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 2021

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 2021 ("**FY2021**") ("**Annual Report 2021**").

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

SIAS Query 1:

As a premium duty-free retail specialist, the group's businesses had been greatly affected by the unprecedented pandemic which has result in lockdowns, international border closures and other control measures imposed by the governments worldwide to curb the spread of the COVID-19.

For FY2021, revenue decreased by 64% to RM223.4 million mainly due to the closure of the group's retail outlets in Malaysia since 18 March 2020 following the imposition of the nationwide Movement Control Order ("MCO") and the Conditional Movement Control Order ("CMCO") by the Malaysian Government to curb the outbreak of COVID-19 pandemic.

Since the onset of the pandemic in early 2020, the company has not provided shareholders with updates on its operating environment in Malaysia. For instance, shareholders are not appraised of store closures or re-openings on a timely basis. The Singapore Exchange Regulation (Regco) has issued a Regulator's Column on what is expected of issuers during COVID-19. The Regulator's Column can be found at: https://www.sgx.com/media-centre/20200422-regulators-column-what-sgx-expects-issuers-disclosures-during-covid-19.

(i) Can management provide shareholders with a detailed update on the group's operations, including store closure and operating constraints?

Company's response:

In the Company's 4th Quarter FY 2020 ("4QtrFY2020)" announcement on 24th June 2020 to SGX on the Group's financial results for the financial year ended 29 February 2020 ("FY2020"), the Company had disclosed that since 18 March 2020 following the imposition of the nationwide Movement Control Order ("MCO") by the Malaysia Government and the closure of international borders, the Group's retail outlets in

Malaysia had to be closed. To-date all outlets at the Malaysia-Thai border and airports have remained closed. For the period between 18 March 2020 to the date of this letter, the Government of Malaysia have also implemented various stages of MCO ie Conditional Movement Control Order ("CMCO") and Recovery Movement Control Order ("RMCO") to facilitate economic activities when the number of daily and active cases of COVID-19 in Malaysia were low. However, as duty free products can only be purchased by consumers in compliance with Malaysian Customs rules and regulations, only 2 locations, namely Langkawi Island retail outlet and Johor Bahru retail outlet were allowed to operate, whilst 2 other outlets were permitted to perform only export sales (minimal) during this period. Consequently, the Group's business operations had been significantly affected.

For further information and updates on the Group's operations, please see the quarterly reports uploaded to SGX website, on 24 June 2020, 15 July 2020, 13 October 2020, 13 January 2021, and 27 April 2021.

(ii) What is the impact on the group's operations as a result of the latest "MCO 3.0"?

Company's response:

Other than outlets that are closed due to the closed international borders, the Group's operating outlets mentioned in 1(i) above are currently closed due to the Full Movement Control Order ("MCO 3.0") from 1 June 2021 until 28th June 2021. Consequently, the revenue to be generated for June 2021 is expected to be minimal.

(iii) Can management elaborate further on its cost containment exercise?

Company's response:

As mentioned in the Company's 4QtrFY2020 quarterly report announcement dated 24 June 2020, the Company disclosed that the Group had carried out cost containment exercise which included cost cutting measures on operating overheads, such as reduction of casual labours, salary cuts, downsizing of manpower, deferral of all discretionary expenses and non-critical capital expenditures. In addition, non-profitable outlets at certain locations such as certain airports and certain tourist destinations were permanently closed.

(iv) How many non-performing outlets were closed?

Company's response:

Of the 36 outlets in the Group, 11 outlets have been permanently closed. The remaining outlets are currently closed due to MCO 3.0 or/and closed international borders as mentioned on 1(i) above.

(v) Would the board/management be more proactive in providing shareholders with operational updates in a timely manner, as noted in the Regulator's Column?

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

Despite the new SGX rules that permits listed issuers to announce financial results every six months, the Company continues to announce its financial results every quarter. The quarterly reports include information on operational updates together with the quarterly results so as to provide further understanding and clarity for the ease of the stakeholder's review. The Company will continue to provide updates on a timely manner when there are material developments to the Group's operations.

