Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Duty Free International Limited

Security: Duty Free International Limited

Meeting details:
Date: 20 Jun 2019
Time: 11.00 a.m.
Venue: Cinnamon Room, Level 5, Novotel Singapore Clarke Quay, 177A River Valley Road, Singapore 179031

Company Description

Duty Free International Limited is a Singapore-based investment holding company. The Company and its subsidiaries are engaged in duty free trading. The Company's segments include Trading of duty free goods and non-dutiable merchandise, which focuses on sale of goods, and Investment holding and others, which focuses on sale of oil palm fruit bunches. The Company offers The Zon, which is a travel retail brand. The Company operates over 30 duty-free retail outlets or complexes and trading outlets located at various locations throughout Peninsular Malaysia, including Johor Bahru, Bukit Kayu Hitam, Kuala Lumpur International Airport, Penang International Airport, Padang Besar and Langkawi. The Company owns the Black Forest Golf and Country Club and an oil palm plantation. The Company's 18-hole Golf and Country Club and oil palm plantation assets are located near the Malaysia-Thailand border at Bukit Kayu Hitam, and have a combined land mass of over 700 acres.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5SO)

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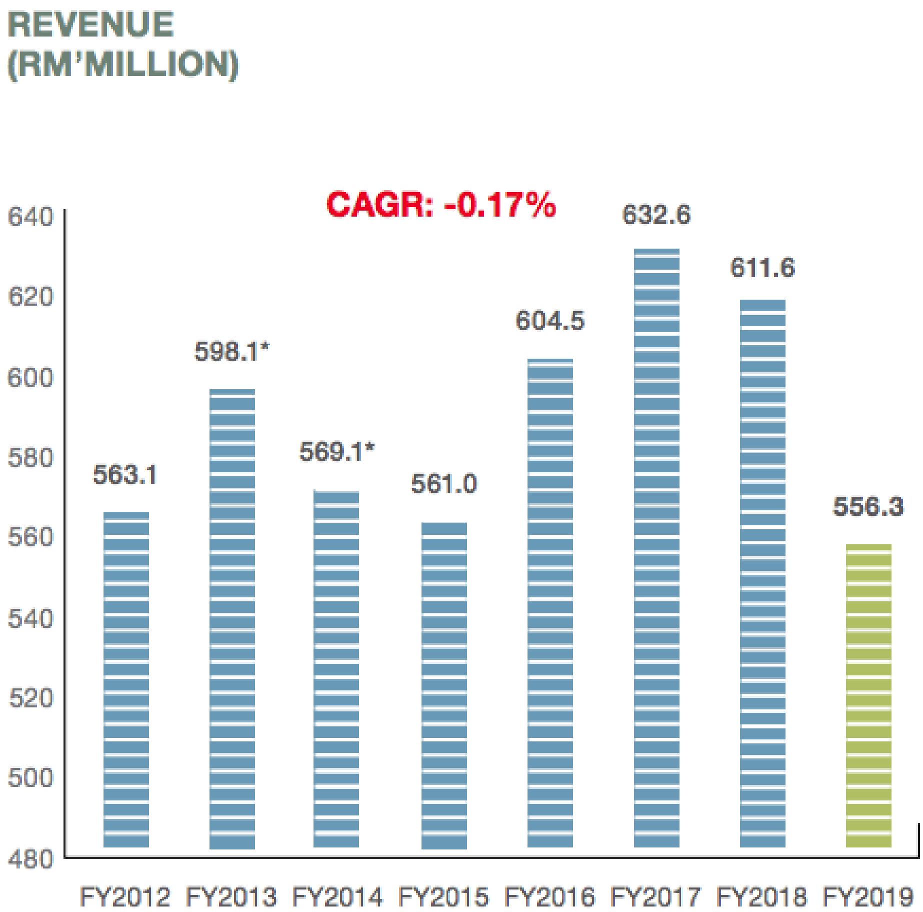
Q1. As seen from the Financial Highlights (page 6 of the annual report), the group's reported revenue of RM556.3 million in FY2019 is the lowest in the past 8 years. While revenue slipped 9% from RM611.6 million, profit for the year increased from RM48.2 million to RM52.6 million and profit attributable to owners of the company increased from RM41.7 million to RM46.5 million.



(Source: Company annual report)

As noted in the chairman's message, the decrease in revenue in FY2019 was attributed partly to the "*unavailability of certain popular products for sale in the first half of the financial year and lower demand from consumers in general during the period under review*" (page 8).

