



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

Company Registration No.: 196200046K

RESPONSES TO QUESTIONS RAISED BY SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (“SIAS”) IN RESPECT OF THE COMPANY’S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2023

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 2023 (“Annual Report”) as follows:

Q1. As mentioned in the statement by the non-executive chairman, the group appointed a new chief executive officer and chief operating officer during the second half of the financial year that ended on 31 March 2023. Additionally, key positions across all business units have been filled by management personnel, completing the group's transition from a family-run outfit into a professionally managed organisation.

In September 2022, Mr Yeo Sze Chiat and Mr Loi Kheng Seong were appointed as chief executive officer (CEO) and chief operating officer (COO), respectively. The biographies of the two key management personnel can be found on page 26 of the annual report.

i. Would the newly appointed CEO be providing shareholders with an update on the growth strategies, challenges, and opportunities for the group? What are the key priorities for the next 18 months? Could the company also post the presentation on SGXNet for the benefit of all shareholders?

Company’s response:

The company is on a journey of transition towards our vision to be the premier chemical solutions provider in the region. We are focused on moving the company forward, and our long-term goals will be built and achieved based on the three pillars of Growth, Sustainability and Culture.

We shall actively engage in exploring opportunities for organic and inorganic growth which align with our strategic direction. These may possibly include exploring the manufacturing of higher value downstream Chlor-Alkali derivatives, and expansion into adjacent value chains which will enable us to grow into new business segments. We will also continue to explore more innovative solutions to support our decarbonization efforts and transform our business by integrating sustainability.

In near term, energy is a major variable cost component of our operations. We have embarked on several initiatives to review our energy usage in order to bring down energy cost. The company will publish the minutes of meeting after the AGM.

ii. Could the CEO also share his experiences and insights gained during the past ten months on the job? This is particularly important considering that the group experienced an operating loss in its chemical manufacturing business due to high energy costs that caught management by surprise. What challenges, if any, did the CEO encounter when transitioning from a large global multinational company to a smaller group, especially in terms of technical and operational expertise, culture, systems and processes, entrepreneurial mindset, governance and controls, etc?

Company's response:

The opportunities and challenges presented to the company are similar to many other companies. We shall continue to mitigate the volatile external environment. We remain committed to top line growth in a sustainable and profitable manner, work towards operations excellence, and strengthen the foundations of the group, so as to take the business to greater heights in the future.

iii. Would the board consider having a chairman's message, a CEO review and an operational and financial update in future annual reports?

Company's response:

We will take into consideration your recommendation.

Q2. The non-executive chairman has expressed concerns, noting that there are no indications of abatement to the unrelenting increase in electricity prices in the near future. While the group is currently facing significant challenges in its path to profitability, it has initiated various initiatives aimed at reducing energy consumption and exploring alternative revenue streams to mitigate the impact on profitability.

i. Can the board/management clarify the trend of electricity prices in the past 18-24 months?

Company's response:

Over the past 18 to 24 months, the electricity rates had increased significantly. This was mainly related to the availability and prices of crude oil, which were affected by global supply chain disruptions, Covid-19, and Ukraine-Russia war. The price model of our current energy contract with Genco reflects the effects of economic and geopolitical landscape.

ii. How impactful is the introduction of the Temporary Price Cap mechanism by the Energy Market Authority?

Company's response:

The Temporary Price Cap aims to mitigate extreme price volatility and is largely applicable to consumers who purchase electricity on short-term transactional basis. Industrial users such as our company purchases electricity through long-term contracts for better price stability and certainty.

iii. How much pricing ability does the group have to pass on unavoidable costs increases to its customers?

Company's response:

We have a range of pricing models which take into account various key cost components for both contractual and non-contractual customers.

The chairman has also stated that “... spiralling energy costs ... was entirely beyond our control.... did not expect that the historical skyrocketing rise in prices would be so severe as to more than double previous years’ average prices....”

The group appeared to have entered into an agreement with its power generation company (“genco”) as the chairman cautioned that the group’s energy cost “will remain high for FY 2024 due to an existing contract with our genco”.

iv. Would the board/audit committee (AC) help shareholders better understand if they had identified energy/electricity price as a key risk of the group considering its significance as a key input to the group’s manufacturing processes?

