

## MESSAGE FROM THE EXECUTIVE CHAIRMAN

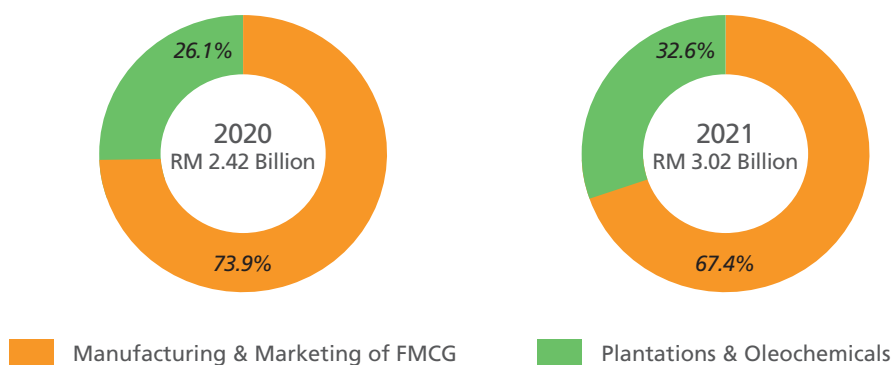
### INTRODUCTION

On behalf of the Board of Directors, I am pleased to present the Annual Report of LAM SOON (M) BERHAD for the financial year ended 31 December 2021.

The global COVID-19 pandemic has generated unprecedented macroeconomic volatility as governments across the world enacted various containment measures to curtail its spread. This triggered a major decline in economic activities across the globe. Fortunately, it was followed by an equally strong rebound in demand, driven by implementation of massive fiscal stimuli by many governments and the gradual reopening of economies in 2021.

I am proud to announce that our Group has posted a record-breaking consolidated profit before tax of RM 334.06 million for 2021 (2020: RM 214.37 million). This quantum jump of 55.8%, compared to last year, was primarily due to the sterling performance of our Plantations & Oleochemicals segment (buoyed by high crude palm oil prices for plantations and good demand for oleochemicals from established global customers). At the same time, our FMCG segment maintained another year of double-digit growth. Group revenue grew by 24.8% to RM 3.02 billion in 2021 (2020: RM 2.42 billion). At Company level, dividends received from subsidiaries, associates, and other investments, increased to RM 127.55 million (2020: RM 93.11 million); this culminated in higher profit before tax for the year at RM 123.57 million (2020: RM 89.58 million).

### REVENUE BY BUSINESS ACTIVITY



As the COVID-19 pandemic persisted in 2021, the management of the Group took greater steps to protect employees' health, safety, and well-being. Our Group set up a Business Continuity Plan committee and implemented stringent health and safety ("H&S") Standard Operating Procedures ("SOP"). H&S exercises include staff vaccination programme, clear segregation for COVID-19 positive and close contact staff, patient buddy system, care-kit (oximeter, etc), oxygen concentrators and others. As a result, the employees responded with full support and cooperation with 100% compliance to the COVID-19 SOP.

### FAST MOVING CONSUMER GOODS ("FMCG")

#### Lam Soon Edible Oils Sdn Bhd ("LSEO")

Various Movement Control Orders ("MCO") were announced during 2021, which included a total nationwide lockdown in June. This had the effect of boosting domestic household demand for cooking oils, sauces and personal washes, which in turn drove up sales for the company. As a result, LSEO sales grew by 14.0% to reach RM 2.04 billion (2020: RM 1.79 billion).

Sharp rising Crude Palm Oil ("CPO") prices since July squeezed our margin. This was however mitigated by the Cooking Oil Price Control Subsidy Mechanism Program (MKHMM), which was rolled-out in August to stabilise the consumer prices of Bottled Refined Oil. Combined with favourable hedging of raw materials, LSEO was able to deliver profit before tax of RM 133.67 million, an increase of 16.5% (2020: RM 114.71 million).

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

In 2021, in spite of the challenges of COVID-19 disruptions to business overall, Agency business sales revenue recorded a 6.8% growth against 2020 to surpass the RM 1 billion mark for the first time.

**Southern Lion**, accounting for the largest part of our Agency business, outpaced Nielsen's 2021 Home and Personal Care category growth of 0.9%, driven by the newly launched TOP Silky Miracle detergent competing in softener alike category. Oral Care did relatively well whilst Beauty Care declined slightly in preparation for pipelining of revamped packaging.

Our Agency food brands, **Lee Kum Kee** and **Arla Foods**, excelled as consumers cooked and baked more at home. With better understanding of the dairy business by our team, especially in the Food Service channel, we had major wins by signing long term supply contracts with major HORECA chains like Secret Recipe, US Pizza, etc. LSEO has been commended for achieving global Top 6 in Lurpak Butter sales.

