LUXKING GROUP HOLDINGS LIMITED
(Incorporated in Bermuda)

RESPONSE TO QUESTIONS RECEIVED FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RELATION TO THE ANNUAL REPORT FY2020

The Board of Directors (the "**Board**") of Luxking Group Holdings Limited ("**Company**") refers to questions raised by the Securities Investors Association (Singapore) ("**SIAS**") in relation to the Company's annual report for the financial year ended 30 June 2020 (the "**AR FY2020**"). There is no mandatory requirement for the Company to respond to the questions raised by SIAS. Nevertheless, the Company hereby respond to the questions raised by SIAS as set out below.

SIAS Question 1:

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?

Company's Response:

The sales performances of the Group's three business segments in FY2020 was buoyed primarily by stronger sales growth achieved in the first six months ended 31 December 2019 ("1H2020"). Specifically, the BOPP films segment posted a 12.3% increase in sales, while the IS tapes and GP tapes recorded revenue growth of 23.1% and 9.1% respectively in 1H2020 compared to 1H2019.

During the second half of FY2020 ("2H2020"), the BOPP films and GP tapes segments registered stable sales compared to 2H2019. This was attributable mainly to steady orders from local customers as business activities gradually resumed in China, as well as the Group's ongoing efforts to expand sales in the domestic market. On the other hand, sales of IS tapes decreased in 2H2020 compared to 2H2019 due mainly to weaker demand from overseas markets.

As a result, the IS tapes segment registered a 4.2% increase in sales for FY2020. BOPP films and GP tapes segments posted sales growth of 7.1% and 5.5% respectively in FY2020.

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

Company's Response:

Due to commercial reasons, the Group is unable to disclose specific details of production capacity at its Zhongshan factory, which is also dependent on the type of products being manufactured. Prior to the COVID-19 pandemic, the Zhongshan factory was running at high utilisation rate. However, the onset of the pandemic has resulted in uneven customer orders and caused the utilisation rate to vary.

The construction of new manufacturing facilities in Hubei will be carried out in phases, subject to market circumstances and the Group's production requirements. Hence, the Group is unable to determine the final production capacity at this stage. Construction of the first production facility is planned for completion in first half of 2021.

(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?

Company's Response:

As at 30 June 2020, the Group has incurred total capital expenditure of around RMB13.8 million for the new manufacturing facility in Hubei. In view of significant business uncertainties arising from the Covid-19 situation and its impact on the global economy, the Group is taking a cautious stance with regards to its capital expenditure plans. The Group will continue to monitor the operating landscape closely, and will revise its plans accordingly to adapt to any changes in the external environment. For FY2021, the Group expects to incur capital expenditure of around RMB14 million for the Hubei factory.

SIAS Question 2:

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?

Company's Response:

As disclosed on Page 7 of the Company's annual report FY2019, there were issues with certain batches of higher grade BOPP films due to a sudden and unexpected production signal glitch in the manufacturing equipment, which could not be detected during the production run. This fault has since been rectified and the Group has also stepped up on the maintenance intervals and put in place more stringent quality tests to prevent similar recurrence.

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

Company's Response:

As the customers of the BOPP films had already used the Group's films for further processing and sold their products to ultimate customers ("end-users"), it is not feasible to quantify the volume of BOPP films that had quality issues.

(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?

Company's Response:

The compensation amount was reached after an investigation and negotiations with the customers. As this was an operational matter, it was handled expeditiously by senior management and relevant personnel, and subsequently reported to the Board members. The Board understood details of the matter and was of the view that the compensation amount was reasonable.

(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?

Company's Response:

Please refer to the response to question 2(i).

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?

Company's Response:

The Company is unable to disclose the names of the four customers. Profiles of these customers can be found on page 7 of the Company's annual report FY2019.

(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?

Company's Response:

The Group has entered into settlement negotiations to establish repayment plans with the customers, and also proceeded with legal claims as appropriate.

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

Company's Response:

No.

(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?

Company's Response:

The Group has a credit risk department that ensures strict control of credit terms offered to new customers, and monitors the risk of trade receivables closely. Due to Covid-19, the Group has taken steps to assess the impact of the Covid-19 on each customer's business.

The Board and Audit Committee regularly reviews the adequacy and effectiveness of the Company's internal controls, including compliance to the credit risk framework, relying on reports from the External and Internal Auditors. Ageing of the Group's trade receivables are also reviewed on a semi-annual basis.

