



CNMC

CNMC GOLDMINE HOLDINGS LIMITED

中色金礦有限公司

(Co. Reg. No. 201119104K)

(Incorporated in the Republic of Singapore)

RESPONSE TO QUESTIONS FROM SIAS ON FY2020 ANNUAL REPORT

The board of directors (the “**Board**”) of CNMC Goldmine Holdings Limited (the “**Company**”) and together with its subsidiaries, the “**Group**”) would like to provide the following replies to questions received from the Securities Investors Association (Singapore) in relation to the Group’s annual report for the financial year ended 31 December 2020 (“**FY2020**”).

Q1. Would the board/management provide shareholders with greater clarity on the following operational matters? Specifically:

(i) Sokor: What are the necessary permits required to operate the lead-zinc flotation plant once it is completed?

The construction and commencement of operations of the lead-zinc flotation plant are subject to the approvals of various Kelantan Government agencies such as Department of Director General of Lands and Mines, Department of Environment, Geoscience Department, Department of Occupational Safety and Health, and Department of Irrigation and Drainage.

(ii) Gold production: Does management have visibility on the planned production schedule for 2021?

One of the Group’s plans for 2021 is to focus on ramping up gold production in the wake of considerable disruptions in operation caused by the Covid-19 pandemic since early FY2020. Notwithstanding the slump in output in FY2020, efforts to boost production have yielded encouraging results. Notably, underground mining at the flagship Sokor gold field commenced in November 2020 and this has enabled the processing of higher-grade ore that accounted for nearly half of the Group’s total gold output during the second half of FY2020.

The Group would also like to draw shareholders’ attention to a pertinent remark by Australia-based Optiro Pty Ltd (“**Optiro**”) that “*Optiro considers that there is considerable potential remaining in the Sokor Block mining licence to locate additional gold and base metal mineralisation*”.¹

¹ See page 54 of Optiro’s Independent Qualified Persons’ Report dated 6 April 2021 as appended on page 192 of the FY2020 Annual Report.

Nonetheless, despite the encouraging “pickup” in the last quarter of 2020 and the plans for 2021, the Group is mindful that production in the near term may still be disrupted if the Covid-19 situation in Malaysia deteriorates and triggers further or tighter regulatory lockdown measures.

- (iii) **All-in costs: All-in costs of production increased from US\$1,166 per ounce to US\$1,650 per ounce in FY2020 due to the lower production volume. How efficient is the group’s operation? How much of the all-in costs of production can be attributed to fixed costs and to variable costs? Will management be looking at how it could lower the fixed costs?**

The all-in-costs *per ounce* (“**AICPO**”) of US\$1,650 and US\$1,166 for FY2020 and FY2019 respectively were computed by dividing (a) the total amount of costs or expenditure associated with gold production (“**all-in-costs**”)² by (b) the production volume of fine gold (measured in ounces). In other words, the AICPO bears an inverse relationship with the production volume which in turn depends largely on the quality of ore grade. The respective gold production volumes for FY2020 and FY2019 were 13,046 ounces and 28,137 ounces, representing a decline of 53.6%. The higher AICPO for FY2020 was thus mainly attributable to the substantially lower production volume in FY2020 compared to that of FY2019.

It should be noted that the AICPO is not a financial metric prescribed by the Singapore Financial Reporting Standards (International) (“**SFRS(I)**”); rather, it is a non-SFRS(I) performance measure advocated by the World Gold Council, as has been voluntarily and consistently disclosed in our results announcements since 2013. Given the constituents of all-in-costs, it may be not appropriate to analogise or pigeonhole components of all-in-costs as either fixed costs or variable costs.

As explained in the Group’s FY2020 Annual Report, the sharp decline in gold output was due mainly to our operations being disrupted by Malaysia’s Covid-19 lockdown measures and the delayed commencement of underground mining as a result of travel restrictions imposed by Malaysia in its attempt to contain the pandemic outbreak. These disruptions were beyond the Group’s control. Accordingly, the resultant increase in AICPO should not be regarded as an indication of its operating efficiency or lack thereof.

Cost management has always been a key area of focus for the Group. Renegotiating pricing terms with suppliers and service providers, as well as seeking to install a national grid power line to become self-sufficient in energy, are some of the initiatives being taken to reduce operating expenses.

- (iv) **Pulai: The exploration and mining licences cover an area of only 7.2 km², down from 38.4 km² previously. At the time of acquisition, it was disclosed that Pulai had 11 exploration and mining licences. What was the reason for the decrease? What was the total amount invested in Pulai since its acquisition?**

² These comprise mining related costs, royalty and tribute expenses, certain general and administrative costs, costs of sustaining and non-sustaining capital expenditures and of non-sustaining capital exploration. (see the Company’s FY2020 full-year results announcement for detail.)

The decrease was mainly due to the expiry of an exploration licence, an iron ore mining licence, three mining licences for alluvial mining and a feldspar mining licence. The Company has no intention of renewing the alluvial mining licenses as we have no plans to embark on alluvial mining activities. Application for the renewal of the exploration licence had been submitted in FY2020, the outcome of which is still pending. An appeal had been filed against the non-renewal of the iron ore mining licence, the outcome of which is still pending.

The total amount invested in Pulai since its acquisition was approximately RM6.5 million (or US\$1.6 million).

Q2. On page 126 (Note 33 – Contingent liability), the company disclosed that, in November 2020, the Kelantan State Government had, during the second renewal of Mining Lease of feldspar, requested the group to pay an alleged outstanding royalty payment amounting to US\$698,116 (equivalent to RM2,817,255) in relation to the period from December 2015 to September 2020 (the “claim”).

