



## ANNUAL REPORT 2004

**LAM SOON (THAILAND) PLC.**



# ANNUAL REPORT 2004 OF LAM SOON (THAILAND) PLC.

<b>Topics</b>	<b>Page</b>
1. General Information.....	1-3
1.1 Company profile.....	1
1.2 Investment in other companies of more than 10% holdings.....	2
1.3 Other references.....	3
2. Message from the Chairman.....	4
3. Message from the Managing Director .....	5-6
4. Report of the Audit Committee.....	7
5. Report on the Implementation of 15 Good Corporate Governance Principles.....	8-12
6. Financial Highlights.....	13-14
6.1 Financial figures.....	13
6.2 Financial ratios.....	13
6.3 Per share data.....	13
7. Nature of Business.....	15-18
7.1 Income structure.....	16
7.2 Changes of last year.....	17-18
8. Risk Factors.....	19-20
9. Palm Oil Industry and Competition.....	21-25
10. Shareholders and Management.....	26-32
10.1 Shareholders.....	26-27
10.2 Board of Directors and Management Committee.....	28-37
10.3 Dividend payout policy.....	37
11. Common Interested Persons and Connected Transactions.....	38
11.1 Connected transactions with common interested persons.....	38
11.2 Necessity and reasons for connected transactions.....	38
11.3 Measurement or procedure to approve connected transactions.....	38
11.4 Connected transactions in the future.....	38
12. Other Factors Affecting Investment Decisions.....	39
12.1 Legal conflicts.....	39
12.2 Obligations on future share issuance.....	<i>None</i>
13. Information on Debentures or Promissory Notes.....	<i>None</i>
14. Management Discussion and Analysis.....	40-49
14.1 Financial performance analysis and explanation.....	40-48
14.2 Factors might affect financial performance in the future.....	49
14.3 Remuneration of statutory auditor .....	49
15. Financial Statements.....	<i>Enc.</i>

# 1. General Information

## 1.1 Company Profile

Name of Company : Lam Soon (Thailand) Public Company Limited  
No. of Registration : Bor Mor Jor 579  
Head Office Address : 947/155 Moo 12 Bangna-Trad Road, Bangna,  
Bangkok 10260  
Tel. 02-361 8959/87  
Fax. (Management Dept.) 02-361 8988/9  
Fax. (Sales Dept.) 02-361 8994/5  
Refinery Address : 236 Moo 4 Bangpoo Industrial Estate, Sukhumvit  
Road, Phraeksa Sub-District, Muang District,  
Samut Prakarn 10280  
Tel. 02-709 3610/24  
Fax. 02-324 0640  
Crushing Mill Address : 99/9 Moo 2, Sikao-Kuankun Road, Kalasae Sub-  
District, Sikao District, Trang 92150  
Tel. 075-267 275, 075-267 268  
Fax. 075-267 265  
Nature of Business : Manufacturer and distributor of vegetable oil  
products, margarine and shortening  
Distributor of pure fish sauce under Jade ('YOK')  
Brand  
Registered Share Capital : Baht 820,000,000  
Outstanding shares (common shares): 820,000,000 shares  
Par value : Baht 1

## **1.2 Investment in other companies of more than 10% holdings**

### **1.2.1 United Palm Oil Industry Public Company Limited**

Bangkok Address : 947/155 Floor 1, Moo 12 Bangna-Trad Road,  
Bangna, Bangkok 10260  
Tel. 02-744 1046/8  
Fax 02-744 1049

Factory Address : 98 Moo 6, Nuaklong-Khao Phanom Road,  
Huayyoong Sub-District, Nuaklong District,  
Krabi 81130  
Tel. 075-621 919  
Fax. 075-621 922

Nature of Business : A plantation company that produces crude palm oil from its own source of fresh fruit bunches and from outgrowers. Other minor products are palm kernel oil and palm kernel cake, being a by-product from palm kernel oil production process and used for feed mill industry.

Registered Share Capital : Baht 324,050,000

Outstanding shares (common shares): 32,405,000 shares

Shareholding (common shares) : 21,482,511 shares or 66.29%

### **1.2.2 Universal Food Public Company Limited**

Bangkok Address : 947/157 Moo 12 Bangna-Trad Road,  
Bangna, Bangkok 10260  
Tel. 02-361 8954/7, 02-398 8555  
Fax 02-744 0860

Factory Address (1) : 64 K.M. 1, Moo 1, Lampang-Chiang Mai Road,  
Pongsangtong, Muang District, Lampang 52000  
Tel. 054-225 081/4  
Fax. 054-225 085

Factory Address (2) : 469/1 Bhapatone-Banpaew Moo 3, Don-yai-hom,  
Muang District, Nakornpratom 73000  
Tel. 034-229 397/9  
Fax. 034-229 399

Nature of Business : Manufacturer of vegetables, fruits, fruit juices & drinks, coffee, in can, glass bottle, and UHT packaging, including sauces and seasonings for both domestic and export markets.

Registered Share Capital : Baht 525,000,000

Issued and Paid-up Share Capital : Baht 350,000,000

Outstanding shares (common shares): 35,000,000 shares

Shareholding (common shares) : 33,874,813 shares or 96.79%

## **1.3 Other references**

### **1.3.1 Register**

Name : Thailand Securities Depository Co., Ltd.  
Address : 62 Ratchadapisek Road, Klongtoey, Klongtoey,  
Bangkok 10110  
Tel 02-359 1200/01  
Fax 02-359 1259

### **1.3.2 Auditor**

Name : Mr.Ruth Chaowanagawi  
Certified Public Accountant No. 3247  
Address : Ernst & Young Office Limited  
33<sup>rd</sup> Floor, Lake Rajada Office Complex,  
193/136-137 Rajadapisek Road,  
Klongtoey, Bangkok 10110  
G.P.O. Box 1047, Bangkok 10501  
Tel 02-264 0777, 02-661 9190  
Fax 02-264 0789/90, 02-661 9192

### **1.3.3 Law Consultant**

Name : Baker & McKenzie Company Limited  
Address : 25<sup>th</sup> Floor, Abdulrahim Place, 990 Rama IV Road,  
Bangkok 10500  
Tel 02-636 2000  
Fax 02-636 2111

## 2. Message from the Chairman

Your Company has rapidly expanded its business over the past 2-3 years. In 2003, your Company set out to vertically integrate its palm oil operations. To this end, your Company acquired a controlling stake in UPOIC which owns the largest oil palm plantation in Thailand. This has placed your Company in a good position in sourcing for raw materials.

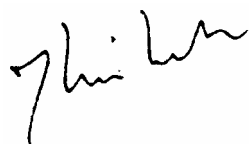
Your Company then expanded its business horizontally to broaden the portfolio of products. In the second quarter of 2004, the Company invested in Universal Food Plc. or UFC, becoming the latter's major shareholder. UFC carries on the business processing and marketing of canned tropical fruits and vegetables and fruit juices. UFC in turn holds 58% in Union Frost Co., Ltd. whose businesses are manufacturing and selling of frozen vegetables and fruits.

The cost to your Company of making these investments, coupled with the strong rise in the cost of palm oil in 2004, resulted in a decrease in profits from 217 million Baht to 134 million Baht. Over the longer term however, the expanded scope of business will provide your Company with multiple sources of revenue.

Your Company attaches importance to research and development as well as quality control. Measures such as HACCP, ISO 9001:2000, GMP, and ISO 14001 help make your Company more competitive, enabling it to differentiate its selling advantages.

Training and team building activities among staff and management are other high priority areas of your Company, which recognises each employee as an integral part of the Company with a role to play in its success. Commensurate with its business growth, the Company is committed to being a good corporate citizen, as illustrated in its support for various community projects.

Lastly, it is my fervent hope that all of us will support the Company as it strives to enhance its reputation for integrity and quality among both domestic and international customers. On behalf of the Board, I wish to thank customers for their support and also to express my sincere appreciation to the management and the employees of your Company for their continued dedication and good work.



Mr. Mechai Viravaidya  
Chairman

### **3. Message from the Managing Director**

Sales of your Company grew 27% from 3,341 million Baht in 2003 to 4,244 million Baht in 2004. Nevertheless, 2004 was a challenging year for your Company as net profits decreased 38% from 217 million Baht in 2003 to 134 million Baht. This was primarily because of a significant rise in the cost of production. The increasing number of crushing mills resulted in fierce competition among buyers for fresh fruit bunch (FFB), a principal raw material of your Company, and a high price. This situation caused the price of domestic CPO to be out of alignment with the decreased price of CPO in the world market. Domestically, there was a high over supply of CPO resulting in severe price competition of finished products. In accordance with prudent practice, your Company made a provision for stock obsolescence and diminution in value of inventories amounting to 10 million Baht due to the dramatic drop of CPO market price at the year-end.

In order to reduce business risk arising from the volatility of CPO price and to expand its scope of products, your Company has undertaken the policy of investing in other businesses. Pursuant to this policy, your Company acquired a 96.79 % share in Universal Food Plc. which in turn owns a 58% share of Union Frost Co., Ltd.

#### Manufacturing

An investment was made to expand production capacity at your Company's CPO crushing mill in Trang. As a result, crushing efficiency will increase from 45 tons of FFB per hour to 60 tons of FFB per hour. Approval has already been obtained from the Board of Investment (BOI) for investment privilege pursuant to the Investment Promotion Act. This project is scheduled to be completed within 2005. Your company also improved the production efficiency and expanded the production capacity of the margarine and shortening plants at Bangpoo Industrial Estate, Samut Prakarn by automating the system; this too, would be operational in the beginning of 2005.

In 2004, both our CPO crushing mill in Trang and refinery in Bangpoo Industrial Estate were certified with GMP (Good Manufacturing Practice) and ISO 14001. The Trang mill later took part in the Green Factory Project with the Thai Environment Institute, which will be completed within 2005.

#### Marketing

With regard to its core palm oil business, your Company continues to adopt an aggressive approach by expanding its selling channels in both the domestic and international markets, including retailing, catering or food manufacturing industries. Efforts are being made to rationalise and streamline the sales and distribution network of your Company with that of its newly acquired subsidiaries, namely UFC and Union Frost.

The export business is another area that has been identified for future sales growth. Unfortunately, there was a political change in Myanmar in the last quarter of 2004, bringing border trade to a halt. This resulted in a loss of export profits of the Company.

In 2004, each of your Company's products was awarded "Superbrands" from Superbrands (Thailand), setting them apart from other brands. Your Company was the first in the vegetable oil industry in Thailand to achieve this distinction.

I, as the Managing Director, wish to thank customers, shareholders and the Board for their support and trust. On behalf of the Executive Directors, the management and employees, I look forward to continuing the success and growth of Lam Soon (Thailand) Plc. as it enters into its next phase of expansion with the UPOIC and UFC businesses.



Mr. Somchai Chongsawadchai  
Managing Director



## 4. Report of the Audit Committee

In 2004, the Audit Committee executed its duties and responsibilities in compliance with the Stock Exchange of Thailand's regulations. The Committee held four meetings within the year,

1. to review the quarterly and the annual financial statements proposed to the Board of Directors for approval. The financial statements were in accordance with generally accepted accounting principles and the disclosures of information were adequate and accurate;
2. to examine the audit report of internal auditors which performed an internal audit as set out in the annual audit plan. The Company had an appropriately effective internal control systems, with transparent corporate governance and without material misstatements;
3. to meet with the management, external and internal auditors in order to submit useful suggestions and guidelines to the management. The management had adopted these suggestions to improve working efficiency;
4. to propose to the Board of Directors for approval from the annual general meeting of shareholders, to appoint Ernst & Young Office Limited to be the statutory auditor of the Company for 2004;
5. to approve outsourcing of Internal Auditors function to Dr Virach & Associates (Certified Public Accountants and inclusive list of SET) from the second quarter of 2004 onwards;
6. to adopt policy on Good Governance and the Code of Business Ethics which had been announced to employees;
7. to set necessary and appropriate standards and formats and procedures for preparation of proposals of corporate investments in exceeding Baht 50 million to the Board of Directors;
8. to consider the amendment effective on July 21, 2004 of rules and regulations by SET regarding the reporting of connected transactions and relevant to the Company as the major shareholder of United Palm Oil Industry Plc. ("UPOIC") and Universal Food Plc. ("UFC"). Following the amendment of SET regulations, transactions between UPOIC and the Company, and between UFC and the Company, are no longer considered as connected transactions, since the Company as the major shareholder had appointed its executive directors to directorships in UPOIC and UFC.

The Committee has examined the Company's business performance in 2004 and has concluded that the Board of Directors and the management continued on course to lead the Company to achieve its commitments on good corporate governance for the benefits of its shareholders and employees. They noted that the Company has continued to operate with good internal control systems, appropriate risk management, reliable information technology and effective corporate governance.



Mr. Songkram Grachangnetara  
Chairman of the Audit Committee

## **5. Report on the Implementation of 15 Good Corporate Governance Principles**

### **1. Policy on Corporate Governance**

The Board of Directors is confident that corporate governance of the Company is vital to business success that shall yield maximum benefit to shareholders. The Board then has formulated the good corporate governance policy and practice by placing emphasis on internal control system, respect in rights and equitable treatment of shareholders, transparency in management, policy making and information sharing, which disclose the report on good corporate governance in the Annual Report and the Annual Registration Statement (Form 56-1). The corporate governance policy has been determined and adopted by Audit Committee and the Board of Directors at the Meeting no 3/2004 on August 10, 2004 and no. 4/2004 on August 11, 2004 respectively and the Company declared to be effective since September 2004 onwards.

### **2. Shareholders: Rights and Equitable Treatment**

In 2004, the Company organised annual general meeting held at the company's head office. In compliance with regulations, the Company dispatched invitation letters and associated information with regard to the meeting's agenda to shareholders more than 7 working days in advance, with attachment of the Board's opinion on each agenda item and the record of the previous meeting. However, there were some agendas with uncompleted information regarding the implementation of good corporate governance, i.e. legal cases of persons to be proposed as directors, the methods of recruiting directors, remuneration and benefits for directors of subsidiaries, factors or information to be considered to determine directors' remuneration, and number of years of service by the Company's statutory auditor and an assessment of job quality in the past. The Company expects that such information would be fully completed and presented for the 2005 annual general meeting and no later than for the year 2006.

The proxy form was also sent to shareholders so that when they were unable to attend the meeting, they could authorise anyone or independent director as appointed by the Company, to be their proxy to attend the meeting on their behalf.

### **3. Various Groups of Stakeholders**

The Company shall attach importance to the rights of various groups of stakeholders, not only internal groups such as employees but also stakeholders from outside such as debtors, trading partners, and customers. The Company shall treat all employees equally and provide them with appropriate benefits. In buying goods and services from trading partners, the Company shall abide by the trading conditions and contracts; keep confidential customers' dealings; provide them with

customers' ombudsman. The Company shall abide by relevant laws and regulations to ensure that the rights of stakeholder are appropriately protected.

#### **4. Shareholders' Meeting**

At shareholders' meeting, the Chairman opened the floor to shareholders for questions and exchanging of views and suggestions concerning the administration and achievement of the Company's operation as set out in the agenda. Shareholders were also allowed to propose additional agenda. However, the Company has not established appropriate procedure for circulation of the draft minutes of the meeting for shareholders to consider and comment before the next scheduled meeting.

#### **5. Leadership and Vision**

The Board of Directors has formulated and approved the Company's vision, objectives, business planning and budget proposed by the management. They constantly supervised the outcome of the administration of the management so as to be assured that business of the Company was in compliance with the set objectives and plans.

#### **6. Conflict of Interests**

The Board of Directors establishes a policy and supervision of the use of internal information by not allowing the management and relevant personnel to use the Company's information for personal interest or to disclose them to persons outside the Company. The management is required to inform the Office of the Securities and the Exchange Commission of the report of changes in securities holdings as specified in the Article 59 of the Securities and Exchange Act B.E. 2535 and to send copies of the said report to the Company. Every member of the Board has to notify the Board of Directors of their securities holdings reports in every quarter. The Company has routinely disclosed connected transactions in Notes to financial statements.

#### **7. Business Ethics**

The Company shall regard business ethics of the management and employees as vital to business success in the long term. The introduction of ISO 9001:2000, which relates to the standard of production and service and of HACCP system, the international food safety standard, together with GMP (Good Manufacturing Practice) system is to ensure the confidence of customers of the standard of products and services of the Company. Every employee implements and constantly develops these systems for maintenance of standards and improving working system to the full efficiency and to an acceptable standard.

A written code of business ethics has been determined and declared to the Board's members, the management and employees since 2004. The Company will institute a follow-up process and from 2006, an annual review and report on compliance.

### **8. Balance of Power in the Board of Directors**

The Board of Directors has 9 members including 5 executive directors and 4 independent directors so as to provide a balance of power and appropriate management review. The Company has not determined the number of directors based on proportionate shareholdings in the Company.

### **9. Aggregation or Segregation of Positions**

The Chairman of the Board is an independent and non-executive director. This aims to segregate responsibilities from the executive directors of the Company.

### **10. Remuneration for Directors and the Management**

Remuneration of the Board members is determined on the basis of their responsibilities. The remuneration, which is approved by the shareholders' meeting, is on par with other industries and is sufficient to keep qualified members in the Board. Directors who are also assigned to be members of audit committee shall receive extra remuneration.

The Chairman of the Board decides the remuneration of the executive directors. The Company has not disclosed the policy and information on remuneration for directors of subsidiaries for the Annual Report and the Annual Registration Statement (Form 56-1). It is expected that the Company would be disclosing such information in the annual report from 2005.

### **11. Board of Directors' Meetings**

The Board of Directors shall hold one regular meeting in every three months. A special session of the meeting can be convened when the Chairman deems it necessary. In the meeting, the agenda shall be set in advance with sufficient relevant document. Such agenda shall be dispatched to the Board at least 7 days prior to the meeting date to give sufficient time for the Board's perusal. The minutes of meeting shall be done in writing, and to be kept for later consideration by the Board's members and concerned people, after receiving approval from the meeting.

