

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 2015.

The slow global economic growth and the slowdown in China's economy continue to affect regional economies in 2015. Domestically, the sharp drop in commodity prices and the implementation of GST in April 2015 affected consumer sentiment. Malaysia's GDP is reported to grow at a slower pace of 5.0% in the year under review (2014: 6.0%). In addition, the sharp depreciation of the ringgit in the second half of the year added pressure to the overall business environment.

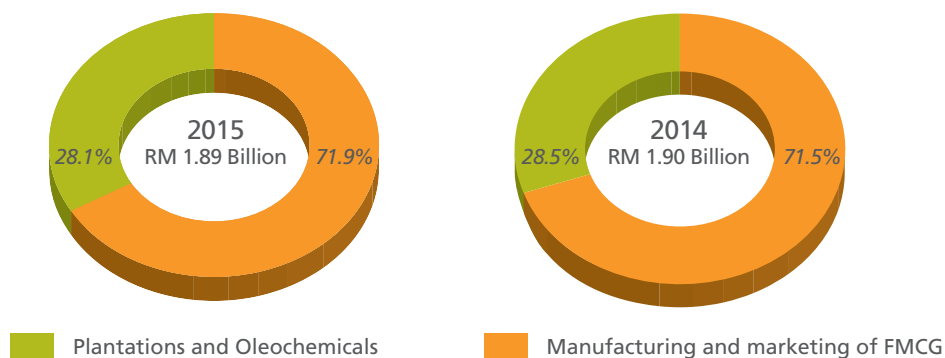
I am pleased to report that despite the very challenging business conditions, your Group managed to achieve a 6.3% increase in its pre-tax profit compared to the previous year. This was possible with the Group's broad earnings base, having built its strength in both the upstream and downstream activities of the palm oil industry. For the year, the Group's fast moving consumer goods (FMCG) business was the best performer, compensating for the lower profits generated from the plantation and oleochemicals business units.

Crude Palm Oil (CPO) price was volatile during the year, declining from a high of about RM2,400/MT at the beginning of the year to below RM2,000/MT in August and closed at about RM2,300/MT at the end of the year. Its average peninsular price for the year was RM2,172/MT (2014: RM2,380/MT), down RM208/MT or 8.7%.

Contribution from plantations declined in tandem with the lower CPO price recorded for the period.

Export business continues to be difficult with the lower global economic growth and stiff competition from large scale manufacturers, especially from Indonesia. The oleo chemical market was in an oversupply situation, where capacities were expanding rapidly during a period of weak demand, pushing prices lower, resulting in a profit squeeze.

REVENUE BY BUSINESS ACTIVITY



Results

Your Group recorded a consolidated profit before tax for the year under review of RM154.02 million, which is 6.3% higher than the previous year (2014: RM144.91 million). Likewise, its after tax profit was 8.3% higher at RM122.65 million as against RM113.26 million for the previous year.

Group sales revenue was marginally lower at RM1.89 billion compared to RM1.90 billion for 2014, due to lower selling prices and a marginally higher sales volume.

At company level, profit before tax for the year was 7.6% higher at RM104.23 million (2014: RM96.91 million), due mainly to higher dividend income. Total dividend income received during the year was RM101.81 million (2014: RM90.36 million).

Results (cont'd)

The improved performance of the FMCG business units sustained the overall Group profit. Profit before tax at LAM SOON EDIBLE OILS SDN BHD (LSEO) increased by 35.2% to RM77.87 million (2014: RM57.59 million). The improvement was largely due to the lower raw material cost resulting from lower CPO prices and right hedging decisions made during the year. Pre and post GST sales promotions help to push sales and enhance profitability. Likewise, well planned promotional activities by SOUTHERN LION SDN BHD (SOUTHERN LION) captured consumer sentiment and generated a 3.9% growth in sales turnover and an 8.4% growth in profit before tax.

Profit contribution from plantation division to the Group on the other hand declined with the lower CPO price. LAM SOON PLANTATIONS SDN BHD'S (LSPSB) pre-tax profit for the year declined 20.3% compared to 2014 and those of its 40% associate DARA LAM SOON SDN BHD (DLS) declined by 14.0%. The replanting exercise currently in progress at LSPSB's estate also affected the Group's overall plantation profits.

Similarly, profit contribution from the oleochemical business declined due to the stiff competition from large scale manufacturers and the slow global economic growth. The combined pre-tax profits of PACIFIC OLEOCHEMICALS SDN BHD (POC) and PACIFIC ESTERS SDN BHD (PES) declined 33.1% year on year.

Manufacturing

The Group places great emphasis on Quality & Food Safety. After achieving the prestigious Food Safety System Certification (FSSC 22000) in the previous year, LSEO's factory in Pasir Gudang attained the HACCP certification from the Ministry of Health Malaysia in July 2015. The certification will further enhance our customers' confidence in our products and services and cut the waiting time for our Health Certificate applications from the Ministry for our export sales. In addition, our factories are subjected to various quality assurance, environmental, safety, health and regulatory audits by both internal and external certification bodies. We are ISO9001, ISO14001, HACCP, GMP, MeSTI and Halal certified.

At the LSEO factory in Teluk Panglima Garang, bar soap production volume in 2015 was flat, while liquid dishwash registered an increase in line with higher sales. The reconfiguration of the office block was completed in August 2015. This has significantly eased the congestion on the production floor and added storage space for more than 500 pallets. A new canopy on the existing loading yard was also completed in August 2015, allowing cargo to be loaded and unloaded under all weather conditions.

