



**TLV**

**TLV HOLDINGS LIMITED**

Company Registration No. 201526542C

Incorporated in the Republic of Singapore on 22 June 2015

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- 1) **RESPONSE TO SUBSTANTIAL AND RELEVANT QUESTIONS RECEIVED FROM SHAREHOLDERS FOR ANNUAL GENERAL MEETING TO BE HELD ON 23 OCTOBER 2020**
  - 2) **RESPONSE TO QUESTIONS RECEIVED FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)**
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- 1) **RESPONSE TO SUBSTANTIAL AND RELEVANT QUESTIONS RECEIVED FROM SHAREHOLDERS FOR ANNUAL GENERAL MEETING TO BE HELD ON 23 OCTOBER 2020**

1. **Page 2 of the Annual Report about “Letters to Shareholders”. In the 1st column, at its last sentence, it was stated that “Nonetheless, the Group promptly adopted electronic means such as e-commerce, social media and other digital platforms to reach out our wholesale customers after the reopening of business in respective countries.” How effective are such mitigating measures in saving the lost revenue from the Exhibitions segment?**

Sales for the wholesale and exhibition business fell 15% to S\$49.0 million during the financial period from 1 April 2019 to 30 June 2020 (“FP2020”) compared to S\$57.5 million in the financial year ended 31 March 2019 (“FY2019”) due to reduced participation and attendance in international exhibitions following the COVID-19 outbreak and worldwide travel restrictions. However, TLV Holdings Limited (the “Company”) has been actively promoting the products on various electronic means such as the Company’s website, social media platform and regular virtual meetings to keep our wholesale customers updated on new product offerings and promotions. These activities enabled the Company to maintain regular interactions with the customers worldwide and to drive sales during this pandemic period. The Company in the midst of exploring an effective approach for tracing and quantifying the conversation rate of those e-commerce portals as there is often a mix of attributes from online and offline activities for a sales transaction to be completed. This issue is commonly faced by companies dealing with luxury goods.

2. **Page 2 of the Annual Report about “Letters to Shareholders”. In the 2nd column, at the 2nd paragraph, it was stated that “As Singapore moved into phase 2 of reopening starting from around mid-June, we have also reopened our Taka and Top Cash retail outlets”. Compared to last year, how many % of sales for Retail segment has recovered so far?**

The Company has been actively promoting our products and running promotions through our Taka Jewellery Facebook page, live streaming and we also sell our products on e-shopping portals such as Lazada and Shopee. With the reopening, we are gradually seeing an increase in footfall and pickup in sales. TLV Holdings will provide an update on the percentage of sales for its retail segment in its upcoming financial results announcement for the half year ended 31 December 2020.

3. **Page 74 of the Annual Report about “Investment in associates”. In 2018, it was stated that the acquisition of Shima Jewellery was “part of the Group’s strategic plans of expanding to China markets.” However, with the disposal of Shima Jewellery on 24 Feb 2020, is TLV no longer expanding to China & overseas markets?**

With the current pandemic, the Group has decided to defer all discretionary expenses and non-critical capital expenditure, including expansion plans. The Group expects consumer spending to remain conservative amid this prolonged pandemic, and intends to conserve the Group’s cash flow until signs of recovery emerge.

4. **Page 68 of the Annual Report about “Revenue”. Interest income from financial services increased by 72% from \$1.801m in FY2019 to \$3.099m in FP2020. How many % of these interest income came from (A) pawnbroking, (B) secured money lending & (C) unsecured money lending respectively?**

As stated in the Group’s Annual Report 2020, the Group has achieved a significant increase in interest income which was generated from pawnbroking and money lending business. There is an increasing trend of balanced mix of pawnbroking and money lending interest income though the segment income was mainly attributable to the pawnbroking business for FP2020. Given the similar nature of both secured lending businesses, the Board believes that the existing disclosures are adequate and in accordance with Singapore Financial Reporting Standards (International) (“SFRS(I)”).

