

**SINGAPORE MYANMAR INVESTCO LIMITED**

(Registration No. 200505764Z)

(Incorporated in Singapore)

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**RESPONSE TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT FY2020**

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Singapore Myanmar Investco Limited (the “Company” or “SMI” and together with its subsidiaries, the “Group”) refers to the questions raised by Securities Investors Association (Singapore) (“SIAS”) in relation to the Company’s Annual Report for the financial year ended 31 March 2020 and appends the requisite replies as follows:

**Q1. On 21 February 2020, the company announced that it would cease quarterly reporting of its financial statement and will only carry out semi-annual reporting of its financial statements. It further assured shareholders that the company will comply with its continuing obligations to keep shareholders updated as and when appropriate, should there be any material developments (financial or otherwise) relating to the company or the group.**

The company has since made multiple applications to SGX for extension of time to release its unaudited financial results and had only released the unaudited full year financial results for the year ended 31 March 2020 on 28 August 2020.

However, even as the group cited the reason as “the prolonged lockdown, travel restrictions and/or other measures imposed by Singapore and Myanmar in response to the COVID-19 outbreak”, the group has not provided shareholders with any update on the impact of the COVID-19 pandemic on its business.

- (i) **Would the group help shareholders understand if it would be meeting its continuous disclosure obligations and update shareholders on any material developments in a timely manner?**

**Answer:**

The COVID 19 has a global impact on all companies in a number of countries and we have not been spared. In the course of the application for the extension of time to release its unaudited financial results, the Group has announced on 4<sup>th</sup> August that the COVID-19 pandemic and the quarantine restrictions have slowed down the review process and hence, have caused a delay in the finalisation of the Group’s FY2020 Results Announcement. The Group has also explained that the external auditor were not being able to travel to Myanmar and the requirement for much of this period for the Myanmar staff to work from home, a country with relatively poor telecommunication infrastructure, which has impeded the speed of working.

As part of the compliance process as a Company that remains on the watch-list, the Group also made a quarterly announcement pursuant to Rule 1313(2) of the Listing Manual. In the quarterly announcement on 28 August 2020, the Group announced that that the Yangon International Airport (YIA) has been closed since March 30<sup>th</sup> and travel retail sales represents approximately 70% of expected revenue. At the moment, the Group has not made any further announcement as neither the airport management company nor the Myanmar government have made any further announcements themselves on a reopening date. The Group will make a further update in the half year results to be released in November; which will include

updates on domestic retail and F&B businesses which constitute most of the rest of the Group's revenue.

- (ii) **Would the company elaborate further on the ground sentiments in Myanmar, especially in Yangon, and help shareholders better understand the impact of the COVID-19 on the operations in the past months?**

**Answer:**

The closure of the airport, along with the strong measures we have taken, has been communicated and reiterated in our announcements previously made in which we have also highlighted that travel retail represents 70% of the Group's business.

With regard to our domestic business, this is also facing intermittent lockdowns in common with all other companies in Myanmar. On September 9, the Ministry of Health and Sports issued stay-at-home orders for a total of 28 townships in Yangon. The township closures and restrictions were implemented on September 11.

There are has no clear directives from the Myanmar government on the exact date of the end of the lockdown in the townships at this time of this announcement.

- (iii) **In particular, how much of the international traffic (especially air traffic to Yangon) has been restored?**

**Answer:**

None. There are no regular flights since 28<sup>th</sup> March 2020.

Based on the guidance issued by Myanmar Ministry of Hotels and Tourism, there will be no international flights to any international airport in Myanmar until October 31 and considering the COVID situation globally, we believe that this will be extended beyond that date.

However, there are ongoing relief flights, all-cargo flights, medical evacuation flights and special flights approved by the Myanmar Department of Civil Aviation.

- (iv) **Can management further clarify if the group's operations, especially its dine-in restaurants and retail shops, were closed as a result of the government's measures to stop the spread of COVID-19? If so, when did the group resume full operations of its various businesses?**

Currently, due to governmental restrictions, all of the Group's domestic retail and dine-in restaurants are closed and there is no visibility as to when restrictions will be lifted. If and when such restrictions are lifted, consumer demand is expected to be significantly below pre-COVID levels.