During the year LSPSB improved its waste management by installing a multi-disk screw press dewatering machine. The machine removes solids from the mill effluent ponds continuously, thus improving the effluent treatment process. Sludge cakes formed by the dewatering process are then recycled to the estate as soil conditioner.

In the CICM (Chemical Industries Council of Malaysia) Responsible Care Program Awards 2014/2015, POC continues to win awards as follows:

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| - Product Stewardship Code | - Gold Award |
| - Distribution Code | - Gold Award |
| - Community Awareness & Emergency Response Code | - Silver Award |
| - Pollution Prevention Code | - Silver Award |
| - Employee Health and Safety Code | - Merit Award |
| - Process Safety Code | - Merit Award |

To improve its sales and meet customer demand for beaded products, POC invested in a beading plant which started production at the end July 2015. It also invested in a new fractionation plant to increase its capacity and to improve its overall efficiency and flexibility in its production capabilities. The new fractionation plant will start commercial production in May 2016.

Corporate Social Responsibility

In 2015, LSPSB undertook a project to improve the living condition of its workers. The earlier wooden quarters have been replaced with new brick quarters that can accommodate around 140 workers. The new quarters together with infrastructure and drains cost RM3.4 million.

Marketing

Naturel has grown into an important 21st century brand for your company. With the innovative *Naturel* Forte DHA range, *Naturel* has expanded its product offerings and increased its market share in both the soft cooking oil and spread categories. In the olive oil segment *Naturel* achieved a new milestone by surpassing 40% market share in the month of December 2015. We also rejuvenated the packaging of our *Labour* dishwashing liquid range; the new Pineapple variant was the fastest growing variant last year.

In addition to the enduring trust that Malaysian consumers have placed in our brands, we are also gratified that our brands and products continue to receive recognition both locally and internationally.

<u>Brands</u>	<u>Awards</u>
<i>Knife</i>	2015 Reader's Digest Trusted Brand Award (Platinum) 2015 Brand Laureate Award (Brand Excellence) 2015 Domestic Diva Award (Blended Oil)
<i>Buruh</i>	2015 Reader's Digest Trusted Brand Award
<i>Naturel</i>	2015 Asia Excellence Brand Award (Yazhou Zhoukan, Hong Kong) 2015 Brand Laureate Award (<i>Naturel</i> Margarine) 2015 Domestic Diva Award (Canola Oil and Margarine)
<i>Antabax</i>	2015 Brand Laureate Award 2015 Her World Beauty Award
<i>Zip</i>	2014 Chicago Good Design
<i>Bio-home</i>	2015 Reader's Choice Award - Best Multi-Surface Cleaner *Natural Health Magazine

Prospects

Malaysia's economy is forecast to grow at an even slower pace in 2016 compared to 2015. Bank Negara expects the country's GDP to grow between 4.0% and 4.5% in 2016 (2015: 5.0%), with higher inflation of between 2.5% and 3.5% compared to 2.1% for 2015. Domestic demand growth would also be slower at 4.3% as against 5.1% for 2015.

We will also face cost pressures and labour shortage after the minimum monthly wage is increased from the current RM900 to RM1,000, tentatively effective 1 July 2016. Furthermore the increase in levy on foreign workers may cause experienced workers to leave Malaysia and thus exacerbate the shortage of skilled labour.

Given the slower growth and rising cost of living, consumers will become more price sensitive and selective in their purchases. Competition amongst manufacturers to sustain market share is also expected to be more intense.

CPO price is expected to trend higher especially in the first half of 2016 with the El Nino effect on oil palm production. However, contribution from the Group's plantations will continue to be affected by the on-going replanting exercise, which is scheduled to be completed by 2022.

In the exports of edible oils and oleochemicals, market conditions are not expected to improve in view of the slow growth in the global economy. The overcapacity situation will continue to hurt business profitability.

Prospects (cont'd)

We are mindful of the challenges ahead and will remain focused in building our businesses. At the same time we will continue to look for new opportunities to strengthen our profit base and to provide long term growth for the Group.

To accommodate the growth in our FMCG business, LSEO had entered into a lease agreement with Perbadanan Kemajuan Negeri Selangor (PKNS) for a piece of land in Cyberjaya totalling 24.21 acres (9.80 hectares) to build a state of the art Distribution Centre and other support facilities. The total investment cost for this project is estimated at RM220.0 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 RM19.33 million for the financial year ended 31 December 2015 (2014: 8.0%, RM17.18 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 RM45.09 million (2014: 18.0%, RM38.65 million).

The proposed Final dividend will bring the total net dividend payments for the financial year ended 31 December 2015 to RM64.42 million (2014: RM55.83 million).

Appreciation

On behalf of the Company, I would like to take this opportunity to thank Lt. Jen. (B) Raja Dato' Abdul Rashid bin Raja Badiozaman, our Non-Independent Non-Executive Director, who has expressed his wish to retire from the Board at the forthcoming Annual General Meeting. He has served the Board since January 1996 and we wish him happy retirement.

Once again, we would like to thank all our valued customers, business associates and shareholders for the support and trust you have in us. Your support has enabled our products to be market leaders and No. 1 brand in many product categories.

To our management staff and employees, the Board expresses its sincere appreciation and gratitude, especially to those who have worked hard to ensure the continued success of Group during this difficult period.

To all the Board members of the Group, a warm thank you, we look forward to another successful year with your guidance.

Whang Shang Ying
Executive Chairman

25 April 2016