



MM2 ASIA LTD.

(Company Registration No. 201424372N)

(Incorporated in Singapore)

(the “Company”)

RESPONSE TO SGX QUERIES ON THE COMPANY’S CONDENSED INTERIM FINANCIAL STATEMENTS FOR (“Financial Statements”) FOR THE FINANCIAL HALF YEAR ENDED 30 SEPTEMBER 2021 (“1H FY22”)

The board of directors (the “Board”) of **MM2 Asia Ltd** (the “Company”, and together with its subsidiaries, the “Group”) wishes to announce the following in response to queries raised by Singapore Exchange Securities Trading Limited (“SGX-ST”) with respect to the Company’s condensed interim financial statements (“Financial Statements”) 1H FY22.

SGX-ST Query

(a) **Please disclose: -**

(i) **the nature of the trade and other receivables (non-current); and**

The Company’s responses:

The breakdown of non-current non-trade receivables is as follows: -

At 30 Sep 2021	Segments					TOTAL S\$’000
	Core Business S\$’000	Post- production S\$’000	Cinema operations S\$’000	Concert & event S\$’000	Others S\$’000	
<i>Non-current</i>						
Other receivables						
- Non related party ⁽¹⁾	-	-	-	16,862	-	16,862
Deposits ⁽²⁾	-	3,500	-	-	-	3,500
	-	3,500	-	16,862	-	20,362

Note

(1) **Concert & event segment**

Other receivables from non-related parties are pertaining to a project’s advances. They are interest-free, unsecured and not expected to be repaid within the operating cycle of 12 months from the end of the financial period, as the project was delayed due to the impact from COVID-19.

(2) **Post-production segment**

Deposit paid to secure an investment in an overseas theme park project has been delayed by the current COVID-19 situation.

- (ii) the Board's assessment of the recoverability of the non-current trade and other receivables.

The Company's responses:

The non-current trade and other receivables relates to the Group's listed subsidiaries and the assessment of the recoverability has been reviewed by their respective board of directors to be probable.

- (b) Please disclose: -

- (i) details of the Group's underlying transactions of its other receivables and the terms of the transactions;

The Company's responses:

The other receivables as at current reporting period are analysed as follows:

At 30 September 2021

	Segments					Total
	Core Business	Post-production	Cinema Operations	Concert & event	Others	
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
Current						
Other receivables						
- Non-related ⁽¹⁾	2,743	158	637	2,524	163	6,225
- Associated company	260	10	-	50	-	320
- Joint venture	-	-	282	-	-	282
	3,003	168	919	2,574	163	6,827
Deposits ⁽²⁾	15,366	634	1,780	5,136	64	22,980
Prepayment	100	60	654	74	87	975
Accrued income ⁽³⁾	1,829	60	-	-	122	2,011
	<u>20,298</u>	<u>922</u>	<u>3,353</u>	<u>7,784</u>	<u>436</u>	<u>32,793</u>

- (1) Other receivables mainly comprise the following:

Core business

- Approximately \$2.2 million represents films/dramas production cost paid. The project has been partially delayed due to the pandemic. This will be recognised as project expenses in "Other Current Assets**" when the project re-commences and we receive the invoices.

** Other current assets is defined in Query (c) below.

Cinema operations

- Approximately S\$0.6 million represents the JSS (Job Support Scheme) grant receivables;

Concert & event segment

- As disclosed in the Company's announcement released on 30 July 2021, approximately \$2.4 million is the refundable amount pending completion of project.

(2) Deposits mainly comprise the following:

Core business

- Refundable project deposits paid for:
 - Securing production-related services from multiple vendors is approximately S\$4.82 million. Upon invoices issued by these vendors to the Group, such deposits will be classified as films/drama production expenses under “Other Current Assets”; and
 - to secure film rights and/or film intangibles and film inventories approximately S\$8.94 million. Upon completion of the acquisition, such deposits will be classified as film rights and/or film intangibles and film inventories.

Cinema operations

- As disclosed in the announcement released on 30 July 2021, it mainly comprises of refundable security deposits paid for rental of cinema halls.

Concert & event segment

- Included in other payables, S\$5.0 million represents a refundable artiste advance booking fee.