In 2004, the Board of Directors held 5 meetings including 4 regular meetings and 1 extraordinary meeting, of which attendance shown as below:

Name	Period of Directorship	Attendance / Total Meetings		
		Regular	Extra	Total
1.Mr. Mechai Viravaidya	2004-2007	4/4	1/1	5/5
2.Mr. Whang Tar Liang	2004-2007	1/4	0/1	1/5
3.Mr. Songkram Grachangnetara	2003-2006	4/4	1/1	5/5
4.Mrs. Sumarn Changsiricharoen	2002-2005	4/4	1/1	5/5
5. Mr. Tanatat Puttasuwan	2004-2007	3/4	1/1	4/5
6.Mr. Whang Shang Ying	2003-2006	4/4	1/1	5/5
7.Mr. Somchai Chongsawadchai	2002-2005	4/4	1/1	5/5
8.Mr. Ampol Simarojana	2002-2005	4/4	0/1	4/5
9.Ms. Anchalee Suebchantasiri	2003-2006	4/4	1/1	5/5

Non-executive Directors have not had separate meetings without the attendance of executive Directors. In addition, the Company has not determined the maximum number of other companies to which Directors or Managing Director may be appointed. However, based on the above attendance record, it is assumed that each Director could attend scheduled meetings regularly.

## **12. Committees**

The Board appoints an audit committee consisting of 3 independent Board members. The committee has its regular meeting at least once in every quarter. In 2004, the committee held 4 meetings. The committee is responsible for review of the Company's financial report, review of sufficiency of internal control systems and risk management system, compliance with laws and regulations, proposal for appointment and remuneration of statutory auditors. The committee also coordinates with internal auditors of the Company in relation to audit objectives and plans. The Committee considers the disclosure of information when there are connected transactions or conflict of interest items in order to rectify them.

In addition, the Company has set up 2 sub-committees respectively for remuneration and for share allocation which consisted of 3 independent Board members. The scope of duties and responsibilities of both the newly established sub-committees have not been formally determined. It is expected to be determined in 2005. Currently, no sub-committee on recruitment has been appointed. The duties and responsibilities of the sub-committees lie with the Board of Directors.

## **13. Controlling System and Internal Audit**

The Company shall attach importance to internal control system at the management level and the operation level in order to ensure that the property of the Company is

used to the maximum interest. There is a segregation of responsibilities among employees, checkers and supervisors so as to have appropriate balance and cross-check system. The financial report has to be submitted to the management according to the line of responsibility.

The Company has outsourced the office of Dr Virach & Associates (Certified Public Accountants and inclusive list of SET) as internal auditors instead of its own division to monitor and to ensure that the operation and financial activities of the Company are in compliance with established system and done with efficiency. This division shall also oversee whether the business operation complies with relevant laws and regulations. The internal audit division shall perform its tasks independently and report the findings to the Audit Committee within the set timeframe.

The Company has a risk management policy as a part of management policy in order to assist the Company attain its objectives, aims and strategies. The management and all employees are risk owners and have to analyze risks in every section and process, assess efficiency of existing control measures and suggest plan and way to minimise risks.

#### **14. Directors' Reporting**

The Board of Directors shall be responsible for the Company's financial statements and the financial information as stated in the Annual Report. Such financial statements are prepared in accordance with generally accepted accounting principles in Thailand, with careful consideration and best estimates. Accounting policies are appropriate and consistently adopted and substantial information are sufficiently disclosed in notes to financial statements.

The Board appoints an audit committee to be responsible for the quality of the financial report and internal control systems. Audit Committee's opinion about these findings is stated in Audit Committee's report which is already shown in the Annual Report.

#### **15. Relations with Stakeholders**

The Board of Directors shall attach significance to the disclosure of financial and general information, which is accurate, adequate, comprehensive and transparent, to shareholders and concerned people. This shall be done through the channels of the Stock Exchange of Thailand. The Company has not established an investor relation section because there are few activities in this area. The Financial Manager and the Assistant Managing Director are assigned to communicate with individuals and institutional investors, shareholders, analysts and authorities concerned. Investors shall request the Company for information by phone at 02-361 8959/87 or fax at 02-361 8989.

## 6. Financial Highlights

### 6.1 Financial figures

(Unit: Million Baht)

	2004 <sup>(1)</sup>	2003 <sup>(1)</sup>	2002
Total Assets	3,719	2,245	1,519
Total Liabilities	2,148	734	326
Shareholders' Equity	1,571	1,511	1,194
Sales	5,081	3,489	2,634
Total Revenues	5,131	3,528	2,655
Gross Profit	734	534	371
Net Profit	134	217	126

### 6.2 Financial ratios

	2004 <sup>(1)</sup>	2003 <sup>(1)</sup>	2002
Net Profit Margin (%)	2.61 %	6.15 %	4.74 %
Return on Equity (%)	10.74 % <sup>(2)</sup>	17.85 % <sup>(2)</sup>	10.53 %
Return on Total Assets(%)	5.70 % <sup>(2)</sup>	12.47 % <sup>(2)</sup>	8.48 %

### 6.3 Per share data (adjust par value to 1 Baht for comparison)

	2004 <sup>(1)</sup>	2003 <sup>(1)</sup>	2002
Earnings Per Share	0.18 Baht <sup>(3)</sup>	0.29 Baht <sup>(3)</sup>	0.15 Baht <sup>(3)</sup>
Dividend Paid Per Share	0.15 Baht	0.20 Baht	0.05 Baht
Dividend Per Share (operation year)	0.075 Baht <sup>(4)</sup>	0.20 Baht	0.10 Baht
Book Value Per Share	2.13 Baht <sup>(3)</sup>	2.04 Baht <sup>(3)</sup>	1.46 Baht <sup>(3)</sup>

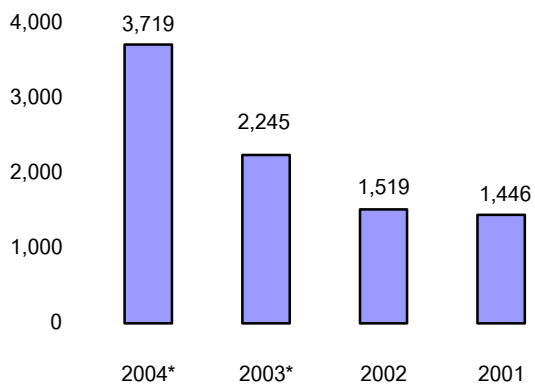
Note : <sup>(1)</sup> The consolidated statements

<sup>(2)</sup> The profitability ratios based on the Company only.

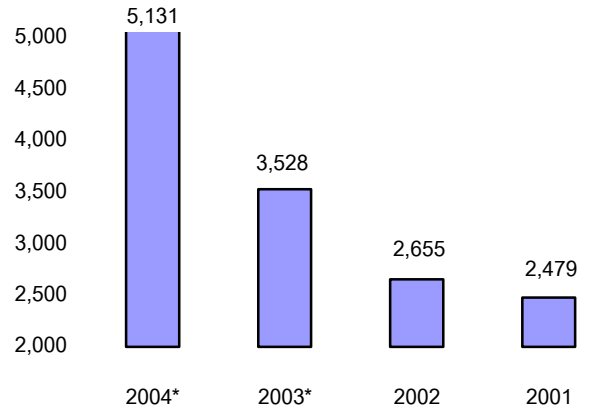
<sup>(3)</sup> Determined by weighted average number of shares after deducting shares repurchased during the year.

<sup>(4)</sup> According to the resolution of BOD meeting on 24/2/05, being proposed to AGM no. 1/2005.

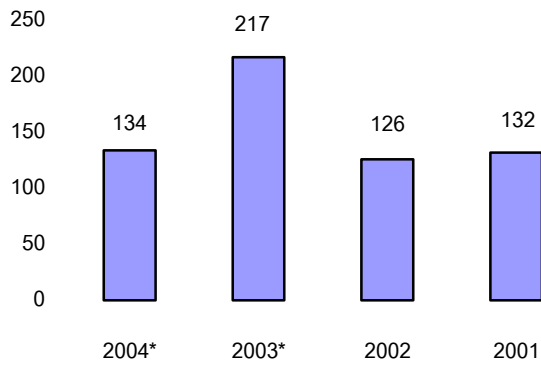
**TOTAL ASSETS**  
(Million Baht)



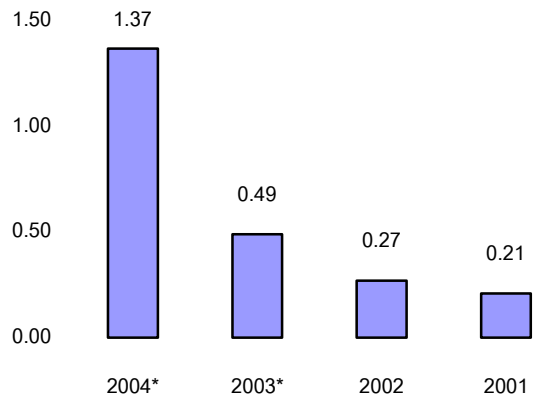
**TOTAL REVENUES**  
(Million Baht)



**NET PROFIT**  
(Million Baht)

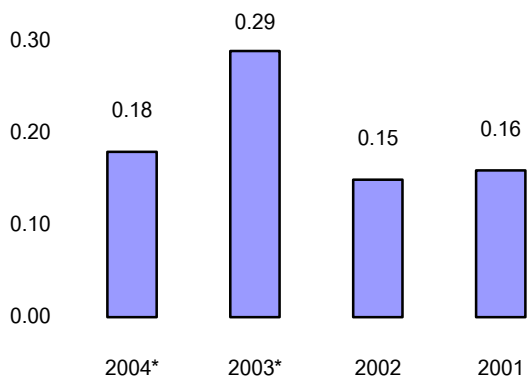


**DEBT TO EQUITY RATIO**  
(Times)



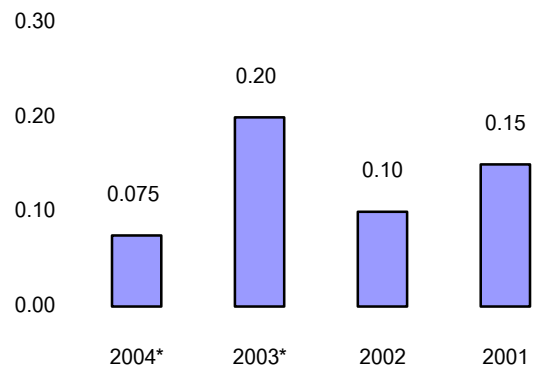
**EARNINGS PER SHARE**  
(Baht)

(adjust par value to 1 Baht for comparison)



**DIVIDEND PER SHARE**  
(Baht)

(adjust par value to 1 Baht for comparison)



\***Note** : The consolidated statements for 2003-2004



## **7. Nature of Business**

Lam Soon (Thailand) Public Company Limited operates a crushing mill and a palm oil refinery. Its refining capacity at 700 tonnes per day or 255,500 tonnes per year is considered the highest in Thailand. Besides, the Company distributes and exports pure fish sauce under Jade ('YOK') Brand. Presently, the product line includes:

1. Palm Oil
  - 1.1 RBD Palm Oil
  - 1.2 RBD Palm Olein/Cooking Oil
  - 1.3 RBD Palm Stearin
  - 1.4 Hydrogenated Fat
  - 1.5 Palm Fatty Acid
  - 1.6 RBD Palm Kernel Oil
2. Coconut Oil
3. Soybean Oil
4. Sunflower Seed Oil
5. Corn Oil
6. Shortening
7. Margarine
8. Pure Fish Sauce

## 7.1 Income structure

Product/Services	Operated by	2004		2003		2002	
		Mil. Bht.	%	Mil. Bht.	%	Mil. Bht.	%
Crude Palm Oil	Subsidiary <sup>(1)</sup>	582	82.83	520	87.03		
Crude Palm Kernel Oil	Subsidiary <sup>(1)</sup>	90	12.74	43	7.26		
Palm Kernel Seed	Subsidiary <sup>(1)</sup>	6	0.80	5	0.86		
Palm Kernel Cake	Subsidiary <sup>(1)</sup>	14	2.05	9	1.55		
Others	Subsidiary <sup>(1)</sup>	11	1.58	20	3.30		
<b>Total Sales</b>		703	100.00	597	100.00		
Vegetables and Fruits	Subsidiary <sup>(2)</sup>	557	71.88				
Drinks	Subsidiary <sup>(2)</sup>	144	18.63				
Sauce and Seasonings	Subsidiary <sup>(2)</sup>	74	9.49				
<b>Total Sales</b>		775	100.00				
<b>Domestic Sales :</b>							
Vegetable oil	LST	3,279	77.14	2,733	81.65	1,999	75.64
Margarine & Shortening	LST	395	9.29	381	11.39	319	12.07
Others	LST	18	0.43	17	0.51	20	0.75
<b>Total Domestic Sales</b>		3,692	86.85	3,131	93.55	2,337	88.46
<b>Export Sale :</b>							
Vegetable oil	LST	552	12.98	212	6.32	302	11.41
Margarine & Shortening	LST	4	0.10	-	-	0.56	0.02
Others	LST	3	0.07	4	0.13	3	0.11
<b>Total Export Sales</b>		559	13.15	216	6.45	305	11.54
<b>Total Sales</b>		4,251	100.00	3,347	100.00	2,642	100.00
Less Goods Returned and Trade Discount	LST	7		6		9	
<b>Total Sales - Net</b>		<b>4,244</b>		<b>3,341</b>		<b>2,634</b>	
Other Income/Gain on disposal of fixed assets		37		12		13	
Share of Profit from Investment in an associated company/subsidiary		82		65		8	

Note : <sup>(1)</sup> On May 28, 2003, LST increased its investment in United Palm Oil Industry Plc. from 24% to 66%, resulting the above company becoming a subsidiary.

<sup>(2)</sup> In 2004, LST acquired shares of Universal Food Plc. and on October 19, 2004, LST held 96.79% in UFC, resulting UFC becoming a subsidiary.

## **7.2 Changes of last year**

### **7.2.1 Split par value from 10 Baht to 1 Baht**

On 26 February 2004, the Board of Directors resolved to split the par value of the Company's share from 10 Baht to 1 Baht. Clause 4 of the Company's Memorandum of Association has been amended accordingly by the Ministry of Commerce on 29 February 2004 and became effective with the SET on 7 May 2004.

### **7.2.2 Investment in Universal Food Public Company Limited ("UFC")**

On 2 April 2004, the Company issued an Offer Letter to purchase shares of UFC from certain major shareholders and, after the acceptance of such offer, made a tender offer to the public for all UFC securities according to SEC regulations. Consequently, on 19 October 2004, the Company held 96.79% in UFC, turning the latter into its subsidiary. UFC currently holds 58% share in Union Frost Co., Ltd. which carries on the business of production and distribution of frozen fruits and vegetables.

### **7.2.3 GMP and ISO 14001 certification**

On 22 March 2004 and 20 April 2004, the Company was certified the standard systems of Good Manufacturing Practice (GMP) and environmental management (ISO 14001) by the SGS Institute respectively.

### **7.2.4 Green factory project**

Subsequent to being certified ISO 14001, the Company signed an agreement with the Thailand Environmental Institute (TEI) to appoint TEI as its environmental consultant to start the green factory project at its Trang crushing mill. The project is expected to be completed within 2005.

### **7.2.5 Expansion of production capacity**

To improve efficiency, the Company has automated its margarine and shortening plants in Bangpoo Industrial Estate; test run have been conducted since end of 2004. Meanwhile, the Company has expanded the production capacity in Trang crushing mill from 45 MT-FFB/hr to 60 MT-FFB/hr, which is expected to complete within 2005. Approval has already been obtained from the Board of Investment (BOI) for investment privilege under the Investment Promotion Act.

### **7.2.6 "Superbrands" award granted**

On 26 February 2004, the Superbrands Award was presented to every brand of Lam Soon (Thailand) to signify its excellence. The Company was the first and only vegetable oil manufacturer and distributor in Thailand to win this international award.

### 7.2.7 Remuneration and share allocation Sub-Committees

At the Board of Directors meeting no. 5/2004 on 12 November 2004, approval was given for the formation of 2 sub-committees, namely the remuneration and share allocation sub-committees which consists of 3 independent Board members, namely Mr. Somkram Grachangnetara, Mrs. Sumarn Changsirichareon, and Dr. Tanatat Puttasuwan.

## **8. Risk Factors**

### **1. Free Trade Under AFTA**

Since January 2003, Thailand has lowered its import tax for palm oil (crude palm oil and refined palm oil) to 5% with no import quota, in accordance with trade liberalization of palm oil under AFTA. At present, however, the Government has not yet laid down any import regulations. Should there be free import of palm oil, it would affect small growers with low production per rai and crushing mills with low production efficiency and high production cost. The Company will inevitably be affected by importation of refined palm oil competing with its domestic products. Nonetheless, the Company has prepared to respond to this situation by importing crude palm oil (CPO) at prices relatively close to the world market prices. By so doing, the Company will be able to utilise higher production capacity and at the same time lower its average production cost.

### **2. Fluctuation of Palm Oil Price**

The volume of fresh fruit bunch (FFB) and CPO supplied to the market in 2004 decreased slightly by 4% and 5% from 2003 respectively. The price of CPO in 2004 fluctuated between 17.04 to 21.96 Baht per kilogram. The average price was at 20.17 Baht per kilogram, or a 10.34 % increase from 2003. Normally, in each year the CPO price difference between the lowest and the highest fluctuates in a wide gap from 5 to as high as 21 Baht in 1999, underlining its volatility. This is because of various uncontrollable factors. Cautious stock management of raw materials and finished products became crucial. The management has to forecast the price and volume of CPO for the Company's requirements, including an appropriate amount to be reserved as inventories for later use in the production process. If the Company were to stock CPO purchased at a high price, it would generate a loss because, to compete with competitors, the Company would find it difficult to adjust its selling price of refined palm oil at the same extent as the CPO price increase. However, the Company has executed measures to monitor the quantity of domestic FFB entering the market in every season and to keep abreast of the world market situation, not only of the palm oil but also of other vegetable oils.

### **3. Increase of CPO crushing mills in 2003-2004**

2003-2004 saw a continuous increase of new CPO crushing mills, together with an expansion in the production capacity of existing mills. At present, there are approximately 49 CPO crushing mills, most of which are in Krabi, Surat Thani and Chumporn provinces. This resulted in competition in buying FFB at high prices, regardless of quality. Consequently, prices of raw materials and CPO have increased and the Company is faced with high production cost. Despite these cost

pressures, there are several factors that can enable the Company to control production cost including its good management system, quality standard systems and participation in energy saving program and its integrated palm oil industry.

## 9. Palm Oil Industry and Competition

### 9.1 Overview

Productive Planted Areas It is estimated that in 2004, there are approximately 1.9 million rais of oil palm planted areas, of which 95% are in Krabi, Surat Thani and Chumporn provinces.

