



## ANNUAL REPORT 2005

**LAM SOON (THAILAND) PLC.**



# ANNUAL REPORT 2005 OF LAM SOON (THAILAND) PLC.

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# 1. Financial Highlights

## 1.1 Financial figures

	(Unit: Million Baht)		
	2003 <sup>(1)</sup>	2004 <sup>(1)</sup>	2005 <sup>(1)</sup>
Total Assets	2,245	3,719	3,335
Total Liabilities	734	2,148	1,606
Shareholders' Equity	1,511	1,571	1,728
Sales	3,489	5,081	5,114
Total Revenues	3,528	5,131	5,146
Gross Profit	534	734	647
Net Profit	217	134	54

## 1.2 Financial ratios

	(Unit: %)		
	2003 <sup>(1)</sup>	2004 <sup>(1)</sup>	2005 <sup>(1)</sup>
Net Profit Margin	6.15	2.61	1.05
Return on Equity	17.85 <sup>(2)</sup>	10.74 <sup>(2)</sup>	3.27
Return on Total Assets	12.47 <sup>(2)</sup>	5.70 <sup>(2)</sup>	1.53

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

	(Unit: Baht)		
	2003 <sup>(1)</sup>	2004 <sup>(1)</sup>	2005 <sup>(1)</sup>
Earnings Per Share	0.29 <sup>(3)</sup>	0.18 <sup>(3)</sup>	0.07 <sup>(3)</sup>
Dividend Paid Per Share	0.20	0.15	0.025
Dividend Per Share (operation year)	0.20	0.075	0.03 <sup>(4)</sup>
Book Value Per Share	1.67 <sup>(2)</sup>	1.71 <sup>(2)</sup>	1.85 <sup>(2)</sup>

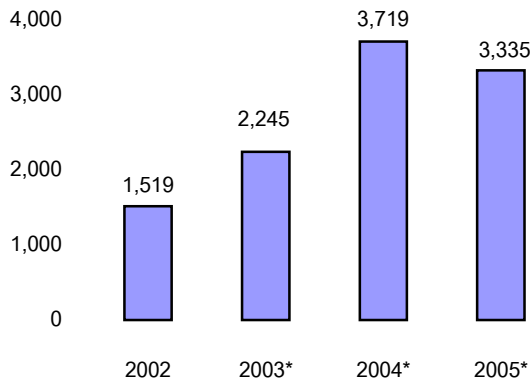
Note : <sup>(1)</sup> The consolidated statements

<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 27/2/06, to be proposed to AGM no. 1/2006.

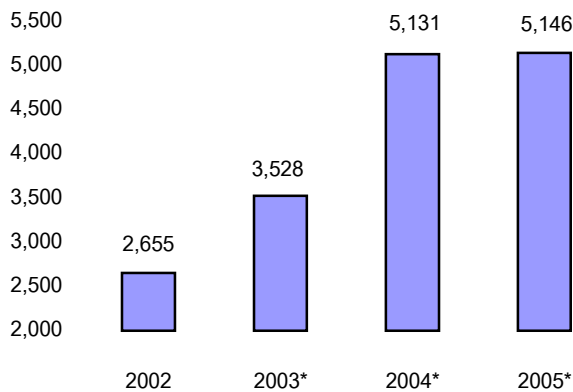
**TOTAL ASSETS**  
(Million Baht)



Total assets dropped 10% because :-

- 1) A/R of the Company declined as certain sales had been recorded at the end of 2004;
- 2) Inventory decreased because political change in Myanmar during the fourth quarter of 2004 brought the border trade to a halt.

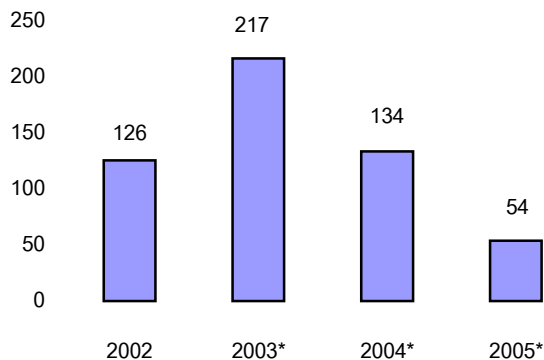
**TOTAL REVENUES**  
(Million Baht)



Total revenues remained flat at 5.1 billion Baht.

- 1) LST's sales dropped 4.61% due to a decrease of average selling price.
- 2) UFC, acquired in 2004, now accounts for 20% of the Group's consolidated revenues.
- 3) UPOIC's sales dropped sharply due to difficult business conditions.

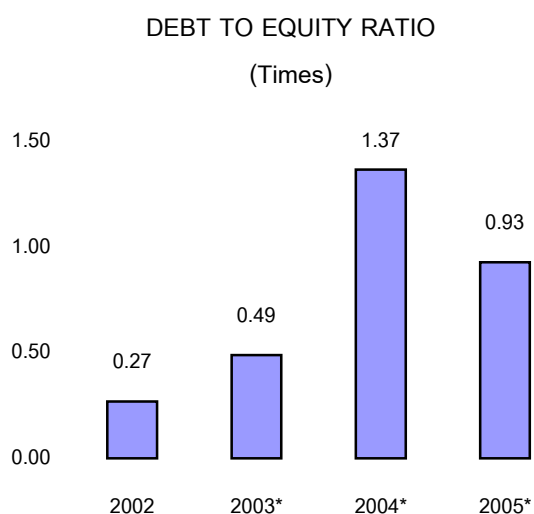
**NET PROFIT**  
(Million Baht)



Net profit was down 80.27 million Baht or 59.84%.

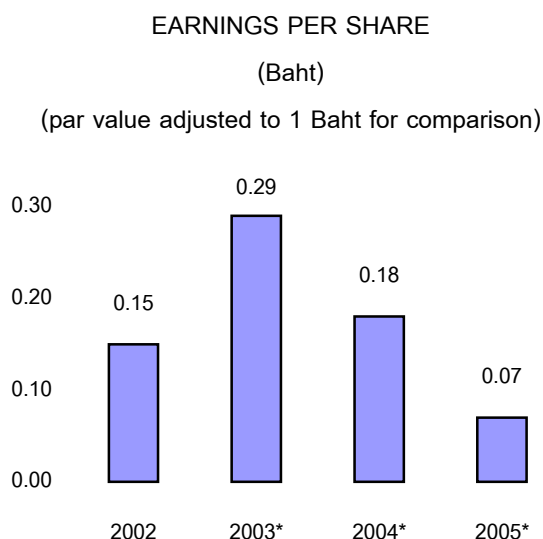
- The Group as a whole suffered from high COGS in raw material.
- Cost of sales of UPOIC in particular increased significantly. Much lower volume of FFB was supplied to its crushing mill, leading to under utilization of its mill capacity and higher cost of CPO production.
- The uptrend of interest rate in 2005 added to the interest burden of the Group.

\*Note : The statements for 2003-2005 are consolidated

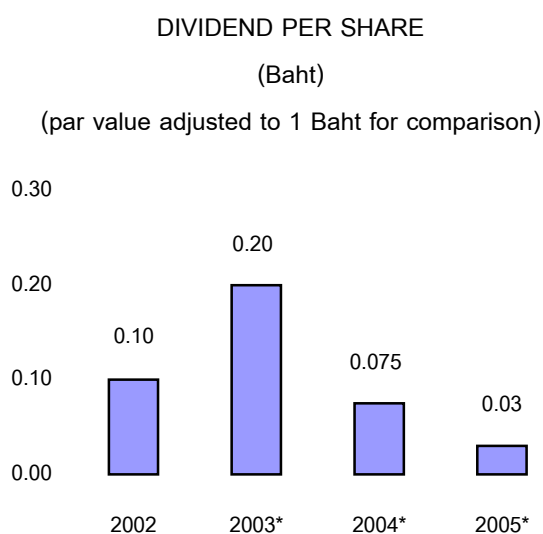


*Debt to equity ratio declined to less than 1 time from 1.37 times in 2004, bring it in line with historic norm.*

- *The Company made partial repayment of loans taken out to finance the acquisitions.*
- *The inventory during the year also decreased.*



*As net profit decreased to 53.88 million Baht, and weighted average number of shares (net) increased to 757.59 million shares, EPS was down to 0.07 Baht per share.*



*According to the resolution of BOD meeting on 27/2/06, DPS for the financial year 2005 is proposed to be paid at the rate of 0.03 Baht, subject to approval at AGM no. 1/2006. This would represent a payout ratio of 42.86% of net profit, in accordance with the Company's policy of pay not less than 40% of its net profit after tax as dividend.*

\***Note** : The statements for 2003-2005 are consolidated

## **2. Message from the Chairman**

2005 marked Lam Soon (Thailand) Plc.'s 31<sup>st</sup> year of business. Your Company was established as the first manufacturer and distributor of palm oil in the kingdom. Over the years, your Company has faced obstacles but with perseverance has progressed to be one of the leading companies in the palm oil industry.

It is your Company's aim to move further ahead. To sustain its business growth, it has developed the business by vertical and horizontal business integration so as to cope with the fast changing industry environment. Your Company has to address many areas such as production, marketing, customer service so that it can be a leader in the palm oil industry and, following the acquisition of Universal Food Plc in 2004, also in the fruits and vegetables processing businesses.

Last year, your Company's profitability was adversely affected by a substantial decline in earnings by its plantation subsidiary, United Palm Oil Industry Plc. Overall group sales were maintained despite competitive pressures. I am pleased to report to you the following major developments which took place in your Company.

### Manufacturing

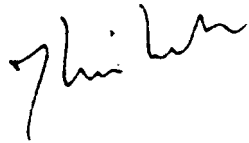
Your Company places high priority on technology development and modernization of production, with the aim to produce the best quality product. In line with this objective, your Company invested in margarine and shortening plant by installing new automation machine with the most advanced technology in Thailand.

### Marketing

Your Company initiated several different packaging to offer more choice for customers. They include cost-saving package and package that could be further recycled for other purposes.

Moreover, in response to evolving consumer needs in 2006, your Company is developing a range of new products including canola oil, a premium grade cooking oil, for health-conscious retail customers.

Your Company's progress over three decades stems from the competence, dedication and cooperation of all staff and the leadership of its management. I would like to take this opportunity to thank every single staff of Lam Soon (Thailand). On behalf of the Board, I would also like to thank shareholders, business partners and all customers, who play their part in supporting the Company. I am confident that the Company will progress further to achieve greater success.

A handwritten signature in black ink, appearing to read 'M. Mechai Viravaidya', with a stylized flourish at the end.

Mr. Mechai Viravaidya  
Chairman

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

#### Milestones: Paving the Way for Sustainable Expansion

Since it started operations in 1975 with a palm oil refinery, Lam Soon (Thailand) Plc. has grown continuously. In these 30 years, it has remained committed to supply quality products to consumers. The last decade has seen significant milestones for your Company, beginning with the listing of its shares on the Stock Exchange of Thailand in 1995. In 2000, your Company increased its registered capital from 410 million Baht to 820 million Baht. In 2003, it raised its investment in United Palm Oil Industry Plc. (UPOIC) to 66.29% and in 2004, it acquired 96.79 % shares of Universal Food Plc. (UFC).

Today, Lam Soon (Thailand) plc has three core businesses, namely (1) oil palm plantation and milling (through UPOIC and our own crushing mill at Trang), (2) palm oil refinery and fats manufacturing, and (3) fruit and vegetable processing. With the abovementioned business expansion, your Company has in the past 3 years increased sales from 2,634 million Baht in 2002 to 3,489 and 5,081 million Baht in 2003 and 2004 respectively. Sales continued to rise to 5,114 million Baht in 2005, a year in which your Company experienced many challenges, and emphasis was placed mainly on internal management system to integrate our expanded operations.

While total group revenues were maintained, the group profitability was adversely affected by a substantial decline in earnings by its plantation subsidiary, United Palm Oil Industry Plc.

The recently acquired UFC business of fruit and vegetable processing accounted for 20% of the Group's sales last year. UFC itself made a net profit of 6.88 million Baht for the year 2005, compared with net loss of 20.55 million Baht for the year 2004. Your Company's share of such profit was 6.66 million Baht, but due to amortization of goodwill amounting to 6.80 million Baht, the net is loss sharing from UFC. Nevertheless, there are clear signs of improvements on its operating performance, and UFC is expected to make a positive contribution to the Group's net earnings in the year 2006. Your Company's decision to expand its activities beyond the traditional palm oil business has proven to be timely, given the challenging environment of the palm oil market in 2005 and the foreseeable future.

The most crucial factor in the palm oil industry presently is the establishment of the ASEAN Free Trade Area (AFTA) which should have been implemented since January 2003. Upon its implementation, it will reduce the gap between palm oil prices in the Kingdom and the world market. In such a scenario, your Company would be able to import palm oil to utilize any excess production capacity and would have the potential to export finished products as another channel of sales.



As it aims to be the leader in its core businesses, your Company will focus on the earnings potential of the group companies over the next three years. At the same time internal control and other good governance measures are being put in place. These are necessary to lay a solid foundation for your Company's sustainable expansion over the long term. Another top priority of your Company is human resources development. Through training and educating to enhance skills we aim to foster a positive attitude among our personnel.

### Manufacturing

Last year, your Company invested to streamline the efficiency and to expand the production capacity of its plants in each of its three core businesses:

- (1) oil palm milling : its own crushing mill in Trang Province, and UPOIC's crushing mill in Krabi Province,
- (2) fats manufacturing : your company's margarine and shortening plant in Bangpoo Industrial Estate, and
- (3) fruit and vegetable processing : UFC's plants in Nakorn Pratom and Lampang Provinces.

During the past 5 years, continuous effort has been made by your Company to upgrade the quality and standard of its products. As a result, your Company is now certified with HACCP, ISO 9001 : 2000, ISO 14001 and GMP. Your Company has also taken steps towards acquiring Kosher certification, which is the food quality standard for the Jewish community. It is expected to be certified in early 2006. This would further strengthen the export potential of your Company.

Your Company's group has demonstrated its commitment to the environment by participating in the Energy Conservation Project implemented by the Ministry of Energy and the Green Factory project by Thailand Environment Institute (TEI). UPOIC will execute a biomass electricity generating project under the Clean Development Mechanism (CDM). The project, which will be jointly run with the advisory companies from within the Kingdom and abroad, will be in accordance with the Kyoto Protocol in reducing the emission of green house gas. While Thailand is not under any commitment to do so, the Company endeavours to play its part in sustainable development.

### Marketing

To be competitive in the market, your Company places high priority in service improvement and product development. Last year, your Company developed a variety of packaging types of its popular cooking oil, ranging from jerry can that customers can later recycle for other purpose such as a watering can, to bag-in-box

and mini tin. We are encouraged by the positive response of end-customers who have found such innovative packaging to be easy to use.

Your Company is also exploring the possibility to develop organic food by UFC and its subsidiary Union Frost Co., Ltd. (UNF) in response to interest from certain customers in America, Europe and Japan. Organic products are produced from an agricultural system that refrains from utilizing chemical fertilizer, pesticide and vegetable growth accelerating hormones. This system is believed to provide more food essence than any other way of growing and also reduces environmental problem and avoids deterioration of the ecological system.

With rapid change in an era of globalization, your Company places importance on efficient communication and customer response. It is therefore developing its internal data system and computer software to provide e-commerce service to trading partners.

All the above-mentioned measures underline your Company's determination to fulfill its mission of delivering high quality products supported by impeccable service to our customers, in a way that will create value for our shareholders. We are confident this mission can be accomplished with the support of customers, stakeholders and shareholders and all staff who have dedicated themselves to the well being of the Company. Therefore, the Company wishes to express its gratitude to them and renew its commitment to work for the benefit of its stakeholders and for society as a whole.



Mr. Somchai Chongsawadchai  
Managing Director

## 4. Report of the Audit Committee

The Board of Directors appointed the Audit Committee of independent directors as follows:

Mr. Songkram Grachangnetara	Chairman of the Audit Committee
Mrs. Sumarn Changsiricharoen	Member of the Audit Committee
Mr. Tanatat Puttasuwan	Member of the Audit Committee
Ms. Anchalee Suebchantasiri	Secretary to the Audit Committee

In 2005, the Audit Committee has fulfilled and 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 quarterly and annual financial statements submitted to the Board of Directors for approval. The financial statements were in accordance with generally accepted accounting principles. The disclosures of information were found to be adequate and accurate;
2. To examine the reports of internal auditors who performed internal audit as set out in the annual audit plan. The Company was found to have an appropriate and effective internal control system, with transparent governance and no material faults in management;
3. To meet with the management, external and internal auditors in order to make useful suggestions and practical guidelines for management. The management has subsequently adopted these suggestions to improve the Company's working efficiency;
4. To report to the Board of Directors the results of the meeting and all activities undertaken by the Audit Committee;
5. To propose to the Board of Directors for approval from the 2005 annual general meeting of shareholders, the appointment of Ernst & Young Office Limited to be the statutory auditor of the Company for 2005;
6. To consider the survey form issued by the Stock Exchange of Thailand (SET) to evaluate the extent to which the Company has adopted Good Corporate Governance Principles meeting the standards of The Organization of Economic Co-Operation and Development (OECD);
7. To consider the draft of Good Corporate Governance Principles in accordance with OECD standards as planned by SET to put into effect starting from the Annual Report and Form 56-1 for 2007.

The Committee has examined the Company's business performance in 2005 and came to the conclusion that the Board of Directors and the management have together maintained effective leadership and responsibilities for Company to meet

its commitments on good corporate governance for the benefits of shareholders and employees. They noted that the Company has continued systematically to operate with good internal control, appropriate risk management, adequate information technology and effective corporate governance, and in compliance with all relevant statutes and regulations.

A handwritten signature in black ink, appearing to read 'Songkram', with a long horizontal flourish extending to the right.