(3) Accrued income of the segments refer to income being accrued for services provided for project services and completed but yet to be billed as at the reporting dates.

(ii) **whether they are major customer(s) and whether the Company continues to transact with these customer(s);**

The Company’s responses:

The breakdown for other receivables and its underlying transactions are discussed in Query (b)(i). These transactions are done in the normal course of our business. They are not our major customers.

(iii) **the Board’s opinion on the reasonableness of the methodology used to determine the value of the impairment (if any is required) of the trade and other receivables; and**

The Company’s responses:

The accounting policies and methodology for impairment of trade and other receivables are disclosed in Note 2.2 of the Condensed Interim Financial Statements. The Expected Credit Losses (“ECL”) on trade and other receivables are probability-weighted estimates of credit losses which are determined by evaluating a range of possible outcomes and taking into account past events, current conditions and assessment of future economic conditions. The Group had used the simplified approach (lifetime expected credit loss) for its trade receivables and the general approach (12 months expected credit losses) for its other receivables. Notwithstanding the above, the Group evaluates the ECL on trade and other receivables in financial difficulties separately. In determining the ECL, the Group uses the relevant historical information to determine the probability of default of the instruments and incorporated forward looking information, including assessing the potential impact on the outbreak of COVID-19. Our methodology for the above assessment is consistent with past financial reporting periods.

As disclosed in Note 9 to the Condensed Interim Financial Statement for 1H FY22, the Group trade and other receivables as at 30 September 2021 had decreased by S\$1.34 million from S\$112.59 million in FY2021 to S\$111.25 million in 1H FY2022, representing a 1.17% decrease. Trade receivables increased by S\$2.16 million from S\$76.30 million FY2021 to S\$78.46 million in 1HFY2022. This increase was mainly due to more billings and revenue growth as the Group's businesses recover gradually from the COVID-19 pandemic in 1H

FY2022 which also saw the reopening of the cinemas business and the live entertainment industry, and more demand from consumers on streaming contents in recent months.

The Board of directors are of the opinion that the methodology used for impairment is in line with Group's accounting policies and SFRS, and as a result of the assessment of the recoverability, the impairment as at reporting period is adequate. The respective board of our listed subsidiaries have also performed their own respective assessments.

- (iv) **the Board's assessment of the recoverability of the remaining trade and other receivables.**

The Company's responses:

We performed the assessment of the recoverability over the entire trade and other receivables (current & non-current) as at reporting dates. Please refer our responses for Query No. (b)(iii) for the policies and methodology that the Group adopts.

- (c) **Please disclose the nature of the "other current assets" line item in the current assets category.**

The Company's responses:

The "Other current assets" is costs incurred to fulfil revenue contracts related to direct costs incurred for revenue contracts in progress as at reporting date. i.e. project costs incurred for ongoing projects are capitalised as "Other Current Assets" in current asset. This is also disclosed in our review of financial position in Section F(2) (Pg 23) of the Condensed Interim Financial Statements for 1H FY22.

- (d) **Please disclose a breakdown of trade and other payables amounting to S\$84.8 million as at 30 September 2021. For other payables, please disclose the aging and nature of these other payables and whether the counterparties are related parties.**

The Company's responses:

The trade and other payables (non-related and related parties) is as follows:

	30 Sep 2021	31 Mar 2021
	\$'000	\$'000
Trade payables		
- Non-related parties	27,365	35,272
- Associated company	1,010	777
- Joint venture	6	5
	<u>28,381</u>	<u>36,054</u>
Other payables		
- Non-related parties	14,234	8,582
- Related parties	654	423
- Associated companies	839	50
- Director	53	52
	15,780	9,107
Accruals	11,339	12,806
Deposits received	26,534	18,404
Withholding tax	2,800	2,800
	<u>84,834</u>	<u>79,171</u>

Trade and other payables breakdown by segmental.

