



SOUTHERN ACIDS (M) BERHAD



**37TH ANNUAL
GENERAL MEETING
30 AUGUST 2018**

**Replies to
MSWG's Questions**



Strategic and Financial - Question (1)(i) Oleochemical

As reported in the Management Discussion & Analysis (“MD&A”) on page 12 of the Annual Report, the gross profit margin for the Group’s Oleochemical Segment fell from 6.2% to 3.7%. The rising cost of production was due to the plant’s limited room to increase its production capacity. SAB also had to incur maintenance costs and capital expenditure to maintain the plant’s efficiency.

(i) What are the measures taken to improve the profit margin ?

Answer:

The Oleochemical Segment currently operates with single digit gross profit margins, and hence may be more susceptible to rising production costs. To that extent, management has put in place several measures to improve our plant efficiency. Such measures include:

- ❖ Replacing the existing old hydrogen plant with a new plant. The new hydrogen plant, which was commissioned on 1 January 2018, will ensure a more constant in-house supply of hydrogen gas without having to source from external parties; and
- ❖ Exploring other energy saving options to minimize the usage of gas boilers and to ensure that our manufacturing plant operates efficiently.



Strategic and Financial - Question (1)(ii) Oleochemical

(ii) What was the total maintenance costs and capital expenditure incurred on the plant for FY2018 ?

Answer:

The total maintenance costs and capital expenditure incurred on the plant for FY2018 were RM6.6 million and RM8.6 million respectively.



Strategic and Financial - Question (1)(iii) Oleochemical

(iii) What is the outlook of this segment for FY2019 ?

Answer:

Please refer to excerpt from our Management Discussion & Analysis on the Oleochemical Segment, which can be found on page 16 of our 2018 Annual Report:

“The prospect of this segment for the FY2019 is expected to be challenging.

Domestically, this segment is subject to our new government policies, particularly, on the minimum wages for local labor, recruitment of foreign labor and public utilities’ costs. In addition, we have rising production costs to manage as we may not able to pass on the incremental costs to the customers.

Externally, we are facing keen competition in the international market. Besides facing the Indonesian competitors who have better cost advantage, new capacities were added in the market. Customers, are generally becoming more informed and knowledgeable, are cautious on their spending pattern by buying only on a need basis, in anticipation of a dip in raw material price.

On a consolation note, the expected low supply of glycerine due to the low production of biodiesel industries helped, to some extent, to maintain the selling price of glycerine.”



Strategic and Financial - Question (2) Oleochemical

The Oleochemical Segment is also facing keen competition in the international market.

What are the plans to stay competitive in the market ?

Answer:

Sustaining our competitiveness in the market remains one of our core focus. Some of our ongoing efforts to stay competitive in the market includes:

- ❖ Ensure that our manufacturing plant continue to operate efficiently;**
- ❖ Improve on our understanding of the needs and requirements of our clients based; and**
- ❖ Consider increasing our production capacity to enhance our economies of scale.**



Strategic and Financial - Question (3) Milling & Estate

It was stated that the internal Fresh Fruit Bunches (“FFB”) from the Group’s 4,395 hectares of planted area in Riau only provides 16% of the requirement of its palm oil mills. The Group plans to reduce the dependency of externally sourced Fresh Fruit Bunches (“FFB”) in the long term and it is exploring all options available.

What are the options the Group is exploring ?

Answer:

Several options that we are exploring to reduce our dependency on externally sourced FFB include:

- ❖ **To seek out opportunities for acquisition of cultivated land; and**
- ❖ **To consider undertaking the replanting program of 8,800 hectares under the plasma scheme.**



Strategic and Financial - Question (4)(i) Healthcare

The Group stated that human capital retention remains the number one challenge in the Healthcare Segment. The recruitment of experienced nurses has been the industry's main challenge. In addition, lack of reputable, highly-skilled and/or experienced consultants are the shortcomings in the coverage of particular disciplines.

(i) What is the staff turnover rate for the medical centre ?

Answer:

In FY2018, our staff turnover rate was below the current market norm, which is about 25%. Nonetheless, this is still a concern to us as recruitment of nurses remains challenging, given the high demand for experienced nurses in both the domestic market as well as overseas.



Strategic and Financial - Question (4)(ii) Healthcare

(ii) Please share how the Group will be able to address these challenges ?

Answer:

Efforts to address such challenges include:

- ❖ Offering an overall competitive remuneration package; and**
- ❖ Providing career enhancement opportunities such as sponsorship for nursing programs.**



Strategic and Financial - Question (5) Associate

The share of results of an associate improved from a loss of RM1.1 million in FY2017 to RM312,000 in FY2018.

What is the Board's expectation on the results of the associate for FY2019 ?

Answer:

The performance of PKEM is largely dependent on the total volume of PKE handled and received in any one financial year. In FY2018 for example, the better performance was driven by 25% and 35% increase in total volume handled and received respectively compared to FY2017.

On a Group basis, we do not expect earnings contribution from PKEM to be significant.



SOUTHERN ACIDS (M) BERHAD



Thank you !