RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS") AND SHAREHOLDERS IN RESPECT OF THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2020

*Capitalised terms in this announcement shall have the same meanings as ascribed to them in the annual report issued to shareholders on 12 January 2021 (the "**Annual Report**"), unless otherwise defined.*

The Board of Directors (the "**Board**") of Memories Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") has received questions from SIAS and a shareholder and would like to respond to the said questions in this Announcement.

QUESTIONS FROM SIAS AND THE COMPANY'S RESPONSES

Question 1

Q1. As mentioned in the Chairman and CEO message, since March 2020, the Myanmar government authorities have stopped all international flights in and out of the country except for scheduled relief flights. The group has focused its efforts to tap domestic tourism.

(i) Can management help shareholders understand the sentiments on the ground in Yangon and in the key cities it operates in? What is the pandemic's impact on the local economy? How much normalcy has returned to daily lives in Yangon and the key cities (other than the lack of foreign visitors)?

Company's Response

The restrictions on movements and domestic travels are imposed in six regions and states including Yangon, Mandalay, Bago, Ayeyarwady and Mon state. The gathering of more than 30 people is restricted and a midnight curfew ranging from 9 pm to 4 am in different regions has been imposed as at the date of this Announcement until further notice. The restrictions are still in place, notwithstanding that a majority of the businesses have reopened since December 2020 and employees are returning to their workplace. However, bars and restaurants in most of the cities remain closed. Restaurants that have passed a Ministry of Health and Sports' inspection are allowed to reopen, but there are only a few in the city of Yangon, and with the midnight curfew still being enforced, most of them close early. With workplaces reopened, there is almost a normal flow of people on the streets but it becomes quiet early at night because of the curfew.

The economic impact is hard to analyse on the ground as the city appears active, with people going out to shop and there are more food deliveries, but this is contrasted against media reports about rising poverty and visible signs of this at the city fringes. By and large, many sectors and industries in Myanmar have been impacted by COVID-19 to some degree and the consumer market is slow to recover because some restrictions that were imposed earlier, are still in force.

For the Hotels Segment, room occupancy increased substantially in the Company's Keinnara Hpa-An and Awei Metta Yangon hotels for the months of July and August 2020 when local travel restrictions were lifted after the first wave, though the increase was lesser in Awei Metta. The increase in room occupancy in Keinnara Hpa-An and Awei Metta could be attributable to their locations, that are easily accessible by car for the locals.

(ii) Given that the group provides luxury experiences, catering mainly to international guests with high spending power, can management elaborate further and quantify the potential of domestic tourism? Based on disclosure by Yoma in its annual report, the country has a GDP per capita of US$1,408 in 2019.

<u>Company's Response</u>

Unfortunately, there are no reliable or updated statistics available to quantify domestic tourism[1]. Official statistics on locals travelling in Myanmar are not recorded by the Ministry of Hotels and Tourism, which currently only records international arrivals. As such, it is inappropriate to use the GDP per capita as a measurement of spending power in the high-end segment of domestic tourism. The Group on its own, does monitor and adapt to emerging domestic tourism trends, such as eco-tourism and community-based tourism for example, by creating packages for locals through Memories Travel.

The Group's main focus remains on attracting existing domestic demand, especially from people that have higher purchasing power who are not able to travel internationally as they usually do in light of the current traveling restrictions. As this higher-end segment explores possible alternative travels at home, the Group is ready to offer services to fulfil their needs, while also making its properties more attractive to the local market.

As disclosed in the Annual Report, the Company's hotel, Awei Metta, had benefited from focused marketing efforts and its strong positioning to capture the growing new demand for domestic travel, having achieved higher business volume than before and significantly outperforming its competitors in Yangon in terms of occupancy. Awei Metta's occupancy rate hit record highs in November and December 2020 and continues strongly into January 2021.

[1] "In 2015, 2.46m Myanmar nationals took domestic trips, spending MMK733.24bn (US$560.1m) in total. According to the Domestic Pilgrimages and Tour Operators Association, the number has since increased considerably, with 7.1m domestic travellers recorded from August 2016 to April 2017. Domestic tourism comprises more than one-third of the sector's total contribution to GDP. The World Tourism & Travel Council expects domestic travel expenditure to grow by 3.6% in 2017 to reach MMK1.7trn (US$1.3bn), and then to rise by 5.5% per year to hit MMK2.9trn (US$2.2bn) in 2027." (Source: https://oxfordbusinessgroup.com/analysis/interior-design-domestic-tourism-rise-along-increased-desire-foreign-travel)

(iii) How did management assess that the group had fared strongly to stay atop in the competition during this challenging period? Can management elaborate further on the group's competitive advantage in the various segments?

