

Issuer: Chemical Industries (Far East) Limited.

Security: Chemical Industries (Far East) Limited.

Meeting details:

Date: 30 June 2017

Time: 10:30AM

Venue: 3 Jalan Samulun, Singapore 629127

Company Description

Chemical Industries (Far East) Limited, an investment holding company, manufactures and sells chemicals primarily in Singapore. The company operates in two segments, Industrial Chemicals and Properties. It offers basic chemicals, such as chlorine, sodium hydroxide, sodium hypochlorite, and hydrochloric acid, as well as hydrogen to the petro-chemical, pharmaceutical, electronics, polycarbonate, and water-treatment industries. The company also operates as a general carrier; general merchant, importer, and exporter of chemicals; and proprietor of commercial buildings, as well as is involved in managing and renting commercial properties. Chemical Industries (Far East) Limited was founded in 1962 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=C05)

Q1. As noted in the Chairman's Message, since the last quarter of the previous financial year, the two substantial customers have ceased operations and the group has not been able "to completely replace the offtake of these customers" (page 3 of the annual report). Even as revenue for FY2017 decreased by 25.8% to \$58.1 million, the group has in fact increased the gross profit margin by 0.6% to 29.0%.

- a) **Can management elaborate further on how they are trying to find new demand for its industrial chemicals? Does management expect to fully replace the offtake of the two former customers in the near future? Has the company increased its product range or has the company found new customers for its existing products?**
- b) **What is the utilisation rate of the Chlor-Alkali manufacturing plant on Jurong Island?**
- c) **During the year, the group has added \$1.87 million to its property, plant and equipment, the bulk of it (\$1.2 million) being "Plant and machinery". What are the group's capital expenditure plans for the near future given that group is probably operating with spare capacity since it has not completely replaced the offtake of the two former major customers?**
- d) **Can management help shareholders understand the long term prospect of the group's core business in industrial chemicals? How sustainable is the core business given that two former major customers have ceased their Singapore operations?**

Q2. In Note 10 (page 61 – Investment Properties), it is disclosed that the group's investment properties (namely, 19 Carpenter Street and 17 Upper Circular Road) are recognised at Level 3 fair value measurements of \$41.4 million. The fair value was determined based on the market comparison approach that reflects recent transaction prices for similar properties. In FY 2017, there was a fair value adjustment gain of S\$1.6 million in FY 2017 compared to a S\$900,000 fair value adjustment loss in FY 2016.

The group recognised property rental income of \$1.43 million in FY 2017. Based on the fair value of the properties of \$41.4 million, the rental yield is approximately 3.45%. The property rental income in FY 2016 was \$1.42 million.

- a) **Can management help shareholders understand the group's pro-active asset management efforts to enhance the revenue-generating ability of its investment portfolio?**
- b) **What is the occupancy rate at each of the property? What is the weighted average lease expiry?**
- c) **Has the board provided management with a targeted yield for the group's investment properties?**

The direct operating expenses (including repairs and maintenance) arising from the rental-generating investment properties amounted to \$320,000 in FY2017. This is considerably higher than the amounts of \$234,000 in FY2016, \$205,000 in FY2015, \$165,000 in FY2014 and \$184,000 in FY2013.

- d) **Can management explain the escalating cost to upkeep the properties? What is management doing to stop the direct operating expenses from escalating?**

Q3. On 15 September 2016, the company announced the appointment of Ms Lee Kia Jong Elaine (Mrs Elaine Lim) as a director of the company. Mrs Elaine Lim is considered an independent director of the company and was appointed as the Chairman of the Nominating Committee (NC) and a member of the Remuneration Committee (RC) with effect from 2 November 2016.

Mrs Lim is joined on the board by three other Independent Directors, namely Dr Wan Soon Bee, Ms Valerie Ong Choo Lin and Mr Tay Kah Chye. Dr Wan, Ms Ong and Mr Tay have served on the board since 2000, 2006 and 2008 respectively. Having served for more than 9 years on the board, the Board has had to conduct a rigorous review of their independence as required by Guideline 2.4 of the Code of Corporate Governance 2012 issued by the Monetary Authority of Singapore.

The company has disclosed that its rigorous review of the directors included:

“... critical examination of any conflicts of interest, their review and scrutiny of matters and proposals put before the Board, exercise of independent judgement and the effectiveness of their oversight role as check and balance on the acts of the executive directors and management of the company and their role in enhancing and safeguarding the interest of the Company and that of its shareholders” (page 8).

- a) **Can the NC share its assessment, and the independent directors share their individual self-assessment, of the ID’s “exercise of independent judgement and the effectiveness of their oversight role as check and balance on the acts of the executive directors and management of the company and their role in enhancing and safeguarding the interest of the Company and that of its shareholders”?**

Notwithstanding the fact that the NC is of the view that the Independent Directors have no relationship with the Company, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director’s independent business judgment, Guideline 2.4 of the Code calls for the board to “also take into account the need for progressive refreshing of the Board”.

- b) **Following the appointment of Mrs Elaine Lim, can the board provide further detail on its plans to ensure the progressive refreshing of the board?**
- c) **Please also disclose the company’s search and nomination process for new independent directors.**

As stated in the section titled “Principle 8: Level and mix of remuneration” in the company’s Statement of Corporate Governance (page 12), the RC has *“reviewed and is satisfied that the existing compensation structure with variable component paid out in cash has continued to be effective in incentivising performance without being excessive”*.

- d) **Can the RC help shareholders understand how it has assessed that the company’s existing remuneration policy is not excessive?**
- e) **Has the RC benchmarked the current compensation structure (including the variable component which is paid out in cash) to other listed companies in similar industries and/or market capitalisation?**