Mr. Songkram Grachangnetara  
Chairman of the Audit Committee

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

Lam Soon (Thailand) Plc. places great importance on good corporate governance, as policy and in practice. Good corporate governance is viewed as a key principle in support of business decisions and operations characterised by transparency, honesty, equitable treatment of stakeholders, and efficient management practice. The Company aims to achieve sustainable business growth by applying good corporate governance principles in accordance with those prescribed by the Stock Exchange of Thailand as follows:

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

The Board of Directors is confident that the corporate governance regime of the Company is vital to its business success, and that it shall yield maximum benefits to the shareholders. The Board has adhered to good corporate governance in policy and practice with emphasis on improving the internal control system, upholding respect, rights and equitable treatment of shareholders, enhancing transparency in management, advocating information sharing and policy-making decision in the organizational structure, duties and responsibilities, and the professional independence of the Board of Directors. The Board also discloses the Report on Good Corporate Governance to the public in the Annual Report and the Annual Registration Statement (Form 56-1). The corporate governance policy has been determined and adopted by the 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 announced as guidelines to the management and staff in September 2004. In addition, each level of management is encouraged to set example by good practice, and is empowered to supervise, support, and ensure complete implementation.

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

The Company respects the rights of all shareholders to receive the Company's information accurately and in good time, and to have the equal opportunity to participate in shareholders' meetings. The Company's intention is to disclose all material information accurately, in a transparent and timely manner. In 2005, the Company held the Annual General Meeting of Shareholders at the Company's head office. In compliance with the regulations, the Company sent invitation letters and provided information on the meeting's agenda to shareholders more than 7 working days in advance, together with the Board's opinion on each agenda item and the minutes of the previous meeting. However, there were some agenda items with incomplete information regarding the implementation of good corporate governance principles, i.e. disclosure of pending legal cases involving persons to be nominated

as directors, the methods of recruiting directors, and criteria or factors to be used to consider directors' remuneration. The Company expects that such information would be fully completed and presented during the 2006 Annual General Meeting of Shareholders. In the event that the Company cannot comply fully, the Company will resolve to do so at the next meeting.

Proxy forms were also sent to shareholders so that those unable to attend the meeting could authorize a representative or an independent director, as appointed by the Company, to be their proxy to attend the meeting on their behalf.

During the shareholders meeting, the Chairman would conduct the meeting in the order of the agenda shown in the invitation letter and would encourage equal opportunities for shareholders to express their opinions and to raise questions related to the agenda as appropriate. It is the Company's policy to operate the business prudently in order to pay dividend to the shareholders on a consistent basis as clearly stated in its dividend policy.

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

The Company respects the rights of the various groups of stakeholders, not only internal groups such as the employees but also other stakeholders such as shareholders, creditors, customers, trading partners, competitors, regulators, and community. However, since the expectations of stakeholders might vary, the Company shall consider their legal rights thoroughly and carefully to ensure that such rights are protected and treated equitably. In respect of each group of stakeholders, the Company is resolved to follow the following:

- Employees: The Company recognizes its employees as the major factor of its success; therefore, knowledge and skill development for employees are fully supported, and provided as career development benefits.
- Shareholders: It is the Company's policy to conduct the business on the principles of honesty, transparency and trust. Moreover, the Company intends to build up a strong financial status by creating and enhancing shareholders' value.
- Creditors: The Company complies with the terms, conditions and repayment obligations of all loan agreements entered with its creditors.
- Customers: In addition to the Company's responsibility to produce high-quality and high-standard products, it also keeps all customer information and transactions confidential. The customers' complaints are addressed by an ombudsman office to ensure customers' confidence and maximize customer satisfaction.

- Trading partners: The Company recognizes that trading partners support the business operation, and honors the terms of all trading agreements entered with its trading partners. In addition, the Company's procurement policy and procedures are designed to ensure efficient appropriation, effectiveness, and fairness.
- Competitors: The Company conducts its business transparently and competes on an ethical basis.
- Society, community and environment: The Company has participated in the Green Factory Project with the Thai Environment Institute and will implement an energy conservation project in 2006. More relevant projects are being planned for the future. This expresses the Company's commitment to the safety of our society, environment, and quality of life of the people. The Company respects the community and society, and consistently participates in their activities as well as complying with all laws and regulations.

The Company believes that the policies mentioned above will enhance the value of the Company, create jobs and secure the sustainable financial status of the Company.

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

In 2005, the Company called the Annual General Meeting of Shareholders (AGM) on April 26, 2005. The meeting was an occasion for the shareholders to consider and express their opinion on the activities of the Company, the purpose of which was determined by the relevant laws. The Company sent invitation letters more than 7 working days in advance with related information on the meeting's agenda, the annual report with financial statements, and the proxy form to shareholders. This lead time was considered adequate for the details to be reviewed prior to the meeting date. The said information was sent to the shareholders whose names appeared in the registration book as of the designated closing date. A total of 8 Directors attended the previous AGM, including the Chairman of the Board, the Chairman of the Audit Committee, two members of the Audit Committee, and four Executive Directors. All members of the Audit Committee attended the previous AGM. One Director who is domiciled overseas was absent with apology. However, the Company will endeavor to have all the Directors attend the AGM.

At the shareholders' meeting, the Chairman called the meeting to order and invited the attending shareholders to question, comment and exchange views on the management and achievement of the Company's operations as set out in the agenda. Shareholders were also given the opportunity to propose additional items to the agenda. In addition, the minutes of the meeting incorporated the major questions and opinions raised by the shareholders during the meeting. However, the Company has not established an appropriate procedure for circulation of the draft minutes of

the AGM to the shareholders for consideration and comment before the next scheduled meeting. In the future, it is possible to circulate the draft minutes of the AGM through the Company's website which is still under construction, namely [www.lamsoon.co.th](http://www.lamsoon.co.th).

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

Member of the Board of Directors are knowledgeable and respected individuals, with relevant experience and expertise beneficial to the Company. The Board formulates and approves the Company's business plan and budget, and considers all significant proposals made by the management. It also supervises the management to ensure that business operation of the Company is in compliance with the objectives and business plan, both in the short-term and in the long-term.

Members of the Board and the management are required to exhibit leadership and vision, and able to make decision carefully and independently for the benefit of the Company and its shareholders. The Board is kept informed by the management to understand the overall picture of the business, in order to supervise and comment on the management in effectively and efficiently executing the Company's policy.

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

Conflict of interest is supervised by the Board through organization of the Board and Sub-Committees according to good corporate governance principles. The Company advocates honesty and transparency at every level, in compliance with the code of business ethics. In order to prevent conflict of interest, the Board has set up appropriate measures to safeguard the sensitive internal information and document usage. The management and relevant personnel are prohibited from using the Company's information for personal benefit, from disclosing such information to the public, and from buying, selling or persuading other persons to buy or sell the Company's securities within one month before public disclosure of the Company's financial reports.

Under the Company's policy and under Article 59 of the Securities and Stock Exchange Act B.E. 2535, directors and management including their spouses and immature children are required to report any changes of holding in the Company's securities to the Securities and Exchanges Commission and the Stock Exchange of Thailand within 3 days after the transaction date, and provide a copy of such a report to the Company. Directors are also required to notify the Board of their securities holding every quarter.

The management will propose to the Board through the Audit Committee the related party transactions and transactions of conflict of interest which have been considered properly and carefully in accordance with the regulations of Stock Exchange of Thailand. The details, value of transactions, contracting parties, and



any relevant details of such transaction have already been disclosed in the Notes to Financial Statements, Annual Report, and Annual Registration Statement (Form 56-1).

### **7. Business Ethics**

The Company considers good business ethics on the part of both the management and employees to be 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 designed to assure customers of the standard of products and services of the Company. Every employee implements and constantly develops these systems for the maintenance of standards and improves the working practice to achieve efficiency and acceptable standard. This is the major principle of the Company's business, focusing on product quality and service delivery for customers and consumers. The Company believes that to follow the code of business ethics is basic to strengthening and improving the principles of good corporate governance. Accordingly, a written code of business ethics as approved by the Board has been declared to Board members, the management and employees since 2004. The Company will institute a follow-up process and conduct an annual review and report on compliance in 2006.

### **8. Balance of Power for Non-Executive Directors**

The management organisational structure and operations must be trustworthy and transparent. Members of the Board have clearly defined legal duties and responsibilities, and the composition does not allow anyone or any group of persons unlimited power. There are 9 Directors comprising 5 Executive Directors and 4 Independent Directors to provide a balance of power and appropriate management review and to be able to express any opinions independently for preventing conflict of interests. The Company does not determine 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 director as defined by the governing rule of the Stock Exchange of Thailand, and has no relation with the management. This allows for segregation of duties in setting the policy of corporate governance and on routine operations, which come under the direct responsibility of the Managing Director and the management. However, every director is encouraged to express opinion on business operations to supervise the Company's management and operations efficiently, accurately and transparently.

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

The remunerations of the Board members are determined on the basis of their responsibilities. The levels of remuneration are comparable to others in the industry and are considered sufficient to keep qualified individuals on the Board. Directors who also serve on the audit committee are entitled to receive extra remunerations.

The Chairman of the Board decides the remuneration of the Managing Director. The remunerations of the Board members and the management are determined based on the Company's business performance and operating results. The remunerations are approved by the shareholders' meeting, and are disclosed in annual report and Annual Registration Statement (Form 56-1) in accordance with regulations of the Security and Exchange Commission and the Stock Exchange of Thailand. The Company also discloses the remunerations of Directors of its subsidiaries in its annual report and Annual Registration Statement (Form 56-1).

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

The Board of Directors shall hold at least one meeting every three months. A special session of the meeting can be convened when the Chairman deems it necessary. The meetings agenda are set in advance and the relevant documents are circulated as attachments to the invitation letter which clearly state whether the items on the agenda require acknowledgement, approval or consideration. Copies of the agenda are sent to all Directors at least 7 days before the meeting date. This is to allow the directors adequate time to review the agenda items and documents. During the meeting, the Chairman would conduct the meeting in such a way so as to consider every item with enough time for members of the Board to express their opinion.

The Board Minutes are recorded in writing. After the minutes are reviewed and approved by the Board, they are retained for the record and can be reviewed and audited by authorized persons.

In 2005, the Board of Directors held 5 meetings including 4 regular meetings and 1 extraordinary meeting.

The attendance record is as follows:

Name of Director	Period of Directorship	Attendance / Total Meetings		
		Regular	Extra	Total
(1) Mr. Mechai Viravaidya	2004-2007	2/4	1/1	3/5
(2) Mr. Whang Tar Liang	2004-2007	3/4	0/1	3/5
(3) Mr. Songkram Grachangnetara	2003-2006	4/4	1/1	5/5
(4) Mrs. Sumarn Changsiricharoen	2006-2009	4/4	1/1	5/5
(5) Mr. Tanatat Puttasuwan	2004-2007	4/4	1/1	5/5
(6) Mr. Whang Shang Ying	2003-2006	4/4	0/1	4/5
(7) Mr. Somchai Chongsawadchai	2006-2009	4/4	1/1	5/5
(8) Mr. Ampol Simarojana	2006-2009	4/4	1/1	5/5
(9) Ms. Anchalee Suebchantasiri	2003-2006	4/4	1/1	5/5

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

## **12. Committees**

The Board appointed the Audit Committee consisting of 3 Independent Directors. The committee holds its regular meeting at least once every quarter. In 2005, the committee held 4 meetings. The committee is responsible for reviewing the Company's financial reports, the sufficiency of the internal control and risk management systems, the compliance with laws and regulations, and proposing the appointment and remuneration of statutory auditors, and other businesses assigned by the board. The committee has the meeting with statutory auditors at least twice a year, and coordinates with the internal auditors of the Company on the audit objectives and plans. The committee also reviews the disclosure of information when there are connected transactions or conflict of interest items.

The Board has appointed 2 sub-committees for remuneration and for share allocation which consisted of 4 independent Board members and 1 Executive Director. The sub-committee on recruitment has yet to be appointed. The duties and responsibilities of the sub-committees are determined by the Board of Directors.

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

The Company attaches importance to the internal control system at both the management and the operational levels. The organization chart reflects the internal control mechanism, which identifies clear lines of command and relationships between departments and divisions. The level of authority to make decisions for each position is clearly defined. The deployment of the Company's assets is

regulated and monitored for effective use. The responsibilities for operations and evaluation are separate, based on a check-and-balance system. The financial reports are submitted to the management according to the lines of responsibility.

The Board has given approval for the Company to outsource the internal audit function to the office of Dr Virach & Associates (Certified Public Accountants and a listed audit company approved by SET) to monitor and to ensure that the operations and financial activities of the Company are effective and in compliance with established guidelines. The internal auditors also oversee the compliance of business operations with relevant laws and compliance controls. The Board has set up the Internal Audit Division reporting directly to the Audit Committee, which comprises Independent Directors. The report of the Internal Auditors is shown in the Annual Report and Annual Registration Statement (Form 56-1).

To attain its objectives, goals and targets, the Company maintains a risk management policy. The management and all relevant employees are required to analyze potential risks in every business phase and process, assess the effectiveness of the existing control measures, and suggest risk mitigation plans.

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

The Board of Directors is responsible for the Company's and its subsidiaries' financial statements and information as shown in the Annual Report. The financial statements are prepared under generally accepted accounting principles and standards in Thailand and in accordance with an accounting framework and practice which maintain effective and regular monitoring of performance in the preparation of financial reports including sufficient information disclosures. The Board maintains an internal control system ensuring that accounting records are accurate, complete, and sufficient to safeguard all assets, and to prevent fraud or any significant abnormal operation.

The Board has mandated the Audit Committee to be responsible for the quality of the financial reports and internal control system such that all financial statements are prepared accurately and in compliance with the general acceptable accounting principles standard and transparent disclosure. In 2005, the Audit Committee is of the opinion that the directors and management continue to pursue good business practice in maintaining the objective of the Company, to respect the importance of good internal control system, to manage business risk suitably and to use information system in support of good corporate governance while abiding by the relevant laws and regulation. The Audit Committee is satisfied that the internal audit system is effective in ensuring continuing confidence in the Company and in the financial statements as at December 31, 2005 of the Company and its subsidiaries. The Report of Audit Committee opinion is shown in the Annual Report and the Annual Registration Statement (Form 56-1).

## **15. Relations with Stakeholders**

The Board of Directors attaches importance to the accuracy and adequacy of the financial reports, information and contents of the annual report to the shareholders and other stakeholders, distributed through the Stock Exchange of Thailand. The Company has not established an investor relations section because to date the activities in this area are limited. The Financial Manager and the Assistant to the Managing Director are assigned the responsibility to communicate with individuals and institutional investors, shareholders, analysts and authorities concerned. Investors may request information from the Company by telephone at 02-361 8959/87 or by facsimile at 02-361 8988/9 or email address: [secdept@lamsoon.co.th](mailto:secdept@lamsoon.co.th). The Company expects to develop its website [www.lamsoon.co.th](http://www.lamsoon.co.th) within 2006 to provide another communication channel for investors. On completion of the website, the Company shall inform the public accordingly through the Stock Exchange of Thailand.

## 6. General Information

### 6.1 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
Registered Share Capital	: Baht 820,000,000
Outstanding shares (common shares)	: 820,000,000 shares
Par value	: Baht 1

## **6.2 Companies in which the Company has investment holding of more than 10%**

### **6.2.1 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

Crushing Mill 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 producing crude palm oil  
from its own source of fresh fruit bunches and  
from outgrowers. Palm kernel oil and palm kernel  
cake are by-product from palm kernel oil production  
process and used for the 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%

### **6.2.2 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 : Fruit and vegetable processing; Manufacturer of  
fruit juices & drinks, coffee, in can, glass bottle,  
and UHT packaging, including sauces and  
seasonings for sale in 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%

## **6.3 Other references**

### **6.3.1 Register**

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

### **6.3.2 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  
No. of years being the Company's Auditor : 3  
Relations or interests with the Company / the Company's subsidiaries /  
the management / major shareholders / or any relevant persons of the  
aforementioned  
: --None--

### **6.3.3 Legal 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



## **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. 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

## 7.1 Income structure

Product/Services by Group	Operated by	2003		2004		2005	
		Mil. Bht.	%	Mil. Bht.	%	Mil. Bht.	%
Vegetable Oil	LST and UPOIC <sup>(i)</sup>	3,075	87.98	3,850	75.67	3,666	71.46
Margarine & Shortening	LST	381	10.90	399	7.84	394	7.68
Others	LST and UPOIC <sup>(i)</sup>	39	1.12	46	0.90	30	0.59
Vegetables and Fruits	UFC <sup>(ii)</sup>	n.a.	n.a.	641	12.60	838	16.33
Drinks	UFC <sup>(ii)</sup>	n.a.	n.a.	104	2.04	134	2.61
Sauce Seasonings and Others	UFC <sup>(ii)</sup>	n.a.	n.a.	48	0.94	68	1.33
<b>Total Sales</b>		<b>3,495</b>	<b>100.00</b>	<b>5,088</b>	<b>100.00</b>	<b>5,130</b>	<b>100.00</b>
Less Goods Returned and Trade Discount		(6)		(7)		(16)	
<b>Total Sales - Net</b>		<b>3,489</b>		<b>5,081</b>		<b>5,114</b>	

Note : <sup>(i)</sup> On May 28, 2003, LST increased its investment in United Palm Oil Industry Plc. from 24.40% to 66.29%, resulting in the above company becoming a subsidiary.

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

## **7.2 2005 News Highlight**

### **7.2.1 Disposal of Treasury Stock**

By a resolution of the Company's Board of Directors meeting no. 3/2005 held on 4 July 2005, approval was given for the Company to dispose 82 million treasury shares by an offer of sale on the main board of the Stock Exchange of Thailand, from 19 July 2005 to 23 April 2006 inclusive.

