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Issuer: Memories Group Limited

Stock code: 1H4

Meeting details:

Date: 28 January 2021

Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. As mentioned in the chairman and CEO message, since March 2020, the Myanmar government authorities have stopped all international flights in and out of the country except for scheduled relief flights. The group has focused its efforts to tap domestic tourism.

- (i) **Can management help shareholders understand the sentiments on the ground in Yangon and in the key cities it operates in? What is the pandemic's impact on the local economy? How much normalcy has returned to daily lives in Yangon and the key cities (other than the lack of foreign visitors)?**

Management disclosed that the occupancy rates of the hotels skyrocketed in the third quarter of 2020 when the first lockdown was lifted.

- (ii) **Given that the group provides luxury experiences, catering mainly to international guests with high spending power, can management elaborate further and quantify the potential of domestic tourism?** Based on disclosure by Yoma in its annual report, the country has a GDP per capita of US\$1,408 in 2019.
- (iii) **How did management assess that the group had fared strongly to stay atop in the competition during this challenging period? Can management elaborate further on the group's competitive advantage in the various segments?**
- (iv) **In addition, has management evaluated opportunities to further consolidate the group's position in its core businesses (for instance, other commercial hot-air balloon operations, hotels, who might be distressed) through acquisitions and/or mergers?**

Q2. On page 56 of the annual report, the independent auditor highlighted a material uncertainty related to going concern. It noted that all business segments of the group (i.e. experiences, hotels and services) have been negatively impacted by the decline of international tourist arrivals in Myanmar. In addition, on 21 September 2020, the government of Myanmar imposed a Yangon Regional Lockdown with stay-at-home orders, effective until further notice. As a result, the group has incurred net loss of US\$(35.97) million and net cash used in operating activities of US\$4.39 million for the financial period ended 30 September 2020. In addition, the group's current liabilities amounting to US\$16.85 million as at 30 September 2020, including bank borrowings of US\$3.05 million are due for repayment within twelve months from the end of the financial period. However, the group's current assets amounting to US\$3.10 million as at 30 September 2020, including the unrestricted cash and cash equivalent amount of US\$0.41 million may be insufficient to fulfil these obligations at the relevant repayment dates.

The directors of the company believe that the use of the going concern assumption in the preparation of the consolidated financial statements of the Group for FP2020 is appropriate and have stated their assumptions on page 57.

- (i) **In management's projections, does the group expect international travelers to return to a healthy level in 2021?**
- (ii) **With cash and cash equivalents amounting to \$406,000 as at 30 September 2020, has the board evaluated its options to strengthen the financial position of the group?**
- (iii) **What is the company's target/optimal capital structure? To what extent has the target/optimal capital structure influenced the company's recent financing decisions?** For instance, the group has obtained additional borrowings amounting to US\$6.39 million, which includes a secured loan of MMK6.5 billion with interest rate of 10%. For FP2020, the group incurred interest rates of 6% to 14.5% per annum.

In addition, as disclosed in Note 8 (page 92 – Finance expenses), interest expense on bank borrowings increased from US\$660,000 in FY2019 to US\$4.72 million in FP2020. While the interest paid was for a 18 month period in FY2020, the interest expense in FP2020 is more than 7x the amount paid in FY2019.

- (iv) **Would management provide better clarity on the significant increase in interest expense?**

Equity attributable to owners of the company decreased from US\$60.8 million to US\$24.9 million as at 30 September 2020, partly due to impairment losses of US\$14.77 million. As shown on page 110, the pre-tax discount rate assumed by management in the value-in-use calculation dropped across the board from 19-23% to 14-17%.

Key estimates used for value-in-use calculations:

	Average budgeted gross margin		Perpetual growth rate		Pre-tax Discount rate	
	30 September 2020	31 March 2019	30 September 2020	31 March 2019	30 September 2020	31 March 2019
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Services						
AHTT	20.0%	26.0%	3.0%	3.0%	16.8%	21.5%
Hotels						
TLH	72.0%	74.0%	3.0%	3.0%	16.7%	23.3%
KLCL	73.0%	47.0%	3.0%	3.0%	16.5%	18.9%
Experiences						
BBPL	13.0%	29.0%	3.0%	3.0%	14.3%	19.3%

(Source: company annual report; emphasis added)

- (v) **Would the ARMC help shareholders understand the rationale of using a lower discount rate in its VIU estimates when the future is much more uncertain due to the rapidly evolving and long drawn out pandemic (compared to 31 March 2019; pre-COVID 19)?**

Q3. On 12 January 2021, the company announced that there are material variances between the unaudited results (first announced by the company on 27 November 2020) and the audited financial statements for FP2020 after the finalisation of audit.

While there was no material variance on the loss for financial period, the group announced several reclassifications and changes which included the following:

- Reclassification of right-of-use assets related to property, plant and equipment from investment properties
- Reclassification mainly related to commercial tax payable from current income tax liabilities to trade and other payables
- Reclassification of current portion of borrowings from non-current liabilities to current liabilities
- Reclassification of interest accrual on convertible bonds from other payables to convertible bonds
- Reclassification of payments of contractors and retention payables relating to capital expenditure from operating activities to investing activities
- Reclassification of payments on lease liabilities from operating activities to financing activities. (With the adoption of the SFRS(I) 16 Leases, amounts relating to the repayment of both principal and interest portion of the lease liability are reclassified as financing activities.)

- (i) **How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?**
- (ii) **Has the Audit and Risk Management Committee (“ARMC”) evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?** It would appear that many of the reclassifications involved simple transactions such as recognising current/non-current portion of borrowings.
- (iii) **What guidance has the ARMC provided to management to ensure the integrity of the financial statements? Is the ARMC familiar with the Singapore Financial Reporting Standards (International), especially SFRS(I) 16 Leases which the group has adopted?** In the unaudited results, the group had classified payments on lease liabilities as operating activities.
- (iv) **Can the ARMC update shareholders on the improvement made/to be made to the group’s financial reporting systems and processes?**

^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer’s website, through “live” webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can’t attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on [SIAS website](#)

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^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (<https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings>)