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**RESPONSES TO SGX QUERIES ON THE COMPANY’S ANNOUNCEMENT ON THE ONGOING INVESTIGATIONS ON MISAPPROPRIATION OF MONIES AT A MYANMAR SUBSIDIARY**

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Where capitalised terms are used in this announcement and not otherwise defined, such capitalised terms shall bear the same meanings as ascribed to them in the Company’s announcement dated 15 April 2020 (the “**Announcement**”).

The Board of Directors of Memories Group Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) refers to the queries raised by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) in relation to the Announcement on its ongoing investigations on misappropriation of monies at AHTT dated 15 April 2020 and would like to set out its responses to the queries as follows:

| <b>SGX Queries</b>   | <b>Company’s Responses</b>   |
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| (1) How material is the amount (US\$500,000) to the Group?   | The amount of approximately US\$500,000 misappropriated (“ <b>Misappropriated Amount</b> ”) represents 24.9% of the profit after tax of the Group, or 0.96% of Group’s net tangible assets, for the audited financial year ended 31 March 2019. The Misappropriated Amount represents 1.09% of the Group’s net tangible assets based on the unaudited financial results of the Group as at 30 September 2019.  |
| (2) Please elaborate on what led to the lapses in the internal control procedures and caused the misappropriation to occur, and when did the misappropriation occur? | <p>The misappropriation was a deliberate fraud involving three employees (the “<b>Perpetrators</b>”). The Perpetrators were all involved in the check and balance in the payment process at the Company’s wholly-owned Myanmar subsidiary, Asia Holidays Travels &amp; Tours Company Limited (“<b>AHTT</b>”) and were complicit in the fraud. This led to unauthorised payments made.</p> <p>Although overall procedures and controls were in place, to provide certain check and balance by different officers in the payment process, the Company acknowledges that further improvements can be achieved.</p> <p>The fraud was uncovered on 15 February 2020 by the Finance Manager for AHTT during his process of performing cash flows reconciliations. The Company would need more time to ascertain when the fraudulent activities began as this requires detailed scrutiny of historical records. In addition to the Thingyan holidays in Myanmar from 12 April 2020 to 17 April 2020 and the ongoing Covid-19-related restrictions imposed by the Myanmar Government, it is expected that the completion of the ongoing investigations will be delayed. In the essence of time, the investigation that had been conducted was focused on the peak operating periods for AHTT’s business in May 2019 and September 2019 to January 2020 (in the current financial reporting period commencing 1 April 2019 to 30 September 2020, “<b>FY2020</b>”). The Company will continue to conduct investigations on other time periods within FY2020 and shall make further announcements when there are any further material development(s).</p> |





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| <p>(3) The matter was discovered in Feb 2020, why did the Company only release the announcement on this matter yesterday, more than 2 months after?</p> | <p>As soon as the Company was alerted of the discrepancy on 15 February 2020, its immediate priority was to ascertain the amount misappropriated and to lodge a case with the Myanmar Police so that the Perpetrators would be held in custody.</p> <p>The Company deems it important to establish the accuracy and materiality of the information for disclosure. In this regard, while internal investigations continue, the Company had taken the following steps prior to the announcement:</p> <ul style="list-style-type: none"> <li>(i) Commenced its internal investigation which involved its Group Finance Team and the Group Risk Management and Internal Audit team (the “<b>Group RMA Team</b>”). Given that the business operations in Myanmar were still very much paper-based, the Group Finance Team and the Group RMA Team had to manually comb through the paper invoices and documents and reconcile the validity of each document. The teams also had to work with numerous suppliers in the investigation. There were also delays as the suppliers took some time to respond and some of them were away during the two extended Myanmar public holidays in March.</li> <li>(ii) Management notified the Audit and Risk Management Committee (the “<b>ARMC</b>”) of the matter. ARMC tasked the Group RMA Team to assist with the internal investigation.</li> <li>(iii) Commissioned the forensic audit for the specific purpose of verifying the charges brought against the Perpetrators so that the case may be formally heard in the Myanmar court.</li> <li>(iv) Reported and discussed the matter with its Board, Sponsor and the Group’s external auditors, Nexia TS Public Accounting Corporation (“<b>Nexia TS</b>”).</li> </ul> |
| <p>(4) Who was commissioned to conduct the “forensic audit”?</p>  | <p>Excellent Choice Professional Financial Consulting Auditing Group (“<b>Excellent Choice</b>”), the local independent external auditors of AHTT was commissioned to conduct the “forensic audit”. Excellent Choice has been working closely with Nexia TS for the external audit of the Group’s Myanmar subsidiaries and is familiar with the financials and business of AHTT.</p>  |
| <p>(5) Please elaborate on the findings from the forensic audit.</p>  | <p>The forensic audit was commissioned for the specific purpose of verifying the charges brought against the Perpetrators so that the case may be formally heard in the Myanmar court. The findings from the forensic audit were as follows:-</p>   |





