

## **FUXING CHINA GROUP LIMITED**

(Incorporated in Bermuda)

(Company Registration No.:38973)

### **RESPONSES TO QUERIES FROM SGX-ST**

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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 2017 results announcement released to SGX-ST via SGXNet on 10 August 2017.

The following information is in response to the SGX-ST’s queries dated 2 October 2017:

#### **1. In relation to “Current Liabilities”:**

- a. Please explain the factors that resulted in the decrease in Bills payable to banks from RMB 144million to RMB 108million as at 31 December 2016 and as at 30 June 2017.**
- b. Please provide a breakdown of Other payables & accruals; and explain the large amount relative to total current liabilities (32.8%).**
- c. Please explain the material items comprising the “Other payables & accruals” and reasons for the significant balance as at 30 June 2017.**

#### **Company’s response:**

- a. The decrease in bill payables from RMB 144 million as at 31 December 2016 to RMB 108 million as at 30 June 2017 was due mainly to the expiry of bills during 2Q2017.
- b. Breakdown of “Other payables & accruals” is as follows:

	As at	
	30/6/2017	Notes
	RMB’000	
Provision for minimum tax contribution	95,000	<1>
Advance payments for construction of the Group’s		
Xiamen Headquarters	46,198	<2>
Accrued salaries and bonuses	36,372	<3>
Advances from customers	49,852	<4>
Others	12,260	<5>
Total	<u>239,682</u>	

- c. Material items comprising the “Other payables and accruals” are explained in the notes :

**Notes:**

1. Provision for minimum tax contribution was provided for operating of businesses in Xiamen Island.
  2. Advance payments for contractors were paid in accordance with the contracts for construction of the Group’s Xiamen Headquarters.
  3. Accrued salaries and bonuses represented the provision for social security contribution.
  4. Advance payments received from customers were for placement of orders of goods.
  5. Others included VAT tax payables, utilities, purchases of consumables, legal and professional fees, etc.
- 2. In relation to “Other income and other expenses” (2Q2017 vs. 2Q2016):**
- a. **Please disclose the amount of the disposal consideration and the amount that is still outstanding.**
  - b. **Please explain why it was not an event of default when the purchaser did not settle the purchase consideration on time, and the reason for the Company to proceed with transfer of interest in the subsidiary to the purchaser?**
  - c. **Please disclose if there is any amount written off by the Company previously after payment default by the purchaser? If yes, please quantify.**

**Company’s response:**

- a. 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. Please also refer to page 6 of the Group’s FY2016 results announcements released via SGXNet on 23 February 2017. The amount which was outstanding was amount due from Qingdao Hong Shi High Technological Co., Ltd (“Qingdao HS”).
- b. 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, thus the RMB16 million due from Qingdao HS was not an event of default under the Sales and Purchase agreement for the disposal of Qingdao HS.
- c. As mentioned in the Group’s FY2016 results announcements dated 23 February 2017, the provision for doubtful other receivables amounted to RMB 16.0 million was made as the receivables had been outstanding for more than six months and Qingdao HS was

not able to settle the amount before 31 December 2016 as it did not have sufficient working capital then. As mentioned in the Group’s results announcement of 2Q2017, the Company had subsequently recovered the RMB16.0 million from the purchaser of Qingdao HS in June 2017.

**3. In relation to “Inventories”:**

- a. Please provide a breakdown of inventory and explain how a 3-month versus a 2-month raw materials production requirement will increase production efficiency.
- b. Please provide a breakdown and aging analysis in blocks of 3 months duration for inventory as at 30 June 2017.
- c. Please disclose the Company’s order book for the next reporting period as well as next 12 months, and reconcile this to the 55% increase in inventory to RMB 89.4million as well as the increase in prepayments to suppliers by 39%.

**Company’s response:**

- a. The breakdown of inventories is as follows:

	As at 30 June 2017	As at 31 December 2016	% change	Note
	RMB’000	RMB’000	%	
Raw materials	51,407	18,478	178	<1>
Work-in-progress	7,660	8,939	(14)	
Finished goods	30,356	30,315	0.1	
Total	89,423	57,732	55	

**Note:**

- 1) A 2-months raw materials requirement for production was maintained during the 4th quarter 2016 in view of the lunar New Year holidays in the 1st quarter of 2017. As the Group will normally grant its workers up to 1 month holidays during 1Q2017, the raw materials inventories would be maintained for a 2-month production requirement.

As at 30 June 2017, a 3-month raw materials requirement was maintained in order to satisfy the production requirement in 3Q2017. The Group forecasts its production requirement every 3 months to meet the sales orders. It is the Group’s practice to maintain a 3-month raw materials holding period after taking into consideration of the 3-month delivery lead time from its suppliers. For production efficiency purpose, a sufficient inventory level must be maintained for production.

- b. The type and aging analysis for inventories are as follows:

	1-3 months	4-6 months	>6 months	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	48,678	2,729	-	51,407
Work-in-progress	7,660	-	-	7,660
Finished goods	30,356	-	-	30,356
Total	86,694	2,729	-	89,423

As at 30 June 2017, approximately 97% of inventories purchased were utilized in the production within 3 months.

- c. The increase in inventory of 55% to RMB 89 million was due mainly to the increase in the Group's forecasted production as explained in above Note 1.

The Group does not have a 12-month order book because production takes only approximately 1 to 2 weeks once the customers place their orders. The Production Manager will estimate the Group's raw materials requirement every 3 months.

The decrease in prepayment to suppliers by RMB 14.6 million (or 20%) to RMB 59.1 million was due mainly to the utilization of certain prepayments arising from the increase in the Group's inventory level.

