



**DUTY FREE INTERNATIONAL LIMITED**  
(Company Registration No. 200102393E)  
(Incorporated in the Republic of Singapore)

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## RESPONSE TO SGX QUERIES

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The Board of Directors (“**Board**”) of Duty Free International Limited (“**Company**”, together with its subsidiaries, “**Group**”) has on 3 May 2021 received the following queries from the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) in relation to its unaudited financial statements for the fourth quarter and full year ended 28 February 2021 released on 27 April 2021 and sets out its response as follows:

### **SGX Query 1:**

It is disclosed on page 2 of the Financial Statements that the Company has recorded an impairment of goodwill of RM 8.65 million. In this regard, please disclose the following information: (i) The nature of the goodwill; (ii) How the amount of impairment was determined; (iii) Whether any valuation was conducted, the value placed on the assets, the basis and the date of such valuation; (iv) The Board’s confirmation as to whether it is satisfied with the reasonableness of the methodologies used to determine amount of impairment; and (v) The reasons for the impairment losses.

### **Company’s response:**

- (i) Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group’s previously held equity interest in the acquiree (if any), over the net fair value of the acquiree’s identifiable assets and liabilities is recorded as goodwill.

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the Group’s cash-generating units that are expected to benefit from the synergies of the combination.

The cash-generating units to which goodwill have been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates.

As at 1 March 2019, the Group had goodwill amounting to RM28.8 million which arose from the acquisitions of three subsidiaries in prior years. The Group had recognized impairment loss on goodwill of RM11.5 million in FY2020. In the third quarter ended 30 November 2020 (“3QFY2021”), the Group recognised an impairment loss on goodwill of RM2.8 million. During the fourth quarter ended 28 February 2021 (“4QFY2021”), further impairment loss on goodwill of RM8.7 million has been recognised from assessment on goodwill. As at 28 February 2021, the carrying amount of goodwill was RM5.8 million.

- (ii) The Group estimates the value in use of the cash generating units to which the goodwill is allocated based on a discounted cash flow model. The Group had prepared the probability-weighted discounted cash flow projections for the three acquisitions mentioned above based on the financial budgets and assumptions covering a five-year period. The present value of the discounted cashflow was then compared to the cash generating units or carrying value of the acquisitions and the shortfall had been recognised as an impairment.
- (iii) As mentioned in note (ii) above, the Group estimates the value in use of the cash generating units to which the goodwill is allocated based on a discounted cash flow model. Accordingly, valuation of asset methodology is not applicable to the Group’s assessment of the goodwill.
- (iv) After taking into considerations of the effects of COVID-19 pandemic which has impacted to the Group’s business operations and that the methodologies used are consistent with the Group’s accounting policies, accounting judgements and estimates as disclosed in the Audited Financial Statements FY2020, the Board is of the opinion that the methodologies used to determine the amount of impairment is reasonable (please refer to Audited Financial Statements FY2020 uploaded to the SGX portal on 15<sup>th</sup> July 2020).
- (v) In the 4QFY2021, the Group had considered the negative impact of COVID-19 pandemic, such as re-imposition and extension of various Movement Control Orders duration in Malaysia as well as closure of the international borders and overseas travel restrictions, the uncertainty of the timing of the re-opening of the border outlets and the overall projected decline in sales due to expected slowdown in consumer demand in the projections. The present value of the discounted cash flow was then compared to the cash generating units or carrying value of the acquisitions and as there was a shortfall in the assessment in 4QFY2021, the shortfall had been recognised as an impairment.

**SGX Query 2:**

Please explain the material variance in the line items “property, plant and equipment”, “investment in subsidiaries” and “contract liabilities” on page 6 of the Financial Statements.

**Company’s response:****Property, plant and equipment**

Property, plant and equipment decreased by RM5.6 million from RM64.1 million as at 29 February 2020 to RM58.5 million as at 28 February 2021 was mainly due to depreciation charge for the year amounting to RM5.5 million.

**Investment in subsidiaries**

Investment in subsidiaries reduced by RM329.4 million from RM839.7 million as at 29 February 2020 to RM510.3 million as at 28 February 2021 due to impairment loss of RM329.7 million on cost of investment in one of the subsidiaries, namely DFZ Capital Sdn Bhd (“DFZ”), and netted-off against a reversal of impairment loss in another subsidiary of RM0.3 million.

During the current financial year, the management performed a review on the recoverable amount of the investment in subsidiaries. The recoverable amount of the investments in subsidiaries were estimated based on value-in-use calculations derived from cash flow projections. Key assumptions adopted in the value-in-use calculations include revenue projections, gross margins, discount rates and terminal growth rate after taking into considerations of the effects of COVID-19 pandemic impacted to the Group’s business operations.

Based on the assumptions used by management, the present value of the discounted cash inflow of DFZ (value in use) fell short of the carrying amount of investment. Therefore, management recognised an impairment loss of RM329.7 million in relation to DFZ as at 28 February 2021.

**Contract liabilities**

Contract liabilities reduced by RM8.7 million from RM8.9 million as at 29 February 2020 to RM0.2 million as at 28 February 2021 due to lower advances received from customers for sale of goods as compared to 29 February 2020.

**SGX Query 3:**

Please disclose a breakdown of the line item “other payables” amounting to \$15.7 million as at 28 February 2021, and disclose the aging and nature of these other payables and whether the counterparties are related parties.

**Company's response:**

The information in relation to Other Payables are as follows:

	Current	1 to 30 Days	31 to 60 Days	Over 60 Days	Total payables
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Sundry payable</b>					
Commissions and promotional expenses payable	4	1	1	55	61
Payroll related expenses payable	3	1	-	1	5
Logistics and warehouse expenses payable	162	94	5	4	265
Professional fees payable	411	2	42	130	585
Rental of premises payable	404	200	68	318	990
Utilities and maintenance expenses payable	75	10	1	78	164
Other payables (security, printing & stationery, travelling, postages, etc.)	111	-	5	353	469
<b>Sub-total</b>	<b>1,170</b>	<b>308</b>	<b>122</b>	<b>939</b>	<b>2,539</b>
<b>Accruals</b>					
Commissions and promotional expenses	Not applicable				62
Directors fees and payroll related expenses					1,224
Insurance expenses					320
Logistics and warehouse expenses					277
Professional fees					1,418
Rental of premises					2,066
Utilities and maintenance expenses					185
Management fee payable to HAP (related party) (please refer to note 15 on page 27 of the fourth quarter announcement for FY2021 which was uploaded to the SGX portal on 27 <sup>th</sup> April 2021)					1,147
Others payables (security expenses, printing expenses, travelling expenses, etc.)					563
<b>Sub-total</b>					<b>7,262</b>

	Current	1 to 30 Days	31 to 60 Days	Over 60 Days	Total payables
	RM'000	RM'000	RM'000	RM'000	RM'000
Deposits received (rental of building and equipment, trade)					546
Put option liability (please refer to Note 23 on page 74 of the Audited Financial Statements for FY2020 which was uploaded to the SGX portal on 15 <sup>th</sup> July 2020)	Not applicable				5,404
<b>Total</b>					<b>15,751</b>

Other than the management fees payable to HAP and the put option liability as disclosed above, all other payables were to unrelated counterparties.

**By Order of the Board**

Lee Sze Siang  
Executive Director  
5 May 2021