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

RESPONSES TO QUERIES FROM SGX-ST

The Board of Directors ("the Board") of Fuxing China Group Limited ("the Company" or together with its subsidiaries, the "Group") refers to the Group's full year ended 31 December 2016 ("FY2016") results announcement released to SGX-ST via SGXNet on 23 February 2017 ("the Results").

The following information is in response to the SGX-ST's queries dated 7 April 2017:

1. **Under the Company's Balance Sheet, the Group had recorded Prepayments to Suppliers amounting to RMB73.74 million for FY2016.**
   Please provide:-
   a. **Details and a breakdown of these prepayments;**
   b. **Identities of the suppliers and the amount that has been prepaid to each supplier;**
   c. **Reasons as to why such significant amount of prepayment is required to be made to the suppliers;**
   d. **Details and payment terms of the contracts that gave rise to the prepayments of RMB73.74 million; and**
   e. **The Board of Directors' view whether such prepayments are justifiable.**

<u>**Company's response:**</u>
1(a) and 1(b) : The breakdown of "Prepayments to Suppliers" is as follows:

	Balance at 31/12/2016 RMB'000	Balance at 31/12/2016 RMB'000	Notes
Prepayments for purchases of raw materials			
福建百宏聚纤科技实业有限公司	29,167		<1>
Fujian Billion High-Tech Material Industrial Co. Ltd.			
福建省金纶高纤股份有限公司	17,817		<1>
Fujian Jinlun Fuber Shareholding Co. Ltd.			
上海安泰科物贸发展有限公司	14,502		<1>
Shanghai Antaike Materials & Trading Co. Ltd			
Others	10,130	71,616	<1>
Prepaid expenses		2,121	<2>
Total		73,737	

Notes:

1. The Group made prepayments to these suppliers to secure ready supply of raw materials at competitive prices and this had always been the Group's practice.

2. Prepaid expenses mainly represented the prepayments of advertising expenses (including road show fee, advertising lightbox, billboard, etc.), and information technology expenses (eg. system and server maintenance expenses, research of new products, etc.).

1(c). As explained in above note (1), the prepayments to suppliers were to secure supply of raw materials at competitive prices for the year. This would result in cost savings for the Group in the event of raw materials prices fluctuations.

1(d). For major suppliers, the Group will make full prepayments to these suppliers after the agreements have been signed. According to the purchase agreements, the prepayments can be refunded (without interest) in the event of no delivery of goods by the agreed date. For other smaller suppliers, the Group will normally make prepayments of about 30% of the respective contract value and the Group has 30 days credit period to settle the remaining 70% of the contract value

1(e). The suppliers are the usual ones used by the Group and the Group has also established a long and good working relationships with these suppliers. In addition, the Group has its internal procedures to assess the performance of its suppliers annually, which include *inter alia* reviewing the suppliers' business registration documents, arranging formal meetings with the suppliers, reviewing the quality and timeliness of their supply of raw materials. The Group also has its authorization matrix in governing prepayment process. All prepayments need to be approved by at least 1 Executive Director. Amounts exceeding RMB15 million will require approval from at least 2 Executive Directors as well as the Audit Committee and Board. In view of the above, the Board opined that the prepayments are justifiable. Subsequent to the balance sheet date as at 31 December 2016, 60% of prepayments to suppliers had been converted to purchases for the period ended 28 February 2017.

2. **Under the Company's balance sheet, the Company recorded Trade and Other Receivables amounting to RMB271.3 million. Please provide a breakdown of the trade and other receivables, the underlying transactions that gave rise to this significant amount of RMB271.3 million as well as an aging analysis of the trades and other receivables**

   <u>Company's response:</u>

   2. The breakdown of the trade and other receivables is as follows :

	1 to 90 days RMB'000	91 to 180 days RMB'000	More than 180 days RMB'000	Balance at 31/12/2016 RMB'000	Notes
Trade receivables	147,835	95,414	12,883	256,132	<1>
Bills receivables	5,853	3,120	-	8,973	<2>
Other receivables	562	753	4,883	6,198	<3>
Total	154,250	99,287	17,766	271,303	

It is the Group's accounting policy to make provision for those trade and other receivables aged over 180 days and if their outstanding amounts exceed the credit limit. From the above table, the amount which was due more than 180 days was not provided for as these amounts were owed by the Group's regular customers who were still making regular payments.

Notes:

1) As the bills receivables were aged less than 180 days, no provision was made.

2) Other receivables consist of deposits for utilities (eg. electricity, gas, telephone, etc) and tax receivables.

