



XMH HOLDINGS LTD.
(Incorporated in Singapore)
(Company Registration No.: 201010562M)

RESPONSE TO SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (“SIAS”) QUERIES ON THE COMPANY’S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 APRIL 2021

The Board of Directors (“**Board**”) of XMH Holdings Ltd (“**Company**” and together with its subsidiaries, the “**Group**”) wishes to announce the following in response to the queries raised by the Securities Investors Association (Singapore) (“**SIAS**”) with respect to the Company’s Annual Report for the financial year ended 30 April 2021 (“**FY2021**”) (“**Annual Report**”).

Any defined term used shall have the same meaning ascribed thereto in the Annual Report, unless otherwise defined herein.

Query 1:

The group’s performance by geography and by business for the past 5 years can be found on page 15 of the annual report (Financial highlights; extract reproduced below).

IN S\$’000	FY2021	FY2020	FY2019 (Restated)¹	FY2018* (Restated)²	FY2017* (Restated)²
REVENUE BY GEOGRAPHICAL					
Singapore	30,433	21,769	34,101	40,026	50,230
Indonesia	23,498	23,302	25,739	15,491	13,222
Vietnam	1,935	1,492	3,673	8,739	21,965
Other Countries	8,331	7,401	3,633	8,577	4,572
REVENUE BY BUSINESS					
Distribution	20,512	21,292	27,202	24,326	32,505
After-Sales Services	9,588	9,146	7,406	7,331	6,216
Projects	34,097	23,526	32,538	41,176	51,268

(Source: company annual report)

In addition, as noted in the section titled “Outlook and strategy” in the chairman’s message, the group will be focusing on Indonesia for the distribution business as demand for coal production and hence coal transportation has increased.

- (i) **Can management help shareholders better understand the scale of its operations in Indonesia (under PT Xin Ming Hua Engine)? How well positioned is the group to tap the growth in Indonesia?**
- (ii) **What are some of the key projects won by the group in the Projects segment? Can management elaborate further on the nature, scope and deliverables of the projects carried out by the group?**
- (iii) **How is the group affected by the current manpower situation in Singapore and what is management’s strategy to mitigate the impact?**

(iv) What are the opportunities for the group as the approved System Integrator Framework and Original Equipment Manufacturer Framework by MTU Asia and as the Generator original equipment manufacturer by Volvo Group (page 9)?

In addition, as of 30 April 2021, the group's cash and cash equivalents was \$7.7 million while total loans and borrowings amount to \$63.2 million (Note 27 – Loans and borrowings). The group had also breached the covenants of a bank loan for which management had obtained a letter of waiver from the bank dated 12 April 2021 stating the bank has provided consent to waive the requirement for the period of 12 months from the date of the audited financial statements for the financial year ended 2021. The group's financial position is also the subject of SGX's query which was announced by the company on 12 August 2021.

(v) Does the group have the necessary financial resources to support its growth strategy?

(vi) What are the pro-active measures by management to improve on the group's cash generative ability? In the past two years, net cash used in operating activities were \$(4.3) million (FY2021) and \$(3.3) million (FY2020). Has management experienced difficulties or delays in collecting its trade receivables?

Company's response to Query 1:

Response to question (i):

Our subsidiary in Indonesia, PT Xin Ming Hua Engine ("PT XMH"), was established in 2012 in Jakarta to provide after-sales services to our customers in Indonesia. PT XMH set up outlets in Surabaya and Samarinda in 2016 and 2018 respectively to have closer proximity to customers throughout Indonesia. With three outlets in different geographical locations in Indonesia, PT XMH is able to effectively work on the ground with customers to cater to their operational needs and services readily. It also allows us to gather prompt information for our action plan to tap on the growth in Indonesia.

Response to question (ii):

The Group has secured several major projects in data centers and government infrastructure installations including transportation, power transmission and commercial projects. These projects entail the full design, fabrication, installation, testing and commissioning of the generator systems in the factory and on site.

Response to question (iii):

The current manpower situation due to the COVID-19 pandemic has affected many companies in Singapore including the Group. During this period, the Group has been improving (i) its human resource planning to allow more flexibility in staff deployment; and (ii) productivity to make more efficient use of its resources.

Response to question (iv):

MTU Asia Pte Ltd is part of the Rolls-Royce group of companies which provides world-class power solutions and complete life-cycle support under the product and solution brand, *mtu*. Being an approved System Integrator Framework and Original Equipment Manufacturer for MTU Asia Pte Ltd means that the Group will have the opportunity to work together with MTU on projects and sales enquiries will be directly channeled to the Group. Similarly, the appointment as Generator original equipment manufacturer for Singapore by the Volvo Group will potentially lead to new business opportunities.