(i) **Can management help shareholders understand the reasons for the disruption to its supply chain? Given the group's long track record of operating its duty free stores, what were the pro-active actions carried out by management to mitigate the impact due to the unavailability of certain popular products?**

(ii) **Can management elaborate further on its business continuity/contingency plans?**

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(iii) Can management further quantify the impact due to the "unavailability of certain popular products" and "lower demand from consumers"?

(iv) Would management help shareholders understand the gross margin trends in the past 3-5 years, especially since the tie-up with Heinemann?

In addition, can management elaborate further on the plans to integrate and scale up the Brand Connect business? How synergistic is this acquisition? What would be the projected investment into Brand Connect to scale up the business? The company has stated that the acquisition of the Brand Connect group of companies is to develop and grow the beverage distribution business as well as to expand the group's market operations beyond the current sales channels in the duty free market of Malaysia to include the duty paid market across South East Asia.

Q2. In Note 28 (page 105 – Contingent liabilities: Bills of Demand in respect of import duties, excise duties, sales tax and GST), the company stated that it had, on 30 November 2017, announced that its subsidiary Seruntun Maju Sdn. Bhd. ("SMSB") received Bills of Demand dated 14 November 2017 from the Royal Malaysian Customs State of Perak ("Customs"), which SMSB received on 21 November 2017, demanding payments of customs duties, excise duties, sales tax and Goods and Services Tax ("GST") all totalling RM41,595,000 for the period from 15 November 2014 to 30 September 2016.

After various rounds of hearing in the High Court and in the Court of Appeal, the matter is now in the hands of the Court of Appeal after the group submitted its additional supplementary submission on a novel point of law.

The company has further stated that it has obtained legal opinion that that the payment of the Bills of Demand raised by the Customs is "*possible, but not probable, and accordingly no provision for any liability has been made in the financial statements*".

(i) Can management help shareholders understand if the group's operation at the store in question has been affected?

(ii) Has the board considered it necessary to review the group's operations at all its duty free outlets to ensure strict compliance with the laws and regulations?

(iii) When does the board expect the above-mentioned issue involving SMSB to be resolved?

Q3. In the Corporate Governance report (pages 25-26), the company has disclosed that it has identified four key management personnel (who are not directors or the CEO of the company) and each of the four received a remuneration of below $250,000.

The relevant section is reproduced below for reference:

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For FY2019, the Group had identified four key management personnel (who are not Directors or the CEO of the Company). The details of remuneration paid to the key management personnel of the Group (who are not Directors or the CEO of the Company) for FY2019 are set out below:

Remuneration Band and Name of Key Management Personnel	Salary and Bonus	Other Benefits	Total
	%	%	%
Below S$250,000			
Mr Andreas Curt Winnen	75	25	100
Ms Cheah Im Bee	100	–	100
Mr Hendrik Korbinian Heyde	88	12	100
Mr Stuart Saw Teik Siew	100	–	100

For FY2019, the aggregate total remuneration paid to the key management personnel of the Group (who are not Directors or the CEO of the Company) amounted to approximately S$1,030,781.

(Source: Company annual report)

(i) Would the board/remuneration committee help shareholders understand how the aggregate total remuneration amounted to approximately $1,030,781 when the company has stated that each of the four key management personnel received a remuneration that was below $250,000?

[The following question on donations made to Yayasan Harmoni was asked following the review of the FY2018 annual report. As the company has not responded nor provided additional clarification, the question has been updated and reposted.]

Q4. In Note 29 (page 106 – Related parties disclosures), the group has listed the significant transactions with related parties. In FY2018, the group made a donation of RM1 million to Yayasan Harmoni. In FY2019, the donation amount increased to RM3 million. From FY2014 to FY2017, the group has made donations of RM1 million, RM0.5 million, RM1.5 million and RM2 million respectively.

As shown in the footnote, the non-executive chairman of the company is the founder and executive chairman of Yayasan Harmoni.

(i) Would the independent directors help shareholders understand the rationale of making donations to Yayasan Harmoni?

(ii) What is the nature of such donation and how was the organisation, Yayasan Harmoni, selected?

(iii) Would the independent directors consider it appropriate to review if the regular and increasing donations made to Yayasan Harmoni could constitute a form of payment to the non-executive chairman?

(iv) Did the independent directors pre-approve the transaction prior to any payments/commitments were made?

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(v) Going forward, if the group decides to continue with the practice of making donations to Yayasan Harmoni or any other organisation, would the board consider providing the justification in the annual report, and to formalise such practices by establishing a community development/ESG framework?

A copy of the questions for the Annual Report for the financial year ended 28 February 2017 and 28 February 2018 and could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=Duty%20Free%20International%20Ltd&cid=6786,4663,4319

The company's response could be found here: ------