### **7.2.2 Change of Remuneration and share allocation Sub-Committees**

At the Board of Directors meeting no. 4/2005 on 11 August 2005, approval was given for the duties and responsibilities of the Compensation and Share Allocation Sub-Committees which consists of 4 independent Board members, namely Mr. Mechai Viravaidya, Mr. Songkram Grachangnetara, Mrs. Sumarn Changsirichareon, and Mr. Tanatat Puttasuwan, and 1 executive director, namely Mr. Whang Shang Ying.

### **7.2.3 Development of new packaging**

The Company developed a variety of new packaging types for palm oil to suit the demand of each customer group, ranging from Jerry Can that customers can later recycle for other purpose such as watering can, to Bag-In-Box and Mini Tin. We are encouraged by the positive response of end-customers who have found such innovative packaging to be easy to use.

## **8. Risk Factors**

### **1. Increase of CPO crushing mills during the last 3 years**

The last three years have seen a continuous increase in the number of new CPO crushing mills, together with an expansion in the production capacity of existing mills. At present, there are approximately 59 CPO crushing mills, most of which are located in Krabi, Surat Thani and Chumporn provinces. This has resulted in competition in buying FFB and high prices, regardless of quality. Consequently, prices of raw materials and CPO have increased and the Company is faced with high production cost. The Company has taken steps to mitigate high production cost, including its good management system, quality standard systems and participation in Energy Conservation Project and its integrated palm oil industry.

### **2. 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 ASEAN Free Trade Association (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.

### **3. Disposal of Treasury Stock 82 million shares**

By the resolution of the Company's Board of Directors meeting no. 3/2005 held on 4 July 2005, approval was given for the Company to dispose 82 million treasury shares by an offer of sale on the main board of the Stock Exchange of Thailand, from 19 July 2005 to 23 April 2006 inclusive. As of 30 December 2005, the Company still had treasury stock on hand totaling 17,104,400 shares which were not yet disposed. This may cause some negative sentiments on the share price in the stock market. Moreover, in the event that the Company does not or is unable to dispose of all of the repurchased shares within the stipulated period, it is required to reduce its paid-up capital by writing-off the remaining unsold shares. However, the management expects that all of the repurchased shares would be disposed within the stipulated period.

## 9. Palm Oil Industry and Competition

### 9.1 Overview

Amongst the different types of oil crop, oil palm has the highest oil yield; it also has the lowest production cost. Palm oil therefore is the cheapest vegetable oil for consumption. It can be processed into other products and has multiple applications in industry. For these reasons, palm oil has the highest market share of all vegetable oil, at around 70%. The structure of palm oil and oil palm industry comprises 5 relevant sectors, namely: 1) palm plantation growers producing fresh fruit bunch (FFB) (up-stream production), 2) crushing mills (mid-stream industry) which process all oil palm outputs into CPO, 3) refinery (down-stream industry) which are to refine nearly all CPO into refined palm oil for consumers, 4) palm oil consuming industries such as instant noodle, condensed milk, snacks, ice cream, etc., 5) consumers. The estimated market size of the oil palm and palm oil industries in Thailand, which have been expanding continuously, is as high as 50,000 million Baht. With the support from the Government, many farmers are attracted to grow palm, enhancing Thailand's role as exporter of palm oil and by-product. However, this is handicapped by higher average price than the world market and inadequacy of export facilities.

The biggest palm oil producers are Malaysia and Indonesia, followed by Thailand and Nigeria. Their palm oil production per annum range from 13 million tons and 10 million tons to 800,000 tons and 780,000 tons respectively. Palm oil production from Malaysia and Indonesia account for 80 % of total worldwide production.

Productive Planted Areas It is estimated that in 2005, there are approximately 2 million rais of oil palm planted areas which is being continuously expanded. 95% of palm oil planted areas are in Krabi, Surat Thani and Chumporn provinces. By comparison Malaysia and Indonesia have 24 and 20 million rais of planted areas respectively.

Products/Production Per Rai In 2005, FFB production decreased 5.32 % from 2004 to 4.42 million tons. The lowest monthly production was 210,730 tons in December and the highest was 529,223 tons in March; CPO production for the whole year was 783,953 tons, or a slight decrease of 4.49% from 2004. Figures from the Department of Internal Trade showed that the CPO stock at the end of 2005 was 103,971 tons (2004 : 151,122 tons), whilst oil extraction rate averaged 17.8% (2004 : 17.6 %).

Market Situation and Prices In 2005, the average CPO price in the world market price was lower than in 2004. In February, CPO price in the Bursa Malaysia Derivatives Exchange Bhd. (BMD) : 3<sup>rd</sup> Month reached its lowest at 1,252 RM per ton; the following month it touched the highest of the year at 1,503 RM per ton. The average 2005 CPO price in BMD : 3<sup>rd</sup> Month was 1,398 RM per ton, compared to 1,622 RM per ton in 2004, a decrease of 13.8%.

Domestic CPO price decreased in the same direction as the world price of last year although domestic production in 2005 decreased slightly from 2004. Figures from the Department of Internal Trade showed that in 2005, the domestic price of FFB fluctuated between 2.25 – 3.58 Baht per kilogram, (2004: 2.84 – 3.99 Baht per kilogram), and CPO price fluctuated between 14.24 – 19.07 Baht per kilogram, (2004: 17.04 – 21.96 Baht per kilogram). The annual average price of FFB and CPO was 2.98 Baht and 16.89 Baht per kilogram respectively, (2004: 3.38 Baht and 20.17 Baht per kilogram). The average price in 2005 decreased 11.83% from 2004 for FFB and 16.26% for CPO.

The price of palm oil in 2006 will depend on many important factors including the following:

Factors to decrease palm oil price

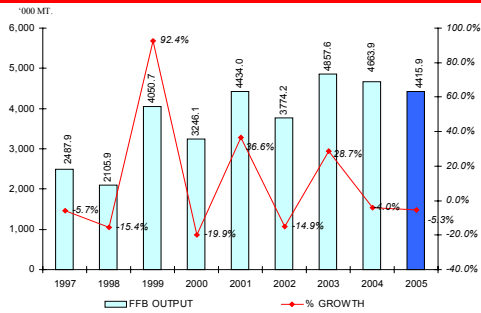
- FFB output in 2006 is expected to increase by 20-25% to 5 million tons due to the following reasons:
  - 1) the increase of productive planted areas in 2003 which increased overall production, even though yield per rai was not high;
  - 2) the high volume of rainfall and spread of rainfall in 2004. this significantly increased FFB output in 2005;
  - 3) young palm planted after 1999 will have higher yield. This is to certify the fact that oil palm output is increased and directly related to palm's age until it reaches 10 years old.

Factors to increase palm oil price

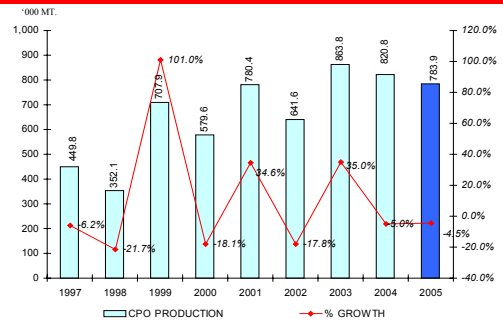
- 1) The number of crushing mills has increased continuously from 43 mills in 1999 to 59 mills at present, with a total production capacity of 12 million tons of FFB per annum with CPO output at 800,000-900,000 tons per year. For the last two years, 60% of production capacity was not utilized. There was intense competition in FFB buying from growers in order to maximize the utilization of their production capacity, pushing up FFB price.
- 2) The Government policy in supporting alternative energy in response to the high price of petroleum fuel has resulted in research and development on sources of alternative energy. Such R&D is in line with the world environment conservation concept that prioritizes bio-products to petrochemical products. However, any policy of bio-diesel utilization and production will have to take into consideration

demand and supply of raw materials in the system in order to maintain stability and so as not to apply too much pressure on palm oil price.

### FFB OUTPUT IN THAILAND

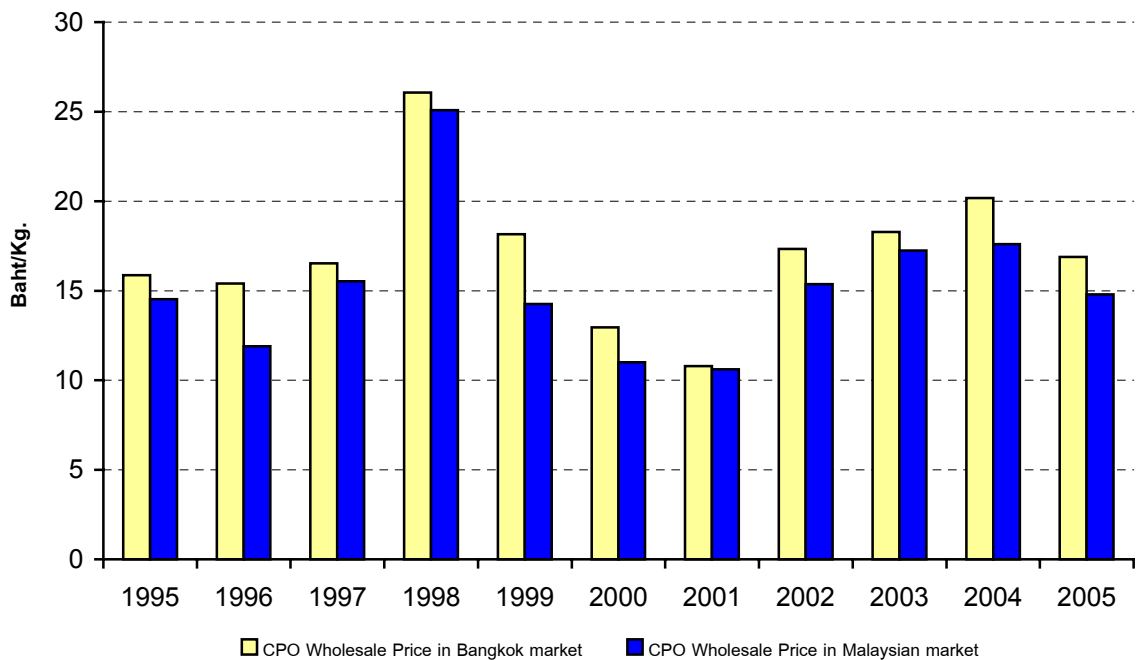


### CPO PRODUCTION IN THAILAND



Source: Internal Trade Department

### CPO WHOLESALE PRICE COMPARISON BETWEEN BANGKOK AND MALAYSIAN MARKET



Sources : Agricultural Economic Research ; LST management estimate

## 9.2 Growth Trends

### 9.2.1 Bio-diesel

At present, oil palm and palm oil industry strategy has been focused on the Government's palm oil and oil palm development plan for the years 2004-2029 of the Ministry of Agriculture and Cooperatives, which set a target to increase the planted areas and productive planted areas of palm oil to 10 million rai and 9 million rai, respectively, in 2029 and FFB and CPO outputs to 28 million tons and 4.5 million tons respectively. The Government later shortened the time to expand oil palm plantation from 2 million rai at present to 7 million rai within 2009. This is aimed at supporting the development of simple processed industry into high value-added process, especially the production of bio-diesel as an alternative energy of the Kingdom in the future. Due to limitations on price, production cost and insufficiency of products for domestic consumption, other vegetable oil is not appropriate for bio-diesel production. To date, Thailand produces 800,000-900,000 tons of palm oil per year but consumes only 700,000 – 800,000 tons per year. This results in over supply of palm oil available for bio-diesel production. Nevertheless, this figure is less than 1 % of diesel usage in the Kingdom. The Ministry of Energy has set the target of 3% of bio-diesel usage in the Kingdom within 2011. Major constraints of using palm oil for bio-diesel production depends on both volume and price of palm oil. If the price of CPO remains high as a result of competition in FFB buying as at present, production cost of bio-diesel will also be high, and may not be viable as an alternative energy. If palm oil production is not enough to satisfy demand, the Government may have to import palm oil for bio-diesel production. In such a scenario, the Government needs to introduce measures to monitor and prevent possible abuses in import of palm oil.

### 9.2.2 The industry of oil palm seed and seedling production

The production of quality oil palm seed and its seedling in the up-stream industry is the key factor in the efficiency of oil palm production. The use of quality seed will not only yield high output per rai but also high oil extraction rate (OER), resulting in 40% increase of output compared to unqualified seed. To date, about 400,000 rai have been planted with unqualified oil palm seed due to insufficient supply of quality seed and seedling in Thailand. Recently, with FFB price at a high level and the Government support of the expansion of planted areas, growers in many areas including the North Eastern parts have become interested in growing oil palm. This could lead to a shortage of quality oil palm seed. The private sector therefore has started producing oil palm seed and seedling for resale as the Government cannot produce enough seedling to meet demand of growers. The R&D of quality oil palm seed needs no less than 30 years in order to prove and monitor the whole lifespan of oil palm tree before replanting.



### 9.2.3 The diversification of palm oil industry

Oil palm being a crucial economic crop needs to be supported by an integrated and comprehensive R&D starting from planting, harvesting, quality maintenance, oil extracting, the usage of oil palm in related industry, value adding of palm oil products in other appearances, and the development and processing of palm oil into oleochemical industry which is in demand of the world market, including the usage of oil palm and its residual waste as fiber and empty fruit bunch and shell for bio fuel source. Moreover, this industry can be further diversified by bio-refinery hi-tech process for the production of paper pulp, wood pulp and other starting vehicles for other supporting industries that will arise subsequently.

At present, there is an effort to solve the problem of green house effect and emission of green house gas which is a cause of the world climate change. Although Thailand is not under any commitment to do reduce its cabondioxide emission, it is one of the countries with which industrial countries intend to cooperate to undertake green house gas emission reduction project. They aim to share carbon credit under the Clean Development Mechanism (CDM) which is known as the Certified Emissions Reduction (CER : 1 CER = 1 ton CO<sub>2</sub> equivalent reduction). At present, a number of CPO crushing mills are attracted to join this project by using their residual waste materials from production which accounts for 38% of processed FFB weight volume to be used as bio-fuel in the crushing mill for steam boiler as a substitute for petroleum fuel.

## 9.3 Competition

With its 59 crushing mills whose utilization rate of production capacity remains about 50-60%, Thailand is currently faces a shortage of FFB. This is a significant factor behind the intense competition in buying FFB among crushing mills seeking to maximizing the utilization of their production capacity and reducing their production cost. Because of the short supply, the quality of raw materials is sometimes over-looked. It raises the question of the limits of the development of palm oil and its diversification into advance processed industry. As the systematic development of its several related industries needs huge investment budget for economy of scale production. There is at present a slight over supply of palm oil after basic consumption in the country. It may need more time for the market to reach an equilibrium before it is ready to further develop to the biochemical industry and its derivatives or bio-diesel industry.

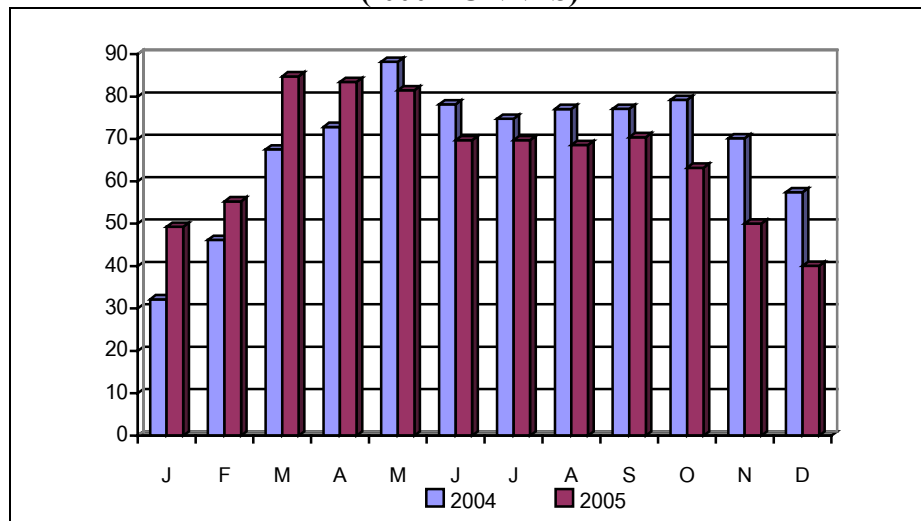
Another uncontrollable factor namely weather condition has direct impact on volume of FFB to be supplied to the market in every season. In the past, competition to buy raw materials for refined palm oil production depended mainly on price, i.e. purchasing price of raw materials and selling price of finished products. While raw material price fluctuates, price of finished product is dependent on pricing of

competitors. External factors such as world market price, and the price of other substitutable vegetable oils also play important roles in determining domestic price.

