



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

RESPONSE TO SGX QUERIES

Unless otherwise defined, all capitalised terms and references used herein shall bear the same meaning ascribed to them in the announcement dated 5 May 2021.

Further to the Company's clarification announcement dated 5 May 2021, the Board of the Company has on 10 May 2021 received the following additional queries from the SGX-ST in relation to its unaudited financial statements for the fourth quarter and full year ended 28 February 2021 released on 27 April 2021 and sets out its response as follows:

SGX Query 1:

With regard to the impairment loss of RM329.7 million on cost of investment in DFZ, please provide the background for the acquisition of the subsidiary, the NAV of this subsidiary at acquisition and as of date, and details on the key factors resulting in the reduction in value in use.

Company's response:

The Company's cost of investment in subsidiaries is made up of the Company's cost of investment in DFZ Capital Sdn Bhd ("DFZ"), Darul Metro Sdn Bhd and Brand Connect Holding Pte Ltd.

On 7 January 2011, the Company completed the reverse takeover corporate exercise which resulted in the Company owning the equity interest of 74.71% of DFZ. The completion of the acquisition of DFZ was followed by a series of Mandatory General Offers ("MGO") in year 2011, which resulted in the 100% equity interest in DFZ with a total cost of investment of RM743.7 million as at 29 February 2012. In years 2016 and 2017, the Company disposed of 10% and 5% respectively (both totalling 15%) equity shares in DFZ to Heinemann Asia Pacific Pte. Ltd. Accordingly the Company's cost of investment in DFZ was reduced to RM632.1 million as at 28 February 2018 with an equity interest of 85% in DFZ. In the 4th quarter ended 28 February 2021, as mentioned in the announcement, an impairment loss of RM329.7 million was recorded, consequently the Company's cost of investment in DFZ was reduced to RM302.5 million.

The net asset value ("NAV") of DFZ as at 7 January 2011 (date of acquisition), 29 February 2012 and 28 February 2021 was RM180.1 million, RM218.9 million and RM161.9 million respectively.

The Management performed a review on the recoverable amount of the investments in subsidiaries estimated based on value-in-use calculations derived from cash flow projections. Key assumptions adopted in the value-in-use calculations include revenue projections, gross margins, discount rates and terminal growth rate. The key factors resulting in the reduction in value in use was mainly contributed to the effects of COVID-19 pandemic on the Group's projected revenue, gross margins, discount rates and terminal growth rate. The COVID-19 outbreak and the spread of the pandemic have created a high level of uncertainty to global economic prospects as well as to the Group's business operation. Certain restrictions are still being imposed by authorities such as closure of international borders, oversea travel restrictions and compliance to the Standard Operating Procedures led to the timing of re-opening of the borders become more uncertain.

Based on the assumptions used by Management, the present value of the discounted cash inflow of DFZ (value in use) fell short of the carrying amount of investment.

SGX Query 2:

Please provide details on the put option liability disclosed on page 5 of the Announcement. Please also explain how is the put option liability arrived at.

Company's response:

The put option liability was in relation to the acquisition of 70% equity interest in a subsidiary, namely Brand Connect Holding Pte. Ltd ("BCH") on 8 August 2018 where the Company had granted put options to the remaining 30% shareholders which gave them the right to sell their interests in BCH to the Group under various conditions. Please refer to note 15(d) on pages 88 to 89 of the Company's Annual Report for financial year ended 28 February 2019 and note 15(d) on pages 91 to 92 of the Company's Annual Report for financial year ended 29 February 2020 for detailed information on the put option liability.

The put option liability reflects the carrying value of the put options to acquire the non-controlling interest in BCH. The carrying value of the liability had been calculated based on expected financial performance of BCH and expected exercise date.

By Order of the Board

Lee Sze Siang
Executive Director
12 May 2021