



XMH HOLDINGS LTD.
Company No.: 201010562M
(the “**Company**”)
(Incorporated in the Republic of Singapore)

RESPONSE TO QUERIES FROM THE SECURITIES INVESTOR ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT

The Board of Directors of XMH Holdings Ltd (“**Company**” and together with its subsidiaries, “**Group**”) refers to the queries raised by the Securities Investor Association (Singapore) (“**SIAS**”) in relation to the Company’s Annual Report for the Financial Year Ended 30 April 2018 and appends its requisite replies as follows:

Question 1(i)

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.

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?

Company’s Response to Question 1(i)

The management is mindful of the issues faced by the Company. We have taken actions to streamline our business and to manage our operational costs in this prolonged downturn. Listed below are the actions taken to manage our operational costs.

- 1) *Selective reduction in headcounts*
- 2) *Recruitment /replacement of headcount only where necessary*
- 3) *Expanded job scope for existing employees*
- 4) *Selective wage and bonus freeze*
- 5) *Compulsory unpaid leave which was lifted recently*
- 6) *Striking off a non-operational subsidiary*
- 7) *Disposal of a loss making associate*

Question 1(ii)

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.

Would management help shareholders understand its strategy to tap new growth markets such as the onshore energy and industrials sectors?

Company's Response to Question 1(ii)

The management is always on the look-out for growth potential in existing and new markets. For the past two years, to break into the onshore and industrial market, we had taken the following steps:

- 1) we repositioned our service capability from being a product equipment supplier to a product system integrator for power and control system solution. This has resulted in providing value added service to customers and greatly enhanced our company's image;*
- 2) we collaborated with major existing and new suppliers to tender projects at competitive pricing;*
- 3) we recruited experienced regional staff for overseas and new markets; and*
- 4) we organized exhibitions to promote our products and services*

Question 1(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?

Company's Response to Question 1(iii)

We managed to win projects from customers of various industries such as data centers, wafer fab, utilities, green building and hospital projects. We believe that the opportunities available for the next 2 to 3 years are gas generator projects, data center projects, building management system projects and transformers.

Question 1(iv)

Would management elaborate further on the Group's competitive advantage and its value proposition to its customers?

Company's Response to Question 1(iv)

The Group's competitive edge is its ability to provide a one stop solution to customers. The Group carries a broad range of products and it is able to meet the needs of its customers.

Question 1(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?**

Company's Response to Question 1(v)

The Group disposed the loss making Vietnam associate (previously part of Z Power Automation Pte Ltd) because the business scope of this associate company was no longer complementing the Group's overall business and strategy for the Vietnam market. However, the Group still maintains a representative office for its distribution business. Going forward, to fine-tune our business, we would:

- 1) look out for good partners who are experts in the respective industries to better expand our business interest;*
- 2) employ capable employees to manage these investments; and*
- 3) manage issues with regard to investments in developing countries, where the business environment may change very drastically and rapidly, and the Group would be proactive in adapting to changes in the business environment.*

Question 2(i)

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.

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?

Company's Response to Question 2(i)

It is the Group's policy that management will perform impairment review on existing inventories on an annual basis. The management will:

- 1) identify for items that are damaged;*
- 2) identify for slow moving items;*
- 3) determine whether the above items are still sellable;*
- 4) determine the subsequent sales value of the items identified; and*
- 5) impair for the difference between the subsequent sales value and the book value.*

As at the latest financial year end, except for the Work-in-progress (based on customer's order which will be sold upon completion of work), the current aging profile of the inventory which comprise substantially engines is mainly less than 3 years.

Question 2(ii)

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

	FY2014	FY2015	FY2016	FY2017	FY2018
	\$'000	\$'000	\$'000	\$'000	\$'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.

Would management help shareholders understand the reasons for carrying relatively higher levels of inventories, especially engines?

Company's Response to Question 2(ii)

It is the nature of our business to stock up in anticipation of customer demand. The current year's inventory build up is due to anticipated sales as a result of recent increase in enquiries and the management expectation of market demand. Based on our past experience, the Group has minimal stock obsolescence. This is mainly due to our close monitoring of inventory as mentioned in our answer to Q2(iii) below.