3. **Under the Company cash flow statement, the Company recorded an amount of RMB31.52 million as Income Tax Paid.**

   Please provide:-

   a. **A breakdown of RMB31.52 million that was paid, detailing which bureaus the income tax were paid to and how much was being paid to each bureau;**
   b. **The reasons/transactions that give rise to the significant amount of income tax amounting RMB31.52 million,**
   c. **The tax rate applicable and how the tax paid was calculated.**

<u>Company's response:</u>

3(a). The breakdown of the tax paid is as follows:

	Year ended 31/12/2016	Notes
The PRC	RMB'000	
Withholding tax on distribution of profit	29,606	<1>
Current tax paid	689	<2>
Hong Kong – current tax paid	1,212	<3>
Total	31,507	

Notes:

1) On 22 February 2008, the State Administration of Taxation of China issued a circular Caishui 2008 No.001, which stated that distribution of dividends from profits accumulated from 1 January 2008, shall subject to a withholding tax on distribution to foreign investors. Accordingly, the Group had provided for deferred tax liabilities on the Group's profit-making PRC subsidiaries' net profit attained from 1 January 2008 onwards. As Jade Star (the PRC's subsidiaries' immediate holding Company) was incorporated in the British Virgin Islands, the applicable withholding tax rate is 10%.

2) The income tax was paid to the State Administration of Taxation in the PRC.

3) The income tax was paid to Inland Revenue Department in Hong Kong.

3(b). As explained in the Results, the significant amount of tax paid was due mainly to the settlement of withholding tax on distribution of dividends from the Group PRC subsidiaries' profits accumulated from 1 January 2008.

3(c). The income tax was calculated based on the accessible profit of each respective subsidiary company. The tax rate of each tax bureau is as follow:

<u>The PRC:</u>

Pursuant to the Enterprise Income Tax Law of the PRC (the "EIT" Law) promulgated by the National People's Congress on 16 March 2007 (effective from 1 January 2008), resident and non-resident enterprises deriving income from the PRC are subject to Enterprise Income Tax ("EIT"). Under the EIT Law, EIT applies to all enterprises, including FIEs and domestic enterprises. The general applicable EIT tax rate in the PRC is 25%.

<u>Hong Kong :</u>

The statutory income tax applicable to a Hong Kong company is 16.5%.

4. Under the Company's commentary on its Revenue found on page 12 of the Financial Results, the Company disclosed that its trading segment relates to the sourcing and buying of certain raw materials and that the increase of revenue from the Trading segments was due to an increase in sales order from customers during FY2016. Please provide the following details:-

   a. The raw materials that was traded;
   b. A discussion on the factors that led to the increase in sales order from customers that resulted in an increase of RMB152.2 million in the Company's revenue from its trading Segment;
   c. The credit terms and prepayments required by the suppliers and paid by the customer and whether such payment terms from customers are backed by bankers' guarantee as well as how the credit risks for Trading Segment has been managed by the Board of Directors; and
   d. An explanation detailing how the profit margin of the trading segment has addressed the financing of cost.

<u>Company's response:</u>

4(a). The raw materials traded by the Group's Trading Segment included rubber thread, nylon fabric and nylon yarn.

4(b). The increase in revenue from the Group's Trading segment was mainly attributable to increase in sale orders from its existing customers due to the effective pricing strategy of the Group and sale orders from a new customer.

4(c). The payment terms from the suppliers are cash on delivery. The Company uses bills payables to settle the amounts due to its trade suppliers and the credit period for the bills payables is 120 days. The credit period for the Group's Trading segment customers is also 120 days which matches the credit period for the bills payables.

The Group is mindful of the credit risk exposure of the Trading segment. The Group therefore trades only with creditworthy customers. It is the Group's policy that all customers who request to trade on credit terms are subject to the Group's credit verification procedures. In addition, receivable balances are monitored closely on a regular and on-going basis. As per the Company's records, the trade receivables in the Group's Trading segment were collected within the stipulated credit period. No bad debts provision was made as of to date. Subsequent to the balance sheet date as at 31 December 2016, 76% of the trade receivables of the Group's Trading segment had been collected.

4(d). For FY2016, the gross profit margin for the Group's Trading segment was 2.2%. In the Results – item 15 – Segmental analysis, the gross profit for the Group's Trading segment was RMB 9.3 million while the financing expenses were RMB 3.6 million. The gross profit margin was sufficient to cover the cost of financing.

5. **On page 13 of the Financial Results, we note that as at 31 December 2016, the provision of doubtful other receivables referred to debts more than 6 months provided for Qingdao HS which amounted to RMB16 million.**
   Please disclose reasons as to why this amount of RMB16 million from Qingdao HS has not been paid to the Company and if this is considered as an event of default under the Sales and Purchase agreement for the disposal of Qingdao HS. Please also disclose why the Company has not pursued the collection of this RMB16 million from Qingdao HS.

Company's response:

5. As mentioned in the Results, the provision for doubtful other receivables was made as Qingdao HS did not have sufficient working capital to settle the outstanding amount of RMB16 million.

   The Group is pursuing to collect this RMB16 million from Qingdao HS. Management had negotiated with the purchaser of Qingdao HS on the repayment terms. As the purchaser of Qingdao HS had requested more time to remit funds from overseas to settle the outstanding RMB16 million, it was agreed that 30% of the amount owing would be repaid to the Group by 30 June 2017 while the remaining 70% would be repaid by 31 December 2017. Out of prudency, the Group provides for the RMB16 million in accordance with its accounting policy.

   As announced by the Company on 7 September 2016, the disposal consideration had been duly paid to the Company by the purchaser on 5 September 2016. The settlement of the amount due from Qingdao HS was not included as one of the warranties and representations and terms under the Sales and Purchase agreement signed, thus the RMB16 million due from Qingdao HS is not considered as an event of default under the Sales and Purchase agreement for the disposal of Qingdao HS.

