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 2011.

The Group's performance in the year under review was driven by high commodity prices, namely crude palm oil (CPO), which was traded at about RM3,850/MT at the beginning of the year before trading down to close at about RM3,190/MT at the end of 2011. Compared to 2010, CPO price at the beginning of the year was about RM2,450/MT and traded upward to close at about RM3,800/MT at the end of the year. The average price for the year 2011 was RM3,300/MT (2010: RM2,740/MT), which was 20.4% or RM560/MT higher than the previous year.

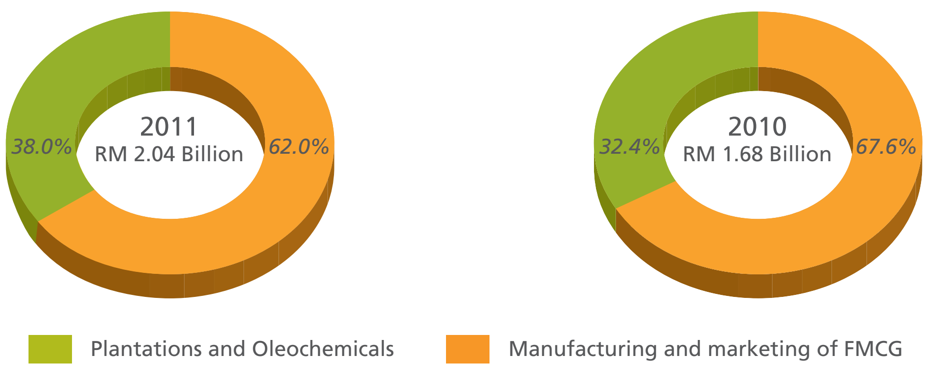
The period saw volatility caused by worsening debt crisis in Europe, the tsunami in Japan, turmoil in the Middle East and the continued slow recovery in the US. Notwithstanding the challenges, I am pleased to report that your Group was able to maintain its consolidated profit for the year 2011, with a slight increase over the previous year.

With the high CPO price, growth in the Group's profit for the year was mainly driven by the plantation segment. Lam Soon Plantations Sdn. Bhd. (LSPSB) registered a 34.0% improvement in operating profits and Dara-Lam Soon Sdn. Bhd. (DLS) (its 40% associate) an improvement of 58.1%. The improvements were also due to the higher FFB production achieved during the period for both companies, compared to previous year. However, overall output was affected by LSPSB's replanting activities, which started in 2010.

The oleo chemicals segment also performed better despite the uncertain global economy and stiff competition especially from Indonesian producers. Pacific Oleochemicals Sdn. Bhd's (POC's) sales volume improved 7.6% and pre-tax profits improved 12.9% against corresponding period last year.

The high CPO price trend in 2011 on the other hand, adversely affected the Group's fast moving consumer goods (FMCG) business. Lam Soon Edible Oils Sdn. Bhd. (LSEO) recorded a significant drop in performance, its pre-tax profits declined by 29.2%. Southern Lion Sdn Bhd's (SLSB's) business was affected by intense competition in the powder detergent segment, and recorded a drop in pre-tax profits of 26.4%.

REVENUE BY BUSINESS ACTIVITY



Results

With the improved profit contributions from the plantations and oleo chemicals segments, your Group achieved a consolidated profit before tax of RM164.40 million for the year under review (2010: RM163.28 million), an increase of RM1.12 million over the previous year. Although the increase is relatively modest, it nevertheless sets a new level for the Group.

Total Group sales turnover achieved in 2011 is also at a new level, crossing the RM2.0 billion mark for the first time. The Group recorded a total sales turnover of RM2.04 billion, an increase of 21.7% over 2010 turnover of RM1.68 billion, due mainly to higher overall prices and sales volume.

