Southern Acids (M) Berhad ("SAB") Group ("SAB Group" or "the Group")

Thirty-First Annual General Meeting

A. Replies to questions raised by the Minority Shareholders' Watchdog Group via letter dated 19 September 2012

Operational and Financial Performance

1. **Despite the external headwinds faced by the Company's oleochemical products division as highlighted in the CEO's Review of operations, the Group's oleochemical division registered an increase in revenue and profit before tax for the 1st quarter of the Financial Year ending 31 March 2013 ("1st Quarter Results"). What has contributed to the increase in revenue and profit for the 1st Quarter Results? Would the Group's oleochemical division be able to sustain such performance for the rest of FY 2013?**

Oleochemical Division

		1Q2013 RM'000	1Q2012 RM'000	Variance RM'000	%
a)	Revenue	102,526	94,647	7,879	8%
b)	Profit before tax	4,340	(2,659)	6,999	N/A

Prices of palm oil-based oleochemical products are closely linked to (and generally moved in tandem with) prices of the raw materials consumed in the production, which are crude palm oil (CPO) and refined palm oils. The average CPO price in the 1st Quarter of FY 2013 was RM3,088, and when compared to the average CPO price of RM2,527 in the 1st Quarter of FY 2012, has directly contributed RM7.9 million or 8% higher revenue quarter-to-quarter from our Oleochemical Division.

As for the profitability, our Oleochemical Division's operations during 1st Quarter of FY 2012 was adversely affected by a breakdown in one of our production facility which resulted in higher manufacturing costs and affected our production output to meet orders on hand at the material time.

Our Oleochemical Division is bracing for a year in FY 2013 where profit margins would continue to be challenged by the more competitively priced oleochemical products from Indonesia entering into the market.

2. **What are the total acres of palm oil land that the Group have and what is the current age profile of the trees? How would the age profile affect the improvement brought by the Group's implementation of structured fertilizer programme? Amidst the improvement in the yield, will the replanting be carried out in the next 24 months?**

SAB Group has total planted acreage of 11,553 acres of oil palm plantation land in both Malaysia and Indonesia with the following age profiles:

		Malaysia	Indonesia	Total
a)	5 years and below	257	173	430
b)	6 to 10 years	21	3,149	3,170
c)	11 to 15 years	-	1,169	1,169
d)	16 to 20 years	104	576	680
e)	Above 20 years	188	5,916	6,104
	Total	**570**	**10,981**	**11,553**

Approximately 292 acres of the oil palm estate in Malaysia, located at Thangamallay Estate, are potentially subject to replanting in the near future.

Approximately 6,200 acres of the oil palm estate in Indonesia has been earmarked for a replanting programme commencing early 2013 over a period of approximate 8 years.

3. **What was the total return (capital gains plus dividend) from the available-for-sale investments for the FY 2012? Will the investments be realised to fund capital commitment in the next 12 months? What is the capital commitment, approved and contracted, for the next 12 months?**

The value of the available-for-sale investments, i.e. investments in quoted shares in this case, as stated in the Statements of Financial Position represented the market value of the quoted investments as of the financial years ended 31 March 2012 and 2011. As there was no movement in the quoted investment portfolio during FY 2012, the value of our quoted investments has decreased by RM5.418 million or 13% during FY2012.

As for the income from the quoted investments, total dividend received during FY 2012 was RM2.147 million, represent a return of 5.7% based on the average value of the quoted investments during FY 2012.

At this juncture, the Board does not have any definite plan on the realisation of the quoted investments, as there is no material capital commitment contracted by the Group businesses. As of 31 March 2012, the Group's total capital commitments stood at approximately RM702,000 and there was no material addition to the list of commitments to-date.

4. **Kindly update shareholders on the Thangamallay Estate and the progress, if any, pertaining to the cases highlighted under "Emphasis of Matter" in the Auditors' Report.**

   For the avoidance of doubt, we wish to clarify that Thangamallay Estate is not a subject under the "Emphasis of Matter" in the Auditors' Report.

   The Board of SAB has, over the past few years, discussed and studied a number of proposals and business plans on Thangamallay Estate, including a recent proposal to replant an area measuring approximately 292 acres which was not covered under the replanting programme 2010/2011 (in which approximately 250 acres were replanted). At this juncture, no definite decision has been reached.

<u>Corporate Governance</u>

5. **It is noted that Mr. Sukhinderjit Singh Muker was re-designated from Independent Director to Non-Independent Non-Executive Director on 29 December 2011. What was the reason for the re-designation?**

   The Board of SAB is committed to ensuring that high standards of corporate governance principles and best practices as recommended by the Malaysian Code on Corporate Governance ("the Code") are practiced throughout the Group to promote continuous and sustainable growth for the interests of all its stakeholders.

