

15 March 2023

Scarlette de Lavaine
ASX Listings Compliance – Perth
Level 40, Central Park
152-158 St Georges Terrace
Perth WA 6000

By email: scarlette.delavaine@asx.com.au; ListingsCompliancePerth@asx.com.au

Dear Scarlette,

BAUMART HOLDINGS LIMITED (ASX:BMH) – ASX APPENDIX 4C QUERY

We refer to your letter dated 8 March 2023 in relation to BMH’s quarterly activities report and Appendix 4C’s for the quarter ended 31 December 2022 and 30 September 2022 and respond to your queries and requests in the same order as raised:

1. Please provide a breakdown and further details of the outflows included in the “Other” item in the December Appendix 4C (paragraph A.i). Please provide the basis for including these outflows in item 1.8 rather than one of the sub-items in item 1.2.

As to the first part of this question, the outflow of \$831,000 is comprised of property lease payments totalling \$411,000 and forward purchases of mining consumables inventory totalling \$420,000. Note 1 to item 1.8 of the December Appendix 4C inadvertently referred to “general working capital”, but BMH wishes to clarify that the sum of \$831,000 does not include any amounts paid for general working capital and will ensure this note is corrected in its future Appendix 4C reports.

As to the second part of this question:

- (a) *Lease payments were included in item 1.8 rather than item 1.2(d) or (f) because:*
 - i. *BMH does not occupy the leased premises so it is not a corporate cost; and*
 - ii. *a significant portion of the lease payments are offset by sublease income (BMH received \$261,000 for sublease income in the December quarter, and this inflow is included in item 1.1).*
- (b) *Forward purchases of mining consumables inventory were included in item 1.8 because that activity does not fall within any of the other classifications provided in Part 1 of the December Appendix 4C.*

2. Please provide an explanation for and further detail of the \$525,000 refund disclosed in the December Appendix 4C (paragraph A.iii). If this is unrelated to the \$525,000 investment outflow disclosed in the September Appendix 4C (paragraph B.ii), please provide an explanation and further detail of that outflow as well.

BMH participated in a public offer of securities in Australia Sunny Glass Group Limited (NSX: AG1) in September 2022. The investment of \$525,000 is recorded as a cash outflow in item 2.1(d) of the September Appendix 4C. However, the public offer was withdrawn by AG1 in October 2022 and application monies of \$525,000 were refunded to BMH. The refund of \$525,000 is recorded as a cash inflow in item 2.1(d) of the December Appendix 4C.

3. ASX notes that BMH's cash outflows increased from \$457,000 to \$639,000 from the September quarter to the December quarter. Please provide the basis for BMH's statement in the September 4C that it expected its net operating cash flow to improve in the next period as overhead costs are expected to decrease after the divestment of its Eco Pallets' business division (paragraph B.iii).

BMH's statement in the September Appendix 4C that it expected its net operating cash flow to improve in the next period was based on the expected reduction in overhead costs of operating the Eco Pallets business division, given that business was divested. Specifically, BMH expected its corporate and staff costs to reduce. This expectation materialised during the quarter ended on 31 December 2022 (and in this regard, we refer to the total reduction of \$26,000 for items 1.2(e) and 1.2(f) shown in the December Appendix 4C).

Additionally, at the time of publishing the September Appendix 4C, BMH did not expect to incur the costs of forward purchasing of mining consumables during the December 2022 quarter (as it had done in the September 2022 quarter). This changed in November 2022 and December 2022 when forward purchasing again increased (based on customer orders), which had the effect of increased operating cash flows.

4. ASX notes that BMH disclosed that it had an estimated 0.35 quarters of funding available at 31 December 2022 and further disclosed that it expected to continue to have the same level of negative cash flows. In light of this, please address the following:

- 4.1 Does BMH currently have sufficient funding to continue operating? Please provide the basis for this view.