The Group would like to reiterate that it does not have visibility on any of the reopening.

- (v) **How has the board fine-tuned the group's long-term growth objectives as a result of the pandemic? Does management see any silver lining during this challenging period?**

The Group's management has implemented strict and severe cost savings to protect liquidity as follows:

- (i) Total Singapore Staff salaries have been decreased by approximately 65% (USD 1.3 million) on an annualised basis, reflecting further streamlining of the organisation and the introduction of No-Pay Leave agreements with the Singapore team. These changes and agreements are already in place,
- (ii) Singapore and Myanmar office rental has been reduced by over USD 120k annualized by moving to smaller spaces,
- (iii) USD 7.5 million of suppliers' projected orders have been cancelled or deferred (mostly cancelled) by SMI Group companies,
- (iv) Reduction in the cost base of the local business partners (particular labour costs), reduction in leased area of the airport and more favourable rental terms. This will be beneficial over the short and long term.
- (v) The Company will continue to narrow its focus onto just two business sectors; Retail and F&B.

The Group will continue to monitor closely on the evolving situation and actively exercise prudence in managing operational costs.

**Q2. On pages 1 to 5 of the annual report, the company showed the group's financial highlights and its businesses and strategies for the different segments, namely Travel & Fashion Retail, Food & Beverage, Logistics, Auto Services, Construction Services, Serviced Offices and Telecom Towers (sale of asset concluded in October 2019).**

**It was stated that the group will downsize and eventually exit the auto services and construction services businesses by FY2021.**

- (i) **Can management elaborate further on the challenges faced by the group in these two businesses?**

Auto services – Even pre-COVID, the Company saw that demand for a high quality car rental services was not meeting expectations based from the point of view of lower than expected rate in tourism growth or increase in international companies coming to Myanmar. The decision was already taken towards the end of 2019 to downsize and exit this business.

Construction Services – The slower than expected growth of the Myanmar economy has resulted in many fewer construction projects than projected. This, coupled with, the relatively high level of credit risk associated with equipment sales has led the Company during 2019 to decide to exit this business; again a decision taken pre-COVID.

- (ii) **What were the lessons gleaned in the past 4-5 years of running the two businesses?**

The prospects for these two businesses was predicated on the basis of strong tourism and economic growth, which was widely predicted by most economic commentators. After making its best efforts to succeed, the Company has had to react to the lower than expected growth numbers and has made the decision accordingly to exit these business.

- (iii) **In particular, has the board re-examined the initial investment thesis and further fine-tuned its investment approach?**

The decision was made some time ago to exit the infrastructure focused business, the tower business (the sale of which was announced in 2019) and decided to concentrate on Retail and F&B. The Board has reconfirmed the intention to focus on these two business sectors in spite

of the highly adverse impact of the global pandemic as these represent the two areas in which the Company continues to have a long term competitive advantage.

- (iv) **Logistics: Has the group successfully expanded its capacity given that it was operating at near capacity in the previous year? Given that the joint venture has increased its revenue rapidly from FY2017-2019, what were the reasons for revenue to slip marginally from US\$756,000 in FY2019 to US\$726,000?**

The Group, together with its joint venture partner, has prioritised profit improvement and will look at any further investment in the current primary location after assessing how Myanmar evolves post-COVID.

The marginal decrease of the revenue is mostly due to lower cross border deliveries.

