

Issuer: CFM Holdings Limited
Security: CFM Holdings Limited

Meeting details:

Date: 31 October 2017
Time: 10.00 a.m.
Venue: 4 Shenton Way, #17-01 SGX Centre 2, Singapore 068807

Company Description

CFM Holdings Limited, an investment holding company, designs, fabricates, and sells tools-and-dies used for the manufacture of stamped metal components. The company operates through four segments: Metal Stamping, Tooling, Components and Parts, and Cleanroom Products. The Metal Stamping segment is involved in manufacturing metal plates and metal stampings. The Tooling segment engages in the manufacture and fabrication of engineering tools and dies. The Components and Parts segment is involved in trading other components and parts. The Cleanroom Products segment engages in trading disposables and wearables for use in cleanroom and bio-medical applications, laboratories, and hospitals. The company serves electronics, automotive, telecommunications, technology, M&E, and pharmaceutical industries. It operates in Singapore, Malaysia, Japan, the United States, the Slovak Republic, the Czech Republic, the Netherlands, and internationally. CFM Holdings Limited was founded in 1979 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5EB)

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?**
 - 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?**
- 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?**
- 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?**
- 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?**

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.

- a) **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?**

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?

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.

c) Can the board justify why it had announced that there will not be any material impact on the group’s earnings per share?

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?

e) Out of the 30% of the total gross floor area that can be leased out, what is the occupancy rate?

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.

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 following is a compilation of the remuneration paid to directors over the years.

	2013	2014	2015	2016	2017
Total remuneration paid to all directors (under RPT disclosure)	988,000	814,000	709,000	745,000	741,000
Directors’ fees (for non-executive directors)	71,000	70,000	64,000	62,000	45,000

Estimated remuneration of executive directors	917,000	744,000	645,000	683,000	696,000
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(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:

“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?**
- d) **Can the RC justify how it considers that the current remuneration system is designed to align the directors’ interests with those of shareholders?**
- e) **Can the RC further explain how the system has linked executive compensation to corporate and individual’s performance?**
- f) **Would the RC consider adjusting the remuneration system to better align the interests of directors with those of shareholders?**