Yes. There are several bases for this view:

- (a) *BMH's business includes the forward purchase of mining consumables which is funded via a trade refinance facility provided by the National Australia Bank (refer to item 7.6 of the December Appendix 4C). BMH commenced discussions with NAB last month for an increase to the amount of the facility last month and has since submitted an application. While BMH is not aware of any reasons why that application will not be approved, BMH presently has nothing to disclose in this regard.*
- (b) *During the December 2022 quarter, BMH forward purchased mining consumables inventory (i.e. increased its stock) based on customer orders. As these orders are fulfilled and despatched, BMH will issue invoices on standard payment terms and its trade receivables will be fully recoverable in the ordinary course of business.*
- (c) *BMH has approximately \$190,086 of trade receivables which it expects to recover in full.*

- (d) *BMH is exploring a restructure of its purchase order process to enable the supply of mining consumables on a deposit basis and, while it is not aware of any reasons why those changes won't be made in due course, BMH presently has nothing to disclose in this regard.*
- (e) *The forward purchasing of mining consumables is a discretionary matter and, if necessary, can be limited to preserve cash flow.*
- (f) *BMH notes that it has full capacity under listing rules 7.1 and 7.1A to conduct a capital raising if that is required. BMH has taken advice from its corporate adviser in relation to the potential support for capital raising and, based on that advice, BMH considers it has ongoing support from a core group of shareholders to proceed with fundraising, should that be required.*

4.2 Does BMH currently have sufficient funding to meet its business objectives? Please provide the basis for this view.

Yes. BMH refers to the responses provided in item 4.1 above.

5. Has BMH taken any steps to raise further cash to fund its operations? Please provide details.

Yes. BMH refers to the answer provided in paragraph (a) to question 4.1 above.

6. If the answer to Question 5 is “no”, does BMH propose to take any steps to raise further cash to fund its operations. Please provide details.

Not applicable.

7. Does BMH consider that the total financial condition of BMH is sufficient to warrant its continued listing on ASX as required under Listing Rule 12.2? In answering this question, please explain the basis for this conclusion, commenting specifically on the following:

7.1 BMH's negative cash flows of \$457,000 for the September 2022 and \$639,000 for the December 2022 quarters.

7.2 BMH's total available funding at 31 December 2022 of \$227,000.

7.3 BMH's other financial asset appears to be a holding in an illiquid security (paragraph D).

7.4 The material uncertainty regarding BMH's ability to continue as a going concern raised by BMH's auditors in the auditor's half-year review (paragraph C).

BMH believes that its financial condition is sufficient to warrant its continued listing on ASX as required under Listing Rule 12.2 because:

(a) *BMH's assets exceed its liabilities, and in this regard, we refer to the consolidated statement of financial position included in BMH's half year report for the half year ended 31 December 2022 (published on the ASX Market Announcements Platform on 28 February 2023). Even if BMH's long-term equity investment in AG1 is removed from its balance sheet, BMH's still maintains a positive net asset position.*

(b) *BMH's business is revenue generating.*

- (c) *BMH has recently disposed of a business that was hampering its development, which frees up its resources to focus on and develop more productive parts of its operations.*
- (d) *Negative cash flow is not necessarily an indicator of poor financial condition, particularly in the context of a developing business.*
- (e) *BMH has access to additional funding on commercially viable terms (and in this regard we refer to our comments above in relation to a trade financing facility and the potential for capital raising activities).*

In response to the specific queries included in question 7:

- (f) *In relation to paragraph 7.1, BMH's negative cash flows for the September 2022 and December 2022 quarters are largely a result of an increase in forward purchasing of mining consumables supplies.*
- (g) *In relation to paragraph 7.2, BMH refers to its response to question 4.1.*
- (h) *In relation to paragraph 7.3, BMH does not rely on long-term equity investments to fund its short-to-medium-term operations.*
- (i) *In relation to paragraph 7.4, BMH notes that the material uncertainty regarding BMH's ability to continue as a going concern raised by its auditors in their half-year review for the half year period ended on 31 December 2022 was based on uncertainty as to the consolidated entity's ability to generate positive cash flows from its existing businesses, receivables from customers and equity raising. Each of these matters have been addressed in this letter.*

8. Please provide any other information that BMH considers may be relevant to ASX forming an opinion on whether BMH is complying with Listing Rule 12.2.

