



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

PROPOSED ACQUISITION OF THE ENTIRE ISSUED AND PAID UP SHARE CAPITAL OF MECH-POWER GENERATOR PTE LTD AND ITS WHOLLY-OWNED MALAYSIAN SUBSIDIARY, MECH POWER GENERATOR SDN BHD

1. Introduction

The board of directors of XMH Holdings Ltd. (the “**Board**”) wishes to announce that the XMH Holdings Ltd. (the “**Company**” or “**Purchaser**”) has today entered into a Sale and Purchase Agreement (the “**SPA**”) with Mr. Loke Choon Hoe, Mdm. Tham Sow Lin (collectively referred to as the “**Vendors**”) and Mech-Power Generator Pte Ltd (“**MPG Singapore**”) to acquire the entire equity interest in MPG Singapore and its wholly-owned Malaysian subsidiary, Mech Power Generator Sdn Bhd (“**MPG Malaysia**”) (MPG Singapore and MPG Malaysia collectively referred to as “**MPG Group**” (the “**Proposed Acquisition**”).

2. Background Information About the MPG Group

2.1 The MPG Group commenced business almost 30 years ago and is engaged in the manufacturing, assembly, sale and servicing of diesel powered generator sets.

2.2 MPG Singapore was incorporated in November 1983. It has a share capital of S\$3,500,000 comprising of 14,000,000 ordinary shares. Each of Mr. Loke Choon Hoe and Mdm. Tham Sow Lin holds 3,000,000 shares and 11,000,000 shares in MPG Singapore respectively.

MPG Malaysia was incorporated in October 1992. It has an authorised share capital of RM5,000,000, of which RM2,500,000 has been issued and paid up comprising 2,500,000 ordinary shares of RM1.00 each. MP Singapore holds the entire 2,500,000 shares in MPG Malaysia.

2.3 The MPG Group supplies a wide range of generator sets with power ratings (or capacity) from 20 kilovolt-ampere (kVA) to 2,500kVA.

Its generator sets are manufactured and assembled using, amongst others, reputable engines brands such as *Mitsubishi, Man, Perkins, Volvo Penta, MTU* and alternators such as *Leroy Somer, Stamford, Mecc Alte, AVK, Marelli*.

2.4 The MPG Group’s generator sets are generally used in industrial, commercial, marine and military applications and are supplied to shipyards and ports, buildings, hospitals, education centres, data centres, airports, hotels and resorts infrastructural projects (roads, bridges, underground tunnels, waste treatment plants etc) as well as plants and factories worldwide, amongst others.

For commercial and industrial applications, the generator sets supplied by the MPG Group are primarily used as standby generators to ensure business continuity in the event of a power black-out. Such standby generators are particularly important (and in some jurisdictions a compulsory requirement) for commercial buildings, data centres, hospitals and infrastructural projects. Generators supplied to the marine industry are used by as the primary power source for vessels.

The MPG Group's generator sets are manufactured in accordance with local and international regulatory and industry standards, are also customised to meet the stringent requirements of the end-users. They are installed in acoustic or weatherproof enclosures, mounted on trailer, rubber tyre grantries, generator rooms, civil defence shelter etc.

- 2.5 The MPG Group also fabricates and manufactures and customises all supporting equipment like acoustic silencer and attenuators, bulk fuel tank, auto/manual-synchronising switchboard, weather-proof and sound-proof canopies/enclosures, loadbanks, generator control panel and base skids/fuel tanks.
- 2.6 The generator sets are manufactured and assembled in MPG Malaysia's plant located in Iskandar Malaysia in Kulaijaya, Johor and which sits on an approximately 1.3571 hectares land owned by MPG Malaysia.
- 2.7 Summary Financial Information of the MPG Group

A summary of the audited consolidated profit and loss statement for financial years ended 31 March 2011 ("FY2011"), 31 March 2012 ("FY2012") and unaudited consolidated profit and loss statement for financial year ended 31 March 2013 ("FY2013") of MPG Group, and a summary of the unaudited consolidated balance sheet of the MPG Group as at 31 March 2013, are set out below:

- (a) Summary of Consolidated Profit and Loss Statement of the MPG Group

	Audited		Unaudited
	FY2011	FY2012	FY2013
	S\$ ('000)	S\$ ('000)	S\$ ('000)
Revenue	22,180	27,756	22,954
Gross profit	4,927	5,768	6,088
Profit before tax	1,014	1,428	2,055
Profit after tax	790	1,272	1,709

- (b) Summary of Consolidated Balance Sheet of the MPG Group

	Unaudited
	As at 31 March 2013
	S\$ ('000)
Non-current assets	4,371
Current assets	12,523
Non-current liabilities	2,170
Current liabilities	9,818
Net assets	4,906

3. Salient Terms of the Proposed Acquisition under the SPA

3.1 Purchase Consideration

- (a) The aggregate consideration for the Proposed Acquisition is S\$17,425,000 (the "**Purchase Consideration**");
- (b) The Purchase Consideration shall be paid in two (2) equal tranches of S\$8,712,500 each (each "**Consideration Tranche**"). The first Consideration Tranche shall be fully paid on Completion Date (as defined below) and the second Consideration Tranche by no later than fifteen (15) business days after the date of issue of the accounts of the MPG Group for the financial year ending 31 March 2015 ("**FY2015**") or such later date as the Vendors and the Purchaser ("**the Parties**") may mutually agree in writing ("**Second Consideration Tranche Payment Date**");
- (c) Each a Consideration Tranche shall be fully satisfied as follows:
- (i) half of the Consideration Tranche of S\$4,356,250 shall be satisfied by the allotment and issue of such number of new ordinary shares of the Company (the "**Consideration Shares**") to the Vendors at an issue price per new Consideration Share equivalent to the volume weighted average price of each of the shares of the Company ("**Shares**") for trades done on the Singapore Exchange Securities Trading Limited ("**SGX-ST**") for the ten (10) market days up to and including the date of the SPA, being S\$0.396 (the "**Issue Price**") in the proportion as follows:

Name of the Vendors	Proportion of the Consideration Shares (%)
THAM SOW LIN	78.6
LOKE CHOON HOE	21.4
	100.0

The number of new Consideration Shares to be issued and allotted to the Vendors on Completion Date and on the Second Consideration Tranche Payment Date shall be determined based on the Issue Price.

- (ii) subject to the provisions of the SPA, the remaining half of the Consideration Tranche of S\$4,356,250 shall be satisfied in cash in the proportion as follows:

Name of the Vendors	Proportion of cash Purchase Consideration (%)
THAM SOW LIN	78.6
LOKE CHOON HOE	21.4
	100.0

- (d) The Purchase Consideration has been arrived at after arms' length negotiations, on a willing buyer willing seller basis after taking into account MPG Group's recent financial performance, its current order book, the performance warranties given (see paragraph 3.4(a) below) and its potential growth prospects.
- (e) The cash portion of each of the Consideration Tranche will be satisfied using internally generated funds which may include proceeds of the Company's initial public offering.