**4. In relation to "Prepayments":**

- a. Please disclose the percentage that was paid as advance payments to suppliers for the supply agreements.**
- b. Please explain whether it is an industry practice to for advance payments to be made for raw materials.**
- c. If the answer to (4c) is yes, please also explain if customers are similarly required to make prepayments when placing orders to the Company.**
- d. If the answer to (4d) is yes, please explain why the Company has been unable to collect its trade debts, resulting in trade receivables outstanding of RMB 270.3 million which exceeds revenue of RMB 226.8million for 2Q17.**

**Company's response:**

- a. For major suppliers, the Company will make full prepayments to these suppliers after the signing of agreements. 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 Company will normally make prepayments of about 30% of the respective contract value and the Company has 30 days credit period to settle the remaining 70% of the contract value.

- b. It is common practice for manufacturing companies in the PRC to make advance payments for raw materials procurement. The Company made prepayments to these suppliers to secure ready supply of raw materials at competitive prices and this had always been the Group's practice. The Company would normally be granted a 2% to 3% discount on its purchase of raw materials as part of the prepayment terms. The raw materials' prices are determined by their market prices nearer to the signing of the purchase agreements.
- c. For long term customers, the Company will not request for advance payment if the outstanding balance does not exceed the credit limit and credit terms. For new customers, the Company will request either a 50% advance payment or full payment when placing orders with the Company.
- d. The Company is confident in collecting back the overdue debts. On a prudent basis and in accordance with the Group's accounting policy, doubtful debts provisions are made for trade receivables aged over 6 months and the balances owing under the extended credit period will be accounted for as allowance for doubtful debts.

Approximately 57% of the amounts due from the customers (RMB185.2 million) was for amount outstanding for 1-3 months. The reason for the trade receivables outstanding balance exceeding revenue for 2Q2017 was due mainly to the extension of the credit terms of between 90 days to 120 days to a longer period to some long term customers. Due to the economy slowdown in the People's Republic of China ("PRC"), some of the Group's long term customers had requested for longer credit terms. The Group had obliged to its customers' request for longer credit terms in order to retain the customers.

**5. In relation to "Amount due to directors (non-trade)":**

- a. **As the Company is operating in Xiamen, what other locations is the Company holding its cash that will subject its remittances as being "transferred from other locations within the PRC"? Please elaborate.**
- b. **Please clarify the amount of interest tax imposed by the Xiamen government, and quantify the amount of interest tax savings under the current arrangement.**
- c. **Notwithstanding this arrangement was undertaken for the Company to enjoy the tax exemption, what is the Company's internal control policy to verify the construction work done and the approval of the funds payout into and from a**

**director's personal bank account? Please provide specific details of internal controls and approvals by the Audit Committee and Board, where applicable.**

- d. Please disclose the approver for the fund transfer and reimbursement to the director; and the party who carried out checks and balances on these transactions.**
- e. Please discuss if such remittance of funds from a director to Company's contractor which was subsequently reimbursed by the Company constitutes an Interested Person Transaction, and what is the role of Audit Committee in monitoring these payments by and to the director.**

**Company's response:**

- a. The Company's main operations (including its Zipper segment and Processing segment) are in Jinjiang which is outside of Xiamen. All monies transferred from Jinjiang to Xiamen Island will be subjected to an interest tax imposed on remittances.
- b. The amount of interest tax imposed by the Xiamen government is approximately 1.5% on each remittance. Accordingly, the interest savings under the current arrangement is approximately 1.5% on each remittance remitted.
- c. The Company engaged a project consultancy company to monitor closely the construction work for its Xiamen Headquarters ("HQ Project"). All payments will be based on a monthly report from the project consultancy company.

The Group also has its authorization matrix in governing its payment process. All payments 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.

- d. As mentioned above, Mr Hong Shui Ku, the Executive Director is responsible for the approval of the fund transfer and reimbursement to the CEO. The Group's Accounting Manager is responsible for the checks and balances of such transactions.
- e. The CEO settled the construction costs on behalf of the Company for the purpose of saving the interest tax which did not affect the interests of the Group and its shareholders. The reimbursement to the CEO is not considered an interested person transaction under Chapter 9 of the Listing Manual.

For the reimbursements to the CEO, the Company's Accounting Department will closely monitor the outstanding balance between CEO and the Group. Any

reimbursement payment will be checked by the Group's Accounting Manager and also checked and approved by Mr Hong Shui Ku (Executive Director) before processing the remittance of monies to the CEO. As each reimbursement to the CEO does not exceed RMB15 million and it is not considered an interested person transaction, the payment does not fall under the purview of the Audit Committee. As such, approval by 1 Executive Director, Mr Hong Shui Ku is obtained in accordance with the Group's approval authorization matrix.

**6. Please provide specific details of the Xiamen HQ Project and the amount incurred to-date. How have these been financed and what is the status of the construction and milestones to completion?**

**Company's response:**

a. The breakdown of cost incurred on the construction of the HQ Project is as follows:

	Year ended 30/6/2017 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	39,163	<1>
Total cost incurred	456,064	

**Note:**

- 1) Others represented construction items of costs below RMB5 million. It consisted of lighting, stone floor, utilities , etc.

- b. The HQ Project was financed by a bank loan amounting to RMB110 million and internal funds from the Group. As explained in item 10 of the Results announcement of 2Q2017 released via SGXNet on 10 August 2017, the Group is awaiting the approval from the Chinese government for the legal completion of its HQ Project pending the conduct of various inspections.

**BY ORDER OF THE BOARD**

**Hong Qing Liang**

Executive Chairman and Chief Executive Officer

6 October 2017