



Myanmar Agribusiness Public MAPCO Limited

Annual Risk Report

(2020–21)

An investment in our Shares involves significant risks and is suitable only for those persons who understand the risks highlighted in this Report. You should consider carefully each of the following risks described in this report and all of the other information given to shareholders on website and newsletters. These are not the only risks we face. Some risks are not yet known to us and there may be others which we currently believe are not material but may subsequently turn out to be so. If any of these risks develop into actual events, our financial position, results, cash flow, business operations and prospects and any investment in our Shares could be, directly or indirectly, materially and adversely affected. In the event that this occurs, the value of our Shares could fluctuate or decline and you may lose all or part of your investment in our Shares.

Please also take note that information given to shareholders may contain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors, including the risks faced by us described in this report.

If you are not very certain, please seek professional advice from your advisers about your particular circumstances.

Risks related to our business and operations of MAPCO

Our ability to successfully carry out our principal business activities will also depend upon our ability to sell our products and services to our customers, both individuals and companies. In the event that the MAPCO fails to maintain its relations with its customers, its future financial condition and operating results will be adversely affected. There is a risk that loss of a key customer and inability to locate an alternate buyer for the MAPCO's products could result in a decrease of the revenue.



Risks relating to weather and climate change

The production of agro products, rice and the by-products is principally affected by weather conditions. Weather conditions is a major source of uncertainty in MAPCO's business and its inherent volatility and the occurrence of extreme weather events due to global climate change impacts greatly the performance and management of the MAPCO's contract farming and trading operations.

To manage this type of risk, MAPCO has early warning arrangements, to follow continuously on Government's weather forecast news and has introduced a system of information dissemination to the farmers who work with the MAPCO for operational planning. Besides, MAPCO has plans for agricultural insurance such as weather index insurance, which is at the early stage of trial implementation in Myanmar.

Risks relating to pest and disease infestation and food safety

As a production risk, pest and disease infestation affect both the quantity and quality of commodities available for the market. And if not addressed appropriately, this translates to decreased crop yield and farm output, as well as uncertainty in commodity prices.

The MAPCO manages this risk by making available crop protection services and integrated pest and disease management good practices to farmers and providing training to them to adopt good agriculture practice (GAP) and modern control systems. Besides, pest outbreaks are likely to occur in storage and warehouse facilities, for which fumigation and pest controls are required to be undertaken. Most of the pest control and disease control programs include the use of chemicals and therefore, the right amount permissible by food safety regulation must be used. In this connection, risks related to food safety are existed and MAPCO is using third-party professional services to control pests in our warehouses. In addition, MAPCO is being certified with ISO: 9001:2015 Quality Management System and HACCP certificates, and those international management practices help and ensure proper management of MAPCO's operational risks.



Risks relating to the Government's licenses and permits

MAPCO has to obtain licenses, permits and regulatory permission and approvals related to its activities (eg, Rice Export License, Fertilizer or Machinery and Equipment Licenses and approvals from Myanmar Investment Commission (for Rice Complex Projects and other local and international joint venture investments). Some of these licenses and approvals are temporary and must be renewed in accordance with the terms and conditions imposed by the relevant authorities. There is no guarantee that the MAPCO will be able to renew any of its licenses upon expiry. In case the MAPCO is unable to renew a particular license, it might be forced to suspend its works associated with the required license until it is obtained, which could adversely affect the MAPCO's financial condition and results. Moreover, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be changed which would affect the issuance of the licenses and permits to the MAPCO.

In addition, delays in obtaining the licenses and approvals from the relevant authorities are likely to increase the financial cost and likely to miss the time-based market opportunities and are likely to affect the business continuity. MAPCO has appointed Compliance Officer to manage those risks and to deal with relevant government authorities in full compliance with existing rules, laws and regulations of Myanmar.

Risks relating to competition

Most ASEAN countries, particularly Myanmar's neighbors, are engaged in agriculture. Hence, with respect to the agricultural products being exported outside the country, MAPCO faces competition with the products produced by other markets. MAPCO endeavors to maintain the highest standards in rice and agri-commodity production in order to ensure that it will maintain its role as reliable supplier to its current customers.

It is also anticipated that there will be increased competition in light of the implementation Myanmar's commitment to the ASEAN Free Trade Area ("AFTA"). The implementation of the AFTA requires Myanmar to reduce import tariffs to within a range of 0% to 5.0% with respect to a wide range of agricultural goods including rice, soybeans and palm oil, thereby decreasing the product prices of such goods and increasing competition. The implementation of the AFTA however will also benefit MAPCO as it will aid in the export of its products to other ASEAN countries, which is also part of its current consumer base.



