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

RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT 2018

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 2018 and appends the requisite replies as follows:

1. As noted in the CEO's message, FY2018 was a milestone for the group as it achieved positive EBITDA and the group firmly established itself in duty-free travel retail with the 72,000 square feet of retail space in Myanmar's new international terminal. The five core business pillars of the group are travel & fashion retail, food & beverage, auto services, construction services and logistics. Would the board/management provide better clarity on the following:

(i) **Retail: Can management clarify on the strategy of its travel and fashion retail business? What is the targeted segment group? For the retail outlets outside of the airport, would growth be fuelled by the increasingly affluent middle-class or would the business be more reliant on tourists? What would attract tourists to make purchases of international brands in Myanmar?**

Answer:
The primary focus of the retail business is on travel retail at the airport where the company has over 72,000 square feet and will expand by another 20% to 30% in the next twelve months. This is to take advantage of the closure of the old international terminal (T2). 90% of the purchases at the airport is made by international travellers and tourists with the main segments being PRC nationals, Japanese and South East Asians. In the domestic retail, we have around 10,000 square feet and growth will be more selective focused primarily on the new malls that are being opened in Yangon. Here, the target consumers are mainly middle-class and above Myanmar nationals.

Travel retail is an international business and consumer proposition is that departing passengers are attracted to buy in a duty-free environment because duty and taxes are typically higher at their destination. For key duty-free products such as alcohol, tobacco and beauty, prices are much higher in the respective domestic markets. This is particularly true for China, Singapore, Thailand and most of South East Asia. At the airport, the duty-free products are priced competitively, benchmarked to regional airport prices. In the domestic market, the appearance of malls is new and Myanmar nationals are taking advantage to buy international brands and mid-priced luxury brands locally without the expense of having to travel overseas.

(ii) **Food & Beverage (F&B): How affordable are these food & beverage services to the locals? Again, would tourism be the main factor driving the growth of the segment?**

> **Answer:**
> The F&B franchised outlets that SMI operates at the airport is targeted at international travellers. These are mainly Coffee Bean and Tea Leaf outlets. In the domestic market, the outlets that we have already established in Crystal Jade Kitchen and Ippudo have a domestic clientele of slightly over 50%, which shows that price points in these restaurants are accessible to middle-class Myanmar nationals. Many mall developers are encouraging us to open outlets in their locations and these are being selectively reviewed.

(iii) **Construction services: How significant is the comprehensive distribution agreement signed with SANY in October 2017?**

> **Answer:**
> This distribution agreement has allowed us to consolidate our position as the Sany dealer in Myanmar and strengthened our position with potential customers. It has also given us improved access to equipment financing; the agreement is for three years from 16 October 2017 to 15 October 2020 and we are the appointed dealer for a large range of Sany products.

(iv) The CEO has mentioned that the group is now responsible for "over 700 staff in Myanmar" while, in the Chairman's statement, it was disclosed that the group's staff strength has "increased from 70 employees to a size of more than 300." **Would management clarify on the current staff strength of the group?**

> **Answer:**
> SMI group has an agreement with the retail distributor to provide advice on the merchandising and management of the retail outlets. The CEO referred to SMI group and our local business partners' employees. The Chairman referred to SMI group employees only.

2. Specifically in the CEO's message, it was disclosed that the group "see[s] limited need for capital investments and [the] five core business pillars are poised to further expand and entrench our business presence in Myanmar" (page 17).

Based on the consolidated statement of cash flows, net cash used in operating activities was US$(8.2) million in 2018 and US$(9.5) million in 2017. Similarly, the net cash used in investing activities were US$(3.1) million and US$(18.0) million respectively.

(i) Can management clarify if the investment phase is largely over and the 5 business segments are able to achieve operational leverage going forward?

Answer:

The investment in the 5 core business segments is significantly completed but we continue to invest to maintain, upgrade and expand. We are positioned for future growth without incurring the same proportion of costs; not least we have announced the intended sale of the tower business which is clearly a business where there is no further capex business, which was a significant portion of our previous capital investment.

(ii) What are management's pro-active efforts at managing its working capital better?

Answer:

We have regular internal reviews led by the CEO for all material stock purchases and we have developed increasing precise order forecasting reflecting operational experience. Action has been taken to delist poor selling products and brands; and improvements are being made to supply chain efficiencies. This leads to an improvement of our inventory mix and shortens the order to delivery lead time which improves the inventory turn. We are also looking at ways to finance our receivables.