Company’s response:

Electricity is an identified key risk as it is a major input into our manufacturing process. Whilst we had previously experienced volatility in electricity prices over the past years, prices remained manageable. However, the confluence of a spike in global fuel prices and disruptions in gas supply resulted in extreme volatility in the electricity market, causing prices to spike. These unexpected events happened during our contractual renewal period, resulting in renewal at a peak price.

v. If so, could the board/audit committee provide insights into the group's risk management policies, including any hedging strategies implemented to manage electricity prices? In addition, could the board/audit committee explain how the group entered into the current contract with the Genco and whether it aligned with the group's risk management framework?

Company’s response:

In our procurement strategy for energy, we contract with gencos on the basis of an index formula using fixed and variable components. This strategy works best for us as it gives us price certainty and budgetary control. This allows us to hedge the right amount of electricity given our predicted energy usage over the contract term, leaving 100% of the supply cost risk to the genco. Our current contract renewal in June 2022 unfortunately coincided with rising prices and uncertainty with capacity issues amongst retailers. For our current contract, when we requested for proposals from various retailers, some declined to quote citing rising prices, uncertainty with capacity issues or responded with unfavorable terms and conditions. Caught in a squeeze between uncertainties of rising prices and supply issues, we entered into a 2-year contract with our current genco. Securing a continuous supply of electricity is our topmost business continuity strategy.

vi. With the benefit of hindsight, did the group enter into a fixed-priced contract with the Genco at or near the peak of energy prices? Please provide details on the key terms of the contract and indicate if the board had approved these terms, including the pricing mechanism and duration.

Company’s response:

As we have explained above, there was little alternative for us when our contract renewal coincided with the spike in electricity prices and we had no choice but to contract at a peak price amidst uncertainty with supply issues amongst retailers. Our electricity procurement was headed by our Interim CEO and Plant & Technical Advisor and a tender evaluation paper was submitted and presented to the Board for approval. The key terms were approved by the Board, including the pricing mechanism and the duration. We regret being unable to disclose any of the key terms as this may prejudice on-going negotiations with our retailers.

vii. Can management quantify the impact on the group resulting from the contract with the Genco?

Company's response:

Due to the contract with Genco, the electricity cost has doubled versus the last financial year.

viii. Moving forward, what guidance will the board provide to management regarding contracts with Genco?

Company's response:

Continuity of supply is non-negotiable. We can only negotiate on terms and conditions which are acceptable to us on the basis of our predicted electricity usage, at the most cost-effective pricing.

Separately, the group maintained its profitability primarily due to a fair value gain of \$6.4 million from its properties. It has been disclosed that the group is actively exploring alternative uses for the properties located at Upper Circular Road and Carpenter Street, aiming to enhance rental yields.

The properties have a carrying value of \$64.5 million after a revaluation gain of \$6.4 million during the year. The 99-year leases for Lot 99677C (19 Carpenter Street) and Lots 99776K, 99771W, and 99766C (17 Upper Circular Road) will expire in 2050, while Lots 99675X and 99674N (19 Carpenter Street) are freehold in nature.

ix. What potential alternative uses are allowed under the current zoning guidelines? What is the management team's experience and track record in real estate development? Is there a concern that this could distract management from the core business, considering the complexity that might arise from the mix of 99-year and freehold leases?

x. Has the board considered the possibility of selling the properties and returning the capital to shareholders?

Company's response:

For ix and x, we are exploring alternative uses by engaging consultancy services with the real estate management companies.

Q3. At the upcoming annual general meeting scheduled for 27 July 2023, Mr Lim Soo Peng ("Mr Lim") will be retiring as per Article 95(2) of the company's constitution, and he will be seeking reelection.

The biography of Mr Lim can be found on page 22 of the annual report.

Should Mr Lim, be re-elected as a director of the company, he will remain as emeritus chairman and non-executive and non-independent director. Additional information on the director can be found on page 79 of the annual report (and in the notice of annual general meeting).