Products/Production Per Rai In 2004, FFB production decreased 4% from 2003 to 4.66 million tons. The lowest production was 188,998 tons in January and the highest was 531,151 tons in May, making the CPO production for the whole year at 820,838 tons, or a 5% decrease from 2003. Figures from the Department of Internal Trade showed that the CPO stocks at the end of 2004 were 151,122 tons compared to 114,953 in 2003, and an average Oil Extraction Rate of 17.6% compared to 17.8 % in 2003.

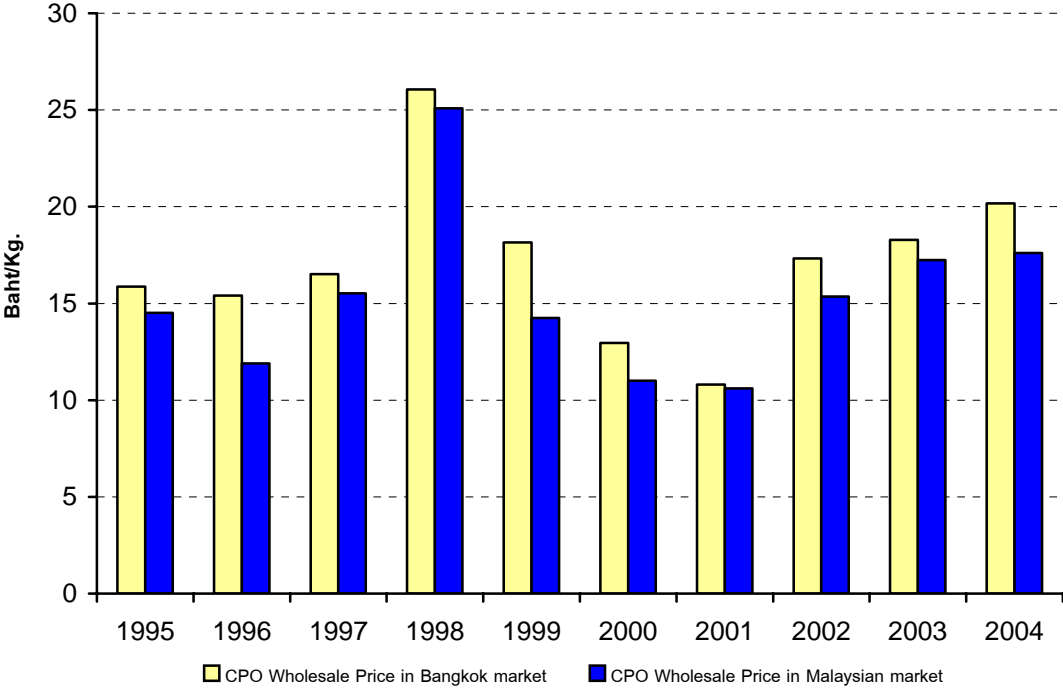
Market Situation and Prices In 2004, the average CPO price in the world market was higher than in 2003. In March, CPO price in the Malaysia Derivatives Exchange Bhd. : 3<sup>rd</sup> Month reached its highest at 2,003 RM per ton; it subsequently fell to the lowest at 1,368 RM per ton in July. The average 2004 CPO price in the Malaysia Derivatives Exchange Bhd. : 3<sup>rd</sup> Month was 1,622 RM per ton, compared to 1,518 RM per ton in 2003, an increase of 6.9%.

Domestic CPO price increased in the same direction as the world price with production in 2004 decreasing slightly from 2003. But the volume was considered high, leading to high stock of CPO especially at the year-end, resulting in an over supply in the industry. Figures from the Department of Internal Trade showed that in 2004, the domestic price of FFB fluctuated between 2.84 – 3.99 Baht per kilogram, compared to 1.96 – 4.03 Baht per kilogram in 2003, and CPO price fluctuated between 17.04 – 21.96 Baht per kilogram, compared to 15.51 – 25.10 Baht per kilogram in 2003. The annual average price of FFB and CPO was 3.38 Baht and 20.17 Baht per kilogram respectively, compared to 2003 which was at 2.78 Baht and 18.28 Baht per kilogram respectively. The average price in 2004 increased 21.58% from 2003 for FFB and 10.34% for CPO.

However, it is forecasted that the price of palm oil in 2005 will depend to a significant extent on domestic production. FFB output in 2005 is expected to increase 15% from 2004 due to the increase of production planted areas of 300,000-350,000 rais. The yield per rai may be not very productive because of drought condition prevailing in the middle and lower parts of the South in 2002 and 2003 reducing the level of rainfall to merely 1,400 millimeter annually, which was insufficient for the need of oil palm. In 2005, it is forecast that there could be a

severe drought in the first 5 month of the year. In the event that this happens, prospect of the overall FFB output will not be bright.

**CPO wholesale price comparison between Bangkok and Malaysian market**



Source : Agricultural Economic Research / LST management estimate

## 9.2 Growth Trends

The palm oil industry of Thailand has been growing continuously. In the past year, oil palm planting became more popular among farmers. In 2003, the value of this industry was high as 46 billion Baht, which was in line with the Government’s palm oil and oil palm development plan for the years 2004-2029. This strategy designates oil palm planted area and harvested area in 2029 to be increased to 10 million rais and 9 million rais respectively and the palm oil output to 4.659 million tons. Subsequently, the Government is supporting the expansion of oil palm planted areas to 13 million rais in a reduced timeframe of less than 25 years. The aim is to make Thailand a major palm oil producer and exporter in the region. It also supports the transformation of simple to high value manufacturing industry, especially in Bio-Diesel production, in order to be an alternative energy source of the country in the future.

The International Conference on Bio Energy was held in Bangkok from 30-31 September 2004, and attended by representatives from members of ASEAN, China,



Korea, Germany and Brazil. The conference provided an opportunity to discuss ways to develop oil palm to be an alternative energy. Issues discussed include standardisation of mix in its bio diesel production, continuously supporting R & D, increasing investment and encouraging farmers to take part in bio diesel production. Besides, it was proposed that the ACMECS (Ayeyawady-Chaophraya-Mekong Economic Cooperation Strategy) countries including Cambodia, Laos, Myanmar, Thailand, and Vietnam should participate in this oil palm production.

The Ministry of Energy aims to utilise bio diesel in 3% of total diesel in 2011 or 2.4 million litre per day. However, one constraint is availability of raw materials. If the country were to convert totally to use bio diesel, there has to be 7 million rais of oil palm planted areas, compared to only 2 million rais at present. Besides, expansion of oil palm planted areas, improving planting efficiency and reduction of production cost are also crucial. There is still doubt whether the Government's oil palm strategy can be truly carried out, especially as the Government would not continue to subsidise the price of diesel. Historically, the palm oil industry has developed to meet the demand of the country. But when there is an over supply of palm oil due to favourable weather condition, the domestic price will normally drop sharply below world price, leading to palm oil being exported solely to mitigate over supply. As such there is no incentive to make good use of value added production or of the other by-products, emanating from the palm oil related industries. Only when investments are made in private sector R&D and growers and producers upgrade their efficiency and lower the production cost, will the growth potential for the Thai palm oil industry in domestic and international export markets be realised.

### **9.3 Competition**

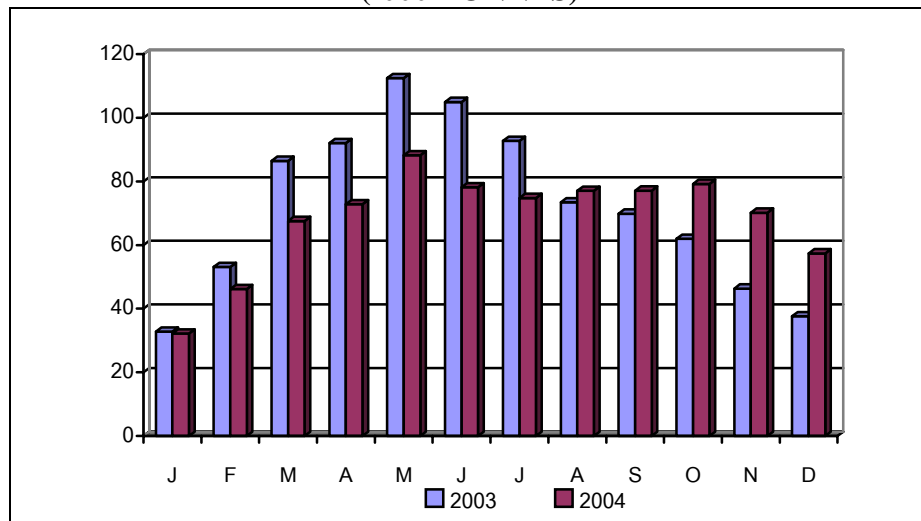
The structure of palm oil and oil palm industry comprises 5 sectors, namely growers, CPO crushing mills, refinery, palm oil related industry and consumers. Any change in one sector will affect another. External factors also play important roles in determining domestic price such as world market price, and the price of other substitutable vegetable oils. Another uncontrollable factor namely weather condition has direct impact on volume of FFB to be supplied to the market in every season. In the past, competition to buy raw materials for refined palm oil production depended mainly on price, i.e. purchasing price of raw materials and selling price of finished products. While raw materials price fluctuates all the time, price of finished product is dependent on pricing of competitors.

At present, since 1 January 2003, import tax of palm oil under AFTA has been lowered to 5% but the government has not yet issued any clear direction as regards implementation. This can present difficulties to management in the event of

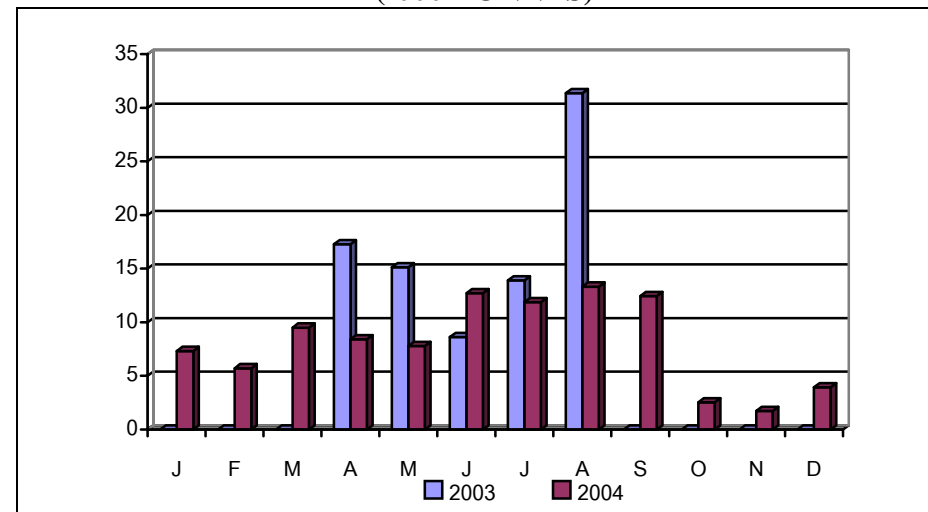
FFB shortage, resulting in a high cost of raw materials. In a broader perspective, such control prevents market mechanism from allocating resources effectively, resulting in low production efficiency and high production cost compared to Malaysia and Indonesia. Only when producers can control production cost, price competition is likely to lessen. It will then be replaced by competition in other aspects such as product differentiation so as to add value to products for the consumers.

# PERFORMANCE OF CRUDE PALM OIL IN THAILAND 2004 (Source : Department of Internal Trade)

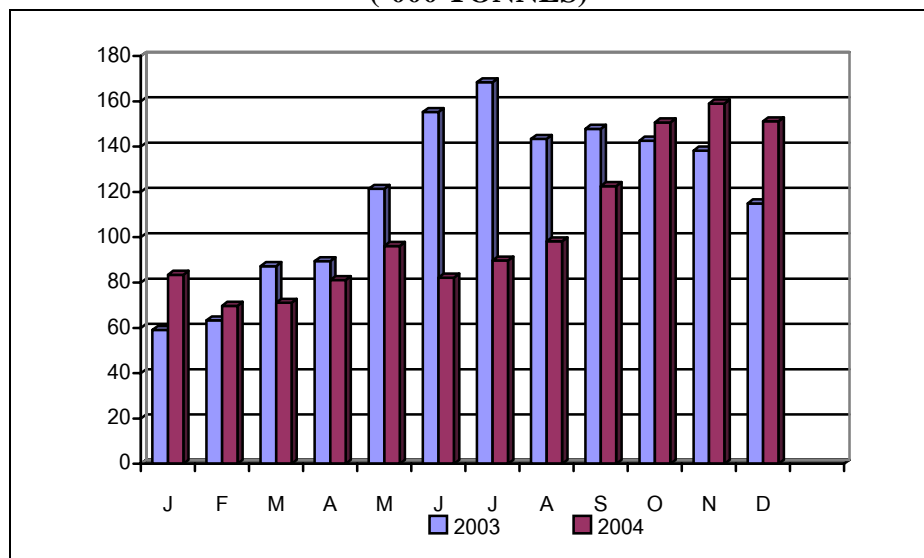
## PRODUCTION OF CRUDE PALM OIL ('000 TONNES)



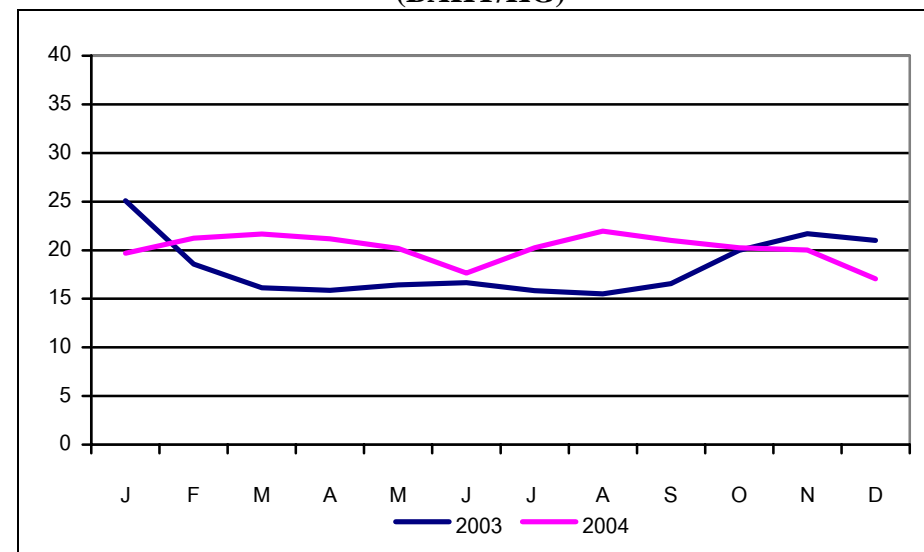
## EXPORT OF PALM OIL ('000 TONNES)



## CLOSING STOCK OF PALM OIL ('000 TONNES)



## LOCAL DELIVERED CRUDE PALM OIL PRICE (BAHT/KG)



## 10. Shareholders and Management

### 10.1 Shareholders

As at 26 August 2004, the top ten shareholders and their holdings are as follows:-

Shareholder's Name	Percentage of Paid-up Capital
1. Lam Soon Holding Co., Ltd. <sup>1</sup>	40.14
2. ABN Amro Asia Services (Singapore) Pte Ltd. <sup>2</sup>	19.21
3. Lam Soon Cannery Pte Ltd. <sup>3</sup>	7.48
4. G.K. Goh Stockbrokers Pte Ltd	5.32
5. G.K. Goh Securities (HK) Nominees Limited	1.22
6. Mr. Somchai Chongsawadchai	1.09
7. DBS Vickers Securities (Singapore) Pte Ltd	0.83
8. Mr. Niphan Tricherdlarp	0.83
9. Thai NVDR Co., Ltd.	0.67
10. Mr. Pirach Imchokchai	0.66

**Source :** Thailand Securities Depository Co., Ltd.

**Note :**

<sup>1</sup> Shareholders of Lam Soon Holding Co., Ltd. and its nature of business are as follows:-

Shareholders : As at 31 December 2004, shareholders holding 10% onwards of Lam Soon Holding Co., Ltd. are as follows:-

<b>Shareholder's Name</b>	<b>Percentage of Paid-up Capital</b>
1. Bangkok Edible Oil Co., Ltd. (Major shareholders include Galatea Enterprise 75.324% whose shareholders are as follows : Mr. Whang Tar Liang and his wife 50.70%, Mr. Whang Shang Ying 34.47%, and Ms. Whang Yee Ling 14.83%.)	50.71
2. Mr. Whang Tar Liang (owns 0.34% shares in LST)	24.50
3. Mr. Whang Shang Ying (owns no shares in LST)	24.50

Nature of Business : As a Holding Company for investing in various businesses.

<sup>2</sup> Major shareholder of ABN Amro Asia Services (Singapore) Pte Ltd. is ABN Amro Asia Limited which has been registered in Hong Kong. The nature of business is a fund management company.

<sup>3</sup> Shareholders of Lam Soon Cannery Pte. Ltd. and its nature of business are as follows:-

Shareholders : As at 31 March 2004, shareholders holding of Lam Soon Cannery Pte. Ltd. are as follows:-

<b>Shareholder's Name</b>	<b>Number of shares</b>	<b>Percentage of Paid-up Capital</b>	<b>Percentage of Voting Rights</b>
1. Highland (L) Pte. Ltd.	15,878,210	72.90	72.90
2. Bermuda Trust (Jersey) Limited	4,741,790	21.80	21.80
3. Sunshine Investments	1,150,000	5.30	5.30
Total	21,770,000	100.00	100.00

Notes : - Highland (L) Pte. Ltd. owned by Mr. Whang Tar Liang and his wife 100%;  
- The benefits generated by Bermuda Trust (Jersey) Limited have been shared by Mr. Whang Shang Ying and Ms. Whang Yee Ling (son and daughter of Mr. Whang Tar Liang, Deputy Chairman and Executive Director of LST) at the proportion of 50:50;  
- Sunshine Investments Pte. Ltd. owned by Mr. Whang Tar Liang and his wife 64.25%, Mr. Whang Shang Ying 10.32%, and Ms. Whang Yee Ling 25.43%.

Nature of Business : To invest in various businesses.