3.2 Condition Precedent

The Proposed Acquisition is conditional upon, *amongst others, the following:-*

- (a) the completion of a legal and financial due diligence exercise by the Purchaser on the MPG Group which shall include, without limitation, (i) the review of the business and operations of the MPG Group; (ii) the review of the MPG Group's historical figures; and (iii) the review of any and all documents relating to legal and taxation matters of the MPG Group, the results of such exercise being satisfactory to the Purchaser, in its sole and absolute discretion; and the completion of a financial review on the MPG Group conducted by the Purchaser to ensure that all issues highlighted in the financial due diligence report issued pursuant to the aforesaid financial due diligence exercise have been adequately and appropriately addressed, the results of such financial review being reasonably satisfactory to the Purchaser, in its sole and absolute discretion;
- (b) approval in-principle being granted by the SGX-ST pursuant to the additional listing application by the Purchaser for the listing and quotation of the Consideration Shares in accordance with the SPA, on the SGX-ST, and such approval not having been revoked or amended, and if the approval is granted subject to conditions, such conditions being reasonably acceptable to the Parties and if required by the SGX-ST, such conditions being fulfilled or satisfied before Completion, and the SGX-ST not having made any ruling the effect of which is to restrict or impede the listing and quotation of the Consideration Shares;
- (c) no material adverse change or events, acts or omissions likely to lead to such change in the assets, prospects, performance, financial position or results of operations of the MPG Group (as reasonably determined by the Purchaser in its discretion) occurring on or before the Completion Date;
- (d) all warranties provided by the Vendors under the SPA (including but not limited to the NTA Warranty (as defined in paragraph 3.4(b) below) being complied with, true, accurate and correct as at the date of the SPA and each day up to and including the Completion Date;
- (e) completion of the FY2013 accounts of the MPG Group and the auditors' report in respect of the same being provided to the Purchaser;

- (f) all approvals and consents from all relevant governmental, statutory, regulatory and other competent authorities in Singapore and any other relevant jurisdictions and any other third parties for the Proposed Acquisition, the completion of the terms of the SPA and the transactions contemplated in the SPA and referred to hereunder having been granted or obtained and continuing to be in force and effect and not having been withdrawn, suspended, amended or revoked, and if such consents or approvals are granted or obtained subject to any conditions, such conditions being reasonably acceptable to the Vendors and the Purchaser; and
- (g) all necessary bank consents and other consents and other approvals having been obtained on terms and conditions acceptable to the Purchaser for the Proposed Acquisition and such that completion of the Proposed Acquisition will not constitute an event of default or a breach, or result in the acceleration of indebtedness, or constitute or give rise to a prescribed event or a change in condition or position or otherwise at the date of Completion, under the terms of any indebtedness or otherwise whatsoever in respect of any entity within the MPG Group to or with any bank, financial institution, third party or authority.

3.3 Completion Date

The Proposed Acquisition is targeted to be completed within ten (10) business days after the date on which the last of the Conditions Precedent has been satisfied or waived, in any event not later than the Long-stop Date, being 30 September 2013, or such other date as the Parties may mutually agree (the “**Completion Date**”).

3.4 Profit Warranty and NTA Warranty

Each of Vendors jointly and severally warrants and undertakes that:

- (a) the aggregate audited consolidated net profit after tax excluding extraordinary gains (“**NPAT**”) of the MPG Group for both (a) FY2014 AND (b) FY2015 less the Deductions (defined below) shall not be less than S\$6.9 million (“**Profit Warranty**”);

“**Deductions**” shall comprise amounts recognised as the Group’s revenue in any financial year prior to and including FY2015, such amounts being the aggregate costs incurred and profits recognised (less losses recognised) (presented as “*Due from customers on construction contracts*” in the FY2014 and FY2015 Accounts) less progress billings (presented as “*Due to customers on construction contracts*” in the FY2014 and FY2015 Accounts) in respect of the projects of the Group.

- (b) the audited consolidated NTA of the MPG Group shall not be less than S\$4.5 million as at balance sheet date as shown in the FY2013 accounts of the MPG Group (“**NTA Warranty**”);

- (c) In the event that the Profit Warranty is not achieved, the Purchase Consideration shall be revised and be equivalent to the amount determined based on the formula below OR the first Consideration Tranche of S\$8,712,500, whichever is the higher amount (“**Revised Purchase Consideration**”):

$$4.75 \times 0.5 \left\{ \begin{array}{l} \text{(actual audited} \\ \text{consolidated NPAT of the} \\ \text{MPG Group less any} \\ \text{Deductions for FY2014)} \end{array} + \begin{array}{l} \text{(actual audited} \\ \text{consolidated NPAT of the} \\ \text{MPG Group less any} \\ \text{Deductions for FY2015)} \end{array} \right\}$$

For avoidance of doubt, if the Profit Warranty above is achieved or exceeded, there shall be no adjustment to the Purchase Consideration;

