FUXING CHINA GROUP LIMITED (THE "COMPANY")
(Incorporated in Bermuda)
(Company Registration No.:38973)

RESPONSE TO QUERIES FROM SGX-ST

The Board of Directors of the Company together with its subsidiaries, (the "Group") refers to the Group's financial year ended 31 December 2012 results announcement ("Results announcement') released to SGX-ST via SGXNet on 28 February 2013.

The following information is in response to the SGX-ST's queries date 8 March 2013:

1. **On page 1 of the results, "Other income and other expenses" came up to negative RMB17.4 million for 4Q12 which is material compared to the Company's loss of RMB139.7 million. To provide a breakdown of this amount of RMB17.4 million and provide details on the material items.**

   Company's response :

   The breakdown of "Other income and other expenses" for 4Q12 is as follows :

	RMB'000
Gain from fair valuation of investment properties	46,181[(1)]
Foreign exchange gain, net	1,618[(2)]
Waiver income for cancellation of disposal of investment properties	4,000[(3)]
Compensation for cancellation of disposal of investment properties	(4,000)[(3)]
Provision for minimum tax contribution expenses	(65,000)[(4)]
Others	(164)
Total	(17,365)

Notes:

1) The gain from the fair valuation of investment properties represented the increase in market value of the investment properties as at 31 December 2012.
2) The foreign exchange gain was as a result of appreciation of SGD and USD against RMB arising from balance in the Company's bank accounts
3) Please refer to the Results announcement on page 14 and the response to question 9 below.

4) As explained in the Results announcement on page 13, the provision for minimum tax contribution for 5 years starting from 2011 to 2015, for an amount of RMB 65 million was made in accordance with FRS37 – Paragraph 66.

2. We note on page 6 of the results that the Group made substantial investments (RMB98.7 million) in Property, Plant and Equipment including the purchase of plants and machineries, and expansion of zipper production areas in FY2012 despite weak demand in the Group's products. Please provide a prospects statements in this respect, explaining the rationale for the investments in production capacity.

Company's response :

The investment in Property, Plant and Equipment consists of investment in equipment and expansion of the zipper production area and staff dormitory.

The purchase of plant and machineries is part of the Group's equipment renewal process to replace machineries which are more than 10 years. The replacement will reduce the repair and maintenance costs for machineries. The purpose of renewing the machineries is to increase the use of automation and improve efficiency of the Group's operation.

The expansion of zipper production area and staff dormitory which started in FY2010, was completed in the second quarter of FY2012. The purpose of the expansion of the zipper production area and staff dormitory is to improve the working environment for all staff and workers so as to keep staff turnover rate low.

3. On page 10, sub-section 1(d)(ii) of the results, as required under the listing rules, please disclose the number of shares that may be issued on conversion of all the outstanding convertibles, if any.

Company's response :

For the year ended 31 December 2012, there were no outstanding convertibles.

4. **On page 13 of the results, the Company cited the increase in revenue contributions from the newly acquired processing operations namely Fulong Zipper and Weaving Co., Ltd, Jinjiang ("Fulong"), Jinjiang Jianxin Weaving Co., Ltd ("Jianxin") and Jinjiang Fuxin Electroplating Co., Ltd ("Fuxin") (totaling RMB 16.3 million) (collectively referred as the 'Processing segment"). To provide a review on the performance of these newly acquired entities and elaborate on the factors which affected their operations and provide a discussion on their prospects in the next reporting period and for FY13.**

Company's response :

Review of Processing segment 's performance

	Group			Group		
	3 months Ended 31/12/2012 Unaudited	**3 months Ended 31/12/2011 Unaudited**	**Increase/ (Decrease) %**	**Year Ended 31/12/2012 Unaudited**	**Year Ended 31/12/2011 Audited**	**Increase/ (Decrease) %**
REVENUE						
Processing	21,649	29,054	(25)	80,344	64,040	25
GROSS PROFIT						
Processing	1,053	1,087	(3)	9,641	16,881	(43)
Group's Gross Profit	13,125	30,990	(58)	54,698	157,506	(65)
As % of Group's Gross Profit	8%	4%	4% pts	18%	11%	7% pts

Revenue from the Processing segment for FY2012 amounted to RMB80.3 million, registering an increase of 25% compared to RMB64.0 million in FY2011. The increase was due mainly to a full year contribution by the Processing segment in FY2012 compared to partial contribution in FY2011 as the Processing subsidiaries were acquired in the second half of FY2011.

