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 31st December 2013.

Your Group made a strong recovery in 2013 after a difficult and challenging 2012. Its performance for the year under review improved substantially compared to that of the previous year. This is attributed largely to the improved performance of its fast moving consumer goods (FMCG) business segment, which was able to capitalise on the steady domestic demand, the lower crude palm oil (CPO) price and improved product mix.

Profit contribution from oleo chemical business segment also improved despite stiff competition.

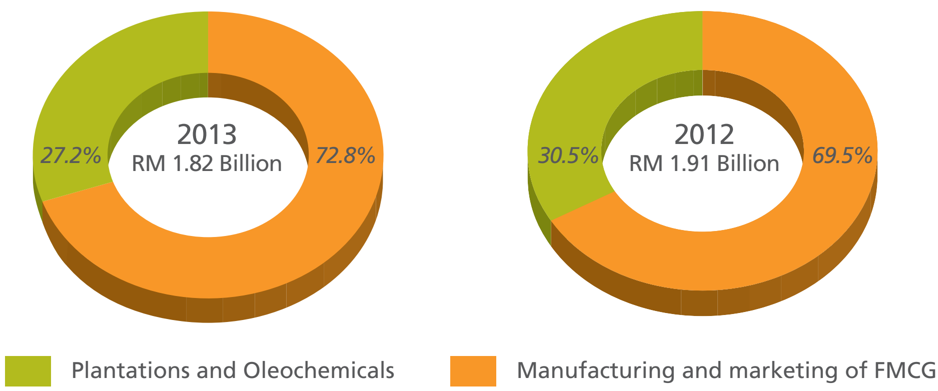
The Malaysian economy expanded by 4.7% in 2013 (2012: 5.6%) driven by the continued strong growth in domestic demand, which remained resilient throughout the year. Private consumption was supported mainly by favourable employment conditions and wage growth *(Bank Negara Malaysia Annual Report 2013)*.

Due to higher production output and lower demand from major economies CPO was traded between RM2,200/MT and RM2,600/MT during the year under review, compared to RM2,100/MT and RM3,600/MT for the previous year. Its average price for the year was about RM2,370/MT (2012: RM2,770/MT), which is RM400/MT lower (-14.4%) than 2012.

In tandem with the lower CPO price, contribution from plantation division to the Groups' profit declined. As with the previous year, plantation profits were also affected by the on-going replanting exercise.

During the year, the Company transferred a piece of leasehold land measuring approximately 61,411 square metres (15.17 acres) with ten buildings erected thereon, held under PN5613, Lot 95 Seksyen 20, Petaling Jaya, Selangor, to its wholly owned subsidiary Rennes Properties Sdn. Bhd (RPSB) for a consideration of RM259,365,000.00. The consideration was satisfied by the issue of 64,841,250 new ordinary shares of RM1.00 each in RPSB at an issue price of RM4.00 each credited as fully paid-up. The transfer gave rise to a gain on disposal of RM230.85 million for the Company.

REVENUE BY BUSINESS ACTIVITY



Results

Your Group achieved a consolidated profit after tax of RM116.20 million for the year ended 31 December 2013, an increase of 67.1% (+RM46.67 million) over 2012 profit after tax of RM69.53 million. The tax provision for the year was RM34.99 million (2012: RM23.30 million).

Group sales revenue however was 4.6% lower at RM1.82 billion as against RM1.91 billion for the year before, due to lower selling prices.

Results (cont'd)

Company level profit after tax recorded for the year 2013 was RM319.27 million (2012: RM43.28 million). The profit includes the extraordinary gain on disposal of land and building of RM230.85 million and dividend income of RM85.34 million (2012: Dividend income of RM44.52 million).

The improvement in Group profit came largely from its FMCG and oleo chemicals business units. The better performance is due to better product mix in Lam Soon Edible Oils Sdn Bhd (LSEO)'s FMCG business and continuous brand building has led to wider market acceptance of our higher margin products like *Naturel* soft oils and *Antabax* anti-bacteria liquid soaps. Together with the lower and more stable palm oil price, LSEO registered a double digit growth in its overall operating profits compared to the previous year.

