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

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 fourth quarter ("4Q2019") and full year ended 31 December 2019 ("FY2019") results announcement released to SGX-ST via SGXNet on 28 February 2020.

The following information is in response to the SGX-ST's queries dated 11 March 2020:

1. **We refer to the Company's Results for its Full Year ended 31 December 2019 (the "FY2019 Results") announced on 28 Feb 2020. In the Income Statement, the Company reported "other income/(loss)" of RMB 33.3 million and (RMB 14.4 million) in FY 2018 and FY2019 respectively. This represents a net change of RMB 47.76 million in FY2019. Please provide a breakdown and explain for the material items that resulted in the significant change of RMB 47.76 million in "Other income/(loss)".**

<u>Company's response:</u>
Breakdown of other income/(loss):

	FY2019 RMB'000	FY2018 RMB'000	Increase/ (Decrease) %	Notes
Rental and management fee income	20,030	16,194	24	<1>
Exchange gain, net	2,025	4,790	(58)	<2>
Government subsidy income	834	383	118	<3>
Fair value gain/(loss) from valuation of investment property	(37,600)	12,030	NM	<4>
Others, net	292	(52)	NM	<5>
Total	(14,419)	33,345	NM	

<u>Notes:</u>

1) Rental and management fee income arose from the leasing and management of the Group's Xiamen Headquarters ("Xiamen HQ"). The increase in rental and management fee income was due to the higher leasing rate in FY2019 compared to FY2018. The office units were fully leased out for the whole of FY2019 while for FY2018 the office units were progressively leased out and thereafter fully leased out by end of 2018.

2) The foreign exchange gain arose from the depreciation of RMB against USD and SGD in the Group's foreign currencies denominated bank balances and from the translation of HK dollar denominated balances owing from subsidiaries in the Company's book due to depreciation of RMB against HK dollar.
3) Government subsidy income comprised subsidies for fixed assets procurements, trade exhibitions, and European environmental certification obtained for the Group's products' quality.
4) The fair value loss of RMB 37.6 million (2018: fair value gain of RMB 12.0 million) of the Group's investment property was based on the valuation performed by the same independent professional valuer for both FY2019 and FY2018 (See details in response 6(i)).
5) Others comprised mainly income from sales of scrap materials, insurance claims.

2. In the Income Statement, despite the decline of revenue by 18%, "General and administrative expenses" rose 10% to RMB 53 million in FY2019 from RMB 46.8 million. Please:

(i) provide a breakdown of the material items in General and administrative expenses, in comparison with the corresponding period; and

(ii) explain significant expenses.

__**Company's response:**__

Breakdown of General and administrative expenses:

	FY2019 RMB'000	FY2018 RMB'000	Increase/ (Decrease) %	Notes
Salaries and bonus	14,338	15,816	(9)	<1>
Depreciation of property, plant and equipment	11,895	8,318	43	<2>
Net allowance for doubtful trade receivables	5,627	485	1,060	<3>
Written off inventory	2,269	-	100	<4>
Written off property, plant and equipment	2,154	391	451	<5>
Amortisation of land use rights	905	905	-	
Net allowance for advances to suppliers	316	6,032	(95)	<6>
Net allowance for doubtful other receivables	-	950	(100)	<7>
Others	13,811	13,888	(1)	<8>
Total	51,315	46,785		

Notes:

1) The salaries and bonus decreased mainly as the result of streamlining of headcounts of administrative department.
2) Depreciation increased mainly due to the upgrading of the power grids in FY2019.
3) The allowance for doubtful trade receivables amounted to RMB 5.6 million arose from longer

credit period requests from some customers. Due to the challenging business environment facing some of the Group's customers in the PRC, the Group had obliged to these customers' request for longer credit terms in order to retain these customers. According to the Group's accounting policy, the extended credit period will be accounted for as allowance for doubtful debts on a prudent basis.

4) Inventory was written down in FY2019 due to the lower net realisable value of some inventory compared to the book values recorded.
5) Written off of property, plant and equipment increased due to more old plant and machineries being replaced in FY2019.
6) Net allowance for advances to suppliers decreased due to the utilization and conversion of the prepayment into raw materials purchase.
7) There was no net allowance for doubtful other receivables in FY2019.
8) Others comprised mainly the professional fees, electricity, water, insurance, gasoline, repair and maintenances, etc.

3. In the Statement of Financial Position, "Trade and other receivables" amounted to RMB 262.4 million. Please provide a breakdown of trade receivables and other receivables. In relation to "other receivables", please disclose the underlying transactions and reasons for the incurrence of other receivables.

Company's response:

Breakdown of trade receivables and other receivables:

	FY2019 RMB'000	Note
Trade receivables	226,258	
Bills receivables	23,103	
Other receivables:		
- VAT tax receivables	11,984	<1>
- Others	1,098	<2>
Total	262,443	

Notes:

1) VAT tax receivables represented value added tax receivables on purchases.
2) Others comprised insurance, consumables stock, computer maintenance, etc.

4. In the Statement of Financial Position, "Prepayment to other suppliers" amounted to RMB 70.75 million.

(i) Please provide ageing in bands of 3 months with an upper limit specified;

(ii) For each major item, please disclose the reason(s) for the prepayment and explain why the advances had not materialized into delivery of the ordered products.

Company's response:

i) Ageing for prepayment to suppliers:

	FY2019
	RMB'000
Within 3 months	42,969
4 to 6 months	26,066
6 months or above	1,717
Total	70,752

ii) 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.

For major suppliers, the Group will make full prepayments to these suppliers after the purchase 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.

The advances had not materialized into delivery of the ordered products as the Group was awaiting the confirmation of customers' orders as there was slowdown in sales and resulted in slowdown in production too.