Revenue from the Processing segment decreased by 22% and 25% in 3Q 2012 and 4Q2012 respectively compared to 3Q2011 and 4Q2011. This was due mainly to a deteriorating market for the processing industry in the PRC which was adversely affected by the general slowdown in the global economy.

The Processing segment contributed 18% of the Group's gross profit in FY2012 which represented 7 percentage points increase from 11% in FY2011. For 4Q2012, the gross profit contribution by the Processing segment increased by 4 percentage points to 8% compared with 4% in 4Q2011.

Outlook for the Proecessing segment

The Group expects the slow economic growth in the PRC as well as the potential increase of production costs are likely to affect the Processing segment's operating outlook for the next 12 months.

5. On page 13 of the results, the Company attributed the decrease in revenue from the Zipper segment to "a deteriorating market for the zipper industry in the PRC which was adversely affected by the general slowdown in the global economy. This had led to the Group reducing its selling prices to retain customers' orders." To elaborate how the Company's revenue was affected by the decrease in selling price and whether it had any impact on the quantity of customers' orders. Please details and quantify.

Company's response :

The average selling prices decreased by 34% per kg, while the sales volume increased by 17% in FY2012 when compared to FY2011.

Following the decrease in selling price, the Group's revenue also decreased. The increase in sales volume was not enough to mitigate the adverse effects of the decrease in selling prices. As a result of lower selling prices, the Group's revenue was adversely affected and reduced by RMB106.7 million or (16%) to RMB568.7 million.

6. **On page 13 of the results, the Cost of Production increased by 9% despite a decrease in sales of 16% in Q412. To provide a breakdown of this Cost and explain for the material items and reconcile for any material fluctuations.**

Company's response :

Breakdown of cost of sales

	4Q2012	4Q2011	% change
	RMB'000	RMB'000	
Opening stock at 1 Oct	78,571	96,669	
Raw materials	115,580	98,135	18[1]
Salaries	11,057	12,225	(10)[2]
Depreciation of property, plant and equipment	6,568	5,598	17[3]
Others	12,154	16,626	(27)[4]
	223,929	229,253	
Allowance for inventory written down	(7,731)	-	NM[5]
Inter-segment sales	(12,336)	(12,333)	-
	203,862	216,920	
Closing stock at 31 Dec	(56,731)	(81,996)	
	147,131	134,924	9

Note:

1) Raw materials increased due to the increase in production in 4Q2012 as a result of an increase in sales volume.
2) Salaries decrease due to the decrease of overtime in 4Q2012.
3) Depreciation of property, plant and equipment increased due to the replacement of plant and machineries in FY2012 and some of the plant and machineries were fully depreciated in FY2011.
4) Others included electricity, consumable goods, sub-contracting fees, etc. The significant decrease was due mainly to enhancement of cost control on production.
5) In respect of the reason for write down of inventories, please refer to the response to question 13.

7. **On page 13 of the results, the Company informed that the Group will be required to pay tax of not less than RMB10 million in the first 2 years and RMB15 million in the coming 7 years following the registration of Xiamen Fuxing Industrial Co Ltd to hold the land use right. Please disclose the basis for the calculation of the RMB 10 million and RMB12 million, and how the significant amounts were derived.**

Company's response :

The provision for minimum tax contribution was based on the agreement signed with the local government pursuant to which the amount was provided in the agreement. The amount of RMB65 million was derived from past 2 years tax payment and the foreseeable tax payment in the next 3 years. Accordingly, the Group made a provision for minimum tax contribution expenses according to FRS37 "Provisions, Contingent Liabilities and Contingent Assets" – Paragraph 66 as an unavoidable costs.

