



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 2018 ("FY2018")

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 2018 pertaining to the FY2018 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
25 October 2018

*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
1	Would the board/management provide shareholders with better clarity on the following matters?	
i)	<p>Long term strategy:</p> <p>With the loss of \$(808,000) for the financial year ended 30 June 2018, the group has now reported 5 years of losses in the past 6 years. Profits/(losses) attributable to equity holders of the company were \$(2.10) million in FY2017, \$(3.99) million in FY2016, \$(0.58) million in FY2015, \$0.40 million in FY2014 and \$(3.30) million in FY2013. The results of its core metal stamping segment have been mixed, reporting a segment profit of just \$81,000 in FY2018, an improvement from the \$(440,000) loss in FY2017. The cash flow from operating activities in the past two years adds up to just \$608,000. With total borrowings of more than \$7 million as at 30 June 2018, and cash and cash equivalents of \$4.46 million, the performance of the group has to greatly improve to ensure its viability.</p> <p>Would the board, especially the independent directors, like to comment if the group has a viable business worth sustaining altogether?</p>	<p>The management's strategy has been three fold.</p> <p>First, by building up its core business in metal stamping and to this end, the Group 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 into providing metal stamping services to customers in the automotive industry especially in US and other European countries.</p> <p>The Group has also increased its development efforts into new metal stamping products and services and is undertaking development of new metal stamping products. These are at the testing stages, and the Group is optimistic that once the tested parts have been approved by the customers, orders for such products will be placed by the customers.</p> <p>Second, by disposing of unprofitable subsidiaries to recover, as far as practicable, the Group's investment in the subsidiaries and/or reduce further investment in these loss making businesses. To this end, the Group has in May 2017 completed the disposal of Hantong Metal Component (KL) Sdn Bhd for a consideration of RM2.0m, and had in June 2018 completed the disposal of CFM Precision Tooling Sdn Bhd ("CFM Precision") and PT Hantong Precision</p>

No	Question	Response
		<p>Manufacturing Batam for a nominal consideration.</p> <p>Third, the Group is expanding on its business of trading and supplying disposable and wearable for use in clean room, hospitals and other purposes. This is elaborated on below.</p> <p>These efforts have led to an improvement in the financial performance of the Group, from a loss of approximately S\$4.0m in the year ended 30 June 2016, to a loss of approximately S\$2.1m in the year ended 30 June 2017, to a loss of approximately S\$0.8m for the year ended 30 June 2018. If certain one off expenses were excluded, the loss for the year ended 30 June 2018 would have been approximately \$0.07 million and accordingly close to break even.</p> <p>The Group will continue its efforts and is of the view that the business is sustainable and is optimistic that the financial performance of the Group will in due course improve.</p>
ii)	<p>Revenue and gross profit:</p> <p>The group reported increases in revenue and gross profit in the financial year ended 30 June 2018. The increase was attributed mainly to higher demand of metal stamping and fabrication and higher contributions from the trading of clean room products.</p> <p>Can management provide a breakdown of the \$18.5 million in revenue generated from metal stamping to show the distribution by industries and/or by product type/range? How much of the revenue was derived from new customers that the group has acquired in the past 1-2 years?</p>	<p>The three industries contributing to revenue are automotive, electronics and engineering.</p>
iii)	Order book:	Orders from customers are placed on a short

No	Question	Response
	<p>Would the group disclose the order book to provide shareholders with better visibility of its operations?</p>	<p>term basis and therefore are subject to fluctuations. The order book at any one time is therefore not representative of the expected performance of the Group for any financial year.</p> <p>However, the management notes that it has observed an improvement in its order books in the last six months.</p>
iv)	<p>Cleanroom products: The segment result of the cleanroom products segment improved from \$137,000 to \$545,000 as revenue increased from \$2.28 million to \$2.78 million. What were the main reasons for the better performance of the cleanroom products segment? Can the company sustain the growth momentum in revenue and profit?</p>	<p>The main reason for the better performance of the cleanroom product segment was due to increase in demand from the existing customers. The Company will continue its efforts of growing the cleanroom products segment.</p>
v)	<p>Independent joint assessor: What is the expected timeline for the appointment of an independent joint assessor in the settlement agreement that the group has with the main contractor?</p>	<p>Discussions are ongoing on the appointment as well as the scope of engagement. While the management is keen to resolve the matter, the appointment however requires the consent of the contractor. The Group has in any event recognised liabilities amounted to \$895,000 for the financial year ended 30 June 2017 and at this juncture, the Group does not expect the need to accrue any additional liabilities.</p>
2	<p>On 5 June 2018, the company announced the proposed disposal of indirectly-owned subsidiaries, CFM Precision Tooling Sdn Bhd ("CFM Precision") and PT Hantong Precision Manufacturing Batam ("PT Hantong"), to Ms Lim Fong Li Janet for a consideration of S\$1.00. Ms Lim Fong Li Janet is the executive director and chief executive officer of the company.</p> <p>It was stated that the company has had the intention to liquidate and/or strike-off CFM Precision and PT Hantong. CFM Precision has been a dormant company since March 2016 while the current liabilities of PT Hantong exceed its assets and there are no prospects of recovery for PT Hantong.</p>	

