

SOUTHERN ACIDS (M) BERHAD

34TH

**ANNUAL
GENERAL
MEETING**

28 AUGUST 2015





Q1 - Strategic and Financial Matters

Please explain the sharp drop in other operating income (from RM8.3 million to RM4.1 million) and the significant rise in other operating expenses (from RM116.8 million to RM137.6 million).

What were the major components in the two items and what measures have been taken to address the issues?



SAB's Answer To Q1 (Part 1)

Analysis of Other Operating Income

	Breakdown on the differences of RM4.1m (RM8.2m – RM4.1m)	Variance (RM million)
1	Lower realized gain arising from derivative financial assets (hedging of currency)	(2.3)
2	Lower unrealized gain arising from derivative financial assets (hedging of currency) **	(1.0)
3	Higher unrealized gain on foreign exchange **	1.6
4	Reversal of provision in previous year no longer required **	(1.7)
5	Others	(0.7)
	** Non-cash items	



SAB's Answer To Q1 (Part 2)

Analysis of Other Operating Expenses

	Breakdown on the differences of RM20.8m (RM137.6m – RM116.8m)	Amount (RM million)
1	Healthcare Division <ul style="list-style-type: none"> Increase in Cost of Sales due to increase in Revenue (> 20%) Upgrade of medical equipment and facilities ** 	<p>9.3</p> <p>0.8</p>
2	Oleochemical Division <ul style="list-style-type: none"> Unrealized loss of derivative financial liabilities ** (hedging of currency) Realized loss on commodity hedging Higher utilities costs 	<p>3.9</p> <p>1.9</p> <p>1.7</p>
3	Plantation & Milling Division <ul style="list-style-type: none"> Higher fertilizer cost (based on agronomist's recommendation) Additional provision of retirement benefits (based on actuary's report) Lower unrealized loss on foreign exchange ** 	<p>3.4</p> <p>1.4</p> <p>(1.1)</p>
	** Non-cash Items	



Q2 - Strategic and Financial Matters

Despite a decrease of 28.4% for the net profit attributable to owners of the parent, the total remuneration to Directors of the Group had increased substantially by more than 80% (see note 8, page 79 of the Annual Report) in FYE 2015.

What were the reasons considered by the Remuneration Committee to approve the increase of other emoluments for the Executive Directors in FYE 2015 in view of the deterioration in the profit of the Group?



SAB's Answer To Q2 Directors' Remuneration

The increase of RM1.45 million of Directors' Remuneration in FY2015 compared to FY2014 are due to the following:-

- The classification between the fees and other emoluments of directors in subsidiaries were streamlined in FY2015;
- Additional directors were appointed in subsidiaries in FY2015; and
- An additional Executive Director was appointed toward end of FY2014.



Q3 - Strategic and Financial Matters

As the Group's business is very much affected by foreign exchange rate fluctuations particularly the USD Dollar, to what extent is the Group carrying out hedging transactions? How effective and successful has been the Group's hedging activities?



SAB's Answer To Q3

Impact of Foreign Exchange Rate Fluctuation

Oleochemical Division is the only division affected by the exchange rate fluctuation on its overseas revenue collection (mainly USD).

In view of the volatility of the exchange rate fluctuation, the following key highlights are our current hedging policies:-

- We are adopting a prudent hedging policy; will hedge as and when necessary with the main objective to cover our cost and less speculation; and
- Forward hedging will be carried out whenever sales receivable estimated timing (information may not be perfect) is available.

Fortunately USD has been always trading at a forward premium against MYR however under our current hedging policy, SAB is not expected to gain from hedging significantly. SAB recorded a realized gain in foreign exchange of MYR0.6 million in FY2015.



Q4 - Strategic and Financial Matters

Currently, the Group has a total land of 8,482.8 hectare and the total planted area is 4,607.7 hectare. What is the Group's plan for the remaining unplanted area?



SAB's Answer To Q4

Analysis of Land Bank (Plantation)

	Detail	Hectare
	Total Land Bank	8,482.8
1	Planted	4,607.7
2	Land with issues with physical control and other uncertainties	3,801.40
5	Infrastructure & Building	73.7



Q5 - Strategic and Financial Matters

How confident is the Board of improving the revenue from the plantation division amid the tough operating conditions impacting on the CPO prices that are hovering around RM2,100 to RM2,000 per tonne?

What is the cost per tonne for the Group's planting activities?



SAB's Answer To Q5 Impact of CPO Prices

CPO prices is beyond Company's control. Currently the Company does not hedge its CPO prices hence its revenue are depending on prevailing market prices.

The management of Plantation & Milling Division can only manage its cost efficiency hence better margin.

We are within the range of industry production cost of between RM1,300 and RM1,800 per MT.



Q6 - Strategic and Financial Matters

As reported in the Annual Report 2015 that the Group committed to position itself as the private medical centre of choice in Klang and this will involve the investments in new medical equipment and facilities, what is the status of the development and the amount of CAPEX incurred for the development of hospitals? Would this significantly affect the cash flow as well as the dividend distribution of the Company?



SAB's Answer To Q6

CAPEX of Healthcare Division

First of all, for clarification purposes, currently SAB has no intention to develop a new hospital but to upgrade existing medical equipment and facilities.

The total estimated investment amount is about RM12.0 million, an amount that will be internally funded or combination of internal fund and borrowings by Healthcare Division.

Hence, it is not affecting the cash flow significantly as well as the dividend distribution of SAB.

**Thank
You !**

