SINGAPORE MYANMAR INVESTCO LIMITED
(Registration No. 200505764Z)
(Incorporated in Singapore)

RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT 2017

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 2017 and appends the requisite replies as follows:

Q1. The group has a "growing portfolio of high-growth consumer-related and infrastructure-related business enterprises in Myanmar" (page 10 of the annual report). The 5 core business pillars are travel & fashion retail, food & beverage (franchising and distribution), auto services, construction services and logistics. The group is also involved in serviced offices and telecom towers (which has been earmarked for sale).

In 3 short years since the first joint venture with ARCC Officers to provide serviced offices in July 2014, the group has moved quickly into many capital intensive business identified above.

a) Can the board provide shareholders with a holistic understanding of the group's business strategies?

Reply:

As highlighted in the question the Company is focused on five core business areas. Three of these businesses operate in the consumer area of the economy. All have a significant exposure to international travelers (travel retail and F&B and car rental) and to international companies in Myanmar (car rental) as well the higher wealth/income Myanmar national – F&B franchises and domestic retail. Construction Services and Logistics/Warehousing are BtoB type businesses which give exposure to the growth in civil works, infrastructure development and growing supply chain needs for the Myanmar economy.

b) What is the group's optimal capital structure? How do the funding decisions taken by the group help to maximise the shareholders' long term value?

Reply:

Management reviews the medium to long term plan for capital expenditure and business expansion regularly. The three year budget is presented and approved by the Board annually. In addition, the Group ensures that we have an efficient working capital cycle and funds its operations mainly through equity and bank borrowings. The extent of bank borrowings would depend on the cash flow generated from operations and ensuring an adequate debt service coverage ratio. The Company will maximize shareholder value through a focus on capital investment opportunities which do not overly strain the balance sheet.

c) **How does the group mitigate the risks of operating in an emerging economy, especially the socio-political risks?**

Reply:

The Group uses its excellent formal and informal networks to keep itself up to date with regulatory trends and is also focused on businesses that are not reliant on government contracts, which has strong cash flow and strong USD revenues. Management together with our Director of government affairs meets regularly with central and state government and ministers to ensure that the Group anticipates and prepares for socio-political changes and ensures compliance with all regulatory requirements.

d) **Is there sufficient management depth in the group to execute on the group's strategies?**

Reply:

The Group has made a conscious effort to recruit experienced employees with proven track record in creating an international management team that brings ready-made expertise in its core business and functional support areas. An established management team, coupled with good processes, proper governance and controls provides the foundation for the efficient and transparent business operations. At the same time, we continue to seek high caliber individuals to join us and foster an environment and culture of integrity and excellence.

Q2. The group reported revenue of US$23.3 million for FY2017, the bulk of it being travel and fashion (US$13.3 million).

As noted in the Independent Auditor's Report (page 41), "revenue recognition for goods sold to a Myanmar retail distributor" is one of the key audit matters highlighted by the auditors. It was disclosed that:

"Revenue recognised for the sale of goods to this distributor amounted to US$12.3 million for the financial year ended 31 March 2017, out of which US$4.7 million has been received as at 31 March 2017".

a) **Can management elaborate further on the group's revenue recognition policy? Are the significant risks and rewards of ownership of the goods transferred to the buyer? Is there a right of return by the retail distributor?**

Reply:

Revenue is recognized at the time of sale from a SMI controlled subsidiary in Singapore to a Myanmar importer/distributor, with which SMI works closely. There is no right of return from the Myanmar importer and they bear the risk of the retail operations. As part of the agreement, the SMI would manage the supply and merchandising as well as monitor the daily operations and cash management. This includes ensuring that our sales to Myanmar distributor is matched to the retail demand in the market and there is optimal inventory and no over-stocking.

In Note 30(b) (page 88 – Credit risk), the group has trade receivable amounts of up to US$3.2 million past due for over 150 days and the top customer has outstanding trade receivable of US$8.3 million.

Ageing analysis of the age of trade receivable amounts that are past due as at the end of financial year but not impaired:

	The Group	
	2017	2016
	US$'000	US$'000
61 to 90 days	2,055	359
91 to 150 days	2,521	53
Over 150 days	3,194	174
Total	7,770	586

Concentration of trade receivable customers as at the end of financial year:

	The Group	
	2017	2016
	US$'000	US$'000
Top 1 customer	8,287	718
Top 2 customers	12,553	1,299
Top 3 customers	13,886	1,787

(Source: Company annual report)

b) What guidance has the board given to management in terms of managing the group's exposure to any individual customer?

Reply:

The Group has a comprehensive set of policies and procedures that was approved by the Board that includes credit evaluation, customer profiling, credit limits and monitoring of receivables aging. In addition, management is aware of customer concentration risk and in the process of developing the guideline that would be presented to the Board for their approval later this year.

c) Can shareholders get an update on the status of the retail distributor (and the "Top 1 customer", if they are not the same party)? How much of the trade receivable is still outstanding? How is management working to collect the debts so that the group has sufficient resources to fund its growing businesses?

Reply:

The Top 1 customer is our retail distributor. The high level of receivables is mainly attributable to the first year of operations. The trade receivable as at 30 June 2017 amounted to $9.5 million mainly because of the supply of merchandise for the newly opened retail outlets in Junction City which necessitated a higher level of inventory. SMI has recently implemented an ERP (Enterprise Resource Planning) system which our retailer is also using. The daily sales information by brands and SKU (Stock Keeping Unit) of the retail operations is shared with SMI. This allows us to work closely with them to manage the stock, control new orders as well as giving us visibility over their cash management. This gives SMI assurance that the amount of debt owed by the retailer is manageable based on their actual sales. Currently the retailer is experiencing low season for travelers but after October i.e. in 2HFY17 we should see a strong pick-up in demand at the airport.

Q3. The group has completed the construction of almost 100 towers for Ooredoo Myanmar Limited ("OML") and "nearly 50% of these towers have a co-lease up with some of the Mobile Network Operators in the country" (page 11). Although the agreement with OML was for 500 towers, the group has decided to have decided that "this business would benefit from higher levels of capital investment to build a stronger market position and so we have been willing to listen to offers that we have received for this business".

On 1 July 2017, the company announced that the sale and purchase agreement with Shining Star International Holdings Limited for Myanmar Infrastructure Group Pte. Ltd. ("MIG") has been terminated. The Company intends to review its tower telecommunications business with a view to restructuring it to improve operational efficiencies and business performance.

a) What is the capital expenditure required for the group to meet its obligation to provide OML with the additional 400 towers? How is the group going to fund this?

Reply:

The last purchase order from OML was received in September 2016 and since then, OML has not indicated any likelihood of awarding the next 400 towers. The Group has worked with an international bank who has indicated that they would finance additional tower constructions. If this is insufficient, the Group will seek additional equity funding.

b) Can management update shareholders on the competitive landscape of the telecoms tower sector in Myanmar?

Reply:

There are three well established tower companies and five smaller ones of which MIG is one. New build-to-suit contracts are fewer than before but in addition to the build programs of Ooredoo and Telenor we are aware of the need for new tower builds coming from MPT/KDDI/Sumitomo and from MyTel (the recently established joint venture with Vietel (from Vietnam).

c) What is the current working relationship with the joint venture partner, Golden Infrastructure Group?

Reply:

We are currently in dispute with Golden Infrastructure Group Limited and they have not provided any assistance in the management of the joint venture.

By Order of the Board

Mark Francis Bedingham
Executive Director, President and CEO
25 July 2017