At Company level, pre-tax profit for the year 2011 was likewise higher at RM49.67 million, up 29.2% compared to the pre-tax profit of RM38.45 million for the previous year. Higher dividend income from LSPSB (+61.7%) and LSEO (+17.6%) accounted for most of the increase in its pre-tax profit.

Performance of Major Subsidiaries

Lam Soon Edible Oils Sdn. Bhd. (LSEO)

LSEO's performance was affected by the high CPO price and the subsequent declining price trend in 2011, which put a squeeze on profit margins. Conversely the rising price trend in the previous year had given rise to stock gains. Intense competition in the detergent segment also affected the company's overall sales growth and profitability.

Given the above and higher operating expenses, LSEO's profit before tax for the year under review declined 29.2% to RM46.77 million (2010: RM66.04 million). However, sales turnover increased 9.4% to RM1.26 billion (2010: RM1.15 billion), attributable to higher selling prices and marginal increase in sales volume.

For the year 2011, LSEO paid total tax exempt dividends of RM11.20 million (2010: RM9.52 million).

Lam Soon Plantations Sdn. Bhd. (LSPSB)

LSPSB achieved a company level profit before tax of RM102.98 million in the year under review, surpassing the RM100.0 million mark for the first time. This represented a 49.3% increase over the previous year, and is due to both an improvement in profits from plantation operations and higher dividend income.

LSPSB operating profits increased 34.0% to RM56.53 million (2010: RM42.19 million) in the year under review, due to the higher CPO price and increased fresh fruit bunches (FFB) production. FFB production improved 12.8% to 143,391 MT for the year (2010: 127,099 MT). Replanting exercise which started in 2010 will be carried out over a five year period; this will affect the overall FFB production.

The increase in dividend income of 74.7% over the previous year was due mainly to higher dividend received from its oleo chemical subsidiary, Pacific Oleo Industries Sdn Bhd (POI). Gross dividend received from POI for the year was RM35.0 million (2010: RM16.75 million), an increase of 109.0%. Dividend from its 40% owned plantation associate, Dara-Lam Soon Sdn. Bhd. (DLS) for the year was RM8.16 million (2010: RM7.96 million). Profit before tax of DLS continues to improve as more of its replanted acreage comes to maturity.

During the year under review LSPSB made a bonus issue of 1 new share of RM1 each for every 2 shares held, capitalising an amount of RM82.88 million of its revenue reserves, increasing its paid-up capital to RM248.64 million.

It also made the following strategic investments with its cash reserves during the year:

1) Purchase of a factory and land measuring 12.798 acres at Senai, Johore for a cash consideration of RM17.50 million, through its 100% owned subsidiary Lam Soon Senai Sdn. Bhd. (formerly known as KYM Senai Sdn. Bhd.) (LS SENAI).

2) Building of a new warehouse on an existing piece of land owned by LS SENAI at a cost of RM24.20 million. The new warehouse will be leased to third parties.

3) Invest RM23.50 million in Pacific Esters Sdn. Bhd. (formerly known as Lam Soon Manufacturing Sdn. Bhd.) for the construction of an oleic acid plant at Pasir Gudang, Johore to expand the Group's oleo chemicals product range.

LSPSB paid a total net dividend of RM26.69 million for the year under review (2010: RM19.06 million).

Pacific Oleochemicals Sdn Bhd And Pacific Oleo Industries Sdn. Bhd. (POC and POI)

2011 was a very challenging year for POC. In light of the Eurozone economic and financial crisis and China's slowed economic growth, the oleo chemical business was affected by strong competition from Indonesian producers. After a strong first quarter, the volatility of raw material prices affected performance in the second and third quarters. In the fourth quarter the company recovered on improved prices that resulted in a better than expected performance in 2011.

In total POC registered a 7.6% increase in sales volume for 2011 against the previous year and with the higher prices its sales turnover increased 46.8% to 674.93 million (2010: RM459.91 million), while its profit before tax improved 12.9% to RM31.17 million (2010: RM27.60 million).

