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## Responses to SIAS' questions on YOMA's Annual Report FY2018

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24 July 2018

Yoma Strategic Holdings Ltd. ("YOMA") has received questions from Securities Investors Association (Singapore) relating to the Annual Report FY2018 as part of their initiative to improve the quality of Annual General Meetings. Our responses to the questions are as follows.

1.	Would the board/management provide better clarity on the following operational and financial matters of the group? Specifically:
(i)	<p><b>Yoma Land:</b> In March 2018, the Group launched the sales of The Peninsula Residences Yangon with an initial batch of 30 residences made available for sale. The launch was said to have attracted "strong interests from both local and international buyers".</p> <p><b>How many of the 30 units have been sold? What is management's strategy to launch and sell these luxury residence units?</b></p>
	<p><b>YOMA Reply:</b></p> <p>As at 30 June 2018, 7 units of the 30 units launched had been sold with another 3 units sold in July 2018. Sales of a further 4 units have been committed pending execution of the agreements. The strategy for promoting and selling The Peninsula Residences Yangon is through direct marketing to selected families and individuals, in collaboration with the Group's partners. Targeted prospects are identified and are invited personally by senior members of the team for private viewing of a show suite. In the international markets, the Group will collaborate with the Peninsula Hotel group and other local agents specialised in high-net-worth clientele to access their networks of potential clients in each of the targeted markets.</p>
(ii)	<p><b>Yoma Land (Galaxy Tower):</b> In 2Q2018, the group bought back StarCity Zone C/Galaxy Tower from a third party investor who had bought the Land Development Rights in September 2014 at the investor's original cost. The sales of units at Galaxy have stalled in the past two years. Out of 1,038 units, only 102 units were sold (page 49).</p> <p><b>Would the board/management help shareholders understand why the Galaxy Tower development was bought back at the investor's original cost when the market has slowed down considerably since September 2014?</b></p>

	<p><b>YOMA Reply:</b></p> <p>The original investment agreement transferred interests in the Galaxy Towers, at a price that was discounted to reflect the state of the project being at the pre-construction stage at that time. In 2Q2018, the first two buildings of Galaxy Towers were nearer to completion which represented a lower completion risk. Although market has slowed, the Group expects the eventual selling price of these units to be above the repurchase price. Moreover, buying back from the investor would provide the Group with greater flexibility to make changes to the development plans and keeping some units for rental income.</p>
(iii)	<p><b>Yoma F&amp;B (KFC):</b> The increased net loss in the F&amp;B segment was attributed to the expansion of the KFC business outside of Yangon. There are currently 22 stores in Yangon, Mandalay, Taunggyi and Bago as of 31 March 2018 and management has set a target of more than 70 KFC stores nationwide by FY2023. This is a deliberate decision by management to scale up aggressively to establish a strong leadership position.</p> <p><b>What is the capital expenditure required to fund the expansion of KFC?</b></p> <p>The group also has plans to operate 125 stores across all brands.</p> <p><b>Is the group looking to bring in strategic partners who can contribute both capital and expertise to help the group with the expansion?</b></p>
	<p><b>YOMA Reply:</b></p> <p>The capital expenditure for setting up a store is approximately between US\$500,000 and US\$750,000 depending on the store format and size. The expansion of the KFC network can be funded as per the Group's funding plans outlined in the replies to Question 2(iv). The Group is also exploring strategic partnerships for expertise, capital and additional brands to grow its F&amp;B platform.</p>
2.	<p>For the financial year ended 31 March 2018, the group reported revenue of \$107.8 million and a total profit of \$33.9 million. Total profit was boosted by other income of \$57.9 million. This was mainly derived from the following non-cash/revaluation gains:</p> <ul style="list-style-type: none"> <li>- \$8.2 million fair value gain for its 12.5% stake in edotco</li> <li>- \$27.7 million net disposal gain from the spin-off of its tourism-related businesses</li> <li>- \$19.2 million in fair value gain on investment properties</li> </ul>
(i)	<p><b>Can the audit and risk management committee (ARMC) help shareholders understand if the group has been prudent in recognising fair value gains that are non-cash in nature?</b></p>

