Introduction

On behalf of the Board, I present to you the Annual Report of Lam Soon (M) Berhad for the financial year ended 31 December 2012.

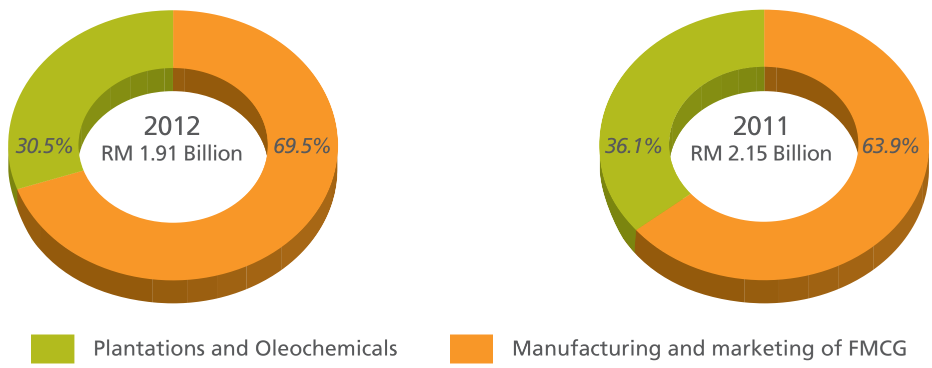
The Group had a very challenging year in 2012. The drop in crude palm oil (CPO) price, regulatory controls on cooking oil and stiff competition from Indonesia affected the Group's overall performance. Profit contribution from most business divisions were much lower compared to that for the previous year. An exception was oleo chemicals, which managed to sustain its profits. In addition Lam Soon Edible Oils Sdn Bhd (LSEO), the Group's fast moving consumer goods (FMCG) company, had to make a substantial book-to-physical stock variance adjustment, which further reduced the Group's bottom line.

The slowdown in key economies and the increase in supply due to favourable weather conditions in the second half of 2012 resulted in weak global demand for palm oil and the softening of CPO price. CPO was traded between RM3,100/MT and RM3,600/MT in the first quarter of the year but broke RM3,000/MT in June as stock built up. It drifted to below RM2,000/MT in December before closing at about RM2,230/MT at the end of the year. The average price for the year was about RM2,770/MT (2011: RM3,300/MT).

In tandem with the lower CPO price, profit contribution from the plantation division declined. The on-going replanting exercise also affected overall plantation profit.

In the FMCG division, sales were supported by strong domestic demand. Domestic consumption and investment spending remained strong with the various government initiatives and were the key drivers of the country's better than expected growth of 5.6% for the year 2012 (2011: 5.1%). However, profit margins from this division were affected by the sharp decline in palm oil price and competition from cheaper Indonesian imports, especially in the detergent segment.

REVENUE BY BUSINESS ACTIVITY



Results

Given the market condition and the book-to-physical stock variance adjustment by LSEO, Group net profit after tax for the year ended 31 December 2012 declined 50.9% to RM69.53 million from RM141.66 million for the previous year.

Its total gross sales revenue recorded for the year was RM1.91 billion as against RM2.15 billion for the year before, a reduction of 11.0% mainly due to lower selling prices.

At company level, net profit before tax was 9.6% lower at RM44.88 million (2011: RM49.67 million) due to lower dividend income. Similarly, its profit after tax was 1.3% lower at RM43.28 million (2011: RM43.87 million) with lower tax provision.

Performance of Major Subsidiaries and Associates

Lam Soon Edible Oils Sdn. Bhd. (LSEO)

LSEO's profit for the year suffered a major setback due to the discovery of cumulative book-to-physical stock variances in its inventory in December 2012. The quantified variance totalled 10,526MT of mainly palm oils related products held as raw materials: this was valued at RM32.89 million as at 31 December 2012. Based on findings by forensic accountants, the stock variance appears to have been concealed by manipulation of stock records involving a number of parties. Actions have since been taken to address major deficiencies identified in its internal controls and to recover the loss.

After taking into consideration the book-to-physical stock variance, LSEO recorded a profit before tax of RM4.95 million (2011: RM46.77 million). Profit before the book-to-physical stock variance was RM37.84 million.

LSEO gross sales revenue for the year declined 3.6% to RM1.32 billion (2011: RM1.37 billion). The lower revenue was largely due to a 31.4% drop in export sales revenue as a result of weak global demand and competition from Indonesia as well as lower selling prices compared to the year before. Domestic sales revenue on the other hand improved 3.30%.