## 10.2 Board of Directors and Management Committee

### 10.2.1 The Structure of Board of Directors and Sub-Committees

Board of Directors/Sub-Committees	Members	
1. Board of Directors	1. Mr. Mechai Viravaidya 2. Mr. Whang Tar Liang 3. Mr. Songkram Grachangnetara 4. Mrs. Sumarn Changsiricharoen 5. Mr. Tanatat Puttasuwan 6. Mr. Whang Shang Ying 7. Mr. Somchai Chongsawadchai 8. Ms. Anchalee Suebchantasiri 9. Mr. Ampol Simarojana	Chairman of Directors and Independent Director Deputy Chairman and Executive Director Chairman of Audit Committee and Independent Director Independent Director and Member of Audit Committee Independent Director and Member of Audit Committee Executive Director Managing Director Executive Director Executive Director
2. Audit Committee	1. Mr. Songkram Grachangnetara 2. Mrs. Sumarn Changsiricharoen 3. Mr. Tanatat Puttasuwan 4. Ms. Anchalee Suebchantasiri	Chairman of Audit Committee and Independent Director Independent Director and Member of Audit Committee Independent Director and Member of Audit Committee Secretary to Audit Committee
3. Remuneration Sub-Committee	1. Mr. Songkram Grachangnetara 2. Mrs. Sumarn Changsiricharoen 3. Mr. Tanatat Puttasuwan	Independent Director Independent Director Independent Director
4. Share Allocation Sub-Committee	1. Mr. Songkram Grachangnetara 2. Mrs. Sumarn Changsiricharoen 3. Mr. Tanatat Puttasuwan	Independent Director Independent Director Independent Director

### 10.2.2 The Criteria on recruiting Independent Directors

Each Director will seek appropriated persons to be proposed as Independent Directors, whose qualification must conform with SEC regulations, and be knowledgeable and have relevant experience beneficial to the Company.

### 10.2.3 The Number of Board Meetings and the Attendance of Directors

In 2004, the Board of Directors held 5 meetings, with attendance shown as below:-

Name	Attendance / Total Meetings
1.Mr. Mechai Viravaidya	5/5
2.Mr. Whang Tar Liang	1/5
3.Mr. Songkram Grachangnetara	5/5
4.Mrs. Sumarn Changsiricharoen	5/5
5. Mr. Tanatat Puttasuwan	4/5
6.Mr. Whang Shang Ying	5/5
7.Mr. Somchai Chongsawadchai	5/5
8.Mr. Ampol Simarojana	4/5
9.Ms. Anchalee Suebchantasiri	5/5

#### 10.2.4 Names and Position of the Management

Name	Position
1.Mr. Whang Tar Liang	Executive Director
2.Mr. Whang Shang Ying	Executive Director
3.Mr. Somchai Chongsawadchai	Managing Director
4.Ms. Anchalee Suebchantasiri	Director and Financial Manager
5.Mr. Ampol Simarojana	Director and Factory Manager
6.Mr. Nipol Punyawiwat	Sales Manager
7.Mrs. Roongnapa Phanomchoeng	Industrial Sales Manager

#### 10.2.5 Details of Executive Board and Company Executives

- Name : **Mr. Mechai Viravaidya**  
Position : Chairman of Directors and Independent Director  
Age : 64  
Education : Bachelor of Commerce, Melbourne University, Australia

**Experience:**

1995-present : Chairman of Directors and Independent Director of Lam Soon (Thailand) Plc.  
2004-present : Chairman of Directors and Independent Director of Universal Food Plc.  
2003-present : Chairman of Directors and Independent Director of United Palm Oil Industry Plc.  
1996-present : Senator  
1974-present : Founder and Chairman of Population and Community Development Association (PDA)  
1998-1999 : Chairman, Krung Thai Bank (Public Company Limited)  
1998-2000 : Chairman, Telephone Organization of Thailand

- 1991-1992 : Minister to the Prime Minister's Office  
1986-1988 : Cabinet Spokesman  
1982-1985 : Governor, Provincial Waterworks Authority of Thailand  
1985-1986 : Deputy Minister of Industry
2. Name : **Mr. Whang Tar Liang**  
Position : Deputy Chairman and Executive Director  
Age : 78  
Education : Bachelor of Science Degree, University of California at Berkeley, U.S.A.
- Experience:**  
1999-present : Deputy Chairman, Lam Soon (Thailand) Plc.  
1994-present : Executive Director, Lam Soon (Thailand) Plc.  
2004-present : Director, United Palm Oil Industry Plc.  
1989-present : Director, Lam Soon Holding Co., Ltd.  
1973-present : Group Managing Director of The Lam Soon Group for the territory of Singapore, Malaysia and Thailand  
Non-Executive Director of G.K. Goh Holdings Limited, a public company in Singapore
- 1964-1972 : Chairman/Deputy Chairman, Singapore Manufacturers' Association (now known as The Singapore Confederation of Industries).  
Deputy Chairman, The Public Service Commission of Singapore
3. Name : **Mr. Songkram Grachangnetara**  
Position : Chairman of Audit Committee and Independent Director  
Age : 62  
Education : M.A. (Cantab.), Economics Cambridge University, England
- Experience:**  
2001-present : Chairman of Audit Committee and Independent Director, Lam Soon (Thailand) Plc.  
1990-present : Advisor, Thailand Development Research Institute (TDRI)  
1974-present : Board Director, Population and Community Development Association (PDA)  
1997-2001 : Independent Director, Capital Nomura Securities Public Company Limited



- 1991-1994 : Advisor to the Board of Directors, The Industrial Finance Corporation of Thailand (IFCT)
- 1991-1994 : Chairman, Industrial Management Company Limited (IMC)
- 1982-1990 : Director, Evaluation Division, Bureau of the Budget, Office of the Prime Minister
4. Name : **Mrs. Sumarn Changsiricharoen**
- Position : Independent Director and Member of Audit Committee
- Age : 57
- Education : Bachelor's Degree – Accountancy, Thammasat University  
Licensed Auditor  
Diploma in Financial Management – The RVB Executive Program in Management/  
The Netherlands  
Certificate of Completion DCP 3/2000 from Thai Institute of Directors (IOD)
- Experience:**
- Present : Independent Director and Member of Audit Committee, Lam Soon (Thailand) Plc.  
Chairman of Audit Committee and Independent Director, Universal Food Plc.  
Director of Finance and Accounting, Bureau Population and Community Development Association.  
Licensed Auditor  
Director, Ban Phai Union Garment Co., Ltd.
- Past : Auditor, Navatham Law and Accounting Office  
Accountant, Thada Visva Co., Ltd.
5. Name : **Mr. Tanatat Puttasuwan**
- Position : Independent Director and Member of Audit Committee
- Age : 44
- Education : Ph.D. Economics (Financial Economics), University of Southern California, U.S.A.  
Certificate of Completion DCP 1/2000 from Thai Institute of Directors (IOD)
- Experience:**
- Present : Independent Director and Member of Audit Committee, Lam Soon (Thailand) Plc.

- 1999-present : Senior Private Sector Development Specialist,  
World Bank, Bangkok
- 1998-1999 : Assistant Secretary to the Board of Directors,  
Krung Thai Bank Plc.
- 1998-1999 : Manager, Investor Relations,  
Krung Thai Bank Plc.
- 6 Name : **Mr. Whang Shang Ying**
- Position : Executive Director
- Age : 44
- Education : Bachelor of Arts (Hons.) in Law,  
Oxford University, United Kingdom
- Experience:**
- 1998-present : Executive Director, Lam Soon (Thailand) Plc.
- 1999-present : Director, Bangkok Edible Oil Co., Ltd.
- 1999-present : Director, United Palm Oil Industry Plc.
- 2004-present : Director, Universal Food Plc.
- 2004-present : Chairman of Directors, Union Frost Co., Ltd.
- 2001-present : Executive Director, Lam Soon (M) Berhad
- 1994-present : Executive Director, Lam Soon Singapore Pte Ltd  
Director, Jurong Cement Limited, a public  
company in Singapore
7. Name : **Mr. Somchai Chongsawadchai**
- Position : Managing Director
- Age : 47
- Education : Bachelor's degree in Accountancy,  
Chulalongkorn University  
Certificate of Completion DCP 36/2003 from  
Thai Institute of Directors (IOD)
- Experience:**
- 2004-present : Managing Director,  
Lam Soon (Thailand) Plc.
- 2004-present : Managing Director, Universal Food Plc.
- 2004-present : Managing Director, Union Frost Co., Ltd.
- 2003-present : Managing Director,  
United Palm Oil Industry Plc.
- 1998-present : Director, United Palm Oil Industry Plc.
- 1991-present : Executive Director, Lam Soon Holding Co., Ltd.
- 1988-2003 : Director and General Manager,  
Lam Soon (Thailand) Plc.

- 1997-1998 : President, Palm Oil Refinery Association  
1992-1994 : Director, Reckitt and Coleman (Thailand)Co.,Ltd.
8. Name : **Miss Anchalee Suebchantasiri**  
Position : Director and Financial Manager  
Age : 46  
Education : Bachelor's degree in Accountancy,  
Thammasat University  
Certificate of Completion DCP 36/2003 from  
Thai Institute of Directors (IOD)
- Experience:**  
1995-present : Director, Lam Soon (Thailand) Plc.  
2003-present : Director, United Palm Oil Industry Plc.  
2004-present : Director, Universal Food Plc.  
2004-present : Director, Union Frost Co., Ltd.  
1988-present : Financial Manager, Lam Soon (Thailand) Plc.  
1992-present : Director, Bangkok Edible Oil Co., Ltd.
9. Name : **Mr. Ampol Simarojana**  
Position : Director and Factory Manager  
Age : 48  
Education : Bachelor of Science (Chemical Engineering),  
Chulalongkorn University  
Certificate of Completion DCP 37/2003 from  
Thai Institute of Directors (IOD)
- Experience:**  
1995-present : Director, Lam Soon (Thailand) Plc.  
1991-present : Factory Manager, Lam Soon (Thailand) Plc.  
2004-present : Director, Universal Food Plc.  
2004-present : Director, Union Frost Co., Ltd.  
1989-1991 : Manager of Melting Division, Siam Asahe-  
Technoglass Co., Ltd.  
1980-1989 : Assistant Production Manager, Lam Soon  
(Thailand) Co., Ltd.
10. Name : **Mr. Nipol Punyawiwat**  
Position : Sales Manager  
Age : 45  
Education : Bachelor of Law, Ramkhamhaeng University
- Experience:**  
1994-present : Sales Manager, Lam Soon (Thailand) Plc.  
1980-1994 : Sales Manager, Bangkok Edible Oil Co., Ltd.

11. Name : **Mrs. Roongnapa Phanomchoeng**  
Position : Industrial Sales Manager  
Age : 46  
Education : Bachelor of Economy,  
Ramkhamhaeng University

**Experience:**

2002-Present : Industrial Sales Manager,  
Lam Soon (Thailand) Plc.

1997-2001 : Assistant Managing Director,  
Pure Refined Oil Co., Ltd.

1994-1996 : Senior Sales Manager, Abico Holdings Plc.

### 10.2.6 Directors and Executives holding shares in the Company

Name	No. of shares at the end of 2003 (par 10 Baht)	Increase or (Decrease) in no. of shares during the fiscal year (par 10 Baht)	No. of shares at the end of 2004 (par 1 Baht)
1. Mr.Mechai Viravaidya	-	-	-
2. Mr.Whang Tar Liang	275,800	-	2,758,000
3. Mr.Songkram Grachangnetara	-	-	-
4. Mrs. Sumarn Chaengsiricharoen	-	-	-
5. Mr. Tanatat Puttasuwan	-	-	-
6. Mr.Whang Shang Ying	-	-	-
7. Mr.Somchai Chongsawadchai	861,300	28,700	8,900,000
8. Ms.Anchalee Suebchantasiri	914	-	9,140
9. Mr.Ampol Simarojana	20,000	-	200,000
10. Mr.Nipol Poonyaviwat	550	37,400	379,500
11. Mrs. Roongnapa Phanomchoeng	-	-	-

### 10.2.7 Remuneration of Directors and Management

#### **Explicit Remuneration**

- Remuneration of all board members (9 members) 3,653,000 Baht

Name	Position	Director fee in 2004
1.Mr. Mechai Viravaidya	Chairman of Directors and Independent Director	541,000
2.Mr. Whang Tar Liang	Deputy Chairman and Executive Director	221,000
3.Mr. Songkram Grachangnetara	Chairman of Audit Committee and Independent Director	669,000
4.Mrs. Sumarn Changsiricharoen	Independent Director and Member of Audit Committee	669,000
5. Mr. Tanatat Puttasuwan	Independent Director and Member of Audit Committee	669,000
6.Mr. Whang Shang Ying	Executive Director	221,000
7.Mr. Somchai Chongsawadchai	Managing Director	221,000
8.Mr. Ampol Simarojana	Director and Factory Manager	221,000
9.Ms. Anchalee Suebchantasiri	Director and Financial Manager	221,000

- Remuneration of the Management (7 members)

60,991,222 Baht

**Note** : Remuneration of the Management includes remuneration paid to Executive Directors, Managing Director, and the first 4 Department Manager levels ranking down from Managing Director as specifies in the Notification of The Office of Securities and Exchange Commission.

### **Other Remuneration**

The Company has paid no other remuneration to Executive Directors and the Management. As for Provident Fund, the Management has been paid at the same rate as other employees. Provident Fund has not been paid to Executive Directors.

### 10.2.8 Directors and the Management having positions in subsidiaries and related companies

Name of companies Name of Directors	The Company	Subsidiaries		Related Company (Lam Soon Holding Co., Ltd.)
		United Palm Oil Industry Plc.	Universal Food Plc.	
1.Mr. Mechai Viravaidya	X	X	X	
2.Mr. Whang Tar Liang	//	/		X
3.Mr. Whang Shang Ying	//	/	/	/
4.Mr. Somchai Chongsawadchai	//	//	//	/
5.Mr. Ampol Simarojana	//		/	/
6.Ms. Anchalee Suebchantasiri	//	//	//	/

**Notes** : X : Chairman of Directors

/ : Director

// : Executive Director

### 10.2.9 Control system of utilising inside information

The Company has set out policy and guidelines preventing the Management from utilising the inside information of the Company for personal gains as follows:

1. to provide the Board and the Management with knowledge that they are obliged to prepare and disclose reports on each person's securities holding and the holding of securities by his spouse and

minor children of securities in the Company. This includes penalty provisions under the Securities and Exchange Act B.E. 2535 and regulations of the Stock Exchange of Thailand;

2. to inform the Management of their duty to report their holdings of securities in the Company to the Board in every quarter on which the Board meeting is called;
3. to inform the Management that material inside information of the Company should not be revealed to others. This included impacts which may occur to the Company's securities, and the penalty provisions of a law that the Management may face according to the Securities and Exchange Act B.E. 2535, as a result of their violation;
4. to prohibit the Management to trade the Company's shares 1 month prior to the Company's financial statements being publicised.

#### 10.2.10 Internal Control Management

At the Board Meeting No.1/2005 on 24 February 2005 also attended by 3 independent directors and members of the audit committee, the meeting, based on information acquired from the Management, reached the conclusion on internal control system consisting of 5 parts: the organization and environment, risk management, operation control of the Management, information technology and data communication and follow-up system. The Board was of the view that the Company had sufficient internal control system regarding activities with major shareholders, Directors, the Management and related people to the aforementioned. The Board also deemed the internal control in other areas in the system as appropriate.

### **10.3 Dividend Payout Policy**

The Company's policy is to pay dividends to shareholders no less than 40% of net earnings after tax. For its subsidiaries, the dividend payout policies are as follows:-

United Palm Oil Industry Plc. pays dividends at approximately 50% of net earnings after tax depending on the company's performance and economic situation.

Universal Food Plc. pays no dividends due to accumulated retained losses.

## **11. Common Interested Persons and Connected Transactions**

### **11.1 Connected transactions with common interested persons**

The Company had no connected transactions other than as declared in Notes to financial statements item no. 5.

### **11.2 Necessity and reasons for connected transactions**

Owing to the fact that there was seasonal insufficiency of domestic CPO (Crude Palm Oil) consumed by refineries and that CPO import had to be approved by the Government, the Company therefore needed to buy CPO from crushing mills that produced quality CPO with on-time delivery with record as good trading partners. United Palm Oil Industry Plc. is considered qualified.

### **11.3 Measures or criteria to approve connected transactions**

In 2004, the Company bought CPO from United Palm Oil Industry Plc., accounting to 29.89 % of its total CPO purchase. The buying was based on the ongoing market price as normal business transactions. It was done without any commitment, but on the basis of the CPO purchase contract and in compliance with normal CPO business practice.

Mr. Somchai Chongsawadchai, Managing Director of the Company and of United Palm Oil Industry Plc., approved the CPO purchase for Lam Soon. The approval was based on the market price references of various crushing mills.

### **11.4 Connected transactions in the future**

The Company had business transactions with United Palm Oil Industry Plc. prior to the Company being its major shareholder. United Palm Oil owns the largest oil palm plantation in Thailand and is one of crushing mills that produced quality CPO. As the Company utilized CPO as its major raw material when the import policy of the Government was still unclear, avoiding business transaction with United Palm Oil was difficult. Nevertheless, the Company could buy CPO at the same price from other crushing mills.



## **12. Other Factors Affecting Investment Decisions**

### **12.1 Legal conflicts**

As at 31 December 2004, the Company had no any legal cases negatively affecting to the assets of the Company or its subsidiaries amounting higher than 5% of shareholders' equity.

### **12.2 Obligations on future share issuance**

- None -

## **13. Information on Debentures or Promissory Notes**

- None -

## **14. Management Discussion and Analysis**

### **14.1 Financial performance analysis and explanation**

On 7 May 2004, the par value of LST's share traded on the Stock Exchange was split from 10 Baht to 1 Baht pursuant to the approval given by the Board of Directors' meeting on 26 February 2004 and the amendment of Memorandum of Association on 29 April 2004.

On 2 April 2004 the Company issued an Offer Letter to purchase shares of Universal Food Plc. ("UFC") from certain shareholders of UFC and, following the acceptance of such offer, made a tender offer to the public for all UFC securities in accordance with SEC regulations. Consequently, on 19 October 2004, the Company held 96.79% of UFC shares, turning the latter into its subsidiary. UFC currently holds a 58% share in Union Frost Co., Ltd. whose business includes production and distribution of frozen fruits and vegetables.

Starting from the second quarter of 2004, therefore the Company's consolidated financial statements incorporated the financial statements of UFC. As such, the 2004 consolidated financial statements included those of two subsidiaries – United Palm Oil Industry Plc. ("UPOIC") and Universal Food Plc. ("UFC"), whereas for 2003 the consolidated financial statements included only that of UPOIC. 2004 being the first year in which the consolidated financial statements incorporated those of two subsidiaries, it is not possible to do a comparative analysis with 2003. The following management discussion and analysis will emphasise the major components and changes of the Company only.