	<p><b>YOMA Reply:</b></p> <p>The Group relied on both internal and external expertise in determining the fair value gains on its investment properties and investments. In particular, the Group had discussed in detail with the Independent Auditor regarding the underlying key assumptions used and valuation methodology, taking into consideration the recent and historical sales of the Group's development properties, and its stake in the edotco investment and the recent valuations of other telecommunication tower companies in Asia. In relation to the gain in disposal of spin-off of tourism segment, the Group considered the results of the audit of the Independent Auditor on the fair value of deemed consideration received and carrying amounts of net assets disposed of, the valuation of businesses disposed of and the market price of Memories Group Limited. Given the involvement of independent parties and the detailed analysis performed by the Management, the Audit &amp; Risk Management Committee was of the view that the Group had been prudent in recognising the fair value gains.</p>
(ii)	<p><b>What are some of the key assumptions used in the group's valuation models in assessing the valuation of its investment properties?</b></p>
	<p><b>YOMA Reply:</b></p> <p>To assess the reasonableness of fair value of investment properties determined by the independent property valuers, Management had discussed with valuers on the key assumptions used which included the recent transacted prices of land and development properties, actual and projected construction costs, capitalised borrowing rates, lease terms and developer profit margin. Please refer to Note 23 on Page 207 of the Group's annual report for the financial year ended 31 March 2018 for further information.</p>
(iii)	<p><b>When does management carry out impairment assessment for its investments in associated companies?</b></p>
	<p><b>YOMA Reply:</b></p> <p>Management follows the requirement of FRS 36 - Impairment of Assets with regards to the Group's investments in associated companies which requires the assessment of impairment when there is indication that the Group's investments in associated companies may be impaired. At the end of each financial year, Management considers the internal and external sources of indicators of impairment to determine whether the Group's investments in each associated company may be impaired. Although some on the Group's associated companies had recorded net losses for the financial year under review, the Management was of the view that (a) it was a temporary situation in the initial years of the respective associated companies' operations; or (b) as a result of recent restructuring following capital injection by new shareholders and hence, did not consider them as indications of impairment. The other factors which were taken into consideration were the Group's share of net assets of the associated companies, the market price, the</p>

	<p>economy and the market conditions in Myanmar. Despite there being no indication of impairment, Management continuously reviews and monitors the performance of the Group's associated companies through regular meetings and discussions with the board and management of these associated companies.</p>
(iv)	<p>As seen in Note 12 (page 172 – Cash and bank balances), the Cash and cash equivalents per consolidated statement of cash flows as at 31 March 2018 amounted to just \$17.1 million, down from \$25.1 million a year ago. In Note 36(a) (page 225 – Capital commitments), it is disclosed that the group has total commitment of \$15.9 million for capital expenditure contracted but not recognised.</p> <p><b>Does the group have sufficient financial resources to support the growth of all its four key businesses given that many of these businesses are capitalintensive and have moderate-long gestation period?</b></p>
	<p><b>YOMA Reply:</b></p> <p>The cash balance for the Group as at 30 June 2018 was S\$43.0 million. The Group plans to fund the growth of its four key businesses from a combination of the following (a) corporate level debt; (b) sales of non-core assets; and (c) other internal resources.</p> <p>(a) Corporate level debt</p> <p>The Group's gearing ratio was 23.0% as at 30 June 2018. The Group's maximum targeted gearing ratio is 40% and hence, there is still some headroom to grow its business via borrowings.</p> <p>(b) Sales of non-core assets and investments</p> <p>The Group also has a number of non-core assets and investments including its 12.5% stake in the high return telecommunications towers business that was valued at S\$53.1 million, its 47.04% stake in Memories Group that was valued at S\$47.90 million and a retail mall in Dalian that was valued of S\$92.8 million, as at 31 March 2018. The Group is open to divest these non-core assets and recycle capital to its core businesses whenever the timing is appropriate.</p> <p>(c) Other internal resources</p> <p>Many businesses had started operations about three years ago and the Group expects some of these businesses to come out of their gestation phase in the coming year or so, where they would be able to partially fund their growth plans.</p>