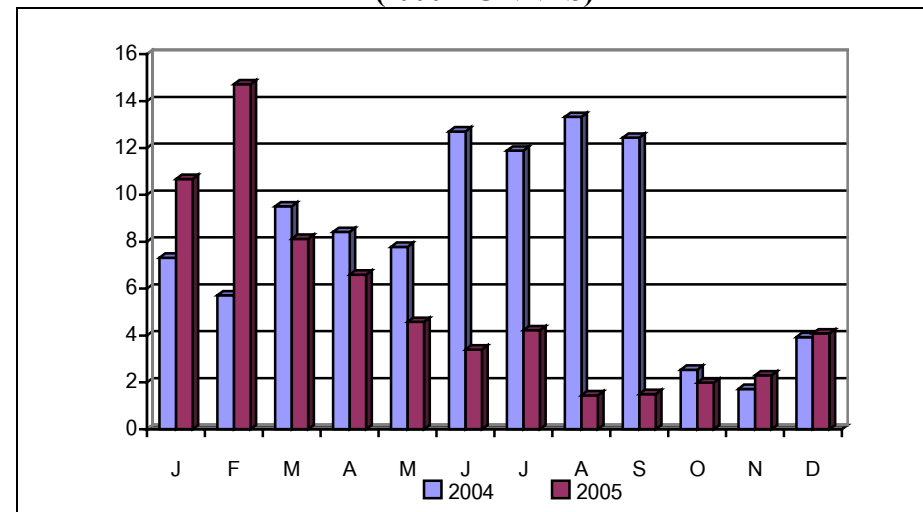
Since 1 January 2003, the import tax of palm oil under AFTA has been lowered to 5% but the Government has not yet issued any clear direction as regards implementation. This can present difficulties to management in the event of FFB shortage, especially if the Government gives strong support to the production of bio-diesel as an alternative energy of the Kingdom in the future, adding further pressure to the cost of raw materials. However, the Government might solve such problem by import of palm oil especially for bio-diesel production. So long as free trade of allowing palm oil under AFTA is not yet in place, this can produce loopholes for certain groups of people to enjoy privileges if the Government fails to efficiently and strictly implement its control measures. Free trade under AFTA may be the comprehensive effective solution allowing free market mechanism to allocate resources resulting in the increase of production efficiency while lowering production cost. In the future, if the manufacturer can control production cost, the price competition will be less severe and 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 2005 (Source : Department of Internal Trade)

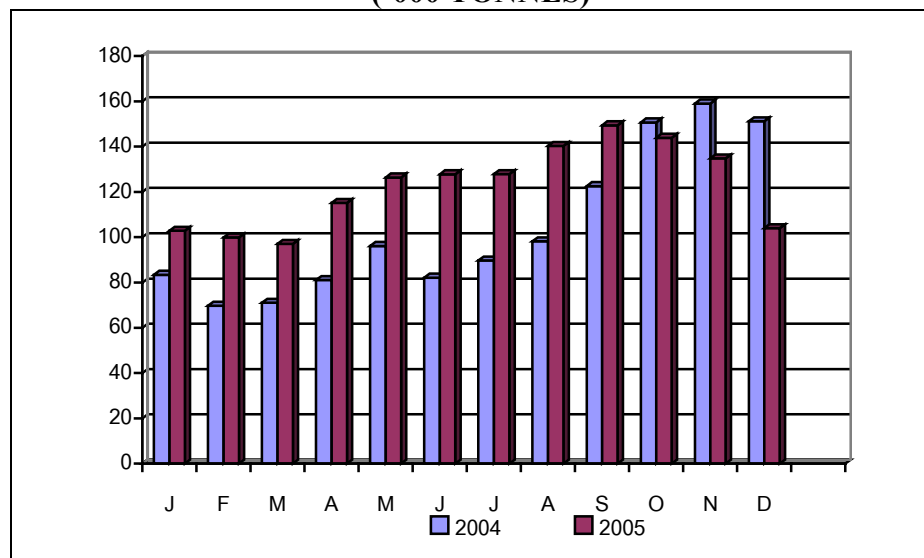
## PRODUCTION OF CRUDE PALM OIL ('000 TONNES)



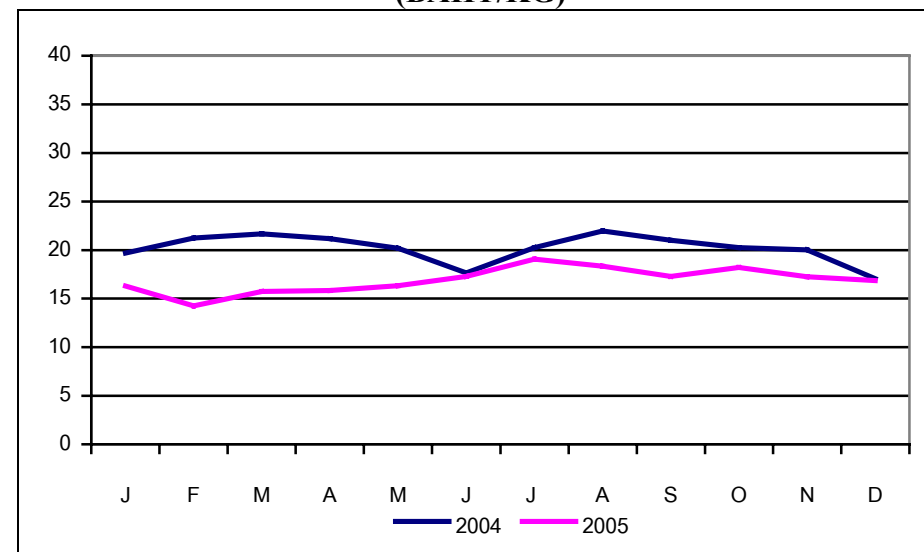
## EXPORT OF PALM OIL ('000 TONNES)



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



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



## 10. Management Discussion and Analysis

### 10.1 Financial performance analysis and explanation

#### Basics of Consolidation

In 2005, the consolidated financial statements of the Company incorporate the consolidated financial statements of two subsidiaries. The acquisition percentage and effective date of consolidation are presented as follows:-

- 1) UPOIC : The Company had on 28 May 2003 and 18 July 2003 acquired shares in UPOIC which led to an increase in the shareholding percentage from 24.40% to 66.29% and the change in the status of UPOIC from associate to subsidiary. The effective date of consolidation was 1 June 2003.
- 2) UFC : In April 2004, June 2004 and October 2004, the Company acquired shares in UFC equal to 96.79% of the shareholding of UFC, resulting in UFC becoming a subsidiary. The effective date of consolidation was 1 April 2004.

Consequently, Lam Soon (Thailand) Plc today has three core businesses, namely (1) oil palm plantation and milling (through UPOIC and its own crushing mill at Trang), (2) palm oil refinery and fats manufacturing, and (3) fruit and vegetable processing.

There was no change in percentage of share holding in subsidiaries in 2005. As such, the consolidated financial statements of the Company incorporate the whole-year consolidated financial statements of both UPOIC and UFC, whereas that of 2004 incorporate the whole-year consolidated financial statements of UPOIC but only 9 months of UFC.

On 7 September 2005, the Company started to dispose 82 million treasury shares (or 10% of its share capital) by an offer of sale on the main board of the Stock Exchange of Thailand. As of the end of 2005, the number of unsold treasury shares remained at 17.10 million shares, accounting for 2.09% of its share capital. The Company has to dispose all 82 million treasury shares within 3 years of the date when the last shares were repurchased or within 23 April 2006. In the event that the Company does not or is unable to dispose of all of such treasury shares within the stipulated period, it is required to reduce its paid-up capital by writing-off the remaining unsold treasury shares.

The following management discussion and analysis will emphasise the major components and changes of the consolidated financial statements.

#### 10.1.1 Operating results

The Company and its subsidiaries recorded net profit of 53.88 million Baht, a decrease of 80.27 million Baht or 59.84%. Net profit margin in 2005 fell to 1.05% from 2.61% the previous year. The group profitability was adversely affected by a substantial decline in earnings by its plantation subsidiary UPOIC. This was due to several negative factors, one of which was three consecutive years of drought reducing our own crop output by 8.38% compared with 2004. Moreover, it was in the midst of a replanting programme. As of last year, total replanted area accounted for 22.8% of total planted area, most of which are new young palm which could not be harvested yet. Moreover, cost of sales from the Group increased by 2.77% while gross profit margin dropped to 11.85%. Intense competition resulted in increase of purchasing price of raw materials which we were not able to pass on to the customers. In 2005, other revenues reduced by 18.70 million Baht from 2004, when the Company recorded a 22.20 million Baht profit from disposal of surplus land. Operating profit margin decreased to 3.07% compared with 5.03% of the previous year. The Group also had higher interest expenses by 19.63 million Baht owing to the uptrend of interest rate in the market. The combination of the above factors resulted in the decrease in net profit of the Group in 2005.

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

#### **Revenues**

**Revenue from sales:** After LST began issuing consolidated statement in 2003 with UPOIC and from 2004 onwards with UPOIC and UFC, sales figures of the group increased by 32.46%, 45.61%, and 0.66% from 3,489.38 million Baht in the year 2003 to 5,080.92 million Baht and 5,114.26 million Baht in the year 2004 and 2005 respectively.

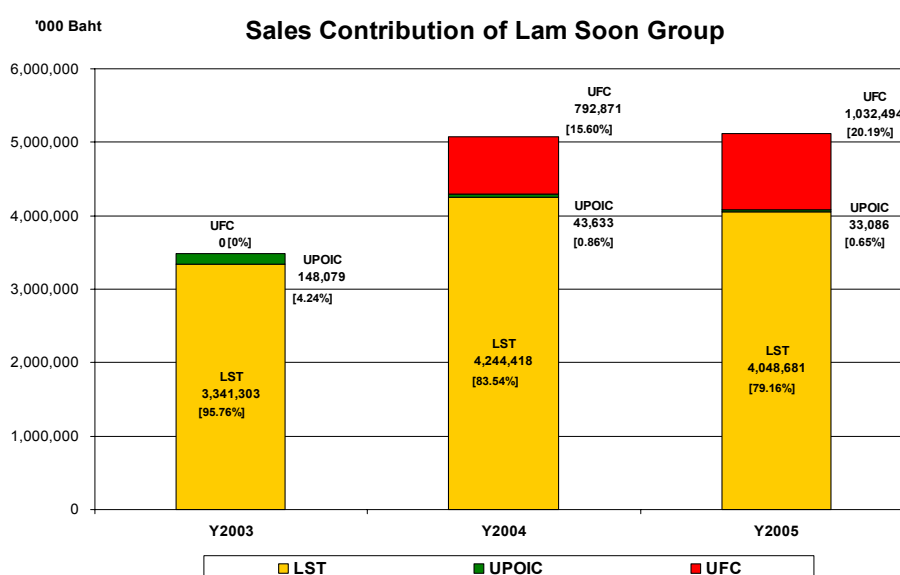
UPOIC sales excluding related party transactions fell by as much as 24.17% in 2005. Moreover the Company consolidated sales from UFC for the whole year of 2005 but only last 3 quarters of 2004 when UFC started to be the Company's subsidiary. Group revenue excluding related party transactions could be segmented as follows:-

	2003		2004		2005	
	Mil. Bht.	%	Mil. Bht.	%	Mil. Bht.	%
LST	3,341.30	95.76	4,244.42	83.54	4,048.68	79.16
UPOIC*	148.08	4.24	43.63	0.86	33.09	0.65
UFC**	-0-	-0-	792.87	15.60	1,032.49	20.19
Total	3,489.38	100.00	5,080.92	100.00	5,114.26	100.00

Note: \* excluding sales from UPOIC to LST with effect from June 2003.

\*\* excluding sales from UFC to LST with effect from the second quarter of 2004

3-year sales and its contribution from the Company and subsidiaries could be presented by the following graphs:-



### Segment Analysis :

- 1) LST : Sales under LST itself performed quite well with an increase of 26.84%, 27.03%, and -4.61% from 3,341.30 million Baht in 2003 to 4,048.68 million Baht in 2005, representing CAGR of 10%. The slight sales decrease in 2005 was due to a 5.54% decrease of average selling price per metric ton, despite a 0.93% increase of sales volume. The major reason was the intense competition in palm oil industry. The Company maintained an income structure similar to 2004, with vegetable oil accounting for 89.89% of its total sales value. Domestic sales, which contributed 92.56% of total sales, increased by 1.66%.
- 2) UPOIC :
  - 2.1) UPOIC sales in 2004 and 2005 excluding related party transactions, was 43.63 million Baht and 33.09 million Baht

respectively, compared to 148.08 million Baht in 2003. This is because with the change in status of UPOIC from associate to subsidiary effective from 1 June 2003, previous transactions between LST and UPOIC which had been accounted as non-related party transactions were now eliminated in the consolidated financial statements.

2.2) In 2005, sales contribution by UPOIC decreased by 24.17% from 2004 to 33.09 million Baht. This is because :-

- i. Sales of UPOIC itself dropped sharply by 40.36%; and
- ii. UPOIC's business transactions with LST in 2005, which accounted for 95.30% of its sales, were eliminated in LST's consolidated financial statements.

2.3) Three consecutive years of drought and replanting programme reduced own crop output by 8.38% compared with 2004; volume for fresh fruit bunches (FFB) processed was also reduced, due to stiff competition and high prices in buying FFB.

- 3) UFC : After acquiring UFC and starting consolidation in April 2004, UFC made significant sales contribution of 792.87 million Baht and 1,032.49 million Baht in 2004 and 2005 respectively. However, sales figures of those two years could not be compared directly because 2005 incorporated the whole-year sales, whereas for 2004 only 9 months were consolidated.

**Other revenues:** Revenues other than those generated by normal operation comprised 0.61% of total revenues or 31.47 million Baht. This represented a decrease of 18.70 million Baht or 37.28% from the previous year when disposal of surplus land generated profit amounting to 22.20 million Baht.

**Profit sharing from investment in subsidiaries:** Profit sharing from investment in subsidiaries was recorded at 19.36 million Baht, decreasing by 62.41 million Baht or 76.32% from 2004. This was attributable to:-

- profit sharing from UPOIC decreased by 71.89 million Baht for the reasons explained above;
- loss sharing from UFC amounted to 0.14 million Baht, from loss sharing of 9.61 million Baht in 2004. Amortization of goodwill amounting to 6.80 million Baht exceeded profit sharing from UFC of 6.66 million Baht, resulting in net loss sharing from UFC.

## **Cost of sales and expenses**

**Cost of sales:** In 2005 the Group recorded cost of sales at 4,467.52 million Baht, increasing by 120.32 million Baht or 2.77% from 2004. While cost of FFB rose, UPOIC could not adjust CPO price to follow its higher FFB cost. Gross profit margin of UPOIC, therefore, dropped when compared with 2004.

**Selling and administrative expenses:** Selling and administrative (S&A) expenses in 2005 was 509.15 million Baht (2004 : 516.28 million Baht), decreasing by 7.13 million Baht or 1.38%. The major factors were less allowance for diminution in value of inventories, consulting fee, and loss of foreign exchange. Moreover, S&A expenses as a proportion of sales values declined to 9.96% (2004 : 10.16%). The said proportion in the case of LST itself was only 5.88% (2004 : 6.04%). LST's position as a major shareholder in UPOIC and UFC enables it to integrate the management system of the Group and create efficiency, thereby bringing under control the expenses of the Group.

**Interest expense:** Interest expense in 2005 increased by 19.63 million Baht or 58.83% from the previous year to 53 million Baht. An increase of 11.42 million Baht was attributable to LST, and arose from its long-term loan from commercial bank to fund its acquisition of UFC drawn down in April 2004. Thus, interest expense in respect of such loan in 2004 was incurred for a 9-month period whereas in 2005 it was for the whole year. Moreover, the trend of interest rate in 2005 was much higher than 2004, which added to the interest burden of UFC. The balance 8.21 million Baht related to interest incurred by UFC on loan for its working capital.

## **Profits**

**Gross profit:** Gross profit in 2005 was 646.74 million Baht, a decrease of 11.85%. Gross profit margin dropped from 14.44% in 2004 to 12.65% in 2005. Cost of sales of UPOIC increased significantly as much lower volume of FFB was supplied to its crushing mill, leading to under utilization of its milling capacity and higher cost of CPO production. Gross profit margin of LST itself in 2005 was at 7.39%, a slight increase from 7.18% in 2004 due to the improvement in production efficiency and its manufacturing operations to enhance the cost reduction.



**Operating profit:** The Group recorded an operating profit in 2005 at 157.08 million Baht, a decrease of 98.73 million Baht, or 38.59% from 2004, in tandem with the decrease in gross profit. Furthermore, in 2004 there was profit from disposal of surplus land. Operating profit margin in 2005 at 3.07% (2004 : 5.03%).

**Net profit:** Because of the decrease in operating profit and the increase in interest expenses explained above, the Group recorded net profit in 2005 of 53.88 million Baht, down 80.27 million Baht or 59.84% from 2004. Net profit margin in 2005 decreased from 2.61% in 2004 to 1.05%.

**Dividend payout ratio:** The Group did not pay any interim dividend in 2005. LST itself paid dividend for the financial year 2004 at the rate of 0.075 Baht per share, representing a payout ratio of 41.67% of net profit (2003 : 0.20 Baht per share, representing a payout ratio of 68.49% of net profit). It has been the Company's policy to pay dividends to shareholders not less than 40% of net earnings after tax. Dividend received from its subsidiary in 2005 was based on the second half of the financial year 2004. The paid dividend of Baht 3.0 per share represented a payout ratio of 69.77% of 2004 net profit, which was higher than dividend payment policy at 50% of net profit after tax, subject to reinvestment requirements and economic outlook.

**Book value (weighted average):** As at December 31, 2005, the book value per share of LST was 1.85 Baht (weighted average number of shares at 757.59 million shares), an increase compared to 1.71 Baht in 2004 (weighted average number of shares at 738 million shares). On 7 September 2005, the Company started to dispose treasury shares by an offer of sale on the main board of the Stock Exchange of Thailand. As of the end of 2005, the Company still had treasury stock on hand totaling 17,104,400 shares or 2.09% of its share capital, which were not yet disposed.

#### 10.1.2 Financial status

**Assets:** At the end of 2005, the asset value of the Group was 3,334.68 million Baht, a decrease of 384.06 million Baht or 10.33% compared with 2004. The major reasons are as follows:-

- **Cash in hand and at banks:** At the end of 2005, the amount was 268.54 million Baht, increasing 74.33 million Baht or 38.27% from 2004. Of the amount, 89.80 million Baht is attributable to UPOIC; as it

reduced its purchase of outgrowers' crops, inventory decreased by 40.3 million Baht. In addition, the Group did not pay interim dividend for the year 2005.