- (v) **Going concern: The independent auditors drew attention to the material uncertainty related to going concern in the independent auditor's report (page 36). The group and the company incurred losses from continuing operations, net of tax, of US\$10.5 million and US\$9.0 million respectively. In addition, as of that date, the current liabilities exceeded the current assets of the group by US\$10.9 million. On 15 October 2020, the company responded to SGX's further queries on the group's ability to continue operating as a going concern. It is also noted that the top customer has outstanding trade receivables of US\$24.6 million as at 31 March 2020 although the top customer generated only US\$16.3 million in revenue for the financial year. This means that the top customer has significant amount of debt that has been past due for more than a year.**

**Would the company help shareholders understand the financial position of the top customer given that the pandemic has severely affected the retail sector? What are the pro-active measures by management to collect on the long-outstanding receivables? Would it be prudent to cease or reduce the granting of credit to the top customer unless there is clear visibility of the ability by the top customer to pay off its outstanding debt?**

**Answer:**

The Group's top customer is its local business partner (RGS) in the Travel Retail business. The airport has been closed since March end and as expected, the revenue has decreased significantly.

We continue to work closely with RGS to optimise working capital and have helped the local business partner to restructure their organisation through reducing headcounts by over half and securing more favourable long term rental conditions at the airport. In addition, the Company has used this opportunity during the time of the airport closure to reduce the footprint of the rented space and selectively eliminate some of the least well performing stores and made other adjustments to the retail layout.

SMI remains confident that with the changes outlined above even with a slow recovery of passenger numbers after airport reopening, RGS will be able to fully repay SMI over the medium term.

**Q3. The attendance of directors at board and board committee meetings is shown on page 13 and reproduced below.**

Directors' attendance at Board and board committee meetings during FY2020

Directors	Board Meetings	Board Committee Meetings		
		AC	NC	RC
Number of Meetings held	4	4	1	1
Ho Kwok Wai	2	n.a.	n.a.	n.a.
Fong Sing Chak Jack	4	4	1	1
Wong Yen Siang	3	3	1	1
Wee Sung Leng	3	3	1	1
Mark Francis Bedingham	4	n.a.	n.a.	n.a.

n.a. – not a member

(Source: company annual report)

While the directors had full attendance in FY2019, the attendance by directors in FY2020 has been below average. Mr Ho Kwok Wai, the non-executive chairman, attended 2 out of 4 board meetings. The lead independent director, Mr Wong Yen Siang, attended 3 out of 4 board meetings and 3 out of 4 audit committee meetings. Mr Wee Sung Leng, another independent director, has the same attendance record as Mr Wong in FY2020.

- (i) **Were there any extenuating circumstances that led the directors to miss the board and board committee meetings?**

Ho Kwok Wai – Mr Ho is based mostly in China and had some unavoidable business meeting conflicts.

Wee Sung Leng – a member of Mr Wee immediate family was undergoing a serious medical procedure and hence he was not in a position to attend the meeting.

Wong Yen Siang – Mr Wong was also incapacitated through ill health on that day.

It should be highlighted that any of the meetings held, if not full or at least two of the three independent directors were in attendance

- (ii) **Since the constitution of the company allowed for board meetings to be conducted by means of telephone conference or other methods of simultaneous communication, did the directors who did not attend the physical meetings do so?**

As per mentioned above, they had urgent personal matters to attend to at that point of time.

- (iii) **How effective were the directors in discharging their duties, especially Mr Ho Kwok Wai who is the board chairman?**

Mr Ho Kwok Wai and the Group's CEO have continued to work closely together and communicate frequently outside of the Board meetings.

- (iv) **How can the company and the company secretary work together with the directors to schedule the board and board committee meetings so that directors are able to attend the meetings and contribute to the effectiveness of the board?**

As noted above, there were some unexpected and unavoidable last minute conflicts.

It is to be noted that the Board of directors have been informed via emails on significant/material developments of the Company's operations.

In addition, there have been continuous informal communications outside of Board meetings.

**Separately, it was noted that the two independent non-executive directors, Jack Fong and Wee Sung Leng, visited Yangon to meet with key operational managers and visited the site operations in May 2018.**

- (v) **Can the company clarify if any of the independent directors (especially the third independent director) have visited Yangon since 2018 as a lot of changes have happened in the past 2.5 years?**

No further visits have been made and the Company does not believe that there have been many significant changes in the last two years or so.

However, the independent directors are kept updated via informal discussions/engagements outside of the Board meetings.

By Order of the Board

Mark Francis Bedingham  
Executive Director, President and CEO  
26 October 2020