5. **Page 89 of the Annual Report about “Credit risk”. At least \$18.874m of the Group’s trade receivables from the jewellery business is past due 1 year & beyond. Why did the Audit Committee allow this to happen, and what does the committee plan to do about it?**

This has been the industry norm for jewellery wholesale business and credit limits are imposed on respective customers to manage credit risk on individual debtor and group level. This is consistent with the Group’s payment pattern with suppliers where the similar ageing applies. The Management has been monitoring the collectability of debts closely and adequate provision has been made in accordance with SFRS(I) 9 Financial Instruments. There is no significant change or deterioration of credit risk as compared to prior financial year.

The Audit Committee (“AC”) has been and will continue to place close monitoring on management’s credit risk measures and place the credit risk as a key audit matter for auditor to emphasize and to ensure adequate provisions for impairment is made.

6. **Page 78 of the Annual Report about “Trade and other receivables”. Allowance for expected credit losses of trade receivables increased by 209% from \$1.434m in FY2019 to \$2.990m in FP2020. Which business segment(s) did it come from? What went wrong? What does the Audit Committee plan to do about it?**

The Group adopted SFRS(I) 9 Financial Instruments which requires Companies to assess expected credit losses (“ECL”) on all the financial assets instead of objective evidence of impairment. In accordance with this financial reporting standard, the Group had considered and revised key parameters used in ECL model including forward looking economic factors in order to determine and assess the ECL of the financial assets. The allowance for expected credit losses of trade receivables increase is mainly due to the methodologies applied by the Group in assessing post crisis business default statistics and a more cautious approach in assessing the credit risks on individual country and customer level given the unprecedented severe impact of COVID-19 at the reporting date.

The allowance for expected credit losses of trade receivables relate to the wholesale and exhibitions segment.

The Audit Committee will continue to monitor the ageing of and repayments trends from trade receivables on a periodic basis. The AC will also continue to assess the appropriateness of the Group’s ECL methodologies applied on the trade receivables. In addition, the Audit Committee will continue to work closely with external auditors to ensure compliance with applicable laws, regulations and standards.

7. **For secured money lending, what are the % breakdown in terms of collateral (e.g. gold/diamonds/vehicles, etc)?**

The Group receives a diverse collection of collaterals for the secured money lending business which include gold, gold jewellery, diamonds and others. Due to commercial sensitivity of the Group’s business, Management is of the view that current disclosure is sufficient and in compliance with financial reporting standards.

8. **Page 88 of the Annual Report about “Credit risk”. It was stated that “Pawnshop loans and secured lending receivables are collateralised whereby the quantum of loans granted to customers is based on a fraction of the value of the collaterals pledged to the Group.” What is this fraction applied?**

The fraction of the value of the collaterals pledged to the Group can be a wide range depending on factors such as condition of collaterals, market demand and so on. Due to commercial sensitivity of the Group’s business, Management is of the view that current disclosure is sufficient and in compliance with financial reporting standards.

9. **Page 69 of the Annual Report about “(Loss)/profit before tax”. It was noted that the “Net fair value loss on bullion loans designated as financial liabilities at fair value through profit or loss” was as much as S\$2.961m in FP2020. What does the Audit Committee plan to do about it?**

Please refer to Notes to accounts 19: Bullion loans were borrowed to reduce the impact of fluctuation of bullion prices on bullion inventories. Bullion loans are designated as financial liabilities at fair value through profit or loss as they are managed and their performance are evaluated on a fair value basis. The bullion loans are pegged to market bullion prices. The fair value loss is derived from the bullion loan which is used as a hedge instrument by the management to hedge jewellery production cost arising from gold price fluctuation. The quantum of bullion loans entered are based on the actual usage of gold, and the disbursement of the bullion loan is in physical gold. Hence the hedging is not for any speculative purpose and been effective as there is either a corresponding gain in sales of gold jewellery or unrealised in the inventory.

The approval process for these bullion loan transactions are in line with the Company’s risk management and internal control policies given its nature and materiality level. The Audit Committee will continue to monitor the risk management and internal control policy on a periodic basis. In addition, the Audit Committee will continue to work closely with external auditors to ensure compliance with applicable laws, regulations and standards.

