

Issuer: Luxking Group Holdings Limited

Security: Luxking Group Holdings Limited

Meeting details:

Date: 23 October 2017

Time: 9:00 a.m.

Venue: Hotel Re! @ Pearl's Hill, Re! Union, 175A Chin Swee Road, Level 2, Singapore 169879

Company Description

Luxking Group Holdings Limited, an investment holding company, manufactures and markets pressure-sensitive adhesive tape products in the People's Republic of China and internationally. It manufactures and distributes adhesive tapes, such as stationary tapes, masking tapes, and double-sided tapes for industrial, commercial, and customer uses; and industrial specialty tapes for manufacturing and/or assembly processes, primarily used for mobile and electronic appliances. The company also provides biaxially oriented polypropylene films (BOPP) for packaging applications in food, pharmaceutical, medical, and electrical industries. Its products include PET spacers for consumer electronics applications, such as home appliances, mobile phones, etc.; aluminum foil tapes that protects gas, exhaust, water, and oil pipes against corrosion, as well as is used for insulation applications; PVC double-sided tapes for bonding applications; and optical clear transfer tapes that are used in bonding of film and glass laminates in touch screen displays, mounting of transparent graphic overlays, and bonding of optical film/backlight module to LCDs. The company's products also comprise high performance double-sided tapes for mounting of metal or plastic name plates and in foam and film lamination; general purpose double-sided tapes for office and home applications; and light shielding/reflecting double-sided tapes, which are used in mounting of LCD and backlight modules of handheld devices, such as smartphones. In addition, it engages in the trading of adhesive tapes, BOPP films, and polypropylene resins. Luxking Group Holdings Limited was founded in 1995 and is headquartered in Zhongshan, the People's Republic of China.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BKK)

Q1. As mentioned in the “Message to shareholders” (page 4 of the annual report), the group’s gross profit margin dropped from 12.9% in FY2016 to 10.3% in FY2017 due to “competitive pressure on average selling prices, coupled with higher raw material costs, labour expenses, and production overheads as well as an inventory write-down”.

The biaxially oriented polypropylene films (“BOPP films”) segment performed well as revenue increased by 10.2% to RMB323.0 million in FY2017 primarily on the “back of higher average selling prices”.

- a) **Can management elaborate further on the group’s efforts to grow the sales of its higher grade BOPP films in the new financial year?**
- b) **What is the current utilisation rate of the group’s BOPP films manufacturing line?**
- c) **For the group’s efforts in production efficiency improvements and cost optimization, what are management’s targets for the improvements in its cost of manufacturing?**

It was also mentioned that the group is “currently in the process of setting up clean-room facilities for two new IS tapes production lines in response to customers’ need for even higher quality products and more stringent manufacturing standards”.

- d) **Can management provide better clarity on the range of new products that the group can manufacture with the new clean-room facilities?**
- e) **How many production lines does the group currently have for IS tapes and what is the utilisation rate for the IS tape production lines?**
- f) **How does the group intend to improve the performance of the General Tapes segment?** In the last five years, the segment reported segment losses of RMB(6.2) million in 2017, RMB(1.6) million in 2016, RMB(4.6) million in 2015, RMB(5.5) million in 2014 and RMB(3.9) million in 2013.

Q2. Over the past three financial years, the net cash generated from operating activities was RMB46.2 million in 2015, RMB52.9 million in 2016 and RMB25.0 million in 2017.

Shareholders’ equity has increased from RMB158.9 million in FY2015, to RMB166.5 million in FY2016 and to RMB170.2 million in FY2017. As reported in Note 33 (page 85 – Capital management), the capital-to-overall financing ratio has increased from 45.3% in FY2015, to 49.7% in FY2016 and to 52.8% in FY2017.

As at 30 June 2017, the cash and bank balances was RMB19.7 million.

The financial position of the group appears to be strong and the group has a reasonably sound capital structure.

As noted in the Director’s Report (page 30), the directors have not recommend any dividend in respect of the financial year ended 30 June 2017. The last dividend paid by the company was in 2009.

The board has stated that it will considered various factors, such as company’s earnings, general financial position, capital expenditure requirements, cash flow, general business environment, development plans and other factors in determining whether dividends are declared for the financial year.

- a) **Has the board set any target for the group’s the capital-to-overall financing ratio?**
- b) **Would the board elaborate further and justify why it had not recommended a dividend for the financial year ended 30 June 2017? What were the deliberations by the board on the issue of declaration of dividends?**

- c) **Are there any specific targets or ratios the board has set for the company to achieve before it would recommend a dividend?**

Q3. As stated in the Directors' Profiles, the independent directors, namely Mr Tan Tew Han, Mr Chng Hee Kok and Mr Chan Kin Sang, were all appointed to the board on 17 June 2005 and have each served on the board for a period exceeding 12 years.

As the board pointed out in the Corporate Governance Report (page 15), the three independent directors have served on the Board for more than 9 years and their independence would be subject to particularly rigorous review, as stipulated by Guideline 2.4 of the 2012 Code of Corporate Governance issued by the Monetary Authority of Singapore.

Notwithstanding that "the board is of the view that the three independent and non-executive directors are considered independent and have the ability to continue exercising independent judgement in the best interest of the Company in discharging of their duties as directors, despite their extended tenure in office", Guideline 2.4 calls for the board to "also take into account the need for progressive refreshing of the Board".

- a) **Can the board provide more detail on its plans to ensure the progressive refreshing of the board?**