DUTY FREE INTERNATIONAL LIMITED

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 30 June 2020 received the following queries from the Singapore Exchange Securities Trading Limited ("**SGX-ST**") in relation to its unaudited financial statements for the full year ended 29 February 2020 released on 24 June 2020 and sets out its response as follows:

SGX Query 1:

Under paragraphs 11 and 12 of Appendix 7.2 (Financial Statements and Dividend Announcement) of the Listing Manual, issuers are required to disclose a decision regarding dividend and if no dividend has been declared, a statement to that effect and the reason(s) for the decision. Please explain the Company's decision for not declaring a dividend.

Company's response:

For financial year ended 29 February 2020 ("FY2020"), the Company had declared an interim dividend of S$0.005 per ordinary share (amounting to approximately S$6.01 million) on 9 October 2019, which was paid out on 7 November 2019.

Further, the Company paid out a Cash Distribution of S$0.035 per ordinary share, amounting to approximately S$41.9 million, pertaining to the Capital Reduction and Cash Distribution announced by the Company on 23 April 2020. Please refer to Note 10(iii) of the 4th quarter announcement.

Since the financial year ended 29 February 2012, the Company had not declared any dividend in the 4th quarter of any of the financial years.

SGX Query 2:

We note that the Company has disclosed that "[the] management of the Company has carried out a review of the recoverable amount of its goodwill" which "has led to the recognition of impairment loss of RM11.5 million in income statement in 4Q FY2020". Please provide a breakdown, and the basis and nature of the "goodwill" which has been impaired.

Company's response:

SFRS (I) 36: Impairment of Assets requires at least an annual impairment review of goodwill and intangible assets with indefinite useful lives. In circumstances where impairment is assessed to be necessary, impairment will be charged to profit or loss in the financial statement.

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 during the year ended 29 February 2020. As at 29 February 2020, the goodwill was RM17.3 million.

Goodwill is tested for impairment annually and whenever there is an indication of impairment, the Group estimates the value in use of the cash generating units to which the goodwill is allocated. Accordingly, in the 4th quarter FY2020, the Group had considered the impact of COVID-19 on the projected cashflows and had prepared probability-weighted discounted cash flow projections for the respective acquisitions 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.

SGX Query 3:

The Company has disclosed on page 21 of the Financial Statements that there was a "higher inventories written down of RM5.1 million". Please explain:

(i) the reasons for the impairment;

(ii) how the impairment was determined; and

(iii) the Board's opinion on the reasonableness of the methodologies used to determine the value of the impairment.

Company's response:

(i) In 4th quarter FY2020, there was inventory written down of RM6.5 million as compared to RM1.4 million in the corresponding period in the preceding financial year, hence an increase of RM5.1 million. 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 recent closure of retail outlets as a result of nationwide temporary lockdown due to COVID-19, and the projected slowdown in sales after the lockdown was uplifted.

(ii) The impairment had been determined based on the Group's policy for allowances for expired, damaged or obsolete stocks in respect of the respective product categories, which also took into consideration projected sales slowdown due to the impact of COVID-19.

(iii) After taking into consideration of the economic disruption as a result of COVID-19 which is impacting overall consumer demand, the Board is of the opinion that the methodologies used are reasonable.

SGX Query 4:

The Company has also disclosed on page 21 of the Financial Statements that there was an "impairment loss on receivables amounting to RM2.2 million . . . mainly due to certain receivables being identified as difficult to recover in the current challenging economic environment". Please disclose:

(i) the action taken by the Company to recover these receivables;

(ii) whether these are major customer(s);

(iii) whether the Company continues to transact with these customer(s);

(iv) how long were the debts outstanding and when were the sales reported;

(v) the reason for the impairment of these receivables;

(vi) the Board's opinion on the reasonableness of the methodologies used to determine the value of the impairment; and

(vii) the Board's assessment of the recoverability of the remaining receivables.

Company's response:

(i) The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. For receivables, the Group applies a simplified approach in calculating ECLs. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The total receivables amount of RM2.2 million was mainly due to amount owing by an associated company of RM1.8 million, whilst the remaining RM0.4 million pertained to several receivable accounts. The amounts were impaired as recovery of the receivables have been assessed as highly unlikely.

The associate company has been loss making since the last 3 years, and was unable to make any payments. As for the rest of the receivables, the Company had taken numerous actions to recover however the attempts had been unsuccessful.

(ii) No, these were not major customers.

(iii) No, the associated company had been subsequently disposed after year end. Please see note 10(v) of the 4th quarter announcement. As for the other receivables, the Group has no new transactions with them, except for tasks of recovery of debts.

(iv) These were debts exceeding more than 18 months.

(v) The amounts were impaired as recovery of the receivables have been assessed as highly unlikely as these debts had been long overdue; of which the collectability probability had further deteriorated by the adverse economic effects of the COVID-19 pandemic.

(vi) After taking into consideration the past actions taken by the Group to attempt recovery of the receivables and the present economic climate, the Board is of the opinion that the methodologies used are reasonable.

(vii) The Board is of the opinion that the recoverability of the remaining receivables are probable and no impairment is required.

SGX Query 5:

The Company has stated on page 23 of the Financial Statements that "total borrowings increased by RM13.1 million, from RM21.9 million as at 28 February 2019 to RM35.0 million as at 29 February 2020, mainly due to increase in trade facilities utilisation of RM13.4 million". Please explain the term "trade facilities utilization" and the rationale for the increase in trade facilities. In this regard, we note that the Company has cash and bank balances of approximately RM334 million.

Company's response:

Trade facilities relates to facilities such as hire purchase, bankers acceptances, short term multi-currency loans, letter of guarantees, letter of credit, trust receipts, import invoice financing and overdraft facility. The increase in trade facilities was mainly due to higher utilisation of trade facilities in tandem with higher sales and higher purchases in the 4th quarter FY2020. Please see Note 8 – Statement of Comprehensive Income of the 4th quarter FY2020 announcement.

The Group's cash and bank balance as at 29 February 2020 of RM334.6 million were made up of the following:

(i) proceeds from private placement exercises: S$37.52 million (or approximately RM113.3 million);

(ii) funds for Cash Distribution: S$41.9 million (or approximately RM126.5 million) which was paid out on 13 May 2020; and

(iii) the remaining funds for working capital for the Group: RM94.8 million.

By Order of the Board

Lee Sze Siang
Executive Director
2 July 2020