#### **14.1.1 Operating results**

Competition in the palm oil industry has been mainly on the basis of price, including purchasing price of raw material and selling price of finished products. While raw materials price fluctuates all the time, price of finished product is dependent mainly on pricing of competing palm oil producers. During the last two years, a number of crushing mills have been established while existing mills have expanded their production capacity. This resulted in intense competition to buy poor quality FFB at high price. This is reflected in the high cost of raw material in the form of higher price of CPO, causing the Company to record higher production cost. Moreover, at the end of the year, the high level of CPO stock in the country, combined with the sharp decrease of CPO price led to severe price cutting of finished products among palm oil producers. The Company therefore recorded lower gross profit margin from 12.01% in 2003 to 7.18% in 2004, even though revenue from sales increased by 903.12 million Baht or 27.03% compared with 2003 to 4,244.42 million Baht in 2004. As cost of sales increased by 999.43 million Baht or 33.99%

from 2003, higher than the percentage increase of sales revenue, gross profit reduced 96.31 million Baht or 24.01% from 2003 to 304.89 million Baht in 2004 while a net profit of 134.15 million Baht, down by 82.76 million Baht or 38.15% from 2003 .

Other major components and changes in financial statements are as follows:-

### **Revenues**

**Revenue from sales:** In 2004 sales in value was 4,244.42 million Baht, up 27.03% from 2003 with 15.66% increase of sales volume and 11.37% increase of average selling price per metric ton. The Company maintained an income structure similar to 2003 with vegetable oil accounting for 90.12% of the total sales value. Domestic sales, which contributed 86.85% of total sales, increased by 17.92% while export sales was up 158.69% from 2003. On a group basis, the Company's sales in 2004 amounted to 5,080.92 million Baht.

**Other revenues:** Revenues other than those generated by normal operation comprised 0.85% of total revenues or 36.97 million Baht. Major items included profit from sales of land and gains on disposal of scrap.

**Profit sharing from investment in subsidiaries:** Profit sharing from investment in subsidiaries recorded at 81.77 million Baht, increasing by 17.27 million Baht from 2003. This was contributed by:-

- profit sharing from UPOIC amounting to 91.39 million Baht, an increase of 26.88 million Baht or 41.67%;
- loss sharing from UFC amounting by 9.61 million Baht; this was mainly due to provision for stock obsolescence, allowance for doubtful accounts, and allowance for loss on asset impairment amounting to 22.72, 4.65, and 7.7 million Baht respectively.

### **Expenses**

**Cost of sales:** Cost of sales increased by 999.43 million Baht or 33.99% from 2003 to 3,939.53 million Baht in 2004. The average price of CPO increased by 17.86 % from 2003, arising from intense competition among crushing mills and refineries for the purchase of FFB. This led to high price of FFB and CPO, the major raw materials of the Company.

**Selling and administrative expenses:** Selling and administrative expenses in 2004 was 256.31 million Baht compared with 207.67

million Baht in 2003, increasing by 48.64 million Baht or 23.42%. The major factors were allowance for diminution in value of inventories, transportation cost, consulting fee, and export expenses. Because of the increase of sales. However, S&A expenses as a proportion of sales values declined from 6.22% in 2003 to 6.04% in 2004, the lowest level since 1997 and representing a continuous reduction since 2001.

**Interest expense:** During the year 2004, the Company borrowed both short-term and long-term loans from commercial banks as working capital and to fund its investment in UFC. At the end of 2004, the Company's outstanding short-term and long-term loans increased by 495 million Baht and 265.19 million Baht respectively. Interest expense in 2004 correspondingly increased by 10.67 million Baht from 2003.

### **Profits**

**Gross profit:** Gross profit margin in 2004 was at 7.18%, lower than 12.01% in 2003 owing to the reasons explained above as well as pricing competition in the market for finished products. Even though sales volume increased, such increase could not compensate for the increase in cost of sales, hence the gross profit dropped from 401.20 million Baht in 2003 to 304.89 million Baht in 2004. In the consolidated 2004 financial statements, gross profit margin was 14.44%.

**Operating profit:** The Company recorded an operating profit in 2004 at 81.90 million Baht, representing 59.49% decrease from 2003 in tandem with the 33.99% increase in cost of goods sold. Operating profit margin in 2004 at 1.93% was lower than 6.05% of 2003. In the 2004 consolidated financial statements, operating profit margin recorded at 5.03%.

**Net profit:** The Company recorded net profit in 2004 of 134.15 million Baht, down 82.76 million Baht or 38.15% from 2003. Net profit margin in 2004 decreased from 6.35% in 2003 to 3.07% while profit sharing from investment increased 26.77%. Net profit margin of the consolidated financial statements in 2004 was 2.61%.

**Dividend payout ratio:** In 2004, earnings per share was 0.18 Baht (weighted average number of shares at 738 million shares). The Board of Directors resolved to approve the interim dividend payment

based on the operation period of 1 January – 30 June 2004 at the rate of 0.05 Baht per share, amounting to 36.9 million Baht. In addition, at BOD meeting no. 1/2005 held on 24 February 2005 it was resolved to propose to Annual General Meeting of Shareholders no. 1/2005 to be held on 26 April 2005 a further dividend payment of 0.025 Baht per share for the operation period of 1 July – 31 December 2004, amounting to 18.45 million Baht. If approved, total dividend payment for the year 2004 would be 0.075 Baht per share, amounting to 55.35 million Baht or 41.26% of the Company's net profit. It has been the Company's policy to pay dividends to shareholders not less than 40% of net earnings after tax.

**Book value (weighted average):** As at December 31, 2004, the book value per share was 1.71 Baht (weighted average number of shares at 738 million shares), an increase compared to 1.67 Baht in 2003 (weighted average number of shares at 73.8 million shares adjusted for split in par value from 10 Baht to 1 Baht).

#### 14.1.2 Financial status

**Assets:** At the end of 2004, the asset value of the Company and its subsidiaries was 3,718.73 million Baht while that of the Company itself was 2,746.69 million Baht, 40.13% higher than in 2003. 46.35% of total asset comprised current assets, a slight decrease compared with 47.16% in 2003. In terms of value, however the current asset in 2004 increased by 37.70% from 2003 due to high level of inventories and account receivables. Non-current assets increased by 42.30%, due to the investment in UFC and work in progress of margarine and shortening plants and the expansion project of crushing mill referred to above.

- **Cash in hand and at banks:** At the end of 2004, the amount was 56.93 million Baht, increasing 10.33 million Baht or 22.16% from 2003 figure of 46.61 million Baht. This represented 2.07% of total assets, a slight decrease when compared with the ratio of 2.38% in 2003.

- **Trade accounts receivable:** As at the end of 2004, the Company recorded net trade accounts receivable (after an allowance for doubtful debt) at 455.34 million Baht accounting for 16.58% of total assets, compared with 301.74 million Baht in 2003 accounting for 15.39% of total assets, increasing by 153.61 million Baht from 2003. This was because the Company recorded a number of sales figure at the year-end, for which payment was only due at the beginning of 2005. In

2004, the average collection period, thus, slightly increased to 33 days from 30 days in 2003. Postdated cheques and trade accounts receivable (up to 3 months) accounted for 99.28% of net trade accounts receivable.

- **Inventory:** As at the end of 2004, net inventory worth 758.07 million Baht, or 27.60% of total assets, increasing 32.02% from 574.19 million Baht in 2003. This was mainly due to the increased value of work in process and finished goods. This was because political change in Myanmar during the fourth quarter brought the border trade to a halt. In the circumstances the Company could not conduct any export transactions with Myanmar as planned. As at the end of 2004, allowance for diminution in value of inventories amounted to 10.83 million Baht, an increase of 9.72 million Baht from 2003 when the amount was 1.10 million Baht. This was caused by a sharp decrease in market price of palm oil.

- **Other long-term investments:** As at the end of 2004, the Company had net long-term investment in mutual fund valued at 0.62 million Baht. There was a decrease by 0.35 million Baht or 36.10% from 2003, owing to the higher provision for diminution in value of investment reflected by the fall in SET index.

- **Investments in subsidiaries:** In 2004, the Company acquired 96.79% in Universal Food Plc. which carries on the business of manufacturing and distributing canned vegetables and fruits, and fruit juice under “UFC” and other brands, for 395 million Baht.

- **Land, buildings, machinery and equipment:** As at the end of 2004, net value of fixed assets was 460.86 million Baht, accounting for 16.78% of total asset value, 47.12 million Baht or 11.39% increase from 413.74 million Baht of 2003. This was because in 2004 the manual system of margarine and shortening plants was replaced with automation system and an expansion in production capacity. Further, production capacity in Trang crushing mill is being expanded from 45 MT-FFB/hr to 60 MT-FFB/hr. Both projects have been granted BOI privileges.

**Sources of capital:** At the end of 2004, under the consolidated financial statements, this comprised 2,147.64 million Baht of liabilities and 1,571.09 million Baht (net of treasury stock of 127.61 million Baht) from shareholders’ equity, in the ratio of 58 : 42 respectively. The ratio of debt to equity was at 1.37 times. For the Company itself, sources of capital comprised 1,486.76 million Baht of liabilities and 1,259.93 million Baht (net of treasury stock of 127.61 million Baht) of shareholders’ equity, in the ratio of 54 : 46 respectively. The ratio of

debt to equity was 1.18 at the end of 2004, up from 0.58 times in 2003. The reasons are as follows:-

- **Liabilities:** At the end of 2004, the Company had outstanding short-term loan from bank of 665 million Baht and long-term loan of 572.50 million Baht (including current portion of long-term loan), an increase of 495 million Baht and 302.50 million Baht respectively. Short-term loan was used as a working capital for purchasing raw material, while long-term loan was to fund its investment in UFC.

- **Shareholders equity:** At the end of 2004, shareholders' equity was 1,259.93 million Baht (net of treasury stock of 127.61 million Baht). There were no changes to the number of treasury stock compared with 2003. However, the par value of the Company's share was split from 10 Baht to 1 Baht as approved by the Board of Directors' meeting on 26 February 2004. As a consequence, the number of treasury stock was adjusted to 82 million shares or 10% of total shares issued and paid-up at an average price of 1.56 Baht/share, amounting to 127.61 million Baht, the same as 2003.

### 14.1.3 Financial liquidity

In 2004, financial liquidity increased from 2003 with closing balance of cash and cash equivalents of 56.93 million Baht, compared with 46.61 million Baht in 2003, or up 10.33 million Baht. The main factors for changes in cashflows from operations, investment, and financing activities were as follows:-

**Cashflows from operations:** In 2004, cashflows paid from operations was 290.44 million Baht, compared to 41.57 million Baht in 2003. The main reasons were as follows:-

- earnings before changes in operating assets and liabilities dropped by 111.86 million Baht from 2003 due to a decrease in net profit by 82.76 million Baht, while an allowance for diminution in value of inventories, profit sharing from subsidiaries, and gain from selling land amounted to 9.72, 17.26, and 22.20 million Baht respectively.
- inventory value of 2004 increased by 32.02% from 2003, a major portion of which were the increase of work in process and finished goods at the year end. In addition, during the fourth quarter, the Company could not export goods to Myanmar as planned because political change in Myanmar brought border trade to a halt, resulting in cash outflows by 193.60 million Baht in 2004;
- trade accounts receivable (net) increased 50.91% from 2004 because at the year-end, the Company recorded a number of sales from industrial customers, leading to cash outflows by 151.90 million Baht in 2004;
- at the end of 2004, trade accounts payable decreased from 2003 mainly due to the decrease of trade accounts payable of raw material, payment of which had already been settled, leading to cash outflows of 22.37 million Baht.

**Cashflows from investing activities:** In 2004, cash outflow for investing activities was 386.03 million Baht compared with 256.27 million Baht in 2003, increasing by 129.76 million Baht or 50.63%. The reasons were as follows:-

- the Company made its investment in UFC during 2004. As at the end of 2004, the Company had 96.79% holding stake in UFC, resulting in cash outflows by 395 million Baht;
- in 2004 the manual system of margarine and shortening plants was replaced with automation system and production capacity has been expanded. Further, production capacity in Trang crushing mill is being expanded from 45 MT-FFB/hr to 60 MT-FFB/hr. In addition, the



computer server system was upgraded to support the business expansion, resulting in cash outflows by 102.03 million Baht.

- dividend received from subsidiaries increasing by 39.42 million Baht compared with 2003.

**Cashflows from financing activities:** In 2004, cashflows generated from financing activities was 686.80 million Baht, compared to 266.02 million Baht in 2003 because during 2004 :-

- the Company borrowed short-term loan from bank amounting to 495 million Baht for using as working capital;

- the Company borrowed long-term loan from bank amounting to 395 million Baht for investment in UFC;

- the Company repaid long-term loan amounting to 92.50 million Baht;

- during 2004, the Company paid interim dividend decreasing by 38.29 million Baht from 2003.

#### 14.1.4 Financial ratios

- **Current Ratio:** Down from 1.74 times in 2003 to 1.24 times in 2004 due to the Company's current liabilities increasing by 94.12% whereas current asset up only 37.70%. The major increase in current liabilities was accounted by 495-million-Baht short-term loan from bank increasing from 2003. The fund was used as working capital to purchase raw material. Under the consolidated financial statements, the ratio was 1.33 times in 2004.

- **Quick Ratio:** Down from 0.66 times in 2003 to 0.50 times in 2004 as quick assets in 2004 increased in term of percentage less than the current liabilities. Current liabilities increased by 94.12% by short-term loan from bank while quick assets increased by 47.06% mainly from trade accounts receivable at the year-end. Under the consolidated financial statements, the ratio was 0.52 times in 2004.

- **Return on total assets:** Down from 12.47% in 2003 to 5.70% in 2004, as the Company decreased its net profits by 38.15%, while total assets increased by 40.13%.

- **Return on total equity:** Down from 17.85% in 2003 to 10.74% in 2004, due to the 38.15% decrease of net profits and the only 1.83% increase of shareholders' equity (net of treasury stock) from 2003.

- **Total debt to equity ratio:** Increased from 0.58 times in 2003 to 1.18 times in 2004. The Company borrowed long-term loan from bank to fund its investment in UFC. In addition, short-term loan was also obtained as working capital to purchase raw material. Under the consolidated financial statements, the ratio was 1.37 times in 2004.

- **Accounts receivable turnover:** Decreased from 11.86 times in 2003 to 10.93 in 2004, resulting in an average collection period increasing slightly to 33 days, compared to 30 days in 2003. This was because at the year-end, the Company recorded a number of sales from industrial customers for which payments due at the beginning of 2005. However, the Company remains focused on continuously managing and controlling credit extended to customers and would not significantly change its policy of selling on credit to customers.
- **Inventory turnover:** In 2004, the inventory turnover (finished goods only) was 24.48 times, a decrease from 31.76 times in 2003, resulting the inventory turnover period to 15 days, compared to 11 days of 2003. This was because the political reshuffle in Myanmar during the fourth quarter caused border trade to stagnate. The stock value of finished products at the year-end, therefore, increased 102.50% from 2003.
- **Accounts payable turnover:** Up from 15.19 times in 2003 to 25.11 in 2004, causing payment period to decrease from 24 days to 14 days because at the end of December 2004, the Company bought raw materials less than the same period of 2003, resulting in accounts payable as at the end of 2004 decreasing from 168.20 million Baht in 2003 to 145.60 million Baht.

#### 14.1.5 Capital Expenditure

In 2004, the Company has automated its margarine and shortening plants in Bangpoo Industrial Estate by investing in building construction and improvement including acquiring machinery and equipment for the project, test run of which has been conducted since end of 2004. Approval has already been obtained on 11 February 2004 from the Board of Investment (BOI) for investment privilege under the Investment Promotion Act. Meanwhile, the Company has expanded the capacity of storage tank in Trang crushing mill to support the business expansion. In addition, to develop the information technology of a subsidiary to be same SAP system, the Company installed new computer server to support the increased volume of data.

#### Plan for Capital Expenditure

In 2005, the Company has expanded the production capacity in Trang crushing mill from 45 MT-FFB/hr to 60 MT-FFB/hr with the investment budget of 45.43 million Baht. Approval has already been obtained on 11 May 2004 from the Board of Investment (BOI) for investment privilege under the Investment Promotion Act.

## **14.2 Factors might affect financial performance in the future**

The financial performance in the future of the Company mainly depends on the quantity and the price of CPO, the major raw material and production cost of the Company. Factors play important roles in determining domestic palm oil price including the domestic supply and the volatile world market price. The increased cost of raw material reduces the sales of the Company, particularly, below-5-liter vegetable oil, price of which has been controlled by the Internal Trade Department. Moreover, a continuous increase of new CPO crushing mills, together with an expansion in the production capacity of existing mills, resulted in competition in buying FFB at high prices, regardless of quality. Consequently, prices of raw materials and CPO have increased and the Company is to face with high production cost.

Besides the uncontrollable weather condition, trade liberalization of palm oil under AFTA has also been material to affect the future of the palm oil industry. Since January 2003, Thailand has lowered its import tax for palm oil (crude palm oil and refined palm oil) to 5% with no import quota. As such, the price of domestic crude palm oil is expected to be no more than 5% higher than the price in the world market. All palm oil companies, then, will have to adjust and prepare themselves for more intensive competition from overseas. At present, however, the Government has not yet laid down any import regulations, effecting the stock management during low crop season. Thus, refineries could not fully utilize their production capacity leading to higher production cost when compared to Malaysia and Indonesia.

The trend to utilise bio diesel as an alternative energy source of the country in the future, which has been developed continuously, and the Government policy regarding palm oil import and export, are expected to play important role in determining the future of Thai palm oil industry.

## **14.3 Remuneration of statutory auditor**

### **1) audit fee**

The Company and its subsidiaries paid audit fee to statutory auditor for the last fiscal year amounting to 2,597,500 Baht.

### **2) Non-audit fee**

The Company's subsidiary paid non-audit fee to statutory auditor on verifying BOI project for corporate income tax submission for the last fiscal year amounting to 70,000 Baht.