EXPLANATORY NOTES:-

1. (a) Mr Lim Soo Peng, will upon being re-elected as a Director of the Company, remain as Emeritus Chairman and Non-Executive and Non-Independent Director. Details of Mr Lim are as follows:

Date of appointment	16 March 1962
Date of last re-appointment	21 July 2021
Age	95
Country of principal residence	Singapore
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	Please refer to the Corporate Governance section in the Company's 2023 Annual Report
Whether appointment is executive, if so, the area of responsibility	Non-Executive
Job Title	Emeritus Chairman and Non-Executive and Non-Independent Director
Professional qualifications	None
Working experience and occupation(s) during the past 10 years	Please refer to the Board of Directors section in the Company's 2023 Annual Report
Shareholding interest in the listed issuer and its subsidiaries	Deemed interest of 37,172,750 shares (48.95% of issued share capital)
Any relationship (including immediate family relationships) with any existing director, existing executive office, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	Father of Non-Executive and Non-Independent Director, Mr Lim Yew Nghee

(Source: company annual report)

i. Could the nominating committee (NC) provide insights into the basis for recommending the re-election of Mr Lim Soo Peng?

Company's response:

Mr Lim in his entrepreneurial spirit founded Chemical Industries (Far East) Limited. in the early days of Singapore's industrialization journey and was appointed to the Board since its inception on 16 March 1962. Mr Lim has run the company prudently and today the company is in a strong financial position complemented by a healthy real estate portfolio. Mr Lim is widely known in the chemical industry and also has good relationships with our financial service stakeholders and business partners.

Mr Lim is the driving force in conceiving and effecting the succession and corporate transformational strategy of the company to a professionally managed company. He was very much involved in the selection process for the recruitment of the CEO & COO. The CEO & COO were recruited in September 2022. In preparation for the corporate transformation, Mr Lim has relinquished his various executive roles, first as Executive Chairman, then as Managing Director and as Executive Director. As of 28 July 2022, he is the Non-Executive and Non-Independent Director of the company. The NC and the Board believes that with Mr Lim's wealth of experience and good business relationships with stakeholders, he will guide both the CEO & COO through the transformational journey, as well as acting as mentor, for both of them.

After the CEO & COO were on board, both of them had held consultation sessions with Mr Lim on company matters. In addition, the Board can also count on Mr Lim's advice whenever needed. The NC and the Board believes that Mr Lim can still continue to play an important role as advisor and mentor to the CEO & COO and so seeks for his re-election.

ii. Would the NC provide more information regarding the responsibilities and role of the emeritus chairman? In FY2023, Mr Lim Soo Peng attended four out of six board meetings (as mentioned on page 8). What were the extenuating circumstances, if any, that led Mr Lim Soo Peng to miss the two board meetings?

Company's response:

In the process of the recruitment of the CEO & COO, the Board has anticipated that both the key management staff, CEO & COO, will require guidance and mentoring for a period of time and Mr Lim would be the most suitable candidate to be taking up this role. As revealed above, both the CEO & COO have benefitted from Mr Lim's knowledge throughout the interactions. NC and the Board have determined that Mr Lim will continue to play the key advisory and mentoring role to the CEO & COO as his main responsibility.

Of the 6 Board meetings, 2 were regular meetings scheduled and held with the key agenda item to review the unaudited financial statements for the half-year and the full year, as the case maybe, for release to the Singapore Exchange Securities Trading Limited ("SGX-ST"). The other 4 Board meetings were adhoc meetings to discuss strategic, operational and governance issues arising in the course of business of the group that require the Board's guidance and/or decision to management. About 2 weeks' notice were given for each ad-hoc meeting. Due to the notice period given for the adhoc board meetings, Mr Lim could not attend 2 of the meetings. Notwithstanding, he is always available to the Directors to provide advice, guidance and mentorship as Emeritus Chairman, and the Board regularly consults him to tap on his wealth and depth of experience and knowledge, both at and outside of Board meetings. His devotion and commitment to the company and the group extend beyond just attendance and participation at formal Board meetings through interactions with the Board and management as and when the Board or he deems fit to review matters relating to and in the interest of the group outside of Board meetings.

iii. Can the director help shareholders better understand how he will be able to afford sufficient time, energy and attention to the matters of the group?

Company's response:

Mr Lim is totally dedicated to the company, and the NC and the Board believes that he can still be effective in his role as advisor and mentor to both the CEO & COO, as well as providing advice to the Board.

Separately, resolution 2 at the AGM is to seek shareholders' approval of the directors' fees of \$622,500 (2022: \$518,622).

iv. What are the reasons for the increase in directors' fees?

Company's response:

The increase is due mainly to an increase in basic directors' fees from \$50,000 to \$75,000 effective from 1 January 2022, and Emeritus Chairman's fee of \$75,000.

BY ORDER OF THE BOARD

FOO SOON SOO
Company Secretary

24 July 2023