Question 2(iii)

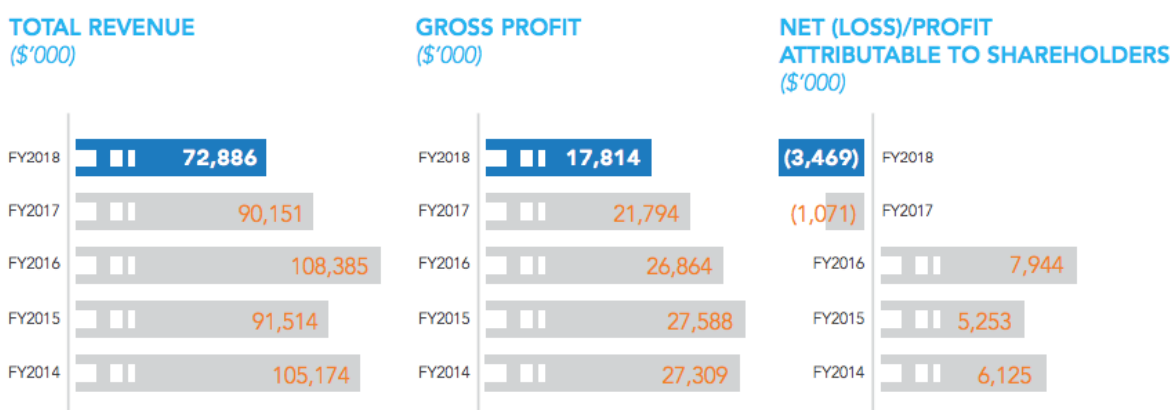
Would it be timely to evaluate how the Group could further improve/streamline its supply chain so as to reduce the working capital required to support the business? This would also reduce the obsolescence/technology/market risk of the Group .

Company's Response to Question 2(iii)

The management is aware of the risk of holding too much inventory for too long. However, given the current headwinds, this risk has to be managed. We conduct monthly review on our inventory holdings and based on forecasted market demands as well as prospective project opportunities from distribution and project planning. We will manage our inventory to minimize the risk of inventory obsolescence.

Question 3(i)

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 \$500,000 but below \$750,000 38%	Above \$500,000 but below \$750,000 17%	Above \$500,000 but below \$750,000 6%	Above \$500,000 but below \$750,000 6%
Ms. Tan Guat Lian	Above \$250,000 but below \$500,000 22%	Above \$250,000 but below \$500,000 22%	Above \$500,000 but below \$750,000 16%	Above \$500,000 but below \$750,000 19%	Above \$250,000 but below \$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.

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?

Company's Response to Question 3(i)

Yes, the variable component is performance-related and is linked to the Group's performance as well as the individual's performance.

Question 3(ii)

What are the performance indicators used in the measurement of the Group's performance?

Company's Response to Question 3(ii)

The performance indicators used in the measurement of Group's performance are revenue and profitability.

Question 3(iii) and 3(iv)

3(iii) What are the financial and non-financial performance indicators used in the measurement of performance of the individual executive director/key management personnel?

3(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?

Company's Response to Question 3(iii) and 3(iv)

The performance indicators components for the executive director and key management personnel are based on KPIs which comprise both non-financial performance and financial performance. In addition, for the Managing Director it is also pegged to profit before tax.

The variable component in the form of performance bonus is determined based on annual appraisal. The annual appraisal evaluates the financial performance and non-financial performance for the Executive Director and key management personnel. The financial performance is based primarily on the results of the respective members of the Group while the non-financial performance is based on the various attributes such as contributions to the Group, management skills, quality of deliverables of jobs assigned and other key attributes demonstrated.

Question 3(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?

Company's Response to Question 3(v)

The RC is of the view that the level and trend of executive remuneration (including variable component) is relatively constant to the Group 's performance. This is especially so when our Managing Director's variable component has decreased from 40% for FY 2014 to 6% for FY 2017 & FY 2018.

Question 3(v)(i)

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.

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?

Company's Response to Question 3(vi)

The main purpose of the share option scheme is to enhance our competitiveness as an employer to recruit and retain suitably qualified staff to meet our business needs. Accordingly, we hope that by instituting the share option scheme we will be able to:

- 1) motivate employees to achieve and maintain a high level of performance and contribution;*
- 2) make total employee remuneration sufficiently competitive to recruit and retain employees whose contributions are important to long term growth and profitability of our Company; and*
- 3) foster an ownership culture within our Company which aligns the interests of employees with the interests of our Shareholders.*

In 2017, the share options were granted primarily based on the employee's years of service with the Group , performance and position of the employee.

By Order of the Board

Tan Tin Yeow
Chairman and Managing Director
23 August 2018