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 2023

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 2023 ("**FY2023**") ("**Annual Report**").

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

Query 1:

For the financial year ended 30 April 2023, the group achieved record revenue and improved profits, mainly due to the strong performance of the distribution segment. Revenue increased by $56.8 million to $128.7 million while profit attributable to shareholders increased by 32.5% to $4.0 million in FY2023.

The gross profit margin decreased from 27.3% to 21.3% as the group secured a material contract at a "very low gross margin" for strategic reasons.

(i) **Distribution segment: To what extent is the distribution business characterised by recurring revenue and customers? How does the group acquire new customers? Could management outline the group's strategies for obtaining distributorship for new brands and products?**

(ii) **Projects:** Segment revenue increased by 70% from $38.0 million to $64.7 million but segment profit of $2.0 million turned into a segment loss of $(2.1) million in 2023. During the year, the group recognised income in the project segment for one major and several mid-size data centre projects. **Can management provide further insights into the factors influencing their decision to bid for a substantial contract at a "very low gross margin"? Was this decision driven by the intention to secure a new customer or to increase the group's market share? What are the strategic benefits of this move?**

(iii) **Energy transition: As countries and companies increasingly emphasize energy transition, can management provide clarity to shareholders regarding the outlook of the group's diesel engine business? Are there indications that diesel engine applications will be gradually phased out, and does the group currently have strategies in place to integrate or transition towards electric engines?**

<u>**Company's response to Query 1**</u>**:**

(i) Acquiring new customers and repeat orders from regular customers are both key strategies for the Group. New customers are acquired mainly through recommendations, marketing and promotion or participation in trade exhibition. The Group's strategies of obtaining new distributorships/brands are mainly to diversify and grow its revenue stream so as to ensure sustainability and business growth.

(ii) The main basis for the decision to do so after applying the cost/benefits analysis are as follows:-

a. This is a major project that can provide good reference and track record for future projects.
b. The intention is also to secure the tender for the next phase with higher contract value and better margin.
c. To protect our market share from potential competitors.

(iii) Though there is a lot of emphasis on green energy, barring any unforeseen circumstances, we believe that the outlook for our diesel engine business still remains positive in the near term. This is because our diesel engines are mainly used for marine application. The conversion to green energy for marine application will probably still take some time, as it involves heavy cost of investment and vessel operators will also need to consider safety issues of doing so and how to ensure undisrupted supply of energy when out at sea.

Regardless, the Group is constantly exploring suitable opportunities to ensure sustainability of the Group's business.

Query 2:

The company was placed on the SGX-ST watch-list on 4 December 2019 due to the financial entry criterion. The cure period to meet the requirements of Rule 1314 of the Listing Manual was 36 months from 4 December 2019.

On 31 October 2022, the company submitted its application to SGX-ST for an extension of the cure period by 12 months from 2 December 2022. On 2 December 2022, SGX-ST approved the application, and extended the cure period to 4 December 2023.

In its announcement, the company had stated its intention to *"explore the necessary steps to meet the other requirement of Rule 1314 of the Listing Manual, that of the company having an average daily market capitalisation of $40 million or more for a period of 6 months prior to the end of the extension application".*

The minimum share price needed to attain a market capitalization of $40 million would equate to $0.3648 per share, calculated based on 109,643,921 outstanding shares (excluding treasury shares). Aside from a brief spike to $0.37 in January 2023, the company's share price has consistently remained below the required threshold of $0.3648.

(Source: https://investors.sgx.com/_security-types/stocks/BQF)

In addition, the market capitalisation assessment will cover the 6-month period spanning from 5 June 2023 to 4 December 2023. With more than two months into the final 6-month period, the company's average market capitalisation has fallen short of $40 million.

There is no mention of the company being placed on the SGX-ST watch-list in the annual report.