- (d) In the event that the Revised Purchase Consideration is higher than the first Consideration Tranche, the Purchaser shall pay to the Vendors the difference thereof as the revised second Consideration Tranche in accordance with paragraph 3.1(c) above on the Second Consideration Tranche Payment Date, Provided Always That such revised second Consideration Tranche shall not be more than S\$8,712,500;
- (e) In the event that the Revised Purchase Consideration is equal to or lower than the first Consideration Tranche (i.e. when the aggregate audited consolidated NPAT of the MPG Group less any Deductions for both (a) FY2014 AND (b) FY2015 is S\$3.67 million or less), the Vendors agree and acknowledge that:-
- (i) no further payment by the Purchaser to the Vendors is required under the SPA;
 - (ii) the payment by the Purchaser of the first Consideration Tranche to the Vendors on Completion Date shall constitute due, complete and satisfactory discharge of all of the Purchaser’s payment obligations under and in accordance with the SPA;
 - (iii) that the Purchaser is completely, irrevocably and unconditionally released and discharged from the further observance and performance of the SPA; and
 - (iv) each of the Vendors does not have any claims of whatever nature against the Purchaser;

- (f) The Parties agree in the event that (A) there are any increases in the actual projects costs in excess of budgeted projects costs for any reason, or (B) any of the recognised profits for FY2015 or earlier are billed in FY2016, generated from their projects for any financial year prior to and including FY2015, such figures referred to in (A) and (B) as shown in the Accounts of the MPG Group for FY2016, the Parties agree that the aggregate audited consolidated NPAT of the MPG Group for both (a) FY2014 AND (b) FY2015 shall be adjusted accordingly and the corresponding amount of Purchase Consideration will be repaid by the Vendors in the case of (A) or paid to the Vendors in the case of (B) by no later than fifteen (15) Business Days after the date of issue of the Accounts of the MPG Group for FY2016, Provided That any adjustment arising from this sub-paragraph (f) to the Purchase Consideration shall be final and conclusive and no further reference shall be made to the Accounts of the MPG Group for FY2017 in respect of any such further adjustment.

3.5 Moratorium

Each of the Vendors hereby irrevocably and unconditionally undertakes and agrees that each of them shall not sell, transfer, realise or otherwise dispose of any part of their Consideration Shares for a period of six (6) months commencing from the Completion Date or the Second Consideration Tranche Payment Date, as the case may be.

4 Rationale for the Proposed Acquisition

The Board is of the view that the Proposed Acquisition will provide the following benefits:-

- (a) The Company and its subsidiaries ("**XMH Group**") distribute a wide range of marine and industrial diesel engines, propulsion and power generating solutions (including power generating sets) and related components in the marine and industrial sectors. Value-added products and solutions provided by the Group include its in-house brand of "**ACEGEN**" marine and industrial power generating sets.

The Proposed Acquisition will allow the XMH Group to expand its core businesses. Its offering of power generating sets will increase to include large customized solutions, especially for non-marine sector applications. This is in line with the XMH Group's strategy to enhance its suite of products and services so as to enlarge its revenue and profit base and enhance its competitiveness and financial performance.

- (b) The Proposed Acquisition will also enable the XMH Group to achieve better operational synergies, add to its existing capabilities in generator set assembly and enhance its competitiveness in the industry.
- (c) The business of the MPG Group is profitable. Please refer to paragraph 2.7 above for the financial information of the MPG Group. The Proposed Acquisition will therefore provide the Company with the opportunity to acquire a profitable entity and will be earnings accretive with significant opportunities for growth.

5. Financial Effects of the Proposed Acquisition

The financial effects of the Company after the Proposed Acquisition set out in this Announcement below are for illustrative purposes only and do not reflect the actual future financial position of the Company following the completion of the Proposed Acquisition.

