Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Memories Group Limited

Security: Memories Group Limited

Meeting details:
Date: 25 July 2018
Time: 2.00 p.m.
Venue: The Straits Room, Level Four, The Fullerton Hotel, 1 Fullerton Square, Singapore 049178

Company Description

Memories Group Limited engages in the tourism-related activities in Myanmar. It operates through three segments: Experiences, Services, and Hotels. The Experiences Segment operates commercial hot air balloon flights in Bagan and Inle Lake region under the Balloons over Bagan name; and intends to develop tourist, cultural, or leisure attractions and related services. It has a total of 14 balloons, of which 12 are in Bagan and 2 at Inle Lake. The Services Segment engages in the design and implementation of customized tours, events, and travel logistics for travel agents and individuals. The Hotels Segment operates a 19-room luxury boutique hotel located at Mount Zwekabin in Karen State; and intends to operate a 46-room unique urban resort located within Pun Hlaing Estate in Hlaing Thayar Township of Yangon. The company is based in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=1H4)

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1. As noted in the company's Corporate Profile (page 1 of the annual report), the company's vision is to "*become the leading tourism company in Myanmar with a sustainable way of developing our economic assets*".

In the Chairman's Message, it was also stated that many tourism-related business owners in Myanmar have approached the group expressing their interests in wanting to work with the group.

(i) Can the board/company explain in greater detail how it evaluates potential assets for acquisitions? What are the financial and non-financial criteria used in the assessment?

(ii) What guidance has the board provided to management to safeguard against aggressive acquisitions?

(iii) What are the mid-term targets for each of its three business segments, such as the number of operators owned in the Experiences segment, the number of hotels/rooms in the Hotels segment and the number of tour operators/packages in the Services segment?

(iv) As the group is focused on the tourism segment which is seasonal and dependent on weather, how does the group intend to mitigate the risks associated with such seasonal/weather conditions to have stability in its income and earnings?

2. The "Impairment of goodwill and intangible assets with indefinite useful lives (trademark and brand)" (page 49-50) is a key audit matter (KAM) highlighted by the Independent Auditor in their report on the Audit of the Financial Statements. 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, the largest intangible assets recognised is the goodwill on services business segment of approximately US$5.5 million. As at 31 March 2018, the total amount of intangible assets recognised was US$8.1 million (page 80). In the impairment testing of goodwill and intangible assets, the recoverable amount of a cash-generating unit (CGU) was determined based on value-in-use (VIU).

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Management has disclosed the following assumptions used in the estimation of the VIU:

Key estimates used for value-in-use calculations:

	Services		Hotels		Experiences	
	31.3. 2018 US$'000	31.3.2017 US$'000 (unaudited)	31.3. 2018 US$'000	31.3.2017 US$'000 (unaudited)	31.3. 2018 US$'000	31.3.2017 US$'000 (unaudited)
Average budgeted gross margin	20.9%	–	47.8%	–	23.9%	–
Perpetual growth rate	5.0%	–	5.0%	–	5.0%	–
Discount rate	18.7%	–	20.8%	–	29.7%	–

(Source: Company annual report)

(i) **Can management help shareholders understand how a perpetual growth rate of 5.0% was derived?**

(ii) **Is it prudent for the company to use a perpetual growth rate of 5% to estimate the VIU of its CGUs?**

(iii) **Can the audit committee (AC) help shareholders understand the deliberations it has had on the use of a 5.0% perpetual growth rate in the estimation of the value-in-use computations?**

(iv) It was further disclosed that a 0.2%-1.1% decrease in the perpetual growth rate would result in the recoverable amount of the CGU being equal to its carrying amount. **Has management/the AC evaluated the sensitivity of the VIU to the perpetual growth rate? Would the AC consider it more prudent to use a lower perpetual growth rate given that a 0.3% decrease (from 5%) will lead to an impairment for the Hotels CGU?**

(v) **Would the AC also comment on the appropriateness of the use of a "perpetual growth terminal value" model given that no business can scale up indefinitely?**

3. In Note 23 (page 94 – Financial risk management: Capital risk), it was disclosed that the group's monitors its capital risks based on working capital ratio. It is the group's strategy to maintain a working capital ratio not lower than 1.

(i) **Has the board set an upper limit to the leverage that can be deployed by the group as it scales up its business?**

(ii) **Would the board/management also explain the choice of "working capital ratio" as the indicator of capital risk?**

(iii) **Can the company elaborate further on its optimal capital structure to support this high growth period?**