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?

Company's Response:

Due to commercial sensitivity and a competitive market, the Company is unable to disclose the profiles and receivables ageing history of individual customers. Please refer to Note 34 (c) on page 93 for the receivables ageing profile as at 30 June 2020. The Group continues to receive orders regularly from these five customers and has not faced any significant payment delays from them over the last six 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?

Company's Response:

Like most commercial organisations, the Group reviews its inventory list at the end of each financial year to identify inventories that are slow-moving, lack of market demand, and declining selling prices. The Group's policy is to provide impairment for inventories with age of more than one year. As at 30 June 2019, the net write-down for inventory obsolescence stood at RMB8.7

million. As the Group was able to sell and use the aged inventories above their carrying amounts during FY2020, a reversal of RMB6.7 million was recognised in FY2020.

SIAS Question 3:

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 reelection. 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?

Company's Response:

As announced by the Company on 26 October 2020, Mr Chng Hee Kok has been re-elected as a Director at the Company's annual general meeting held on 26 October 2020.

Mr Chng has no principal or executive commitments. He is presently on eight boards with one of them undergoing the delisting process. Moreover, most of the companies which Mr Chng is a Director, have implemented half-yearly reporting. Mr Chng has helmed 5 companies listed on the SGX and has wealth of experience and knowledge. The Nominating Committee ("NC") reviews at least annually the competing commitments of all directors who serve on multiple boards and the NC is satisfied that Mr Chng is able to adequately carrying out his duties as the Lead Independent Director of the Company.

(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?**

Company's Response:

The Company sets a high standard benchmark for all its Directors, including their knowledge on corporate governance and time commitment for the affairs of the Company and the Group. Due to this high standard, there is no "first amongst equals" since every Independent Director is expected to discharge his duty and responsibility to the highest standards. High standards is expected of all Independent Directors. In Mr Chng's case, he has helmed five public listed companies and he is fully conversant with the role of an Independent Director having served several years on listed company Boards.

As stated on page 18 of the Company's AR FY2020, as Mr Chng has been on the Board beyond 9 years of his appointment, the NC and the Board have carried rigorous reviews on his independence, is of the view that his length of service has not compromised the objectivity of Mr Chng and his commitment and ability to discharge his duties as the Lead Independent Director of the Company.

Based on the practice guidance on the Code of Corporate Governance 2018 issued by the Monetary Authority of Singapore, Lead Independent Director is to play an additional facilitative role within the Board, and where necessary, may also facilitate communication between the Board and shareholders or other stakeholders of the Company. The role of the Lead ID may include chairing Board meetings in the absence of the Chairman, working with the Chairman in leading the Board, and providing a channel to non-executive directors for confidential discussions on any concerns and to resolve conflicts of interest as and when necessary.

Mr Chng, notwithstanding his tenure on the Board and his multiple board representations, has adequately discharged his role as the Lead ID of the Company and continuously holds high standards in carrying out his duties.

(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?

Company's Response:

The Company is aware of the revised Listing Rule effective on 1 January 2022, the NC and the Board regularly review the structure and composition of the Board and would consider this matter at the next annual general meeting in 2021.

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?

Company's Response:

Both newly appointed directors were recommended from the network of contacts of the Board and Management.

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

Company's Response:

The NC and the Board is of the view that the current size and composition of the Board is appropriate and effective, with appropriate balance and mix of skills, knowledge, and experiences, taking into account the nature and scope of the Group's operations.

As stated on page 17 of the Company's AR FY2020, the Company has adopted a Board Diversity Policy in FY2020. The Company understands and believes that a diverse Board will help to improve the overall performance and operational capability of the Company, as well as avoid groupthink and foster constructive debate.

Since the Group does a major part of its business in Hong Kong, the Board deems it useful to have a Director residing in Hong Kong. From gender diversity standpoint, the Board has a lady Director and this constitutes 20 percent of the Board.

The Board has been continuously reviewing the succession planning, gender and age diversity, and would consider the appropriateness of Board renewal when deemed necessary and to 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?

Company's Response:

As stated on page 20 of the Company's AR FY2020, the NC will engage professional search firms and recuritment consultants if the appointment requires a specific skill set or industry specialisation.

By Order of the Board

Leung Chee Kwong
Executive Chairman and Chief Executive Officer

3 November 2020