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

RESPONSES TO QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The Board of Directors of Fuxing China Group Limited (the "**Company**" or together with its subsidiaries, the "**Group**") refers to the questions received from Securities Investors Association (Singapore) ("**SIAS**") on 26 May 2020 under the headline "Questions on Fuxing China Group Limited's Annual Report". The Board and Management of the Company wish to address the questions with the following corresponding responses in this announcement.

Q1. In the Corporate profile, management stated that the group has a diversified customer base of over 1600 customers in the PRC. It was awarded the "Symbolic Brand of China" in 2006 and "PRC Top 10 Famous Zipper Brands" in 2005. In 2008, the group was also named one of the 200 companies in Forbes Asia's Fourth Annual Best Under a Billion List.

(i) **Would management be updating the corporate profile to show some of its more recent achievements and successes?**

Gross margin for the Zipper segment has slipped from 10.8%-11.6% in FY2015-FY2017 to 8.2% in FY2018 and 7.2% in FY2019. In the Chairman's message, Management disclosed that it "*continued to operate under a highly competitive environment with razor thin profit margins*". The Group also experienced higher production costs, namely labour costs and cost of raw materials. Even though revenue decreased by 18%, general and administrative expenses increased by RMB 4.5 million (~10%) due to an increase in allowance of doubtful trade receivables.

(ii) **Given the highly competitive environment with razor thin profit margins, has the board estimated the group's cost of capital?**

(iii) **How much automation has been achieved in the group's production? What is the expected level of cost savings that the group can achieve with automation?**

Management has cautioned that the industry will remain highly challenging and competitive while factory overheads and labour costs are expected to rise.

(iv) **With little/no pricing power and no competitive edge, has the board evaluated the sustainability of the group's business model? Would the group halt its major capital expenditure and review its capital allocation approach?**

Company's response:

(i) The disclosure under the Corporate Profile in the Annual Report for the financial year ended 31 December 2019 ("FY2019") has incorporated the latest and updated achievements and successes of the Group. For the Group's latest awards and certification, please refer to page 4 under corporate profile of the Company's Sustainability Report for FY2019 released via SGXNet on 18 May 2020 on the details of the various certifications received.

(ii) The Group estimated its cost of capital to be approximately 5.0 % per annum which is the average bank borrowing interest rate for loans obtained with the various financial institutions in FY2019. The gross profit margin from the Zipper segment in FY2019 was approximately 7.2% which was higher than the Group's cost of capital.

(iii) The Group's automation plan is to have its production process semi-automated with new machines, and to reduce the number of factory workers needed. During the financial year ended 31 December 2018 ("FY2018"), the Group acquired a total of 48 new machines and replaced 108 old machines for the production of zipper sliders, 18 factory workers were reduced, resulting in wage cost savings of approximately RMB1.0 million per annum.

Currently, the Group's automation of its production processes has yet to reach its optimal level. The Group will continue with its automation process over the next 3 years with plans to acquire and install new machines to replace the old machines and further reduce the number of factory workers. The reduction of one factory worker will save approximately RMB55,000 in direct labour costs per annum for the Group. The Group strives to reduce the factory workers' headcount by transforming its production lines from largely relying on low-skilled manual work to semi-automation with higher production efficiency and productivity.

(iv) For the foreseeable future, manufacturing of zippers would still be the Group's core business, considering that the Group has invested heavily over the years in the processing and production process of zippers and the Management's wealth of knowledge in the Zipper industry. For the next 3 years, the Group will continue with its major capital expenditure plan to acquire new machines in place of old machines to increase production efficiency and productivity of the Zipper segment. This will enable higher quality in zippers' production while increasing in sales projection and reducing in manpower costs, with improved profitability anticipated in the next few years. Notwithstanding the above, as and when new business ventures and opportunities arise, the Group would evaluate and assess the various business opportunities so as to enhance shareholders' values.

Q2. On 2 October 2019, the company announced that it intends to dispose part of the newly completed office building located in Siming District, Xiamen City, Fujian Province, the People's Republic of China. As disclosed, the company occupied 2 floors of its Xiamen HQ and the other floors are tenanted to a single tenant.

On 19 May 2020, the company announced that it has obtained the local authorities' approval to dispose of the office building.

(i) **Can management clarify if the intention is to sell the entire office building, including the two floors occupied by the company?**

As shown in Note 14 (page 72 – Investment property), the valuation of the Group's investment property had decreased by RMB 37.6 million to RMB 472.9 million as at 31 December 2019. This was the fair value based on the properties' highest and best use. The outstanding loan related to the investment property was approximately RMB 55 million as a 31 December 2019.

(ii) **Should the company successfully divest the investment property, would the board be recommending a special dividend to reward shareholders?**

The last dividend paid out by the company was nearly a decade ago in September 2011 amounting to $0.002 (before consolidation).

