

LUXKING GROUP HOLDINGS LIMITED
(Incorporated in Bermuda)

**RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION
(SINGAPORE) (“SIAS”) ON ANNUAL REPORT FY2022**

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 2022 (“**FY2022**”) (“**Annual Report**”). There is no mandatory requirement for the Company to respond to the questions raised by SIAS. Nevertheless, the Company hereby responds to the questions raised by SIAS as set out below.

SIAS Question 1

As noted in the message to shareholders, despite the challenging global business conditions, the group achieved a double-digit growth (13.1%) to its topline in FY2022. This was due mainly to adjustments the group made to the selling prices of its products to compensate for the surge in the cost of raw materials.

1.1 What was the increase (or decrease) in the volume of films sold?

The Group has disclosed on Page 7 of the Annual Report that the BOPP films segment recorded an increase in sales volume, while the IS tapes and General tapes businesses experienced lower sales volume in FY2022. Due to commercially-sensitive reasons, the Group is unable to disclose specific data on the change in volume of products sold.

1.2 Does the group have spare capacity to support further growth in the volume of business?

The Group has added new production capacity at its factories to support current and future business requirements.

At its factory at Zhongshan in the Guangdong Province (“Zhongshan factory”), Luxking continued to upgrade the production facilities by making improvements to existing machinery and installing new equipment during FY2022. These will help to enhance production flow, efficiency, output and quality.

Since the latter half of 2020, the Group started building a new manufacturing plant in Hubei province (“Hubei plant”) which shall be developed in phases according to the market situation. This Hubei plant will enable the Group to support and reach out to customers in Northern China, as well as expand its overall capacity.

1.3 How does the group acquire new overseas customers in the General tapes and IS tapes business segments?

The Group has established a long operating track record in serving customers in China as well as overseas markets. Luxking has a team of experienced sales personnel to engage and serve the needs of its customers in overseas markets. The Group’s export sales personnel are responsible for continual engagement with existing customers in line with its strategy to expand its sales and share of business with them as they grow.

As disclosed, the group's gross profit margin eased from 12.8% in FY2021 to 11.6% in FY2022 due to the surge in the cost of raw materials and higher impairment of inventories.

1.4 Can management help shareholders better understand its strategy to manage rising cost of raw materials? Is the group able to pass on more of the increases in raw material costs?

As a result of supply disruptions and a surge in prices of commodities, the cost of raw materials had increased substantially over the past two years. As disclosed on Page 7 of the Annual Report, the Group has adjusted the selling prices of its products to compensate for the surge in cost of raw materials.

In addition, the group recorded a net foreign exchange loss of RMB 1.3 million in FY2022 as compared to a net foreign exchange gain of RMB 2.2 million in FY2021. In Note 30 (b) (page 84 – Risk management objectives and policies: Foreign currency risk), the company stated that the group's transactions are mainly denominated in RMB, US\$ and HK\$.

1.5 How much of the group's sales and purchases are denominated in US\$/HK\$? Is there a significant currency mismatch between the group's sales and costs?

1.6 What guidance has the board given to management to better manage the group's foreign currency risks?

As reported on Page 68 of the Annual Report, around RMB500.0 million of revenue in FY2022 was derived from customers in the PRC, while RMB74.0 million and RMB1.4 million of sales were generated from customers in overseas markets and Hong Kong respectively. Sales derived from the PRC market are primarily denominated in RMB, while sales from overseas markets are generally contracted in US Dollar and Hong Kong Dollar.

The Group does not use any derivatives or other instruments for hedging purposes and generally employs natural hedging for its foreign currency exposure. Besides its manufacturing operations that are domiciled in the PRC, the Group also operates a sales office in Hong Kong. In addition, some of the Group's purchases of raw materials and bank borrowings are denominated in US Dollar. The effect of the RMB currency depreciation against the US Dollar on these US Dollar-denominated borrowings was one of the major factors for the foreign exchange loss in FY2022. To mitigate this exposure, the management has taken action by reducing the Group's bank borrowings denominated in US Dollar.