Response to question (v):

The Group will continue to manage its operating cost closely and ensure that it has sufficient liquidity to sustain its operations. The Group continues to have very tight control over its expenditure. In this regard, the Group has paid off and redeemed certain short-term facilities and trade bills. Additionally, the Group has \$15.3m of unutilized banking facilities and coupled with an improvement in collection efforts of our receivables, the Group has sufficient working capital to support its growth strategy.

Response to question (vi):

As explained in our announcement dated 12 August 2021, the net cash used in operating activities arose mainly due to timing difference from increased billings shortly before the financial year end. These billings arose from the completion and delivery of generators to customers based on customers' schedule. Subsequent to the financial year end, the Group has collected approximately \$15.3m of these trade receivables.

Query 2:

The company was listed on the SGX-ST Mainboard on 26 January 2011 and the net asset value per share (adjusted for share consolidation) was 44.08 cents at FY2012. The financial highlights from the 2016 annual report and from the 2021 annual report are shown below:

In \$'000	FY2016	FY2015	FY2014	FY2013	FY2012
PROFIT AND LOSS					
Total Revenue	108,385	91,514	105,174	97,645	62,249
Gross Profit	26,864	27,588	27,309	22,918	15,656
Net Profit	7,873	5,429	6,125	11,431	9,514
PERFORMANCE INDICATORS					
Earnings per Share (cents)	7.19	4.85 ⁽¹⁾	5.88 ⁽¹⁾	11.84 ⁽¹⁾	9.60 ⁽¹⁾
Net Asset Value per Share (cents)	62.43	53.09 ⁽¹⁾	52.24 ⁽¹⁾	45.92 ⁽¹⁾	44.08 ⁽¹⁾

(1) On 22 February 2016, the Company completed a share consolidation for every four existing issued ordinary shares of the Company into one ordinary share. Earnings per share and net asset value per share for the comparative period had been adjusted for the effects of the share consolidation.

(Source: company annual report 2016)

IN S\$'000	FY2021	FY2020	FY2019 (Restated) ¹	FY2018* (Restated) ²	FY2017* (Restated) ²
PERFORMANCE INDICATORS					
Earnings/(Loss) per Share (cents)					
- Continuing Operations	0.86	(7.47)	(1.23)	(3.16)	(1.08)
- Discontinued Operation	-	(2.54)	(1.81)	-	-
Net Asset Value per Share (cents)	43.11	44.10	52.24	55.21	59.53

(Source: company annual report 2021)

As at 30 April 2021, after being listed for more than 10 years, the NAV per share is 43.11 cents. The company last paid shareholders a dividend (of \$0.005 per share) in September 2017.

- (i) **Has the board evaluated the long-term performance of management?** In the 10 years since the company was listed, the NAV per share has decreased to 43.11 cents per share, below the 44.08 cents per share level in FY2012. **If so, is the board satisfied with the long-term performance of the company?**

The group had also made acquisitions in the past, such as Z-Power Automation Pte. Ltd (ZPA) and Mech-Power Generator Pte Ltd (MPG Group), which resulted in goodwill of approximately \$11.9 million being recognised. The current carrying value of the goodwill for MPG Group has been impaired from \$9.4 million to \$8.5 million as at 30 April 2021. ZPA was disposed of on 8 October 2019 four years after its acquisition in March 2015. In FY2020, the company recognise impairment loss of \$7,404,000 in the profit or loss statement due to the underperformance of a subsidiary corporation (page 112).

- (ii) Can the board/management clarify if it is still looking for acquisitions in Singapore and/or in the region? If so, what is the investment criteria used by the board in its approval process? What guidance has the board given to management to ensure that it does not overpay in its acquisitions and that it structures any such acquisitions so that the rewards/risks ratio is favourable for shareholders?**

Company's response to Query 2(i) and (ii):

In view that this query relates to the long-term performance of the management of the Company, it would be appropriate to note the NAVs for each of the years over the past 10 years from FY2012 to FY2021 to have a better assessment on this. During this period, the marine industry has been through a topsy turvy period and the difficulties and challenges faced by the marine industry are well known. In the past year, the already depressed marine industry was hard hit by the coronavirus effect and its impact may be prolonged given the current situation. Several major players in the marine industry are already in financial difficulties. The Group's performance is directly connected to the marine industry and has been similarly impacted.

