



Securities Investors Association (Singapore)

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Issuer: CFM Holdings Limited

Stock code: 5EB

Meeting details:

Date: 28 October 2021

Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. In June 2021, the company announced that it had entered into a sale and purchase agreement with certain vendors for the acquisition of a 51% stake in SING-SWE MM Biotechnology Pte. Ltd. for an aggregate consideration of up to \$6.12 million.

The consideration will be satisfied with the allotment and issuance of an aggregate of up to 120 million new shares at an issue price of \$0.051 each.

- (i) **Given that the target was only incorporated on 7 May 2021, how much due diligence can be and will be carried out by the board/management to satisfy itself that the proposed acquisition is in the best interests of the company?**
- (ii) **What are the safeguards put in place in the SPA to protect the interests of the company?**
- (iii) **Have the company and the directors carried out due diligence on the vendors, including New Energy Industry Sweden AB?**

As disclosed in the company's announcement dated 3 June 2021, the target is a Singapore company incorporated on 7 May 2021 and involved in the distribution and sale of pharmaceutical products with the exclusive distribution rights to certain viral test and detection kits, including inter alia, nucleic acid quick tests, rapid antigen tests, antibody rapid tests, and thalassemia screening kits, in Europe, Africa, South Asia, South-East Asia and Middle East, and intends to invest in and develop its own products in related fields.

- (iv) **Is there any synergy between the target and the group's existing businesses?**
- (v) **How will management be able to effectively manage and lead the proposed target given that there appears to be no expertise in the new business?**
- (vi) **How did the board value the proposed target (SING-SWE MM Biotechnology Pte. Ltd.)?**
- (vii) **Given the group's track record in M&A (see Q2(ii)), what are the safeguards put in place so that the company does not overpay for its acquisitions and that the target business performs up to management's expectations after the acquisition?**

On 21 September 2021, the company announced that the long-stop date has been extended to 31 December 2021 and the cut-off date of the target's net profit has been extended from 31 July 2021 to 30 September 2021.

- (viii) **Has the company received the 30 September 2021 management account of the proposed target?**
- (ix) **What are the reasons that the long-stop date has been extended?**
- (x) **With just two independent directors on board, does the board have the bandwidth, diversity of experience and expertise to provide effective oversight and leadership for this acquisition?**

Q2. Would the board/management provide shareholders with greater clarity on the following operational matters? Specifically:

- (i) **Stamping and tooling:** As shown in Note 27 (page 81 – Segment information), the group had 3 customers who each contributed more than 10% of the group's total revenue in the year. The 3 customers contributed 17.1%, 10.3% and 10.2% of the total revenue. In particular, it was disclosed that the group's Slovakia operations performed above expectations largely due to a ramp up of orders by customers. **What are the main products that contributed to the strength in the customers' demand? Are the top 3 customers existing customers of the group? What were the utilisation rates of the manufacturing facilities in FY2021? Does management expect the demand for its products and services to normalise in the next 12-18 months?**
- (ii) **Cleanroom:** In the chairman's statement, it was stated that the group experienced another exodus of its sales and operations teams in the cleanroom segment which resulted in a decrease in revenue. **Do the independent directors consider it timely to carry out an independent review of the cleanroom business to provide oversight of the business model including the management depth and incentives, competitive advantage, HR practices and culture, etc.** Despite the exodus, staff costs increased from \$6.86 million in FY2020 to \$7.31 million in FY2021. **Please explain the increase in staff costs.**

Q3. Mr. Er Kwong Wah resigned as the lead independent director on 5 July 2021. Following his resignation, the board is not in compliance with the provisions 2.2, 2.3 and 3.3 of the Code of Corporate Governance 2018 which requires independent directors to make up a majority of the board where the chairman of the board is not independent (Provision 2.2), the appointment of a lead independent director when the chairman is not independent (Provision 3.3) and that non-executive directors make up a majority of the board (Provision 2.3).

In the notice of cessation dated 5 July 2021, the said director disclosed that he *“has decided to focus on his other obligations and commitments by virtue of his directorships in other companies. He will be devoting a substantial amount of his working hours as the lead independent director to comply with the Notice of Compliance issued by SGX RegCo to another troubled listed company”*.

In addition, following the unexpected resignation of the lead independent director, the company has not able to meet the requirement of Rule 704(7) of the Catalist Rules.

- (i) **What is the progress made by the company in sourcing and appointing a third (or more) independent director to the board? What is the profile sought for in the new director?**
- (ii) **How is the nominating committee (NC) sourcing for director candidates?**
- (iii) **What has caused the delay in appointing a new independent director?** The company has stated that “the board has not reached an agreement on the choice candidate (page 15). **Is there a difference of opinion on the board over the nomination and appointment of director candidates?**
- (iv) **How badly affected is the company by the sudden resignation of the former lead independent director especially given the small size of the board?**
- (v) **Will the company be finetuning its internal guidelines and require directors on the board to limit their other commitments responsibly, especially in the number of board representations on listed companies?** It is observed that the former lead independent director was on six listed companies, including some troubled companies, and had resigned to focus on one of his other listed companies.

^On 1 October 2020, the Accounting and Corporate Regulatory Authority (“ACRA”), the Monetary Authority of Singapore (“MAS”) and Singapore Exchange Regulation (“SGX RegCo”) published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings (“Meetings Order”) would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can’t attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on [SIAS website](http://www.sias.org.sg)

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[^] Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation
(<https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation>)