福兴集团
FUXING GROUP

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RESPONSE TO QUERIES FROM SGX-ST

The Board of Directors ("the Board") of Fuxing China Group Limited ("the Group") refers to the Group's results announcement for the 3rd quarter ended 30 September 2011 released via SGXNet on 14 November 2011.

The following information is provided in response to SGX-ST's queries:

1. For the 3 months ended 30 Sep 11, the revenue from trading rose to RMB25mn compared to RMB8mn in the corresponding period. Please provide more details of these trading activities and the reasons behind the significant change in this revenue segment.

The Group's trading segment relates to the buying of certain raw materials to satisfy some of its trading customers' requirements, and the nature of sales is dependent on these customers' requirements, spread of profit margin and all purchases are based on confirmed sales, i.e. the Group does not hold inventory. As such, the volume of trading depends on the opportunity for the Group to make profitable trades, price movements, customers' requirements for these raw materials and such transaction volume may fluctuate month-to-month. There is no specific reason for the increase in trading revenue of RMB 17million in the current 3Q compared to prior year, other than the opportunity to be able to match customers' and suppliers' price requirements.

2. The Company reported that the decrease in revenue from Zipper Chain segment and Zipper Slider segment was due to the decrease in selling prices to secure customer orders as overall demand had declined substantially during the quarter. Please provide explanation on the factors that resulted in the significant adverse changes in this segment. In addition, the Company reported that its Finished Zipper Segment experienced strong sales. In view of this, please provide more explanation on why the Zipper Chain and Zipper Slider segment experienced substantial decline in demand and sales.

The Group's Zipper Chain and Zipper Slider segments cater to its downstream broad-based customers of consumer products manufacturers such as bags, luggages, camping equipment (tent, sleeping bags, etc), upholstery furnishing, and to a lesser extent leather boots and apparels/sportswear. Such customers are generally sensitive to the underlying economic factors, as consumer spending tends to decline in times of economic uncertainty. In view of this, the Group's sales of zipper chains and sliders have declined.

Zipper chains and zipper sliders (with its varying designs) are assembled into finished zippers to satisfy the needs of customers who are usually more selective in their requirements, largely the manufacturers of apparels/sportswear products and leather boots, due to their higher economic value as well as their demand for customized slider designs. As finished zippers command higher prices and profit margin, the Group has focused its efforts on this segment over the last few years, and more so in the last year or so. It is also noted that the overall market for such finished zippers is big. As such, the Group is gratified that its efforts have seen its Finished Zipper segment rising from approximately 13% of total sales in the 9M2010 period to approximately 21% in 9M2011, while the Zipper Chain/Slider segments have declined from 65% to 59% in 9M2011. With the current economic uncertainty, it is difficult to predict if customers of finished zippers will continue to buy more from the Group. The Group will continue to put its focus on this segment.

3. The Company's general and administrative expenses increased by 538% from RMB3.4mn to RMB21.8mn in 3Q 2011. The Company attributed this to doubtful debts (RMB5.2mn), amortization of patent (RMB4.9mn), expenses related to work on TDRs, higher staff costs, higher depreciation costs, and general administrative expenses related to the 3 new subsidiaries and consolidation costs. Please provide a breakdown of this expense, segregating and quantifying the effects of the 3 subsidiaries on this expense and explain the reasons for each material variance.

The breakdown of the Group's general and administrative expenses in 3Q2011 is as follows:

('RMB millions)	3Q2011	3Q2010	Up/(Down)	
Provision for Doubtful Debts	1.5	(1.3)	2.8	The additional provision is due to higher level of long outstanding balance as explained in point (i) below.
Staff costs	4.9	3.6	1.3	The increase is largely due to inflation.
Amortisation expenses	2.0	0	2.0	These include patent and land-use rights.
Depreciation	1.4	0.1	1.3	This is due to higher level of PPE and past year adjustments.
Audit	0.4	0.5	(0.1)	
TDR expenses	0.4	0	0.4	This relates to audit work.
3 newly acquired subsidiaries:				
Fulong	2.5	0	2.5	This relates to staff costs and depreciation expenses.
Jianxin	2.5	0	2.5	This relates to staff costs and depreciation expenses.
Fuxin	1.5	0	1.5	This relates to staff costs and depreciation expenses.
Tax expenses	1.1	0.4	0.7	This relates to tax including city construction and education.
Others	3.6	0.1	3.5	
Total	**21.8**	**3.4m**	**18.4m**	

In addition, please provide clarity on the following:

(i) Whether the doubtful debts are from any major customers, and whether are there any balances not provided for from these customers. Why are the customers not able to pay, and when were the sales from these customers booked. Please provide the basis for the provision, and Company's follow-up efforts on the collection of the debt.

The Group's current provision policy for debts is to make 100% provision for those debtors which are outstanding for more than 180 days and which are no longer buying from the Group for the past 180 days. The Group's sales department usually insists that customers pay up their long outstanding balances if they wish to continue buying from the Group. These provisions relate to more than 200 customers from the Group's subsidiaries and there are no major customers, and their outstanding debts range from 6 months to more than 24 months. The Group's sales department is still following up closely with these customers for collection. In this time of economic uncertainty and tight credit in the PRC, the Group's customers are experiencing challenges in their business operations, and this has resulted in the delays in some of their payments.

(ii) As the work on the TDRs was terminated in 2QFY11, why were there expenses incurred in 3QFY11

Refer to para 3 above. This relates to work done earlier by the auditors, and the balance of the TDR expenses were charged in current quarter.

4. In paragraph 9 of the announcement, the Company stated that the PRC market had deteriorated significantly since its last announcement. What were the factors that resulted in the deterioration? When did the Company become aware of deterioration in the business outlook and provide the basis why did the directors not deem it necessary to provide an update on the material change in situation earlier.

The Group became aware of the business slowdown after the August books were closed, but was not sure if it represents a one-off or a beginning of a trend downwards. As discussed in Para 2 above, the main reasons were the deteriorating market sentiments which had affected customers' production and purchase decisions. It became more apparent in October after the third quarter books of the various subsidiaries were closed and group consolidation began. Due to numerous adjustments from the local PRC books to financial statements under Singapore Financial Reporting Standards, the final reported financial statements were ready only days before the results announcement, and the Board was only updated during the Board meeting held to discuss and approve its results release. As such, there was no earlier profit warning or business update from the Group.

5. We note that the Company has reported its results in extremely small fonts which is difficult to read. Kindly re-announce its results in a font size of at least 11 and confirm that the Company will report its results in larger font for its future results.

The Group has re-submitted its 3Q2011 results via SGXnet with a bigger font size in a separate announcement. The Group confirms that it will report its future results in a larger font size.

BY ORDER OF THE BOARD

Hong Qing Liang
Executive Chairman and CEO
18 November 2011