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

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**RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (THE "SIAS") ON THE ANNUAL REPORT**

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The Board of Directors of XMH Holdings Ltd (the "**Company**") (the "**Board**") refers to the query raised by the SIAS on 24 August 2016 in relation to the Company's Annual Report for the Financial Year Ended 30 April 2016 and appends the requisite replies as follows:

**Question 1**

The Tuas facility became fully operational in January 2016 and houses all the businesses of the group (including the newly acquired subsidiaries Mech-Power Generator and Z-Power Automation). This was hailed by the Chairman in his message as part of the transformation strategy (page 8 of the annual report) to achieve more sustainable growth in the future and the three businesses have made concerted efforts to pitch for jobs as a group. **With kind of synergistic benefits can the group enjoy now that the three businesses have been integrated? What are the board's targets for the group? With increased revenue coming from "Projects" and less from the distribution business, should shareholders expect higher gross profit margin as the group provides more value-add to the customers?**

**Company's response:**

<u>Synergistic Benefits:</u>

Consolidating all 3 businesses in one location would allow the Group to enjoy:

1) Better cost control and savings – no cash outflow of rental expense, sharing of office equipment, bulk purchase of administrative necessities, centralize Finance, Treasury and HR functions etc;
2) Enhanced efficiency and productivity through ease of staff communication and planning;
3) Expansion of product/service range via producing own line of marine engines, availability of Load Test Room for MPG customers to test in Singapore;
4) Cross-sell of all the 3 businesses' products by providing quality and efficient service to customers via a one-stop location

<u>Board's Targets</u>

1. Provide quality one-stop solution to customers with our integration.
2. Design and develop integrated solutions to meet customers' demand

Gross Profit Margins

Margins are dependent on the demand/supply situation in the market. Presently the offshore marine, oil and gas markets are depressed and recovery is uncertain in the near-midterm. Combined with increased competition given current market conditions, our Group expects a downward pressure on margins.

**Question 2**

The growth in Vietnam has been strong and it is one of the reasons why the group has been fairly resilient even though the group experienced prolonged weak demand for marine related products. **Can management help shareholders understand the potential of Vietnam and are there concrete plans to establish a stronger foothold in Vietnam?** There is probably a lot of potential for the group to tap on in the Vietnamese fishing industry and possibly in the infrastructure as well. For Indonesia, the drop-off in revenue has been quite steep and unrelenting. **What is the outlook for the Indonesia market and how does the group intend to capitalise on the opportunities in Indonesia given the lull?**

**Company's response:**

For Vietnam

Vietnam's fishing industry, which has abundant resources given the country's long coastline and extensive network of rivers and lakes, has generally experienced moderate growth over the years. Our order book in Vietnam has also seen encouraging growth since.

In addition to the Group's associate company in Vietnam, the Group continues to build on its strong relationship with the dealer and tap on its network to accelerate sales in marine, propulsion engine and generator sets. The dealer also helps to provide inventory management and storage for our products.

For Indonesia

Indonesia market continues to be lukewarm. Our Group would continue to focus on strengthening our relationship with existing customers to explore for viable opportunities if any.

Our Group is exploring various opportunities to expand our coverage, be near to our customers, improve after-sales support and position ourselves for the next upturn.

Hopefully the industry will turn around in the next one to two years where our Group will be well poised to take advantage of any upturn in the industry going forward.

**Question 3**

From the Results Presentation Slides FY2016 posted on SGXNet on 1 July 2016, the net gearing ratio has increased to 0.68x (as at 30 April 2016) from 0.13x (as at 30 April 2015). As noted on page 14 of the annual report, the higher gearing was due to an increase of approximately $29.1 million of the group's loans and borrowings which resulted mainly from capital loans drawn down of approximately $42.8 million to finance the purchase of equipment and the construction of the new factory building in Tuas. **What is the board's guidance on the group's capital structure? What would be the group's internal limit on leverage?** The net cash generated from operation activities for FY2016 was $884,000 and cash and cash equivalents at 30 April 2016 was $12.8 million. The dividend payout was reduced to 27.8% from 66.1% and the proposed dividend to be paid to shareholders was also reduced to $2.2 million (from $3.6 million). Coupled with the term loan repayment of about $2.5 million a year, there is little buffer for error. **Can shareholders get assurance from the board and management that the group's current focus is to execute on its strategy to cross-sell and up-sell and improve the profitability and cashflow (and not on further acquisitions until the financial position is much stronger)?**

**Company's response:**

<u>Gearing</u>

As mentioned, the higher gearing was due to a drawdown of loan for the acquisition of new factory building at Tuas. The total cost of the factory building (including construction cost, renovation etc) was about S$68 million. To finance the acquisition, our Group borrowed from the bank around S$52.7 million, which is about 77% of the total cost whereas the self-financed portion consisted 23% of the total cost (S$15.3 million).

The new factory building would provide much synergy to cross-sell products; improve operational efficiency and enhance cost-savings in the long run. Our Group has rented out some of the space to third parties. This has enabled us to collect rental income to help finance partially for the term loan.

Our Group remains cautiously optimistic of the eventual benefits from the new factory building at Tuas in the long run and will adopt a prudent approach on identifying future acquisition opportunities. However, if there is any potential earnings accretive acquisition targets that are available at an attractive valuation given current market conditions, our Group will still consider such opportunities within our financial means.

**By Order of the Board**

**Tan Tin Yeow**
Chairman and Chief Executive Officer
29 August 2016