In addition to international market competition, MAPCO has growing domestic competition with other local exporters and agribusinesses, including internationally famous large investors who come to invest and take position in Myanmar as Myanmar has opened doors and welcomes foreign investment. MAPCO therefore are focusing on ensuring strong, safe and smart supply chains of our own, focusing on our existing networks and digitizing our businesses to ensure good communication and to promote efficiency. However, the competition is growing every year and MAPCO's Board is adopting a new business strategy to manage the risks associated with these factors and to overcome the challenges.

Risks related to possible conflict of interest

The MAPCO's significant shareholders and directors have ownership interests in a number of companies in Myanmar, including companies that are involved in businesses related to our MAPCO's businesses or that have entered into, or may enter into, business transactions with MAPCO (eg, rice milling, processing and reprocessing in factories owned by related persons or related parties). Hence, MAPCO is exposed to risk that such shareholders and directors may influence the MAPCO to enter into certain transactions with other companies under their control and thereby occurring a conflict of interest which may be unfavorable to the MAPCO. In this regard, while we have, to the best of our abilities, disclosed possible conflicts of interest in MAPCO, we are unable to guarantee that the disclosure is complete and sufficient. However, independent directors appointed in the Board of MAPCO and the audit committee and external auditor are able to assess and monitor those transactions in accordance with MAPCO's governance policies.

Risks relating to pricing

The market price of agricultural products is very volatile as it is affected by numerous factors which are beyond MAPCO's control. These include international supply and demand, the level of consumer product demand, international economic trends, currency exchange rate fluctuations, the level of interest rates, and the rate of inflation, global or regional political events and international events as well as a range of other market forces. Sustained downward and upward movements in agricultural prices could render less economic or uneconomic for MAPCO. For example, paddy prices can be increased because of Government's policy changes. MAPCO therefore working closely



with Myanmar Rice Federation and other private sector associations which are the leaders of private sectors, to know the information and the direction of the economy and the management of Government.

Risks associated with joint ventures

MAPCO's investment, as in MAPCO Golden Lace, MAPCO Logistics, MAPCO E&C, AFC and other investments which are joint venture companies, exposes MAPCO to risks associated with joint ventures. Joint ventures involve a certain amount of business risks such as the inability or unwillingness of joint venture partners to fulfill their obligations under the joint venture agreements, including the parties' obligations to fund the joint venture. There is no assurance that we will not, in the future, encounter such business risks with regard to each of the joint venture companies which may materially and adversely affect our business, operations, financial performance, financial condition and prospects.

MAPCO seeks to mitigate the risk by searching other strong potential partners and prepare a detailed and thorough JV contracts or shareholder agreements with partners. MAPCO also assigns local and international legal advisors to prepare the contracts and to ensure legal compliance and fairness for MAPCO.

Risks associated with our investments in other entities

As MAPCO is holding shares or an interest in other operating businesses, MAPCO's profits also depend upon the successful operations of such other operating businesses, particularly MAPCO's Subsidiaries, Joint Ventures and Affiliates. Thus, a portion of MAPCO's cash flow and revenues depends upon the realization of these investments. To be obvious, MAPCO is one of the founders in Myanmar Thilawa SEZ Holdings Public Limited (MTSH) and Myanmar National Telecom Holdings Public Limited (MNTH). MTSH main business is the development of the Thilawa SEZ and the Residential and Commercial Zones. MNTH is the key shareholder of fourth telecom operator.

The ability of the Subsidiaries to pay dividends and make other distributions may depend on their earnings and cash flows and are subject to laws and regulations in Myanmar. Any restriction or prohibition on the ability of the Subsidiaries and JVs to



distribute dividends or make other distributions to the MAPCO could have a negative effect on MAPCO's cash flow and therefore may adversely impact its financial condition and results of operations.

Similarly, the profitability of such operations may also affect the MAPCO's ability to recoup its investments and in turn, the MAPCO's profitability.

Risks relating to foreign currency transactions

MAPCO's investments in our subsidiaries, in other companies, and our revenues may be denominated in US\$. MAPCO's rice export receives revenues in US\$. MAPCO has to use US \$ to buy fertilizer and to buy machineries and equipment for import. All US \$ needed to convert into Myanmar Kyat. However, our assets and expenses are denominated in Kyat. The Kyat operates on a managed float basis, and an appreciation of the Kyat against the US\$ may materially and adversely affect our financial performance as it may reduce our revenue in Kyat terms. Accordingly, changes in the exchange rate of US\$ to Kyat could have an adverse impact on our results of operations and financial condition, including as a result of translation adjustments in converting US\$ to Kyat for financial statement purposes. This exchange rate risk is very significant in second half of 2019 and early 2020, when Kyat appreciation rate was very fast and more than 10%. To avoid significant losses, MAPCO's Board decided to suspend the export business about 2 months during the time of early Covid-19 period.

