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# RESPONSE TO QUERIES FROM SGX-ST

The Board of Directors of Fuxing China Group Limited (the "Company") refers to the Group's results announcement for the year ended 31 December 2011 released via SGXNet on 29 February 2012.

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

1. ***We note that general and administrative expenses increased by 278% or RMB85 million from RMB31 million to RMB116 million, which was attributed to (i) the consolidation of the 3 new subsidiaries; (ii) impairment loss on goodwill of RMB17.5 million for its Shanghai subsidiary; (iii) impairment loss of RMB11 million on the super durable patent; (iv) increase in staff costs of RMB18 million; and (v) amortization of intangible assets of RMB12.1 million. Based on these, please disclose the following:***

   ***a) To quantify the expenses attributable to the 3 subsidiaries;***

   The 3 subsidiaries contributed RMB 18.8 million to the General and Administrative ("G&A") expenses, which included Fulong (RMB 7.7 million), Fuxin (RMB 4.1 million) and Jianxin (RMB 7.0 million).

   ***b) The reasons for the impairment of the goodwill for the Shanghai subsidiary and the super durable patent and elaborate on the factors which led to such significant losses;***

   The Company has performed impairment testing for the goodwill for the Shanghai subsidiary and the super durable patent ("intangible assets"). The recoverable amounts of these intangible assets have been determined based on value in use calculations using profit forecasts and cash flow projections.The impairment of the goodwill of RMB 17.5 million for the Shanghai subsidiary was fully impaired as revenue and profits are projected to decrease for the next three years due to the weak market demand which reduces its recoverable amount. The impairment of the super durable patent of RMB11.0 million was due mainly to projected sales from products produced using the patent are expected to decrease due to weak market demand hence lowering its recoverable amount.

   ***c) The percentage increase in staff costs and an explanation for the increase on the back of a rise in revenue of 2%;***

   The staff costs for cost of sales expenses increased by RMB 10.8 million (or 34%) from RMB 31.7 million to RMB 42.5 million due mainly to the general increase in wages for production-related workers and production-related wages of the 3 new subsidiaries which contributed RMB 4.3 million. The Group has 1,639 production workers, including 445 workers from the 3 new subsidiaries. For G&A expenses, staff costs increased by RMB 7.1 million (or 57%) to RMB 19.7 million in FY2011 due to a general increase in staff costs. The Group hired an additional 104 staff in FY2011 which represented an increase of 37%. The Company would like to clarify that revenue and staff costs may not be directly correlated. In FY2011, the Company faced, amongst other factors, a tougher business climate due to lower export sales and a tighter labour market.

*d) **A breakdown of the major costs included in such intangible assets and the schedule of amortisation for these assets.***

The intangible assets arose from acquisition of the 3 new subsidiaries and were valued by the Jones Lang LaSalle at the respective dates of acquisition and there were no other capitalized costs incurred. The amortization period was determined by the estimated useful life of different intangible assets. Please refer to Item 2 for details.

***2. We note a significant increase in intangible assets by 342% or RMB225 million from RMB66 million to RMB291 million for FY2011.***

***(i) Please provide further details on the intangible assets of the group, the value of the intangible assets of each of the categories such as operating license, customers base and goodwill from Fulong, Jianxin and Fuxing and how each classes of intangible assets were computed;***

The breakdown of the Group's intangible assets for FY2011 is as follows:

| | FY2011<br>RMB million | FY2010<br>RMB million | |
|---|---|---|---|
| Software | 0.1 | - | |
| Patent | 27.9 | 45.4 | <Note 1> |
| Customer base | 67.7 | - | <Note 2> |
| Operating license | 96.4 | - | <Note 3> |
| Goodwill | 99.4 | 20.5 | <Note 4> |
| | 291.5 | 65.9 | |

Notes:

1) The patent decrease was due mainly to the amortization of RMB 6.5 million and impairment loss of RMB 11 million
2) Customer base consists of RMB 40.9 million from Fulong and RMB 31.0 million from Jianxin after deduction of amortization of RMB 4.2 million. The value of customer base was valued by Jones Lang LaSalle as at the date of acquisition. The amortization period is 10 years under the assumption stated in the valuation report.
3) Operating license is mainly from Fuxin which represented the value for entry of the electroplating services industry, as the operating license is limited to government grants and is considered to be a main revenue generator for Fuxin. The operating license was valued by Jones Lang LaSalle as at the date of acquisition. The amortization period is based on the useful life of the operating license.
4) Goodwill consists of RMB 2.9 million from Qingdao, RMB 41.2 million from Fulong, RMB 29.3 million from Jianxin, and RMB 26.0 from Fuxin. The value of goodwill from Fulong, Jianxin and Fuxin arose from the difference between the purchase consideration and the fair value of the identifiable tangible and intangible assets, which was prepared by Jones Lang LaSalle as at the date of acquisition.

***(ii) Please provide a breakdown of the major costs which were capitalised as intangible assets;***

The intangible assets arose from acquisition of the 3 new subsidiaries and were valued by Jones Lang LaSalle at the respective dates of acquisition and there was no other capitalized costs incurred.

***(iii)To disclose any changes to these original values and disclose the assumptions that were made for the acquisition of these intangible and the assumptions which have since changed in the latest valuation which resulted in the impairment to the fair values of these intangible assets.***

The original values of intangible assets were valued at fair value at the time of acquisition. The fair value was determined based on the valuation reports which were prepared by Jones Lang LaSalle. According to the FRS36 – Impairment of Assets, the impairment test should be performed annually. The Company applied the following steps in estimating the value in use for each of the intangible asset:

(a) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and

(b) applying the appropriate discount rate to those future cash flows.

***3. We note that for the purchase of land in Xiamen Island, the deposit of HKD193.4 million was paid by Bermuda-incorporated holding company Fuxing China Group Limited, which had resulted in significant foreign exchange loss when converted to RMB. Please disclose when the deposit was paid, why the deposit had to be paid through the holding company's bank account and to explain any regulatory requirements for the arrangements.***

In the Company's announcement dated 13 May 2011, the deposit was paid by Mr Hong Qing Liang and the Company through the Company's PRC bank account on 26 April 2011. The Company, being a foreign entity, has a HK$ foreign currencies saving accounts in PRC.

According to the terms of the purchase agreement, the purchase payment can only be settled by the successor. As the Company, Fuxing China Group Limited, is Bermuda registered entity, it had to set up a PRC incorporated project company in Xiamen City to obtain the land title and for subsequent development. An initial deposit of HK$193.4 million was placed with the land authority on 26 April 2011. After obtaining shareholders' approval at an SGM on 14 November 2011, the Company proceeded to complete the necessary documentation to apply for the land use rights for the Xiamen Land on 21 December 2011. The foreign exchange loss is largely due to the depreciation of HK$ during the period between 26 April 2011 and 21 December 2011 on which the actual payment was made.

***4. We note that average gross profit margin decreased by 2.6% points to 18.7% in 4Q2011. Please provide a discussion on the effects of selling price, volume and increase in cost of sales on the gross profit margin.***

The decrease in average gross profit margin by 2.6% points was due mainly to the decrease in gross profit margin from the Zipper segment. In 4Q2011, the total sales volume per ton increased by 40% and the selling price decreased by 11.5%. However, the cost of sales per ton increased by 1.1% resulting in a decrease in the gross profit margin by 4.9% points for the Zipper segment.

5. ***We note in the Company's disclosure that "the Group has slowed down and deferred some of its capital projects, but will continue to work on the following projects". Please disclose material information on all the significant projects including information on the size of these projects, the estimated costs of the projects, how such expansion plans would be funded and the costs incurred to-date.***

   The significant projects are as follows:

   (i) 9-floor workers' dormitory – the cost of construction, which was mainly funded by internal sources, is RMB 20 million, and its size will be 5,000 sqm. The estimated completion time will be in 2Q2012;
   (ii) 3-floor Production and storage area expansion – the cost of construction, which was mainly funded by internal sources, is RMB 32 million and its size will be 21,032 sqm. The estimated completion time will be in 1Q2012: and
   (iii) Xiamen HQ project – the estimated cost of construction, which will be funded by bank borrowings and internal sources, is approximately RMB 230 million and the maximum building area is 33,970 sqm. The estimated completion time will be within 3 years from commencement of development.

**BY ORDER OF THE BOARD**

Hong Qing Liang
Executive Chairman and CEO
8 March 2012