No	Question	Response
	<p>In order to facilitate the liquidation and for the company to save on the cost of liquidation, the purchaser has “offered to acquire the Sale Shares on, inter alia, the basis that she will commence liquidation of CFM Precision within 180 days of completion of sale and purchase of the Sale Shares, and shall commence liquidation of PT Hantong within 1 year of completion of sale and purchase of the Sale Shares”.</p>	
i)	<p>The company has also stated the following:</p> <p>The Company also wishes to update that as part of rationalising the balance sheet of PT Hantong and to maintain relationships with the suppliers to PT Hantong, some of whom are suppliers to other companies in the Group, PT Hantong will be assigning the receivables (which currently have been impaired/written off) from its customers to its suppliers. This will reduce the effort on the part of PT Hantong to collect such receivables.</p> <p>Can the board help shareholders understand the amount of receivables that will be/has been assigned to its suppliers?</p>	<p>No receivables assigned as customers did not agree on the assignment.</p>
ii)	<p>The company has disclosed that (emphasis added):</p> <p>“the nominal Consideration of S\$1.00 was arrived at on a willing buyer willing seller basis after arm’s length negotiations, and taking into account, inter alia, the aggregate audited negative net tangible asset (“NTA”) value of the Subsidiaries of S\$714,000 as at 30 June 2017 and the aggregate amount of losses attributable to the Subsidiaries of S\$290,000 for the financial year ended 30 June 2017... .. The Board and Audit Committee are of the view that the SPA entered into by the Company’s wholly owned subsidiary, Cheong Fatt Holdings with the Purchaser is on normal commercial terms and is not prejudicial to the interests of the Company and its minority shareholders, for the following reasons...”</p> <p>Without disputing the merits of the disposal, would the board and the audit committee (AC) help shareholders understand and justify why this transaction is said to be “on normal commercial terms”? What does the board mean by “on normal commercial terms”?</p>	<p>The Group considers that a disposal of PT Hantong, being loss making and having a net liability position, will under common commercial circumstances be either at a nominal consideration or will involve the Group reimbursing the purchaser for assuming the losses. Accordingly, as the disposal is at a nominal consideration of S\$1, the Group considers that the sale to be on normal commercial terms.</p>
	<p>On 8 June 2018, the company announced that the information found in Section 7 of the announcement dated 5 June 2018, were “inadvertently not updated to reflect the final draft”.</p>	

No	Question	Response
iii)	Can the board, especially the AC members, help shareholders understand their involvement in the preparation of company's announcements, especially one that involves the disposal of interest in subsidiaries to the executive director and CEO, who is considered an interested person?	The AC together with the Board, has several internal discussions on the disposal of interest in subsidiaries to the executive director and CEO, appointment of legal advisor on the draft the sale and purchase agreement as well as the announcement, review and is in the view that the transaction is to the best of the interest to the Company before execution of the transaction.
iv)	No doubt the company had consulted with the Singapore Exchange Securities Trading Limited ("SGX-ST") on the application of Chapter 10 of the Catalist Rules for the Proposed Disposal, can the AC and the sponsor clarify why the relative figure in the calculation of Rule 1006(b) was based on the unaudited consolidated financial statements of the group for the half year, and not on a 12-month/full year basis? While the outcome/decision is not being questioned, shareholders would like to know if rule 1006(b) has been correctly applied.	The related figure in the calculation of the Rule 1006(b) was complied with the Chapter 10 Acquisitions and Realisations of Catalist Rules: 1002(3)(c).
3	<p>As disclosed in the Corporate Governance report, Mr Ip Jowa Andrew (Ye Zuhua), the son of Mr Ip Kwok Wing and Mdm Lim Fong Li Janet, was employed by a subsidiary of the group as sales manager.</p> <p>Total remuneration paid to Mr Andrew Ip during the FY2018 was within the range of \$50,000 to \$100,000.</p> <p>In the section on Interested Person Transactions (IPTs) (page 28), the company disclosed that Andrew Ip Jowa, son of Mr Ip Kwok Wing and Mdm Lim Fong Li Janet, is the director and shareholder of CFM Solutions Pte Ltd. The group has had transactions with CFM Solutions Pte Ltd. that were below the disclosure threshold of \$100,000 as stipulated by Chapter 9 of the SGX-ST's Catalist Rules on Interested Person Transactions.</p>	
i)	Can the board/nominating committee (NC) help shareholders understand if Mr Andrew Ip Jowa's appointment as sales manager is on a full-time basis?	Andrew Ip Jowa was appointed as a full-time sales manager in the Company's wholly owned subsidiary in September 2017. He is responsible