Similarly, Southern Lion Sdn Bhd (SOUTHERN LION) has built its sales by offering and communicating differentiated added values of its products to its consumers. Its "hygienically clean" *TOP* detergent and "Xylitol added" *Fresh & White* toothpaste, as well as its *TOP* "Blooming Fresh" with the 14 days freshness technology were well received by the market. SOUTHERN LION is already the market leader in Malaysia for powder detergent. With the commissioning of its liquid detergent plant in 2013, it is aiming to increase its contribution from this growing segment. SOUTHERN LION's profit before tax for the year improved 27.4% against 2012.

In the oleo chemical industry competition is intensifying especially from Indonesian co-producers with their expanded capacities. The market was subdued due to the sluggish recovery in Europe and USA and the slowdown in China. The Group's oleo chemical companies achieved a moderate improvement in pre-tax profit over previous year.

Pacific Oleochemicals Sdn Bhd (POC)'s paid up share capital was increased from RM50,000,000 to RM100,000,000 on 13 November 2013 via a bonus issue of 50,000,000 new ordinary shares of RM1 each in the company on a 1:1 basis capitalising RM50,000,000 from the company's retained profits.

Plantation profits were affected by the lower CPO price. Lam Soon Plantations Sdn Bhd (LSPSB)'s company level profit before tax declined 14.2% against the previous year. The replanting exercise which started in 2010 over a five year period continues to affect LSPSB's overall fresh fruit bunches (FFB) production. However, production is expected to increase in the coming year as more replanted acreage comes to maturity. The new generation planting materials used by LSPSB produced higher FFB yields and higher quality fruits with thicker mesocarp which give a higher oil yield.

The Group acquired two pieces of properties in 2013. The first is a piece of leasehold industrial land measuring 3.4 acres with two buildings erected thereon located at PLO 753, Jalan Keluli 11, Pasir Gudang Industrial Estate, Johor, for a cash consideration RM14.80 million. The property, which is currently rented out, was purchased by LSPSB for future use by the company or its subsidiaries.

The second, purchased by POC, is a piece of leasehold industrial land measuring 2.0 acres together with buildings located at PLO 507, Jalan Keluli 3, Pasir Gudang Industrial Estate, Johor, for a cash consideration RM5.40 million.

Manufacturing

2013 was a challenging year for your Group's manufacturing operations as the Minimum Wages Order 2012 came into effect on 1 January 2013. With the government implementing RM900 per month as the minimum basic take-home pay for both local and foreign workers, the overall wage cost of workers increased by 30% to 35%. This has a direct impact on manufacturing cost.

In 2013 LSEO carried out a number of improvements on line efficiency and output rate of its soap and oil plants, as well as the recently installed liquid detergent line in the Teluk Panglima Garang factory. Utilisation levels of the plants were generally satisfactory.

Manufacturing (cont'd)

We continue to place emphasis on product quality. We have accordingly subjected our quality control system to various quality assurance, environmental, safety & health and regulatory audits by both internal and external certification bodies.

To meet Malaysia's aspiration to become the HALAL hub and to meet the HALAL certification requirement LSEO has established a HALAL policy and HALAL assurance system as a framework to ensure that the manufacturing facilities used and products manufactured meet the HALAL requirements.

LSEO's manufacturing operation at Pasir Gudang factory is being rationalised in order to focus on its FMCG business. In line with this, the production of soap noodles has been discontinued and the now dormant company Pacific Soap Mfg Sdn Bhd (PSM) has been acquired by POC.

POC's continued effort toward care for the environment and its employee's welfare has again won the CICM (Chemical Industries Council of Malaysia) Responsible Care Awards 2012/2013 in the following categories.

- Community Awareness & Emergency Response Code – Silver
- Product Stewardship Code – Silver
- Distribution Code – Silver
- Employee Health and Safety Code – Merit
- Process Safety Code – Merit

The coming year is expected to be even more challenging for our manufacturing operations. The sharp increase of electricity tariff and gas prices of 16% and 20% respectively will put enormous pressure not only on our own manufacturing operation, but across our entire supply chain.

