

## 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 31st December 2010.

In 2010 the LAM SOON GROUP celebrated its 60th anniversary. I am happy to report that for this milestone year, LAM SOON (M) BERHAD's consolidated profit before tax has again surpassed that of the previous year, setting a new record.

The strong performance in the fast moving consumer goods (FMCG) segment and the improved profits from plantations contributed to the profit growth in 2010.

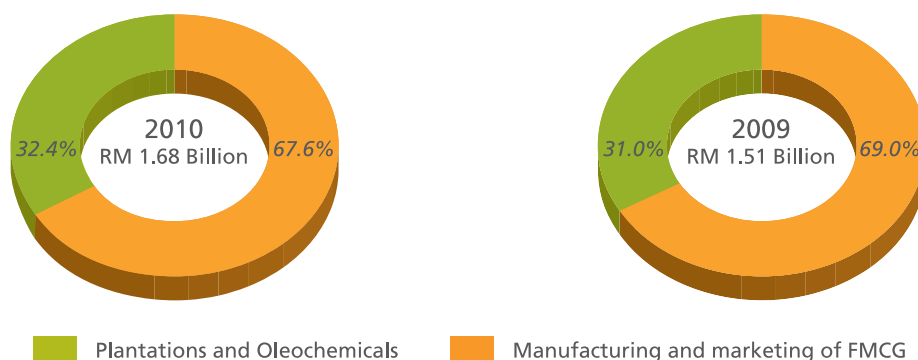
With a recovering global economy and the various initiatives undertaken by the government, consumer confidence improved, resulting in a stronger domestic demand. This provides the impetus for the Group's FMCG business. Your Group's emphasis on building trusted brands and world class products proved to be a winning strategy as most of its products enjoyed sales volume growth. Similarly, many of its brands continue to be leaders in their respective category, even overtaking global brands in some cases.

Rising operating costs and commodity prices were the main challenges to profitability in 2010. Managing procurement of raw materials and stock levels, especially palm oil, was key to profitability. The Management's dedicated and focused effort in making the right procurement decisions helped mitigate cost.

Plantation companies benefited from the higher crude palm oil (CPO) price. Profit contribution from the Group's plantations improved, but replanting activities during the year affected overall profits.

CPO was traded higher between the range of RM2,400/MT to RM3,800/MT during the year under review, with an average price of RM2,740/MT, which was RM460/MT (+20.2%) more than the 2009 average price of RM2,280/MT. (2009: price range from RM1,740/MT to RM2,900/MT). CPO closed the year at a high of about RM3,800/MT.

### REVENUE BY BUSINESS ACTIVITY



### Results

Your Group made a consolidated pre-tax profit of RM163.28 million for the year 2010 as against the pre-tax profit of RM147.22 million for the previous year, an increase of 10.9% or RM16.06 million, making it a new high.

Improved profits from LAM SOON EDIBLE OILS SDN. BHD. (+18.6%), SOUTHERN LION SDN. BHD. (+2.9%) and LAM SOON PLANTATIONS SDN. BHD. (+3.3%) accounted for the higher group profit.

Total Group sales turnover increased 11.3% to RM1.68 billion for the year under review (2009: RM1.51 billion). The increase is mainly due to higher prices compared to that for the previous year.

At company level, profit before tax for the year 2010 was 9.2% higher at RM38.45 million as against RM35.20 million recorded for the previous year. The higher profit was due to an increase in dividend income from LAM SOON PLANTATIONS SDN. BHD. (+38.6%), as well as in rental income (+8.0%) and interest income (+52.6%).

### Performance of Major Subsidiaries

#### LAM SOON EDIBLE OILS SDN. BHD. (LSEO)

LSEO recorded a significant profit growth of 18.6% in 2010. Its pre-tax profit for the year grew from RM55.66 million for the previous year to RM66.04 million for the year under review. The profit, the highest achieved so far, is attributable to improved overall sales volume and stock gains from the rising palm oil prices.

Increased sales volume was registered for cooking oils (+3.7%) and SOUTHERN LION products (+12.3%), together with the addition of agency products, namely from Lee Kum Kee and Viz Branz Ltd., contributed to the overall growth in sales volume for the year 2010. With the improved sales volume and higher average selling prices, LSEO's sales revenue increased 10.6% to RM1.15 billion (2009: RM1.04 billion).

LSEO paid tax exempt dividend of RM9.52 million, which is the same as that paid for the year before.

