

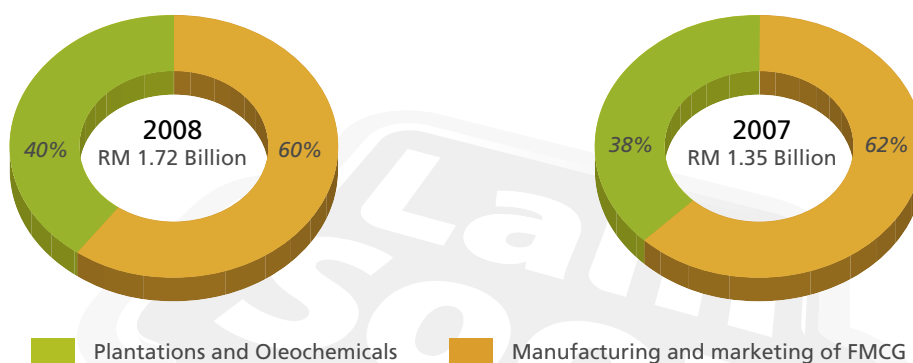
## MESSAGE FROM THE EXECUTIVE CHAIRMAN

### Introduction

The year 2008 was the most challenging for your Group. The year started with the escalation of commodity and petroleum prices to record levels, driving inflation and pushing up the cost of raw materials and operations. This was followed by the onslaught of the global financial crisis which dampened demand and caused a sharp reversal in commodity prices in the second half.

I am pleased to report that although your Group's performance was affected by the volatility, it was still able to achieve a satisfactory return. The policy of building a strong and broad earnings base has made the Group more resilient in time of adversities. Its investments in plantations and oleo chemicals and the contribution from these investments to date have been significant in supporting the Group's overall results.

### REVENUE BY BUSINESS ACTIVITY



### Results

Notwithstanding the volatile environment, your Group managed to record an overall improvement in sales volume for the year under review. Together with the higher average prices, your Group's consolidated sales revenue increased 27.4% to RM1.72 billion (2007: RM1.35 billion), which is a new record for the Group.

Group pre-tax profit however declined 17.5% to RM120.13 million against the profit of RM145.62 million for 2007. The drop in profit was due to lower contribution from the fast moving consumer goods (FMCG) and oleo chemical segments, performance of both being affected by the sudden and sharp drop in crude palm oil (CPO) price in the second half of the year. Improved profits from plantation (+22.3%) help to mitigate some of the decline.

CPO was traded above RM3,100/MT at the beginning of the year, continuing its uptrend from 2007. Prices peaked in March 2008, hitting a high of RM4,400/MT and then holding above RM3,500/MT for most of the period before declining in July 2008. It closed at about RM1,680/MT as at end of the year. The average CPO price for 2008 was about RM2,880/MT as against RM2,480/MT for the year before, up RM400/MT or 16.1%.

At company level, the profit before tax for the year was 16.9% higher at RM29.89 million (2007: RM25.57 million). The higher profit was due to higher dividend and interest income.

### Performance of Major Subsidiaries

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

Demand for FMCG in the domestic market for the year remained strong despite the financial crisis. Overall sales volume of LSEO's products improved 8.2% over that of the previous year while sales revenue increased 23.0% to RM1,049.00 million (2007: RM853.04 million).

The sudden and sharp drop of CPO price in the second half of the year affected the company's performance substantially. The drop resulted in stock value losses and loss in profit margins due to declining selling prices versus higher cost of stocks. Profits were also affected by the higher cost of operations and utilities triggered by the high petroleum prices at the beginning of the year.

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

The sharp drop in CPO price also resulted in export customers defaulting and deferring taking up their orders, which in turn led to further stock value losses.

As a result of the above, LSEO's profit before tax declined 58.9% to RM17.74 million for the year as against RM43.18 million achieved for 2007. Its profit after tax likewise declined 69.0% to RM11.24 million from RM36.29 million for the previous year.

In view of the above, LSEO paid a lower dividend of 9.0% (tax-exempt) amounting to RM5.04 million for the financial year ended 31 December 2008 (2007: 16.0% tax exempt, amounting to RM8.96 million).

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

LSPSB recorded a company level profit before tax of RM78.89 million for the year under review, which is an increase of 22.3% over profit before tax of RM64.50 million for the year before. The profit recorded is the highest so far for the company.

Higher operating profits and dividend income accounted for the increase in the pre-tax profits of the company. Operating profit improved by 16.4% to RM56.95 million (2007: RM48.91 million) due to the higher average CPO price for the year. Dividend income from its subsidiaries and associated company increased 33.3% to RM20.40 million as against RM 15.30 million for the previous year.

Profit before tax for DARA-LAM SOON SDN. BHD. (DLS), the company's 40% owned plantation associate, improved 87.7% to RM21.17 million from RM11.28 million for 2007. The better profit was attributed to the higher prices and to higher fresh fruit bunch (FFB) production, which increased by 19.9% versus last year, due to maturing of replanted acreage.

LSPSB paid total net dividends of RM18.02 million for the year 2008 as against RM6.29 million for previous year.

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

The businesses of POC and POI were merged with effect from January 2008, with POC taking over all the business undertakings of POI.

POC made a lower profit before tax of RM27.90 million for the year under review as against the combined profit before tax of RM49.14 million for the year 2007 (-43.2%). As with LSEO, the global financial crisis and the sharp drop in prices affected the company business substantially. The default and deferring in taking up orders by export customers resulted in stock value losses, as well as foreign exchange mark-to-market losses.

