantage of the volatile raw material prices. The three months' tax holiday since June 2018, whereby the new government had zero-rated Goods and Services Tax (GST), spurred the sales of household and personal care products and boosted profitability.

SOUTHERN LION SDN BHD (SLSB), the Company's joint venture with Lion Corporation Japan, achieved its highest ever turnover of RM 638.42 million in 2018, a sales growth of 9.0%. The associate contributed RM 21.00 million profit after tax to our Group. Fabric care brands *Bio-Zip* and *TOP* retained their brand leadership within the polybag and regular powder detergent categories respectively. In the prestigious Putra Brand Awards, *TOP* detergent received the Gold Award within the Household Products Category. *Systema* continues to grow its market share and strengthened its No. 1 position within the tapered toothbrush segment.

## MESSAGE FROM THE EXECUTIVE CHAIRMAN (cont'd)

### Results (cont'd)

Profit contribution from the plantation division on the other hand declined in tandem with lower CPO prices. LAM SOON PLANTATIONS SDN BHD (LSPSB) recorded a company level operating profit of RM 10.01 million, or half that of the preceding year. Similarly, our associate DARA-LAM SOON SDN BHD (DLSSB) achieved an operating profit of RM 23.50 million, a year-on-year decline of 43.8%.

Likewise, 2018 was a challenging year for our oleochemical business as sales volume declined. The overcapacity situation in the oleochemical industry has been exacerbated by new players adding capacities. However, PACIFIC OLEOCHEMICALS SDN BHD (POC) was able to register a higher profit contribution. The pre-tax profits of POC increased 17.2% or RM 3.37 million to RM 22.92 million (2017: RM 19.55 million).

### Marketing

A subdued consumer sentiment, the changes in the sales tax regime and intensified competition presented challenges to the FMCG industry in 2018. Nevertheless, LSEO managed to achieve satisfactory performance. In our core product categories, we planned our marketing and sales activities to coincide with high consumption periods. This enabled volume for our flagship *Knife* brand cooking oil to grow a hard earned 2.5%, in a mature product category.

The Malaysian consumer behaviour is evolving. The Group is accordingly investing more resources to build its 21<sup>st</sup> Century brands. Our efforts include improving visibility on the retail shelf and greater engagement with the consumer through social media. As a result, one such 21<sup>st</sup> Century brand, *Naturel* increased its market shares in both the Sunflower Oil and Olive Oil categories, further consolidating its leadership in these categories.

We were more active in the rapidly growing premium supermarkets and pharmacy chains. This helped *Antabax* achieve the highest growth rate among the country's medicated personal wash brand. Moreover, *Antabax* hand sanitiser grew by triple digit, based on Nielsen Retail Audit December 2018.

Collaboration with *Arla* and *Elle et Vire* has broadened our offering to include dairy products. To distribute such products effectively, the Group has invested in cold chain capabilities.

Over the years, Lam Soon has taken a long term view to brand building. Our steadfast investment has resulted in many of our brands growing from strength to strength. Amongst the most recent brand accolades and awards are the following:

<u>Brands</u>	<u>Awards</u>
<i>Knife</i>	2018 Reader's Digest Trusted Brand Award (Asia) 2018 Reader's Digest Trusted Brand Award (Platinum) 2018 Brand Laureate Award (Most Favourite Choice)
<i>Naturel</i>	2018 Reader's Digest Trusted Brand Award (Gold) 2018 Brand Laureate Award (Most Favourite Choice) 2018 Dapur with Love Award* (Best Soft Oil) 2018 Dapur with Love Award* (Best Olive Oil) * Her World Magazine
<i>Antabax</i>	2018 Brand Laureate Award (Most Favourite Choice) 2018 Watsons Most Wanted Award (Antibacterial Wipes)

### Manufacturing

In line with your Group's emphasis on product quality and food safety, LSEO's factory in Pasir Gudang (PSG) successfully upgraded its food safety management system (FSSC 22000) from version 3 to version 4.2. We have also carried out enhancements to quantify, identify and monitor the airborne microbes in our pathogen environmental monitoring programme thereby reducing the risk of contamination.

### Manufacturing (cont'd)

Having taken steps to shut down its underutilised oil packing facility, the PSG factory is being upgraded to specialise in the production of margarine and other value added fats products. Drawing on its strong R & D team, LSEO will offer a range of high quality and cost effective new products for a range of applications.

All of LSEO's oil packing is being consolidated in its factory in Telok Panglima Garang (TPG), where we are expanding capacity to meet anticipated demand. TPG received a letter of white list recognition from Jabatan Agama Islam Selangor (JAIS) acknowledging its commitment in maintaining the halal assurance system.

In the course of the year, LSEO also successfully upgraded the ERP system with enhanced security control.