To address frequent supply chain disruption, LSEO rolled out a KAPE (Key Account Promotion Execution) system to ensure the availability of our products across the country. Having over the last decades expanded and enhanced the physical distribution network in Peninsular and East Malaysia, LSEO last year initiated a centralised supply chain planning to bridge the gaps between its multi-point supply and demand requirements by applying the latest software. We aim to build a fully integrated, system-driven and digitalised supply chain.

### **Southern Lion Sdn Bhd ("SLSB")**

SLSB, your Company's 50% associate, registered a revenue of RM 652.94 million, a modest increase of 2.1% over the previous year. Capitalising on the new hygiene behaviour habits, SLSB introduced its '99.9% Antivirus' claim for TOP Stain Buster and TOP Super White fabric detergent products, supported by media and its trade campaigns. The higher cost of goods dampened profit after tax for the year to RM 20.61 million (2020: RM 30.78 million); profit contribution to the Group was accordingly reduced to RM10.31 million (2020: RM 15.39 million).

### **Marketing Activities**

Following the restriction imposed by the MCO, our brands pivoted to digital contents and digital media such as animation videos, live streaming, online consumer contest, etc to stay connected with our consumers.

By effectively tapping into the heightened in-home consumption, LSEO sustained market leadership in all core product categories such as cooking oil, chilled spread, fabric care and sauces. At the same time, it registered a significant brand growth in the anti-bacterial personal wash category under **Antabax**. Under **Antabax** "Bangkit Bersama" campaign, the brand supported the Malaysia National Vaccination Programme.

The Group believes in nurturing strong brand loyalty amongst its consumers, and the below brand accolades and awards added to the growing list:

<b><u>Brands</u></b>	<b><u>Awards</u></b>
Knife	2021 Reader's Digest Trusted Brand Award (Platinum)
	2021 Brand Laureate Award (Most Iconic Brand - Cooking Oil)
	2021 Baby Talk & Mama Papa Readers' Choice Awards (Best Soy Sauce)
Cap Buruh	2021 Reader's Digest Trusted Brand Award (Gold)
Naturel	2021 Reader's Digest Trusted Brand Award (Gold)
	2021 Brand Laureate Award (Best Choice Award in Consumer – Olive Oil)
	2021 Baby Talk & Mama Papa Readers' Choice Awards (Best Health Oil, Best Olive Oil and Best Organic Pasta)
Antabax	2021 Brand Laureate Award (Brand Influencer – Derma Protection Solutions)
Biohome	2021 Brand Laureate Award (Eco-Friendly Cleaning Products)

### **Manufacturing Activities**

Product quality and food safety remain the top priorities of our manufacturing department. In 2021, the Teluk Panglima Garang ("TPG") factory was successfully re-certified with ISO 14001 and RSPO supply chain certificates. We remain committed to producing products with strong elements of quality and food safety.

Among several improvements to the existing processing plant was the installation of an automatic tank gauging system for better inventory control in our tank farm. Maintenance work on machines and equipment is ongoing, including overhaul of the labelling machines, as well as filling machine. To enhance security, additional CCTVs were installed. TPG factory also implemented the Environmental Mainstreaming Directive and Guided Self-Regulation to ensure an effective environmental management system.

In the case of LSEO's Pasir Gudang ("PSG") factory, it has successfully upgraded the current integrated Food Safety Management System [FSSC 22000 (ISO/TS 22002-1)] ("FSMS") from version 5 to version 5.1 in August 2021. The upgraded FSMS version works by focussing on the actual practices instead of theoretical conversation through regular communication, training, food safety metrics monitoring, organisational teamwork and personal accountability. Developing a strong food safety mindset throughout each level of the organisation will help in early deviation detection and timely implementation of preventive measures throughout the supply chain process.

As part of our continuous enhancement initiative, PSG factory successfully optimised Cleaning-In-Place protocols through validation in ensuring consistent food safety of the products produced are met. In addition, we have enhanced and intensified existing microbial monitoring system by implementing "Microbial Analysis System" that works as early detection mechanism by identifying microbial hot spots in the plant, thereby avoiding further cross contamination that will compromise product food safety.

Food safety compliance is not only confined internally. Externally, we continue the Supplier Quality Management and Supplier Audit Programme (Raw & Packaging Materials) to uphold our products' food safety integrity. Furthermore, we have periodically performed inspection / audit at the sub-contracted third-party warehouse facility.