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

i) The Company is currently looking to dispose of its Xiamen HQ at the opportune time to strengthen the Group's financial position and reduce its gearing ratio. Management's intention is to dispose of the entire office building except for level 25 which the Company is currently occupying, subject to the availability of buyers and buyers' demands which in turn are dependent on the market conditions.

ii) Upon successful disposal of the investment properties, the proceeds will be mainly applied towards the repayment of short-term loans, capital expenditure for automation of the zipper's production process and for the Group's operations. As the global economy is still uncertain and challenging in view of the evolving COVID-19 situation, Management is uncertain when the recovery of economy will occur and has thus decided to adopt a prudent approach in maintaining sufficient cash balances for the Group. The Group is currently in a loss position. The Group will consider declaring a special dividend when the market environment and conditions improve and also when the Group returns to its profitable position with operating cashflows generated.

Q3. As noted in the financial summary (page 4 of the annual report), the average receivable turnover (days) increased from 100 days in FY2017 and FY2018 to 116 days in FY2019.

In Note 30 (page 92 - Financial instruments and financial risk: Credit risk), the group's trade receivables and bill receivables are shown in the table below:

Trade receivables and bill receivables (Note 19) (Continued)

The loss allowance for trade receivables and bill receivables are determined as follows:

	Current	Past due: 1 to 90 days	Past due: 91 to 180 days	Past due: More than 180 days	Total
31 December 2019					
Expected credit loss rates	0%	0%	0%	67%	
Trade receivables (gross)	69,828	78,591	45,744	98,540	292,703
Bill receivables (gross)	23,103	–	–	–	23,103
Loss allowance (including credit impaired)	–	–	–	66,445	66,445
31 December 2018					
Expected credit loss rates	0%	0%	0%	95.9%	
Trade receivables (gross)	58,651	118,956	63,421	63,674	304,702
Bill receivables (gross)	13,210	–	–	–	13,210
Loss allowance (including credit impaired)	–	–	–	60,818	60,818

(Source: company annual report)

The amount of (gross) trade receivables past due more than 180 days has increased from RMB 63.7 million as at 31 December 2018 to RMB 98.5 million as at the end of the financial year.

(i) **Can management provide a breakdown of the trade receivables past due by 180 days and to indicate the upper limit?**

(ii) **What are the reasons for the big increase in the amount past due by more than 180 days?**

In Note 2.14 (page 59 - Summary of significant accounting policies: Financial instruments: Financial assets: Impairment of financial assets), the group has stated it uses a practical expedient to recognise the expected credit losses ("ECL") for trade receivables, which is to measure the loss allowance at an amount equal to lifetime ECL using an allowance matrix derived based on historical credit loss experience adjusted for current conditions and forecasts of future economic conditions.

(iii) **Would the audit committee elaborate further how it determined the ECL rates as 0% for 1 to 90 days and 91 to 180 days?**

(iv) **Is the ECL rate for amounts past due by more than 180 days correctly determined based on historical credit loss experienced and adjusted for current and economic conditions?** The ECL rate has dropped to 67% from 95.9%. It would be uncommon for the ECL rate to vary so much if it were based on historical credit loss experience.

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

(i) Breakdown of trade receivables of RMB98.5 million overdue more than 180 days is as follows:

Amounts overdue (in ranges)	No. of customers	180 to 365 days	>365 days	Total	% of total
(In RMB'000)					
1)Range of 10,000 to 25,000	1	21,419	-	21,419	21.8
2)Range of 5,000 to 10,000	1	5,751	-	5,751	5.8
3)Range of 1,000 to 5,000	6	1,020	7,936	8,956	9.1
4)Range of 500 to 1,000	14	200	8,969	9,169	9.3
Sub-total	**22**	**28,390**	**16,905**	**45,295**	**46.0**
5)Less than 500	530	3,705	49,540	53,245	54.0
Total	**552**	**32,095**	**66,445**	**98,540**	**100.0**

(ii) The reason for the substantial increase in amounts due more than 180 days was mainly due to the Group extending a longer credit period to its customers' requests in view of the worsening of the global economy due to COVD-19. These customers have good trading relationships with the Group.

(iii) The Group has in place internal credit limit assessment procedures to consider the credit limit and credit period for each customer. If the customers' overdue have exceeded its stipulated credit limits, the salesperson would be prohibited to make new orders for the customers until they have the outstanding balances settled to a level lower than its credit limits. Therefore, for the trade receivables with overdue less than 180 days, the Group will regard them as active and good standing customers, the risk for these customers are considered to be 0%. As of 31 March 2020, out of the RMB292.7 million trade receivables outstanding, approximately 70% of it had been collected and Management expects to collect the remaining balances in the next few months.

(iv) The ECL rate dropped mainly due to the evolving COVID-19 situation and ongoing trade war tensions between USA and China. Based on past experience, subsequent collections would not be an issue. However, based on the current COVID-19 situation, quite a number of companies in China has been adversely affected by it and they would take time to recover. Therefore, Management anticipated some delays on the subsequent collections on the outstanding amounts.

FOR AND ON BEHALF OF THE BOARD

Hong Qing Liang
Executive Chairman and Chief Executive Officer
25 June 2020