The proforma financial effects of the Proposed Acquisition are based on the following assumptions:

- (a) in the calculation of the net tangible assets (“**NTA**”) and NTA per share, for illustrative purposes, it is assumed that the Proposed Acquisition had been effected on 30 April 2013;
- (b) in the calculation of earnings per share (“**EPS**”), for illustrative purposes, it is assumed that the Proposed Acquisition had been effected on 1 May 2012;
- (c) the Purchase Consideration of S\$17,425,000 million is fully paid on the Completion Date and Issue Price being S\$0.396;
- (d) transactional costs incurred for the Proposed Acquisition are assumed to be insignificant and ignored for computational purposes.

	Before Proposed Acquisition	After Proposed Acquisition
Net Tangible Assets (“NTA”) (S\$’000)	44,200	40,394
NTA per share (S\$ cents)	11.48	9.92
Net profit before tax (S\$’000)	13,505	15,560
Earnings per share (cents)	2.96	3.21
Share capital (\$’000)	21,068	29,781
Share Capital (No. of shares) ⁽¹⁾	385,004,003	407,005,266
Gearing Ratio	0.8	18.1

Note:

- (1) The figures excludes treasury shares and assuming that the full Purchase Consideration is payable, the Consideration Shares amounts to 22,001,263 based on the Issue Price of S\$0.396.

6. Relative Figures under Rule 1006 of the Listing Manual

6.1 The relative figures computed on the bases set out in Rule 1006 of the Listing Manual are as follows:-

Rule 1006(a)

The net asset value of the assets to be disposed of compared with the Company's net asset value *Not Applicable*

Rule 1006(b)

The net profits attributable to the assets acquired compared with the Company's net profits ⁽¹⁾ 15.2%

Rule 1006(c)

The aggregate value of the consideration given or received compared with the issuer's market capitalisation on 5 September 2013, being the market day preceding the date of the SPA ⁽²⁾ 10.1%

Rule 1006(d)

The number of equity securities issued by the issuer as consideration for an acquisition, compared with the number of equity securities previously in issue ⁽³⁾ 5.2%

Note:

(1) The unaudited net profits attributable to the MPG Group for financial year ended 31 March 2013 of S\$2.1 million, compared with the Company's audited net profits S\$13.51 million for financial year ended 30 April 2013.

Under Rule 1002(3)(b), "net profits" means profit or loss before income tax, minority interests and extraordinary items.

(2) The aggregate value of the consideration given for the Proposed Acquisition is approximately S\$17,425,000, compared to the Company's market capitalisation of approximately S\$172.63 million (based on 421,053,030 Shares in issue and the weighted average price of approximately S\$0.41 per Share of the Company on the full market day preceding to the date of SPA, namely 5 September 2013).

(3) Assuming that the full Purchase Consideration is payable, the number of Consideration Shares of 22,001,263 compared to the Company's total in issue of 421,053,030 Shares (based on the Issue Price of S\$0.396).

Based on the relative figures computed above, the Proposed Acquisition is a disclosable transaction for purposes of Chapter 10 of the Listing Manual of the SGX-ST and therefore approval of shareholders of the Company ("**Shareholders**") is not required.

6.2 Impact of Proposed Acquisition on the XMH Group's core businesses

- (a) As stated in the Rationale section of this announcement, the Proposed Acquisition is an expansion of the XMH Group's existing core business via acquisition of a similar business further elaborated above.
- (b) The Proposed Acquisition will not materially change the risk profile of the XMH Group for the following reasons:
 - (i) Based on a the Rule 1006 comparisons in paragraph 6.1 above, the Proposed Acquisition will not increase the scale of the XMH Group's operations significantly.
 - (ii) Assuming that the Purchase Consideration is payable in full, the Consideration Shares will constitute approximately 5.2% of the total number of Shares in issue as at the date of this announcement (based on 421,053,030 Shares in issue and the Issue Price of S\$0.396) and 5.0% on an enlarged basis. There is therefore no change in control of the Company arising from the Proposed Consideration.
 - (iii) The Proposed Acquisition will not have a significant adverse impact on the XMH Group's earnings, working capital and gearing. Please see paragraph 5 above for the financial effects of the Proposed Acquisition.
 - (iv) The XMH Group distributes its products and provides its services to its customers worldwide. Although, the customers of the MPG Group are largely based in Singapore, Malaysia and some parts of China, its products are distributed to projects and end-users worldwide.