Not applicable.

9. Please confirm that BMH is complying with Listing Rule 3.1 and that there is no information about its financial condition that should be given to ASX in accordance with that rule that has not already been released to the market.

The Board confirms that BMH is complying with Listing Rule 3.1 and confirms that there is no information about its financial condition that should be given to the ASX in accordance with that rule that has not already been released to the market.

10. Please confirm that BMH's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of BMH with delegated authority from the board to respond to ASX on disclosure matters.

BMH's responses to the questions above have been authorised by the Board of BMH and approved in compliance with its continuous disclosure policy.

Yours sincerely

Natalie Teo

Company Secretary

BauMart Holdings Limited



8 March 2023

Reference: 69918

Ms Natalie Teo
Company Secretary
BauMart Holdings Limited
15 McCabe Street
North Fremantle WA 6159

By email: natalie@anthonyho.com.au

Dear Ms Teo

Baumart Holdings Limited ('BMH'): Appendix 4C Query

ASX refers to the following:

- A. BMH's announcement titled "Quarterly Activities/Appendix 4C Cash Flow Report" for the quarter ending 31 December 2022 lodged on the ASX Market Announcements Platform ('MAP') on 31 January 2023 (the '**December Appendix 4C**'), which disclosed (relevantly):
- i. At item 1.8, that BMH had outflows of \$831,000 for "Other", with the accompanying footnote stating that this consisted of "Payments for inventory, lease payment obligations and other general working capital".
 - ii. At item 1.9, that BMH had net cash outflows of \$639,000 for the quarter.
 - iii. At item 2.1(d), the BMH had an inflow of \$525,000 from "investments", with the accompanying footnote stating that this was a "refund payment" received in the quarter.
 - iv. At item 8.5, that BMH had, at 31 December 2022, an estimated 0.35 quarters of funding available.
 - v. In response to the question in Item 8.6.1, as to whether BMH expected to continue to have the current level of net operating cash flows, BMH's disclosure that "Yes it does, as there will be no significant changes to operating expenditure moving forward."
 - vi. In response to the question in Item 8.6.2, as to whether BMH has taken any steps or proposes to take any steps to raise further funds, BMH's disclosure that "No, it does not have plans to raise further cash at this stage. The Directors closely monitor cashflows and have access to debt and equity funding if required."
 - vii. In response to the question in Item 8.6.3, as to whether BMH expects to be able to continue its operations and the basis for which, BMH's disclosure that "It does as the current activities and expected cash inflows are supporting the current and planned operations."
- B. BMH's announcement titled "Quarterly Activities/Appendix 4C Cash Flow Report" for the quarter ending 30 September 2022 and lodged on MAP on 31 October 2022 (the '**September Appendix 4C**'), which disclosed (relevantly):
- i. At item 1.9, that BMH had net cash outflow of \$457,000.
 - ii. At item 2.1(d), that BMH had an outflow for investments of \$525,000.
 - iii. In response to the question in Item 8.6.1, as to whether BMH expected to continue to have the current level of net operating cash flows, BMH's disclosure that "No, the entity expects its net

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operating cash flow to improve in the next period as overhead costs are expected to decrease after the divestment of its Eco Pallets' business division."

- C. The Independent Auditor's Review Report by BMH's auditors, included in BMH's Half-Year Accounts released on MAP on 28 February 2023, which disclosed:

"As referred to in Note 3 to the financial statements, the financial statements have been prepared on the going concern basis. At 31 December 2022 the Group had cash and cash equivalents totalling \$141,225, working capital of \$1,267,259 and has incurred a loss before tax from continuing operations for the period of \$403,016. The consolidated entity's ability to continue operations is dependent upon the consolidated entity's ability to generate positive cashflows from its existing businesses, collecting receivables from customers, and/or raise further equity. This indicates that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter."

