

Issuer: Yongmao Holdings Limited
Security: Yongmao Holdings Limited

Meeting details:

Date: 29 Jul 2016
Time: 2:30 PM
Venue: 81 Ubi Avenue 4, #09-10 UB. One, Singapore 408830

Questions on strategy, financials and operations

1. In the Chairman’s Statement (page 8 of the annual report), it was mentioned that the group’s long-term strategy was to deliver sustainable growth through market diversification. Looking back to FY2011, it was a milestone year for the group as the second manufacturing facility in Liaoning Province commenced operations in October and that had twice the capacity of the Beijing City plant. The revenue trends are shown in the table below.

In RMB (millions)	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Total revenue	573	672	673	910	783	455
Revenue from the PRC	382	490	447	596	388	133
As a percentage	67%	73%	66%	65%	50%	29%
Revenue from outside the PRC	191	182	226	314	395	322

There is some evidence that the group has been successful in increasing its non-PRC revenue although topline growth has been patchy. Given the slowdown in infrastructure and construction in China, **how does the company maintain or even grow its PRC business?** There was a sharp drop from RMB 388 million to RMB 133 million in FY2016. **What are the key focus areas in the PRC? Can the group maintain healthy revenue without sacrificing margins? Can management also elaborate on their plans for the international markets outside of the PRC? What are some of the new markets that have great potential?** We reckon that the frontier markets offer huge potential but we recognise that doing business in these frontier economies comes with high risks as well.

2. Specifically, for the year ended 31 March 2016, the notes on the operating segments (by geography) show that the PRC business recorded a pre-tax loss of RMB 10.4 million in 2016 (page 108) vs a pre-tax gain of RMB 46.0 million in 2015. Given that the PRC is still the key market, this is a worrying sign. **Can management please elaborate on the economic environment in China and help shareholders understand if there will be a quick turnaround for the PRC segment.** On a related note, page 91 of the annual report shows that **“Employee benefit expenses” remained at RMB 40 million (in both 2015 and 2016) and “Salaries and related costs” (page 92) remained at RMB 80 million (RMB 82 million for 2015).** Given that revenue had fallen from RMB 783 million to RMB 455 million, **can management explain why manpower costs were practically unchanged year on year?** For a manufacturing business, one would expect the manpower cost to move in tandem with the level of production/revenue.

3. The company has announced on 5 July 2016 that Tat Hong Equipment (China) Pte. Ltd. (“THEC”) will not proceed with the listing of its shares on the Taiwan Stock Exchange. Yongmao has an 11.6% interest in THEC. Following the decision not to proceed with the listing, **what are the plans for THEC?**