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

RESPONSE TO QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RESPECT OF THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 28 FEBRUARY 2023

The Board of Directors ("**Board**") of Duty Free International Limited ("**Company**", together with its subsidiaries, "**Group**") refers to the queries raised by the Securities Investors Association (Singapore) ("**SIAS**") in respect of the Company's annual report for the financial year ended 28 February 2023 ("**FY2023**") ("**Annual Report 2023**").

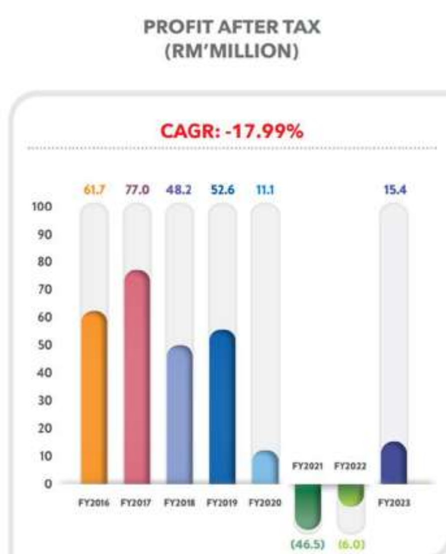
The Company's response to SIAS queries are set out as follows:

SIAS Query 1:

For the financial year ended 28 February 2023 ("FY2023"), the group recognised revenue of RM151.8 million, an increase of RM52.7 million or 53.1%. Net profit for FY2023 was RM15.4 million as compared to a net loss of RM(6.0) million for FY2022.

Management has attributed the improvement to the full resumption of the group's retail outlets following the easing of pandemic restrictions and the reopening of international borders as well as effective cost optimisation measures.

Nevertheless, as shown in the financial highlights (page 6 of the annual report), revenue is approximately a quarter of the pre-COVID level of ~RM600 million.



(Adapted from company annual report)

(i) What strategy does the management have in place to restore the group's revenue and profitability back to the pre-COVID levels?

<u>Company's response:</u>

Based on the Malaysian Tourism Statistics, the number of tourists arrival for year 2022 was approximately 10 million as compared to 26.1million in year 2019, or 38.6% of tourists arrival as compared to that of year 2019. (Source: https://www.tourism.gov.my/statistics). Accordingly, the Group expects to improve in its financial performance should the number of tourists arrival to Malaysia pick up significantly.

Nevertheless, strategies to improve the financial performance of the Group include the following:

I. Increase operational efficiencies;
II. Cost-effectiveness in the supply chain
III. Efficiency in logistics management of products;
IV. Enhancement of retail outlets; and
V. Increase in product assortments and negotiate with vendors for merchandise at competitive prices.

The Group will continue to implement cost optimization plans which has kept and will continue to keep the businesses relatively stable.

(ii) Can management (re)state its operational priorities in FY2024?

<u>Company's response:</u>

Please see(i) above

(iii) How have the group's operations evolved over the past 3-5 years in response to the pandemic and changes in consumption behaviour and patterns?

<u>Company's response:</u>

For the period before COVID-19 pandemic, ie FY2019 and FY2020, the Group operated 36 duty free retail outlets which mainly generated revenue of RM556.3 million and RM617.2 million respectively. However, during the period of FY2021 to FY2022 (during the peak of Covid 19 pandemic), the Group operated minimal outlets (zero to 3 outlets). Accordingly, during this period, revenue dropped significantly due to the non-operations of the outlets due to travel restrictions and closure of international borders arising from the impact of the pandemic. From the beginning of May 2022, 18 duty free retail outlets were in operations following the reopening of international borders and easing of travel restrictions.

To-date the pace of business recovery has been slow as consumer sentiment remains cautious after the long overhang of the effects of the pandemic. However, the Group is cautiously optimistic that its operations and financial performance will gradually improve, should the number of tourists arrival to Malaysia improve significantly.

SIAS Query 2:

As shown in Note 16 Trade and other receivables (pages 121 to 122), the group has RM40.3 million due from Berjaya Waterfront Sdn. Bhd. (BWSB). The amount due from BWSB is related to the uncollected portion of the sale consideration for the group's interests over leasehold properties in the Zon Johor Bahru, which was completed in March 2013. The balance of RM40.0 million was scheduled to be repaid on or before 15 April 2023. On 15 April 2023, both parties have mutually agreed that BWSB shall pay the remaining deferred consideration of RM40.0 million on or before 15 April 2024 and BWSB will continue to pay interest at the rate of 7% per annum on the unpaid consideration on a quarterly basis.

The amount is guaranteed by BWSB's holding company.

16. Trade and other receivables

	Group 2023 RM'000	Group 2022 RM'000	Company 2023 RM'000	Company 2022 RM'000
Trade receivables				
Third parties	2,199	1,780	–	–
Allowance for impairment	(218)	(746)	–	–
Trade receivables, net	1,981	1,034	–	–
Other receivables				
Deposits	3,064	5,373	–	–
Due from Berjaya Waterfront Sdn. Bhd.	40,338	40,434	–	–
Sundry receivables	1,218	2,074	355	125
Allowance for impairment	(68)	(141)	–	–
Other receivables, net	44,552	47,740	355	125
Total trade and other receivables	46,533	48,774	355	125
Add: Cash and bank balances (Note 20)	156,919	153,401	90,356	83,970
Less: Goods and Services Tax receivable	–	(1,225)	–	–
Total financial assets at amortised cost	203,452	200,950	90,711	84,095

(Source: company annual report; emphasis added)

(i) Can the board, especially the independent directors, help shareholders better understand the reasons why the group has been unable to collect the RM40 million outstanding from BWSB?