1H FY22	Segments					
	Core Business	Post-production	Cinema Operations	Concert & event	Others	Group
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
Trade payables	19,964	83	7,203	956	175	28,381
Other payables ^{(1) (2)}						
- Non-related parties	9,956	192	3,963	46	77	14,234
- Related parties ⁽³⁾	-	-	-	654	-	654
- Associated companies	-	-	-	839	-	839
- Director	53	-	-	-	-	53
	10,009	192	3,963	1,539	77	15,780
Accruals ⁽⁴⁾	4,112	373	1,828	4,771	255	11,339
Deposits received ⁽⁵⁾	23,990	-	2,321	223	-	26,534
Withholding tax	2,800	-	-	-	-	2,800
	60,875	648	15,315	7,489	507	84,834

Notes

(1) The aging of other payables is analysed as follow:

Aged brackets

<u>Aging</u>	Other payables S\$'000
Less than 12 months	10,068
More than 12 months ^(aa)	5,712
	<u>15,780</u>

Note

aa – It consist of:

- amount received in advance pending issue billings to customers; and
- outstanding amounts to suppliers such as rental, cleaning and utilities.

(2) Other payables – non-related parties mainly consist the following:

Core business

- approximately S\$9.1 million represents amount received in advance pending issue billings to customers and this will be reclassified as Contract Liabilities**.

*** Contract liabilities related to payments received in advance from customers. The related amounts are recognised as revenue when the Group fulfils its performance obligation under the contract with the customers which generally does not exceed one year.*

Cinema Operations

- approximately S\$3.9 million represents outstanding amounts to suppliers such as rental, cleaning and utilities.

- (3) Other payables – related parties mainly consist the following:

Concert & event segment

- The amount represents office rental due to a related party.

- (4) Accruals mainly consist the following: -

Core business

- Accruals mainly contributed from projects cost accrued for completed projects as the suppliers/contractors are in the midst of finalising of overall cost before issue of final invoices to the Group.

Cinema Operations

- Accruals mainly contributed from direct operation cost such as film rental cost, utilities and hall maintenance accrued expenses.

Concert & event segment

- Accruals mainly contributed from projects cost accrued for completed projects as the suppliers/contractors are in the midst of finalising of overall cost before issue of final invoices to the Group.

- (5) Deposit received mainly consist the following:

Core business

- A deposit received of S\$6.0 million for the proposed sale of cinema business (please refer to our announcement released on 28 August 2021 and 30 August 2021 in respect of the details of the proposed transaction);
- A refundable deposit received of S\$11.0 million from investors for potential investment in mPlay, a software app owned by its subsidiary, mm2 View Pte Ltd; and
- Approximately S\$7.0 million represents refundable deposit received from investors for potential investment in project movies.

Cinema Operations

- Approximately S\$1.8 million is refundable deposit received from investors in connection with potential subscription to an IPO convertible notes of mm Connect.

- (e) **Given the Group's significant liabilities of S\$394.7 million and cash and bank balance of only S\$6.25 million and noting that the Company incurred losses of S\$13.8 million in HY2022, please disclose the Board's assessment (i) whether the Company's current assets are adequate to meet the Company's short-term liabilities of S\$271.7 million, including its bases of assessment; and (ii) how the Company intends to fulfil its significant payment obligations in the next 12 months. Where the Company has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Company is on track to fulfilling these obligations.**

The Company's responses:

The Group incurred a net loss of S\$13.8 million for the half year ended 30 September 2021. As of that date, the Group's current liabilities exceeded its current assets by S\$78.28 million (31 Mar 2021: S\$119.50 million). The Group's businesses are still on the road to recovering from the COVID-19 pandemic in 1H FY2022.

The Group and the Company have implemented several measures to weather through this current challenging environment. These efforts are ongoing as the Group and the Company continue to seek support from the vendors, landlords, shareholders and business partners to meet the challenges.

(a) Road to recovery from COVID-19 pandemic

The Group is on the road to recovery from COVID-19 as the Group's segmental businesses, namely Core business, Cinema operation, Post-production and other segments, saw the Group's revenue grew approximately \$26.4 million or 132.7%, from \$19.9 million in 1H FY2021 to \$46.3 million in 1H FY2022. Despite the Group's recorded losses of S\$13.8 million in 1H FY22, the Group's EBITDA has improved by S\$5.6 million or 190% to S\$11.9 million. The improvement in EBITDA were contributed by all segments. In addition, the reopening of the cinemas business and live entertainment industry in the region allows the cinema business to generate revenue and cashflow. Couple with the demand from consumers on streaming contents in recent months, the Board of directors is optimistic over the Group's performances in the next 12 months.