5. Please provide a breakdown of the material items included in "Other payables and accruals" amounting to RMB 153.5 million in the Statement of Financial Position.

Company's response:

Breakdown of other payables and accruals:

	FY2019	
	RMB'000	Notes
Advances from potential buyers	53,661	<1>
Advances from customers	46,915	<2>
Accrued salary and bonuses	33,929	<3>
VAT tax payables	10,602	<4>
Others	8,381	<5>
Total	153,488	

Notes:

1) In FY2019, the Company received deposits from potential buyers to secure the purchase of certain properties units in Xiamen HQ. As the Company did not sign any sales agreement with these buyers and the approval from the local government in connection to the intended disposal of Xiamen HQ has yet to be obtained, the Company will refund the deposits to them in FY2020.
2) Advances from customers represented the deposits received to secure the purchase of the Group's products.
3) Accrued salaries and bonus represented the salaries for December 2019, annual bonus and the provision for social contributions.
4) VAT tax payables represented the provision of VAT payables due to under-provision of VAT in internal sale of goods to related companies in FY2019.
5) Others included properties tax expenses, city repairing tax expenses, electricity, water, insurance, gasoline, repair and maintenances, etc.

6. The Company disclosed on page 14 that "The fair value loss of RMB 37.6 million of the investment property was based on the valuation performed by the same independent professional valuer of FY2019 and FY2018. Please disclose:

(i) The name of the professional valuer and clarify if the valuer has been accredited by China Appraisal Society;

(ii) The methodology and material assumptions used in the valuation of the investment property in FY2018 and FY2019; and

(iii) The material changes in assumptions used in the computations that resulted in the fair value loss of RMB 37.6million in FY2019.

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

i) The Independent Valuer, Quanzhou Decheng Assets Appraisal Co., Ltd. (泉州德诚资产评估有限责任公司) ("the Valuer") is a specialised valuation company, approved by Fujian Provincial Department of Finance. The Independent Valuer is qualified to undertake valuation services in China, including various assets appraisals of fixed assets, current assets, real estate, land use rights etc.

The Valuer was established in 2000 and had undertaken valuation work for large corporations and listed companies such as Yuzhou Properties Company Limited (厦门禹洲集团), Youlanfa Group (优兰发集团) and the Industrial and Commercial Bank of China Limited (Xiamen Branch) (中国工商银行股份有限公司厦门市分行), which are listed on the Hong Kong Stock Exchange and/or the Shanghai Stock Exchange.

The Valuer is accredited under the China Appraisal Society, a self-disciplinary organisation of the appraisal profession under the supervision, regulation and guidance of the Ministry of Finance in the PRC and a member of the World Association of Valuation Organisation,

ii) The valuation was based on market comparison method which makes reference to market values of comparable properties in the same area. The market approach valuation methodology was adopted for FY2018 and FY2019 and is in line with International Valuation Standards.

iii) There was no change in assumptions used in the computations of fair values for FY2018 and FY2019. The major assumption for market comparison valuation method was that the owner can sell or the purchaser can buy the property in the open market with sufficient market information. The fair value loss was mainly due to market value of such buildings decreased in FY2019.

7. It is stated on page 15 that "General and administrative expenses increased by RMB 4.5 million (or 10%) to RMB 51.3 million. This was mainly due to increase in allowance of doubtful trade receivables of RMB 5.1 million in FY2019". Please disclose:

(i) The ageing of these doubtful trade receivables and the financial year in which these sales were reported;

(ii) The reason for the significant amount of RMB 5.1 million debt that as allowance; and

(iii) A breakdown of the doubtful trade receivables and explain why the debts could not be collected and for each breakdown item, please confirm whether these entities are connected to the directors, substantial shareholders, key management of the Company and other respective associates.

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

i) Ageing for allowance of doubtful trade receivables charged in income statement:

	FY2019 RMB'000	Notes
Within 3 months	439	<1>
4 to 6 months	732	<1>
6 to 12 months	4,319	<1>
Over 12 months	137	<2>
Total	5,627	

<u>Notes:</u>

1) The sales were reported in FY2019
2) The sales were reported in FY2018

ii) The Group's credit terms to its customers are between 90 days to 120 days. 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 these customers. 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 their respective credit limits.

iii) Breakdown of allowance of doubtful trade receivables charged in income statement:

	FY2019 RMB'000	Notes
Xiamen Zhongchuangxing Real Estate Marketing Planning Co. Ltd.	3,242	<1>
Qingdao Hong Shi High Technological Co. Ltd.	1,285	<2>
Erike (Zhangzhou) Industrial Co., Ltd	1,020	<2>
Others	80	<2>
Total	5,627	

Notes:

1) Xiamen Zhongchuangxing Real Estate Marketing Planning Co. Ltd. ("ZCX") is a property agent which had signed a tenancy agreement with the Group for sub-letting purposes. According to the tenancy agreement, ZCX is required to pay rental fee on quarterly basis even when they cannot rent out the office. The allowance was made under SFRS(I)9 Financial Instruments, after the Group assessed the credit risk of ZCX, the Group recognised the allowance at an amount equal to lifetime expected credit losses. ZCX is not connected to the directors, substantial shareholders, key management of the Company and their other respective associates.

2) These customers' outstanding balance is over 180 days but less than 1 year. The Company believes that these customers will settle their outstanding balances in the near future. However, 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 their respective credit limits. These customers are not connected to the directors, substantial shareholders, key management of the Company and their other respective associates.

BY ORDER OF THE BOARD

Hong Qing Liang
Executive Chairman and Chief Executive Officer
13 March 2020