POI registered a profit before tax of RM108.90 million for the year 2008 due to the extraordinary gain of RM107.52 million. The gain arose from its disposal of property, plant and equipment to POC as a result of the merger exercise described above.

Total interim dividend paid by POC and POI for the financial year ended 31 December 2008 amounted to RM8.81 million against RM14.48 million paid for the year before.

## **Manufacturing**

Cost control, production efficiencies and product quality have always been the focus in managing your Group's manufacturing operations. In 2008, these issues became more pressing with the rise in prices of raw materials, utilities, transportation and services as commodity and petroleum prices soared to unprecedented levels. Concerted cost saving initiatives and strategic alliance with vendors helped to cushion some of the impact of the price increases.

Continuous improvement to production capabilities and efficiencies with new investments and quality programmes are necessary for the Group to remain competitive in this very challenging market environment. In line with this, LSEO's speciality fats production capability was enhanced with the commissioning of the fully automated Palm Kernel Oil fractionation plant in August 2008.

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

In October 2008, LSEO's soap plant at Telok Panglima Garang was accredited with Certificate of Foreign Quasi-Drug Manufacturer by the Japanese Ministry of Health, Labour and Welfare; underlining its commitment to quality. This accreditation allows the company to produce soap products with Japanese quasi-drug status.

In March 2008, POC's factory at Pasir Gudang, Johor was similarly certified by Lloyd's Register Quality Assurance for having met the principles of Good Manufacturing Practices (GMP) for the processing of fatty acids and glycerine. The certification is according to the Recommended International Code of Practice General Principles of Food Hygiene.

Your Group acknowledges the importance of high quality human capital and has accordingly drawn specific programmes to harness and improve knowledge, skills and efficiency of each and every employee. Our industrial relations have always remained cordial, thus forging team spirit and co-operation at all levels of the Group.

### Marketing

Despite the difficult FMCG market, LAM SOON and SOUTHERN LION products and brands continue to dominate and gain market leadership in their core product categories. Your Company's success during 2008 includes the following:

- Strengthened its No.1 position in cooking oil category.
- *Naturel* soft margarine took the No. 1 position in chilled margarine category.
- *Fruitale* bar soap overtook a major international brand in bar soap category.
- *Top* detergent overtook major international brands to be in No. 1 position in the conventional detergent category.
- *Bio Zip* poly bag detergent strengthened its position as No. 1 in the poly bag detergent category.

(Source: AC Nielsen market audit and TNS World panel Malaysia)

Apart from brand building and enhancing its distribution competitiveness, LSEO is also enhancing its business intelligence. For this purpose, it has acquired the Cognos BI software, which is scheduled to be implemented by next year. With the more powerful analytical tool, it aims to serve its customers better and in a more cost effective manner.

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

SOUTHERN LION had an extremely difficult year in 2008. Prices of key raw materials almost doubled at the beginning of the year while keen competition kept selling prices down. The increase in cost of freight, utilities and packaging materials put further pressure on the company's profits.

To mitigate the higher cost, the company embarked on a massive cost saving programme and intensified its effort to increase sales volume. Its 2008 *Lion* Fair recorded its highest three months sale and the company successfully launched three new products, namely *Top* Super Hygienic, *Top* Heavy Duty Liquid detergent (colour-care and anti-bacteria variant) and *Fresh & White* Kayu Sugi toothpaste.

With these efforts, SOUTHERN LION managed to record higher sales revenue of RM301.13 million for the year (2007: RM280.58 million). However profit before tax declined 44.4% to RM8.13 million from RM14.61 million for the year before.

Dividend received from SOUTHERN LION for the year was lower at RM2.75 million, compared to RM5.00 million for 2007.

### Corporate Social Responsibility (CSR)

Social and conservation priorities remain an integral part of your Group's operating policy regardless of the economic situation. Our plantation subsidiary is a member of the Roundtable on Sustainable Palm Oil (RSPO). The Group continues to uphold its commitment to charitable works. In the course of last year, our various companies have supported staff welfare in plantation, orphanages, old folk's homes, and training centres for the underprivileged and physically impaired.

### Prospects

The impact of the global financial crisis is expected to widen and deepen in the coming year as exports from the country and the region continue to decline. With worsening external demand, the Malaysian economy is set to contract. Against this background, business conditions and consumer confidence in 2009 are expected to deteriorate further.

In facing these challenges, the Group will intensify its marketing efforts and review its business strategies to adapt to the changes in the market. At the same time it will remain proactive in managing its inventory and hedging of its palm oil requirements given the volatile commodity market.

Amid a depressed market, the Group is also looking for investment opportunities to further expand and diversify its earning streams for the long term.

In particular, for the year 2009 the Group expects its oleo chemical business to be adversely affected by the global recession. Replanting programme by its plantation companies will also affect their profit contribution to the Group.

### Dividends

In view of the lower profits generated for the year and the economic uncertainties ahead of us, your Board is recommending a lower Final Dividend of 4.7% (less 25% tax) amounting to net payment of RM7.57 million for the financial year ended 31 December 2008 for approval at the forthcoming Annual General Meeting.

The Final Dividend is in addition to the Interim Dividend of 3.50% (less 26% tax) amounting to net amount of RM5.56 million paid on 23 December 2008. The total dividends declared for the year ended 31 December 2008 will be RM13.13 million (2007: RM20.0 million).

### Appreciation

On behalf of the Board of Directors, we would like to once again thank all our customers and business associates for their support and our shareholders for their confidence in us to deliver the desired results.

Our sincere appreciation to the management team and staff of the Group at all levels for their dedication and contribution towards ensuring the Group continued success in this difficult period.

**Whang Tar Liang**  
*Executive Chairman*

23 April 2009