Company's response:

Berjaya Waterfront Sdn Bhd ("BWSB") has to-date paid all the interests due on the amount outstanding since 2014. Furthermore, BWSB is a subsidiary of Berjaya Assets Berhad ("BAB"), a corporation listed on the Bursa Malaysia Securities Berhad; of which the amount outstanding is also guaranteed by BAB. The Group has assessed the latest performance and financial position of BWSB and BAB ("counterparties"), adjusted for the future outlook of the industry in which the counterparties operate in. The Group measured the impairment loss allowance using general approach of expected credit losses ("ECL") and determined that the ECL is insignificant.

Furthermore, throughout the term that the balance was outstanding, BWSB has been paying interest at 6% per annum from 15 March 2013 ("Initial Date") up to 15 July 2015 and 9% per annum from 16 July 2015 until 15 April 2022. On 16 April 2022, the interest rate was revised to 7% per annum until to-date. The total interest received by the Group from BWSB from the Initial Date until 15 April 2023 amounted to RM35.8 million.

After taking into consideration that the amount outstanding is guaranteed by BAB, BWSB's timely payments of all interests due until to-date, interest rates earned being higher that the interest rates earned from financial institutions, and that the ECL is insignificant, the Board is of the opinion that the recoverability of the amount due is probable and no impairment is required to-date.

(ii) Who was in-charge of negotiating the deferment of the payment on behalf of the group in April 2023? Was the decision pre-approved by the board? If so, what was the rationale behind deferring the collection of the RM40 million for a transaction that took place in March 2013, more than a decade ago?

Company's response:

BWSB requested in writing to the affected subsidiary for the deferment of payment in April 2023. The request was presented to the Board for approval. The Board approved the requests for deferment based mainly on the following factors:

- no incidences of historical defaults as BWSB has continued to make full payments of interest promptly
- amount guaranteed by BAB which has a strong net assets positions based on its publicly announced financial results
- the time value of money in measuring the expected credit loss and that expected credit losses arising from time value of money has been compensated by the annual interest income paid by BWSB.

(iii) Would the independent directors look into how it could help the group to collect the amount due from BWSB on or before 15 April 2024?

Company's response:

The independent directors together with the other members of the Board will review and re-assess the situation prior to the next due date on 15 April 2024.

SIAS Query 3:

The three independent directors, namely General Tan Sri Dato' Seri Mohd Azumi bin Mohamed (Retired), Dato' Megat Hisham bin Megat Mahmud and Mr Chew Soo Lin, were first appointed on 7 January 2011, 9 July 2013 and 26 August 2011 respectively.

Accordingly, all the three independent directors have served on the board beyond nine years from the date of their initial appointment.

On 11 January 2023, Singapore Exchange Regulation (SGX RegCo) announced that it will limit the tenure of independent directors (IDs) serving on the boards of listed issuers to nine years1. This stemmed from recommendations by the Corporate Governance Advisory Committee. There was broad market support for this change during the public consultation carried out by SGX RegCo.

Mr Tan Boon Gin, CEO of SGX RegCo, also noted that the limit on tenure of IDs provides an opportunity for companies to inject new skills, experience and knowledge into their boards, all of which will be invaluable in guiding the business for the long term.

The nominating committee (NC) has disclosed that the potential candidate may be proposed by the existing directors, substantial shareholders, management or through third party referrals. The NC may engage consultants to undertake research on, or assess, candidates applying for new positions on the board, or to engage such other independent experts, as it considers necessary to carry out its duties and responsibilities.

(i) Has the NC reviewed the current competency matrix of the board and identified any gaps in skills or competencies that need to be addressed in future director appointments?

<u>Company's response:</u>

As stated on page 53 of the Annual Report FY2023 ("ARFY2023"), on an annual basis, the NC reviews the appropriateness of the current Board size and composition, taking into consideration the changes in the nature and scope of operations as well as the regulatory environment of the Group. In reviewing the size and composition of the Board and Board Committees, the NC also reviews, the skills and core competencies of its members to ensure an appropriate balance and diversity of skills, experience, gender and knowledge of the Company. These competencies include accounting and finance, business acumen, management consultancy experience, industry knowledge, strategic planning experience, customer-based knowledge, familiarity with legal and regulatory requirements and knowledge of risk management.

The Board and the NC have considered and are satisfied that the current size and composition of the Board is appropriate has adequate ability to meet the existing scope of needs and the nature of operations of the Group, which facilitates effective decision-making. The Board is confident that its Directors possess the essential competencies and knowledge required to effectively lead and govern the Group.

However, as also stated on page 53 of the ARFY2023, the Board recognises gender as one of the important aspects of diversity and aims to appoint a female director within the next three years, following a merit-based approach that considers the necessary skills, experience, independence, and knowledge required by the Board to effectively fulfill its responsibilities.

(ii) What is the progress made by the NC in identifying potential director candidates?

<u>Company's response:</u>

The NC is currently reviewing and assessing suitability of candidates, and the process will take time as the NC will follow a merit-based approach that considers the necessary skills, experience, independence, and knowledge required by the Board to effectively fulfill its responsibilities.

(iii) Has the NC considered if the use of directors/management's personal network as a source of candidate might impair or compromise the level of diversity and independence within the board?

<u>Company's response:</u>

As the NC follows a merit-based approach in identifying the suitability of a director candidate, there will be no risk of compromise in the level of diversity and independence within the Board even if the candidate is from the director's/management's personal network.

By Order of the Board

Lee Sze Siang
Executive Director
20 June 2023