Notable achievements for 2021:

- Successfully modified the formulation of our top selling pastry margarine used to make roti paratha from PHOs (partially hydrogenated oils, which has been banned by US FDA) to NPHO (No partially hydrogenated oil) version;
- Re-formulated our premium cake margarine that originally contained fish oil & PHOs, and changed to without fish oil (fish allergen free) & NPHO;
- Evaluated and approved an alternative source of lactose crystal from Mullins Whey, USA, which can provide a more favourable price and the cumulative savings of RM 29,525; and
- Successfully upgraded our pilot plant facilities, thereby improving the work efficiency and safety.

### **PLANTATIONS & OLEOCHEMICALS**

#### **Lam Soon Plantations Sdn Bhd ("LSPB")**

Rising palm oil prices helped propel LSPB's group revenue to RM 973.16 million in 2021 (2020: RM 618.50 million), a growth of 57.3%. This, in turn contributed towards LSPB group profit before tax of RM 183.38 million, an increase of 140.2% over previous year of RM 76.33 million.

At the company level, profit before tax was reported at RM 99.65 million (2020: RM 55.97 million). This was due to the timely sale of CPO, resulting in a much higher average selling price of RM 4,417/MT as compared to RM 2,830/MT in 2020.

#### **Dara-Lam Soon Sdn Bhd ("DLSB")**

DLSB's fresh fruit bunches ("FFB") production suffered a 19.6% decline against last year, mainly caused by shortage of labour (due to the Malaysian government's freeze on foreign workers intake). However, this was mitigated via implementation of mechanisation of infield FFB collection. Higher average CPO prices of RM 4,527/MT (2020: RM 2,899/MT) enabled DLSB to achieve a profit before tax at company level of RM 65.13 million (2020: RM 42.22 million), an increase of 54.3% over last year.

DLSB, being a 40%-owned associate, contributed a net profit of RM 19.35 million to the Group's results, an increase of 49.5% over previous year's RM 12.94 million.

#### **Pacific Oleochemicals Sdn Bhd ("POC")**

During the pandemic, POC's plant was able to operate at full capacity even though it only had 70% of the workforce in attendance, in accordance with SOP.

Notwithstanding the very competitive market environment, POC was able to continue delivering prompt shipments to its global customers while achieving better sales. As CPO prices surged to unprecedented levels this year, prices of fatty acids and glycerol rose in tandem. The 59.7% increase in revenue in 2021 to RM 855.83 million (2020: RM 535.99 million) contributed to an unprecedented increase of 222.4% in POC's profit before tax of RM 111.22 million (2020: RM 34.50 million).

Today, POC is internationally recognised as the preferred reliable partner for on-time delivery and consistent high-quality, tailor-made fatty acid and refined glycerine. Its high-quality oleic acid is used by many reputable customers in the manufacturing sector for a wide range of oleic acid derivatives. RSPO certified products (MB models) accounted for 11.1% of POC total sales in 2021 (2020: 8.6%).

Being certified in accordance with applicable international standards, POC was also awarded a Silver EcoVadis Medal by our customer, Oxiteno, a leading multinational manufacturer of surfactants and chemicals in Latin America, via the EcoVadis platform, in recognition of sustainability achievement.

### **SUSTAINABILITY AND COMMUNITY INITIATIVES**

Sustainability continues to be a fundamental aspect of our Group's agenda across all business units. Lam Soon will play its part to embrace policies which preserve biodiversity and conservation, promote the welfare and well-being of our employees, and foster ethical and responsible behaviour.

In our estates, we have worked towards providing adequate accommodation, proper education system and conducive living environment with construction of housing units, establishment of a school/day-care and installation of recreation activities for our workforce. We are also committed to maintaining various certifications (e.g. RSPO, MSPO and FSSC) to ensure the highest product quality; maintaining corporate responsibility.

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

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Due to the high number of COVID-19 cases in 2021 and the spread of the highly contagious Omicron variant, LSPB palm oil mill in Sabah decided to postpone the Biogas Plant project to 2022 to minimise the risk of infection in the plantation. It is now expected to commence in first half of 2022. When fully operational, it can reduce the emission of carbon dioxide ("CO<sub>2</sub>") by about 17,564 MT/year by replacing fossil fuel usage by at least 80%. This plant has the potential to produce 3,000,000 KWh of green energy per year.

Following the success of the solar photovoltaic system (reduction of 10MT/month of CO<sub>2</sub> emission), POC has commissioned a condensate recovery system at the Pekeliling factory in 2021. Condensate recovery is a process to reuse the water and sensible heat contained in the discharged condensate. Recovering condensate instead of throwing it away can lead to significant savings of energy, chemical treatment, and make-up water. This system allows POC to contribute to another reduction of 30MT/month of CO<sub>2</sub> emissions.

