

MESSAGE FROM THE EXECUTIVE CHAIRMAN

Introduction

In 2006 higher fuel oil and commodity prices and increasingly stiff competition in the industry continue to put pressure on profit margins. Nevertheless, we are pleased that your Group's performance continued to improve for the year under review.

The strategic acquisition by its subsidiary, LAM SOON PLANTATIONS SDN. BHD. (LSPSB) of the remaining 65% stake in its two oleochemical joint ventures with Dutch multinational Akzo Nobel in Pasir Gudang, Johor, namely AKZO NOBEL OLEOCHEMICALS SDN. BHD. and AKZO NOBEL INDUSTRIES SDN. BHD. (now known as PACIFIC OLEOCHEMICALS SDN. BHD. (POC) and PACIFIC OLEO INDUSTRIES SDN. BHD. (POI) in 2006, had contributed significantly to the overall performance of the Group.

With the consolidation of the results of these two new subsidiaries your Group's consolidated revenue exceeded RM1.0 billion for the first time.

Group pre-tax profits likewise increased to RM100.8 million (2005: RM63.8 million) achieving a new record for the Company. Group net tangible assets per share (NTA) improved to RM2.43 as at 31st December 2006 compared to RM2.07 a year ago. Included in the profit for the year is an amount of RM37.1 million of negative goodwill arising from the acquisition of the 65% share in POC and POI. The negative goodwill is the excess of the fair values of the assets and liabilities of the shares acquired over the consideration paid and recognized as a gain in the income statement in accordance to Financial Reporting Standards (FRS 3).

For continued growth, the Group must continue to take measures to further strengthen its business units and invest strategically so as to ensure a more stable and diversified income stream. In line with this, the Group intends to expand its downstream manufacturing operations and expand its markets especially in oleochemicals and specialty fats products.

To reflect its progressive outlook and its commitment towards growth and excellence, the Group adopted a new corporate logo in early 2006. The new logo is modern and distinctive reflecting a Group that is forward-thinking yet retaining the image of a stable and trusted company.

Results

Group revenue recorded for the year 2006 was RM1,085.9 million, an increase of 51.8% over the previous year. The increase is due to the consolidation of the results of POC and POI and to the higher revenue recorded by its other subsidiaries as a result of higher prices and increase sales volume.

Crude palm oil (CPO) escalated from about RM1,400/MT in the beginning of 2006 to above RM2,000/MT at the end of the year. The average price was 10.0% higher at RM1,540/MT as against the average price of RM1,400/MT for the year before.

Group profit after tax for the year was higher at RM87.4 million (2005: RM50.9 million). The profit includes the negative goodwill of RM37.1 million and the allowance for diminution in value of other investment of RM2.9 million.

At company level, the profit after tax for the year under review was only marginally higher at RM10.8 million (2005: RM 10.7 million). The increase dividend and rental income received during the year was offset by the impairment loss on value of investments in subsidiaries of RM2.1 million and higher tax provision of RM3.6 million (2005: RM2.0 million).

Performance of Major Subsidiaries

LAM SOON EDIBLE OILS SDN. BHD. (LSEO)

LSEO registered higher sales turnover with higher overall volume in 2006 despite the difficult business environment. The rising cost of operation and escalating palm oil price continue to affect the company's performance. However, with concerted effort in marketing and manufacturing supported by well managed stock and palm oil purchases, the company was able to sustain its profits.

LSEO sales revenue for the year improved to RM717.5 million (2005: RM641.6 million) an increase of 11.8%. Its profit after tax increased 8.4% to RM21.9 million (2005: RM20.2 million).

LSEO paid a net dividend of RM6.02 million for year 2006, of which your Company received RM6.00 million (2005: RM5.08 million).

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LAM SOON PLANTATIONS SDN. BHD. (LSPSB)

LSPSB company level profit before tax for the year ended 31st December 2006, was RM41.4 million, an increase of 3.1% as against the pre-tax profit of RM 40.1 million recorded for the year before. The profit did not increase in line with the higher CPO price due to lower production volume and to the higher interest expense. Interest expense for the year was RM3.65 million compared to RM0.25 million for 2005, due to cost of financing the acquisition of POC and POI.

However, this was offset by the higher dividend income of RM24.5 million received from POC and POI and its 40% associate DARA LAM SOON SDN. BHD. (DLS) compared to RM17.4 million for year before.

The company profit after tax was lower at RM 28.6 million (2005: RM33.1 million) as a result of high tax provision for the year.

LSPSB paid a dividend of 8% less 28% tax which amounts to net payment of RM4.77 million in 2006 (2005: RM2.0 million).

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

The Group took over POC and POI from January 2006. POC and POI made a combined pre-tax profit of RM25.3 million for the year under review (2005: RM27.0 million). The companies encountered some production break downs during the first quarter of 2006 which adversely affected the operations. However the operations and business were stabilised, and budgets achieved from second quarter onwards. Overall competition remains keen with glycerine prices at historical lows. At the same time feed stocks of CPO and Crude Palm Kernel Oil continue to rise, eroding profit margins.

POC and POI paid a combined dividend of RM 26.4 million during the year 2006 (2005: RM2.0 million).