8. **The Company further informed that due to the delayed approval of the building and construction permit from the Xiamen's local authorities, the construction of Xiamen headquarter commenced in the late 4Q2012. Please provide details of the construction project and disclose the reasons for the delay. To disclose the total cost of construction and how this amounted would be funded.**

Company's response :

Details of the construction project plan are as follows :

Total construction	51,612.02 sq m
Commercial office (25 floors)	33,970 sq m
Basement car park (4 floors)[1]	17,642.04 sq m
Building height	100 metres

<u>Costs of construction</u>

Based on the total floor area of 51,612 sq m, the estimated costs of construction would be around RMB 230 million excluding costs of interior design works.

Source of Funds

The total costs of the acquisition of the Target Land Parcel will be satisfied by internally generated funds. The total construction costs of the office building on the Target Land Parcel will be satisfied using internally generated funds as well as bank borrowings. It is currently estimated that around 40% of the total construction costs will be funded by bank borrowings, subject to finalization of the building plans.

The delay in the commencement of the Xiamen HQ project was due to the delay by the Xiamen's local authorities in the issuance of the building and construction permit. The Group received the building and construction permit from the Xiamen local authorities on 31 December 2012 and commenced building and construction work in January 2013.

9. In para 1, page 14 of the results, the Company stated that "the HK$4 million of compensation expenses and waiver of compensation has been recorded separately in other expenses and other income in compliance with FRS1 – Presentation of financial statement." the Company disclosed that this amount was borne by Mr Hong, the Executive Chairman and CEO of the Company. Please explain why the HK$4 million was an expense by the Company if the compensation expenses were borne by Mr. Hong and elaborate on the effects of applying FRS1 to this payment of HK$4 million.

Company's response :

As explained in the Results announcement on page 14, the Company was obliged to pay a compensation of HK$4 million as a mutually agreed settlement amount between the Company and Purchasers. At this stage, the Company had recorded it as compensation expenses.

Mr Hong Qing Liang (CEO) had however remitted funds out of his personal bank account and directly settled the full amount of the HK$4 million compensation. Mr Hong had also promised to waive any reimbursement from the Company. The Company had obtained a written waiver of reimbursement from the CEO.

Under FRS1 – Presentation of financial statement, Para 32 under the heading "offsetting", "An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by a FRS." Therefore, the HK$4 million of compensation expenses and waiver of compensation had been recorded separately in other expenses and other income respectively in compliance with FRS1.

10. **Under "General and Administrative Expenses" on page 14 of the results, the Company accounted RMB7.7 million for write down of inventory for FY12. To provide reasons for this write down.**

Company's response :

In compliance with Financial Reporting Standard 2, Inventories, the Group's inventories need to be stated at the lower of its costs and net realizable value. Management has assessed the net realizable value of the inventory as at the year ended 31 December 2012, and made a provision to write down the inventory value based on its lower net realizable value of the inventory compared to its costs.

11. **Under "General and Adminstrative Expenses" on page 14 of the results, the Company attributed the increase in allowance for doubtful debts mainly to requests from some customers for a longer credit period. To elaborate why the request for a longer credit period resulted in an increase in allowance for doubtful debts.**

Company's response :

Due to the economic slow down in the PRC, the Group's customers have requested for longer credit terms. According to the Group's accounting policy for allowance for doubtful debts, the extended credit period will be prudently accounted for as allowance for doubtful debts. Management is closely monitoring those customers which have long outstanding debts by having salespersons physically present on site to follow up and collect the outstanding balances.

