



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

RESPONSE TO SGX QUERIES

The Board of Directors (“**Board**”) of Duty Free International Limited (“**Company**”, together with its subsidiaries, “**Group**”) has on 22 October 2020 received the following queries from the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) in relation to its unaudited financial statements for the second quarter and half year ended 31 August 2020 released on 13 October 2020 and sets out its response as follows:

SGX Query (a):

We note that on page 19 of the Financial Statements, the Company has attributed the decrease in “other operating income” to the “decrease in interest income of RM 1.5 million and decrease in rental income from advertisement space amounting to RM 1.0 million partially offset by higher sundry income of RM 0.9 million from trade related rebates”. In this regard, please explain the material variances in the line items “rental income from advertisement space”, “interest income” and “sundry income” found on page 4 of the Financial Statements.

Company’s response:

Rental income from advertisement space for the current quarter is RM1.0 million lower than last year corresponding quarter due to the Group’s retail outlets located at the Malaysia-Thailand border and international airports remained closed from 18 March 2020 until the date of the Company’s announcement. Hence, certain suppliers had temporarily halted rental of advertisement space in the non-operating retail outlets during this period.

Interest income for the current quarter is RM1.5 million lower than last year corresponding quarter due to lesser interest income earned from lower cash and bank balances during the quarter under review (31.08.2020: RM192.3 million; 31.08.2019: RM334.6 million) after the capital repayment of RM128.9 million to Shareholders of the Company on 13 May 2020.

Sundry income for the current quarter is RM0.9 million higher than last year corresponding quarter contributed mainly from rebates of RM0.5 million from trade vendors, and rental rebates of RM0.3 million received from landlords.

SGX Query (b):

We note that the Company disclosed on page 20 of the Financial Statements that there was a “reversal of inventories written down by RM 1.7 million” and that this was in relation to “certain inventories that were previously written down in prior years but were subsequently sold in this reporting quarter”. Please disclose when these inventories were written down, how much of the written down inventories were reversed for each prior year, how much inventories were written down for each prior year and the basis for writing down these inventories.

Company’s response:

The following is the Group’s accounting policy on inventories (disclosed in the annual Audited Financial Statements of the Company):

Inventories are stated at the lower of cost and net realisable value (“NRV”). NRV in respect of inventories is assessed based on the best available facts and circumstances as at the end of each reporting period, including but not limited to, the physical conditions of the inventories, their expected market selling prices and estimated costs to be incurred for their sale.

As announced on 2 July 2020 in reply to SGX’s queries dated 30 June 2020, there was inventory written down of RM6.5 million in the 4th quarter FY2020. The high amount of impairment was due to allowance for certain stocks with short shelf life that had/would expire in March to December 2020 due to the closure of retail outlets as a result of nationwide temporary lockdown due to COVID-19, and the projected slowdown in sales due to expected substantial reduction in consumer demand.

The table below summarises the inventories written down and reversal of inventories written down in the prior years:

	1H FY2021 RM'million	FY2020 RM'million	FY2019 RM'million
Inventories written down	-	7,022	2,469
Reversal of inventories written down	1,211	-	-

As mentioned in the second quarter and half year ended 31 August 2020 announcement, certain outlets in the Group are in operations, with strict compliance to the Standard Operating Procedures. These outlets managed to generate revenue which included sales (clearance) of the inventories previously written down, hence the reversal of inventories written down.

SGX Query (c):

The Company has disclosed a decrease in other sundry receivables on page 7 of the Financial Statements. Please explain the nature of this line item and the material variance in this line item.

Company's response:

Breakdown of sundry receivables are as follows:

	Group balance as at		Note on variance
	31.08.2020 RM'Million	29.02.2020 RM'Million	
Amount receivable from Berjaya Waterfront Sdn Bhd (please refer to page 7 of the Company's 2Q FY2021 announcement)	40.46	40.44	
Amount to be claimed back from Customs in relation to GST paid in relation to Seruntun Maju Sdn Bhd's legal case with the Royal Malaysian Customs of Perak Darul Ridzuan (please refer to paragraph 10 (ii) of the Company's 2Q FY2021 announcement on page 23)	3.55	3.35	
Expenses incurred in relation to a project to be reimbursed back to a subsidiary of the Company upon completion by a third party	3.00	3.00	
Inventories to be returned by Customer	-	1.89	A
Amount due from suppliers in relation to product rebates, advertising income and reimbursement of trade arrangements eg. logistic costs, warehouse costs, etc.	5.12	6.12	B
Others (rental receivable, miscellaneous income, accrued interest income from banks, GST receivable, etc)	1.00	1.83	B
TOTAL	53.13	56.63	

Note :-

- A. As at 29 February 2020, a subsidiary of the Group had agreed with a Customer to accept the return of inventories which were previously sold to the Customer. Simultaneously, the Group's subsidiary had also made an arrangement with the Vendor of the said inventories to return the same to them. (Please see Reply on Query (d) - Note A below – Inventories to be returned to Vendor). The arrangements as mentioned above were completed on 12 August 2020, accordingly there were no outstanding amounts for these items in sundry receivables and sundry payables as at 31 August 2020.
- B. Variances mainly due to payments received from debtors.

SGX Query (d):

Please explain the nature of and the material variance in the line item "other payables" on page 8 of the Financial Statements.

Company's response:

Breakdown of other payables are as follows:

	Group balance as at		Note on variance
	31.08.2020 RM'Million	29.02.2020 RM'Million	
Deposits received (rental of building and equipment, trade)	0.90	0.98	
Inventories to be returned to Vendor	-	1.96	A
Put Option liability	5.55	7.48	C
Rental of premises payable	6.40	4.21	D
Professional fees payable (audit, secretary, tax fees, legal, etc)	2.62	2.51	D
Management fees payable	1.12	1.19	D
Directors fees and payroll related expenses payable	0.55	1.05	
Commissions and promotional expenses payable	0.91	1.24	D
Utilities and maintenance expenses payable	1.20	1.08	D
Logistics and warehouse expenses payable	0.95	1.51	D
Insurance expenses payable	0.77	0.38	D
Others payables (security expenses, printing expenses, travelling expenses, etc)	0.77	0.77	
TOTAL	21.74	24.36	

Note :-

- A. Inventories to be returned to Vendor – please see Reply on Query (c) - Note A above – Inventories to be returned by Customer.
- C. The put option liability reflects the carrying value of the put options to acquire the non-controlling interest in a subsidiary Brand Connect Holding Pte. Ltd. (“BCH”). Variance during the period under review arose from the acquisition of ordinary shares in BCH from Meridian Compass Limited on 13 May 2020. Please refer to page 124 of the Company's Annual Report FY2020, and paragraph 10(v) on page 25 of the Company's Q1FY2021 announcement dated 15 July 2020.
- D. Variances mainly due to payments to creditors.

By Order of the Board

Lee Sze Siang
Executive Director
26 October 2020