CFM HOLDINGS LIMITED

(Incorporated in Singapore under Registration No. 200003708R)

RESPONSE TO SIAS'S QUESTIONS ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 ("FY2017")

The Board of Directors (the "**Board**") of CFM Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") refers to the questions raised by Securities Investors Association (Singapore) (the "**SIAS**") on 23 October 2017 pertaining to the FY2017 Annual Report. the Board wishes to response SIAS 's questions as disclosed in the Annex A.

BY ORDER OF THE BOARD

Janet Lim Fong Li
Executive Director & Chief Executive Officer
30 October 2017

---

*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, Asian Corporate Advisors Pte. Ltd. (the "**Sponsor**"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("**Exchange**"). The Sponsor has not independently verified the contents of this announcement including the correctness of any of the figures used, statements or opinions made.*

This announcement has not been examined or approved by the Exchange and the Exchange assumes no responsibility for the contents of this announcement including the correctness of any of the statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Ms Foo Quee Yin.
Telephone number: 6221 0271

Annex A : Response to the Questions Raised by SIAS

No	Question	Response
Q1	As discussed in the Chairman's Statement (page 4 of the annual report), the group's revenue decreased from $26 million in FY2016 to $21 million in FY2017. Even though gross profit margin increased from 14.5% for FY2016 to 18.0% for FY2017, the group still reported a loss after tax of $2.1 million for FY2017. The group's profits/(losses) attributable to equity holders of the company were $(2.1) million in FY2017, $(4.0) million in FY2016, $(0.6) million in FY2015, $0.4 million in FY2014 and $(3.3) million. Shareholders have the following questions on the operations and on the financial statements:	
	Metal stamping and fabrication business:	
a)	**Management expects the business prospects to be challenging in the group's core business. Can shareholders understand the efforts to increase the sale and customer base?**	The Group's revenue decreased from S$25.6m in FY2016 to S$21.2m in FY2017. The decrease was due to a decrease in demand for metal stamping and fabrication and toolings. The disposal by the Group of Hantong Metal Component (KL) Sdn Bhd, as announced by the Company in its announcements dated 8 February 2017 and 4 May 2017, also contributed to the decrease. The Group wishes to note that notwithstanding the decrease in revenue, the Group's gross profit increased from S$3.7m in FY2016 to S$3.8m in FY2017. The management has proactively approached its existing customers and increased its marketing efforts to endeavour to increase the Group's revenue. In addition, the Group had ventured

No	Question	Response
		into providing metal stamping services to new customers in the automotive industry especially in US and other European countries. In additions, the Group has sought to develop new streams of revenue. This included growing its rental income from rental of the Group's premises at 4 Ang Mo Kio Avenue 12. The Group has also disposed of loss making Hantong Metal Component (KL) Sdn Bhd in order to focus on more profitable segments of the Group's business and with the cash from the disposal, improve the financial position of the Group.
b)	**What are the mid-longer term prospects for the core business given that revenue has declined from $42.8 million in 2013 to $21.2 million in 2017?**	The Group expects that competition in the Group's core business will remain keen. While there has been a recent upturn in general economic sentiment, the Group's customers remain cautious and so this has not been reflected in this increased orders. Management will continue to secure new customers in automotive sector.
	Cleanroom products: The new segment, with the acquisition of CFM Infratrade Pte Ltd in January 2015, has underperformed as major customers ceased to order from the subsidiary and management realising belatedly that the products' pricings are not competitive. Following an impairment of $0.7 million in Customer relationships (as an intangible) in FY2016, revenue once again dipped by 12% to $2.3 million in 2017. The segment result improved to $0.14 million in 2017.	
c)	**What can be done/is being done to address the issue of cost competitiveness of Infratrade's products?**	The Management continues sourcing for more suppliers from various sources to lower the cost of inventory and at the same time, to approach existing and new customers to secure more