12. **Under General and Administrative Expenses on page 14 of the results, the Company reported an "impairment of intangible assets representing impairment of goodwill on consolidation attributable to the Processing segment (RMB 80.0 million)". The Company added that "the impairment was made due to the decrease in projected revenue and profits in the next five years used in the discounted cashflow as a result of the weak market demand which reduces their recoverable amount (using discounted cash flows) determined using profit forecasts and cash flow projections."**

Please disclose what the total cost of the intangible assets was and how was its original valued was derived and who carried out the valuation of this amount. What were the decrease in projected revenue and profits used in discounting the cashflow that resulted in the significant impairment of RMB80 million? To provide elaboration and applicable data to explain the change in assumptions which led to the significant impairment.

Company's response :

The intangible assets represented goodwill arising from acquisition of subsidiaries. Goodwill of RMB 41,181,000, RMB 29,291,000 and RMB 25,990,000 arose from the acquisition of Fulong, Jianxin and Fuxin respectively ("collectively known as the Processing Segment"), in FY2011. The cost of goodwill is the difference between the fair value of the purchase consideration and the fair value of net assets of each entities acquired as at the date of acquisition. The Purchase Price Allocation Report for the valuation of net assets for the Processing Segment as at the date of acquisition was performed by Jones Lang LaSalle ("JLL"), an independent valuer.

The Group had acquired these three companies in order to enhance its competitive advantage in the industry, capturing operational synergies as these value-added services provided by the subsidiaries are brought in-house. However, in FY2012, an impairment loss on goodwill was made due to a deteriorating market for the processing industry in the PRC which was adversely affected by the general slowdown in the global economy.

Impairment testing of goodwill

Goodwill acquired through acquisitions of Fuxing Qingdao, Fulong, Jianxin and Fuxin have been fully allocated to two cash-generating units (CGU), which are also the reportable operating segments, for impairment testing as follows:

- Zipper Chain Segment
- Processing Segment

The carrying amounts of goodwill allocated to each CGU are as follows:

	Zipper Chain Segment		**Processing Segment**		**Total**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Goodwill	2,946	2,946	16,462	96,462	19,408	99,408

The recoverable amounts of the CGUs have been determined based on value in use calculations using discounted cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projections and the forecasted growth rate used to extrapolate cash flow projections beyond the five-year period are as follows:

	Zipper Chain Segment		**Processing Segment**	
	2012	**2011**	**2012**	**2011**
Growth rates	4.0%	2.0%	4.0%	2.0%
Pre-tax discount rates	8.51%	10.4%	8.51%	10.4%-11.1%

The calculations of value in use for the CGUs are subject to the following key assumptions:

Terminal value of the CGU – In FY2011, the operations of the Processing Segment are assumed to be operating in perpetuity due to the assumption of the CGUs as going concerns and that the operating license will be renewed in perpetuity. This is also contributed by the fact that FY2011 was the first year that the Processing Segment had been acquired by the Group. However, in FY2012, the assumption of the useful lives of the Processing Segment has been revised to 16 years which is based on the effective period of the operating license of the Processing Segment to reflect the uncertainty of the current market condition of the industry that the CGUs operate in.

Growth rates – The forecasted growth rates are based on the Group’s sales volume increased (17%) in FY2012 and the PRC GDP growth rate (7.8% in FY2012 and estimated 8.4% in FY2013).

The Group has used a growth rate of 4% in preparing its cash flow projections to reflect the uncertainty of the global economy which will adversely affect the economy of the PRC.

Subsequent to the changes in the key assumptions mentioned above, an impairment loss of RMB 80 million was made in order to reflect the fair value of the goodwill on acquisition of the Processing Segment.

13. **In the 2nd last para of page 14 of the results, the Company said : "The write down of inventory represented write down as a result of the net realizable value is lower than cost when compared with recent market price". To provide data (where applicable) and quantify the % decrease in value when compared to the market price, and elaborate if this was in line with changes in the selling price in the industry.**

Company's response :

The average selling price in the Zipper Segment decreased by 34% in FY2012 to RMB14.0 per kg compared to RMB21.6 per kg in FY2011, while the decrease in cost of production was only 21%. Therefore, the writing down of inventory is represented, and in line with the change in average selling price (i.e. net realizable value).