(iii) As seen in Note 22A (page 89 – Cash and cash equivalents in the statement of cash flow; shown below), the group has cash and cash equivalents for statement of cash flows purpose at end of year amounting to US$(3.5) million. The group has outstanding bank overdrafts of US$(4.5) million, with floating interest rates of 4.73% to 13.00%. **Would management elaborate further on the rationale to rely on costly short-term bank overdrafts to fund its businesses?**

22A. Cash and cash equivalents in the statement of cash flows:

	The Group	
	2018	2017
	US$'000	US$'000
As stated above	**1,429**	3,372
Fixed bank deposits restricted in use (a)	**(570)**	(1,523)
Discontinued operations (Note 13)	**194**	198
Bank overdraft (Note 24)	**(4,544)**	(4,454)
Cash and cash equivalents for statement of cash flows purposes at end of year	**(3,491)**	(2,407)

Answer:

Bank overdrafts is the modus operandi by Myanmar banks to provide MMK financing to companies. We are in the midst of converting our overdrafts to term loans. In addition to overdrafts, the group has term loans denominated in US dollars which are significantly cheaper.

3. The "Carrying amount of trade receivables" is a key audit matter (KAM) highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 50). 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, as at 31 March 2018, the carrying value of trade receivables amounted to US$24.0 million, accounting for 40.5% of the Group's total assets as at the end of the reporting year. Approximately 91% of the receivables are due from the Group's three major distributors in Myanmar. Out of the trade receivables as at 31 March 2018, US$17.8 million were past the 60 days due date and based on management's assessment, it is of the view that these amounts are recoverable.

(i) Can management help shareholders understand the financial strength and standing of the group's major customer (Myanmar distributor that operates retail businesses at an airport and a downtown shopping mall)?

Answer:
In 2015, SMI together with our local business partner, Royal Golden Sky Company Limited (RGS), whose main shareholder have been operating in the transport and hospitality sector of Myanmar for over 25 years.

SMI entered into an agreement to provide merchandising, management and consultancy service for 90% of the duty-free retail space in terminal 1 of the Yangon International Airport (YIA). RGS is the licence holder for the duty-free concession at the YIA for 5 years with an option to renew for another 5 years. Thus far, the two companies have worked well together and there is proper accountability and transparency over all financial matters.

(ii) Based on the aging analysis, US$10.7 million of trade receivables are past due by over 150 days but not impaired at the end of the reporting period (as shown below). **What was the process by management to evaluate the collectability of these long outstanding debt?**

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

	The Group	
	2018	2017
	US$'000	US$'000
61 to 90 days	**2,285**	2,055
91 to 150 days	**4,864**	2,521
Over 150 days	**10,699**	3,194
Total	**17,848**	7,770

Answer:
Of the amount of $10.7 million that is past due by over 150 days, $$8.5 million is attributable to RGS. We are actively managing the merchandising and sales of the retail shops in both YIA and the domestic malls and as retail sales continue to improve, we are confident that the receivables will be recovered.

(iii) Can management provide a more meaningful analysis by providing an upper limit to the aging (with the appropriate breakdown)? Specifically, what is the amount that is past due by more than a year?

Answer:

The ageing analysis for the trade receivable past due amounts as at the end of the reporting year is given below:

	The Group
	2018
	US$'000
61 to 90 days	2,285
91 to 150 days	4,864
151 to 360 days	9,068
Over 360 days	1,631
Total	17,848

Of the amount more than one year past due, $1.3 million is attributable to our Myanmar distributor for the Sany products. In this business segment, heavy equipment is generally leased to end customers for a period of 6 to 24 months.

(iv) What are the efforts by management to collect these long outstanding debt? The US$17.8 million of trade receivables past due but not impaired accounts for 60% of the group's total equity.

Answer:

We have intentionally increased credit to RGS so that the stores are fully stocked at the time of launch related to the opening of the new terminal T1. We are monitoring the sale performance closely and the stock levels covering more than 65% of sales have been reduced to an acceptable level, allowing for controlled repeat ordering. We are working with RGS to help them clear some of the slower moving stock items and collectively, we have been approaching government regulars for a smoother importation process which would allow for improved stock management and quicker stock turn. During this period, we are allowing RGS to meet their rental obligations as well as pay SMI for the use of the capital investment of the retail fit-outs. Hence, the accounts receivables is expected to remain high but should decline over a period of 18 to 24 months.

(v) What is the board's guidance to management on the concentration of credit risk? Currently, trade receivables amounting to US$16.4 million is due from the group's top customer. This accounts for 55% of the group's total equity.

Answer:

Concentration risk is identified in our Enterprise Risk Management (ERM) process and the mitigation process is to ensure that any exceeding of the credit limit is reviewed and approved by the Audit Committee and the Board.