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## REPLY TO QUERIES RAISED BY SECURITIES INVESTORS ASSOCIATION (SINGAPORE) REGARDING THE GROUP'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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The Board of Directors (the “Board”) of ValueMax Group Limited (the “Company” together with its subsidiaries, the “Group”) refers to the following queries raised by the Securities Investors Association (Singapore) regarding the Group’s annual report for the financial year ended 31 December 2020 and would like to provide the following response:

### **Question 1**

Despite the challenging environment due to the COVID-19 pandemic, the group reported a profit before tax of \$40.4 million for the financial year ended 31 December 2020, an increase of 29% over last year. The positive performance was attributed mainly to the group’s gold trading business.

The group plans to open more pawnbroking outlets through acquisition and setting up new shops at suitable locations in Singapore and Malaysia. It also aims to grow the moneylending business.

- (i) **What is the group’s digital strategy?**
- (ii) **Does the group have an online-to-offline (O2O) strategy to leverage its physical network of shops as consumers spend increasingly more time online?**
- (iii) **How has the group leveraged technology to reduce operating costs and to reach out to new/potential customers who are younger?**
- (iv) Separately, the group’s licensed moneylending business grants both secured and unsecured term loans, primarily to businessmen and corporates that have urgent cash needs. **How does the group look to differentiate its services and compete in an increasingly competitive space, against banking incumbents, online peer-to-peer platforms and newer digital banking entrants?**

### **Response**

The Group has developed a digital marketing and on-line retail platform to showcase the wide range of product offering, and augment growth of the Group’s retail business through expansion of outlets. Customers can reserve items on-line and collect the items at any of our outlets.

In addition, the Group had launched a mobile app for its pawnbroking business, allowing customers to make interest payments and renew their pawn loans at their convenience. Customers can also perform such on-line transactions through our website.

The Group has also developed various tools, including data analytics, to help improve the effectiveness and efficiency in the backend business processes.

VM Credit Pte Ltd, the licensed moneylending company of the Group, has a dedicated and experienced team to tailor credit solutions to meet customer's requirement. In addition, the Group has a system of credit assessment which enables the timely processing of application and disbursement of loans.

## Question 2

As seen in the consolidated statement of comprehensive income (page 33), other operating expenses increased from \$839,000 in FY2019 to \$2.699 million in FY2020. This was due to allowance for inventories in the Retail and trading of jewellery and gold segment (Note 7 – page

### 7. Other operating expenses

	Note	Group	
		2020 \$'000	2019 \$'000
Allowance for inventories	18	2,699	575
Allowance for expected credit losses	19	-	232
Loss on liquidation of subsidiaries	15	-	32
		2,699	839

(Source: company annual report)

- (i) Can management help shareholders understand the reasons for the significant increase in allowance for inventories in FY2020?

Gold prices have been volatile in 2020 and in 2021. In January 2020, gold price hovered around USD1,500/oz and increased to over USD2,000/oz in August 2020. In 2021, gold price slipped from over USD1,900/oz to around USD1,750/oz.

- (ii) **Can management elaborate further on its strategy to manage the volatility in the price of gold?**

- (iii) **What is the inventory stocking policy?** As at 31 December 2020, commodity inventories at fair value increased from \$7.6 million to \$11.9 million (page 74).

## Response

- (i) In view of the global economic situation and the non-accessibility of some sales channels due

to border closures around world, the Group had performed a critical review of its retail inventories and made allowances for items which have experienced slow demand.

- (ii) For the Group's gold trading inventory which is recognised at fair value, the Group assesses its gold holding position on a daily basis and hedges its position wherever practical to avoid unnecessary volatility in gold price.
- (iii) The Group's policy is to hold only sufficient inventory to meet its trading requirements. The increase in inventory level as at end of 2020 compared with 2019 was mainly a result of timing.

### **Question 3**

On 9 April 2021, the company proposed a non-renounceable non-underwritten rights issue of up to 116,401,122 new ordinary shares in the capital of the company at an issue price of \$0.36 for each Rights Share, on the basis of one Rights Share for every five existing ordinary shares in the capital of the company held by the shareholders of the company.

As noted in the announcement, the company is presently exploring alternative means of fundraising in addition to external borrowings and issuing debt instruments, and is undertaking the rights issue to strengthen the financial position and capital base of the group.

As shown on page 106 (Note 33 – Capital management), the group's gearing ratio (as defined as net debt divided by total capital plus net debt) improved from 60% to 55%. Series 002 Notes issued by the company under the MTN Programme amounting to \$50 million would mature on 26 April 2021 while the group has current bank loans that are payable on demand amounting to \$214.5 million as at 31 December 2020.

- (i) **Can the board/management help shareholders understand the capital required to support the group's growth plans for the next 3-5 years?**
- (ii) **With the current low-interest rate environment, how is the group optimising its borrowings, loans and notes to reduce the group's finance costs?**
- (iii) **Did the board consider making the rights issue renounceable? Why did the company decide on a non-renounceable rights issue?**

### **Response**

- (i) As mentioned in the Company's previous announcements, the Group intends to grow its pawnbroking and retail business through both opening of new outlets as well as through acquisitions. For each new pawnbroking outlet, the Group is required to increase the share

capital of the pawnbroking subsidiary by \$1 million.

Also, the Group has been growing its moneylending business since it acquired the licenced moneylender in 2014. The Group has been able to secure banking facilities to co-fund its moneylending business. As the Group continues to grow this segment of business, the capital requirement for the segment will also grow in tandem.

It is with the view of the capital required to facilitate the continuous growth of all the above business segments over the next few years that the Company has proposed a rights issue to strengthen the financial position of the Group and its capital base.

- (ii) The Group has taken the opportunity to obtain bank borrowings (including some longer term loans) with lower interest rates and will be redeeming the Series 002 Notes which bears a coupon of 5.1% and is maturing on 26 April 2021.
- (iii) The Company has decided to proceed with a non-renounceable rights issue as the price of any nil-paid rights and trading of nil-paid rights is not expected to be meaningful given the current low trading volume in the Company's shares, and the rights issue will be completed within a shorter timeframe and with fewer administrative and logistical requirements than that of a renounceable rights issue. Notwithstanding that the provisional entitlements of the right shares cannot be traded; the rights issue presents an equitable form of fund-raising where all shareholders are able to participate on a *pro rata* basis. The shareholders are free to accept (in part or in full) or decline their provisional allotments of the right shares and will be eligible to apply for additional rights shares in excess of their provisional allotments under the rights issue.

By Order of the Board

Lotus Isabella Lim Mei Hua  
Company Secretary  
26 April 2021