(i) **Can the board, especially the independent directors, provide shareholders with a clearer understanding of the options that have been evaluated to assist the company in achieving a market capitalisation of $40 million or higher?**

(ii) **Is the company under pressure to undertake corporate actions in order to expand the group and meet the $40 million market capitalisation requirement? If this is the case, how does the board ensure that any such actions would be beneficial for existing shareholders?**

(iii) **If not, is the company seeking another extension from SGX-ST to extend the cure period? What are the risks that the company would be delisted from SGX-ST for failing to meeting the requirements of Rule 1314? How pro-active have the directors been at safeguarding the interests of shareholders, especially minority shareholders?**

(iv) **Is the board currently considering the possibility of transferring to the Catalist board? Is this the preferred or expected course of action?**

<u>Company's response to Query 2:</u>

(i) The Group was placed into the SGX-ST watchlist in December 2019 after incurring 3 prior years of consecutive losses. During the past few years, the Group has not only navigated the challenges brought about by the unprecedented Covid-19 pandemic, the global supply chains disruptions, ongoing conflicts and tensions as well as interest rate hikes around the world, it has also turned around its business to record profitability in the last 3 consecutive years. Having fulfilled the first criteria through the Group's continuous hard work and efforts. It has also been considering and evaluating its options to fulfil the market capitalisation criterion to exit the watch-list. On many accounts, the market capitalization is very much dependent on the prevailing market forces so much so that even corporate actions, if taken, do not guarantee success in achieving this. As such, the Group will adopt a holistic approach and will take into account all relevant factors and market conditions before making a decision for the benefit of shareholders. In the meantime, what the Group can do is to continue to focus and strive for profitability which it has managed to achieve in the last 3 financial years.

(ii) As mentioned above, we will continue to explore various options which is beneficial to the Group and shareholders. The Board will not and cannot be pressured into making a decision without due and careful deliberation at the expense of the interests of the Group and the Company's shareholders. It is also noted that the Company's market capitalization is ultimately subject to the prevailing market forces.

(iii) We will not rule out the possibility of seeking a further extension of the watch-list cure period. We will keep the shareholders informed through our quarterly announcements or as and when needed.

(iv) We will consider all possible options in respect of exiting the watch-list.

Query 3:

On 11 January 2023, Singapore Exchange Regulation (SGX RegCo) announced that it will limit the tenure of independent directors (IDs) serving on the boards of listed issuers to nine years. This stemmed from recommendations by the Corporate Governance Advisory Committee (CGAC). There was broad market support for this change during the public consultation carried out by SGX RegCo.

Mr Tan Boon Gin, CEO of SGX RegCo, also noted that the limit on tenure of IDs provides an opportunity for companies to inject new skills, experience and knowledge into their boards, all of which will be invaluable in guiding the business for the long term.

(i) Has the nominating committee (NC) reviewed the current competency matrix of the board and identified any gaps in skills or competencies that need to be addressed in future director appointments?

The NC has stated that it will first tap into directors' personal contacts and recommendations for potential candidates.

(ii) Has the NC considered how the use of directors' personal network as a source of candidate may impair and even compromise the level of diversity and independence in the board?

Mr Hong Pian Tee was appointed as an independent director on 27 October 2010. Mr Hong Pian Tee is also the lead independent director. The company disclosed that the long-tenured director has offered to step down no later than the FY2024 AGM in August 2024 and that the company and the NC will shortly commence the search for a new independent director.

(iii) Can the NC confirm that it has not begun the search for new independent directors even though SGX RegCo announced the maximum 9-year tenure limit for IDs over 7 months ago in January 2023?

(iv) Has the NC taken a more passive approach with regard to board renewal process? If so, is there a risk that the board will be competing with many other affected listed companies to secure a qualified and experienced director at the end of the transition period?

(v) Would the NC consider promptly commencing the board renewal process and also explore the option of leveraging an executive recruitment agency to broaden the search for potential candidates?

<u>Company's response to Query 3</u>:

(i) We have disclosed on page 33 of our Annual Report for FY2023 that "in its search, nomination and selection process for new Directors, the NC identifies the key attributes that an incoming Director should have, based on a matrix of the attributes of the existing Board members and the requirements of the Group".

(ii) We have also disclosed on page 33 of our Annual Report for FY2023 that we not only tap into the Directors' contacts and recommendations for potential candidates, executive recruitment agencies will be appointed if necessary to assist the NC in the search process. Regardless of the means or channels of the search for potential candidates, the NC will always assess the suitability of each potential candidate based on the prevailing rules and guidelines of the SGX-ST regarding independence, competencies and diversity, amongst others.

(iii, iv and v) The NC has commenced the process to replace our long tenured independent director with an independent director with the appropriate skills and competencies bearing in mind the retirement of Mr. Hong as an independent director at the AGM for FY2024.

For and on behalf of the Board

Tan Tin Yeow
Chairman and Managing Director
24 August 2023