No	Question	Response
		orders.
	Merger and acquisition: The group has said that it will also "explore potential merger and acquisition activities, investment opportunities that will contribute to the Company's growth plans and will enhance shareholders' value over the long term" (page 4).	
d)	**How does the group intend to structure its search in a formal and systematic way? What are the key criteria for the group in its search?**	The Group's principal criteria in its search is to identify targets that are profitable, and related to or complementary to the Group's existing business.
	Strategic review	
e)	**Given the performance of the core business and the impairment to the group's assets, has the board considered if a strategic review of the business would be prudent before the group embarks on further acquisition to safeguard shareholders' interests and the company's assets?**	The Board recognises the importance of a strategic review of its business. It is for this reason that it has disposed of loss making Hantong Metal Component (KL) Sdn Bhd. The Group's efforts comprise not just acquisitions but also maintaining the possibility of disposing of loss making subsidiaries of the Group.
Q2	In Note 29c (page 85 – Contingent liabilities), the company has disclosed the major events leading to a settlement agreement between Cheong Fatt Holdings Pte Ltd's ("Cheong Fatt") and the main contractor who was engaged to construct the factory. A settlement agreement of a sum of $900,000 less an amount determined by an independent assessor is to be paid to the contractor.	
	Can the board explain why it had agreed to settle with the contractor even though the company had originally filed a counterclaim of approximately $2.7 million?	While the contractor had originally filed a claim of approximately S$2.4m, the subsidiary had concurrently filed a defence and counterclaim of approximately S$2.7m. The Group decided to accept the settlement taking into account that TOP for the building had been granted, and that a settlement would obviate the Group's incurring costs for the litigation and the risks of the contractor's counterclaim being successful.

No	Question	Response
	On 7 December 2016, the company announced that: *The Company wishes to update that Cheong Fatt Holdings Pte. Ltd. ("CFH"), a wholly owned subsidiary of the Company had on 6 December 2016 amicably settled its disputes with Seng Foo Building Construction Pte. Ltd. ("SFBC") in High Court Suits HC/S 617/2015 and HC/S 506/2016.* *The settlement will not have any material impact on the Group's earnings per share and net tangible assets per share for the financial year ending 30 June 2017.* The group's last audited net tangible asset was $12.172 million. A settlement of $900,000 would be 7.4% of the last audited net tangible asset of the group.	
b)	**Can the board justify why it had declared that the settlement will not have any material impact on the group's net tangible assets per share?**	The amount of approx. $900,000 represents the amount due to the contractor under the original building contract. This will be reduced by the costs, as assessed, of rectifying the building defects. As the amount represents the original amount due by the Group to the contractor and as the Group did not have to relocate from the building as TOP had been granted, there was therefore no material impact on the net tangible asset of the Group. In addition, as per Note 24 of page 81 and 85 of the annual report the liability of approximately $900,000 has been provided in the book since the previous financial year. Hence, the settlement will not have any material adverse impact on the group's net tangible assets per share.
	A settlement of $900,000 has an impact of 0.8c on the group's earnings per share, based on the number of ordinary shares in issue of 108.5 million.	

No	Question	Response
c)	**Can the board justify why it had announced that there will not be any material impact on the group's earnings per share?**	Please refer to the response Q2 b) above
d)	**Has the board considered if the announcement, dated 7 December 2016, would mis-represent the financial impact of settlement when read by shareholders without the benefit of knowing the settlement sum?**	The Group has announced that there is no material effect on the net tangible asset per share. This therefore provides confirmation to shareholders of the financial impact of the settlement when read in light of the financial statements of the Group.
e)	**Out of the 30% of the total gross floor area that can be leased out, what is the occupancy rate?**	As at year ended 30 June 2017, the company has maximised its allowable occupancy rate of the total gross floor area to be rented out.
Q3	As disclosed in the Corporate Governance Report (page 13), the board presently comprises five directors, two of whom are independent non-executive directors. Accordingly, the company is not in compliance with the Code of Corporate Governance's guidelines that independent directors make up at least half of the board if the Chairman is not independent (Guideline 2.2). In addition, the company has stated that it is continuing in its best efforts in identifying a suitable candidate for appointment as a new independent director of the Company so that it could meet Guideline 2.2.	
a)	**Have the directors considered reconstituting the board members and their roles on the board to meet the requirements of Guideline 2.2? For instance, if an independent director is appointed as the Chairman of the Board, the company would meet the requirements of Guideline 2.2.**	The Company intends to appoint a new independent director, and we are actively seeking a suitable candidate.
	Board performance: The Nominating committee has determined that the board's performance may be evaluated using objective performance criteria including the achievement of financial targets which includes return on equity, improvement of performance of the Company's share price vis-a-vis the Singapore Straits Times Index.	
b)	**In this aspect, would the NC comment on the performance of the board, especially on how the board has enhanced long-term shareholders' value?**	The NC and independent directors recognises the difficult conditions under which the Group