To mitigate the above, the Board and the management undertook a thorough evaluation on the Group structure and its performance and took proactive actions to curb its losses. This included the Board's decision to dispose of the loss-making subsidiary, ZPA, which was also marine-related, in FY2020 after a thorough evaluation on the Group's operational performance. Notwithstanding these difficulties and after the disposal of ZPA, the Group has managed to achieve an increase in its revenue of \$10.2m or 19% from \$54m in FY 2020 to \$64m in FY2021. The Group has also recorded a profit for the first time in 5 years. The order book of the Group stood at approximately \$46.1m as at 21 July 2021 and places the Group in good stead for the next financial year. Given the above, the Board is confident that the Group is on the right track to improve its results and grow its business.

The Board oversees the business and corporate affairs of the Group and its principle functions are, *inter alia*, to protect and enhance long-term value and return to shareholders and establish, review and approve budget, corporate policies and strategies (including any acquisitions) for the Group. In this connection, the Board is of the view that the Group remains adaptable and resilient and will continue to remain competitive as it explores and stay vigilant for new business opportunities to further grow its business for the benefit of its shareholders and stakeholders.

Query 3:

The board comprises five members, three of whom are independent directors along with Mr. Tan Tin Yeow as chairman and managing director and Ms. Tan Guat Lian as executive director.

The profiles of the directors can be found on page 17 of the annual report. The independent directors, namely Mr. Hong Pian Tee, Mr. Khoo Song Koon and Mr. Raymond Lam Kuo Wei, have auditing, consulting and legal experience.

- (i) Has the nominating committee (NC) reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?**
- (ii) Can the board help shareholders understand if the independent directors have the appropriate balance and mix of skills, knowledge, experience, especially in power,**

marine, industrial services, manufacturing and in Indonesia, to engage in effective and constructive debate with the executive directors?

(iii) How effective are the independent directors at providing guidance and leadership on operational matters?

Company's response to Query 3:

Response to question (i):

It has been disclosed on page 27 of the annual report that the NC conducts an annual review to assess if the existing attributes and core competencies of the Board were complementary (in this regard, the NC noted that the Board consisted of professionals from various disciplines) and contributed to efficient and informed decision-making by the Board. In respect of FY2021, the NC was of the view that the composition of the Board achieved diversity of skills, knowledge, experience, age and gender, taking into consideration the current scope and nature of the Group's operations and the requirements of the business. Specifically, it was also noted and disclosed in the annual report that the Board consisted of Directors with a diversity of skills, knowledge and experience in accounting, finance, legal, corporate governance, industry knowledge and strategic planning. As mentioned on page 28, the NC would periodically review the competencies of the Directors to ensure, among others, effective contribution to the Board. To this end, the NC and the Board would consider the appointment of new Director(s) that has/have the relevant skillset, expertise, experience and knowledge as and when it deemed necessary and in line with the nature and size of the Group's operations and the dynamic business environment in which the Group operates.

Response to questions (ii) and (iii):

As disclosed on page 21 of the annual report, one of the key functions of the Board is to *provide leadership and guidance on corporate strategy, business directions, risk management policy and implementation of corporate objectives, as well as taking into consideration sustainability issues.*

A description of the background of each Director is presented on pages 50 to 55 of the annual report. Our Chairman Managing Director Mr. Tan Tin Yeow has more than 25 years of experience and is a veteran in the marine and industrial diesel engines industry. Our Executive Director Ms Tan Guat Lian has more than 20 years of relevant experience in the administrative and human resource. As disclosed on page 28 of the annual report, a key role of the Independent Directors is to ensure that the strategies proposed by the Management are fully discussed and rigorously examined, taking into account the long-term interests of all stakeholders. In this regard, the Independent Directors have demonstrated a strong level of independence and judgement in discharging their duties and responsibilities and have expressed individual viewpoints and debated issues objectively at Board meetings. Collectively, the Directors bring with them a broad range of industry knowledge, expertise and experience in areas such as accounting, finance, business, legal and management, all of which are relevant to the Group's corporate affairs, operations and development. Specifically, all our Independent Directors have considerable business experience in Indonesia, having advised significant clients in various industries including manufacturing and industrial in Indonesia throughout their respective careers. The Group is therefore able to tap upon the Directors' diverse experience and expertise to contribute to the development of the Group's strategy and the performance of its business.

For and on behalf of the Board

Tan Tin Yeow

Chairman and Managing Director

25 August 2021