- D. BMH's Half-Year Accounts released on MAP on 28 February 2023, which disclosed that BMH's long-term equity investments are held in Australian Sunny Glass Limited ('AG1') which are thinly traded, specifically that "AG1's shares are tightly held with ~97% held by the Top 20 shareholders... The tightly held nature of AG1 shares resulted in trading volumes being impacted on NSX (the last on-market trade was on 7 December 2020 and there have been no trades since the balance date of this report)."

- E. Listing Rule 12.2, which states:

"An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing."

- F. Section 14 of Guidance Note 14, which states:

"Any forward looking statements in an announcement... must be based on reasonable grounds or else by law they will be deemed to be misleading."

Request for information

Having regard to the above, ASX asks BMH to respond separately to each of the following questions and requests for information:

1. Please provide a breakdown and further details of the outflows included in the "Other" item in the December Appendix 4C (paragraph A.i). Please provide the basis for including these outflows in Item 1.8 rather than one of the sub-items in Item 1.2.
2. Please provide an explanation for and further detail of the \$525,000 refund disclosed in the December Appendix 4C (paragraph A.iii). If this is unrelated to the \$525,000 investment outflow disclosed in the September Appendix 4C (paragraph B.ii), please provide an explanation and further detail of that outflow as well.
3. ASX notes that BMH's cash outflows increased from \$457,000 to \$639,000 from the September quarter to the December quarter. Please provide the basis for BMH's statement in the September Appendix 4C that it expected its net operating cash flow to improve in the next period as overhead costs are expected to decrease after the divestment of its Eco Pallets' business division (paragraph B.iii).
4. ASX notes that BMH disclosed that it had an estimated 0.35 quarters of funding available at 31 December 2022 and further disclosed that it expected to continue to have the same level of negative cash flows. In light of this, please address the following:
 - 4.1 Does BMH currently have sufficient funding to continue operating? Please provide the basis for this view.

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- 4.2 Does BMH currently have sufficient funding to meet its business objectives? Please provide the basis for this view.
 5. Has BMH taken any steps to raise further cash to fund its operations? Please provide details.
 6. If the answer to Question 5 is “no”, does BMH propose to take any steps to raise further cash to fund its operations. Please provide details.
 7. Does BMH consider that the financial condition of BMH is sufficient to warrant its continued listing on ASX as required under Listing Rule 12.2? In answering this question, please explain the basis for this conclusion, commenting specifically on the following:
 - 7.1 BMH’s negative cash flows of \$457,000 for the September 2022 and \$639,000 for the December 2022 quarters.
 - 7.2 BMH’s total available funding at 31 December 2022 of \$227,000.
 - 7.3 BMH’s other financial asset appears to be a holding in an illiquid security (paragraph D).
 - 7.4 The material uncertainty regarding BMH’s ability to continue as a going concern raised by BMH’s auditors in the auditor’s half-year review (paragraph C).
 8. Please provide any other information that BMH considers may be relevant to ASX forming an opinion on whether BMH is complying with Listing Rule 12.2
 9. Please confirm that BMH is complying with Listing Rule 3.1 and that there is no information about its financial condition that should be given to ASX in accordance with that rule that has not already been released to the market.
 10. Please confirm that BMH’s responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of BMH with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **12:00 PM AWST Wednesday, 15 March 2023**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, BMH’s obligation is to disclose the information ‘immediately’. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require BMH to request a trading halt immediately.

Your response should be sent to me by e-mail at **ListingsCompliancePerth@asx.com.au**. It should not be sent directly to the ASX Market Announcements Office.

Suspension

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in BMH’s securities under Listing Rule 17.3.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to BMH’s obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. It should be noted that BMH’s obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Release of correspondence between ASX and entity

Although ASX does not currently intend to release a copy of this letter, your reply and any other related correspondence between us to the market, we nonetheless reserve the right to do so under listing rule 18.7A.

Questions

If you have any questions in relation to the above, please do not hesitate to contact me.

Yours sincerely

Scarlette de Lavaine
Adviser, Listings Compliance

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