6. **We refer to the SGX publication in its Regulatory Column on 17 November 2015 "What SGX expects from companies reporting sudden adverse financial changes" (http://www.sgx.com/wps/wcm/connect/sgx_en/home/regulation_v2/consultations_and_publications/Regulators/What-SGX-expects-from-companies-reporting-sudden-adverse-financial-changes). Similar to these observations, for FY2016, the Company had reported provisions, write-offs and impairments amounting to approximately RMB82.6 million from:**

   i. **An allowance for doubtful trade receivables amounting to RMB13.2 million;**
   ii. **An allowance of doubtful other receivables amounting to RMB16 million;**
   iii. **Write-offs amounting to RMB16.4 million for spare plant and equipment, in addition to RMB5.27 million written off in FY2015; and**
   iv. **An impairment loss of RMB37 million on investments properties compared to a gain of RMB7.02 million in FY2015.**

   (a) **Please provide a breakdown of the plant, property and equipment amounting to RMB16.4 million, detailing which businesses these plant, property and equipment were related to, the reason for the write-offs and how the value of the write-offs were determined;**

   (b) **Please disclose the internal controls that are in place that allowed the Board to deliberate and question the merits of the write offs, impairments and provisions made by the Company or actions that are or be taken by the by management to recover the amounts written off as well as provide details of the reasonableness of the methodologies used to determine the values of write-offs or impairments of the HQ Project.**

   (c) **Please disclose if the Board sought appropriate independent professional advice, such as opinions from a reputable law or international accounting firm with the necessary experience and a good track record in advising the company on the merits of the above provisions, write-offs and impairments amounting to RMB82.6 million**

   (d) **The Company disclosed that it had spent RMB136.35 million in FY2016 and RMB71.8 million in FY2015 on the construction of its Xiamen Headquarters ("HQ Project") which will be used as an investment property to generate rental income and yet the Company disclosed that an impairment loss of RMB37 million on this HQ Project while it is still in construction. Please disclose:-**
      i. **The total cost spent on the construction of the HQ Project till date and a breakdown of the cost that has been incurred;**

ii. **Further cost is expected to be incurred prior to the completion of HQ Project;**

iii. **Details on how the cost of construction of the HQ Project is being financed; and**

iv. **Details on how Audit Committee of the Company verified the reasonableness of the impairment loss of RMB37 million on the HQ Project when it is still in construction.**

Company response:

6(a) The breakdown of property, plant and equipment written off is as follows :

Business Segment	Year ended 31/12/2016 RMB'000
Zipper Chain	5,378
Zipper Slider	6,055
Processing	4,935
Total	16,368

As mentioned in the Results, the Company had written off its old plant and machineries, having successfully installed its automated machineries in FY2016 as part of its efforts to automate its production process. The written off value was the net book value of the old plant and machineries as at 31 December 2016.

6(b). Management will assess the impairment of all the Group's financial assets the end of each financial year. Any provision, write-off and impairment will be proposed by Management and supported by the relevant reason(s). Any significant amounts of impairment will have to be supported by an independent valuation report. Management had explained the grounds and reasons to the Audit Committee and the Board during the last meetings before releasing the Results.

6(c). As mentioned in above 6(b), Management had sought an independent valuer advice from Jin Jiang Decheng Asset Appraisal Co., Ltd ("Jin Jiang Decheng") who provided a valuation report of the Group's investment properties, property, plant and equipment as at 31 December 2016. Jin Jiang Decheng has the relevant professional qualification as a valuer and has experience in valuing similar properties and assets as the Group.

6(d)(i). The breakdown of costs incurred on the construction of the HQ Project is as follows:

	Year ended 31/12/2016 RMB'000	Note
Land use right	160,700	
Main construction cost	99,018	
Design fee	30,440	
Decoration for public areas	29,750	
Glass curtain walls	27,540	
Bank loan interest	22,750	
Air-conditioning cost	21,987	
Air-conditioning installation cost	8,016	
Garden Decoration	6,020	
Elevator	5,465	
Foundation Engineering	5,215	
Others	35,676	<1>
Total cost incurred	452,577	

Note:

1) Others represented construction items below RMB5 million such as lightings, stone floor, electricity and water, etc.

6(d)(ii). The expected further completion costs will be around RMB12 million mainly for interior renovation of the HQ Project.

6(d)(iii). The HQ Project was financed by a bank loan amounting to RMB110 million and internal funds from the Group.

6(d)(iv). The Audit Committee ("AC") had reviewed the valuation report as well as the competence, objectivity and independence of the valuer, Jin Jiang Decheng. The AC had also reviewed the basis, including the assumptions applied and methodology used for valuation in the light of the progress of the construction till date of the report and the condition of the property market relevant to the investment property of the Group and concurred with the impairment loss of RMB37 million as assessed by Jin Jiang Decheng.

BY ORDER OF THE BOARD

Hong Qing Liang
Executive Chairman and Chief Executive Officer
12 April 2017