



Securities Investors Association (Singapore)

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GST Reg No: M90367530Y

Issuer: Chemical Industries (Far East) Limited

Security: Chemical Industries (Far East) Limited

Meeting details:

Date: 29 June 2018

Time: 10.30 a.m.

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 manages and rents commercial properties. In addition, it operates as a general carrier; and general merchant, importer, and exporter of chemicals. The company was founded in 1962 and is based in Singapore.

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

1. Would the board/management provide shareholders with better clarity on the following operational and financial matters?

- (i) **Gross profit margin:** The gross profit margin dropped by 9.1 percentage point to 19.9% in FY2018 (page 3 of the annual report) due to lower margins on the chlor-alkaline products arising from price competition, higher cost of imports and higher electricity costs. In the Consolidated statement of profit or loss (page 31), the cost of sales is shown as a line item amounting to \$56.7 million (shown below).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year Ended 31 March 2018

	Note	Group	
		2018	2017
		\$'000	\$'000
Revenue	19	70,855	58,128
Cost of sales		(56,745)	(41,269)
Gross profit		14,110	16,859

(Source: Company annual report)

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?

What are management's strategies to reverse the drop in profitability? In the Industrial Chemicals segment, profit dropped by more than 70% from \$7.8 million to \$2.3 million in FY2018.

- (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?
- (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?

2. In the Statement of Corporate Governance, the company has disclosed the following:

INTERNAL AUDIT

Principle 13: Setting up independent internal audit function

The AC, on an annual basis, reviews the requirements of an internal audit function after taking into consideration various factors such as system of internal controls in place, risks, scope and nature of the Group operations.

In its review for FY2018, having considered all relevant factors, the AC is of the opinion that an internal audit function is considered not necessary in the present circumstances and will review this if circumstances change.

(Source: Company annual report)

The members of the audit committee (AC) are Mr Tay Kah Chye (as chairman), Dr Wan Soon Bee and Mrs Elaine Lim.

- (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?**

Principle 13 of the 2012 Code of Corporate Governance (CG Code) states that a listed company “*should establish an effective internal audit function that is adequately resourced and independent of the activities it audits*”.

- (ii) Would the AC explain why an internal audit function “*is considered not necessary*”?**

The majority of boards of listed companies on the SGX-ST recognise the importance of maintaining an internal audit function to provide an independent assurance over the soundness of the system of internal controls within the company and its subsidiaries to safeguard shareholders’ investments and the company’s assets.

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

3. As disclosed on page 9, the key responsibilities of the nominating committee (NC) include the review of the board succession plans, in particular the Chairman and the Managing Director.

- (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?**

In addition, Guideline 3.1 of the CG Code states that “*the Chairman and the CEO should in principle be separate persons, to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making.*”

- (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?**

In addition, as two of the non-executive directors, namely Mr Tay Kah Chye and Dr Wan Soon Bee, have served on the board for more than 9 years since the date of their first appointments, the board conducted a rigorous review of the above-mentioned long tenured directors.

Mr Tay Kah Chye and Dr Wan Soon Bee were appointed to the board on 2 January 2008 and on 3 July 2000 respectively. Accordingly, Mr Tay and Dr Wan have served on the board for more than 10 years and almost 18 years respectively.

The company has disclosed that the two long tenured directors did not participate in the rigorous review process and had abstained from the Board's deliberation of their independence.

- (iii) While the board opined that the long tenured directors continue to maintain independence, and that Mrs Elaine Lim was appointed to the board on 15 September 2016, 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?**

A copy of the questions for the Annual Report for the financial year ended 31 March 2016 could be found here:

[https://sias.org.sg/qa-on-annual-reports/?company=Chemical%20Industries%20\(Far%20East\)%20Ltd](https://sias.org.sg/qa-on-annual-reports/?company=Chemical%20Industries%20(Far%20East)%20Ltd)

The company's response could be found here: -----