10. **Page 7 of the Annual Report about “Financial Review”. In the 2<sup>nd</sup> column, at the 2<sup>nd</sup> paragraph, it was stated that “... increase in bank borrowings due to the S\$5.0 million loan drawn down from the Temporary Bridging Loan Programme (announced by the government in response to the COVID-19 outbreak at the Solidarity Budget 2020) for working capital purposes ...” Unfortunately, on page 6 of the Annual Report, interest expense on bank loans has increased by 235% from \$520k in FY2019 to \$1.222m in FP2020. How much is the effective interest rate on this Temporary Bridging Loan?**

Temporary Bridging Loan (“TBL”) was drawn down in June 2020.

The increase in interest expense on loans was due to the increase in short term bank borrowings arising from the higher business activities in the financial services segment and incurred in the longer 15 months period versus a 12-month comparison. There is no correlation between interest expenses increase and TBL.

11. **What is the budgeted capex over the next 2-3 years?**

With the current pandemic, the Group has decided to defer all discretionary expenses and non-critical capex, such as expansion plans. The Group expects consumer spending to remain conservative amid this prolonged pandemic period, and intends to conserve our cash flow until signs of recovery emerge.

12. **What is the main reason behind the deterioration in pre-tax operating margins from the 8% level pre-IPO to the 3% level pre-COVID? The recently privatised SK Jewellery seemed to be doing 6% pre-tax (pre-COVID) on a similar amount of asset and revenue level, which suggests room for further improvement. Are there any concrete plans to get the margins back up again?**

The decrease in pre-tax operating margin of pre-IPO and pre-COVID-19 is mainly attributable to 1) decrease in sales and gross profit margin; 2) underperformance of associated company; 3) higher provision for doubtful debts in accordance with the adoption of SFRS(I) 9 Financial Instruments; and 4) post-listing expenses. Other than business plans strategized and deployed by the Management, the Group has been putting in concerted efforts in executing various initiatives and strategies in reacting to ever changing market conditions and improving respective business segments which could complement each other. The results are shown in gross profit and net profit in the financial year 2018 as compared to the financial year 2017 and thereafter stabilized for FY2019 prior to COVID-19.

Considering the volatile global economic environment and expectations of conservative consumer spending amid the prolonged pandemic, the Group adopts a cautious view of the prospects of our business and expects that revenue contribution from the exhibition and retail sales segments to be impacted in financial year ended 30 June 2021 (“FY2021”).

The Group remains committed to reinforcing its business with diligent cost control measures and improving operational efficiencies, Steps such as human resource planning, deferring all discretionary expenses and non-critical expenditures have been undertaken to uphold the margin at our best effort.

## 2) RESPONSE TO QUESTIONS RECEIVED FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

1. In the Letter to shareholders, it was stated that the group’s revenue for FP2020 dipped 4% to \$114.1 million, compared to \$119.0 million in FY2019. The pawnbroking segment was the only segment to perform stronger.

However, once normalised to a 15-month comparison (since FP2020 covers a 15-month period from 1 April 2019 to 30 June 2020), the decrease in revenue is approximately 23.3% (without factoring in seasonality).

As at 30 June 2020						
\$'000	Exhibitions	Retail	Financial Services	Unallocated	Elimination	Total
<b>Segment revenue:</b>						
External sales	49,040	61,982	3,099	-	-	114,121
Intersegment sales	-	668	934	-	(1,602)	-
<b>Total revenue</b>	<b>49,040</b>	<b>62,650</b>	<b>4,033</b>	<b>-</b>	<b>(1,602)</b>	<b>114,121</b>

As at 31 March 2019						
\$'000	Exhibitions	Retail	Financial Services	Unallocated	Elimination	Total
<b>Segment revenue:</b>						
External sales	57,685	59,550	1,801	-	-	119,036
Intersegment sales	-	-	902	-	(902)	-
<b>Total revenue</b>	<b>57,685</b>	<b>59,550</b>	<b>2,703</b>	<b>-</b>	<b>(902)</b>	<b>119,036</b>

(Adapted from the Company’s annual report)

In particular, as seen in the segment breakdown, revenue from exhibitions decreased by 15% to \$49.0 million even though it was for a 15-month period. On page 2 of the annual report, it was disclosed that the group has promptly adopted electronic means such as ecommerce, social media and other digital platforms to reach out to the wholesale customers after the reopening of business in their respective countries.