**15. Financial statements**

LAM SOON (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES  
REPORT AND FINANCIAL STATEMENTS  
31 DECEMBER 2004 AND 2003

## **Report of Independent Auditor**

To The Board of Directors and Shareholders of  
Lam Soon (Thailand) Public Company Limited

I have audited the accompanying consolidated balance sheets of Lam Soon (Thailand) Public Company Limited and its subsidiaries as at 31 December 2004 and 2003, and the related consolidated statements of earnings, changes in shareholders' equity, and cash flows for the years then ended and the separate financial statements of Lam Soon (Thailand) Public Company Limited for the same periods. These financial statements are the responsibility of the Company's management as to their correctness and the completeness of the presentation. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lam Soon (Thailand) Public Company Limited and its subsidiaries and of Lam Soon (Thailand) Public Company Limited as at 31 December 2004 and 2003 and the results of their operations and cash flows for the years then ended in accordance with generally accepted accounting principles.

Ruth Chaowanagawi

Certified Public Accountant (Thailand) No. 3247

Ernst & Young Office Limited

Bangkok : 22 February 2005

## LAM SOON (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

## BALANCE SHEETS

AS AT 31 DECEMBER 2004 AND 2003

(Unit : Baht)

	Note	CONSOLIDATED		THE COMPANY ONLY	
		2004	2003	2004	2003
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents		195,464,385	202,493,721	56,932,578	46,605,594
Trade accounts receivable					
Related parties	4, 5	1,212,315	1,520,975	979,245	1,533,604
Other companies - net	4	587,064,455	300,331,866	454,363,133	300,201,777
Total trade accounts receivable - net		588,276,770	301,852,841	455,342,378	301,735,381
Inventories - net	6	1,220,340,116	597,298,373	758,065,439	574,188,336
Other current assets		14,348,894	5,061,300	2,627,252	1,921,911
<b>TOTAL CURRENT ASSETS</b>		<b>2,018,430,165</b>	<b>1,106,706,235</b>	<b>1,272,967,647</b>	<b>924,451,222</b>
<b>NON-CURRENT ASSETS</b>					
Investments in subsidiaries accounted					
for under equity method	7	-	-	1,011,803,085	620,634,249
Other long-term investments - net	8	14,137,750	15,136,707	617,750	966,707
Property, plant and equipment - net	9	1,315,405,899	983,193,512	460,860,528	413,739,745
Non-operating land		109,481,612	-	-	-
Excess of acquisition cost of investments					
over net book value of subsidiaries		259,689,887	139,471,989	-	-
Deposit at financial institution subject to					
restrictions	10	900,000	-	-	-
Other non-current assets		689,293	308,659	441,022	268,859
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,700,304,441</b>	<b>1,138,110,867</b>	<b>1,473,722,385</b>	<b>1,035,609,560</b>
<b>TOTAL ASSETS</b>		<b>3,718,734,606</b>	<b>2,244,817,102</b>	<b>2,746,690,032</b>	<b>1,960,060,782</b>

The accompanying notes are an integral part of the financial statements.

## LAM SOON (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

## BALANCE SHEETS (Continued)

AS AT 31 DECEMBER 2004 AND 2003

(Unit : Baht)

	Note	CONSOLIDATED		THE COMPANY ONLY	
		2004	2003	2004	2003
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Bank overdrafts and short-term loans					
from financial institutions	11	981,247,907	170,000,000	665,000,000	170,000,000
Trade accounts payable					
Subsidiary	5	-	-	25,065,454	28,500,085
Other companies		206,857,881	148,093,200	120,534,399	139,695,216
Total trade accounts payable		206,857,881	148,093,200	145,599,853	168,195,301
Current portion of long term loans	12	156,210,000	77,142,857	114,450,000	77,142,857
Dividend payable		30,119,879	29,956,141	25,423,786	25,376,626
Other current liabilities					
Corporate income tax payable		9,274,857	30,905,929	6,577,507	20,393,968
Accrued expenses		82,935,719	40,435,021	29,609,371	25,328,293
Unearned income		12,460,095	18,980,334	12,460,095	18,980,334
Others		37,053,004	25,549,109	29,591,987	24,530,776
Total other current liabilities		141,723,675	115,870,393	78,238,960	89,233,371
TOTAL CURRENT LIABILITIES		1,516,159,342	541,062,591	1,028,712,599	529,948,155
NON-CURRENT LIABILITIES					
Long-term loans - net of current portion	12	615,630,000	192,857,143	458,050,000	192,857,143
Provision for land rental charge	13	15,308,000	-	-	-
Others		545,195	-	-	-
TOTAL NON-CURRENT LIABILITIES		631,483,195	192,857,143	458,050,000	192,857,143
TOTAL LIABILITIES		2,147,642,537	733,919,734	1,486,762,599	722,805,298

The accompanying notes are an integral part of the financial statements.



LAM SOON (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

BALANCE SHEETS (Continued)

AS AT 31 DECEMBER 2004 AND 2003

(Unit : Baht)

	Note	CONSOLIDATED		THE COMPANY ONLY	
		2004	2003	2004	2003
SHAREHOLDERS' EQUITY					
Share capital					
Registered, issued and fully paid-up					
820,000,000 ordinary shares of Baht 1 each					
(2003 : 82,000,000 ordinary shares of					
Baht 10 each)	15	820,000,000	820,000,000	820,000,000	820,000,000
Share premium		241,970,265	241,970,265	241,970,265	241,970,265
Unrealised loss from other long-term					
investments	8	-3,092,259	-2,312,417	-3,092,259	-2,312,417
Retained earnings					
Appropriated - statutory reserve	14	68,054,254	61,346,664	68,054,254	61,346,664
Unappropriated		260,608,073	243,863,872	260,608,073	243,863,872
Total shareholders' equity		1,387,540,333	1,364,868,384	1,387,540,333	1,364,868,384
Less : Treasury stock	16	-127,612,900	-127,612,900	-127,612,900	-127,612,900
EQUITY ATTRIBUTABLE TO THE COMPANY'S					
SHAREHOLDERS - NET		1,259,927,433	1,237,255,484	1,259,927,433	1,237,255,484
MINORITY INTERESTS - EQUITY ATTRIBUTABLE TO					
MINORITY SHAREHOLDERS OF SUBSIDIARIES		311,164,636	273,641,884	-	-
TOTAL SHAREHOLDERS' EQUITIES		1,571,092,069	1,510,897,368	1,259,927,433	1,237,255,484
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		3,718,734,606	2,244,817,102	2,746,690,032	1,960,060,782
		0	0	0	0

The accompanying notes are an integral part of the financial statements.

.....  
 DIRECTORS  
 .....

## LAM SOON (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

## STATEMENTS OF EARNINGS

FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Unit : Baht)

	Note	CONSOLIDATED		THE COMPANY ONLY	
		2004	2003	2004	2003
<b>REVENUES</b>					
Sales		5,080,922,567	3,489,381,474	4,244,418,010	3,341,302,776
Share of profit from investments accounted for under equity method	7	-	23,472,548	81,773,265	64,507,378
Gain on disposal of fixed assets		24,350,569	869,809	22,201,930	835,282
Other income		25,821,470	14,090,821	14,770,820	11,460,593
<b>TOTAL REVENUES</b>		<b>5,131,094,606</b>	<b>3,527,814,652</b>	<b>4,363,164,025</b>	<b>3,418,106,029</b>
<b>EXPENSES</b>					
Cost of sales		4,347,198,843	2,955,547,171	3,939,531,841	2,940,102,183
Selling and administrative expenses		516,284,472	252,422,723	256,310,914	207,666,017
Directors' remuneration	17	11,803,000	7,147,250	3,653,000	3,671,250
<b>TOTAL EXPENSES</b>		<b>4,875,286,315</b>	<b>3,215,117,144</b>	<b>4,199,495,755</b>	<b>3,151,439,450</b>
<b>EARNINGS BEFORE INTEREST EXPENSES AND INCOME TAX</b>					
		255,808,291	312,697,508	163,668,270	266,666,579
<b>INTEREST EXPENSES</b>		-33,368,835	-5,910,284	-16,580,522	-5,910,284
<b>CORPORATE INCOME TAX</b>	18	-31,659,728	-61,600,423	-12,935,957	-43,840,605
<b>EARNINGS BEFORE MINORITY INTERESTS</b>		<b>190,779,728</b>	<b>245,186,801</b>	<b>134,151,791</b>	<b>216,915,690</b>
<b>EARNINGS IN RESPECT OF MINORITY INTERESTS</b>		<b>-56,627,937</b>	<b>-28,271,111</b>	<b>-</b>	<b>-</b>
<b>NET EARNINGS FOR THE YEAR</b>		<b>134,151,791</b>	<b>216,915,690</b>	<b>134,151,791</b>	<b>216,915,690</b>
<b>BASIC EARNINGS PER SHARE</b>					
Net earnings		0.18	0.29	0.18	0.29
Weighted average number of ordinary shares - net (Shares)		738,000,000	738,000,000	738,000,000	738,000,000

The accompanying notes are an integral part of the financial statements.

## LAM SOON (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Unit : Baht)

	CONSOLIDATED		THE COMPANY ONLY	
	2004	2003	2004	2003
<b>Cash flows from operating activities :</b>				
Net earnings	134,151,791	216,915,690	134,151,791	216,915,690
Adjustments to reconcile net earnings to net cash provided by (paid from) operating activities :-				
Depreciation	133,141,850	82,126,202	49,358,571	49,026,697
Amortisation of excess of acquisition cost of investments over net book value of subsidiaries	15,434,490	6,219,711	-	-
Share of profit from investments accounted for under equity method	-	-23,472,548	-81,773,265	-64,507,378
Increase (decrease) in allowance for doubtful accounts	2,947,103	-19,925	-1,733,438	-19,925
Increase (decrease) in provision for stock obsolescence and diminution in value of inventories	31,808,275	6,485,536	9,721,944	-32,085
Allowance for impairment of fixed assets	7,194,201	-	1,926,317	-
Provision for land rental charge	15,308,000	-	-	-
Gain on disposal of short-term investments	-	-1,089,930	-	-1,089,930
Gain on disposal of investment in related party	-	-288,603	-	-288,603
Loss (gain) on disposal and write off of fixed assets	-24,350,569	886,232	-22,201,930	920,760
Unrealised loss (gain) on exchange	444,319	173,961	-206,047	173,961
Earnings in respect of minority interests	56,627,937	28,271,111	-	-
Earnings before changes in operating assets and liabilities	372,707,397	316,207,437	89,243,943	201,099,187
Decrease (increase) in operating assets :-				
Trade accounts receivable - related parties	86,103	58,828	554,359	-560,396
Trade accounts receivable - other companies	-147,145,175	-35,273,371	-152,450,807	-61,074,609
Inventories	-346,331,798	-156,481,713	-193,599,047	-138,227,835
Other current assets	4,665,771	759,394	-705,341	63,437
Other non-current assets	1,395,709	319,236	-172,163	201,500
Increase (decrease) in operating liabilities :-				
Trade accounts payable - related party	-	15,640,405	-3,434,631	15,640,405
Trade accounts payable - other companies	-37,025,955	-64,321,273	-18,931,881	-66,609,145
Other current liabilities	-21,264,928	518,912	-10,947,251	7,897,762
Net cash from (used in) operating activities	-172,912,876	77,427,855	-290,442,819	-41,569,694

The accompanying notes are an integral part of the financial statements.

## LAM SOON (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

## STATEMENTS OF CASH FLOWS (Continued)

FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

	CONSOLIDATED		THE COMPANY ONLY	
	2004	2003	2004	2003
<b>Cash flows from investing activities :</b>				
Proceeds from disposal of short-term investments	-	92,188,489	-	92,188,489
Proceeds from disposal of investment in related party	-	1,305,675	-	1,305,675
Proceeds from disposal of fixed assets	34,693,280	1,593,535	25,822,494	841,122
Increase in short-term investments	-	-10,098,560	-	-10,098,560
Increase in investments in related parties	-392,338,589	-206,947,254	-406,497,756	-374,214,693
Dividend received from subsidiary	-	3,543,617	96,671,300	57,249,894
Acquisitions of equipment	-161,098,729	-73,688,052	-102,026,235	-23,545,019
Net cash used in investing activities	<u>-518,744,038</u>	<u>-192,102,550</u>	<u>-386,030,197</u>	<u>-256,273,092</u>
<b>Cash flows from financing activities :</b>				
Increase in bank overdrafts and short-term loans				
from financial institutions	560,252,001	170,000,000	495,000,000	170,000,000
Increase in long-term loans	395,000,000	370,000,000	395,000,000	370,000,000
Cash paid for long-term loans	-110,942,611	-100,000,000	-92,500,000	-100,000,000
Increase in treasury stock	-	-24,995,570	-	-24,995,570
Dividend paid	-159,681,812	-176,266,564	-110,700,000	-148,986,600
Net cash from financing activities	<u>684,627,578</u>	<u>238,737,866</u>	<u>686,800,000</u>	<u>266,017,830</u>
Net increase (decrease) in cash and cash equivalents	-7,029,336	124,063,171	10,326,984	-31,824,956
Cash and cash equivalents at beginning of the year	202,493,721	78,430,550	46,605,594	78,430,550
Cash and cash equivalents at end of the year	<u>195,464,385</u>	<u>202,493,721</u>	<u>56,932,578</u>	<u>46,605,594</u>
<b>Supplementary disclosures of cash flows information</b>				
Cash paid during the year for :-				
Interest expenses	36,424,065	5,819,985	14,711,554	5,819,985
Corporate income tax	57,760,878	82,217,191	26,810,680	52,328,224

The accompanying notes are an integral part of the financial statements.

## LAM SOON (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Unit : Baht)

		CONSOLIDATED								
				Unrealised loss		Retained earnings				
		Issued and		Unrealised gain	from other	Appropriated -				
		paid up		from short-term	long-term	statutory				
Note		share capital	Share premium	investments	investments	reserve	Unappropriated	Treasury stock	Minority interests	Total
	<b>Balance as at 1 January 2003</b>	820,000,000	241,970,265	533,781	(3,585,948)	50,478,971	186,802,475	(102,617,330)	-	1,193,582,214
	Adjustment of fair value of investments	-	-	(533,781)	1,273,531	-	-	-	-	739,750
	Increase in treasury stock									
	during the year	-	-	-	-	-	-	(24,995,570)	-	(24,995,570)
	Appropriation of statutory reserve	14	-	-	-	10,867,693	(10,867,693)	-	-	-
	Dividend paid	19	-	-	-	-	(148,986,600)	-	-	(148,986,600)
	Net earnings for the year	-	-	-	-	-	216,915,690	-	-	216,915,690
	Increase in minority interests	-	-	-	-	-	-	-	273,641,884	273,641,884
	<b>Balance as at 31 December 2003</b>	820,000,000	241,970,265	-	(2,312,417)	61,346,664	243,863,872	(127,612,900)	273,641,884	1,510,897,368
	Adjustment of fair value of investments	-	-	-	(779,842)	-	-	-	-	(779,842)
	Appropriation of statutory reserve	14	-	-	-	6,707,590	(6,707,590)	-	-	-
	Dividend paid	19	-	-	-	-	(110,700,000)	-	-	(110,700,000)
	Net earnings for the year	-	-	-	-	-	134,151,791	-	-	134,151,791
	Increase in minority interests	-	-	-	-	-	-	-	37,522,752	37,522,752
	<b>Balance as at 31 December 2004</b>	820,000,000	241,970,265	-	(3,092,259)	68,054,254	260,608,073	(127,612,900)	311,164,636	1,571,092,069

The accompanying notes are an integral part of the financial statements.

## LAM SOON (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Unit : Baht)

		THE COMPANY ONLY							
		Issued and paid up		Unrealised gain from short-term investments	Unrealised loss from other long-term investments	Retained earnings		Total	
		share capital	Share premium			Appropriated - statutory reserve	Unappropriated	Treasury stock	
Note									
	<b>Balance as at 1 January 2003</b>	820,000,000	241,970,265	533,781	(3,585,948)	50,478,971	186,802,475	(102,617,330)	1,193,582,214
	Adjustment of fair value of investments	-	-	(533,781)	1,273,531	-	-	-	739,750
	Increase in treasury stock	-	-	-	-	-	-	(24,995,570)	(24,995,570)
	Appropriation of statutory reserve	14	-	-	-	10,867,693	(10,867,693)	-	-
	Dividend paid	19	-	-	-	-	(148,986,600)	-	(148,986,600)
	Net earnings for the year	-	-	-	-	-	216,915,690	-	216,915,690
	<b>Balance as at 31 December 2003</b>	820,000,000	241,970,265	-	(2,312,417)	61,346,664	243,863,872	(127,612,900)	1,237,255,484
	Adjustment of fair value of investments	-	-	-	(779,842)	-	-	-	(779,842)
	Appropriation of statutory reserve	14	-	-	-	6,707,590	(6,707,590)	-	-
	Dividend paid	19	-	-	-	-	(110,700,000)	-	(110,700,000)
	Net earnings for the year	-	-	-	-	-	134,151,791	-	134,151,791
	<b>Balance as at 31 December 2004</b>	820,000,000	241,970,265	-	(3,092,259)	68,054,254	260,608,073	(127,612,900)	1,259,927,433

The accompanying notes are an integral part of the financial statements.

LAM SOON (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

**1. GENERAL INFORMATION**

Lamsoon (Thailand) Public Company Limited was incorporated as a public limited company under Thai laws. The Company operates its business in Thailand and its principle activity is the manufacture and distribution of palm oil. Its registered address is at 947/155 Moo 12, Bangna-Trad Road, Bangna, Bangkok.

**2. BASIS OF CONSOLIDATION**

The consolidated financial statements include the financial statements of Lam Soon (Thailand) Public Company Limited (herein after called “the Company”) and the financial statements of its subsidiaries (herein after called “the subsidiaries”), which were incorporated in Thailand, as follows :

	Paid-up capital		Equity interest owned by the Company/subsidiaries		Nature of Business
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	
	Million Baht	Million Baht	Percent	Percent	
<b><u>Subsidiaries directly held by the Company</u></b>					
United Palm Oil Industry Public Company Limited	324	324	66.29	66.29	Oil palm plantation, crude palm oil and kernel palm oil processing
Universal Food Public Company Limited	350	-	96.79	-	Manufacture and distribution of canned fruits and vegetables, juice and drinks
<b><u>Subsidiary held by United Palm Oil Industry Public Company Limited</u></b>					
Phansrivivat Company Limited	274	274	100.00	100.00	Owner of oil palm plantation
<b><u>Subsidiaries held by Phansrivivat Company Limited</u></b>					
Prachak Vivat Company Limited	5	5	100.00	100.00	Holder of concessions to use forest reserve land
Phansri Company Limited	5	5	100.00	100.00	Holder of concessions to use forest reserve land
<b><u>Subsidiary held by Universal Food Public Company Limited</u></b>					
Union Frost Company Limited	60	-	58.00	-	Manufacture of frozen fruits and vegetables

Intercompany balances and significant intercompany transactions between the Company and its subsidiaries, investments in subsidiaries of the Company and the subsidiaries' share capital have been eliminated from the consolidated financial statements.