Company's Response

During this challenging period, the Group has launched many innovative sales and marketing promotions. A flash sales campaign in April 2020 was a huge success with customers snapping up and redeeming their purchases to stay in the Group's hotels. Another initiative was the "Dream Vacations" campaign with a tombola, where people bought tickets worth US$20 for a chance to win stays at the Group's hotels and use their coupons to make payments for the stay and F&B consumptions in the hotels.

On the F&B side, weekend F&B activities at Awei Metta Hotel in Yangon were launched after the first wave of Covid-19. The hotel launched activities on Saturdays to attract guests to stay the night and then enjoy a brunch in the hotel on Sunday. The promotion struck a chord with local celebrities and influencers.

As evident from the financial statements, Awei Metta has consistently achieved much higher occupancy and room rates than its competitors and enjoys the reputation as an urban retreat destination and also a choice venue for meetings, incentives, conferences, exhibitions and corporate events. The Company believes that this would bode well for the future when tourism gradually revives.

In the Services segment, Memories Travel's team is launching a new brand named "Karee" to offer customised travels and events for B2B clients. Launch events coming up will help to enhance the Group's footprint in the local travel market and especially among local corporate clients.

However, for the Experience segment, with the quarantine requirements for domestic travel still effective, it has not been possible to operate our ballooning and boating businesses, although some advance tickets with no fixed dates for redemption were successfully sold in the aforementioned flash sales campaign.

(iv) In addition, has management evaluated opportunities to further consolidate the group's position in its core businesses (for instance, other commercial hot-air balloon operations, hotels, who might be distressed) through acquisitions and/or mergers?

Company's Response

The Group does evaluate strategic expansion and M&A opportunities on a case-by-case basis, as and when such opportunities arise.

<u>Question 2</u>

Q2. On page 56 of the annual report, the independent auditor highlighted a material uncertainty related to going concern. It noted that all business segments of the group (i.e. experiences, hotels and services) have been negatively impacted by the decline of international tourist arrivals in Myanmar. In addition, on 21 September 2020, the government of Myanmar imposed a Yangon Regional Lockdown with stay-at-home orders, effective until further notice. As a result, the group has incurred net loss of US$(35.97) million and net cash used in operating activities of US$4.39 million for the financial period ended 30 September 2020. In addition, the group's current liabilities amounting to US$16.85 million as at 30 September 2020, including bank borrowings of US$3.05 million are due for repayment within twelve months from the end of the financial period. However, the group's current assets amounting to US$3.10 million as at 30 September 2020, including the unrestricted cash and cash equivalent amount of US$0.41 million may be insufficient to fulfil these obligations at the relevant repayment dates.

The directors of the company believe that the use of the going concern assumption in the preparation of the consolidated financial statements of the Group for FP2020 is appropriate and have stated their assumptions on page 57.

(i) In management's projections, does the group expect international travellers to return to a healthy level in 2021?

<u>Company's Response</u>

Looking back historically, international arrivals have taken a while to re-set after a major crisis. It took international arrivals approximately 14 months to reach pre-crisis levels after the September 11 attacks of 2001, approximately 11 months to recover after the SARS epidemic of 2003, and approximately 19 months after the global economic crisis of 2009. But, for the most impacted regions, it took approximately one to three and a half years for arrivals to climb back to the levels before the respective crises[2].

Given the unprecedented situation caused by the COVID-19 pandemic, it is extremely difficult to arrive at projections regarding a recovery in international travel. The Group is hopeful of a rebound in the year 2021, based on an improvement in the COVID-19 pandemic situation, where vaccines are effective, rolled out on a larger scale, and on the assumption there is large pent-up demand following the unprecedented lockdown and months of closed borders and travel bans. Management projections for 2021 has assumed some recovery of international tourism arrival levels but not yet to a healthy level.

[2] https://www.e-unwto.org/doi/epdf/10.18111/wtobarometereng.2020.18.1.5 (UNWTO World Tourism Barometer: Volume 18, Issue 5, Page 11)

(ii) With cash and cash equivalents amounting to $406,000 as at 30 September 2020, has the board evaluated its options to strengthen the financial position of the group?

<u>Company's Response</u>

The Board has explored various possible financing options including both equity and debt finance. Obtaining the additional borrowing of US$8.39 million and entering into negotiations to issue convertible securities of up to US$10m in FY2021 are examples of some of the Group's efforts to strengthen its financial position. Please refer to the Company's announcements dated 12 January 2021 and 15 January 2021 for more information.

