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**Issuer:** Luxking Group Holdings Limited

**Security:** Luxking Group Holdings Limited

**Meeting details:**

Date: 22 October 2018

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 protect 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 BOPP films, polypropylene resins, general tapes, and industrial tapes. 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](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BKK))

1. In the Message to shareholders (page 4 of the annual report), the group reported a 26.9% increase in the sale of general purpose tapes (or general tapes) which accounted for 18% of the group's total revenue for FY2018. It was also disclosed that sales of general tapes were boosted by the stronger demand from overseas markets.

Based on Note 6 (pages 63 to 64 – Segment information), the segment results of general tapes segment is summarised as follows:

2018	Manufacture of General Tapes RMB'000	2017	Manufacture of General Tapes RMB'000
Revenue from external customers	44,994	Revenue from external customers	38,074
Other income	69	Other income	142
Inter-segment sales	48,871	Inter-segment sales	30,017
<b>Reportable segment revenue</b>	<b>93,934</b>	<b>Reportable segment revenue</b>	<b>68,233</b>
<b>Reportable segment profit/(loss)</b>	<b>(11,031)</b>	<b>Reportable segment profit/(loss)</b>	<b>(6,209)</b>

(Source: Company annual report)

- (i) **Would management help shareholders understand the particular reason(s) for the general tapes segment to report a larger segment loss despite increased revenue and strong demand from overseas market?**
- (ii) **As the group has been shifting its focus to higher value products such as industrial specialty tapes and premium biaxially oriented polypropylene (BOPP) films, what is the long term outlook of the manufacturing of general tapes segment given that the group has been making losses in the segment?**

Separately, the group has been trying to grow the higher-margin IS tapes business which has higher barriers of entry but the results have been slow: external revenue from industrial specialty tapes (IS tapes) segment decreased from RMB155 million in FY2013 to RMB88-90 million in the last two financial years. Segment profit has decreased from RMB40 million in FY2013 to RMB12 million in FY2018.

- (iii) **Can management explain in greater detail how it intends to grow the segment and to capture more value?**
- (iv) **How will the clean-room facilities and the two new IS tapes production line help the group in terms of cost efficiency and product range?**
- (v) **What are the current utilisation rates of the group's manufacturing facilities?**

2. The “recoverability of trade receivables” is a key audit matter (KAM) highlighted by the Independent Joint Auditors in their Report on the Audit of the Financial Statements (page 36). Key audit matters are those matters that, in the professional judgement of the Joint Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, as at 30 June 2018, the carrying amount of trade receivables amounted to RMB180.1 million which represented 66% of the group’s current assets. The amount of trade receivables is also significantly larger when compared to the group’s cash and bank balances of RMB18.6 million or when compared to the group’s total equity which amounts to RMB172.6 million.

In Note 18 (page 73 – Trade receivables – Group), it was disclosed that trade receivables generally have credit terms of 7 to 150 (2017: 7 to 150) days and no interest is charged. Prior to 2017, the credit terms given to customers were for 7 to 180 days.

**(i) How can management further shorten the credit terms to ensure better working capital management for the group?**

In the Corporate Governance Report, in the section on risk management policies and procedures, the company has disclosed that no prior approval from management is required to give customers credit period of 90 days or less. The executive chairman and CEO will have to approve the extension of larger credit limits or longer credit periods.

**(ii) Can the company disclose how much of its trade receivables was granted credit periods of up to 90 days, between 90 and 120 days, and between 120 and 150 days?**

In addition, there is RMB571,000 allowance for doubtful debts made during the financial year. From FY2012 to FY2018, the amount of bad debt written off and the impairment of trade receivables are as follows:

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Net bad debts written-off RMB’000	517	566	-	45	55	133	199
Impairment of trade receivables RMB’000	-	-	248	-	2,348	-	571
Bad debt and impairment in the BOPP segment	53	237	-	45	55	133	199
	-	-	-	-	2,348	-	534

The group's bad debt and impairment of trade receivables predominately originate from the BOPP segment in the past 3 years.

- (iii) Would management help shareholders understand if the same credit management framework is applied to its BOPP customers?**
- (iv) Given the recent trends, does management consider it prudent to review how it grants credit to its BOPP customers?**

With consolidated gross borrowings exceeding RMB133 million as of 30 June 2018, and roughly RMB28 million of cash generated from operations in the financial year, the debt to cashflow ratio exceeds 4x. On the other hand, the group's capital-to-overall financing ratio has improved steadily from 45.3% in 2015 to 56.3% in 2018.

- (v) Would management help shareholders understand the optimal debt load that current operations can comfortably support?**
- (vi) What is the group's optimal capital structure given the projected capital expenditures and projected strategic investments?**
- (vii) Has the board evaluated how the group's balance sheet could support the projected growth and the declaration of dividends to reward shareholders?**

*[The question below on the independence of directors was sent to the company following the review of the company's annual report for the financial year ended 30 June 2017. As the company has not responded or provided better clarity in the 2018 Annual Report, the question has been updated and reposted to the company.]*

3. All three independent directors, namely Mr Tan Tew Han, Mr Chng Hee Kok and Mr Chan Kin Sang, were appointed on 17 June 2005.

- (i) Can the board help shareholders recall if it has appointed any independent directors to its board since its listing in August 2008?**
- (ii) What is the search and nominating process for directors, especially independent directors?**
- (iii) Has the nominating committee (NC) reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?**

As recommended by the 2012 Code of Corporate Governance (Code), the independence of any director who has served on the board beyond nine years from the date of his first appointment should be subject to particularly rigorous review.

The NC comprises Mr Tan Tew Han (chairman), Mr Chan Kin Sang and Mr Chng Hee Kok. All the members of the NC are independent directors who have served on the board beyond nine years from the date of his first appointment and therefore are subject to particularly rigorous review of their independence.

On page 15 of the annual report, the company has disclosed the “NC has reviewed the independence of the Board members with reference to the guidelines set out in the Code.... Each member of the NC has abstained from deliberations in respect of assessment of his own independence.”

- (iv) Can the NC confirm that Mr Tan’s independence was reviewed by Mr Chan and Mr Chng, Mr Chan’s independence was reviewed by Mr Tan and Mr Chng and Mr Chng’s independence was reviewed by Mr Tan and Mr Chan?**
- (v) Given that all three members of the NC are each subject to the particularly rigorous review of his own independence, how effective was the NC in the discharging its duties?**

In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance (“2018 Code”). As a consequence of the revised 2018 Code, the Singapore Exchange will be making amendments to its Listing Rules. The Listing Rule changes will come into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

- (vi) Has the board evaluated how the 2018 Code will impact the company given that all three independent directors were appointed in June 2005?**
- (vii) Specifically, what are the company’s near-term plans to refresh the board membership progressively and in an orderly manner, to avoid losing institutional memory?**

A copy of the questions for the Annual Report for the financial year ended 30 June 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Luxking%20Group%20Holdings%20Ltd>

The company’s response could be found here: -----