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|   | <p>(a) It confirmed that the members of the Group Finance Team and the Group RMA Team are qualified to conduct an investigation on the matter.</p> <p>(b) It confirmed that the audit procedures such as the methodology and approach initiated and undertaken by the Group Finance Team and the Group RMA Team for the investigation since the discovery of the discrepancy are appropriate.</p> <p>(c) It also examined a sample of the findings of the Group Finance Team and the Group RMA Team in their on-going investigation and confirmed their validity and accuracy.</p> <p>(d) Based on the information provided by the Group Finance Team and the Group RMA Team, they were of the view that the amount which had been misappropriated during the periods under investigation amounted to approximately US\$500,000.</p> <p>(e) It further opined that the Perpetrators had conspired against AHTT and recommended that the Company consider strengthening the internal control system, especially in the area of accounts payable where the fraud was perpetrated.</p> |
| <p>(6) What were the findings from the Group's Risk Management and Internal Audit team and the Audit and Risk Management Committee?</p> | <p>The Group RMA Team was tasked by the ARMC to assist with the internal investigation together with the Group Finance Team. As elaborated in the responses to Question 5, the forensic audit's findings were consistent with that of the Group RMA Team.</p>   |
| <p>(7) The weaknesses in controls that exist in the Myanmar subsidiary – do they exist in the other subsidiaries of the Group?</p>      | <p>As far as the Company is aware, the controls in other subsidiaries of the Group are in place.</p> <p>The Company wishes to highlight that this matter occurred as a result of collusion between the Perpetrators to override the existing internal control procedures. It was discovered internally as part of the Company's internal controls guidelines, which involved cash control and surprise checks conducted by the Finance Manager.</p> <p>Nonetheless, the Group will be engaging the Group RMA Team and the internal auditors (BDO) to conduct a follow-up review of its control systems to identify areas of weaknesses and improvements across all entities within the Group. Where applicable, the Group is targeting for all control weaknesses identified to be strengthened at AHTT and implemented across all entities by 30 June 2020, assuming that the on-going Covid-19-related restrictions imposed by the Myanmar Government do not further impede action to be taken by the Group.</p>  |





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| <p>(8) In the Company's FY2019 AR, it was stated that <i>"Based on the framework of risk management and internal controls established and maintained by the Management, the reviews carried out by the respective Board Committees, work performance by the Independent Auditor and internal auditor, and assurance provided by the CEO and Financial Controller, <u>the Board and the ARMC are of the view that the Company's internal controls (including financial, operational, compliance and information technology controls) and risk management systems were adequate and effective for FY2019.</u>"</i> As such, in view of the misappropriation, please substantiate AC and Board's assessment on effectiveness and adequacy of internal controls as stated in AR. Please also provide sponsor's assessment as well.</p> | <p>As indicated in the Company's FY2019 AR, the Company has established a framework of internal controls and risk management. This includes detailed delegations of authority and operating and financial procedures. The Board had also relied on the reviews carried out by the respective Board Committees, work performed by Nexia TS (Group's external auditor), BDO LLP ("<b>BDO</b>") (Group's internal auditor) and assurances provided by the CEO and the Financial Controller in respect of the effectiveness and adequacy of the internal controls in FY2019.</p> <p>In FY2019, the Company had commissioned BDO to conduct internal audits on the Myanmar subsidiaries (including AHTT). BDO's review on AHTT covered processes involving cash management and procurement and payments and it also followed up on the status of implementation of controls specified in the previous year internal audit. The Company had been working to strengthen its internal controls in the areas identified by BDO in its FY2019 report. However, given the seasonality of AHTT's business, the Company had been progressively implementing the control actions stated in BDO's FY2019 report. BDO will be following up on the control actions for FY2019 report during their FY2020 internal audit.</p> <p>The Directors had made an informed judgement on the adequacy and effectiveness of the Company's internal controls and risk management systems through its review of the processes and policies and also communications with the Group's key management personnel including the Group RMA Team and the internal auditors (BDO). Furthermore, management had confirmed that it would implement the audit recommendations set out in the internal audit reports in a timely matter and in particular, it is to be noted that none of the internal control observations in the AHTT's FY2019 internal audit report had been rated as "high risk". Therefore, based on the FY2019 internal audit report and the internal controls that were in place, the Board and the ARMC were of the view that the internal controls and risk management systems were adequate and effective in FY2019.</p> <p>The amount misappropriated that was uncovered to-date was established based on transactions that occurred in FY2020 and the Company's internal investigations are ongoing to establish whether there are other periods affected.</p> |
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|  | <p>In light of the fraud discovery, the Group will be conducting its internal review as elaborated in the response to question 7. In addition, a follow-up internal audit review was planned to be conducted by BDO in the current financial year ending 30 September 2020. BDO's review for FY2020 would cover areas of internal control gaps that need to be strengthened particularly in the Group's payment cycle and other prescribed areas such as general controls, cash management, revenue and receivables, procurement and payments, inventory management and fixed assets management and the Company would have targeted to implement the necessary mitigating/detection controls by December 2020.</p> <p>The Board notes that no internal control system can provide absolute assurance against fraud as in this instance. It is also to be further noted that the Company was alerted of this discrepancy by an internal employee as part of the internal control framework.</p> <p>Sponsor acknowledges that no internal control system, including that of the Company, can provide absolute assurance against fraud, in particular fraud arising from collusion among staff to deliberately override internal controls. Sponsor also noted that the misappropriations were uncovered internally by an appropriate staff as part of his standard function to provide checks and balance and to-date, the misappropriations established were based on transactions that occurred in FY2020. Notwithstanding this, the fraud highlighted internal controls that need to be improved and the timeliness of incorporating recommendations by its internal auditors. We are of the belief that the Group is committed to strengthen its internal controls in FY2020 given the efforts undertaken so far (as set out in its response to query 3), has commissioned its own internal review and BDO to assist with its efforts to this end.</p> |
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**BY ORDER OF THE BOARD**

Cyrus Pun  
Chief Executive Officer

20 April 2020

This announcement has been prepared by the Memories Group Limited (the "Company") and its contents have been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "Sponsor") in accordance with Rules 226(2)(b) and 753(2) of the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Manual Section B: Rules of Catalist.

This announcement has not been examined or approved by the SGX-ST. The SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

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