(iii) What is the company's target/optimal capital structure? To what extent has the target/optimal capital structure influenced the company's recent financing decisions? For instance, the group has obtained additional borrowings amounting to US$6.39 million, which includes a secured loan of MMK6.5 billion with interest rate of 10%. For FP2020, the group incurred interest rates of 6% to 14.5% per annum.

In addition, as disclosed in Note 8 (page 92 – Finance expenses), interest expense on bank borrowings increased from US$660,000 in FY2019 to US$4.72 million in FP2020. While the interest paid was for a 18 month period in FY2020, the interest expense in FP2020 is more than 7x the amount paid in FY2019.

<u>Company's Response</u>

Debt to total capital employed ratio is 59% as at 30 September 2020 and is expected to increase to 69% after taking into consideration of additional borrowings and convertible securities to be issued in FY2021. We benchmarked our capital structure to other comparable companies based on industry and location of operations, based on the Company's internal research and computations. The Company's strategy is to maintain our debt to total capital employed ratio within the industry range. The Company notes that asset-based companies generally have a better tolerance for a high level of debt.

(iv) Would management provide better clarity on the significant increase in interest expense?

Equity attributable to owners of the company decreased from US$60.8 million to US$24.9 million as at 30 September 2020, partly due to impairment losses of US$14.77 million. As shown on page 110, the pre-tax discount rate assumed by management in the value-in-use calculation dropped across the board from 19-23% to 14-17%.

Key estimates used for value-in-use calculations:

	Average budgeted gross margin		Perpetual growth rate		Pre-tax Discount rate	
	30 September 2020 US$'000	31 March 2019 US$'000	30 September 2020 US$'000	31 March 2019 US$'000	30 September 2020 US$'000	31 March 2019 US$'000
Services						
AHTT	**20.0%**	26.0%	**3.0%**	3.0%	**16.8%**	21.5%
Hotels						
TLH	**72.0%**	74.0%	**3.0%**	3.0%	**16.7%**	23.3%
KLCL	**73.0%**	47.0%	**3.0%**	3.0%	**16.5%**	18.9%
Experiences						
BBPL	**13.0%**	29.0%	**3.0%**	3.0%	**14.3%**	19.3%

(Source: company annual report; emphasis added)

<u>Company's Response</u>

The Company had arranged bank loans for the purpose of funding acquisitions made in 2018, which were drawn down under two facilities, the first being in December 2018 and the second in June 2019. Therefore, the Interest expense of US$660,000 was only for a four-month period for the first facility in FY2019 whereas interest for FP2020 is for a 18-month period for both facilities.

(v) Would the ARMC help shareholders understand the rationale of using a lower discount rate in its VIU estimates when the future is much more uncertain due to the rapidly evolving and long drawn out pandemic (compared to 31 March 2019; pre-COVID 19)?

<u>Company's Response</u>

The discount rate used in the VIU calculation is based on WACC of comparable companies in each business segment. WACC is the product of cost of debt and cost of equity. As a consequence of the COVID-19 pandemic, the cost of borrowing, cost of risk-free rate and as well as investor expected return on equity, which are all the main variables of WACC, have decreased. In addition, in view of the challenging business environment and uncertain future caused by the rapidly evolving and long drawn out pandemic, management had adjusted future estimated cash flows for the such risk, which had ultimately led to the impairment losses of US$ 14.77 million.

Question 3

Q3. On 12 January 2021, the company announced that there are material variances between the unaudited results (first announced by the company on 27 November 2020) and the audited financial statements for FP2020 after the finalisation of audit.

While there was no material variance on the loss for financial period, the group announced several reclassifications and changes which included the following:

- **Reclassification of right-of-use assets related to property, plant and equipment from investment properties**
- **Reclassification mainly related to commercial tax payable from current income tax liabilities to trade and other payables**
- **Reclassification of current portion of borrowings from non-current liabilities to current liabilities**
- **Reclassification of interest accrual on convertible bonds from other payables to convertible bonds**
- **Reclassification of payments of contractors and retention payables relating to capital expenditure from operating activities to investing activities**
- **Reclassification of payments on lease liabilities from operating activities to financing activities. (With the adoption of the SFRS(I) 16 Leases, amounts relating to the repayment of both principal and interest portion of the lease liability are reclassified as financing activities.)**

(i) How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?