3.	<p>The group acquired a 34% stake in Wave Money in March 2018 from First Myanmar Investment Company Limited (“FMI”) for US\$19.4 million. Following the transaction, Telenor holds 51% in Wave Money with the balance held by FMI (10%) and Yoma Bank (5%).</p> <p>As noted in the announcement dated 6 March 2018, the proposed transaction was considered an interested person transaction.</p> <p>The company has disclosed that the purchase consideration of US\$19.4 million was arrived at after arm’s length negotiations and on a willing-buyer willing-seller basis taking into consideration, amongst others, a valuation prepared by an independent valuer, PricewaterhouseCoopers Myanmar Pte Ltd, appointed by the Company which has indicated that the valuation for 100% interest in Wave Money ranges between US\$38 million to US\$73 million as at 31 December 2017 using discounted cash flow as the primary method.</p>
(i)	<p><b>Who led the negotiations with the vendor, FMI?</b></p>
	<p><b>YOMA Reply:</b></p> <p>Mr. JR Ching, the CFO led the negotiations with the vendor, FMI supported by Ms Loo Hwee Fang, the Group General Counsel and Company Secretary on the legal agreements.</p>
(ii)	<p><b>What was the level of involvement by the independent directors in the negotiation process and in the preparation of the valuation by the independent valuer?</b></p>
	<p><b>YOMA Reply:</b></p> <p>The Independent Directors were briefed on the possible acquisition at the Board Strategy session held in January 2018 in Myanmar as soon as preliminary discussions between the vendor took place. They also met up with the CEO of Wave Money in the same trip and had the opportunity to raise questions on the business. Management proceeded with the negotiations upon receipt of the in-principle approval from the Independent Directors. Following this, the Management kept the Independent Directors updated on the progress of the negotiations as and when there were developments by way of email correspondence and updated board papers. The matter was also deliberated at the Audit &amp; Risk Management Committee meeting held in February 2018 followed by a teleconference meeting with the valuers to address questions. Key terms of the definitive agreements were also provided to the Independent Directors. Management only proceeded to conclude the definitive agreements after having addressed questions raised by the Independent Directors, receipt of approvals from the Independent Directors and the issuance of the final valuation report.</p>

(iii)	<p><b>Did the independent directors evaluate the assumptions used in the valuation process? Is it equally likely for the valuation to be US\$38 million or US\$73 million?</b></p>
	<p><b>YOMA Reply:</b></p> <p>The independent directors considered the methodology applied to the valuation models in assessing the valuation of Wave Money conducted by PricewaterhouseCoopers (PWC), and also evaluated their objectivity and competency. The contents of the draft valuation report were discussed with the Management and the valuer and a final valuation report was only issued after questions had been addressed.</p> <p>The consideration of US\$19.4 million reflects an overall valuation for Wave Money of US\$57.0 million which falls within the middle of this range. The Group believes that there is upside to this overall valuation.</p>
(iv)	<p>The company has applied and obtained a waiver for the acquisition as the target was loss making and hence the relative figure computer under SGX Rule 1006(b) is a negative number.</p> <p>According to FMI's financial statement for the financial year ended 31 March 2018, the disposal of Wave Money (including the market value adjustment) resulted in a gain on disposal of Ks. 11.86 billion or approximately US\$8.33 million. FMI had acquired the 44% stake in Wave Money/Digital Money Myanmar Ltd. for Ks.11.83 billion in June 2016.</p> <p><b>Given that the acquisition of the loss-making target from an associate of the controlling shareholder at a high premium to the acquisition price less than 2 years ago, did the board consider it appropriate to seek independent shareholders' approval on the acquisition?</b></p>
	<p><b>YOMA Reply:</b></p> <p>As part of YOMA's strategy to focus on domestic consumption and the Myanmar consumer, financial services represents an attractive economic sector which leverages the country's GDP growth. Given that the Group is already involved in the business of vehicle leasing through Yoma Fleet, it sees significant opportunities to grow this business and other financial services. Furthermore, Management had also received indications of support from the Company's larger institutional shareholders to expand its participation in the financial services sector. The Audit &amp; Risk Management Committee having been actively involved in the acquisition had unanimously supported the acquisition and was of the view that the terms of the acquisition were not prejudicial to the minority shareholders. In view of this, the Board felt that it could rely on the waiver granted by the SGX to proceed with the acquisition. Please refer to the above replies in this Question 3 for more information on the involvement of the Audit &amp; Risk Management Committee.</p>