POC's on-going installation of 3.4MW Cogeneration Plant, a joint project with LSEO, underscores our commitment on renewable energy. We estimate our utility bill will be lower by RM 5 million/year and CO<sub>2</sub> emission will be reduced by further 250MT/month upon fully commissioned.

Moving forward, we will be establishing a formal policy to ensure proper record of our sustainability achievements and set the direction for future initiatives.

Our Group also actively assisted the underprivileged group affected during the pandemic. Through *Cap Buruh's* "Sepakat Menabur Bakti" campaign, the Group participated in many food bank programmes to care for the communities in need. In December, when many parts of the country experienced heavy flooding, our Group collaborated with NGOs such as Soroptimist International to help underprivileged households affected by the flood to recover their home through food relief.

### **PROSPECTS**

Malaysia's economy, bolstered by labour market normalisation, grew at a faster-than-expected pace in the 1st quarter of 2022, thus vindicating Bank Negara Malaysia ("BNM")'s hawkish rate-hike announcement in early May. Gross domestic product expanded 5% vs. last year, mainly driven by recovery in domestic consumption. BNM also maintained its forecast for full-year growth at 5.3% - 6.3%.

Meanwhile, Malaysia's Q1 2022 wholesale and retail trade sales registered a 3.9% growth (retail segment contributing 5.1% growth). The data thus suggest a benign economic outlook for the year. Nevertheless, potential headwinds posed by a slowdown in other major economies could present tougher obstacles ahead.

CPO prices have started strongly for 2022 and are trading with extremely high volatility (both price and volume). This is mostly due to the ongoing Ukrainian-Russian conflict and the numerous U-turns by the Indonesian government in its CPO policy. Given the uncertainties, the management at Lam Soon Group will adopt a prudent approach with a view to achieving sustainable business continuity.

### **DIVIDENDS**

During the year, your Company paid two (2) single tier interim dividends of 20.0 sen and 10.0 sen per share amounting to the total of RM 64.42 million for the financial year ended 31 December 2021 (2020: 15.0 sen per share, RM 32.21 million).

In view of the improved performance, your Board is proposing for shareholders' approval at the forthcoming Annual General Meeting, the payment of a Special single tier dividend of 20.0 sen per share, amounting to RM 42.94 million (2020: Final of 15.0 sen per share or RM 32.21 million and Special of 5.0 sen per share or RM 10.74 million)

The proposed Special single tier dividend will bring the total net dividend payments for the financial year ended 31 December 2021 to 50.0 sen per share or RM 107.36 million (2020: 35.0 sen per share or RM 75.15 million).

### **APPRECIATION**

On behalf of my fellow Directors, I would like to take this opportunity to record our sincere thanks and appreciation to Mr. Kuek Bak Heng for his contributions during his tenure on the Board. In his 46 years' service with Lam Soon Group, he had progressed from the rank and file to emerge as a committed and outstanding leader. He had also mentored numerous managers, inculcating in them the Lam Soon ethos of hardworking, meritocracy, fairness and loyalty. Please join me in wishing Mr. Kuek a happy retirement. I would also like to extend a warm welcome to Mr. Allan Khong, who succeeded Mr. Kuek in March 2022, and Mr. Lo Wye Kan (alternate director of Mr. Allan Khong).

On behalf of the Board, we would also like to express our appreciation to Encik Mohd Fazli bin Zainal for his contributions to the Board. At the same time, it gives me much pleasure to welcome the appointment of Dato' Haji Abdul Mutalib bin Datuk Seri Mohamed Razak to the Board of Directors in place of Encik Mohd Fazli. Dato' Haji Abdul Mutalib is currently practising at Messrs. Mutalib, Wan & Co as the Senior Partner. He also is a board member of Lembaga Tabung Haji, a long-term institutional shareholder of your Company, and was the former Chairman of Media Prima Berhad.

On behalf of the Board, we wish to convey our appreciation to all shareholders for the confidence and trust accorded to us. The Board is confident of the management's capabilities as well as proven track record in propelling our Group to greater heights, and that our Group will continue to draw upon the strengths, talents, and commitment of our people in ensuring the success of future strategic prospects. With the commendable financial results this year despite the COVID-19 pandemic affecting all of us one way or another, I would like to acknowledge the Group's efforts in ensuring not only that our businesses remain competitive, but our loyal workforce stay safe.

I would also like to express my appreciation to my fellow Board members for their support and invaluable advice throughout the year.

**Whang Shang Ying**  
Executive Chairman

11 May 2022