<u>SIAS Query 2:</u>

The company had, on 27 April 2021, announced the retirement of the managing director, Mr Ong Bok Siong, with effect from 30 June 2021. Mr. Ong's executive responsibilities will be taken over by Mr. Lee Sze Siang, the executive director of the company. Mr. Ong will work closely with Mr. Lee to ensure a smooth handover and transition of his executive responsibilities.

A summary of the group's financial performance can be found on pages 6 and 7 of the annual report. Even before COVID-19 (i.e. FY2020), the cumulative average growth rates (CAGR) of the group's revenue, EBITDA and after-tax profit since FY2013 were 0.45%, (11.53)% and (23.62)% respectively.

The stock price performance for the past 5 years is as follows:

(Source: https://www.sgx.com/securities/equities/5SO)

(i) **Will the new managing director be engaging the board to further finetune the group's business model and strategic growth plans given the prolonged pandemic? How does the group create value in a post-pandemic environment?**

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

Mr Lee Sze Siang, the Executive Director of the Company, will take over the executive responsibilities of Mr Ong Bok Siong (the Company's Managing Director who will be retiring on 30 June 2021). Mr Lee will be responsible for the execution of the Group's business directions under the guidance of the Company's Board of Directors.

In addition to the Group's strong net assets position, the Group has put in place cost optimization plans which has kept and will continue to keep the Group relatively stable. Other than ensuring that the Group is able to meet its financial and operational obligations, the Group's strategic and cost containment plans will be constantly reviewed, attuned and adapted so as to remain relevant, viable and sustainable when the Group returns to a new and more stable post-pandemic environment.

(ii) **What adjustment, if any, has management made to its inventory/stocking policy?** In FY2020 and FY2021, inventories have decreased by RM28.5 million and RM57.8 million.

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

In FY2020 and FY2021, there was no change to the Group's inventory policy. inventories had decreased by RM37.4 million and RM60.7 million respectively largely due to sales generated mainly from inventories in hand with a decrease in overall inventory purchases in both the financial years. Additionally, as mentioned in 4QtrFY2020 and 4QtrFY2021, certain inventories were written down and written off.

(iii) **Does management see any silver lining during this pandemic? What are the key opportunities in the next 12-18 months?**

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

The period of pandemic has been a period of consolidation for the Group. The Group strived for innovation and optimization of resources, so as to deliver value to stakeholders with integrity, quality, and excellence. Implementation of Enterprise Resource Planning System of the Group's certain business operations was accelerated during the pandemic, which is expected to improve operational efficiency. Armed with the knowledge and experience gained through navigating the pandemic, as well as a much leaner cost structure, the Group is well positioned to thrive in the duty-free retail industry when the industry returns to normalcy.

(iv) Does the group have sufficient working capital to tide it over this challenging period?

Company's response:

As at 28 February 2021, the Group's cash and bank balances was RM195.0 million. Accordingly, the Group has more than adequate working capital to tide over this challenging period.

SIAS Query 3:

At the annual general meeting scheduled to be held on 29 June 2021, General Tan Sri Dato' Seri Mohd Azumi bin Mohamed (Retired) and Mr Chew Soo Lin would be seeking shareholders' approval via a two-tier vote of their continued appointment as independent directors. The directors were appointed on 7 January 2011 and 26 August 2011 respectively and have served on the board beyond nine years from the date of their first appointment.

Key information on directors seeking re-election and/or continued appointment as independent director pursuant to Rule 720(6) of the Listing Manual are set out on pages 139 to 144 of the Annual Report.

Principle 4 of the Code of Corporate Governance 2018 calls for the board to take into account the need for progressive renewal of the board.

(i) Can the board/nominating committee help shareholders understand the deliberations they have had on the progressive renewal of the board?