- (i) Can management elaborate further and quantify the success it has had using alternate platforms (instead of physical participation at international exhibitions) to reach out to its wholesale customers?
- (ii) Given that the exhibitions segment was by far the largest contributor to the group’s results, what changes are being made to the group’s business model and strategic growth objectives as a result of the pandemic?

Sales for the wholesale and exhibition business fell 15% to S\$49.0 million in FP2020 compared to S\$57.5 million in FY2019 due to reduced participation and attendance in international exhibitions following the COVID-19 outbreak and worldwide travel restrictions. However, the Company has been actively promoting the products on various electronic means such as the Company’s website, social media platform and regular virtual meetings to keep our wholesale customers updated on new product offerings and promotions. These activities enable the Company to maintain regular interactions with our customers worldwide and to drive sales during this pandemic period. The Company is in the midst of exploring an effective approach for tracing and quantifying the conversation rate of those e-commerce portals as there is often a mix of attributes from online and offline activities for a sales transaction to be completed. This issue is commonly faced by companies dealing with luxury goods.

The Company is moving towards an omni-channel business which is defined as a company selling both online and offline and will evolve and change based on the consumer behaviour and spending patterns.

In addition, in February 2020, the group disposed of its 49% shareholding interest in Shimao Jewellery, its joint venture with a Chinese partner to allow the group to enter the Chinese market. The disposal was to avoid further capital commitment and to minimise losses.

(iii) What are the lessons gleaned by management from the joint venture in the past two years? Can the board update shareholders on the group's overseas expansion plans following the disposal of the joint venture?

To mitigate the initial investment and operational risk, we partnered an experienced jewellery consortium in Guangdong province for our venture into the China retail market. However, the Chinese jewellery retail market is highly saturated and competitive with many long established local and foreign jewellery retailers, and we need to budget substantial marketing budget to build brand awareness in order to gain our initial market shares. Thus, the Group decided to minimise our losses and disposed off our stake in the joint venture, and focus on selling our products to the China market through our wholesale business.

With the current pandemic, the Group has decided to defer all discretionary expenses and non-critical capex, such as our expansion plans to focus on our existing business. We expect consumer spending to remain conservative amid this prolonged pandemic period, and intend to conserve our cash flow until signs of recovery emerge.

2. The group recognised impairment charges for expected credit loss on its trade receivables of \$2.99 million as at 30 June 2020 (Note 16 – Trade and other receivables). This was more than double the \$1.434 million in allowance recognised as at 31 March 2019.

On page 6, it was stated that the increase was due to a more cautious approach in assessing the credit risks and providing for the necessary impairments as part of the COVID-19 assessment of significant exposures.

Note 30(a) (page 89 – Financial risk management objectives and policies: Credit risk) shows that the group has receivables that have been outstanding for more than 3 years.

30. Financial risk management objectives and policies (cont'd)

(a) Credit risk (cont'd)

Trade receivables from the Group's jewellery business (cont'd)

Summarised below is the information about the credit risk exposure on the Group's trade receivables from the group's jewellery business using provision matrix.

30.6.2020	Not past due \$'000	Less than 1 year \$'000	1-2 years \$'000	2-3 years \$'000	More than 3 years \$'000	Total \$'000
Gross carrying amount	576	11,230	9,909	3,828	5,137	30,680
Loss allowance	(7)	(211)	(587)	(1,743)	(5,122)	(7,670)

(Source: Company's annual report)

(i) Can management provide a breakdown of the \$2.99 million impairment allowance recognised for the financial period ending 30 June 2020 according to the provision matrix shown above?

Due to commercial sensitivity of the Group's business, Management is of the view that current disclosure in the Annual Report is sufficient and in compliance with financial reporting standards.