#### LAM SOON PLANTATIONS SDN. BHD. (LSPSB)

LSPSB operating profits, before dividends and other income, increased 16.5% to RM42.19 million (2009: RM36.22 million) in the year under review, thanks to the higher CPO price. Its total company level, profit before tax for the year was likewise higher at RM68.96 million (2009: RM66.75 million), despite a lower dividend income of RM24.71 million (2009: RM29.09 million).

LSPSB started its replanting exercise during the year under review and a total of 592 hectares were being replanted in this phase. As a result, production of fresh fruit bunches (FFB) were lower in the year by 15.2% compared to the previous year. The replanting exercise will be carried out over a five year period.

Profit before tax of its 40% owned plantation associate, DARA-LAM SOON SDN. BHD. (DLS) increased 150.3% to RM25.73 million for the year 2010 as against RM10.28 million for 2009. Higher FFB production, due to maturing of replanted acreage, and the higher CPO price contributed to the better profits for the company. The DLS estate is now fully replanted.

LSPSB paid a higher dividend of RM19.06 million for the year under review (2009: RM13.76 million).

#### PACIFIC OLEOCHEMICALS SDN BHD AND PACIFIC OLEO INDUSTRIES SDN. BHD. (POC AND POI)

POC had another challenging year in 2010. The oleo chemical business was affected by slow demand and strong competition especially in the first three quarters, mainly from producers who have expanded their capacities significantly.

For the whole year, POC recorded a profit before tax of RM27.60 million (2009: RM31.47 million), down 12.3%.

POC's expansion of its fractionation plant and storage capacities was completed ahead of schedule. It is currently embarking on an additional investment of RM22.0 million to further expand its downstream product range to meet market demand. The project is scheduled for completion at the end of 2011.

For the financial year 2010, POI paid total net dividends of RM 15.44 million (2009: RM24.39 million).

### Manufacturing

In 2010, manufacturing activities were centred on mitigating the surging raw material prices and operating costs while maintaining your Company's commitment to provide products and services of superior quality and value. Efforts were made to increase machine utilisation and production line efficiencies to reduce cost per unit. With these efforts, LSEO factories registered improved machine utilisation for its cooking oil lines and reduced wastages for its soap production.

To ensure that it maintained its product and service quality, the Group adheres to the strict standard of ISO9001:2008 quality management system and HACCP (Hazard Analysis Critical Control Point) for food safety. At the same time it is constantly reviewing and implementing programmes to further strengthen its quality management and internal control system.

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

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### Manufacturing (cont'd)

In December 2010, LSEO joined the Roundtable of Sustainable Palm Oil (RSPO) as a member underlying the Group's commitment to develop a sustainable business and products that are better for the environment and our consumers. The company is taking steps to comply with the Supply Chain Certification requirement and is engaged in discussion with its partners and suppliers.

### Marketing

To remain successful in the highly competitive FMCG market, product innovation and renewal are vital to ensure continued growth. Accordingly, the Group continued to introduce new products and improved variants in 2010 to meet consumers' changing needs.

In addition, the Group maintained its focus on brand building notwithstanding its leadership in many of the product categories. Its brands have consistently won accolades and recognition, and 2010 is no exception. We are particularly gratified by the awards achieved by *Naturel* and *Antabax*, two of our relatively young brands.

#### **BRANDS**

*Knife*

*Buruh*

*Naturel*

*Antabax*

*May*

#### **AWARDS**

2010 Brand Laureate Award (Top 10 Masters Awards),

2010 Reader's Digest Trusted Brand Award

2010 Reader's Digest Trusted Brand Award

2010 Domestic Diva Award

2010 Brand Laureate Award, 2010 Malaysia Good Design Mark,

2010 Best Anti-bacterial Shower Cream (Jasmine Magazine)

2010 Her World's Choice Shower Cream

Your Company is continuously seeking to improve its distribution capabilities and improve its customer service level, product reach and availability. To this end the Company built its second state-of-the-art Distribution Centre in Bukit Minyak, Penang, the first being in Senai, Johor. The Centre incorporates green technology and will feature a fully computerized warehouse management system. The Bukit Minyak Distribution Centre will cater for the Northern Peninsular Region and is now in operation.

### SOUTHERN LION SDN. BHD. (SOUTHERN LION)

SOUTHERN LION continues to record strong growth in 2010, with sales revenue crossing RM400.0 million for the first time, setting a new milestone. Total sales revenue achieved was RM403.73 million as against RM357.83 million for the previous year, up 12.8%.