- **Trade accounts receivable (A/R):** As at the end of 2005, the Group recorded net trade accounts receivable (after an allowance for doubtful debt) of 552.58 million Baht accounting for 16.57% of total asset, (2004 : 589.52 million Baht, accounting for 15.85% of total assets). Even though the ratio of A/R as a proportion of total assets in 2005 was higher than 2004, A/R itself in 2005 declined by 36.95 million Baht or 6.27% because the Company recorded certain sales at the end of 2004, for which payment was only due at the beginning of 2005. Postdated cheques and trade accounts receivable (up to 3 months) accounted for 98.20% of net trade accounts receivable of 2005. The Company already set the allowance for doubtful accounts as high as 96.64% of accounts receivable aging more than 12 months and returned cheques.

- **Inventory:** As at the end of 2005, net inventory was worth 820.97 million Baht, or 24.62% of total assets, decreasing 32.73% from 1,220.34 million Baht in 2004. This was because political change in Myanmar during the fourth quarter of 2004 brought the border trade to a halt. In the circumstances the Company could not conduct any export transactions with Myanmar as planned, resulting in high inventories at the end of 2004. In addition, provision for stock obsolescence and diminution in value of stock increased to 11.48 million Baht, comprising the following:-

- i. UFC's provision for stock obsolescence increased to 3.42 million Baht;
- ii. UPOIC's provision for diminution in value of stock and stock obsolescence increased to 13.65 million Baht and 2.63 million Baht respectively;
- iii. LST's provision for diminution in value of stock decreased to 9.22 million Baht.

- **Other current assets:** As at the end of 2005, the Group had other current assets amounting to 27.62 million Baht, increasing by 13.28 million Baht or 92.52% from 2004. This was mainly derived from LST, the amount of which increased by 12.32 million Baht because:-

- i. the Company recorded advanced interest payment from selling promissory note (P/N) amounting to 75 million Baht to a financial institution that needed to deduct interest payment amounting to 1.66 million Baht in advance at the date stated in the said P/N;
- ii. in 2005, the Company changed the expiry date of insurance policy from 31 December each year to be

31 October, resulting the advanced payment of insurance premium of an amount of 3.18 million Baht;

- iii. other receivables increased by 7.53 million Baht. Metropolitan Electricity Authority (MEA) had sued the Company for payment of additional electricity expenses and received 2.9 million Baht from the bank acting as the Company's guarantor. However, the Company countersued to recover the guarantee amount from MEA. Another 4.02 million Baht was recorded as payment in advance for goods.

- **Land, buildings, machinery and equipment:** As at the end of 2005, net value of fixed assets was 1,296.65 million Baht, accounting for 38.88% of total asset value; this represented a decrease of 18.75 million Baht or 1.43% from 1,315.41 million Baht of 2004. This decrease was due to depreciation for the year 2005 amounting to 140.53 million Baht. In addition, during the year 2005, the Group disposed of assets which had become obsolete or were no longer in use, amounting to 11.76 million Baht, and invested in equipment amounting to 135.30 million Baht, the details of which were as follows:-

- i. 102.15 million Baht was incurred by subsidiaries, mostly to replace damaged or expired assets and to improve production efficiency; and 29.81 million Baht for other new assets; 19.90 million Baht for replanting programme; 9.50 million Baht for seedling programme; 27.98 million Baht for expansion project; and 10.59 million Baht for SAP and computer system.
- ii. 33.15 million Baht was incurred by the Company, of which 12.63 million Baht was for margarine and shortening upgrading project; and 20.52 million Baht to replace damaged or expired assets, to improve production efficiency; and to buy other new assets.

### **Financial liquidity**

In 2005, the Group had more financial liquidity than 2004 as cash on hand and cash equivalents increased by 74.33 million Baht to 268.54 million Baht in 2005 (2004 : 194.22 million Baht). The main factors for changes in cash flow from operating, investing, and financing activities were as follows:-

**Cashflows from operations:** In 2005, the Group had net operating cash inflow amounted to 654.60 million Baht. Conversely, net operating cash outflow amounted to 174.16 million Baht in 2004. The main reasons were as follows:-

- Earnings before changes in operating assets and liabilities amounted to 254.88 million Baht but the Group had net profit of only 53.88 million Baht. The main reasons came from depreciation 140.53 million Baht, increase in provision for stock obsolescence and diminishing in inventories by 11.48 million Baht, amortized goodwill 17.44 million Baht, and net earnings of minority interest in subsidiary companies 23.17 million Baht.
- Net inventory decreased by 387.89 million Baht, as the Company was unable to export to Myanmar as planned during the fourth quarter of 2004.
- Net trade accounts receivable including others and related parties decreased by 34.42 million Baht. Because of the Company's high volume of sales transactions with industrial customers during the end of 2004, there was a sharp decrease in the Group's trade accounts receivable in 2005 compared to 2004.
- Trade accounts payable decreased by 36.36 million Baht due to decrease in the Group's inventory.
- Other current liabilities increased by 26.59 million Baht mainly as a result of increase in sales revenue received in advance. Then the Group had operating cash inflow increased by 14.58 million Baht in 2005.

**Cashflows from investing activities:** In 2005, the Group had net investing cash outflow amounting to 124.38 million Baht (2004 : 518.74 million Baht), a decrease of 394.36 million Baht or 76.02%. In 2004, the Company had used cash amounting to 406.50 million Baht to purchase common shares in UFC amounting to 96.79% of its issued and paid-up capital.

**Cashflows from financing activities:** In 2005, the Group had net financing cash outflow amounting to 455.89 million Baht, compared to cash inflow amounting to 684.63 million Baht in 2004. The main reasons were as follows:-

- The Group made re-payment on both short term and long term loans amounting to 178.32 million Baht and 357.41 million Baht respectively.
- The Group paid dividend amounting to 29.07 million Baht in 2005, based on the second half of the financial year 2004.

- The Company started to dispose of its treasury shares through The Stock Exchange of Thailand (SET) amounting to 64.90 million shares. This activity generated net cash inflow of 109.30 million Baht.

### **Financial ratios**

**Current Ratio:** The Group had decreasing current ratio from 1.33 times in 2004 to 1.20 times in 2005, its decreasing rate of current assets 17.29% exceeding the decreasing rate of current liabilities 8.47%. Inventories comprised 49.17% of total current assets, decreasing sharply by 399.37 million Baht or 32.73%. On the other hand, short term loan and trade accounts payable which represented 85.68% of total current liabilities, decreased by only 155.39 million Baht or 11.56%.

**Quick Ratio:** Quick ratio of the Group increased slightly from 0.52 times in 2004 to 0.59 times in 2005. There was an increase in quick asset of 4.77% in 2005, resulting from increase in cash on hand and at bank. Conversely, current liabilities decreased by 8.47% from the previous year, as a result of decrease in inventory and a corresponding decrease in both short term loan and trade accounts payable. Consequently, the Group had higher liquidity compared to the last year.

**Return on total assets:** Return on total assets of the Group decreased to 1.53% in 2005 (2004 : 4.50%). This was because net profit decreased by 59.84%, whereas total assets decreased by only 10.33%. Cost of goods sold by a subsidiary was higher due to lower volume of FFB processed in 2005. This caused inefficiency in the crushing mill and adversely affected profitability. Moreover, in 2004, the Company had gain from disposal of a piece of land on which its previous office was located; this revenue item was not from the usual course of business operation. In addition, the Group had higher interest expenses compared to the last year because of upward trend of interest rate and the Company obtaining a loan to finance the acquisition of a subsidiary. Consequently, the Group's profitability decreased from the last year.

**Return on total equity:** The Group had decreasing return on total equity from 8.71% in 2004 to 3.27% in 2005. This was because net profit decreased by 59.84%, whereas shareholders' equity (net of treasury shares) increased by only 10.01% from 2004.

**Total debt to equity ratio:** The Group had decreasing ratio from 1.37 times in 2004 to 0.93 times in 2005. This was due to repayment on both

short term and long term loan as a result of decreasing in inventory. This caused total liabilities to decrease by 25.20%, whereas total equity (net of treasury shares) increased by 10.01% from 2004.

**Accounts receivable turnover:** In 2005, the Group had turnover ratio at 8.43 times (2004 : 10.80 times). The average collection period increased from 33 days in 2004 to about 43 days as UFC accounts receivable began to be included following the acquisition of UFC by the Company in April 2004.

On the other hand, at the Company level, average collection period was about 39 days (2004 : 33 days). This was due to sales revenue in 2005 being lower than in 2004, whereas average accounts receivable in 2005 was higher than in 2004. This resulted from low value in accounts receivable at the beginning of 2004.

However, the Company's emphasis on customer management and credit policy are being applied to its subsidiaries. In 2005, the Group had no significant change in customer credit policy.

**Inventory turnover:** In 2005, the Group recorded an inventory turnover (finished goods only) of 8.16 times (2004 : 11.01 times); as a result the inventory turnover period increased to 44 days (2004 : 33 days). This was because the Group's average finished goods in 2005 had higher value than in 2004, as the inventory of UFC only began to be included following the Company's acquisition of UFC in April 2004.

At the Company level, average selling period was about 13 days (2004 : 15 days). Inventory at the end of 2005 decreased by 71.55%, whereas inventory at the end of 2004 increased by 102.50%, resulting from high amount of inventory set aside for export to Myanmar in 2004.

**Accounts payable turnover:** In 2005, the Group had accounts payable turnover of 23.51 times (2004 : 24.49 times); average payment period was 16 days (2004 : 15 days). This was due to cost of goods sold in 2005 having higher price than in 2004, whereas accounts payable decreased in line with decrease in inventory.

### 10.1.3 Capital Expenditure

In 2005, the Group had invested to improve and to expand the production capacity of various plants namely:-

- continuing upgrading of margarine and shortening plant in Bangpoo Industrial Estate by increasing automation as well as building improvement.
- production expansion project of crude palm oil (CPO) at its crushing mills in Trang and Krabi.
- expansion of fruit and vegetable processing plants at Nakorn Pathom and Lampang.

All the above mentioned projects have been approved by Board of Investment (BOI) for investment privilege under the Investment Promotion Act.

#### Plan for Capital Expenditure

In 2006, the Group is planning to apply empty fruit bunch (EFB) treatment system into the production process by extracting CPO from EFB to help reducing oil loss. Moreover, EFB after treatment can be used as bio-fuel for the steam boiler to generate electricity utilized within the mill. In another project, the subsidiary company is planning to implement the electricity generation project by using biomass or waste from production as fuel. This activity conforms to the Clean Development Mechanism (CDM) project as renewable energy. The generated electricity would be sold through Provincial Electricity Authority (PEA) line connected to the national grid.

Moreover, the Group is planning to improve production efficiency of its crushing mills at Trang and Krabi by improving design and layout of its machinery and factory to achieve greater its production efficiency.

#### 10.1.4 Source of Fund

**Structure of Fund:** Under the consolidated financial statements, source of fund comprised 1,606.40 million Baht of liabilities and 1,728.28 million Baht from shareholders' equity, in the ratio of 48.17 : 51.83 respectively. Of the said amount of liabilities, bank loans amounted to 1,217.36 million Baht or 75.78% of total liabilities, which could be classified under short-term loan at 1,015.81 million Baht or 83.44% and long-term loan at 201.55 million Baht or 16.56%. The ratio of debt to equity was at 0.93 times at the end of 2005. Further details are set out below:-

- **Shareholders' equity:** At the end of 2005, shareholders' equity was 1,728.28 million Baht (net of treasury stock of 26.62 million Baht), an increase of 157.19 million Baht or 10.01%. This was because the Company started to dispose treasury shares by offering for sale on the main board of the Stock Exchange of Thailand 64.90 million shares at the average price of 1.68 Baht per share, the total amount sales proceeds of which was 109.30 million Baht. As such, the gain

generated by the abovementioned treasury shares disposal caused the Company's share premium to increase by 8.30 million Baht. In addition, the Group earned net profits in 2005 amounting to 53.88 million Baht, and declared dividend payment during the year amounting to 29.07 million Baht.

- **Liabilities:** At the end of 2005, the Group had short-term bank loan of 802.93 million Baht of which:-

- i. 31.85 million Baht was extended to a subsidiary secured by its own land, building and machinery as collateral;
- ii. 165.40 million Baht was guaranteed by the Company;
- iii. 605.68 million Baht was unsecured.

Long-term liabilities amounted to 414.43 million Baht of which:-

- i. loan of 128.58 million Baht was extended to subsidiary secured by the same collateral as short-term loan of such subsidiary and without any covenant. The loan, which is denominated in Thai Baht, is due in 2009. Monthly loan installment includes repayment of both principal and interest expense at the rate of MLR.
- ii. Loan of 44.30 million Baht was extended to subsidiary guaranteed by the Company subject to certain covenants including restriction on the subsidiary's dividend payment. This loan, which is denominated in Thai Baht, is due in 2010. Principal repayment is due every 3 months including interest expense at the rate of THBFIX plus a fixed rate.
- iii. Loan of 241.55 million Baht was extended to the Company which is denominated in Thai Baht at the interest rate of THBFIX plus a fixed rate and with no collateral. Principal repayment is due every 6 months, 85 million Baht of which is due in 2006; and a further 156.55 million Baht is due in 2007.

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

Because the major raw material of the Group's production comes from agricultural product, future financial performance of the Group is to a large extent dependent on the cost of such product, which is in turn subject to uncontrollable factors such as weather condition, rainfall level, and the quantity harvested in each season. In particular, the quantity and the price of CPO, which are the major costs of manufacturing for the Company's refinery, have a material impact on cost of goods and hence gross margin. The price of CPO in turn depends on the quantity of FFB in each season and the fluctuation of world market price. Any increase in the cost of raw material will reduce the Company's profit, so management expertise and any source of information to forecast CPO price more accurately can help to manage



inventory cost according to the fluctuation cost of raw material. The Company may not be able to adjust the product price according to the fluctuation in raw material cost given severe competition in palm oil industry and regulatory control by the Internal Trade Department on price of below-5-liter vegetable oil.

Besides the abovementioned uncontrollable natural factors, trade liberalization of palm oil under AFTA is expected to materially affect the future of the palm oil industry. Since palm oil growers in Thailand are not in a position to compete with the cost of Malaysia. Presently, import of palm oil has not been liberalized and palm oil growers in Thailand continue to be protected. This results in higher raw material cost of refineries compared to those of Malaysia. In accordance with trade liberalization of palm oil under AFTA, Thailand has lowered its import tax for palm oil (crude palm oil and refined palm oil) to 5% with no import quota since January 1, 2003. However, at present, the Government still does not have clear direction on practice under AFTA, resulting in difficulty in raw material management especially during period of FFB shortage. Refineries in Thailand being unable to utilize their production capacity as efficiently, incur higher production cost compared to cost of Malaysia and Indonesia.

In addition, palm oil has the potential to play an important role in bio-diesel production and help save diesel consumption in the Kingdom. Moreover, bio-diesel can be an alternative energy source of the Kingdom in the future. The Government's policy regarding palm oil import and export, is expected to play a significant role in determining the future of Thai palm oil industry.

### **10.3 Remuneration of statutory auditor**

#### **1) Audit Fee**

The Company and its subsidiaries paid audit fee to statutory auditor as follows:-

	2004	2005
for the Company	1,185,000 Baht	1,255,000 Baht
for 2 subsidiaries	1,412,500 Baht	1,472,500 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 2005 amounting to 70,000 Baht, the same as pervious year.

## 11. Shareholders and Management

### 11.1 Shareholders

As at 12 July 2005, 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. Hap Seng Consolidated Berhad <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. Thai NVDR Co., Ltd.	1.44
7. Mr. Somchai Chongsawadchai	1.09
8. DBS Vickers Securities (Singapore) Pte Ltd	0.83
9. Mr. Pirach Imchokchai	0.62
10. Mr. Suraphan Pattanapitoon	0.54

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

**Note :**

<sup>1</sup> Lam Soon Holding Co., Ltd. is an investment holding company. As at 31 December 2005, shareholders holding 10% or more 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.	50.71
(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%,
Ms. Whang Yee Ling	14.83%.)
2. Mr. Whang Tar Liang	24.50
(owns 0.34% shares in LST)	
3. Mr. Whang Shang Ying	24.50
(owns no shares in LST)	

<sup>2</sup> Hap Seng Consolidated Berhad is an investment holding company and carries out marketing and trading activities for certain of its subsidiaries, which has been listed on the Malaysia Stock Exchange namely Bursa Securities Malaysia Berhad. Its major shareholder is Malaysian Mosaic Berhad holding 52.99%.

<sup>3</sup> Lam Soon Cannery Pte. Ltd. is an investment holding company. As at 31 December 2005, its shareholders are as follows:-

<b>Shareholder's Name</b>	<b>Percentage of Paid-up Capital</b>
1. Galatea Sdn Bhd.	52.90
2. HSBC Trustee (C.I.)	44.30
3. Whang Yee Ling	1.30
4. Chen Mu Hsien	0.90
5. Whang Shang Ying	0.60
Total	100.00

Note : Galatea Sdn Bhd. is owned by Mr. Whang Tar Liang and his wife 49.93%, Mr. Whang Shang Ying 33.78%, Ms. Whang Yee Ling 14.53%, and Lam Soon Properties Sdn. Bhd. 1.76%.