The group has stated that it is still liaising with the Kelantan State Government pertaining to the claim, the outcome of which is not presently determinable. It has also reviewed its relevant documents and consulted its legal counsel and concluded that due to the nature of the claim, the potential outcome and obligation is uncertain. No provisions have been recorded in this regard.

(i) Can the board help shareholders understand the basis of the Kelantan State Government’s claim? What is the disagreement, if any?

As this matter is still under negotiations, it would not be appropriate for the Company to comment beyond what has already been disclosed.

(ii) How was the figure of US\$698,116 arrived at? Can management elaborate further on “the nature” of the claim? Is the claim justifiable based on the terms of the mining licence (including the calculation of royalty payment)?

As this matter is still under negotiations, it would not be appropriate for the Company to comment beyond what has already been disclosed.

Q3. At the annual general meeting scheduled to be held on 30 April 2021, Mr. Kuan Cheng Tuck and Mr. Tan Poh Chye Allan will be seeking shareholders’ approval in a two-tier vote for their continued appointment as independent directors on the board. Mr Kuan Cheng Tuck (also lead independent director) and Mr Tan Poh Chye Allan were both appointed on 20 September 2011.

Principle 4 of the Code of Corporate Governance requires the board to have a formal and transparent process for the appointment and re-appointment of directors, taking into account the need for progressive renewal of the board.

(i) As the lead independent director, would Mr Kuan Cheng Tuck be holding himself to higher governance standards and lead by example, especially in setting the tone with regard to the tenure of independent directors?

As adumbrated in the Corporate Governance Report, the Company is in compliance with Principle 4 of the Code of Corporate Governance 2018 (“**Code**”). In ensuring the compliance with this principle, the Nominating Committee (“**NC**”) had, among others, considered and addressed those matters as set forth in Provision 4.1(a) to (d) of the Code. In a nutshell, the NC is of the view that the current board composition is appropriate having regard to the nature and scope of the Group’s operations as well as each director’s competencies, commitment, contribution and performance (e.g., attendance record, preparedness, intensity of participation and candour at meetings).

In assessing whether the independence of the incumbent independent directors pursuant to Provision 4.4 of the Code, the NC has adopted the definition of “independent director” as set out in Provision 2.1 of the Code as well as considered the circumstances which generally deem a director not independent as stipulated in Catalist Rule 406(3)(d) albeit sub-para (iii) thereof will only come into effect on 1 January 2022.

The Board notes that the incumbent independent directors have contributed significantly in the discussion on matters including the business strategies, financial reporting, corporate governance and risk management of the Group, expressed individual viewpoints, debated issues and sought clarifications as they deemed necessary. The NC and the Board (with the respective members concerned abstaining from deliberations) concluded that Mr Kuan and Mr Tan remain independent and accordingly, recommended that both of them continue to be appointed as independent directors of the Company and, in compliance with Catalist Rule 406(3)(d)(iii), be subject to the two-tier voting at the forthcoming annual general meeting.

The Company is of the view that the notion of “higher governance standards” is a subjective one. In fact, the Code has long recognised that there is no one-size-fits-all model or solution for all companies and operates on a comply-or-explain basis (save for the mandatory observation of the Principles stipulated therein). Hence, setting the tenure of independent directors does not necessarily signify “higher governance standards” for every company and at times may not even be in the best interests of a company. This is especially so in the context of the Company as it is in a specialised industry and the incumbent independent directors (especially Mr Kuan and Mr Tan), with their accumulated knowledge of the industry and operating environment the Company is in over the years, have been contributing constructively in various areas as described above. In this regard, the Board is also of the opinion that the safeguard provided for in Catalist Rule 406(3)(d)(iii) is sufficiently robust and pragmatic in addressing the continued independence of long-serving independent directors. After all, the rule (albeit coming into effect on 1 January 2022) - a hallmark of not only high but robust and balanced governance standard - was stipulated by the SGX-ST after extensive consultations with diverse stakeholders and much careful deliberations.

Mr Kuan Cheng Tuck has also assured the Board that, if reappointed, he will continue to discharge his duties to the best of his abilities and hold himself to the standards applicable to his role as Lead Independent Director. The Board notes that Mr Kuan has consistently demonstrated independence in judgement when discharging his duties as an Independent Director and recognises that he has gained valuable insights into the Group’s business and operations over the years, and will therefore be able to continue

to provide significant and valuable contributions to the Board as a whole, moving forward.

(ii) Regardless of whether the long-tenured directors receive the two-tier vote, what deliberations did the nominating committee have on the progressive renewal of the board? What are the near-term plans for board renewal?

As disclosed in the Corporate Governance Report and discussed above, the NC reviews the Board's composition annually to ensure that the Board has the appropriate mix of expertise and experience. It is the NC's view that the current Board comprises individuals who are qualified with the appropriate mix of expertise, knowledge, skills and experience in areas relating to finance, accounting, legal and business strategy. The NC is also of the view that no individual or small group of individuals dominates the Board's decision-making. The NC will continue to be guided by these considerations in managing Board renewal.

By Order of the Board

Lim Kuoh Yang
Chief Executive Officer

29 April 2021

This announcement has been reviewed by the Company's Sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "Sponsor"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "Exchange") and the Exchange assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made or reports contained in this document.

The Sponsor has also not drawn on any specific technical expertise in its review of this announcement.

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