Company's Response

*The financial statements of the Group have been audited by the Independent Auditor, Nexia TS Public Accounting Corporation. In the opinion of the Independent Auditor on page 56 of the Annual Report, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "**Act**") and Singapore Financial Reporting Standards (International) ("**SFRS(I)s**") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 30 September 2020 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial period ended on that date.*

(ii) Has the Audit and Risk Management Committee ("ARMC") evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements? It would appear that many of the reclassifications involved simple transactions such as recognising current/non-current portion of borrowings.

<u>Company's Response</u>

Since September 2020, the Group's finance reporting team has been headed by the Group Financial Controller, Mr. Myo Myint Aung, who is a chartered accountant with the Institute of Singapore Chartered Accountants and a fellow certified accountant with the Association of Chartered Certified Accounts. Please refer to the Company's announcement dated 7 January 2021 for more information on his professional qualifications and past work experience. The ARMC had been actively evaluating and engaged with Mr. Myo Myint Aung to ensure that the finance team is sufficiently resourced with experienced and qualified staff to handle the financial reporting. As Mr. Myo Myint Aung is newly appointed, the focus was to ensure the accuracy of the financial statements released which was for a 18-month period ended 30 September 2020.

Subsequent to the release of the unaudited financial statements, reclassification errors were rectified after further reviews and checks on the audited financial statements by the finance team and the Independent Auditor. The net impact of reclassifications and audit adjustments for unrecorded liabilities noted of US$287,000 was not considered material.

Due to Covid-19 restrictions resulting in limited interactions between the corporate office finance team and the operations finance team during the preparation of the unaudited results for the 18-month financial period ended 30 September 2020, the corporate office finance team was unable to promptly finalise certain classifications in relation to the Group's announcement for the unaudited results for FP2020.

(iii) What guidance has the ARMC provided to management to ensure the integrity of the financial statements? Is the ARMC familiar with the Singapore Financial Reporting Standards (International), especially SFRS(I) 16 Leases which the group has adopted? In the unaudited results, the group had classified payments on lease liabilities as operating activities.

<u>Company's Response</u>

The ARMC engages with management on a regular basis, in particular, is actively involved in the half-yearly review and finalisation of the financial statements to ensure compliance with SFRS and new accounting standards. It guides management through comments on the financial statements and also meets up on a quarterly basis. Furthermore, separate meetings were arranged with management and the Independent Auditor to conclude outstanding matters.

In the 18-month financial period ended 30 September 2020, the ARMC had also had discussions and met with internal and external auditors without the presence of management more than once.

The ARMC is chaired by Mr. Basil Chan, a Fellow of each of the Institute of Chartered Accountants in England and Wales and The Institute of Singapore Chartered Accountants (ISCA). He is experienced in audit, financial and general management. One other member, Mr. Tun Tun, also possess related financial management expertise and experience.

The ARMC is familiar with and are kept updated by the Independent Auditor on all changes to accounting standards and issues which have a direct impact on the Group's financial statements. The members also attend training to keep abreast of changes to accounting standards and issues which have a direct impact on financial statements.

(iv) Can the ARMC update shareholders on the improvement made/to be made to the group's financial reporting systems and processes?

<u>Company's Response</u>

The Company will standardise the chart of accounts across the Group by reviewing the mapping of its subsidiary corporations' chart of accounts to the Group in order to minimise classification errors. Management also discuss with the Independent Auditor to review the quarterly consolidated financial statements as part of the annual audit process. Following the appointment of the Group Financial Controller , the Company will review to strengthen the Finance and Accounting teams in the various subsidiaries and conduct regular internal and external training sessions .In addition, the information technology systems are being improved to strengthen the internal control and reporting processes as highlighted in the page 41 of the Annual Report 2020. The ARMC will continue to work with management to evaluate the Group's financial reporting systems and processes and recommend and effect improvements, where necessary.

QUESTION FROM A SHAREHOLDER AND THE COMPANY'S RESPONSE

Due to the COVID-19 affecting international travel, have the company looked inward to attract domestic tourism instead? What percentage of customers of Memories are currently Burmese (vs before)? Are the margins for the company lowered due to Burmese tourists instead of international tourists? By how much?

Please refer to the Company's Responses to Questions 1(i) and (ii) from SIAS.

The Company would add that approximately 18%[3] of the Group's customers were Burmese pre-Covid-19. After the onset of travel restrictions, almost all[4] of the Group's customers are originated from within Myanmar. Prices charged for local tourists are lower than that of international tourists, this price differential vary substantially between different products and also across different times.

BY ORDER OF THE BOARD

Cyrus Pun
Chief Executive Officer
27 January 2021

[3] Based on the Group's internal data

This announcement has been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "**Sponsor**"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "**Exchange**") and the Exchange assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made or reports contained in this document.

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