The power generating sets supplied by the XMH Group are used in marine and industrial applications. Its customers in the marine sector include vessel owners, shipyards, dealers and its customers for its industrial products include hotel proprietors, building owners and main contractors of commercial buildings. The generator sets supplied by the MPG Group are also used for industrial, commercial and marine applications. Further information of the business of the MPG Group is set out in paragraph 2 above of this announcement.

7. Rule 1013(1) of the Listing Manual

7.1 Views of the Board

The Board is of the view that the Vendors' Profit Warranty is reasonable and attainable and in accepting the Profit Warranty took into account the following consideration:-

- (a) The MPG Group has been profitable for the last three consecutive financial years ended 31 March 2013, and its profits have been increasing;

- (b) In the event the Profit Warranty is not achieved, the Purchase Consideration will be adjusted downwards accordingly as referred to in paragraph 3.4(c) above to compensate the Company. The staggered payment of the Purchase Consideration will also safeguard the Company's interest in this regard;
- (c) The sales orders for the MPG Group are currently at higher levels than those recorded around this time in the previous years. The current order book of the MPG Group is reasonably strong; and
- (d) There is good potential for MPG Group to secure more high value orders given its recent tender wins from well-regarded customers. Potential new customers may also view MPG Group more favourably when it becomes part of the XMH Group, given the latter's status as a mainboard listed company and its reputation in the market.

7.2 Commercial Bases and Assumptions upon which Quantum of Profit Warranty is based

The Profit Warranty was determined at an arm's length and on a willing-buyer willing-seller basis, taking into account the MPG Group's current order books, reasonable expectations for improved sales results in the next few years, sufficiency of working capital to achieve the Profit Warranty and confidence in MPG Group's ability to execute and complete its projects on time.

7.3 Manner and Amount of Compensation to be paid if Profit Warranty not met and Basis for such a Compensation

In the event the Profit Warranty is not achieved, the Purchase Consideration will be adjusted downwards accordingly as explained in paragraph 3.4(c) above. If the Profit Warranty is achieved, there shall be no adjustment to the Purchase Consideration. Further, as elaborated in paragraph 3.1(d), the Purchase Consideration has been capped at the maximum S\$17,425,000 in any event.

The Company is of the view that such a compensation mechanism is fair and in the interest of the XMH Group.

7.4 The safeguards put in place to ensure the Company's right of recourse if the profit guarantee is not met, if any

The Purchase Consideration will be paid in two equal tranches as elaborated in paragraph 3.1 above. The second tranche will only be payable after the Profit Warranty is ascertained and shall not exceed S\$8,712,500 in any event as elaborated in paragraph 3.4(d) above. This affords the Company a reasonable safeguard in the event that the Profit Warranty is not achieved.

8. Interest of Directors and Controlling Shareholders

Save for their shareholdings in the Company, none of the directors or controlling shareholders of the Company has any interest, direct or indirect, in the Proposed Acquisition.

9. Service Agreement

No new director will be appointed to the Board of the Company in connection with the Proposed Acquisition.

10. Caution in Trading

Shareholders are advised to exercise caution in trading their Shares. There is no certainty or assurance as at the date of this announcement that the Proposed Acquisition will be completed or that no changes will be made to the terms thereof. The Company will make the necessary announcements when there are further developments on the Proposed Acquisition.

Shareholders are advised to read this announcement and any further announcements by the Company carefully. Shareholders should consult their stock brokers, bank managers, solicitors or other professional advisors if they have any doubt about the actions they should take.

11. Documents Available for Inspection

A copy of the SPA is available for inspection during normal business hours at the Company's registered office at 44 Sungei Kadut Avenue, Singapore 729667 for three (3) months after the date of this announcement.

For and on behalf of the Board

Tan Tin Yeow

Chairman and Chief Executive Officer

7 September 2013