



CHEMICAL INDUSTRIES (FAR EAST) LIMITED.
化学工业(远东)有限公司

(Incorporated in the Republic of Singapore)
Registration No. 196200046K

RESPONSE TO QUESTIONS RAISED BY THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (“SIAS”) IN RESPECT OF THE COMPANY’S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019

The Board of Directors of Chemical Industries (Far East) Limited (the “Company” and together with its subsidiaries, the “Group”) would like to respond to the following questions raised by SIAS in respect of its Annual Report for the financial year ended 31 March 2019 (“Annual Report”) as follows:

Q1. On 29 May 2019, the Company announced it has ceased negotiations on the proposed joint venture with May Chemical and that the non-binding Memorandum of Understanding with May Chemical has lapsed. The Group will not be proceeding with the establishment of the proposed joint venture company in Malaysia.

On the other hand, the Group is still studying the potential tie-up with Topan on the proposed establishment of a chlor-alkali manufacturing facility in Akatu City, Kazakhstan.

In addition, the Group has established Chemical Industries (Myanmar) Limited and will commence the construction of a chemical process plant in Myanmar.

- (i) Given that the Group’s operations have been Singapore-centric in recent years, how well equipped is management in dealing with the complexities and intricacies of operating a chemical process plant in a foreign country?**
- (ii) Is there sufficient management depth and experience to allow the Group to execute successfully in the new markets?**

The management is well equipped with relevant experience.

From a technical aspect, the chemical process plant is part of our core competencies. The selection of the final site in Thilawa Special Economic Zone (“SEZ”), the first SEZ in Myanmar designed and built to international standards. It is developed by a Myanmar-Japan joint venture company, Myanmar Japan Thilawa Development Limited, whose shareholders include both the governments of Myanmar and Japan together with a consortium of private sector companies from both countries. This strongly supported the Company’s decision to invest in Myanmar.

In addition, the location of our process plant within an approved SEZ gives the Company tax and administrative advantages.

From a cultural aspect, the management team (operations) is drawn primarily from our long serving or former staff who are Myanmar nationals with Singapore work experience. They have been involved from the very early stages of the project and will be based in Myanmar for the duration of the project.

The Project Lead is an Executive Director with foreign investment experience.

- (iii) What is the level of due diligence carried out by the Company and by the independent directors before the Group's decision to invest in Myanmar?

Extensive due diligence was conducted before the decision to diversify geographically and to invest in Myanmar. This include research, site visits, exploratory discussions with relevant authorities and stakeholders as well as market feasibility assessments.

- (iv) What is the total capital expenditure earmarked for the Myanmar market? What is the projected return on investment? Has the Board identified the key risk factors for its expansion to Myanmar? If so, can the Board help shareholders understand the key risks and update shareholders on how it is monitoring and managing the key risks?

Total capital expenditure earmarked for the Myanmar market is US\$6.5 million with a favourable return on investment.

The plant being established is for the provision of water treatment chemicals to the government as well as to other local market users.

Myanmar is currently in the process of improving the quality of potable water. The specification of the chemicals requires it to be manufactured in-country. The key risk is the termination or discontinuation of this initiative by the government, which is unlikely.

- (v) In addition, has the Board assessed the risks associated with any potential investments in Kazakhstan? What is the Group's competitive advantage in Kazakhstan? Would the Group be venturing outside of its circle of competence and alter its risk profile if it makes a big investment in Kazakhstan?

Any investment has associated risks. Given the weak local demand and declining margins for the basic chemicals that the Company produces, we have to explore geographical market diversification and other related diversification in order to return satisfactory shareholder value.

Market feasibility and related risks continue to be assessed by management, both through exploratory discussions with relevant third-parties and site visits to Kazakhstan. Please be rest assured that the Company continues to adopt a prudent approach and will not commit to any investment without extensive due diligence.

On the positive front, the Singapore Government signed a Bilateral Investment Treaty with the Kazakhstan Government in November last year to support greater investment flows between both countries through protecting the interests of investors and providing them with more confidence to seize opportunities. This government-to-government strengthening of bilateral relations between Singapore and Kazakhstan augurs well for our potential investment, subject to supportive due diligence and positive financial feasibility. In addition, the Company will be able to leverage on our long operating experience to build a cost effective and efficient process plant.

(vi) Has the Board evaluated the Group's track record in foreign investments?

Yes. The Company's key focus is to leverage our core competencies in chemicals.