<table>
<tr><th>No</th><th>Question</th><th>Response</th></tr>
<tr><td></td><td></td><td>operates. It notes that the Group has made efforts to expand new revenue streams as well as rationalised its costs. This includes an expansion in warehousing services and maximising the rental of the Group's building. The loss for the year has decreased from S$4.0m in FY2016 to S$2.1m in FY2017. The NC further notes the efforts taken by the Group to dispose of loss making subsidiaries, in order to further manage costs and reduce the Group's losses. The NC will continue to assess the performance of the board.</td></tr>
<tr><td></td><td>The following is a compilation of the remuneration paid to directors over the years.

<table>
<tr><th></th><th>2013</th><th>2014</th><th>2015</th><th>2016</th><th>2017</th></tr>
<tr><td>Total remuneration paid to all directors
(under RPT disclosure)</td><td>988,000</td><td>814,000</td><td>709,000</td><td>745,000</td><td>741,000</td></tr>
<tr><td>Directors' fees
(for non-executive directors)</td><td>71,000</td><td>70,000</td><td>64,000</td><td>62,000</td><td>45,000</td></tr>
<tr><td>Estimated remuneration of executive directors</td><td>917,000</td><td>744,000</td><td>645,000</td><td>683,000</td><td>696,000</td></tr>
</table>
(Source: Company annual report)

In the last 5 years, the executive directors were Mr. Ip Kwok Wing and Mdm Janet Lim Fong Li while Mr. Kenneth Ip Yew Wa has been a director since FY2015.

Over the 5 year period, the total remuneration for executive directors have been $3.7 million while total losses attributable to shareholders add up to $(9.6) million.

The Remuneration committee (RC) has disclosed the following:</td><td></td></tr>
</table>

No	Question	Response
	"As part of its review, the RC ensures that the performance related elements of remuneration form a significant part of the total remuneration package of executive directors and is designed to align the directors' interests with those of shareholders and link rewards to corporate and individual performance".	
c)	**Can the RC explain how it has ensured that performance related elements of remuneration form a significant part of the total remuneration package of executive directors?**	Under the terms of the service agreement of the executive directors, Messrs Ip Kwok Wing and Janet Lim Fong Li, a part of their remuneration is in the form of profit share, subject to certain profit targets being achieved. In addition, shareholders had at the extraordinary general meeting held on 30 April 2015 approved the CFM Performance Share Plan and the participation of the executive directors under the Plan. The RC notes that for FY2014, FY2015 and FY2016, the salaries of the executive directors was substantially maintained. In addition, save for the AWS bonus paid to the executive directors, they have not been awarded any performance shares nor any other bonus nor profit share, in recent years.
d)	**Can the RC justify how it considers that the current remuneration system is designed to align the directors' interests with those of shareholders?**	Please see the response on Q3 c) above. The RC further notes that notwithstanding that shareholders had approved the participation of the executive directors in the CFM Performance share Plan, no performance shares had till date been awarded to the executive directors.
e)	**Can the RC further explain how the system has linked executive compensation to corporate and individual's performance?**	Please see the response on Q3 c) above
f)	**Would the RC consider adjusting the remuneration system to better align the interests of**	The RC considers that the present system of

No	Question	Response
	directors with those of shareholders?	compensation, with the potential for profit share in the event of profitability targets being achieved, and the existence of a employee performance share plan, aligns the interests of directors with those of shareholders. The RC further notes that the executive directors holds amongst themselves an aggregate of 67.45% shareholding in the Company and that any adverse share price fluctuations will similarly impact on the executive directors in their capacity as shareholders.