## 11.2 Board of Directors and Management Committee

### 11.2.1 The Composition of Board of Directors and Sub-Committees

#### - Board of Directors

(1) Mr. Mechai Viravaidya	Chairman of Board of Directors and Independent Director
(2) Mr. Whang Tar Liang	Deputy Chairman and Executive Director
(3) Mr. Songkram Grachangnetara	Chairman of Audit Committee and Independent Director
(4) Mrs. Sumarn Changsiricharoen	Independent Director and Member of Audit Committee
(5) Mr. Tanatat Puttasuwan	Independent Director and Member of Audit Committee
(6) Mr. Whang Shang Ying	Executive Director
(7) Mr. Somchai Chongsawadchai	Managing Director
(8) Ms. Anchalee Suebchantasiri	Executive Director
(9) Mr. Ampol Simarojana	Executive Director

#### - Audit Committee

(1) Mr. Songkram Grachangnetara	Chairman of Audit Committee and Independent Director
(2) Mrs. Sumarn Changsiricharoen	Independent Director and Member of Audit Committee
(3) Mr. Tanatat Puttasuwan	Independent Director and Member of Audit Committee
(4) Ms. Anchalee Suebchantasiri	Secretary to Audit Committee

#### - Remuneration Sub-Committee

(1) Mr. Mechai Viravaidya	Independent Director
(2) Mr. Songkram Grachangnetara	Independent Director
(3) Mrs. Sumarn Changsiricharoen	Independent Director
(4) Mr. Tanatat Puttasuwan	Independent Director
(5) Mr. Whang Shang Ying	Executive Director

#### - Share Allocation Sub-Committee

(1) Mr. Mechai Viravaidya	Independent Director
(2) Mr. Songkram Grachangnetara	Independent Director
(3) Mrs. Sumarn Changsiricharoen	Independent Director
(4) Mr. Tanatat Puttasuwan	Independent Director
(5) Mr. Whang Shang Ying	Executive Director

### 11.2.2 Criteria on recruiting Directors and management

Since the Company does not have a recruitment committee, the Board of Directors assigns each Director to seek appropriate persons to be proposed as Directors and management. The qualification of such persons must conform to SEC regulations, and they must be knowledgeable and possess the relevant experience beneficial to the Company.

In accordance with the Company's Articles of Association, the Company has not determined the number of directors appointed by each group of major shareholders. Directors are elected based on majority voting of attending shareholders.

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

In 2005, the Board of Directors held 5 meetings, with attendance shown as below:-

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

### 11.2.4 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 Finance Manager
(5) Mr. Ampol Simarojana	Director and Factory Manager
(6) Mr. Nipol Punyawiwat	Sales Manager
(7) Mrs. Roongnapa Phanomchoeng	Industrial Sales Manager

### 11.2.5 Details of Executive Board and Company Executives

- (1) Name : **Mr. Mechai Viravaidya**  
Position : Chairman of Directors and Independent Director  
Age : 65  
% of share holding : None  
Family relation with management : None  
Education : Bachelor of Commerce, Melbourne University, Australia

#### **Experience:**

- Chairman of Directors and Independent Director of Lam Soon (Thailand) Plc.

*Note* : ● *present experience*    ○ *past experience*

- Chairman of Directors and Independent Director of Universal Food Plc.
- Chairman of Directors and Independent Director of United Palm Oil Industry Plc.
- Senator
- Founder and Chairman of Population and Community Development Association (PDA)
  - Chairman, Krung Thai Bank (Public Company Limited)
  - Chairman, Telephone Organization of Thailand
  - Minister to the Prime Minister's Office
  - Cabinet Spokesman
  - Governor, Provincial Waterworks Authority of Thailand
  - Deputy Minister of Industry

(2) Name : **Mr. Whang Tar Liang**  
 Position : Deputy Chairman and Executive Director  
 Age : 79  
 % of share holding : 0.34%  
 Family relation with management : Mr. Whang Shang Ying's father  
 Education : Bachelor of Science Degree, University of California at Berkeley, U.S.A.

**Experience:**

- Deputy Chairman, Lam Soon (Thailand) Plc.
- Executive Director, Lam Soon (Thailand) Plc.
- Director, United Palm Oil Industry Plc.
- Director, Lam Soon Holding Co., Ltd.
- Group Managing Director of The Lam Soon Group for the territory of Singapore, Malaysia and Thailand
- Independent Director of G.K. Goh Holdings Limited, a public listed company in Singapore
- Chairman/Deputy Chairman, Singapore Manufacturers' Association
- Deputy Chairman, The Public Service Commission of Singapore

(3) Name : **Mr. Songkram Grachangnetara**  
 Position : Chairman of Audit Committee and Independent Director  
 Age : 63  
 % of share holding : None  
 Family relation with management : None  
 Education : M.A. (Cantab.), Economics Cambridge University, England

Note : ● *present experience*    ○ *past experience*

Certificate of Completion DAP 32/2005 from Thai Institute of Directors (IOD)

**Experience:**

- Chairman of Audit Committee and Independent Director, Lam Soon (Thailand) Plc.
- Advisor, Thailand Development Research Institute (TDRI)
- Board Director, Population and Community Development Association (PDA)
- Independent Director, Capital Nomura Securities Public Company Limited
- Advisor to the Board of Directors, The Industrial Finance Corporation of Thailand (IFCT)
- Chairman, Industrial Management Company Limited (IMC)
- 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 : 58  
% of share holding : None  
Family relation with management : None  
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:**

- 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.
- Auditor, Navatham Law and Accounting Office
- Accountant, Thada Visva Co., Ltd.

Note : ● *present experience*    ○ *past experience*



(5) Name : **Mr. Tanatat Puttasuwan**  
 Position : Independent Director and  
 Member of Audit Committee  
 Age : 45  
 % of share holding : None  
 Family relation with management : None  
 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:**

- Independent Director and Member of Audit Committee, Lam Soon (Thailand) Plc.
- Senior Private Sector Development Specialist, World Bank, Bangkok
- Assistant Secretary to the Board of Directors, Krung Thai Bank Plc.
- Manager, Investor Relations, Krung Thai Bank Plc.

(6) Name : **Mr. Whang Shang Ying**  
 Position : Executive Director  
 Age : 45  
 % of share holding : None  
 Family relation with management : Mr. Whang Tar Liang's son  
 Education : Bachelor of Arts (Hons.) in Law,  
 Oxford University, United Kingdom

**Experience:**

- Executive Director, Lam Soon (Thailand) Plc.
- Director, Bangkok Edible Oil Co., Ltd.
- Director, United Palm Oil Industry Plc.
- Director, Universal Food Plc.
- Chairman of Board of Directors, Union Frost Co., Ltd.
- Executive Director, Lam Soon (M) Berhad
- Executive Director, Lam Soon Singapore Pte Ltd.
- Independent Director, Jurong Cement Limited, a public listed company in Singapore

(7) Name : **Mr. Somchai Chongsawadchai**  
 Position : Managing Director  
 Age : 48  
 % of share holding : 1.09%  
 Family relation with management : None

*Note* : ● *present experience* ○ *past experience*

Education : Bachelor's degree in Accountancy,  
Chulalongkorn University;  
Certificate of Completion DCP 36/2003 from  
Thai Institute of Directors (IOD)

**Experience:**

- Managing Director, Lam Soon (Thailand) Plc.
- Managing Director, Universal Food Plc.
- Managing Director, Union Frost Co., Ltd.
- Managing Director, United Palm Oil Industry Plc.
- Executive Director, Lam Soon Holding Co., Ltd.
- Director and General Manager, Lam Soon (Thailand) Plc.
- President, Palm Oil Refinery Association
- Director, Reckitt and Coleman (Thailand) Co.,Ltd.

(8) Name : **Miss Anchalee Suebchantasiri**  
Position : Director and Finance Manager  
Age : 47  
% of share holding : 0.001%  
Family relation with management : None  
Education : Bachelor's degree in Accountancy,  
Thammasat University;  
Certificate of Completion DCP 36/2003 from  
Thai Institute of Directors (IOD)

**Experience:**

- Executive Director, Lam Soon (Thailand) Plc.
- Executive Director, United Palm Oil Industry Plc.
- Executive Director, Universal Food Plc.
- Director, Union Frost Co., Ltd.
- Financial Manager, Lam Soon (Thailand) Plc.
- Director, Bangkok Edible Oil Co., Ltd.

(9) Name : **Mr. Ampol Simarojana**  
Position : Director and Factory Manager  
Age : 49  
% of share holding : 0.02%  
Family relation with management : None  
Education : Bachelor of Science (Chemical Engineering),  
Chulalongkorn University;  
Certificate of Completion DCP 37/2003 from  
Thai Institute of Directors (IOD)

Note : ● present experience    ○ past experience

**Experience:**

- Executive Director, Lam Soon (Thailand) Plc.
- Factory Manager, Lam Soon (Thailand) Plc.
- Director, Universal Food Plc.
- Director, Union Frost Co., Ltd.
- Manager of Melting Division, Siam Asahe-Technoglass Co., Ltd.
- Assistant Production Manager, Lam Soon (Thailand) Co., Ltd.

(10) Name : **Mr. Nipol Punyawiwat**  
Position : Sales Manager  
Age : 46  
% of share holding : 0.14%  
Family relation with management : None  
Education : Bachelor of Law, Ramkhamhaeng University

**Experience:**

- Sales Manager, Lam Soon (Thailand) Plc.
- Sales Manager, Bangkok Edible Oil Co., Ltd.

(11) Name : **Mrs. Roongnapa Phanomchoeng**  
Position : Industrial Sales Manager  
Age : 47  
% of share holding : None  
Family relation with management : None  
Education : Bachelor of Economy,  
Ramkhamhaeng University

**Experience:**

- Industrial Sales Manager, Lam Soon (Thailand) Plc.
- Assistant Managing Director, Pure Refined Oil Co., Ltd.
- Senior Sales Manager, Abico Holdings Plc.

Note : ● *present experience*    ○ *past experience*

## 11.2.6 Directors and Executives holding shares in the Company

Name	No. of shares at the end of 2004	Increase or (Decrease) in no. of shares during the fiscal year	No. of shares at the end of 2005
(1) Mr.Mechai Viravaidya	-	-	-
(2) Mr.Whang Tar Liang	2,758,000	-	2,758,000
(3) Mr.Songkram Grachangnetara	-	-	-
(4) Mrs. Sumarn Chaengsiricharoen	-	-	-
(5) Mr. Tanatat Puttasuwan	-	-	-
(6) Mr.Whang Shang Ying	-	-	-
(7) Mr.Somchai Chongsawadchai	8,900,000	-	8,900,000
(8) Ms.Anchalee Suebchantasiri	9,140	-	9,140
(9) Mr.Ampol Simarojana	200,000	-	200,000
(10) Mr.Nipol Poonyaviwat	379,500	755,000	1,134,500
(11) Mrs. Roongnapa Phanomchoeng	-	-	-

## 11.2.7 Remuneration of Directors and Management

### (a) Director's fees

- Director's fees paid to all 9 members of the Board 3,838,000 Baht

Name	Position	Director's fees in 2005
(1) Mr. Mechai Viravaidya	Chairman of Directors and Independent Director	569,000
(2) Mr. Whang Tar Liang	Deputy Chairman and Executive Director	232,000
(3) Mr. Songkram Grachangnetara	Independent Director and Chairman of Audit Committee	703,000
(4) Mrs. Sumarn Changsiricharoen	Independent Director and Member of Audit Committee	703,000
(5) Mr. Tanatat Puttasuwan	Independent Director and Member of Audit Committee	703,000
(6) Mr. Whang Shang Ying	Executive Director	232,000
(7) Mr. Somchai Chongsawadchai	Managing Director	232,000
(8) Mr. Ampol Simarojana	Director and Factory Manager	232,000
(9) Ms. Anchalee Suebchantasiri	Director and Financial Manager	232,000

(b) Directors' fees paid to the Company's Directors as Directors of subsidiaries 2,880,000 Baht

(c) Remuneration of the Management (7 members) 58,596,349 Baht\*

\* Remuneration of the Management comprises remuneration paid to the Executive Directors, the Managing Director, and the first 4 Department Manager levels ranking immediately below Managing Director as specified in the Notification of The Office of Securities and Exchange Commission.

(d) 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. No Provident Fund has been paid to the two Executive Directors.

11.2.8 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

11.2.9 Control system of utilising insider information

The Company has set out policy and guidelines preventing the Management from utilising the insider information of the Company for personal gain 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 in the Company by his spouse and minor children. This includes penalty provisions under the Securities and Exchange Act B.E. 2535 and the 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 insider information of the Company should not be revealed to others. This includes impacts on 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 announced.

#### 11.2.10 Internal Control Management

During the Board of Directors Meeting No. 1/2006 dated February 27, 2006, in presence of four Independent Directors and Audit Committee members, the Board reviewed the internal control system of the Company by using the evaluation form initially completed and presented by the management and has been reviewed by the Audit Committee. The evaluation of the internal control system of the Company covered 5 areas, including organization and environment, risk management, operational control of the management, information system, and communication and monitoring. The Board concluded and provided an opinion that the Company maintains an adequate internal control system for all 5 areas.

The business transactions where the Company is a majority shareholder or those of its subsidiary companies are mentioned in the Notes to the Financial Statements item 5, as well as the transactions corresponding to the rules and regulations of the SET regarding related transactions are also mentioned. The Board provided the opinion that the Company maintains adequate internal control measures.

Another significant internal control measure is the quarterly review reports by the Company's Internal Auditor, Dr. Virach & Associates, which are reviewed closely by the Audit Committee. Major issues are reported to the Board by the Audit Committee. The Board provided an opinion that the Company's internal control measure is further strengthened by the quarterly review as well.

### **11.3 Dividend Payout Policy**

The Company's policy is to pay dividends to shareholders of an amount not less than 40% of net earnings after tax. The Company paid dividend for the operation period of 2003 at the rate of 0.20 Baht/share accounting for 68.49% of net profit, compared with that of 2004 at 0.075 Baht/share accounting for 41.67% of net profit. The lower amount is due to the decline of operating results. In addition, the Company has an obligation to make repayment of a bank loan which was the Company's source of fund in acquiring UFC. Nevertheless, the Company's dividend payment has conformed with the stated dividend payout policy.

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.

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

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

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

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

Crude palm oil (CPO) is a major raw material for the company's palm oil refinery and fats manufacturing. United Palm Oil Industry Plc., a subsidiary of the Company, supplies CPO to the Company. It is a crushing mill that produced quality CPO with on-time delivery with record as good trading partners. Such purchases are necessary owing to the fact that there was seasonal shortage in the supply of domestic CPO consumed by refineries and that CPO import had to be approved by the Government, the Company therefore needed to buy CPO from the subsidiary.

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

In 2005, the Company bought CPO and CPKO from United Palm Oil Industry Plc., accounting to 19.23 % of its total CPO and CPKO purchase. The buying was based on the ongoing market price as normal business transaction on an arm's length basis. It was done without any commitment, but on the basis of the CPO purchase contract and in compliance with normal business practice in the palm oil industry.

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.

### **12.4 Connected transactions in the future**

The Company has had business transactions with United Palm Oil Industry Plc. prior to the Company becoming its major shareholder. United Palm Oil owns the largest oil palm plantation in Thailand and its crushing mill produces quality CPO. As the Company utilized CPO as its major raw material when the Government's policy on import of CPO is still unclear, the Company has had to source CPO from United Palm Oil. Nevertheless, the Company can and does buy CPO at competitive price from other crushing mills as additional sources of supply.



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

### **13.1 Legal conflicts**

As at 31 December 2005, there was no litigation involving the Company which could have an material adverse impact on the assets of the Company or its subsidiaries amounting higher than 5% of shareholders' equity.

### **13.2 Obligations on future share issuance**

- None -

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

- None -

**15. Financial statements**

LAM SOON (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES  
REPORT AND FINANCIAL STATEMENTS  
31 DECEMBER 2005 AND 2004

## **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 2005 and 2004, 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 2005 and 2004 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 : 27 February 2006

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

## BALANCE SHEETS

AS AT 31 DECEMBER 2005 AND 2004

(Unit : Baht)

	Note	CONSOLIDATED		THE COMPANY ONLY	
		2005	2004	2005	2004
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents		268,544,672	194,216,588	27,407,515	56,932,578
Trade accounts receivable					
Related companies	4, 5	1,776,555	3,195,755	260,851	760,034
Other companies	4	550,802,871	586,328,812	404,848,738	454,363,133
Total trade accounts receivable - net		552,579,426	589,524,567	405,109,589	455,123,167
Short-term loans and advances to					
related parties - net	5	16,641	-	3,276,322	219,211
Inventories - net	6	820,969,953	1,220,340,116	434,034,168	758,065,439
Other current assets		27,623,582	14,348,894	14,947,968	2,627,252
<b>TOTAL CURRENT ASSETS</b>		<b>1,669,734,274</b>	<b>2,018,430,165</b>	<b>884,775,562</b>	<b>1,272,967,647</b>
NON-CURRENT ASSETS					
Investments in subsidiaries accounted					
for under equity method	7	-	-	1,009,768,047	1,011,803,085
Other long-term investments - net	8	14,351,440	14,137,750	701,443	617,750
Property, plant and equipment - net	9	1,296,653,664	1,315,405,899	442,543,051	460,860,528
Non-operating land		109,481,612	109,481,612	-	-
Excess of acquisition cost of investments					
over net book value of subsidiaries		242,254,115	259,689,887	-	-
Deposit at financial institution subject to					
restrictions	10	900,000	900,000	-	-
Other non-current assets		1,302,382	689,293	417,022	441,022
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,664,943,213</b>	<b>1,700,304,441</b>	<b>1,453,429,563</b>	<b>1,473,722,385</b>
<b>TOTAL ASSETS</b>		<b>3,334,677,487</b>	<b>3,718,734,606</b>	<b>2,338,205,125</b>	<b>2,746,690,032</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 2005 AND 2004

(Unit : Baht)