(b) The Group has completed the following during the current and the subsequent financial period:

- (i) The Group implemented cost containment measures since the COVID-19 impacted the Group such as temporary group-wide salary reductions, obtained reductions and waiver of rental payments from lessors and reduced spending for discretionary activities. In addition, the Group also obtained assistance through government grants from various countries where the Group operates such as wage subsidies scheme and rental support scheme secured in 1H FY22 and government-guaranteed bridging loans under enterprise financing scheme with tenure of 5 years in Singapore in the last financial year. Wage subsidies scheme, such as the Jobs Support Scheme ("JSS") and Rental Support Scheme in Singapore, are expected to continuously assist the Group and bolster its working capital for the next 12 months.
- (ii) The Group generated a net cash inflow amounting to S\$14.10 million from operating activities for the financial half year ended 30 September 2021 and the Group expect such trend to continue in the coming months as Singapore gears toward greater easing of COVID-19 restrictions.
- (iii) On 11 June 2020, 10 February 2021 and 13 August 2021, the Company has obtained deferment of loan repayment from its principal banker through loan repayment moratorium and revision of certain terms, including waiver of compliance with financial covenants at test dates, in the facility agreement, to allow the Group to preserve working capital during the COVID-19 pandemic. As a result, approximately 90% of the principal repayments due by the Company in 1H FY22, has been deferred to more than 12 months.
- (iv) On 27 April 2021, the Group fully redeemed the Medium-Term Note Programme ("MTN"), together with its accrued interests, amounting to S\$51,750,000 following the success in raising fund from the issuance of Right Issues in the current financial period.
- (v) 22 December 2021, the Company, mm Connect Pte Ltd ("the Issuer") and the subscribers of convertible debt securities of S\$47,850,000 have entered into second extension deeds to further amend certain terms of the subscription agreements (the "Second Extension Deeds"). Please refer to the Company's announcement on 22 December 2021 for further details on the key terms which have been amended.

(c) The following corporate exercises have been commenced and are in progress as at 30 September 2021 and the date of this announcement.

- (i) The Group has been engaging continuously with various lenders since the last financial year ended 31 March 2021, for refinancing of its existing loans and to seek new credit facilities to secure its financial sustainability. The refinancing exercise would allow the Group to preserve sufficient working capital for its recovery of COVID-19. The negotiations are still in progress as of 30 September 2021 and the date of this announcement.

- (ii) The Company had on 30 August 2021 entered into a sale and purchase agreement (“SPA”) with Kingsmead Properties Pte. Ltd. for the proposed sale of not less than 80% of the issued and paid-up share capital in mm Connect Pte. Ltd at a valuation of S\$84.8 million on a debt and liability free basis (“Proposed Transaction”) (please refer to the Company’s announcement released on 28 July 2021 and 30 August 2021). The Proposed Transaction is subject to the conditions precedent being fulfilled or waived (as provided in the SPA) by 31 December 2021.
- (iii) Management will continue to implement comprehensive cost-containment measures, including but not limited to re-negotiation of the lease terms with lessors.

Accordingly, the directors of the Company are of the opinion that the use of the going concern assumption in the preparation of the Condensed Interim Financial statements for the financial half year ended 30 September 2021 is appropriate.

(f) **As at 30 September 2021, the Group has net debt of S\$215.6 million with cash and cash equivalents of S\$6.25 million, and is in a net current liability position of S\$78.2 million. Please disclose the pro-active actions which management plans to take to ensure that the Group’s financial position remains strong. In addition, please assess: -**

- (i) **the Company’s ability to operate as a going concern;**

The Company’s responses:

Kindly refer to responses to query (e) above.

- (ii) **the Company’s ability to meet its debt covenants (if any); and**

The Company’s responses:

As of reporting date and date of this announcement, the Group does not require to perform testing on its debt covenants as the lenders have granted waiver of such tests.

- (iii) **the Company’s ability to meet its short-term obligations when they fall due.**

The Company’s responses:

Kindly refer to responses to query (e) above.

By Order of the Board

Melvin Ang Wee Chye
Executive Chairman
22 December 2021