The management continuously assesses and monitors the Group's foreign exchange exposure. The Board is of the opinion that the management's current approach to mitigate the impact of foreign exchange rate fluctuations is appropriate.

SIAS Question 2

Net cash generated from operating activities was just RMB 1.87 million (Consolidated statement of cash flows; page 48) partly due to higher inventories and decrease in trade and bills payables.

2.1 What are the benefits of using banks' invoice financing facilities for the purchase of raw materials? Would invoice financing by the banks be more costly to the group?

The utilisation of banks' invoice financing facilities in FY2022 for certain purchases of raw materials helps the Group to better manage its working capital needs and offers a speedier avenue to finance its purchases as compared to obtaining loan facilities from the bank. Given the rise in interest rates, the Group assesses the cost of invoicing financing facilities versus bank loan facilities to achieve a more cost-effective financing method for its operations.

As shown in Note 31 (page 88; Capital management), the group's borrowings increased by 47% from RMB 72.2 million as at 30 June 2021 to RMB 106.0 million as at 30 June 2022. As at 30 June 2022, the group has total equity of RMB 123.1 million and bank borrowings of RMB 106.0 million. In addition, trade and bills payables amount to RMB44.1 million with accrued expenses and other payables adding an addition RMB 13.3 million in liabilities.

Capital-to-overall financing ratio at reporting date was as follows:

	2022 RMB'000	2021 RMB'000
Capital:		
Total equity	123,062	120,510
Overall financing:		
Total equity	123,062	120,510
Bank borrowings, secured	106,002	72,156
Lease liabilities	4,700	7,498
	233,764	200,164
Capital-to-overall financing ratio	52.6%	60.2%

(Source: company annual report)

2.2 Does the group have the appropriate capital structure and sufficient resources to support its growth? Has the board set a limit to the group's leverage?

As at 30 June 2022, the Group's current ratio stood at 1.3 times and has a net gearing of 0.62 times. The management believes that the Group's present capital structure is optimal and its resources and liquidity are adequate to support its operations.

The Board regularly reviews the adequacy and effectiveness of the Group's internal controls to mitigate financial risk among others. Based on its assessment with management, the Board is of the opinion that the Group's present capital structure and gearing do not pose significant financial risks.

From the consolidated statement of cash flows, the group has spent more than RMB17.1 million and RMB 6.3 million in FY2022 and FY2021 respectively on property, plant and equipment.

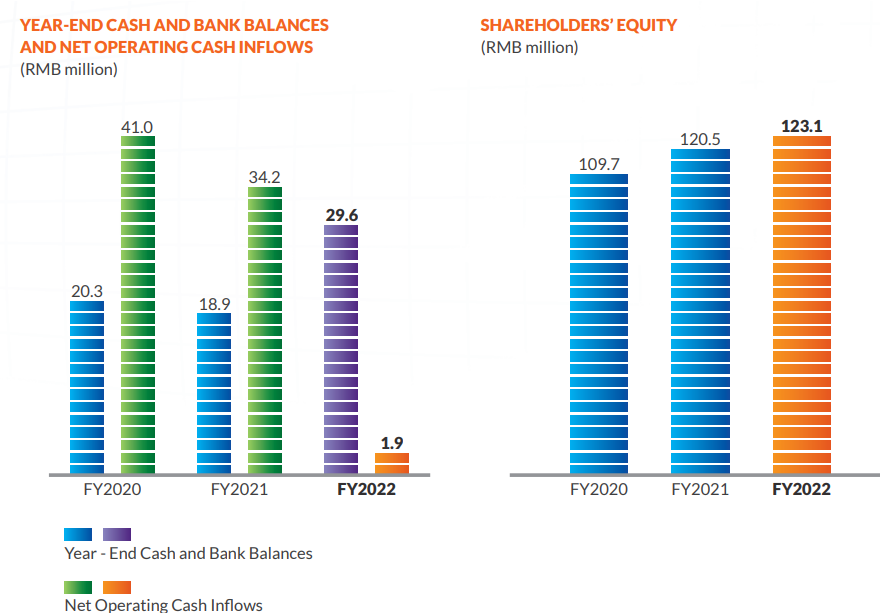
2.3 What is the expected capital expenditure for the upgrade of the Zhongshan factory? Are there immediate plans to further expand the new Hubei plant? How will the group be financing the capital expenditure?