Company's response:

As mentioned on page 22 of the Corporate Governance Report in the Annual Report FY2021, on an annual basis, the nominating committee ("NC") will review 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. The Board and the NC have considered and are satisfied that the current size and composition of the Board is appropriate and has adequate ability to meet the existing scope of needs and the nature of operations of the Group, which facilitates effective decision-making.

(ii) As the lead independent director, would General Tan Sri Dato' Seri Mohd Azumi bin Mohamed (Retired) be holding himself to higher governance standards and lead by example, especially in setting the tone with regard to the tenure of independent directors?

Company's response:

Guided by the guidelines for independence as provided for under the Singapore Code of Corporate Governance 2018 and its accompanying Practice Guidance, the Board has appointed General Tan Sri Dato' Seri Mohd Azumi bin Mohamed (Retired) as the

Lead Independent Director to co-ordinate and lead the independent directors to provide a non-executive perspective and contribute to a balance of viewpoints on the Board, notwithstanding the length of tenure of the independent director's service.

SIAS Query 4:

[The following question on donations made to Yayasan Harmoni was asked following the review of previous annual reports. As the company has not responded nor provided additional clarification, the question has been updated and reposted.]

In Note 30 (page 112 – Related parties disclosures), the group has listed the significant transactions with related parties. It is observed that the group makes routine donations to Yayasan Harmoni and it has done so this year even as the group recorded a loss for the year of RM(46.5) million.

From FY2014 to FY2020, the group has made donations of RM1 million, RM0.5 million, RM1.5 million, RM2 million, RM1 million, RM3 million, RM1 million and RM0.75 million respectively.

As shown in the footnote, the non-executive chairman of the company is the founder and executive chairman of Yayasan Harmoni.

(i) Would the independent directors help shareholders understand the rationale of making donations to Yayasan Harmoni?

Company's response:

Yayasan Harmoni ("YH") is a non-profit tax-exempt organisation which aims to care for the wellbeing of the society at large. YH, a company limited by guarantee, was formed with the objective to perform social and economic programmes, educational programmes and other initiatives so as to support the Group's employee welfare as well as the less fortunate society, ie., amongst others, promotes the welfares of orphans, single mothers, students, continuing care of patients with critical illness and the less fortunate. The Group, through its contributions to YH, has played its role as a socially responsible corporate citizen in the community since year 2005.

Simply put, YH is the corporate social responsibility ("CSR") arm of the Group to carry out CSR activities, whereby YH's personnel (who are not employees of the Group) are fully engaged and focused on CSR activities.

(ii) What is the nature of such donation and how was the organisation, Yayasan Harmoni, selected?

Company's response:

Please refer to 4(i) above.

(iii) Would the independent directors consider it appropriate to review if the regular donations made to Yayasan Harmoni could constitute a form of payment to the non-executive chairman?

Company's response:

The utilisation of the donation monies by the Yayasan does not involve the interest, direct or indirect of the non-executive Chairman as the donation monies are for the purposes as mentioned in 4(i) above. Furthermore, one of the conditions of YH to be a non-profit tax-exempt organisation is that no Director, Trustee or Committee Member is permitted to receive any benefit or remuneration from the Organisation. Accordingly, YH is stringently audited annually and monitored by the Malaysian Inland Revenue Board in order to continuously qualify as a non-profit tax-exempt organisation.

Hence, the independent directors do not consider the donations made to YH as a form of payment to the non-executive chairman.

(iv) Did the independent directors pre-approve the transaction prior to any payments/commitments?

Company's response:

Yes, the donation amount is always approved by the board of directors, including the independent directors, before any payments/commitments.

(v) Going forward, if the group decides to continue with the practice of making donations to Yayasan Harmoni or any other organisation, would the board consider providing the justification in the annual report, and to formalise such practices by establishing a community development/ESG framework?

Company's response:

The Company is in compliance with all the regulatory requirements in regard to disclosures in relation to donations made by the Group. Going forward, the Company may consider making further disclosures in the annual report, if required, with regard to material donations.

By Order of the Board

Lee Sze Siang
Executive Director
28 June 2021