

MESSAGE FROM THE CHAIRMAN AND THE MANAGING DIRECTOR



2012 was a year of volume fluctuations for both the domestic and international markets. The quantity of palm oil stockpile in Malaysia reached its lowest in June to 1.70 million MT, and rose to an all-time high of 2.63 million MT in December. At the same time, demand in the world market fell drastically, especially from countries in Europe and China. This caused the world price of crude palm oil (CPO) to fall continuously from 3,225 ringgit per MT at the beginning of the year to the year's lowest at 2,227 ringgit per MT on December 13, 2012.

Palm oil price movement in Thailand follows that of Malaysia, but with even greater volatility. April 2012 was the fifth consecutive month when the amount of palm oil stock decreased continuously, to a level of 205,697 MT. On April 18, 2012, therefore, the Cabinet, concerned about the scarcity of domestic palm oil as occurred in late 2010, approved the import of palm oil 40,000 MT to prevent the shortage. Notwithstanding the importation, palm oil stocks continued to decline until it reached the lowest level of the year at the end of July i.e. 148,164 MT, and driving CPO price to above 35 Baht per kg.



Subsequently, FFB volume recovered from August to more than 1 million MT per month. As a result, accumulated CPO stock balance reached a high of 362,267 MT in December, while CPO and FFB prices collapsed to their lowest in the last three years at 19 and 2.75 - 3.00 Baht/MT respectively. Thus, growers started to protest and eventually, price intervention was reintroduced by the Government in late 2012 and early 2013 by implementing the project "absorption of CPO volume from the market in 2012/13" in 2 phases (50,000 MT each). CPO and FFB prices were set at 25 and 4 Baht/kg, respectively (at 17% OER).

Another significant event of the year was the progressive nationwide implementation of the minimum wage of Baht 300 effective 1 April 2012 and January 2013 respectively. This caused the labour cost at LST, UPOIC, and UFC to increase by 10%, 26%, and 22% respectively.

To mitigate the impact of rising labor cost, the Group undertook a stringent approach to generate higher work force productivity and increase cost efficiency in other operational areas. Measures taken include more mechanisation, conversion of workers' wages from daily rated to piece basis and having better product mix. For example, the work force at your Company's Bangpoo refinery was reduced by more than a hundred. Despite the increase in labour cost, the gross profit margin of the Group (on consolidated basis) improved from 13.91% to 15.76% in 2012.

Company's Performance

Your Company recorded a net profit of approximately 325.34 million Baht in 2012, an increase of 142% comparing to 2011 (2011 : 134.44 million Baht); on a revenue of around 6,384 million Baht, decreasing by 15% compared to 7,531 million Baht in 2011.

Production and Investment

In 2012, the Group invested mostly in projects carried forward from the previous year. There were no major investment projects except under its listed subsidiary United Palm Oil Industry Public Company Limited (UPOIC). These projects of UPOIC put more focus on its own plantations including improving the efficiency of fresh fruit bunch (FFB) transportation and improving traffic road in plantations to speed up the working process and reduce the loss from collecting FFB. The total investment budget was set at around 40 million Baht.

Marketing

In response to the growing trend towards health and wellness, and the growing popularity of social media, our premium healthy oil "Naturel" also created a channel for the consumer intercommunication on "Facebook" in this year.

In the fats category, your Company has developed a new margarine product under the brand name "Popcorn". It was formulated for applying with the roasted corn for better fragrance, taste, and crispy corn texture.

Universal Food Public Company Limited (UFC) continued to make successful inroads into the export markets with its UFC 100% coconut water. Better product sales mix in the domestic market contributed towards improved margins. Innovative new products launched in 2012 included HOMESOY brand of soymilk, with Job's Tears in 300 ml plastic bottles, and new Asian Drink range of chrysanthemum tea and Lo Han Guo in 1 litre Tetrapak.

Responsibility to Community, Society and the Environment

Besides improving operational efficiencies, your Company recognises the importance of community, social and environmental responsibility. The major projects include:-

- Project to generate electricity from Biomass
- Local activities to enhance your Company's image and develop relationship between its crushing mill and nearby communities
- Oil palm planting in school
- "Blue Flag Campaign to Ease the Cost of Living" in Trang
- Activities to promote and preserve the cultural heritage of Thailand
- Local youth sports day
- Established the Project of Replace Old Farm with Good Oil Palm Plantation Promotion
- Participation in Children's Day.

Your Company is an active participant in the project development for the Roundtable on Sustainable Palm Oil (RSPO). Its Bangpoo refinery and Trang crushing mill have been certified RSPO Supply Chain in terms of Mass Balance (MB) since June 11, 2012. Moreover, UPOIC's Krabi crushing mill and plantations have applied for an approval of RSPO certification in terms of Mass Balance (MB) and it expects to be certified in the first quarter of 2013.

Furthermore, your Company also participated in the project of "Entrepreneur Supply Chain Security Standard Promotion of Security from terrorist, disaster or burglary" according to the international qualified standard of ISO 28000. It also registered to join the campaign of the materials and equipment to reduce the energy consumption.

Human Resources and Corporate Culture

Our employees are a valuable resource. We promote a work environment where employees feel valued. We are committed to developing the potential of all employees to become professionals in the ASEAN market with career advancement. We seek to improve quality of life and work under five aspects of organisational culture.

- "Can Do" attitude
- Accountability
- Team work
- Take care of people
- Continuous improvement

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Finally, we would like to congratulate UPOIC for being selected by Forbes Asia magazine to be listed as Asia's 2012 "Best Under a Billion", the ranking of 200 best small- and medium-sized listed companies in Asia Pacific. This reflects the efficient improvement of UPOIC, which has been able to generate strong operating performance and consistent returns to shareholders despite having gone through economic volatility and highly competitive environments.

On behalf of the Board of Directors, our Management team and other employees, we would take this opportunity to thank our Company's shareholders, customers, and business partners for their continuing support and also for their interest in the development of the Group's business.



Mr. Whang Tar Liang
Chairman



Mr. Somchai Chongsawadchai
Vice-Chairman and Managing Director