The excess of cost of investments in subsidiaries and the net assets value of the subsidiaries at the time of acquisition has been shown as "Excess of acquisition cost of investments over net book value of subsidiaries" under non-current assets in the consolidated balance sheets, which is amortized over a period of 20 years from the date of acquisition.

In April 2004, June 2004 and October 2004, the Company acquired investment in 33,874,813 ordinary shares of Universal Food Public Company Limited at Baht 12 each, representing 96.79 percent shareholding in that company, and that company becomes a subsidiary of the Company. The consolidated balance sheet as at 31 December 2004 had therefore incorporated the consolidated balance sheet of this company and the consolidated earnings statements for the year then ended included the consolidated operating results of that company as from 1 April 2004 to 31 December 2004.

The Company had on 28 May 2003 and 18 July 2003 acquired investment in United Palm Oil Industry Public Company Limited, which led to an increase in the shareholding percentage from 24.40% to 66.29% and the change in the status of that company from associate to subsidiary. The consolidated balance sheet had therefore incorporated the consolidated balance sheet of this company since 31 December 2003 and the consolidated earnings statement included the consolidated operating results of that company as from 1 June 2003.

The net worth of investments and net cash used in acquiring investments in the above subsidiaries were as follows :-

	(Unit : Baht)	
	<u>2004</u>	<u>2003</u>
Net assets	777,246,128	358,615,050
Net liabilities	(506,400,760)	(18,769,867)
Net book value of subsidiaries	<u>270,845,368</u>	<u>339,845,183</u>
Excess of acquisition cost of investments over net book value of subsidiaries	<u>135,652,388</u>	<u>34,369,510</u>
Acquisition cost of investments	406,497,756	374,214,693
Less : Cash and cash equivalents at acquired date	<u>(14,159,167)</u>	<u>(167,267,439)</u>
Net cash used in acquiring investments in subsidiaries	<u><u>392,338,589</u></u>	<u><u>206,947,254</u></u>



### **3. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with accounting standards pronounced by the Institute of Certified Accountants and Auditors of Thailand which are effective under the Accounting Act B.E. 2543.

Significant accounting policies adopted by the Company and the subsidiaries are summarised below :-

#### **3.1 Sales**

Sales represent the invoiced value, excluding value added tax, of goods supplied after deducting goods returned, discount and allowance.

#### **3.2 Cash and cash equivalents**

Cash and cash equivalents include cash and deposits at banks with an original maturity of 3 months or less and without commitments.

#### **3.3 Trade accounts receivable and allowance for doubtful accounts**

Trade accounts receivable are stated at the net realisable value. Allowance for doubtful accounts is provided for the estimated losses that may be incurred in collection of receivables. The allowance is based on collection experience and current status of receivables outstanding at the balance sheet date.

#### **3.4 Inventories**

Finished goods are valued at the lower of cost (Moving average method) and net realisable value. Cost is defined as all production costs including attributable factory overheads.

Raw materials and supplies used in the manufacture are valued at cost (Moving average method) and constitute as parts of production cost whenever consumed.

Allowance for obsolete inventories is provided for damaged, obsolete and defective inventories.

### 3.5 Investments

Investments in subsidiary companies in the Company's financial statements are stated under the equity method.

Short-term and long-term investments in available for sale securities are determined at fair value, which is based on the latest bid price of the Stock Exchange of Thailand on the last working day of the period as quoted. Change in the value of the available for sale securities is shown as separate item in the shareholders' equity until securities are sold, the change is then included in determining earnings.

### 3.6 Property, plant and equipment/depreciation and amortisation

Land is stated at cost. Plant and equipment are stated at cost less accumulated depreciation. Depreciation of plant and equipment is calculated by reference to their costs on the straight-line method over the estimated useful lives as follows :-

Cost of rights to use forest reserve land	-	Concession period
Building	-	20 - 30 years
Building improvement	-	5 years
Waste water treatment	-	15 - 30 years
Machinery, factory and agricultural equipment	-	5 - 15 years
Furniture and fixtures and office equipment	-	5 - 10 years
Vehicles	-	5 years

No depreciation is provided for land, construction in progress and machinery under installation.

Oil plan plantation development costs represent the costs of palm tree plantations, and are amortised over the estimated productive life of the palm trees (25 years) or over the remaining period of the forest reserve land concession, whichever is shorter.

Costs of supplying palm vacancies and infilling mature areas are included in determining earnings.

Depreciation and amortisation are included in determining earnings.

### **3.7 Non-operating land**

Non-operating land is stated at the lower of cost and latest appraised value.

### **3.8 Impairment of assets**

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in current operations.

### **3.9 Treasury stock**

Treasury stock is stated at cost and presented as a reduction from shareholders' equity. Gains on disposal of treasury stock are determined by reference to its carrying amount and are taken to premium on treasury stock, losses on disposal of treasury stock are determined by reference to its carrying amount and are taken to premium on treasury stock and retained earnings, consecutively.

### **3.10 Foreign currencies**

Transactions in foreign currencies incurred during the year are translated into Baht at the rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies outstanding at the balance sheet date are translated into Baht at the rates ruling at the balance sheet date except for those covered by forward exchange contracts at the contracted date.

Exchange gains and losses are included in determining earnings. Discounts or premiums on forward exchange contracts (the difference between the spot exchange rate and the forward exchange rate at inception of the contracts) are deferred and amortised to earnings over the contract lives using the straight-line method.

### 3.11 Financial instruments

The Company has no policy to speculate in or engage in the trading of any financial derivative instruments.

Financial instruments carried in the balance sheet include cash and cash equivalent, investments, loans from banks, trade accounts receivable and trade accounts payable and financial derivative instruments. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

### 3.12 Earnings per share

Earnings per share as presented in the earnings statements is the basic earnings per share, which is determined by dividing net earnings for the year by the weighted average number of ordinary shares in issue during the year, after adjusting the number of ordinary shares as a result of the change in the par value of the shares, as discussed in Note 15, assuming that the change in the number of the shares occurred at the beginning of the year.

Basic earnings per share for the year 2003 has been recalculated for comparative purposes.

### 3.13 Use of accounting estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates for certain accounting transactions, affecting amounts reported in the financial statements and notes related thereto. Subsequent actual results may differ from these estimates.

## 4. TRADE ACCOUNTS RECEIVABLE

The outstanding balances of trade accounts receivable as at 31 December 2004 and 2003, classified by aging, were as follows :-

	(Unit : Baht)			
	Consolidated		The Company Only	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<u>Related parties</u>				
- Less than 3 months	703,485	1,471,525	922,695	1,484,154
- 3 - 6 months	-	49,450	-	49,450
- Over 12 months	508,830	-	56,550	-
Total	<u>1,212,315</u>	<u>1,520,975</u>	<u>979,245</u>	<u>1,533,604</u>

(Unit : Baht)

	Consolidated		The Company Only	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<u>Other companies</u>				
Post dated cheques receivable	30,394,462	19,989,654	30,394,462	19,989,654
Cheque returned	7,443,845	7,544,456	7,443,845	7,544,456
Trade accounts receivable				
- Less than 3 months	550,503,156	280,886,514	420,760,057	280,756,426
- 3 - 6 months	5,352,366	475,190	2,328,914	475,190
- 6 - 12 months	2,591,899	201,014	429,532	201,014
- Over 12 months	25,171,397	6,614,799	2,017,965	1,980,117
Total	621,457,125	315,711,627	463,374,775	310,946,857
Less : Allowance for doubtful accounts	(34,392,670)	(15,379,761)	(9,011,642)	(10,745,080)
Net	587,064,455	300,331,866	454,363,133	300,201,777
<b>Total trade accounts receivable - net</b>	<b>588,276,770</b>	<b>301,852,841</b>	<b>455,342,378</b>	<b>301,735,381</b>

## 5. RELATED PARTY TRANSACTIONS

During the years, the Company had significant business transactions with its subsidiaries and related companies (related by the way of common shareholders and/or common directors). Such transactions, which have been concluded on the terms and basis as determined by the Company and those companies and in the normal course of business, are summarised as follows :-

(Unit : Million Baht)

	For the year ended 31 December				Pricing policy
	Consolidated		The Company Only		
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	
<u>Transactions with subsidiaries</u>					
Purchase of goods	-	-	659.6	289.0	Forward contract prices by using market prices at the date of agreement or market prices
Rental income	-	-	0.9	-	Contract price
<u>Transactions with related companies</u>					
Sales of goods	2.9	1.6	2.9	1.6	Agreed prices

The outstanding balances of the above transactions have been separately shown in the balances sheets with the details as follows :-

	(Unit : Baht)			
	Consolidated		The Company Only	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b><i>Trade accounts receivable - related parties</i></b>				
<u>Subsidiaries</u>				
Universal Food Public Company Limited	-	-	214,821	-
United Palm Oil Industry Public Company Limited	-	-	4,389	12,629
<u>Related companies</u>				
Lam Soon Singapore Pte Limited	464,323	245,662	464,323	245,662
Union Fresh Company Limited	452,280	-	-	-
Lam Soon Edible Oils Sdn. Bhd.	295,712	1,275,313	295,712	1,275,313
<b>Total trade accounts receivable - related parties</b>	<b><u>1,212,315</u></b>	<b><u>1,520,975</u></b>	<b><u>979,245</u></b>	<b><u>1,533,604</u></b>
<b><i>Trade account payable - subsidiary</i></b>				
United Palm Oil Industry Public Company Limited	-	-	25,065,454	28,500,085
<b>Total trade account payable - subsidiary</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>25,065,454</u></b>	<b><u>28,500,085</u></b>

## 6. INVENTORIES

	(Unit : Baht)			
	Consolidated		The Company Only	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Finished goods	652,198,416	137,609,066	215,475,897	106,408,748
Work in process	488,527,920	415,926,842	488,296,268	425,206,252
Raw materials	61,135,169	22,990,431	39,680,552	22,990,431
Supplies and spare parts	78,656,024	28,393,945	25,438,956	20,687,195
Total	1,280,517,529	604,920,284	768,891,673	575,292,626
Less : Allowance for stock obsolescence and diminution in value of inventories	(60,177,413)	(7,621,911)	(10,826,234)	(1,104,290)
<b>Inventories - net</b>	<b><u>1,220,340,116</u></b>	<b><u>597,298,373</u></b>	<b><u>758,065,439</u></b>	<b><u>574,188,336</u></b>

## 7. INVESTMENTS IN SUBSIDIARIES ACCOUNTED FOR UNDER EQUITY METHOD

(Unit : Baht)

Company's name	Type of business	Paid-up share capital		Equity interest		Investment				Dividend received	
		2004	2003	2004	2003	Cost method		Equity method		2004	2003
						Percent	Percent	2004	2003		
United Palm Oil Industry Public Company Limited	Oil palm plantation, crude palm oil and kernel palm oil processing	324,050,000	324,050,000	66.29	66.29	698,505,933	698,505,933	614,920,010	620,634,249	96,671,300	57,249,894
Universal Food Public Company Limited	Manufacture and distribution of canned fruits and vegetables, juice and drinks	350,000,000	-	96.79	-	406,497,756	-	396,883,075	-	-	-
Total investments in subsidiaries accounted for under equity method						1,105,003,689	698,505,933	1,011,803,085	620,634,249	96,671,300	57,249,894

As discussed in Note 2, the Company had during 2004 acquired investment in 33,874,813 ordinary shares of Universal Food Public Company Limited at Baht 12 each, representing 96.79 percent shareholding in that company, and that company becomes a subsidiary of the Company.

During 2003, the Company acquired additional investment in United Palm Oil Industry Public Company Limited, which led to an increase in the shareholding percentage from 24.40% to 66.29% and the change in the status of that company from associate to subsidiary.

During 2004, the Company recognised share of profit from investments accounted for under equity method of approximately Baht 81.8 million (2003 : Baht 64.5 million).

## 8. OTHER LONG-TERM INVESTMENTS

(Unit : Baht)

	Consolidated		The Company Only	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b><u>Equity securities</u></b>				
Open-ended Kumlai Perm Poon Fund	1,000,000	1,000,000	1,000,000	1,000,000
TCM Equity Fund (formally known as Thaiorchid Fund)	300,000	300,000	300,000	300,000
Open-ended Kiatnakin Fund	200,000	200,000	200,000	200,000
Bangkok Bank Fund	16,853,850	16,853,850	-	-
Total	18,353,850	18,353,850	1,500,000	1,500,000
Less : Unrealised loss from other long-term investments	(4,216,100)	(3,217,143)	(882,250)	(533,293)
<b>Other long-term investments - net</b>	<b>14,137,750</b>	<b>15,136,707</b>	<b>617,750</b>	<b>966,707</b>

(Unit : Baht)

	Consolidated		The Company Only	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b><u>Unrealised loss from other long-term investments</u></b>				
Portion of the Company	882,250	533,293	882,250	533,293
Portion of the subsidiary	3,333,850	2,683,850	-	-
Total	4,216,100	3,217,143	882,250	533,293
Unrealised loss attributable to the Company's investment and minority interests	(1,123,841)	(904,726)	2,210,009	1,779,124
<b>Unrealised loss from other long-term investments</b>	<b>3,092,259</b>	<b>2,312,417</b>	<b>3,092,259</b>	<b>2,312,417</b>



## 9. PROPERTY, PLANT AND EQUIPMENT

(Unit : Baht)

	<b>Consolidated</b>							
	Land	Cost of forest land rights & plantation development costs	Building & improvement	Factory and agricultural machinery and equipment and waste water treatment	Furniture & fixtures and office equipment	Vehicles	Construction in progress and machinery under installation	Total
<b>Cost</b>								
31 December 2003	154,067,273	450,137,861	385,298,249	883,286,250	46,661,850	100,590,646	75,912,208	2,095,954,337
Property, plant and equipment - subsidiary	108,011,554	-	157,128,906	279,773,797	27,620,970	40,321,362	15,554,834	628,411,423
Purchases	11,874,950	-	1,237,987	30,970,886	4,793,667	679,479	141,809,994	191,366,963
Allowance for land revaluation	(6,111,559)	-	-	-	-	-	-	(6,111,559)
Disposals/write off	(2,820,000)	(15,369,463)	(672,489)	(6,535,281)	(1,887,426)	(16,878,140)	(1,254,542)	(45,417,341)
Transfer in (out)	-	34,437,110	4,046,996	5,151,980	12,787,085	31,260,845	(93,494,478)	(5,810,462)
31 December 2004	265,022,218	469,205,508	547,039,649	1,192,647,632	89,976,146	155,974,192	138,528,016	2,858,393,361
<b>Accumulated depreciation</b>								
31 December 2003	-	263,728,136	216,925,073	507,081,975	39,614,033	70,923,660	-	1,098,272,877
Accumulated depreciation - subsidiary	-	-	73,173,884	193,556,811	22,953,838	24,525,734	-	314,210,267
Depreciation for the year	-	20,021,697	22,444,333	75,930,041	7,036,569	15,300,128	-	140,732,768
Depreciation – disposals/write off	-	(11,550,371)	(400)	(5,690,921)	(1,846,995)	(15,279,369)	-	(34,368,056)
Transfer in (out)	-	-	2,319,721	(27,349,711)	271,297	24,758,693	-	-
31 December 2004	-	272,199,462	314,862,611	743,528,195	68,028,742	120,228,846	-	1,518,847,856
<b>Allowance for assets impairment</b>								
31 December 2003	14,487,948	-	-	-	-	-	-	14,487,948
Addition	2,457,457	-	-	1,926,317	5,267,884	-	-	9,651,658
31 December 2004	16,945,405	-	-	1,926,317	5,267,884	-	-	24,139,606
<b>Net book value</b>								
31 December 2003	139,579,325	186,409,725	168,373,176	376,204,275	7,047,817	29,666,986	75,912,208	983,193,512
31 December 2004	248,076,813	197,006,046	232,177,038	447,193,120	16,679,520	35,745,346	138,528,016	1,315,405,899

Depreciation included in the consolidated earnings statements

Depreciation for the year 2003	82,126,202
Depreciation for the year 2004	140,732,768
Less : Depreciation before acquisition of subsidiary	7,590,918
	<u>133,141,850</u>

(Unit : Baht)

	<b>The Company Only</b>						Total
	Land	Building & improvement	Machinery, factory equipment and waste water treatment	Furniture & fixtures and office equipment	Vehicles	Construction in progress and machinery under installation	
<b>Cost</b>							
31 December 2003	30,758,625	232,061,487	607,374,947	27,101,883	29,621,188	552,246	927,470,376
Purchases	-	16,000	12,205,628	1,347,578	563,084	87,893,945	102,026,235
Disposals/write off	(2,820,000)	-	(6,233,071)	(245,763)	(2,580,247)	-	(11,879,081)
Transfer in (out)	-	876,947	9,735,202	701,939	-	(11,314,088)	-
31 December 2004	<u>27,938,625</u>	<u>232,954,434</u>	<u>623,082,706</u>	<u>28,905,637</u>	<u>27,604,025</u>	<u>77,132,103</u>	<u>1,017,617,530</u>
<b>Accumulated depreciation</b>							
31 December 2003	-	131,235,573	340,485,302	23,332,903	18,676,853	-	513,730,631
Depreciation for the year	-	8,523,128	35,017,036	1,852,056	3,966,351	-	49,358,571
Depreciation – disposals/write off	-	-	(5,438,639)	(239,633)	(2,580,245)	-	(8,258,517)
31 December 2004	<u>-</u>	<u>139,758,701</u>	<u>370,063,699</u>	<u>24,945,326</u>	<u>20,062,959</u>	<u>-</u>	<u>554,830,685</u>
<b>Allowance for assets impairment for 2004</b>	<u>-</u>	<u>-</u>	<u>1,926,317</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,926,317</u>
<b>Net book value</b>							
31 December 2003	<u>30,758,625</u>	<u>100,825,914</u>	<u>266,889,645</u>	<u>3,768,980</u>	<u>10,944,335</u>	<u>552,246</u>	<u>413,739,745</u>
31 December 2004	<u>27,938,625</u>	<u>93,195,733</u>	<u>251,092,690</u>	<u>3,960,311</u>	<u>7,541,066</u>	<u>77,132,103</u>	<u>460,860,528</u>
Depreciation included in the earnings statements for the year							
2003							<u>49,026,697</u>
2004							<u>49,358,571</u>

The total area of the subsidiary's plantations amounts to approximately 23,170 rai, of which 9,418 rai is supported by land title deeds or other land ownership documents (Nor Sor 3 Kor and Nor Sor 3).