For the year 2012, LSEO paid a single tier dividend of RM11.20 million which is the same amount as that paid in 2011.

Lam Soon Plantations Sdn. Bhd. (LSPSB)

At company level, LSPSB made a profit before tax of RM87.70 million, down 14.8% from the previous year profit before tax of RM102.98 million.

LSPSB's operating profit declined 41.8% to RM32.91 million (2011: RM56.53 million). The decline was in line with the sharp drop in CPO price and the drop in the output of fresh fruit bunches (FFB) due to the on-going replanting exercise. However this was partially compensated by higher dividend and interest income, which increased 17.4% and 20.6% respectively.

LSPSB total net dividend payment for the year was RM27.35 million (2011: RM26.69 million).

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

The oleo chemicals business remained challenging. Escalating Eurozone economic crisis and slowdown in China weakened demand for its products. Competition from high capacity plants, especially from cheaper cost Indonesian producers, made the business even more challenging.

Nevertheless, the Group's oleo chemical companies managed to overcome the adversities to record a higher combined pre-tax profit of RM36.22 million (2011: RM33.69 million), an increase of 7.5% over previous year. Total combined sales volume improved 6.9% against the volume achieved in 2011. We are seeing the fruits of our strategy to improve its production flexibility and product range by expanding its fractionation plant and its oleic acid production with the formation of PES has shown positive results.

The improvement in results was achieved in spite of a fire incidence in September 2012 at one of POC's splitting plant. The plant is being repaired and is expected to be back in operation before the end of 2013. The management expect the losses resulting from the fire to be recoverable from the insurance policies taken up by the company.

POI paid total net dividends of RM 41.5 million for the financial year under review (2011: RM30.0 million).

Southern Lion Sdn. Bhd. (Southern Lion)

Faced with stiff competition and an almost stagnant market, Southern Lion adopted an aggressive promotion strategy coupled with efforts to strengthen the differentiation of its brands against competitors to grow its top line. It introduced improved formulation with a strong unique selling point (USP) for its *Top* detergent line. Its "anti-mite dust" formulation was well accepted by the market. In the personal care segment, *Shokubutsu* "Japan Original Series" body shower foam and *Systema* toothbrushes "0.02" USP also generated strong growth.

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

In total, Southern Lion sales volume improved 6.2% over that for the previous year and sales revenue improved 8.4% to RM430.30 million (2011: RM397.09 million).

However, raw materials price hike and stiff competition in the market eroded profit margins substantially. For 2012, Southern Lion recorded a lower profit before tax of RM16.06 million (2011: RM28.29 million), a decline of 43.2%.

Manufacturing

With increasing competition, production efficiency and cost competitiveness remain vital to maintaining a sustainable and successful manufacturing operation. Flexibility is another important factor. For instance, factory beauty soap output at LSEO's Telok Panglima Garang has been falling in the face of new capacity coming on-stream in Indonesia and the irreversible decline of bar soap as consumers switch to liquid soap. In these circumstances, the management decommissioned two soap lines and installed a new dishwash liquid filling line. The latter, commissioned in October 2012, now fulfils about 50% of LSEO's dishwash liquid requirement.

In 2013, the management is undertaking a major review of LSEO's Pasir Gudang factory.

The coming year will be even more challenging for our manufacturing division as the Minimum Wages Order 2012 came into effect on 1 January 2013. This will see a dramatic impact in the wages of workers. With the government implementing the quantum of RM900.00 per month as the minimum basic take-home pay for both local and also foreign workers, the overheads for our manufacturing operations will increase. It is likely that the cost impact will also be embedded across our entire supply chain and further affecting our earnings. We estimate a 30% to 35% increase in the cost of workers' salaries. Thus, it is ever vital to emphasise on increasing productivity while maintaining low overheads. In this respect, we have taken further measures to increase automation to reduce dependency on manpower.

Marketing

Rising income level and affluence present both opportunities and threats in the ever crowded and competitive FMCG business. Moreover the increasing concentration of the retail trade is putting constant demands not only on our sales teams, but also our product development, accounting and supply chain resources. However due to continuous investments in these areas we are well positioned to respond to such demands. Harnessing both our strengths and that of our partners' we continue to satisfy consumers' changing needs. Many of our brands and products remain strong household names and continue to receive recognition and awards in their respective product categories:

Brands	Awards
Knife	2012 Brand Laureate Award, 2012 Reader's Digest Trusted Brand Award 2012 Domestic Diva Award (Knife Fish Sauce), 2012 Top 3 Best Tasting Soy Sauces (Feminine & Oriental Cuisine Magazine)
Buruh	2012 Reader's Digest Trusted Brand
Naturel	2012 Domestic Diva Award, 2012 Malaysia Superbrand Award
Top	2012 Brand Laureate Award, 2012 Reader's Digest Trusted Brand Award, 2012 Putra Brand Award
Antabax	2012 Brand Laureate Award 2012 Her World Beauty Award
Bio-home	2012 Good Design Award (Japan Institute of Design Promotion)

Sales of our *Knife* and *Buruh* are constrained by regulatory quota. For the healthy oil segment, where no such constraints apply, our *Naturel* oil has become clear market leader.* Likewise, in the soft margarine category, our *Naturel* Margarine also achieved the distinction of becoming Malaysia's No. 1 brand. ** As part of our effort to add value to our product portfolio, we have stepped up the marketing of *Naturel* olive oil.

Source: * Nielsen Retail Audit MAT March 2013
** Top 3 Hypermarkets: Consolidated 2012 / 2011 Soft Margarine Scan Data

Marketing (*cont'd*)

We are also expanding our product portfolio to broaden our earnings bases. During the year LSEO expanded into the distribution of paper products such as diapers and tissues through collaboration with Daio Paper Corporation, Japan and Asia Pulp and Paper Corporation, Indonesia.

Corporate Awards

The Group is proud that LSEO's Bukit Minyak Distribution Centre is the first Green Building Index (GBI) – INC (Industrial New Construction) certified distribution centre in Malaysia. The accreditation is in recognition of the Distribution Centre's sustainable initiatives, which meet evaluation criteria that include energy and water efficiency, indoor environmental quality, sustainable site planning and management, material and resources and innovation.

The Group's commitment towards the environment and its employee's welfare has again gained recognition from CICM (Chemical Industries Council of Malaysia). In the CICM Responsible Care Awards 2011/2012, POC won in all six categories.

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

Prospects

Over the years, we have built a strong foundation for the Group. Despite the dip in profits in 2012, we remain steadfast and positive about the industry and the businesses we are in. Although we expect global demand to be weak and competition to remain keen in 2013, we believe that with the right focus and strategy we will be able to mitigate these challenges.

With the various Government Transformation Programme (GTP) the domestic economy is expected to remain positive with strong domestic consumption being one of the main drivers of growth. This augurs well for our FMCG business. We will continue to focus on product and marketing innovations as well as improving cost competitiveness to drive sales and profits.

Export sales are expected to remain sluggish with weak global demand. In export orientated oleo chemical business we have sustained sales with the right product mix and production flexibility supported by efficient delivery service. We will continue to build on these and capitalised on our niche in the market to grow the business further.

Contribution from plantation is expected to remain healthy, barring unforeseen price volatility. The on-going replanting exercise and the minimum wage policy will have an impact on overall plantation profits in the coming years.

The Group has taken measures to fortify its internal controls and work processes as well as strengthening its management structure to prevent future losses through inefficiencies and manipulations.

Dividends

Your Company had on 28 December 2012, paid an interim single tier dividend of 6.0% amounting to RM12.88 million for the financial year ended 31 December 2012.

At the forthcoming Annual General Meeting, the Board is proposing for shareholders' approval the payment of a Final single tier dividend of 9.25% amounting to RM19.86 million, matching last year's dividend pay-out. The Board's confidence in making such a proposal despite the sharply reduced profit reflects your Group's strong financial foundations, and is intended to reward shareholders who view the Company's shares as a steady long term investment.

With the proposed Final dividend, the total net dividend payments for the financial year ended 31 December 2012 will be RM32.74 million (2011: RM32.74 million).

Appreciation

It is with great regret that Mr Whang Tar Liang, a founding member and former executive chairman of the LAM SOON Group, has expressed his desire to retire from the Board at this coming Annual General Meeting and does not wish to seek re-election. Mr Whang has been instrumental to the development and growth of the Group since the founding of LAM SOON in Malaysia in 1958. On behalf of the Board, I would like to record our appreciation to Mr Whang for his contribution and sacrifices that had made the Group what it is today. We wish Mr Whang a happy retirement and be blessed with good health.

On behalf of the board, I would also like to thank our customers, shareholders, business partners and government authorities for their support over the years.

Our sincere appreciation also to the management and employees of the Group, especially those who have worked hard to see us through the many challenges during the year.

Lastly, I would like to thank my fellow colleagues on the Board; I am truly appreciative for your guidance and advice.

Thank you

Whang Shang Ying
Executive Chairman

3 May 2013