POC's oleochemical plant in Pasir Gudang is constantly upgrading its manufacturing facilities and quality management systems. In 2018, it achieved the following standards:

- From ISO 9001:2015 to ISO 9001:2017
- From ISO 14001:2004 to ISO 14001:2015
- From FSSC 22000 (Version 3) to FSSC 22000 (Version 4.1)

### Sustainability and Community

#### (a) Plantations

Both of our oil palm plantations in Lahad Datu, Sabah and in Pahang have been certified by Roundtable Sustainable Palm Oil (RSPO) Principles & Criteria. The certification comes under the Identity Preserved (IP) supply chain model. In line with your Group's commitment to running its businesses sustainably, the following group companies had completed the following projects during the year:

##### 1) Care for the Environment: DLSSB's palm oil mill in Pahang

DLSSB has installed and commissioned a palm oil mill effluent dewatering machine. The said machine continuously de-sludges solid from the pond, whereby sludge cake is then used as organic fertiliser for the oil palm trees. This investment also indirectly reduces the biological oxygen demand of mill effluent to permissible level before discharging it from the effluent pond.

##### 2) Workers' Welfare: LSPSB's plantation in Lahad Datu, Sabah

In 2018, LSPSB completed a primary school and kindergarten complex to house 180 of its workers' children. Such efforts are aligned with our conviction that providing access to education is the best way to equip children for a better future.

In addition, it constructed two units of semi-detached staff houses and 20 units of workers houses to replace wooden houses. A unit of "surau" has also been built for the benefit of our Muslim workers.

In 2018, a US-based NGO, International Justice Mission (IJM) with the co-operation of the Malaysian Government, visited LSPSB's plantation. The purpose of the visit was to check on ethical labour systems, labour trafficking, forced labour and labour exploitation. At the conclusion of its visit, IJM informed us that they had a positive and welcoming impression of the palm oil industry in Malaysia.

#### (b) FMCG

*Bio-home* was launched as an environment-friendly home care brand. After several years of patient brand building, it has earned the confidence of retail partners who have committed to promote it in dedicated "Eco Bays" or "Eco Aisles". Such initiatives have helped *Bio-home* become the No.1 Eco Home Care brand in this channel. *Bio-home* also won the Natural Health Magazine 2018 Readers' Choice Award for Best Eco Kitchen Cleaner.

### LSEO's Oil Loss Lawsuit

With regard to LSEO's oil loss lawsuit, the Court of Appeal in December 2018 allowed LSEO's appeal. The company is now proceeding with bankruptcy actions against the defendants.

### Prospects

The Group has a diversified earnings base, comprising the plantations, oleochemicals and FMCG businesses. In the plantation sector, the prices of palm products have gone down substantially. As at the end of 2018, the CPKO price was around RM 3,100/MT to RM 3,300/MT but as of end April 2019, the price for CPKO ranges from about RM 2,300/MT to RM 2,400/MT. Such downward price pressure on CPO and CPKO will adversely affect your Group's performance.

In the oleochemical segment, we will continue to invest and improve our product range and supply chain facilities. While we have a good customer base, the industry is burdened with significant overcapacity from both Indonesian and Malaysian manufacturers, which has put pressure on profit margins.

Innovative products, engaging marketing, improving operating efficiencies and exercising stringent cost control continue to be the focus of our FMCG business. The management expects to sustain its operating performance in 2019. LSEO's new Distribution Centre (DC) in Cyberjaya was completed in Q3 2018. It has three temperature zones and capacity for 22,000 pallets. The DC, which is fully operational in Q2 2019, will enhance the Group's logistics efficiencies.

### Dividends

During the year, your Company had paid a single tier interim dividend of 9 sen per share amounting to net payment of RM 19.33 million for the financial year ended 31 December 2018 (2017: 9 sen per share, 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 sen per share, amounting to RM 45.09 million (2017: 21 sen per share, RM 45.09 million).

The proposed Final dividend will bring the total net dividend payments for the financial year ended 31 December 2018 to 30 sen per share or RM 64.42 million (2017: 30 sen per share or RM 64.42 million).

### Appreciation

On behalf of the Board, we would like to thank all our valued customers, business associates and shareholders for the support and confidence in our commitment to continuously deliver value.

One of our Independent Directors, Dato' Mohammed Adnan bin Datuk Shuaib, having served for 23 years, will not be seeking re-election at the forthcoming Annual General Meeting. During his tenure on the board, your Company has benefitted from his guidance on legal and other matters. On behalf of the management and fellow directors, I wish to express our sincere thanks and appreciation to Dato' Adnan for having contributed to the progress of our Company.

Our appreciation also extends to the management and employees for their tireless endeavours in the past year and their continued contributions.

To all my fellow directors, thank you for your support and guidance throughout this extremely challenging year.

**Whang Shang Ying**  
Executive Chairman

15 May 2019