No	Question	Response
		<p>for all sales and customer service.</p> <p>He reports directly to the General Manager of the subsidiary.</p>
ii)	<p>Can the board, especially the independent directors, provide better clarity on the role of Mr Andrew Ip Jowa in (a) CFM Solutions Pte Ltd and as (b) sales manager in the company's subsidiary?</p>	<p>CFM Solutions Pte Ltd is a stand-alone, independent company, fully owned by Andrew Ip Jowa. Andrew Ip is the sole Director of CFM Solutions Pte Ltd. CFM Solutions Pte Ltd is currently not active and therefore Mr Andrew Ip will not be devoting any material amounts of time to the business of CFM Solutions Pte Ltd and his efforts are spent as a sales manager in CFM Group.</p>
iii)	<p>An online search reveals that CFM Solutions has a registered address of "4 Ang Mo Kio Avenue 12, #05-05, CFM Building, Singapore 569498". It is in the business of surveillance and security systems. Can the audit committee help shareholders understand the extent of the business relations of CFM Solutions with the group, including provision of services, rental of premises, if any?</p>	<p>CFM Solutions Pte Ltd is a stand-alone, independent company. The business carried out by CFM Solutions Pte Ltd does not conflict with the core business of the CFM Group.</p> <p>Since end of 2017, there has been no provision of services or rental of premises that has been provided to CFM Solutions with the group.</p>
iv)	<p>In addition, as CFM Solutions share the same name as the company, and is hosted at the group's registered office, would it be likely to be mistaken as part of the group? Any customer of CFM Solutions may be under the impression that it is part of CFM Holdings Limited, a listed company.</p>	<p>The address that is registered is simply a mailing and registered address.</p>
v)	<p>Were there any formal agreement between CFM Solutions and the company to regulate, formalise and demarcate any business activities and relationship to safeguard the interests of the minority shareholders?</p>	<p>As CFM Solutions is no longer active, the Group will not be entering into any further contracts with CFM Solutions.</p> <p>All related party transactions will be considered by the members of the AC prior to approval.</p>
vi)	<p>To raise the level of transparency, can the board/management clarify if any of the significant related party transactions shown in the table below are carried out with CFM Solutions? If so,</p>	<p>The related party transactions shown in the table are not material compared to the Group net</p>

No	Question	Response																														
	<p>would the company also provide clarity on the nature of the services/payments.</p> <p>28. Significant related party transactions</p> <p>(a) Other than as disclosed elsewhere in the financial statements, the following significant related party transactions took place between the Group and related parties during the financial year on terms agreed by the parties concerned:</p> <table border="1" data-bbox="353 459 1128 740"> <thead> <tr> <th></th> <th colspan="2" style="text-align: center;">Group</th> </tr> <tr> <th></th> <th style="text-align: center;">2018</th> <th style="text-align: center;">2017</th> </tr> <tr> <th></th> <th style="text-align: center;">\$'000</th> <th style="text-align: center;">\$'000</th> </tr> </thead> <tbody> <tr> <td>Sales</td> <td style="text-align: center;">24</td> <td style="text-align: center;">3</td> </tr> <tr> <td>Purchases</td> <td style="text-align: center;">1</td> <td style="text-align: center;">-</td> </tr> <tr> <td>Service fees charged to a related party</td> <td style="text-align: center;">21</td> <td style="text-align: center;">-</td> </tr> <tr> <td>Service fees charged by a related party</td> <td style="text-align: center;">-</td> <td style="text-align: center;">32</td> </tr> <tr> <td>Payment of expenses on behalf by a related party</td> <td style="text-align: center;">1</td> <td style="text-align: center;">1</td> </tr> <tr> <td>Payment of expenses on behalf of a related party</td> <td style="text-align: center;">23</td> <td style="text-align: center;">-</td> </tr> <tr> <td>Services rendered by a firm which an Independent Director has interest</td> <td style="text-align: center;">8</td> <td style="text-align: center;">38</td> </tr> </tbody> </table> <p>Related party refers to a company in which the son of the directors of the Company has significant interest.</p>		Group			2018	2017		\$'000	\$'000	Sales	24	3	Purchases	1	-	Service fees charged to a related party	21	-	Service fees charged by a related party	-	32	Payment of expenses on behalf by a related party	1	1	Payment of expenses on behalf of a related party	23	-	Services rendered by a firm which an Independent Director has interest	8	38	<p>tangible assets in FY2018.</p>
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