Pacific Oleochemicals Sdn Bhd And Pacific Oleo Industries Sdn. Bhd. (POC and POI) (cont'd)

POC's expansion of its fractionation and storage capacities in 2010 enhanced its production flexibility and supply efficiency. To further widen its oleo chemical product range, the Group invested in an oleic acid production plant. The plant was successfully commissioned in November 2011 and the product was well accepted in the fatty acid market. The project, costing about RM23.5 million, was undertaken by Pacific Esters Sdn. Bhd. (formerly known as Lam Soon Manufacturing Sdn. Bhd.), a 100% owned subsidiary of LSPSB.

During the year, the paid-up capital of POC was increased from RM 20.0 million to RM50.0 million to better reflect its assets and business growth.

POI paid total net dividends of RM 30.0 million for the financial year 2011 (2010: RM15.44 million).

Manufacturing

Product quality and excellent service remain the key focus and commitment of your Group. We have improved processes and product quality by engaging our customers, suppliers and other supply chain partners, with the aim of eliminating quality defect.

We recognise the importance of new product development in driving growth. Our commitment to research and development and clinical trials ensures that we deliver safe products to the consumers and enabled us to launch innovative products that have won international design awards.

Through numerous initiatives on cost optimisation, product innovation and reformulation, we have mitigated the full impact of the escalating cost of CPO and other raw material. In LSEO, we have integrated the off-line packing for soap and oil products into our process, enabling us to reduce the average packing cost significantly.

Marketing

The FMCG industry in Malaysia continues to be characterised by acute competition. Nevertheless, your Group maintained leadership position in its core product categories of cooking oil, chilled margarine, detergent powder, oyster and soy sauce.

Supported by regular events in conjunction with the Ministry of Health, our *Antabax* medicated liquid soap is the fastest growing brand in the medicated liquid shower category. It won the 2011 BrandLaureate Award, Her World Beauty Award and Cleo Beauty Hall of Fame Award.

With diversity of product mix and continuous brand investment, your Group is positioning itself to better withstand cyclical challenges in the core product categories and to achieve a sustainable growth.

To develop its competitive advantage LSEO has committed resources to:

- Deepen consumer's Usage & Attitude and product sensory study for effective product innovation.
- Drive effective channel and customer activation through strong collaboration in category captaincy, improving sales and customer service analytics.
- Intensify targeted marketing activities in media, consumer related promotions and consumer engagement programs.
- Expand and improve its supply chain capabilities.

In May 2011, LSEO commissioned its Distribution Centre in Bukit Minyak, Penang. This RM35.0 million investment was undertaken to cater to the growing volume of FMCG sales. It is the second of our new generation of distribution centres for the 21st Century, the first being Senai, Johore (commissioned in 2006). The new Distribution Centre incorporates a number of green features in its building design and has been certified with Malaysian Green Building Index, underscoring your Group's commitment to create a sustainable environment.

Southern Lion Sdn. Bhd. (Southern Lion)

Southern Lion faced intense competition in the powder and liquid detergent segment in the year under review. As a result, it registered a 7.3% decline in sales volume, while sales revenue declined 1.6% to RM397.09 million (2010: 403.73 million).

Due to intense promotion and price undercutting as well as higher raw material cost, Southern Lion's profit before tax for the year dropped 26.4% to RM28.29 million (2010: RM38.45 million).

Southern Lion Sdn. Bhd. (Southern Lion) (cont'd)

However, in the oral care segment *Systema* toothbrush enjoyed healthy growth and managed to reach a strong brand position within a short span of a year after launch.

In the beauty care segment, in spite of intense competition, *Shokubutsu* body shower foam registered strong growth with the launch of the new Sakura variant and the launch of the medicated variant under the rebrand "*Active Guard*" range.

