



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: XMH Holdings Ltd.

Security: XMH Holdings Ltd.

Meeting details:

Date: 23 Aug 2018

Time: 10.00 a.m.

Venue: 55 Tuas Crescent #07-01 Singapore 638743

Company Description

XMH Holdings Ltd., an investment holding company, provides diesel engine, propulsion, and power generating solutions for customers in the marine and industrial sectors in Singapore, Indonesia, Vietnam, and internationally. The company operates through three segments: Distribution, After-sales, and Projects. It offers high-speed marine diesel engines for propulsion systems, pumps, deck machines, bow thrusters, power generating sets, and portable power packs; medium-speed marine diesel engines for propulsion systems and power generating sets; low-speed marine diesel engines for propulsion systems; power generating sets for auxiliary power supply to marine vessels; and industrial diesel engines for portable power packs, deck machinery, and power generating sets. The company also provides marine gearboxes, propellers, thrusters, IPS, and steering systems; supplies engines, general machinery, and machinery equipment for marine, agriculture, construction, and industrial use; manufactures and repairs machinery for mining, quarrying, and construction; and manufacturers, imports, and exports generating sets, spare parts, general engineering, and other related products. In addition, it undertakes assembly works or subcontract works for power generating sets; and offers after sales services and marine equipment repair services. The company offers its marine products to shipyards, vessel owners, and dealers; and industrial products to hotel proprietors, building owners, and main contractors. XMH Holdings Ltd. was founded in 1955 and is based in Singapore.

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

1. As noted in the Chairman's Message, the group continues to face headwinds in the form of aggressive competition and weak demand for marine related products. While the group has diversified into onshore energy, industrials and other new segments, revenue decreased by 19% to \$72.9 million in FY2018. As noted in the Operations and financial review (page 13 of the annual report), the group's gross profit margin increased marginally from 24.2% in FY2017 to 24.4% in FY2018. However, net (loss) attributable to shareholders increased from \$(1.07) million in FY2017 to \$(3.5) million in FY2018.

- (i) Has management looked at how it could further streamline its operations and better manage its costs given that the downturn has been more prolonged and more severe than expected? If so, can management elaborate further on its pro-active efforts?**

The order book of the group has decreased from \$74.5 million as at July 2016, to \$46.2 million as at July 2017 and to \$44.4 million as at July 2018.

- (ii) Would management help shareholders understand its strategy to tap new growth markets such as the onshore energy and industrials sectors?**
- (iii) Would management discuss in detail some of its recent successes in the new markets? What are some of the opportunities available in the next 2-3 years?**
- (iv) Would management elaborate further on the group's competitive advantage and its value proposition to its customers?**
- (v) As mentioned in the Chairman's Message, the group will be looking to expand in regional markets such as Cambodia, Myanmar, the Philippines and Vietnam. Given that the group disposed of its 50% interest in Z-power Automation Vietnam Co. Ltd. in February 2018 for \$1, what experience did the group gain from the Vietnamese investment in the past years? How has the group fine-tuned its strategy for its regional expansion?**

2. The "Valuation of inventories" is a key audit matter (KAM) highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 48). Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, as at 30 April 2018, the group's inventories amounted to \$33,270,000 with allowance for inventories of \$39,000 and inventories written-down of \$235,000.

- (i) Would management elaborate further on how it assesses if there is objective evidence of impairment? What is the inventory ageing profile of the current inventory?**

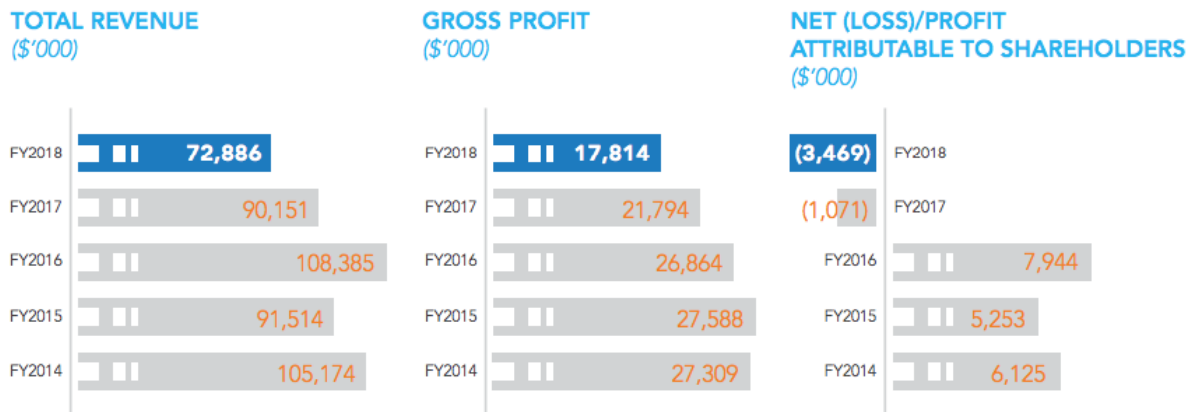
The group's revenue and the carrying value of inventories and finished goods (engines) in the past 5 years are shown below:

| | FY2014 \$'000 | FY2015 \$'000 | FY2016 \$'000 | FY2017 \$'000 | FY2018 \$'000 |
|--------------------------|------------------|------------------|------------------|------------------|------------------|
| Revenue | 105,174 | 91,514 | 108,385 | 90,151 | 72,886 |
| Inventories | 22,525 | 32,367 | 35,325 | 30,550 | 33,270 |
| Finished goods - Engines | 10,377 | 15,279 | 16,478 | 12,235 | 15,425 |

Despite the group's revenue dropping by more than 1/3 from the peak, the group's inventories have remained high. In particular, the carrying value of finished goods (Engines) exceeds \$15.4 million, or nearly 25% of the group's total equity of \$63 million.

- (ii) **Would management help shareholders understand the reasons for carrying relatively higher levels of inventories, especially engines?**
- (iii) **Would it be timely to evaluate how the group could further improve/streamline its supply chain so as to reduce the working capital required to support the business?** This would also reduce the obsolescence/technology/market risk of the group.

3. The group's revenue, gross profit and net (loss)/profit attributable to shareholders are shown in the Financial highlights (page 6) and reproduced below:



(Source: Company annual report)

The remuneration band and the variable income/bonus components of the executive directors and key management personnel in the past 4 years are shown in the table below:

| | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 |
|--------------------------|--|--|--|--|--|
| Mr. Tan Tin Yeow | Above \$500,000 but below \$750,000 40% | Above S\$500,000 but below S\$750,000 38% | Above S\$500,000 but below S\$750,000 17% | Above S\$500,000 but below S\$750,000 6% | Above S\$500,000 but below S\$750,000 6% |
| Ms. Tan Guat Lian | Above \$250,000 but below \$500,000 22% | Above S\$250,000 but below S\$500,000 22% | Above S\$500,000 but below S\$750,000 16% | Above S\$500,000 but below S\$750,000 19% | Above S\$250,000 but below S\$500,000 17% |
| Key management personnel | 16-33% | 17-21% | 6-14% | 13-25% | 9-14% |

In the last two financial years, the group reported net (loss) attributable to shareholders of more than \$(4.5) million. The executive directors received bonuses that accounted for 6-19% of their annual remuneration while key management personnel received bonuses of between 9-25%.

In the Corporate Governance Report, the remuneration committee (RC) has stated the following:

The remuneration received by the Executive Directors and certain key management personnel takes into consideration his or her individual performance and contribution towards the overall performance of the Group for FY2018. Their remuneration is made up of fixed and variable compensations. The fixed compensation is in the form of salary, bonus, share options under the Scheme and others. The variable component is performance-related and is linked to the Group's performance as well as the performance of each individual Executive Director and key management personnel. In determining the actual quantum of the variable component of remuneration, the RC had taken into account the extent to which the performance conditions have been met. The RC is therefore of the view that the remuneration for each individual Executive Director and abovementioned key management personnel was aligned to their individual performance as well as the Group's performance during FY2018.

- (i) Would the RC confirm that the variable component is performance-related and is linked to the group's performance as well as the individual's performance?**
- (ii) What are the performance indicators used in the measurement of the group's performance?**

- (iii) What are the financial and non-financial performance indicators used in the measurement of performance of the individual executive director/key management personnel?**
- (iv) In addition, would the RC provide shareholders with better visibility on how the level of the variable components of the remuneration of executive directors and key management personnel were determined?**
- (v) Can the RC also help shareholders understand the level and trend of executive remuneration (including variable component) relative to the group's performance especially in the last two years?**

In addition, on 30 August 2017, the company granted share options of 1.42 million shares to the executive directors and to employees of the company and its subsidiary corporations at an exercise price of \$0.220 per share.

- (vi) Would the RC clarify if the award of the share options was performance based? If not, would the RC help shareholders understand the rationale of the 2017 share award?**

A copy of the questions for the Annual Report for the financial year ended 30 April 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=XMH%20Holdings%20Ltd>

The company's response could be found here:

https://sias.org.sg/media/qareport/1476169672_XMH---Response-to-SIAS.pdf