The remaining land was acquired through the transfer of land possession and is not supported by any land rights documents.

The majority of land and buildings thereon and machinery of the subsidiaries have been mortgaged and pledged with the banks to secure credit facilities and bank guarantees granted by the banks.

As at 31 December 2004, certain equipment items of the Company and the subsidiaries have been fully depreciated but are still in use. The original cost, before deducting accumulated depreciation, of those assets amounted to approximately Baht 525 million (2003 : Baht 338 million) and for the Company amounted to approximately Baht 237 million (2003 : Baht 219 million).

## 10. DEPOSIT AT FINANCIAL INSTITUTION SUBJECT TO RESTRICTIONS

As at 31 December 2004, deposit at financial institution subject to restrictions include fixed deposit, which the subsidiary has pledged with a bank as a collateral for bank guarantees.

## 11. BANK OVERDRAFTS AND SHORT-TERM LOANS FROM FINANCIAL INSTITUTIONS

As at 31 December 2004, the Company and the subsidiaries had short-term loans from financial institutions totaling Baht 950 million (the Company Only : Baht 665 million), carrying interest at the rates of 2.2 - 4.8% per annum.

Overdraft facilities and short-term loans from financial institutions of the subsidiaries are secured by the mortgage and pledge of the subsidiaries' land and buildings thereon and machinery.

## 12. LONG-TERM LOANS

	(Unit : Baht)			
	Consolidated		The Company Only	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Long-term loans	771,840,000	270,000,000	572,500,000	270,000,000
Less : Current portion of long-term loans	(156,210,000)	(77,142,857)	(114,450,000)	(77,142,857)
Long-term loans - net of current portion	<u>615,630,000</u>	<u>192,857,143</u>	<u>458,050,000</u>	<u>192,857,143</u>

During the year 2004, the Company entered into a long-term loan agreement with a local bank and withdrew loan of Baht 395 million (credit facilities provided under the agreement amounted to Baht 420 million) to acquire investment in a subsidiary company as discussed in Note 2. The loan is repayable every 6 months in 9 semiannual installments, after a year commencing the first date on which a disbursement of the loan is made and bears interest at the rate of THBFIX plus applicable margin.

During the year 2003, the Company entered into a long-term loan agreement with a local bank and withdrew loan of Baht 370 million (credit facilities provided under the agreement are Baht 600 million) to acquire investment in an associated company as discussed in Note 2. The loan is repayable every 6 months in 8 semiannual installments, commencing the first date on which a disbursement of the loan is made and bears interest at the rate of THBFIX plus applicable margin within the applicable period

agreed with the bank. As at 31 December 2004, there was the outstanding loan of Baht 177.5 million (2003 : Baht 270 million).

The subsidiaries entered into long-term loan agreements with a local bank and branches of foreign banks and withdrew loans of totaling Baht 235 million (credit facilities provided under the agreements are Baht 235 million). The loans bear interest at the rate of 5.25 – 5.75 percent per annum. As at 31 December 2004, there were the outstanding loans of Baht 199.34 million. Long-term loans of the subsidiaries are secured by the mortgage and pledge of land and buildings thereon, and machinery of the subsidiaries.

Under the loan agreements, the Company has to comply with certain covenants and restrictions normally required by the banks, which include dividend payment policy, and the pledge of assets other than permitted encumbrances.

### **13. PROVISION FOR LAND RENTAL CHARGE**

In 2001, a subsidiary company received notification from the Surat Thani Provincial Treasury Office of the Finance Ministry that the land with an area of 8,600 rai covered by the concession previously granted to the subsidiary company by the Forestry Department was state property, under the jurisdiction of the Ministry of Finance, by virtue of a ruling issued by the Judicial Council. The notice called for the company to enter into a land lease agreement commencing 1 January 2001, and also to pay retroactive land rental for the years 1991 to 2000. At present, the subsidiary company is in the process of negotiating with the relevant government agencies. However, for the prudent reasons the subsidiary company has set up a full provision for its estimated liabilities in the current year.

### **14. STATUTORY RESERVE**

According to the Public Limited Companies Act B.E. 2535, the Company is required to set aside a statutory reserve at least 5% of its net profit after deducting accumulated deficit brought forward (if any) until the reserve reaches 10% of the registered share capital. The statutory reserve could not be used for dividend payment.

During the year 2004, the Company set aside a statutory reserve of approximately Baht 6.7 million (2003 : Baht 10.9 million).

## 15. SHARE CAPITAL

On 16 April 2004, the annual general meeting of the Company's shareholders passed a resolution to approve the amendment of the par value of the Company's shares from Baht 10 per share to Baht 1 per share, resulting in the increase in the number of registered, issued and paid up capital of the Company of Baht 820 million, from 82 million shares to 820 million shares.

The Company registered with the Ministry of Commerce for the change of its number and par value of ordinary shares on 29 April 2004, and had reflected the change in the number of ordinary shares as a result of the change in the par value in calculating earnings per share for the year ended 31 December 2004. The earnings per share for the year ended 31 December 2003 was also restated.

## 16. TREASURY STOCK

(Unit : Baht)

	Consolidated		The Company Only	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Number of shares (shares)	82,000,000	8,200,000	82,000,000	8,200,000
Average price per share (Baht)	1.56	15.56	1.56	15.56

By the resolution of the Company's board of directors meeting held on 12 November 2002, the Company was approved to repurchase its shares in order to manage its excess cash under the share repurchase scheme, with an investment amount not exceeding Baht 150 million or in term of shares repurchased not exceeding 8.2 million shares, equivalent to 10% of the total issued and paid-up shares of the Company. The period for the resale of share is from 1 December 2003 to 30 November 2006 (after 6 months from the completion date of share repurchase and not later than 3 years from this time). In the event that the Company does not or is unable to dispose all the repurchased shares with the determined period starting from the share repurchase date, and when the due date has passed, the Company shall reduce its paid-up capital by writing-off the remaining unsold repurchased shares.

On 16 April 2004, the annual general meeting of the Company's shareholders passed a resolution to approve the amendment of the par value of the Company's shares from Baht 10 per share to Baht 1 per share, resulting in the increase in the number of treasury stock of the Company from 8.2 million shares to 82 million shares and the average price is changed from Baht 15.56 each to Baht 1.56 each. The Company had reflected the change in the number of ordinary shares as a result of the change in the par value in calculating earnings per share for the year ended 31 December 2004. The earnings per share for the year ended 31 December 2003 was also restated.

At the request of the Securities and Exchange Commission of Thailand, the Judicial Council deliberated the issue of treasury share schemes under Section 66/1(2) of the Public Limited Companies Act B.E. 2535, and concluded that the cost of treasury shares as acquired by a public limited company should not exceed its retained earnings. The Council also suggested that the relevant authorities should require public limited companies to set aside from the retained earnings a separate reserve account in an amount equal to the cost of the treasury shares. The reserve shall remain outstanding until either the shares are sold or paid-up capital is reduced by the cancellation of any remaining unsold shares. To date the authorities have yet to officially impose such requirement.

#### **17. DIRECTORS' REMUNERATION**

Directors' remuneration represents the benefits paid to the Company's directors in accordance with Section 90 of the Public Limited Companies Act, exclusive of salaries and related benefits payable to executive directors.

#### **18. CORPORATE INCOME TAX**

Corporate income tax of the Company and its subsidiaries for the year has been calculated from the earnings of the operations which are not entitled to corporate income tax exemption privileges from the Board of Investment, after deducting shares of profit from investments accounted for under the equity method and adding back expenses which are disallowable for tax computation purposes.

#### **19. DIVIDEND PAID**

During the year 2004 and 2003, the Company and its subsidiary had dividend payments as follows :-

		(Unit : Baht)	
	<u>Approved by</u>	<u>Total dividends</u>	<u>Dividend per share</u>
<b><u>The Company</u></b>			
Final dividends on 2002 earnings	Annual General Meeting of the shareholders on 3 April 2003	75,186,600	1.00
Interim dividends in respect of the earnings for the period from 1 January 2003 to 30 June 2003	Board of Directors' meeting on 7 August 2003	73,800,000	1.00
Total for the year 2003		148,986,600	2.00
Final dividends on 2003 earnings	Annual General Meeting of the shareholders on 16 April 2004	73,800,000	1.00
Interim dividends in respect of the earnings for the period from 1 January 2004 to 30 June 2004	Board of Directors' meeting on 13 August 2004	36,900,000	0.50
Total for the year 2004		110,700,000	1.50
<b><u>Subsidiary</u></b>			
Final dividends on 2002 earnings	Annual General Meeting of the shareholders on 28 April 2003	14,581,935	0.45
Interim dividends in respect of the earnings for the period from 1 January 2003 to 30 June 2003	Board of Directors' meeting on 7 August 2003	81,010,750	2.50
Total for the year 2003		95,592,685	2.95
Final dividends on 2003 earnings	Annual General Meeting of the shareholders on 16 April 2004	81,008,250	2.50
Interim dividends in respect of the earnings for the period from 1 January 2004 to 30 June 2004	Board of Directors' meeting on 11 August 2004	64,808,600	2.00
Total for the year 2004		145,816,850	4.50

## 20. PROVIDENT FUND

The Company, its subsidiaries, and their employees have jointly established provident funds as approved by the Ministry of Finance in accordance with the Provident Fund Act (B.E. 2530). The funds are contributed by both employees and the Company and the subsidiaries. The Company's fund is managed by Thai Farmers Assets Management Co., Ltd. and the subsidiaries' funds are managed by Kasikorn Bank Public Company Limited and Siam Commercial Bank Public Company Limited and will be paid to an employee upon termination in accordance with the rules of the Company's and the subsidiaries' staff provident funds.

During the year 2004, total contributions of approximately of Baht 6.1 million (2003 : Baht 4.9 million) had been contributed to the funds by the Company and the subsidiaries, and Baht 3.2 million had been contributed by the Company (2003 : Baht 2.9 million).

## 21. NUMBER OF EMPLOYEES AND RELATED COSTS

(Unit : Baht)

	Consolidated		The Company Only	
	2004	2003	2004	2003
Number of employees at the end of year (persons)	2,525	1,396	478	470
Employee costs for the year (Thousand Baht)	400,543	286,790	168,337	161,928

## 22. PROMOTIONAL PRIVILEGES

The Company and a subsidiary have been granted promotional privileges under the Investment Promotion Act B.E. 2520 as approved by the Board of Investment in respect of manufacturing of kernel palm oil, palm oil and coconut oil. Subject to certain conditions, the privileges include exemption from corporate income tax on profits from the promoted activities for a period of eight years, commencing from the date of first earning operating income. Profits derived thereafter from the promoted activities will be subject to income tax at a reduced rate of fifty percent of the normal tax rate for a further period of five years.

The subsidiary's income tax exemption privileges provided under the promotion certificate No. 1044/2537 expired on 19 August 2002, and as provided under the certificate, the profit derived from the promoted activities will be subject to income tax at half of the normal rate until the year 2007.



During the year 2003, such subsidiary was granted various additional tax privileges under the Investment Promotion Act B.E. 2520, as authorized by the Board of Investment under investment promotion certificate No. 1331(2)/2546 dated 4 July 2003, for manufacture of crude palm oil and palm kernels with the new machinery, up to a capacity of 30 tons of fresh fruit bunches per hour. Subject to certain conditions, the privileges include exemption from corporate income tax on profits from the promoted activities for a period of eight years from the date of first earning operating income, up to a maximum of 100 percent of the amount invested, excluding land and working capital.

Revenues, divided between promoted and non-promoted activities, of the Company and its subsidiaries for the years 2004 and 2003 were as follows :-

(Unit : Thousand Baht)

	Consolidated					
	2004			2003		
	Promoted	Non-promoted	Total	Promoted	Non-promoted	Total
Sales						
Domestic sales	136,566	3,863,409	3,999,975	212,382	3,060,622	3,273,004
Export sales	-	1,080,948	1,080,948	24,679	191,698	216,377
Total	136,566	4,944,357	5,080,923	237,061	3,252,320	3,489,381

(Unit : Thousand Baht)

	The Company Only					
	2004			2003		
	Promoted	Non-promoted	Total	Promoted	Non-promoted	Total
Sales						
Domestic sales	106,977	3,578,107	3,685,084	126,636	2,998,290	3,124,926
Export sales	-	559,334	559,334	24,679	191,698	216,377
Total	106,977	4,137,441	4,244,418	151,315	3,189,988	3,341,303

## **23. BANK GUARANTEES**

As at 31 December 2004, there were outstanding bank guarantees of approximately Baht 110.0 million (The Company Only : Baht 103.3 million) issued by the banks on behalf of the Company and its subsidiaries in respect of certain performances bonds as required in the normal course of their business.

## **24. COMMITMENTS**

As at 31 December 2004, the Company and its subsidiaries had the significant outstanding commitments as follows :-

24.1 Capital expenditure from agreements and issuing purchase orders for equipment including services payable in the future amounting to approximately Baht 5.0 million and Euro 0.05 million (The Company Only : Baht 5.0 million and Euro 0.05 million).

24.2 Commitments in respect of lease and service agreements payable in the future of approximately Baht 3.3 million and Euro 0.02 million (The Company Only : Baht 3.3 million and Euro 0.02 million).

## **25. CONTINGENT LIABLITIES**

In 2004, a subsidiary company has received a letter of invitation from the Agricultural Land Reform Office (ALRO) concerning the issue of land overlapping with ALRO land. On 6 October 2004, the Company attended a fact-finding consultation meeting with the ALRO and handed over various relevant documents for use by ALRO in considering this issue. The end-result of this consideration is not known at this time.

## **26. FINANCIAL INFORMATION BY SEGMENT**

The operations of the Company and its subsidiaries are the manufacture and distribution of palm oil and manufacture and distribution of canned fruits and vegetables. These activities are carried on in the single-geographic area in Thailand. The financial information by segment of the Company and its subsidiaries as at 31 December 2004 and 2003 and for the years then ended were as follows :-

(Unit : Million Baht)

**Consolidated for the year ended 31 December**

	Manufacture and distribution		Total	Eliminated	Total	
	Canned fruits				2004	2003
	Palm oil	and vegetables				
Sales - third parties	4,288	793	5,081	-	5,081	3,489
Sales - related parties	660	-	660	(660)	-	-
<b>Total sales</b>	<b>4,948</b>	<b>793</b>	<b>5,741</b>	<b>(660)</b>	<b>5,081</b>	<b>3,489</b>
Gross profit					734	534
Share of profit from investments						
accounted for under equity method					-	24
Gain on disposal of fixed assets					24	-
Other income					26	14
Selling and administrative expenses					(516)	(252)
Directors' remuneration					(12)	(7)
Earnings before interest expenses and income tax					256	313
Interest expenses					(33)	(6)
Corporate income tax					(32)	(62)
Earnings before minority interests					191	245
Earnings in respect of minority interests					(57)	(28)
<b>Net earnings for the year</b>					<b>134</b>	<b>217</b>

(Unit : Million Baht)

**Consolidated as at 31 December**

	Manufacture and distribution		Total	Eliminated	Total	
	Canned fruits				2004	2003
	Palm oil	and vegetables				
Property, plant and equipment - net	999	426	1,425	-	1,425	983
Other assets	2,596	517	3,113	(819)	2,294	1,262
<b>Total assets</b>	<b>3,595</b>	<b>943</b>	<b>4,538</b>	<b>(819)</b>	<b>3,719</b>	<b>2,245</b>

## 27. FINANCIAL INSTRUMENTS

### Financial risk management and policies

The Company and its subsidiaries are exposed to risks from changes in market interest rates and in currency exchange rates and from nonperformance of contractual obligations by the counterparties. The Company and its subsidiaries use derivative instruments, as and when they consider appropriate, to manage such risks. However, the Company and its subsidiaries do not hold or issue derivative financial instruments for speculative or trading purposes.

### Interest rate risk

The interest rate risk is the risk that future movements in market interest rates will affect the results of the Company's and its subsidiaries' operations and their cash flows. The Company's and its subsidiaries' exposure to the interest rate risk relates primarily to deposits at banks and loans from banks. Since most of these financial assets and liabilities carry interest at the rates following the market interest rates, the management believes that the future movements in market interest rates will not significantly affect the results of the operations. As at 31 December 2004, the Company and its subsidiaries had deposits with financial institutions totaling approximately Baht 76 million (the Company Only : Baht 45 million), bearing interest at rate of 0.25% per annum. The Company obtained short-term and long-term loans from banks as discussed in Notes 11 and 12 respectively.

### Foreign currency risk

The Company's and its subsidiaries' exposure to foreign currency risk relates primarily to receivables and payables which are denominated in foreign currencies. The Company primarily utilises forward exchange contracts with maturity of less than one year to hedge such risk.

Below is the outstanding forward exchange contract of the Company as at 31 December 2004.

Foreign currency	Amount bought	Forward rate for amount bought (Baht per foreign currency unit)
US dollars	200,000	40.98

Below is the summary of Company's and its subsidiaries' foreign currency-denominated assets and liabilities as at 31 December 2004, which were unhedged.

Foreign currency	Consolidated		The Company Only		Average exchange rate at 31 December 2004 (Baht per foreign currency unit)
	Assets	Liabilities	Assets	Liabilities	
US dollars	1,237,365	19,186	20,484	-	39.1086
Euro	9,101	50,400	-	50,400	53.2076

### **Credit risk**

The Company and its subsidiaries are exposed to credit risk with respect to trade accounts receivable in the normal course of business. Since the majority of sales are supplied to credit worthy customers, the Company and its subsidiaries do not anticipate any losses from their debt collection.

### **Fair value**

Since the majority of the financial assets and liabilities are short-term and that the loans carry interest at rates close to current market rates, the management believes that the fair value of the Company's and its subsidiaries' financial assets and liabilities does not materially differ from their carrying value.

## **28. PRESENTATION**

The presentation of the financial statements has been made in compliance with the stipulations of the Notification of the Department of Business Development dated 14 September 2001 as empowered under the Accounting Act B.E. 2543.

## **29. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements have been approved by the Company's directors.