MAPCO's Board is planning and implementing the exchange rate risk management with the help of commercial banks for hedging service and MAPCO's new business strategy to balance its export activities and import activities to establish a natural hedge within our operation systems.

Risks relating to Litigation

Legal proceedings may arise, with or without merit, at any time during the course of the MAPCO's business. The directors cannot preclude litigation being brought against the MAPCO. Accordingly, the MAPCO cannot expect accurately the cost of any litigation or legal proceedings that may be filed by or against it, or the final results of these lawsuits, judgments issued, and compensation and penalties imposed. Thus, any negative consequence of such lawsuits may affect the MAPCO.



Risks relating to lack of insurance

MAPCO may incur substantial losses in carrying out repairs resulting from accidents, natural disasters or other hazards that may cause big losses. MAPCO does not guarantee that all these costs and losses would be fully covered under the relevant insurance policy. Due to the limited availability of insurance policies in Myanmar, particularly in agriculture sector, MAPCO may be unable to obtain adequate insurance coverage for costs and losses incurred. Hence, any unexpected losses would adversely affect the MAPCO's operation and results.

For the time being, MAPCO keeps insurance for factories, buildings and rice mills to reduce the cost of the risk.

Risks relating to lack of adequate infrastructure in the project or business areas

The operations of the rice complexes, agribusinesses and agri product sourcing are dependent on the supporting infrastructure in the area where it is established or carried out namely, the existence of adequate supply of water, constant supply of electricity and a proper road network. The construction and operations of the rice complexes may be hampered by the lack of or inadequacy of the infrastructure and will therefore affect the projected profitability of MAPCO and MAPCO's investment projects or businesses. To manage and mitigate this, MAPCO is conducting the Feasibility Study first in the areas of the Projects before the construction and operation.

Risks related to lack of experience of the local producers in downstream activities

MAPCO recognizes that the farmer producers have limited experience in downstream activities other than packed rice. This is attributable to the fact that the farmer producers have previously adopted the traditional rice value chain whereby farmer producers milled bulk of their output for their own consumption through milling with small mills in their area. Hence, their products are only meant to supply the needs of their community and surrounding areas and there is limited focus on the downstream activities. This is expected to shift with the establishment of IRCPs which can provide assistance in downstream activities.



Risks related to technical and technological aspects Biomass Project

MAPCO has rice husk fired, large scale biomass power generation facilities. Those facilities are very new in Myanmar and there is a risk associated with the insufficient familiarity of the technical and technological matters, management of operation and maintenance works.

MAPCO intends to mitigate this risk by closely working with our international partners, taking professional technical advice and focusing on staff training. However, the risk is existed in this area which may affect MAPCO's investment.

Risks relating to river congestion

The operation and efficiency of the Twan Tay Rice Complex Project is dependent on Twan Tay canal and Yangon river traffic, as it is using the waterways to collect raw materials and to transport the finished products. MAPCO's management is introducing a special unit to monitor the logistic operations of Twan Tay Project.

Risks relating to the development of industrial parks

As one of the promoters and shareholders of the Myanmar Singapore Hlegu Industrial Park JV Co., Ltd (MSIP), Myaung Mya Agro Park (MMAP) whose main businesses are the development of the Industrial estates and the Commercial components thereof, MAPCO is likely to be affected by the profitability of the Zones' business operations which is in turn affected by the risks that affect the Myanmar real estate market as a whole.

During 2020-21 at the time of this report, MAPCO owns 15% shares in MSIP and 100% in MMAP. But currently, both zones are at the early stage of implementation, while waiting for governmental approval. As MAPCO partners with experienced parties, Sembcorp and City Mart, the completion risks, performance risks and other risks associated to MSIP are very much controllable and collective management is assured. However, in MMAP, MAPCO is still doing by itself and there are more risks in terms of completion and realization, as MMAP is located in Myaung Mya Township, Ayeyarwady Region about 100 miles away from Yangon.

In general, Myanmar real estate market is determined by the strength of the Myanmar economy and continued foreign investment in Myanmar. If there is a reversal



in the liberalization of Myanmar's economy, a decline in Myanmar's economy, deterioration in the real estate market in Myanmar and/or a slowdown in the interest of foreign investors in Myanmar, those industrial zone businesses and future growth may be materially and adversely affected.

Risks relating to fertilizer and agrochemical business

There is a risk associated with the insufficient familiarity of the domestic market with bulk blending NPK fertilizers. The core product urea is very much depended by Myanmar farmers. Similarly, Urea and other chemical fertilizer import business is sometimes very much unpredictable due to illegal border trade competition and the farmers are unfamiliar with the proper application techniques of commercial fertilizers.

MAPCO intends to address this risk by establishing strong brands, extending marketing and promotional efforts, conducting training and utilizing its knowledge on production in Myanmar in order to offer suitable fertilizer products to the farmers.