- (ii) **In particular, how much of the \$2.99 million impairment allowance was for trade receivables past due 2-3 years and past due by more than 3 years?**

The Group adopted SFRS(I) 9 Financial Instruments which requires companies to assess expected credit losses ("ECL") on all financial assets instead of objective evidence of impairment. In accordance with this financial reporting standard, the Group considers and revises key parameters used in the ECL model including forward looking economic factors in order to determine and assess the ECL of the financial assets. The impairment allowance of \$2.99 million in FP2020 is recognised for expected credit losses of trade receivables increase and is mainly due to the methodologies applied by the Group in assessing post crisis business default statistics and a more cautious approach in assessing the credit risks on individual country and customer level given the unprecedented severe impact of COVID-19 at the reporting date.

- (iii) **Can management help shareholders understand the profiles of the customers with long outstanding debt?**

The customers with long outstanding debt are mainly our wholesale customers.

- (iv) **What are the efforts by management to collect on the long outstanding debt, especially as many firms are facing strong headwinds due to the pandemic?**

This has been the industry norm for jewellery wholesale business and credit limits are imposed on respective customers to manage credit risk on individual debtor and group level. This is consistent with the Group's payment pattern with suppliers where the similar ageing applies. The Management has been monitoring the collectability of debts closely and adequate provision has been made in accordance with FRS9. There is no significant change or deterioration of credit risk as compared to prior financial period. AC has been and will continue to place close monitoring on management's credit risk measures and place the subject matter as a key audit matter for auditor to emphasise and ensure adequate provisions for impairment is made.

**The company has further stated that there is a single debtor within the exhibitions segment whose trade receivables represented 23% (2019: 24%) of total trade receivables for the financial year ended 30 June 2020.**

- (v) **Can management provide shareholders with better clarity on the financial strength of its major customers and debtors? The group's major customer accounted for \$5.6 million and \$1.4 million of revenue in FY2019 and FP2020 respectively.**

- (vi) **Is the major debtor up to date on its payment?**

Management has adopted a stringent credit risk management and credit control policies in their jewellery wholesale business over past years in order to minimize their credit risk while maximizing sales with new and existing wholesales customers. Careful assessment and review of individual debtors have been carried out on periodical basis and expected credit loss has been made accordingly by the Management at each reporting period based on our best knowledge of the customer and market condition though we are not privy to the financial strength of those major customers and debtors. Hence the Management is of the view that current disclosure in the Annual Report is sufficient and in compliance of financial reporting standards.

Save for the administrative delays caused the lockdown period in respective countries due to the COVID-19, nothing come to our attention that the carrying amount of receivable balance from the major customer requires any further adjustment arising from its payment record to date.

3. **In Note 19 (page 81 – Bullion loans), the company stated that it borrowed bullion loans to "reduce the impact of fluctuation of bullion prices on bullion inventories". The bullion loans are designated as financial liabilities at fair value through profit or loss as they are managed and their performance are evaluated on a fair value basis.**

**In addition, the bullion loans are pegged to market bullion prices, have fixed interest rate ranging from 2.5% to 2.8% per annum and are due for repayment within 3 months.**

**The group recognised net fair value loss on bullion loans amounting to \$(2.96) million in FP2020.**

- (i) Would management elaborate further on the rationale to take up bullion loans? Please explain in greater detail on how the bullion loans help to reduce the impact of fluctuation of bullion prices on its inventories.**
- (ii) What are the salient terms of its bullion loans, including the tenure?**
- (iii) In particular, can the board clarify if the bullion loans are speculative in nature or are they only entered into after a firm order has been received to hedge the group's bullion costs?**
- (iv) Does the group have a robust risk management framework related to its bullion loans? What is the approval process before the group enters into a bullion loan? What is the level of oversight by the board on the bullion loans?**

The bullion loans are pegged to market bullion prices as a hedge instrument. The gain/loss is to counter the fluctuation of jewellery production cost arising from gold price changes. The quantum of bullion loans entered are based on the actual physical usage of gold requirements, and the disbursements of the bullion loan are in physical gold. Hence the hedging is not for any speculative purpose and been effective as there is either a corresponding gain in sales of gold jewellery or unrealised in the inventory.

The approval process for these bullion loan transactions are in line with the Company's risk management and internal control policies given its nature and materiality level. The Audit Committee will continue to monitor the risk management and internal control policy on a periodic basis. In addition, the Audit Committee will continue to work closely with external auditors to ensure compliance with applicable laws, regulations and standards.

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