



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

Company Registration No. : 196200046K

RESPONSES 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 2018

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 2018 (“Annual Report”) as follows:

1.

(i) **Gross profit margin:**

Would management provide a breakdown of the cost of sales and help shareholders understand and quantify the individual impact of higher cost of raw material, higher cost of electricity and the lower pricing power of its products on the group’s profit margin?

As the industry is very competitive and price-sensitive, the Company is unable to provide any detailed breakdown as such information are commercially sensitive.

What are management’s strategies to reverse the drop in profitability?

As addressed in the Chairman’s message on page 4 of the Annual Report, the Group has been actively exploring both market and product diversification to improve bottom line performance. Accordingly, the Company is in active discussions with potential partners on a few strategic initiatives that will leverage on our long experience in the chlor-alkali business; in particular, exploring various ways to employ our current under-utilised production resources. These include the two recently-announced MOUs with May Chemical Sdn Bhd in Malaysia and Topan LLP in Kazakhstan.

(ii) **Utilisation: What is the current utilisation rate of the group’s production facilities? In addition, how much of the group’s revenue/volume is generated from new customers in the retail/wholesale segment?**

Current utilisation rate of the Group’s production facilities is approximately 70%. Due to the stiff competition and price erosion in the industry, the Group’s revenue/volume generated from new customers in the retail/wholesale segment is insignificant.

- (iii) Memorandum of Understanding with May Chemical Sdn. Bhd.: What is management’s vision of the proposed joint venture company with May Chemical? What is the group’s contribution in terms of technical expertise, production facilities, manpower and capital?**

The management’s vision of the joint venture is twofold: firstly, to progress the three-decade long business relationship with May Chemical to a new level of supply stability and scalability; and secondly, to enhance business continuity to the supply of Chlorine in the bigger Malaysian market. Should the joint-venture be formed, and at an appropriate time, the Group plans to explore other areas of co-operation with May Chemical.

Under the proposed joint-venture under discussion, the Group will offer technical counsel on the building of the storage facility, provide some storage equipment and training to level up operational capability and efficiencies. Capital investment is still under discussion.

2.

- (i) Would the AC help shareholders understand the deliberations it has had on the issue of setting up an independent internal audit function in the group?**
- (ii) Would the AC explain why an internal audit function “is considered not necessary”?**

As disclosed under the Statement of Corporate Governance on pages 16 and 17 of the Company’s annual report, having considered the adequacy and effectiveness of the Company’s and the Group’s internal control and risk management systems, the AC is of the opinion that an internal audit function is not necessary in the present circumstances and will review this if circumstances change.

- (iii) Would the AC reconsider the deviation from the CG Code and oversee the setup of an internal audit function in the group?**

If there is a change from the present circumstances of the Company, the AC will review and setup an internal audit function, as required and necessary.

3.

- (i) Can the NC provide shareholders with better visibility on the group’s board succession plans, especially the succession plans for the board chairman and the succession plan for the Managing director?**

Board and management succession plan is regularly reviewed by the NC and discussed with the Chairman and the Board. Given that the Company is at a strategic crossroad, the Board has decided to maintain status quo on board and management structure until a new strategic direction has been agreed.

(ii) Can the NC explain why the company has not followed the recommendation of the CG Code (specifically Guideline 3.1) and have separate persons for the chairman and for the CEO/MD?

It is not uncommon for entrepreneurs to continue to helm the companies they founded. Mr Lim Soo Peng founded Chemical Industries in 1962 and pioneered the manufacturing of chlor-alkali and related products to underpin industrialization in Singapore. Under his leadership, the Company had grown and remained the sole manufacturer of chlorine, caustic soda and other chlor-alkaline products in Singapore.

Guidelines 3.1 and 3.3 are related guidelines to ensure a high degree of board independence and should be considered together. In this regard, the Company did not deviate from the Code and is in fact in compliance with Guideline 3.3. of the Code. In addition, the Board has maintained 50% of Board independence for more than 20 years and Mr Tay Kah Chye, an independent director has been appointed as Lead Independent Director since 18 May 2016 as the Company's Chairman and CEO is the same person.

(iii) What are the board's other near-term plans to refresh the board membership progressively and in an orderly manner, to avoid losing institutional memory?

Board renewal is regularly being reviewed to ensure the appropriate structure, size and diversity. Given that the Company is at a strategic crossroad, the Board has decided to maintain status quo on board structure until a new strategic direction has been agreed.

BY ORDER OF THE BOARD

FOO SOON SOO
Company Secretary

29 June 2018