Q2. At the annual general meeting scheduled to be held on 28 June 2019, the Company is seeking shareholders' approval to re-elect Mr Lim Soo Peng who is retiring pursuant to Article 95(2) of the Constitution of the Company.

The company has provided details of Mr Lim on page 93 of the Annual Report.

In the Corporate Governance Report, the nominating committee ("NC") has stated it recommended the re-election of Mr Lim Soo Peng following a review of the director's competencies, commitment, contribution and performance in effectively discharging his responsibilities.

(i) In recommending the re-election of Mr Lim Soo Peng, what were the deliberations by the NC on the board succession plans, in particular the Chairman and Managing Director?

The Board has agreed on a Board succession framework which first and foremost, the Board must review and formulate long term strategies for the sustainability of the Company and Group, and it can then put in place the right Board and management structures to support the strategies. The Board will set up an investment committee comprising senior key executives helmed by Chairman with the expertise of external consultants with a time frame for the investment committee to report to the Board by end 2019.

(ii) Would the board help shareholders understand the Group's leadership bench strength (e.g. technical, operation, business development, sales, etc)? Has the Group been able to hire, train and retain the talent it needs to ensure the Group's long-term success?

The Group has a diversified leadership bench strength ranging from finance, investment, sales & marketing, technical, business development, etc. For greater detail please refer to the profiles of the board of directors and senior management in the annual report.

The Group is led by an experienced board, and well supported by an efficient and effective management team. We will develop and recruit to further strengthen our human capital as required.

In addition, the company's lead independent director, Mr Tay Kah Chye has indicated that he will not be standing for re-election at the forthcoming AGM.

The board currently comprise six directors, three of whom are independent directors. The other independent directors are Dr Wan Soon Bee (first appointed on 3 July 2000) and Mrs Elaine Lim (first appointed on 15 September 2016)

(iii) With the retirement of Mr Tay Kah Chye, the board will not have a majority of independent directors. What are the plans by the board to refresh the board composition to meet the recommendations of the Code of Corporate Governance?

The Board has identified a candidate for appointment as Independent Director in this current financial year to fill the vacancy left by Mr Tah Kah Chye. In addition, the Board is in the process of identifying a suitable candidate for the appointment of an additional Independent Director.

The attendance of directors at board and board committee is shown in the following table

	Board	AC	RC	NC
Number of meetings held	2	2	1	1
Name of Directors				
Lim Soo Peng ⁽¹⁾	2	2*	1	1*
Lim Yew Khang Cecil	2	2*	-	1*
Lim Yew Tee Collin	2	2*	-	1*
Tay Kah Chye ⁽²⁾	2	2	1	1
Dr Wan Soon Bee	2	2	1	1
Lee Kia Jong Elaine (Mrs Elaine Lim)	2	2	1	1

⁽¹⁾ Mr Lim Soo Peng stepped down as RC member on 22 May 2019

⁽²⁾ Mr Tay Kah Chye will retire on 28 June 2019 after the conclusion of AGM

*attended as invitee

As can be seen from the table above, the executive directors were invited to attend all the audit committee and nominating committee meetings. Mr Lim Soo Peng has direct and deemed interest of

over 47% of the company's shares. Mr Lim is the executive chairman and managing director and was first appointed to the board on 1962. He is also the father of Mr Lim Yew Khang Cecil (executive director) and the uncle of Mr Lim Yew Tee Collin (executive director).

- (i) **Can the board help shareholders understand if it is the usual practice for non-board committee members (i.e. the executive directors) to attend board committee meetings?**
- (ii) **Were there specific agenda items or reasons to invite the executive directors to attend all the board committee meetings?**
- (iii) **What are the dynamics of the board committee meeting when the board committee members may be reviewing and discussing matters that are related to or affect the executive directors? Such AC/NC meetings would have included agenda items on performance assessment of the executive directors and on the audit/financial reporting/internal controls of the group.**
- (iv) **Do the invited directors also actively participate in the discussions during the board committee meetings? If so, how are board committee meetings different from the board meeting?**

The Independent Directors on the Board Committees convene and meet to review, discuss and deliberate on relevant matters without the presence of management. Executive Directors are invited to attend segments of Board Committee meetings to provide management input as required but do not participate in discussions and deliberations. The AC also meet with the Group's external auditors and outsourced professional internal auditors separately without the presence of management.

BY ORDER OF THE BOARD

FOO SOON SOO
Company Secretary

27 June 2019