Manufacturing

In the Group's continuous quest to achieve modernisation of its production facilities and greater efficiency it has taken steps to improve production planning and stock and people management. In September 2006, LSEO's factory at Telok Panglima Garang successfully passed the audit on Ethical Trading Initiatives conducted by SGS (Malaysia) Sdn. Bhd. This achievement clearly underscores the Group's belief that people are the key to an organisation's success.

At POC, its commitment towards continuous improvement of health, safety and environment at its factory in Pasir Gudang earn it the accreditation to the OHSAS 18001 (Occupational Health & Safety Assessment Series) management system in April 2006. In August 2006, POC received all the 6 corporate CICM (Chemical Industries Council of Malaysia) Responsible Care Gold Corporate Award in the oleochemicals category. The company was also awarded with the Excellent Occupational Safety and Health Silver Award by the National Council for Occupational Safety and Health Malaysia.

Marketing

In the course of the year, a series of successful communication campaigns were launched for our key brands *Knife, Naturel, Daisy, May, Antabax and Zip*. As a result, your Group improved its market share in the respective core Fast Moving Consumer Goods (FMCG) categories. With our entrenched brand equity in Malaysia, we continue to garner brand accolades. For the 7th consecutive year, Knife brand won the Reader Digest Trusted Brand Award as well as the inaugural Brand Laureate Award.

Much has been achieved in our channel management. We expanded our category captaincy to chilled margarine category in major retail chains while realigning our key wholesale system and network.

Your Company's well recognized strengths in brand management and channel management are complemented by ongoing investment in our supply chain. Our Senai Distribution Centre became fully operational towards end 2006. Your Company is thus geared to strengthen its service level to its customers via state-of-art warehousing and logistics system. The new warehousing infrastructure provides existing and potential partners to tap into LAM SOON's extensive distribution network.

These initiatives and investment put your Group in a strong position to embark on further business expansion in 2007 and beyond.

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Our long standing tradition for quality, service and technical innovations have also helped to build customer confidence and brand loyalty beyond Malaysia. In 2006, LSEO export sales staged a satisfactory growth in volume of 17%. Thanks to concerted efforts by the export team our market presence currently extends to more than 55 countries worldwide.

SOUTHERN LION SDN. BHD. (SLSB)

SLSB's profit before tax for the year under review increased 26.1% to RM13.4 million as compared to RM10.6 million for 2005.

High plant utilization and strong brand building programmes contributed to robust sales and profit before tax growth compared to the preceding year. Encouraged by the resounding success of its *Top* powder detergent, SLSB launched *Top* concentrated liquid detergent in 2006.

Total dividend received by your Company from SLSB during the year was RM3.97 million (2005: RM2.37 million).

Corporate Social Responsibility (CSR)

As a responsible corporate citizen, your Company is actively involved in a wide range of social and welfare activities in the community. Worthy causes supported by your Company include underprivileged adults/children, orphanage, old folks homes, rehab centers, Khidmat Negara participants, Tsunami victims and neglected youth training centre. In so doing, we continuously instill a caring concept in our employees.



Contribution of Antabax Soaps and Daisy Mineral Water to Tsunami victims of Aceh, Indonesia through Mercy Malaysia and Red Crescent Society.

Source : *Library of Mercy Malaysia*



Visit to and contribution of Company's products to Pusat Cahaya Kesayangan, a residential and day training centre for intellectually challenged women and girls.

Source : *Lam Soon's Library*

Visit to and contribution of Company's products to Rumah Sejahtera Jenjarom, a non-profit charitable home for the elderly.

Source : *Lam Soon's Library*

Prospects

We expect more challenges in this fast-changing industry landscape. The surging demand for vegetable oils and grains from emerging bio-fuel sector will have a strong influence on the CPO prices. A strengthening Ringgit against the US dollar will also have an adverse impact on our export revenues. As our products are predominantly palm oil based, we are cautiously watching the development that lies ahead of the food and palm oil industries.

The awareness towards balanced and healthy lifestyle has changed expectation of our consumers regarding intake of food. Issues such as trans-fatty acid, toxin and chemical in food and obesity have resulted in stringent regulations and requirements in the labelling, nutritious values and food safety. As a leading manufacturer of food products, we are anticipating and responding to these new developments so as to meet the evolving needs of our consumers.

At the same time we are investing in technology development and research and strengthening risk controls to enhance competitiveness.

Most critically, with pro-active spirit and effective measures, we intend to foster a learning culture among our employees and providing tools and platforms to ensure continuous enhancement in the productivity and skills of our employees and responsiveness to our customers needs both in the industrial and consumer sectors.

Dividends

The Board is pleased to recommend a final dividend of 6.85% (less 27% tax) amounting to RM 10.7 million for the financial year ended 31st December 2006 for approval at the forthcoming Annual General Meeting.

The dividend paid for the last financial year was 4.2% (less 28% tax) amounting to RM 6.5 million which was paid to shareholders on 1st August 2006.

Appreciation

On behalf of the Board of Directors, we would like to thank our customers, business associates, government authorities and shareholders for your continued support in our products and services.

The Board recognises that the growth recorded by the Group cannot be achieved without the dedication and hard work of its employees, especially during this difficult period. The Board extends its sincere appreciation to the management and employees for their contribution towards the continued success of Group.

Whang Tar Liang
Executive Chairman

30 May 2007.