Corporate Awards

Even as we strive to generate good returns for our shareholders, we are equally committed towards ensuring the well-being of our employees and the community in which we operate. We are delighted that our efforts have won us the following awards:

- Chemical Industries Council of Malaysia (CICM) Responsible Care Awards 2010 for Product Stewardship Code (Gold) and Community Awareness and Emergency Response Code (Gold), awarded to POC in recognition of its Responsible Care Program. POC has won similar awards in consecutive years.
- The 2011 American Association of Retired Persons (AARP) International Best Employers for Workers over 50 Award in the United States of America, awarded to LSEO. The award recognises top 15 non-US companies that have demonstrated outstanding workplace policies and the best human resource practices for their matured employees. LSEO is the only Malaysian company to receive the award in 2011.

Prospects

The business environment is expected to be even more challenging in 2012. With the economic slowdown forecast in China, the demand for goods and services from developing economies like Malaysia is expected to dampen. This will have a negative impact, especially for the Group's exports and oleo chemical business.

With the various stimulus measures and projects being implemented under the Economic Transformation Programme (ETP), the Malaysian economy is forecast by Bank Negara Malaysia to grow between 4 – 5% in 2012. Domestic demand will again be the driver of growth for the Group's business in 2012.

Competition from Indonesian producers with favourable export tax structure and competition from local manufacturers who have increased their capacities are expected to affect the oleo chemical business as well as the soap and detergent segments within the Group's FMCG business.

We expect the plantation business to remain a major contributor to the Group's overall profits in 2012, barring any adverse softening of the CPO price. Such profits will however be affected by the on-going replanting activities.

The Group will continue to build on its strengths and seek opportunities to expand its earnings base. In its FMCG business we will continue to expand our product range and distribution services capitalising on our strength in the distribution channel.

Given our experience and diversified earnings from the upstream and downstream activities of the palm oil industry, we are well positioned to face the challenges ahead. The Group will be more vigilant in controlling its operating cost and improve its efficiencies to be able to respond to the fast changing environment.

Dividends

Your Company had during the year paid an interim dividend of 5.0% (less 25% tax), amounting to net payment of RM8.05 million.

The 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 dividend of 8.0% (single tier) amounting to net payment of RM17.18 million, and
- a Special dividend of 3.5% (single tier) amounting to net payment of RM7.51 million.

The proposed Final and Special dividends will bring the total net dividend payments for the financial year ended 31 December 2011 to RM32.74 million (2010: RM22.55 million).

Appreciation

First, I would like to welcome Y. Bhg. Dato' Afifuddin Bin Abdul Kadir and Mr Leslie Mah Kim Loong, our two new Directors, to the Board of the Company. Dato' Afifuddin had a distinguished career with Malaysian Industrial Development Authority and was its Deputy Director General 1 before he retired in 2011. Dato' Afifuddin is a nominee of Lembaga Urusan Dan Tabung Haji (LUTH) and is appointed on the Board as a Non-Executive Director. LUTH is a substantial shareholder of the Company. Mr Leslie Mah, a Chartered Accountant by profession, has served on the Boards of a number of public listed companies and brings with him wide experience in the food and traditional Chinese medicine businesses. Mr Leslie Mah is appointed as an Independent Non-Executive Director on the Board. I am confident that with their wealth of experience these two distinguished gentlemen will help the Group navigate the future; we look forward to their counsel and guidance.

While we welcome new members we bid farewell to Mr Goh Geok Khim, our Non-Independent Non-Executive Director, who has expressed his wish to retire from the Board at the forthcoming Annual General Meeting. On behalf of the Company, I would like to take this opportunity to thank him for having served the Board since 1 October 1996.

Secondly, on behalf of the Board, I wish to express our sincere appreciation to all our employees and management team for their hard work and dedication.

Last but not least, we wish to thank you - our customers, business associates, government authorities and shareholders, for your support especially during this difficult period. Your support has been vital to our success all these years.

Thank you.

Whang Shang Ying
Executive Chairman

10 May 2012