For its Zhongshan factory, the Group expects to incur usual capital expenditure in FY2023 for upgrades to existing machinery, addition of new equipment and maintenance.

For the Hubei plant, the Group intends to invest in a silicone release coating line costing around RMB3.0 million in FY2023. The Group may also consider expanding the factory facilities at the Hubei plant over the next two years, which is dependent on the business climate and market conditions. The Group endeavours to provide the relevant information on capital expenditure budget in its financial results announcement(s) when its plans are firmed.

For the upgrade of existing machinery and new silicone release coating line, the Group will use its available cash resources to finance the purchases. For future expansion of the Hubei plant, bank project finance may be considered subject to the cost of financing.

On the other hand, shareholders' equity has increased to RMB123.1 million (Financial highlights; page 10; shown below).



2.4 Did the board deliberate on how the company can support its growth and, at the same time, provide returns to shareholders in the form of dividends? The company last paid a dividend (of RMB 0.01) to shareholders in 2009.

The Board regularly reviews the Group's business plans, strategic directions, financial performance, and works with the management on the long-term success of the Group. At the same time, the Board also deliberates on returns to shareholders in the form of dividends, together with the Group's capital and liquidity requirements for its business operations and plans.

In view of the current challenging economic and business landscape, the Board deems it prudent for the Group to retain cash reserves to support its working capital and capital expenditure requirements, and be better positioned to cope with difficult business periods. The Group will continue to focus on its business initiatives to overcome the challenges and drive the long term development and sustainability of its core businesses.

SIAS Question 3

In the corporate governance report, it was disclosed that the company outsources its internal audit function to Weide Certified Public Accountants Guangdong ("IA"). The IA has adopted a risk-based auditing approach in the internal audit review carried out in the financial year. It was further disclosed that the IA reports its findings and recommendations to management. A finalised report incorporating management's response is then submitted to the audit committee (AC) for review and discussion on a half-yearly basis.

3.1 How was the scope of the internal audit plan determined? What role did the AC play in determining the scope of the IA?

The IA adopts a risk-based auditing approach, and draw up the scope and plan for the conduct of the Group's internal audit based on the AC's assessment of the key business activities of the Group, which are reviewed and approved by the AC. Besides reviewing the internal audit plan, the AC also reviews the internal audit findings, and meets with the IA at least once every financial year without the presence of management.

3.2 What is the length of the internal audit cycle?

Internal audits are conducted semi-annually and when there are any findings that arise which required further review, the AC may direct such additional review from time to time.

3.3 Were the scope and effectiveness of the IA impaired in the past two years due to pandemic-related travel restrictions in China?

The AC assesses the adequacy and effectiveness of the internal audit function annually. Notwithstanding the challenges due to the pandemic situation over the past two years, the AC is satisfied that the IA are adequately resourced and have carried out their work effectively and independently in FY2021 and FY2022,

3.4 It appears that the IA currently reports its findings to management. Is this in line with international standards/best practices? Would the AC consider having the IA report its findings and recommendations direct to the AC?

As disclosed on Page 29 of the Annual Report, the IA's primary line of reporting is to the AC. The IA also has unfettered access to the AC.

Upon completion of the audit review, the IA provides its findings and recommendations to management as the management is required to respond on the actions to be taken. A finalised report incorporating management's responses is submitted to the AC for review and discussion at meetings on a half-yearly basis. This process ensures that the IA report containing the findings and recommendations is provided by the IA to the AC directly.

3.5 Please also disclose the key findings and recommendations by the IA.

For FY2022, the internal auditors had reviewed the internal control processes for trade receivables, inventories and property, plant and equipment of the Group. There were no material findings of the internal audit for FY2022 and recommendations were made by the IA on the provision for long outstanding trade receivables and improvement on the production and purchase planning process.

By Order of the Board

Leung Chee Kwong
Executive Chairman and Chief Executive Officer
25 October 2022