	Note	CONSOLIDATED		THE COMPANY ONLY	
		2005	2004	2005	2004
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Bank overdrafts and short-term loans					
from financial institutions	11	802,927,652	981,247,907	470,000,000	665,000,000
Trade accounts payable					
Related parties	5	2,704,705	-	2,182,844	25,065,454
Other companies		170,412,241	206,857,881	99,060,734	120,534,399
Total trade accounts payable		173,116,946	206,857,881	101,243,578	145,599,853
Current portion of long term loans	12	212,884,444	156,210,000	171,900,000	114,450,000
Dividend payable		30,424,073	30,119,879	25,404,034	25,423,786
Other current liabilities					
Corporate income tax payable		15,241,341	9,274,857	8,020,062	6,577,507
Accrued expenses		60,503,909	82,935,719	27,108,752	29,609,371
Unearned income		27,043,358	12,460,095	26,652,686	12,460,095
Others		65,527,036	37,053,004	33,400,493	29,591,987
Total other current liabilities		168,315,644	141,723,675	95,181,993	78,238,960
TOTAL CURRENT LIABILITIES		1,387,668,759	1,516,159,342	863,729,605	1,028,712,599
NON-CURRENT LIABILITIES					
Long-term loans - net of current portion	12	201,545,556	615,630,000	69,650,000	458,050,000
Provision for land rental charge	13	17,028,000	15,308,000	-	-
Others		154,523	545,195	-	-
TOTAL NON-CURRENT LIABILITIES		218,728,079	631,483,195	69,650,000	458,050,000
TOTAL LIABILITIES		1,606,396,838	2,147,642,537	933,379,605	1,486,762,599

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 2005 AND 2004

(Unit : Baht)

	Note	CONSOLIDATED		THE COMPANY ONLY	
		2005	2004	2005	2004
SHAREHOLDERS' EQUITY					
Share capital					
Registered, issued and fully paid-up					
820,000,000 ordinary shares of Baht 1 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
Premium on treasury stock	16	8,304,881	-	8,304,881	-
Unrealised loss from other long-term investments	8	(2,922,391)	(3,092,259)	(2,922,391)	(3,092,259)
Retained earnings					
Appropriated - statutory reserve	14	70,748,216	68,054,254	70,748,216	68,054,254
- treasury stock reserve		26,618,806	-	26,618,806	-
Unappropriated		266,724,549	260,608,073	266,724,549	260,608,073
Total shareholders' equity		1,431,444,326	1,387,540,333	1,431,444,326	1,387,540,333
Less : Treasury stock	16	(26,618,806)	(127,612,900)	(26,618,806)	(127,612,900)
EQUITY ATTRIBUTABLE TO THE COMPANY'S					
SHAREHOLDERS - NET		1,404,825,520	1,259,927,433	1,404,825,520	1,259,927,433
MINORITY INTERESTS - EQUITY ATTRIBUTABLE TO					
MINORITY SHAREHOLDERS OF SUBSIDIARIES		323,455,129	311,164,636	-	-
TOTAL SHAREHOLDERS' EQUITIES		1,728,280,649	1,571,092,069	1,404,825,520	1,259,927,433
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		3,334,677,487	3,718,734,606	2,338,205,125	2,746,690,032
		0	0	0	0

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

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DIRECTORS

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

## STATEMENTS OF EARNINGS

FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(Unit : Baht)

	Note	CONSOLIDATED		THE COMPANY ONLY	
		2005	2004	2005	2004
REVENUES					
Sales		5,114,261,651	5,080,922,567	4,048,681,206	4,244,418,010
Share of profit from investments accounted for under equity method	7	-	-	19,361,298	81,773,265
Gain on disposal of fixed assets		3,276,942	24,350,569	1,794	22,201,930
Other income		28,191,329	25,821,470	12,934,183	14,770,820
<b>TOTAL REVENUES</b>		<b>5,145,729,922</b>	<b>5,131,094,606</b>	<b>4,080,978,481</b>	<b>4,363,164,025</b>
EXPENSES					
Cost of sales		4,467,519,603	4,347,198,843	3,749,345,373	3,939,531,841
Selling and administrative expenses		509,151,120	516,284,472	237,895,135	256,310,914
Directors' remuneration	17	11,978,000	11,803,000	3,838,000	3,653,000
<b>TOTAL EXPENSES</b>		<b>4,988,648,723</b>	<b>4,875,286,315</b>	<b>3,991,078,508</b>	<b>4,199,495,755</b>
EARNINGS BEFORE INTEREST EXPENSES AND INCOME TAX					
		157,081,199	255,808,291	89,899,973	163,668,270
INTEREST EXPENSES		(52,998,059)	(33,368,835)	(28,000,667)	(16,580,522)
CORPORATE INCOME TAX	18	(27,036,433)	(31,659,728)	(8,020,062)	(12,935,957)
EARNINGS BEFORE MINORITY INTERESTS		77,046,707	190,779,728	53,879,244	134,151,791
EARNINGS IN RESPECT OF MINORITY INTERESTS		(23,167,463)	(56,627,937)	-	-
<b>NET EARNINGS FOR THE YEAR</b>		<b>53,879,244</b>	<b>134,151,791</b>	<b>53,879,244</b>	<b>134,151,791</b>
BASIC EARNINGS PER SHARE					
Net earnings		0.07	0.18	0.07	0.18
Weighted average number of ordinary shares - net (Shares)		757,585,556	738,000,000	757,585,556	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 2005 AND 2004

(Unit : Baht)

	CONSOLIDATED		THE COMPANY ONLY	
	2005	2004	2005	2004
<b>Cash flows from operating activities :</b>				
Net earnings	53,879,244	134,151,791	53,879,244	134,151,791
Adjustments to reconcile net earnings to net cash provided by (paid from) operating activities :-				
Depreciation	140,530,359	133,141,850	48,110,295	49,358,571
Amortisation of excess of acquisition cost of investments over net book value of subsidiaries	17,435,772	15,434,490	-	-
Share of profit from investments accounted for under equity method	-	-	(19,361,298)	(81,773,265)
Increase (decrease) in allowance for doubtful accounts	5,155,812	2,947,103	359,612	(1,733,438)
Increase (decrease) in provision for stock obsolescence and diminution in value of inventories	11,477,409	31,808,275	(9,215,781)	9,721,944
Allowance for impairment loss of fixed assets	-	7,194,201	-	1,926,317
Provision for land rental charge	1,720,000	15,308,000	-	-
Loss (gain) on disposal and write off of fixed assets	1,766,216	(24,350,569)	(1,793)	(22,201,930)
Unrealised loss (gain) on exchange	(248,935)	444,319	(110,410)	(206,047)
Earnings in respect of minority interests	23,167,463	56,627,937	-	-
Earnings before changes in operating assets and liabilities	254,883,340	372,707,397	73,659,869	89,243,943
Decrease (increase) in operating assets :-				
Trade accounts receivable - related parties	1,419,200	2,521,823	499,183	554,359
Trade accounts receivable - other companies	32,999,209	(150,828,692)	49,147,841	(152,450,807)
Inventories	387,892,754	(346,331,798)	333,247,052	(193,599,047)
Other current assets	(14,918,511)	4,665,771	(12,320,716)	(705,341)
Other non-current assets	(613,089)	1,395,709	24,000	(172,163)
Increase (decrease) in operating liabilities :-				
Trade accounts payable - related parties	2,704,705	-	(22,882,610)	(3,434,631)
Trade accounts payable - other companies	(36,359,934)	(37,025,955)	(21,356,313)	(18,931,881)
Other current liabilities	26,591,969	(21,264,928)	16,943,033	(10,947,251)
Net cash from (used in) operating activities	654,599,643	(174,160,673)	416,961,339	(290,442,819)

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 2005 AND 2004

(Unit : Baht)

	CONSOLIDATED		THE COMPANY ONLY	
	2005	2004	2005	2004
<b>Cash flows from investing activities :</b>				
Increase in short-term loans and advances to related parties	(838,671)	-	(3,057,111)	-
Proceeds from disposal of fixed assets	11,760,097	34,693,280	3,363,727	25,822,494
Increase in investments in related parties	-	(392,338,589)	-	(406,497,756)
Dividend received from subsidiary	-	-	21,482,511	96,671,300
Acquisitions of equipment	(135,304,437)	(161,098,729)	(33,154,752)	(102,026,235)
Net cash used in investing activities	(124,383,011)	(518,744,038)	(11,365,625)	(386,030,197)
<b>Cash flows from financing activities :</b>				
Increase (decrease) in bank overdrafts and short-term loans				
from financial institutions	(178,320,255)	560,252,001	(195,000,000)	495,000,000
Repayment of hire purchase creditors	(390,672)	(908,255)	-	-
Increase in long-term loans	-	395,000,000	-	395,000,000
Cash paid for long-term loans	(357,410,000)	(110,034,356)	(330,950,000)	(92,500,000)
Proceeds from disposal of treasury stock	109,298,975	-	109,298,975	-
Dividend paid	(29,066,596)	(159,681,812)	(18,469,752)	(110,700,000)
Net cash from (used in) financing activities	(455,888,548)	684,627,578	(435,120,777)	686,800,000
Net increase (decrease) in cash and cash equivalents	74,328,084	(8,277,133)	(29,525,063)	10,326,984
Cash and cash equivalents at beginning of the year	194,216,588	202,493,721	56,932,578	46,605,594
Cash and cash equivalents at end of the year	268,544,672	194,216,588	27,407,515	56,932,578
Supplementary disclosures of cash flows information				
Cash paid during the year for :-				
Interest expenses	54,233,661	36,424,065	29,160,431	14,711,554
Corporate income tax	24,707,629	57,760,878	6,268,713	26,810,680

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 2005 AND 2004

(Unit : Baht)

		CONSOLIDATED									
					Unrealised loss	Retained earnings					
		Issued and			from other	Appropriated					
		paid up	Premium on		long-term	statutory	treasury	Unappropriated	Treasury stock	Minority interests	Total
Note		share capital	Share premium	treasury stock	investments	reserve	stock reserve				
	<b>Balance as at 1 January 2004</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
	Adjustment of fair value of investments	-	-	-	169,868	-	-	-	-	-	169,868
	Appropriation of statutory reserve	14	-	-	-	2,693,962	-	(2,693,962)	-	-	-
	Appropriation of treasury stock reserve	16	-	-	-	-	127,612,900	(127,612,900)	-	-	-
	Dividend paid	19	-	-	-	-	-	(18,450,000)	-	-	(18,450,000)
	Disposal of treasury stock	16	-	-	8,304,881	-	(100,994,094)	100,994,094	100,994,094	-	109,298,975
	Net earnings for the year	-	-	-	-	-	-	53,879,244	-	-	53,879,244
	Increase in minority interests	-	-	-	-	-	-	-	-	12,290,493	12,290,493
	<b>Balance as at 31 December 2005</b>	820,000,000	241,970,265	8,304,881	(2,922,391)	70,748,216	26,618,806	266,724,549	(26,618,806)	323,455,129	1,728,280,649

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 (Continued)

FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(Unit : Baht)

THE COMPANY ONLY										
	Note	Issued and		Unrealised loss from other long-term investments	Retained earnings			Treasury stock	Total	
		paid up share capital	Share premium		Premium on treasury stock	Appropriated				Unappropriated
						statutory reserve	stock reserve			
<b>Balance as at 1 January 2004</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
Adjustment of fair value of investments		-	-	-	169,868	-	-	-	-	169,868
Appropriation of statutory reserve	14	-	-	-	-	2,693,962	-	(2,693,962)	-	-
Appropriation of treasury stock reserve	16	-	-	-	-	-	127,612,900	(127,612,900)	-	-
Dividend paid	19	-	-	-	-	-	-	(18,450,000)	-	(18,450,000)
Disposal of treasury stock	16	-	-	8,304,881	-	-	-	(100,994,094)	100,994,094	109,298,975
Net earnings for the year		-	-	-	-	-	-	53,879,244	-	53,879,244
<b>Balance as at 31 December 2005</b>		820,000,000	241,970,265	8,304,881	(2,922,391)	70,748,216	26,618,806	266,724,549	(26,618,806)	1,404,825,520

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**

Lam Soon (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
	2005	2004	2005	2004	
	Million Baht	Million Baht	Percent	Percent	
<b><u>Subsidiaries directly held by the Company</u></b>					
<b><u>United Palm Oil Industry Public Company Limited</u></b>					
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	350	96.79	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	60	58.00	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 statement for the year then ended included the consolidated operating results of that company as from 1 April 2004 to 31 December 2004.

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

	(Unit : Baht)
	<u>2004</u>
Net assets	777,246,128
Net liabilities	(506,400,760)
Net book value of subsidiary	<u>270,845,368</u>
Excess of acquisition cost of investment over net book value of subsidiary	<u>135,652,388</u>
Acquisition cost of investment	406,497,756
Less : Cash and cash equivalents at acquired date	<u>(14,159,167)</u>
Net cash used in acquiring investment in subsidiary	<u><u>392,338,589</u></u>

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

The financial statements have been prepared in accordance with accounting standards enunciated under the Accounting Profession Act B.E. 2547.

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

#### **3.1 Revenue recognition**

Sales of goods are recognised when products are delivered and title passes to customer.

#### **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

Property, plant and equipment are stated at cost less accumulated depreciation and related allowance for impairment loss. 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 the 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 earnings.

### **3.9 Treasury stock**

Treasury stock is stated at cost and is 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.

### 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 2005 and 2004, classified by aging, were as follows :-

	(Unit : Baht)			
	Consolidated		The Company Only	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<u>Related parties</u>				
- Less than 3 months	1,776,555	3,139,205	260,851	703,484
- Over 12 months	452,280	508,830	-	56,550
Total	2,228,835	3,648,035	260,851	760,034
Less : Allowance for doubtful accounts	(452,280)	(452,280)	-	-
Trade accounts receivable - related parties, net	<u>1,776,555</u>	<u>3,195,755</u>	<u>260,851</u>	<u>760,034</u>

(Unit : Baht)

	Consolidated		The Company Only	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<u>Other companies</u>				
Post dated cheques receivable	28,720,115	31,642,259	18,687,853	30,394,462
Cheque returned	13,043,867	7,443,845	8,347,716	7,443,845
Trade accounts receivable				
- Less than 3 months	513,919,970	548,067,436	378,908,245	420,760,057
- 3 - 6 months	5,270,515	5,352,366	4,353,402	2,328,914
- 6 - 12 months	1,619,071	2,591,899	1,870,801	429,532
- Over 12 months	24,857,645	25,171,397	2,051,975	2,017,965
Total	587,431,183	620,269,202	414,219,992	463,374,775
Less : Allowance for doubtful accounts	(36,628,312)	(33,940,390)	(9,371,254)	(9,011,642)
Trade accounts receivable - other companies, net	550,802,871	586,328,812	404,848,738	454,363,133
<b>Total trade accounts receivable - net</b>	<b>552,579,426</b>	<b>589,524,567</b>	<b>405,109,589</b>	<b>455,123,167</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 and lending policy
	Consolidated		The Company Only		
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	
<u>Transactions with subsidiaries</u>					
Purchase of goods	-	-	386.3	659.6	Forward contract prices by using market prices at the date of agreement or market prices
Rental income	-	-	2.1	0.9	Market price
<u>Transactions with related companies</u>					
Sales of goods	11.3	2.9	3.1	2.9	Cost plus margin
Interest income	0.6	0.6	-	-	Interest at rate 1.25 percent per annum
Purchases of fixed assets	2.7	-	-	-	Agreed price
Purchases of goods	0.6	-	-	-	Agreed price

The outstanding balances of the above transactions as at 31 December 2005 and 2004 have been separately shown in the balances sheets with the details as follows :-

	(Unit : Baht)			
	Consolidated		The Company Only	
	2005	2004	2005	2004
<b><i>Trade accounts receivable - related companies</i></b>				
Lam Soon Singapore Pte Limited	1,220,001	1,714,296	-	464,323
ACE Canning Corporation Sdn. Bhd.	300,333	1,185,748	-	-
Lam Soon Edible Oils Sdn. Bhd.	256,221	295,711	256,221	295,711
Union Fresh Company Limited	452,280	452,280	-	-
Union Frost Company Limited	-	-	4,630	-
<b>Total trade accounts receivable - related companies</b>	2,228,835	3,648,035	260,851	760,034
Less : Allowance for doubtful accounts	(452,280)	(452,280)	-	-
<b>Total trade accounts receivable - related companies, net</b>	1,776,555	3,195,755	260,851	760,034
<b><i>Short- term loans and advances to related parties</i></b>				
<b><i>Short- term loans - related companies</i></b>				
Union Fresh Company Limited	40,285,836	40,285,836	-	-
Siam Unison Company Limited	5,324,565	5,324,565	-	-
Total short-term loans - related companies	45,610,401	45,610,401	-	-
<b><i>Advances - related parties</i></b>				
<b><i>Subsidiaries</i></b>				
Universal Foods Public Company Limited	-	-	3,272,558	4,390
United Palm Oil Industry Public Company Limited	-	-	3,764	214,821
Total advances - subsidiaries	-	-	3,276,322	219,211

(Unit : Baht)

	Consolidated		The Company Only	
	2005	2004	2005	2004
<u>Related companies</u>				
Union Fresh Company Limited	17,869,461	17,365,888	-	-
Siam Unison Company Limited	1,778,890	1,460,433	-	-
Lam Soon Edible Oils Sdn. Bhd.	16,641	-	-	-
Total advances - related companies	19,664,992	18,826,321	-	-
Total advances - related parties	19,664,992	18,826,321	3,276,322	219,211
<b>Total short-term loans and advances to related parties</b>	<b>65,275,393</b>	<b>64,436,722</b>	<b>3,276,322</b>	<b>219,211</b>
Less : Allowance for doubtful accounts	(65,258,752)	(64,436,722)	-	-
<b>Total short-term loans and advances to related parties - net</b>	<b>16,641</b>	<b>-</b>	<b>3,276,322</b>	<b>219,211</b>
 <u>Trade accounts payable - related parties</u>				
<u>Subsidiaries</u>				
United Palm Oil Industry Public Company Limited	-	-	1,957,903	25,065,454
Universal Food Public Company Limited	-	-	224,941	-
Total trade accounts payable – subsidiaries	-	-	2,182,844	25,065,454
<u>Related company</u>				
ACE Canning Corporation Sdn. Bhd.	2,704,705	-	-	-
Total trade accounts payable - related company	2,704,705	-	-	-
<b>Total trade accounts payable – related parties</b>	<b>2,704,705</b>	<b>-</b>	<b>2,182,844</b>	<b>25,065,454</b>

## 6. INVENTORIES

(Unit : Baht)

	Consolidated		The Company Only	
	2005	2004	2005	2004
Finished goods	442,178,363	652,198,416	61,296,001	215,475,897
Work in process	335,751,110	488,527,920	334,928,731	488,296,268
Raw materials	33,267,829	61,135,169	7,094,824	39,680,552
Supplies and spare parts	81,427,473	78,656,024	32,325,065	25,438,956
<b>Total</b>	<b>892,624,775</b>	<b>1,280,517,529</b>	<b>435,644,621</b>	<b>768,891,673</b>
Less : Allowance for stock obsolescence and diminution in value of inventories	(71,654,822)	(60,177,413)	(1,610,453)	(10,826,234)
<b>Inventories - net</b>	<b>820,969,953</b>	<b>1,220,340,116</b>	<b>434,034,168</b>	<b>758,065,439</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	
		2005	2004	2005	2004	Cost method		Equity method		2005	2004
						Percent	Percent	2005	2004		
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	613,026,278	614,920,010	21,482,511	96,671,300
Universal Food Public Company Limited	Manufacture and distribution of canned fruits and vegetables, juice and drinks	350,000,000	350,000,000	96.79	96.79	406,497,756	406,497,756	396,741,769	396,883,075	-	-
Total investments in subsidiaries accounted for under equity method						1,105,003,689	1,105,003,689	1,009,768,047	1,011,803,085	21,482,511	96,671,300

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 2005, the Company recognised share of profit from investments in subsidiaries accounted for under equity method of approximately Baht 19.4 million (2004 : Baht 81.8 million).