Marketing

Buoyed by steady demand and growing sales of our products, LSEO increased its marketing investments to protect leadership market share in its core product categories; namely cooking oil, chilled margarine, sauces, detergent and bath care. Meantime, your Group continues to innovate to capture new consumer segments.

Many of our brands are strong household names. They continue to receive recognition and awards for branding, new product and CSR:

Brands	Awards
Knife	2013 Brand Laureate Award, 2013 Reader's Digest Trusted Brand Award 2013 Domestic Diva Award (Best Fish Sauce), 2014 Domestic Diva Award (Best Light / Dark Soy Sauce)
Buruh	2013 Reader's Digest Trusted Brand
Naturel	2013 Malaysia Good Mark Design Award, 2013 Domestic Diva Award
Top	2013 Reader's Digest Trusted Brand, 2013 Putra Brand, 2013 Domestic Diva Award
Antabax	2013 Sin Chew Business Excellent Award (CSR Excellent) 2013 Brand Laureate Award, 2013 Her World Beauty Award
Bio-home	2013 Natural Health Reader's Choice Award
May	2013 Chicago Good Design Award
Fruitale	2013 Chicago Good Design Award

In response to the growing trend in "Out of Home" consumption, we have stepped up our product offerings and sales force in the food service channels.

LSEO's supply chain capability has been further enhanced by expanded warehouse storage capacity with the commissioning of the Senai II Distribution Centre in Johor.

Prospects

The country's economy is expected to sustain a growth level of about 4.5% - 5.5% in 2014 with domestic demand remaining as the key driver for the growth. However inflationary cost pressures triggered by the withdrawal of subsidies and increase in electricity tariff and gas prices will post a challenge to your Group's performance in 2014.

In the FMCG business, we expect profit margins to come under pressure as the rise in prices of goods will put a squeeze on consumer disposal income affecting consumer demand and spending patterns.

Export of edible oils and oleo chemicals is expected to remain competitive with many large international players in the market and a slow recovery in the major economies.

As always, plantation profits depend largely on CPO price. However, as more replanted acreage comes to maturity, we can expect a gradual increase in production and profit performance.

Although there are many challenges ahead, we remain positive and focused in driving our business growth and will continue to strive to maximise return for our stakeholders.

Dividends

Your Company had during the year paid an interim single tier dividend of 9.0% amounting to net payment of RM19.32 million for the financial year ended 31 December 2013.

In view of the better performance in 2013 and to mark your Company's thirtieth anniversary as a public company in 2014, your Board is proposing for shareholders' approval at the forthcoming Annual General Meeting, the payment of a Final and a Special dividend as follows:

- a Final single tier dividend of 10.0% amounting to net payment of RM21.47 million, and
- a Special single tier dividend of 12.0% amounting to net payment of RM25.77 million.

The proposed Final and Special single tier dividends will bring the total net dividend payments for the financial year ended 31 December 2013 to RM66.56 million (2012: RM32.74 million).

Appreciation

On behalf of the Board, I wish to welcome Mr Kuek Bak Heng as a full member of the Board as a Non-independent Executive Director. Mr Kuek is the Executive Director for Sales and Marketing of LSEO and was the alternate director to Mr Whang Tar Liang who has retired from the Board. Mr Kuek has vast experience in sales and marketing; he has been instrumental in strengthening our core brands and supervised the successful introduction of our younger brands, such as *Naturel* and *Antabax*. We are happy to have Mr Kuek on the Board, his knowledge and understanding of the FMCG business will continue to be invaluable to the Group.

To all the employees of the Group, we wish to express our sincere appreciation for the hard work and contribution that you have made. We recognise that your contribution is important for the success of the Group.

Before I sign off, I wish to once again thank all our customers, business associates, government authorities and shareholders for the support and confidence given to us all these years.

Whang Shang Ying
Executive Chairman

30 April 2014