   In this respect, the re-designation of Mr. Sukhinderjit Singh Muker from Independent Non-Executive Director to Non-Independent Non-Executive Director was in line with the best practices as recommended by the Code, which recommended a cumulative maximum term limit of Nine (9) years on independent director. The Code further suggested that an independent director might continue to serve after the ninth (9^{th}) year as non-independent director.

   In regard to Mr. Sukhinderjit Singh Muker's continuing service as a director on the Board, the Board has taken note of his experience in corporate and commercial matters, and his contribution to the overall effectiveness of Board deliberation.

6. **It is noted that the Company did not disclose in the Annual Report certain Board member's directorship in a public listed company. We would like to seek the Board's clarification on this matter.**

   We wish to apologise for our innocent oversight in omitting the other directorship of our Independent Non-Executive Director, Mr. Teo Leng, who also sits on the Board of United Malacca Berhad, a company listed on the Main Market of Bursa Malaysia Securities Berhad.

B. Replies to questions raised by Mr Chew Hem Poo via letter dated 10 September 2012

1. **Statement of financial position at 31 March 2012**
   Land held for property development: Note 11 – RM141,944,000

   At the last AGM held on 30 September 2011, a number of shareholders raised the questions regarding the development of the Thangamallay Estate into a housing development with a reputable property developer or sell the said property in view of the sharp appreciation of land value in the surrounding areas as this might present an opportunity for the Company to realize a remarkable profit from such disposal of land. However, the Chairman said that an announcement would be made relating to this issue at a later date. It appears no such statement has been made to-date. I believe that the Board would like to carry out the business in the transparent manner and in the interest of the shareholders. Would the Chairman please elaborate what has transpired since then relating to those pending issue as well as what is the expected current market value of the above property vis-à-vis the net book value of RM141.9 million.

   At the AGM 2011, the Chairman informed the shareholders that, should there be a decision made by the Board on the business plan for Thangamallay Estate, such decision will be communicated to shareholders through a proper announcement via Bursa Malaysia website. Since no such decision has been reached, no announcement was made.

   As explained in our earlier reply to a similar question raised by MSWG, your Board has not made any definite decision on the business plan for the Thangamallay Estate. For the same reason your Board has not carried out a valuation on Thangamallay Estate as it is not required at this juncture.

2. **Resolution 1**
   To declare a Final Dividend of 6.67 sen per ordinary share less 25% tax

   It is pleasing to note that the Company has proposed to frank the dividend by using the Section 108 tax credit for the benefit of shareholders as opposed to the previous year of the tax exempted dividend. However, the 2012 proposed net dividend of 5% per share is lower by 1% as compared to last year net dividend of 6%. In the Chairman's Statement, it is stated that the Board is mindful of its responsibilities to ensure that all the operating business divisions stay "ahead of game" in order to generate sustainable long-term returns for shareholders. In the recent announcement of the 1st quarter results ended 30 June 2012, the Company reported a net profit of RM9.4 million or 6.89 sen per share. Based on the Company's fixed deposits, short term placements, and cash & bank balances of RM94.8 million as reflected on Note 24 in the financial accounts

ended 31 March 2012 and the favourable financial performance for the 1st quarter ended 30 June 2012, it would appear that the Company would be in a position to maintain the same quantum of net dividend at 6% for the previous year. In this regard, would the Board please re-consider to declare the Final Gross Dividend of 8% per share less 25% tax, i.e. equivalent to net dividend of 6% per share for the financial year ended 31 March 2012 for the benefit of shareholders as well as to reward the long-term shareholders of the Company.

The Board is of the view that the proposed franked dividend for FY 2012 is in the best interest of the shareholders.

In this respect, your Board considers a net dividend of 5 sen for FY 2012 is fair and justifiable based on the profitability of the Group in FY 2012 against a higher profit in FY 2011. In addition, our shareholders who are subject to effective income tax rate below 25% will be entitled for a tax credit refund from the Inland Revenue Board up to a maximum of 1.67 sen per share.

Although the 1st Quarter's result (for FY 2013) was significantly higher when compared to last year's 1st Quarter, it is still too early to conclude that it will extrapolate to a better year. This is especially so in a year when the businesses of the Group are bracing for business threats and challenges against the backdrop of global financial market uncertainties in Europe, USA and including China and Japan which have a significant influence over the industries in which we operate.

As such, the Board seek for your approval on its' proposal of the gross franked dividend of 6.67 sen (or net dividend of 5 sen) per share for FY 2012.

Thank you.