## 8. OTHER LONG-TERM INVESTMENTS

	(Unit : Baht)			
	Consolidated		The Company Only	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</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
Open-ended 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	(4,002,410)	(4,216,100)	(798,557)	(882,250)
<b>Other long-term investments - net</b>	<b><u>14,351,440</u></b>	<b><u>14,137,750</u></b>	<b><u>701,443</u></b>	<b><u>617,750</u></b>

	(Unit : Baht)			
	Consolidated		The Company Only	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b><u>Unrealised loss from other long-term investments</u></b>				
Portion of the Company	798,557	882,250	798,557	882,250
Portion of the subsidiary	3,203,853	3,333,850	-	-
Total	4,002,410	4,216,100	798,557	882,250
Unrealised loss attributable to the Company's investment and minority interests	(1,080,019)	(1,123,841)	2,123,834	2,210,009
<b>Unrealised loss from other long-term investments</b>	<b><u>2,922,391</u></b>	<b><u>3,092,259</u></b>	<b><u>2,922,391</u></b>	<b><u>3,092,259</u></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 2004	262,564,761	469,205,508	547,039,649	1,192,647,632	89,976,146	155,974,192	138,528,016	2,855,935,904
Purchases	955,884	-	750,963	23,414,658	13,988,901	7,533,224	88,660,807	135,304,437
Disposals/write off	-	(23,063,742)	(154,598)	(15,136,033)	(1,569,742)	(5,909,454)	(3,192,334)	(49,025,903)
Transfer in / (transfer out)	-	33,116,532	(6,262,834)	20,352,513	1,180,130	3,913,537	(52,299,878)	-
31 December 2005	263,520,645	479,258,298	541,373,180	1,221,278,770	103,575,435	161,511,499	171,696,611	2,942,214,438
<b>Accumulated depreciation</b>								
31 December 2004	-	272,199,462	314,862,611	743,528,195	68,028,742	120,228,846	-	1,518,847,856
Depreciation for the year	-	20,516,139	22,143,363	75,047,485	9,549,476	13,273,896	-	140,530,359
Disposals/write off	-	(18,020,585)	(142,907)	(10,635,333)	(1,561,980)	(5,138,785)	-	(35,499,590)
Transfer in / (transfer out)	-	-	(2,633,141)	3,275,228	(3,507,576)	2,865,489	-	-
31 December 2005	-	274,695,016	334,229,926	811,215,575	72,508,662	131,229,446	-	1,623,878,625
<b>Allowance for impairment</b>								
31 December 2004	14,487,948	-	-	1,926,317	5,267,884	-	-	21,682,149
31 December 2005	14,487,948	-	-	1,926,317	5,267,884	-	-	21,682,149
<b>Net book value</b>								
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
31 December 2005	249,032,697	204,563,282	207,143,254	408,136,878	25,798,889	30,282,053	171,696,611	1,296,653,664

Depreciation included in the earnings statements for the year

2004	133,141,850
2005	140,530,359

Loss on impairment included in the earnings statements for the year

2004	7,194,201
2005	-



(Unit : Baht)

<b>The Company Only</b>							
	Land	Building & improvement	Machinery, factory equipment and waste water treatment	Furniture & fixtures and office equipment	Vehicles	Construction in progress and machinery under installation	Total
<b>Cost</b>							
31 December 2004	27,938,625	232,954,434	623,082,706	28,905,637	27,604,025	77,132,103	1,017,617,530
Purchases	-	6,400	9,115,845	294,728	1,500,000	22,237,779	33,154,752
Disposals/write off	-	-	(4,588,806)	-	-	-	(4,588,806)
Transfer in / (transfer out)	-	137,635	3,879,703	20,107	-	(4,037,445)	-
31 December 2005	<u>27,938,625</u>	<u>233,098,469</u>	<u>631,489,448</u>	<u>29,220,472</u>	<u>29,104,025</u>	<u>95,332,437</u>	<u>1,046,183,476</u>
<b>Accumulated depreciation</b>							
31 December 2004	-	139,758,701	370,063,699	24,945,326	20,062,959	-	554,830,685
Depreciation for the year	-	8,432,655	34,793,318	1,655,243	3,229,079	-	48,110,295
Disposals/write off	-	-	(1,226,872)	-	-	-	(1,226,872)
31 December 2005	<u>-</u>	<u>148,191,356</u>	<u>403,630,145</u>	<u>26,600,569</u>	<u>23,292,038</u>	<u>-</u>	<u>601,714,108</u>
<b>Allowance for impairment</b>							
31 December 2004	-	-	1,926,317	-	-	-	1,926,317
31 December 2005	<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 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>
31 December 2005	<u>27,938,625</u>	<u>84,907,113</u>	<u>225,932,986</u>	<u>2,619,903</u>	<u>5,811,987</u>	<u>95,332,437</u>	<u>442,543,051</u>
Depreciation included in the earnings statements for the year							
2004							<u>49,358,571</u>
2005							<u>48,110,295</u>
Loss on impairment included in the earnings statements for the year							
2004							<u>1,926,317</u>
2005							<u>-</u>

The total area of the subsidiary's plantations amounts to approximately 23,698 rai, of which 9,648 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 right documents.

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

As at 31 December 2005, 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 666 million (2004 : Baht 525 million) and for the Company amounted to approximately Baht 247 million (2004 : Baht 237 million).

## 10. DEPOSIT AT FINANCIAL INSTITUTION SUBJECT TO RESTRICTIONS

As at 31 December 2005, 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 2005, the Company and the subsidiaries had bank overdrafts and short-term loans from financial institutions totaling Baht 803 million (the Company Only : Baht 470 million), carrying interest at the rates of 3.5 - 6.5 percent 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, as discussed in Note 9 and are guaranteed by the Company.

## 12. LONG-TERM LOANS

	(Unit : Baht)			
	Consolidated		The Company Only	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Long-term loans	414,430,000	771,840,000	241,550,000	572,500,000
Less : Current portion of long-term loans	(212,884,444	(156,210,000	(171,900,000	(114,450,000
	)	)	)	)
Long-term loans - net of current portion	<u>201,545,556</u>	<u>615,630,000</u>	<u>69,650,000</u>	<u>458,050,000</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. As at 31 December 2005, the outstanding loan was Baht 156.5 million (2004 : Baht 395.0 million).

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 additional investment in an associated company. 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 2005, the outstanding loan was Baht 85.0 million (2004 : Baht 177.5 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 3.25 - 6.50 percent per annum. As at 31 December 2005, the outstanding loans were Baht 172.9 million (2004 : Baht 199.3 million). Long-term loans of the subsidiaries are secured by the mortgage and pledge of land and buildings thereon, and machinery of the subsidiaries and are guaranteed by the Company.

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 subsidiary 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 accounts.

### **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 2005, the Company set aside a statutory reserve of approximately Baht 2.7 million (2004 : Baht 6.7 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.

## 16. TREASURY STOCK

(Unit : Baht)

	Consolidated		The Company Only	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Number of shares (shares)	17,104,400	82,000,000	17,104,400	82,000,000
Average price per share (Baht)	1.56	1.56	1.56	1.56

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 23 April 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.

On 14 February 2005, the Securities and Exchange Commission of Thailand (SEC) imposed an official requirement for all listed companies to follow the deliberation of the Judicial Council on the issue of treasury share schemes under Section 66/1(2) of the Public Limited Companies Act B.E. 2535, that the cost of treasury shares as acquired by a public limited company should not exceed its unappropriated retained earnings. The public limited company is also required to set aside 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 cancellation of any remaining unsold shares. The Company has set aside approximately Baht 127.6 million to a treasury stock reserve account according to the SEC's requirement since the first quarter of current year.

By a resolution of the meeting of the Board of Directors of the Company held on 4 July 2005, the Company was approved to dispose 82 million treasury shares by an offer of sale on the main board of the Stock Exchange of Thailand from 19 July 2005 to 23 April 2006.

During 2005, the Company disposed 64.9 million treasury shares with cost of Baht 101.0 million at total price of Baht 109.3 million. The resale price took into account the prevailing market price at the time of sale. The Company recorded the excess of the resale price over the carrying amount of treasury shares of Baht 8.3 million as "Premium on treasury stock" in the shareholders' equity.

## **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 2005 and 2004, 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>			
<u>For the year 2005</u>			
Final dividends on 2004 earnings	Annual General Meeting of the shareholders on 26 April 2005	18,450,000	0.025
Total for the year 2005		<u>18,450,000</u>	<u>0.025</u>
<u>For the year 2004</u>			
Final dividends on 2003 earnings	Annual General Meeting of the shareholders on 16 April 2004	73,800,000	0.10
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	0.05
Total for the year 2004		<u>110,700,000</u>	<u>0.15</u>
<b><u>Subsidiary</u></b>			
<u>For the year 2005</u>			
Final dividends on 2004 earnings	Annual General Meeting of the shareholders on 26 April 2005	32,403,300	1.00
Total for the year 2004		<u>32,403,300</u>	<u>1.00</u>
<u>For the year 2004</u>			
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		<u>145,816,850</u>	<u>4.50</u>

## 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 2005, total amount of approximately of Baht 6.4 million (2004 : Baht 6.1 million) had been contributed to the funds by the Company and the subsidiaries, and Baht 3.4 million had been contributed by the Company (2004 : Baht 3.2 million).

## 21. NUMBER OF EMPLOYEES AND RELATED COSTS

	Consolidated		The Company Only	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Number of employees at the end of year (persons)	2,863	2,525	471	478
Employee costs for the year (Thousand Baht)	423,908	400,543	165,816	168,337

## 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 manufacture of products or stipulated in the certificate as follows:-

### The Company

<u>Certificate No.</u>	<u>Activity</u>
1442/2541	Manufacture of crude palm kernel oil
1179/2543	Manufacture of crude palm oil, crude palm kernel oil and crude coconut oil
1292(2)/2547	Manufacture of margarine or shortening (has not yet begun utilizing the promotional privileges)
1478(2)/2547	Manufacture of crude palm oil and palm kernel seed (has not yet begun utilizing the promotional privileges)



## Subsidiary

<u>Certificate No.</u>	<u>Activity</u>
1044/2537	Manufacture of crude palm oil and palm kernel seed
1817/2539	Manufacture of crude palm kernel oil
1331(2)/2546	Manufacture of crude palm oil and palm kernel seed
1043(2)/2548	Manufacture of crude palm oil and palm kernel seed (has not yet begun utilizing the promotional privileges)

The significant 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 (except certificate No. 1292(2)/2547, 1478(2)/2547, 1331(2)/2546, and 1043(2)/2548 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).

In addition, profits of the Company and its subsidiary 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 (except certificate No. 1292(2)/2547, 1478(2)/2547, 1331(2)/2546, and 1043(2)/2548).

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.

Revenues, divided between promoted and non-promoted activities, of the Company and its subsidiaries for the years 2005 and 2004 were as follows :-

(Unit : Thousand Baht)

	Consolidated					
	2005			2004		
	Promoted	Non-promoted	Total	Promoted	Non-promoted	Total
Sales						
Domestic sales	101,501	4,079,945	4,181,446	136,566	3,863,409	3,999,975
Export sales	-	932,816	932,816	-	1,080,948	1,080,948
Total	<u>101,501</u>	<u>5,012,761</u>	<u>5,114,262</u>	<u>136,566</u>	<u>4,944,357</u>	<u>5,080,923</u>

(Unit : Thousand Baht)

	The Company Only					
	2005			2004		
	Non-		Total	Non-		Total
Promoted	promoted	Promoted		promoted		
Sales						
Domestic sales	81,003	3,665,594	3,746,597	106,977	3,578,107	3,685,084
Export sales	-	302,084	302,084	-	559,334	559,334
Total	81,003	3,967,678	4,048,681	106,977	4,137,441	4,244,418

### 23. BANK GUARANTEES

As at 31 December 2005, there were outstanding bank guarantees of approximately Baht 11.0 million (The Company Only : Baht 6.2 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 2005, 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 78.6 million (The Company Only : Baht 7.3 million).

24.2 Commitments in respect of lease and service agreements payable in the future of approximately Baht 11.1 million (The Company Only : Baht 4.7 million).

### 25. CONTINGENT LIABILITIES

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 2005 and 2004 and for the years then ended were as follows :-

(Unit : Million Baht)

<b>Consolidated for the year ended 31 December</b>						
	Manufacture and distribution		Total	Eliminated	Total	
	Canned fruits				2005	2004
	Palm oil	and vegetables				
Sales - third parties	4,082	1,032	5,114	-	5,114	5,081
Sales - related parties	386	-	386	(386)	-	-
<b>Total sales</b>	<b>4,468</b>	<b>1,032</b>	<b>5,500</b>	<b>(386)</b>	<b>5,114</b>	<b>5,081</b>
Gross profit					647	734
Gain on disposal of fixed assets					3	24
Other income					28	26
Selling and administrative expenses					(509)	(516)
Directors' remuneration					(12)	(12)
Earnings before interest expenses and income tax					157	256
Interest expenses					(53)	(33)
Corporate income tax					(27)	(32)
Earnings before minority interests					77	191
Earnings in respect of minority interests					(23)	(57)
<b>Net earnings for the year</b>					<b>54</b>	<b>134</b>

(Unit : Million Baht)

<b>Consolidated as at 31 December</b>						
	Manufacture and distribution		Total	Eliminated	Total	
	Canned fruits				2005	2004
	Palm oil	and vegetables				
Property, plant and equipment - net	958	339	1,297	-	1,297	1,316
Non-operating land	-	109	109	-	109	109
Other assets	2,232	506	2,738	(809)	1,929	2,294
<b>Total assets</b>	<b>3,190</b>	<b>954</b>	<b>4,144</b>	<b>(809)</b>	<b>3,335</b>	<b>3,719</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 2005, the Company and its subsidiaries had deposits with banks totaling approximately Baht 56 million (the Company Only : Baht 32 million), bearing interest at rate of 0.25 percent 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 and its subsidiaries primarily utilises forward exchange contracts with maturity of less than one year to hedge such risk.

Below is the outstanding forward exchange contracts of the Company and its subsidiary as at 31 December 2005.

Foreign currency	Amount bought	Amount sold	Forward rate for amount bought/sold
			(Baht per foreign currency unit)
US dollars	154,000	43,285	40.97 - 41.00

Below is the summary of Company's and its subsidiaries' foreign currency-denominated assets and liabilities as at 31 December 2005, which were unhedged.

Foreign currency	Consolidated		The Company Only		Average exchange rate at
	Assets	Liabilities	Assets	Liabilities	31 December 2005
					(Baht per foreign currency unit)
US dollars	1,216,169	195,190	-	94,474	41.0786
Euro	-	15,040	-	-	48.6935

### **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 significant losses from their debt collection.

### **Fair value**

Since the majority of the financial assets and liabilities are short-term and 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. SUBSEQUENT EVENT**

1. In January 2006, the Company was sued by the Metropolitan Electricity Authority for payment of additional electricity expenses totaling approximately Baht 7.1 million for the 18-month period from 30 June 2004 to 30 November 2005. In October 2005, the Metropolitan Electricity Authority received Baht 2.9 million from the bank which was guarantor for electricity payment, leaving an outstanding amount of Baht 4.2 million. However, the Company countersued to recover the guarantee amount from the Metropolitan Electricity Authority because the Company did not have any outstanding late electricity payments due to the Metropolitan Electricity Authority as per the guarantee issued by the bank, but the claim made was a retrospective claim for additional payments. At present, the case is under the consideration of the Civil Court. However, the management believes that there will be no adverse impact to the Company as a result of the case and hence no provision for loss has been set aside in the accounts.

2. On 27 February 2006, the meeting of the Board of Directors of the Company No. 1/2006 passed a resolution approving the payment to dividend from the 2005 earnings to the Company's shareholders at Baht 0.03 per share. The payment of dividend will later be proposed for approval in the annual general meeting of the Company's shareholders.

## **29. 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.

Certain amounts in the financial statements for the year ended 31 December 2004 have been reclassified to conform to the current year classification, with no effect on previously reported net earnings or shareholder's equity.

## **30. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements were authorised for issue by the board of directors on 27 February 2006.