14. **In the last para of page 15 of the results, the Company said : "The Group's gross profit decreased by RMB 17.9 million (or 58%) to RMB 13.1 million. The decrease in gross profit was attributable to the reduction in selling prices to increase customers' orders, the production capacity increased by 22 percentage points from 76% in 3Q2012 to 98% in 4Q2012."**

To provide details on the significant increase in production capacity and elaborate on the reasons production capacity was increased when, on page 19 of the results the Company said "the Group faced a significant reduction in sales arising from shrinkage in demand for zippers……….. The average utilization rates of the Group's production facilities in FY2012 for zipper chains and zipper sliders were approximately 79% and 38% respectively". To elaborate, and provide details on whether industry demand or customer orders have been placed to support the Company's decision to increase production capacity when margins were negative.

Company's response :

The significant increase in production capacity refers to the increase in the utilization rate of our existing production lines to 98% for the zipper chains in 4Q2012, whereby out of the maximum capacity of 6,406,000 kg for zipper chains, 6,257,000 kg of zipper chains was produced. In 4Q2012, the prices were reduced to attract more customers' orders.

However, the increase in sales volume was not enough to mitigate the adverse effects of the decrease in selling prices, the Group's revenue decreased by RMB 106.7 million or 16% to RMB 568.7 million.

The reduction in selling prices had enabled the Group to retain its customers. In 4Q2012, when the selling price decreased by 4% compared to 3Q2012, the quantity of sales increased by 2%. The Group believes that retaining its customers and defending its market share are important strategies.

Based on the current utilization rate of the production line in zipper chain segment (currently at approximately 79%), the Group believes that the zipper chain segment has the abilities to satisfy the potential increase in demand of zipper chain in future with increase in the utilization rate of our existing production lines in zipper chain segment.

15. **On page 18 of the results, the Company said: *"The Group made advance payments to these suppliers to secure ready supply of raw materials at competitive prices". It is a usual practice of the Group to make advance payments to suppliers at the beginning of the year to enable the Group to secure the price and supply of raw materials for the whole year. This would enable the Group to enjoy cost savings in the event of raw material price fluctuations."***

i. To provide details of such practice and how the amount of advance payments are calculated;

Company's response :

In dealing with the suppliers, the Group will sign supply agreements with various suppliers. The supply agreements include advance payments which will be calculated based on certain percentage of the total contract price in order to secure the supplies. The Group will make the advance payments to the suppliers after the supply agreements have been signed.

ii. **To identify these suppliers and explain whether assessments of financial and credit standings of such suppliers have been undertaken prior to making such significant advance payments;**

Company's response :

The Group has procedures in place to assess the details of its suppliers annually, which include *inter alia* reviewing the suppliers' business registration documents, having formal meeting with suppliers, reviewing the quality and timeliness of the supply of raw materials in last few years. In order to retain a stable supply and long-term relationship with the suppliers, the Group will make advance payments to these suppliers after the agreements have been signed.

iii. **To identify these raw materials whose prices were being hedged and provide details on the hedging prices, and the quantities of these raw materials secured at the respective price points;**

iv. **To comment on the performance of the hedged prices in relation to the market price of such raw materials currently; and**

Company's response :

The Group does not have a policy to hedge the price of raw materials and has not entered into any purchase agreement to hedge the raw materials price at a fixed level. As the raw materials prices fluctuate from day to day, the suppliers will directly decrease the purchase price in a range of 1% to 5% at the time of delivery of the raw materials to the Group.

v. To state how long in advance (in terms of months) were such payments made.

Company's response :

The Group normally makes 2 to 3 months advance payments to suppliers.

BY ORDER OF THE BOARD

Hong Qing Liang
Executive Chairman and Chief Executive Officer
12 March 2013