Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Luxking Group Holdings Limited

Stock code: BKK

Meeting details:
Date: 26 October 2020
Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. As noted in the message to shareholders, the group reported higher revenue in FY2020 despite facing a variety of challenges during this unprecedented period.

While the group's factory in Zhongshan had to close to meet the directives issued by the local authorities in Guangdong Province during the Chinese New Year holiday period, partial operations were resumed on 10 February 2020 and normal operations were promptly resumed from 24 February 2020.

As disclosed in Note 36, the COVID-19 pandemic has not resulted in a material impact to the group. In fact, the group registered higher sales across its three business segments - biaxally oriented polypropylene films ("BOPP films"), industrial specialty tapes ("IS tapes"), and general purpose tapes ("General tapes") in FY2020.

(i) **Can management help shareholders understand the underlying reasons for the higher sales across its three business segments? Are there certain groups of customers that have shown exceptional strength during the pandemic?**

(ii) **What is the current production capacity and utilisation rate of the Zhongshan factory? Please also disclose the capacity of the new Hubei site.**

(iii) **What is the projected capital expenditure on the new Hubei manufacturing facility? How much more advanced will the new site be compared to the Zhongshan factory? Will the new factory be more cost-efficient? If so, by how much?**

Q2. As noted in the financial review, impairment loss of trade and bills receivables declined substantially to RMB3.6 million in FY2020 compared to RMB29.2 million in FY2019 (page 7 of the annual report). Other operating expenses also fell to RMB0.2 million in FY2020 from RMB8.9 million previously which was due mainly to compensation paid to customers in FY2019.

(i) **With its long track record of more than 25 years in the manufacturing of pressure-sensitive adhesive tape products, can management explain in greater detail how it had manufactured BOPP films that were below the customers' required standards and why its internal quality checks were not able to detect the defects?**

(ii) **Can management elaborate further on the volume and sale amount of defective products that led to the compensation in the previous year?**

(iii) **How was the compensation amount determined? What was the role of the independent directors in the review of the defective products and the compensation negotiation?**

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(iv) **What are the changes made to the manufacturing process? Has the group also instituted a more robust quality assurance framework to ensure that the group's products meet the technical specifications of the customers?**

Separately, in FY2019, the group also incurred a substantial impairment of trade and bills receivables of RMB29.2 million. It arose from outstanding amounts that were long past overdue from four customers whose businesses had closed abruptly or were severely affected by the trade tensions and economic slowdown. In FY2020, the group recovered RMB4.7 million of trade receivables that were previously impaired.

(v) **Can management disclose the identities or the profiles of the four customers?**

(vi) **Other than the RMB4.7 million that was recovered in the financial year, what are the management's efforts to collect on the long outstanding debt?**

(vii) **Does the group still have ongoing transactions with the above-mentioned customers in FY2020?**

(viii) **Would management describe in greater detail the improvements made to its credit control and management?** Debtor turnover days in FY2020 have been reduced to approximately 84 days from 114 days (page 7). **What is the level of oversight provided by the board to ensure the group's compliance to its credit risk framework?**

In addition, the "impairment assessment of trade receivables" is a key audit matter identified by the independent joint auditors in their report (page 39). As at 30 June 2020, the carrying amount of trade and bills receivables exceeded RMB91 million. In particular, the group is exposed to a major concentration of credit risk with the group's top five customers contributing approximately 54% of the trade receivables as at 30 June 2020.

(ix) **Can management disclose the profiles of these customers and the receivables ageing history of the major customers? Has the group faced any significant delays in payments from the major customers over the last 6 months?**

The independent joint auditors have also identified "net realisable value of inventories" as another key audit matter.

(x) **Can management elaborate further on the group's inventory obsolescence policy which led to RMB(8.7) million in write-down of inventories at the end of FY2019 and the subsequent reversal of RMB6.7 million in FY2020?**

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Q3. Two long-tenured independent directors, namely Mr Tan Tew Han and Mr Chan Kin Sang, retired in October 2019 after serving on the board for more than 14 years from June 2005.

At the annual general meeting scheduled to be held on 26 October 2020, Mr Chng Hee Kok would be retiring under Bye-law 86(1) of the company's Bye-Laws and is seeking his re-election. Mr Chng Hee Kok was first appointed to the board on 17 June 2005 and has served on the board for more than 15 years.

Additional information on directors seeking re-election, pursuant to Rule 720(6) of the Listing Manual, can be found on pages 105 to 116.

On page 108, it is stated that Mr Chng sits on a total of 9 listed companies, including a company which is facing a winding up petition and another that was issued a Notice of compliance by SGX in December 2019. On page 115, it is disclosed that Mr. Chng was fined $5,000 in August 2007 under section 156 of the Companies Act, Chapter 50 and was given a warning under section 28(B)(b) of the Prevention of Corruption Act, Chapter 241.

(i) **Should Mr Chng be re-elected, would Mr Chng be committing to reducing his other principal commitments so that he can afford sufficient time, energy and attention to the affairs of the group?**

(ii) Mr Chng was re-designated as the lead independent director on 31 October 2019. **As lead independent director, would Mr Chng hold himself to a higher standard and lead by example, especially in terms of his tenure on the board and his multiple board representations?**

(iii) **Given that Mr Chng has served on the board since 2005, would the company be early-adopting the two-tier voting for Mr Chng's re-election?**

The company has appointed Mr Er Kwong Wah on 9 September 2019 and Mr Chan Wai Man on 8 November 2019. The profile of the directors can be found on pages 10 to 11. The NC has disclosed that potential candidates are sourced from the network of contacts of the board and management, including engaging professional search firms and recruitment consultants if the appointment requires a specific skill set or industry specialisation.

(iv) **Would the NC help shareholders understand if the newly appointed directors were sourced from the network of contacts of the board and management?**

(v) **How does the current practice support greater diversity on the board?**

(vi) **Would the NC consider making use of a professional search firm the default approach so as to enable the board to cast its net wider and further improve the diversity of the candidate pool?**

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^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings)