福兴集团
FUXING GROUP

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RESPONSES TO QUERIES FROM SGX-ST

The Board of Directors of Fuxing China Group Limited (the "Company" or together with its subsidiaries, the "Group") refers to the Group's second quarter and half year ended 30 June 2012 results announcement released via SGXNet on 14 August 2012.

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

1. We note a significant increase of 63% in general and administrative expenses from RMB13.6million in 2Q2011 to RMB22.1million in 2Q2012. Please provide a breakdown of the material items and elaborate on these items as well as reasons for the increase when revenue decreased by 22%. Please clarify whether the increase in allowance for doubtful debts was in relation to the recoverability of receivables from a major customer.

	Group			
	2Q2012 RMB'000	**2Q2011 RMB'000**	**Increase/ (Decrease) %**	**Remarks**
Allowance for doubtful debts	3,594	804	347	<Note a>
Amortisation of land use right	326	289	13	<Note b>
Amortisation of intangible assets	4,085	1,996	105	<Note c>
Social security insurance	4,778	434	1001	<Note d>
Salaries	3,720	1,446	157	<Note e>
Depreciation	2,614	1,160	125	<Note f>
Professional fees	352	4,860	(93)	<Note g>
Others	2,610	2,580	1	<Note h>
Total	22,079	13,569	63	

Notes:

a) Revenue decreased by 22% due mainly to the reduction in selling prices and the decrease in sales to major customers. The increase in allowance for doubtful debts was due mainly to the doubtful debts provided for some customers who had requested to have their credit period extended in order for them to have more time to make payments in view of the challenging market conditions. The Group had agreed to the credit extension period and taken a prudent and conservative approach by making an allowance for doubtful debts for these outstanding amounts. These customers are not the Group's major customers. The increase in allowance for doubtful debts was not in relation to the recoverability of receivables from a major customer. The Group's sales department will monitor the payment status of these collectibles closely.

b) The increase in amortization of land use right was due mainly to the 1 month's amortization cost of land use right for new subsidiaries acquired in May 2011 compared to 3 months' of amortization cost in 2Q2012.

c) The amortisation of intangible assets in 2Q2011 was mainly for the amortisation of patents of super durable zipper while the amortization of intangible assets in 2Q2012 included intangible assets for the 3 newly acquired subsidiaries.

d) The increase in social security insurance was due mainly to the RMB3.8 million provision of Social Security Insurance in 2Q2012 based on the increased number of staff of the Group with the inclusion of the additional staff from the 3 new subsidiaries compared to 2Q2011.

e) The increase in salaries was due mainly to the additional headcounts arising from the consolidation of the 3 new subsidiaries acquired in the 2nd half of FY2011.

f) The increase in depreciation was due mainly to additional properties, plant and equipment acquired in 6M2012 and the consolidation of the 3 new subsidiaries acquired in the 2nd half of FY2011.

g) Professional fees for the Taiwan Depository Receipts listing which had been aborted (announced in the Group's 3QFY2011 Results Announcement dated 14 November 2011) and the acquisition of 3 new subsidiaries were incurred in 2Q2011 but there was no such expense in 2Q2012.

h) Other expenses consist mainly of office expenses, insurance, entertainment, travelling expenses, meeting expenses, and stamp duty. The significant increase was due mainly to the consolidation of the 3 new subsidiaries acquired in the 2nd half of FY2011.

2. **We note an increase of 19% in property, plant and equipment ("PPE") from RMB301.2million as at 31 December 2011 to RMB358.6million as at 30 June 2012. It was disclosed that the increase in PPE was due mainly to the acquisition of plant and machineries and payment for completion of expansion of zipper production areas in Jinjiang factory. Please provide details of these acquisitions and the increase in capacity.**

	Additions in 1H2012 RMB'000	**Remarks**
Properties	43,087	<Note a>
Plant and machineries	36,306	<Note b>

Notes:

a) During the first half year of 2012, the Group expanded its zipper production areas in Jinjiang factory which is approximately 27,262 sqm. There was no increase in production capacity as it was an expansion of the production areas.

b) During the first half year of 2012, the acquisition of plant and machineries was mainly for the replacement of the old plant and machineries which had been in use for more than 10 years. In view thereof, there was no increase in production capacity.

3. We note that land use rights increased by 355% from RMB46.5million as at 31 December 2011 to RMB211.5million as at 30 June 2012. It was disclosed that this was result of the Company obtaining the certificate of land use right for the land in Xiamen in 1Q2012. Please provide more details of this land use right in Xiamen in accordance with requirements under Chapter 10 of the Listing Manual.

The Group made a prepayment for acquisition of the land use right in April 2011 and the certificate was obtained from the Xiamen government in March 2012. In view thereof, the Group reclassified the prepayment as land use right after the title of land use right had been successfully obtained in 1Q2012.

As announced on 13 May 2011, the Company intends to acquire a plot of commercial land in Xiamen ("Target Land Parcel") for the future development of office building(s) and premises to accommodate the Company's administrative operations and serve as the headquarters of the Group. The Group will also have the option to lease out any additional premises which are in excess of their own needs and requirements.

Under the requirements of Chapter 10 of the Listing Manual, the relative figures computed on the bases set out in Rule 1006 of the Listing Manual are disclosed under pages 7 to 8 in the circular dated 28 October 2011 to shareholders in relation to the proposed acquisition of Land Parcel in Xiamen City, Fujian Province, The People's Republic of China and the proposed construction and development of office buildings thereon. Since the relative figure for Rule 1006(c) is 57.4%, and which exceeds 20%, in respect of the Proposed Land Purchase and Development of the Target Land Parcel, the latter is regarded as a major transaction pursuant to Rule 1013 of the Listing Manual. Accordingly, the Proposed Land Purchase and Development is conditional upon the approval of the shareholders in a general meeting. As such, the Group held a Special General Meeting ("SGM") on 14 November 2011 for shareholders' approval of the above mentioned proposed acquisition. Accordingly, the shareholders' approvals were obtained and the ordinary resolution was passed at the SGM. An announcement of the results of the SGM was made on 14 November 2011.

4. We note that there is an increase in amortization of intangible assets in 2Q2012 due mainly to the increase in intangible assets from the 3 newly acquired subsidiaries in FY2011. Please quantify and explain if the increase in sales arising from acquisition of these intangible assets is greater than the increase in amortization of intangible assets.

	Group		
	2Q2012	**2Q2011**	**Increase**
	RMB'000	**RMB'000**	**RMB'000**
Revenue arising from the acquisition of customer base and operating license of the 3 newly acquired processing subsidiaries	20,588	8,569	12,019
Amortisation of intangible assets (customer base and operating license of the 3 newly acquired processing subsidiaries)	2,920	-	2,920

Reference is made to the figures tabled above. The increase in sales arising from the acquisition of the intangible assets (customer base and operating license of the processing segment) in 2Q2012 compared to 2Q2011 is RMB12.0 million, while the increase in amortization of intangible assets in 2Q2012 compared to 2Q2011 is RMB2.9 million. As such, the increase in sales arising from the acquisition of these intangible assets is greater than the increase in amortization of intangible assets.

5. The Company has indicated "Not applicable" in paragraph 9 of the results announcement. Please comment whether the results for the current quarter are in line with the Company's commentary in paragraph 10 of the results announcement dated 14 May 2012.

Under paragraph 10 of the 1Q2012 results announcement dated 14 May 2012, the Company stated under 1st paragraph of the commentary that "the Group expects to continue to operate under a highly competitive and challenging environment as the zipper industry in the PRC faces intense competition with lower profit margin while under 2nd paragraph of the commentary, the Company stated that " the Group expects the market for zippers to be challenging for the rest of 2012 in view of the rising labour costs in PRC, uncertainties for export sales and a possible economy slowdown in PRC.

In 2Q2012, the Group operated under a highly competitive and challenging environment with lower profit margin, resulting in a loss for 2Q2012. As such, the current results for the current quarter are in line with the Company's commentary in paragraph 10 of the results announcement dated 14 May 2012.

BY ORDER OF THE BOARD

Hong Qing Liang
Executive Chairman and CEO

23 August 2012