Strong demand for the company's two flagship fabric-care brands, namely *Bio Zip* and *Top*, kept the company as the No.1 detergent company in the country. In the oral and beauty care segment, *Systema* toothbrush and *Shokubutsu* shower foam continue to make strong inroads in the market with renewed launches and promotions.

SOUTHERN LION made a profit before tax of RM38.45 million for the year under review (2009: RM37.37 million, +2.9%). Profit growth was affected by higher raw material prices and stiff competition.

Dividend received from SOUTHERN LION during the year was RM8.0 million as against RM10.00 million for 2009.

### Corporate Social Responsibility (CSR)

We are happy to report that POC emerged the winner of the Chemical Industries Council of Malaysia Responsible Care Awards 2009 for Product Stewardship Code (Gold) and Community Awareness and Emergency Response Code (Silver). The awards reflect our commitment towards the well-being of the community.

Our commitment to our community is on-going and our various business visits regularly lend support to the handicapped and other under privileged groups, both in the way of cash donations and free goods.

We are mindful that local community's support and involvement is important to ensure success and sustainability of our business operations.

### Prospects

The Group expects business conditions to be more difficult in the coming year. With the surge in petroleum price as a result of the turmoil in the Middle East and North Africa, the recovery in the global economy is expected to slow down. Inflationary pressure arising from the high price will negatively impact private consumption in countries around the world, dampening demand for goods and services.

More recently, the devastating earthquake and tsunami in Japan have added further uncertainty to the global market place.

With these developments around the world, the domestic economy is forecast to grow at a slower pace. Bank Negara had forecast a gross domestic product (GDP) growth for Malaysia of 5 to 6% in 2011 as against the growth of 7.2% in 2010. However, domestic demand is expected to be healthy and driving the local economy in the coming year.

While high CPO prices are beneficial to its plantation subsidiary, they present a challenge to the Group's downstream manufacturing activities in the form of higher raw material costs. Replanting activities, while necessary to secure long term returns, will continue to affect plantation profits in the next few years.

The global uncertainties, the high price of palm oil and the strengthening of the Ringgit, are some of the adversities faced by the Group's edible oils & fats and oleo chemicals export business.

Nevertheless, we will continue to build on our strengths and seek our niche, with greater focus on the emerging markets. We believe that the Group's diversified earnings base, the strength of its brands and quality of its products, its extensive and established sales and distribution network, and the dedication of an experienced management team, will see us through another difficult year.

### Dividends

In view of the better performance, your Board is proposing a higher dividend payment for the financial year ended 31st December 2010.

It has during the year, approved and paid an interim dividend of 4.5% (less 25% tax) amounting to net payment of RM7.25 million.

It is proposing for shareholders' approval at the forthcoming Annual General Meeting, the payment of a Final and a Special dividend as follows:

- a Final dividend of 6.0% (less 25% tax) amounting to net payment of RM9.66 million (Gross: RM12.88 million), and
- a Special dividend of 3.5% (less 25% tax) amounting to net payment of RM5.64 million (Gross: RM7.52 million).

The proposed Final and Special dividends will bring the total net dividend payments for the financial year ended 31 December 2010 to RM22.55 million (2009: RM19.00 million).

### Appreciation

The commitment and dedication of the work force played a major role in the continued growth of the Group. The Board recognises their effort and contribution and wish to express its sincere appreciation and thanks for the good work.

Support of our customers, business associates and government authorities has been vital to our success; we thank you once again and look forward to your continued support.

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

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### **Appreciation (Cont'd)**

I have led the Company since its inception as Managing Director and then Executive Chairman. Having reached the advanced age of 84 earlier this year, I have decided that the time has come for me to relinquish my position as Executive Chairman. Last year your Company achieved record sales, record profit and is paying a record dividend. Looking ahead, however your Company faces ever greater challenges in a globalised and rapidly changing world – the rise of Indonesia as the world's no. 1 palm oil producer to overtake Malaysia and the consolidation in the retailing industry, to name but two.

I leave your Company with a strong balance sheet and an experienced management team. Mr. Whang Shang Ying will succeed me as Executive Chairman and Mr. Khoo Heng Suan has been promoted to Deputy Executive Chairman. In addition, Mr. Kuek Bak Heng, a long serving senior executive, who oversees sales and marketing, is being appointed as my alternate on the Board of Directors. With their collective experience and individual strengths, I am confident that they can guide the Company in the years to come. I thank the Board for their endorsement of the management team and ask the shareholders to continue giving them the support that I have enjoyed from you all these years.

Thank you.

**Whang Tar Liang**  
Executive Chairman

10 May 2011