

# FUXING CHINA GROUP LIMITED

(Incorporated in Bermuda)

(Company Registration No.: 38973)

## PROPOSED DISPOSAL OF INVESTMENT PROPERTY – XIAMEN HEADQUARTERS

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### 1. INTRODUCTION

The Board of Directors (the “**Board**” or “**Directors**”) of Fuxing China Group Limited (the “**Company**” together with its subsidiaries, the “**Group**”) wishes to announce that Xiamen Xinfuxing Industrial Co., Ltd (厦门市鑫福兴实业有限责任公司) (the “**Vendor**”), a wholly-owned subsidiary of the Company has entered into provisional sale and purchase agreements (collectively, the “**Provisional SPAs**”) with independent third party purchasers (the “**Purchasers**”), for the sale of part of the Company’s office building (the “**Office Building**”) situated northeast to the junction of Tai Dong Road and Tai Nan Road, 03-07 Guanyin Shan, Siming District, Xiamen City, Fujian Province, the People’s Republic of China (the “**PRC**”) (the “**Disposal Property**”) for an aggregate consideration of RMB430,290,420 or approximately S\$84,913,451 (based on the currency exchange of S\$1 : RMB5.0674 as at 3 July 2020, *source: Bloomberg*) (the “**Consideration**”) on the terms and subject to the conditions of the Provisional SPAs (the “**Proposed Disposal**”).

### 2. INFORMATION ON THE PROPOSED DISPOSAL AND SALIENT TERMS OF THE AGREEMENT

#### 2.1 Information on the Office Building and Disposal Property

The Group had acquired the land parcel occupied by the Office Building from the PRC government via an open tender process on 23 March 2011. Accordingly, the Group has the right to use the land for 50 years from 27 April 2011. The Office Building consists of 25 floors of offices and 4 basement levels. The 25 floors of offices amount to approximately 34,263 square meters and the 4 basement levels comprising 318 carpark lots amount to approximately 17,653 square meters.

The Disposal Property forms part of the Office Building. It has a saleable area of approximately 30,523 square meters (for office premises) and approximately 13,121 square meters (comprising 252 carpark lots).

#### 2.2 Information on the Purchasers and Broker

The Purchasers are not interested persons as defined under the Listing Manual of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”). The Proposed Disposal was brokered by Xiamen Zhongchuangxing Real Estate Marketing Planning Co. Ltd. (厦门众创行房地产行销策划有限公司) (the “**Broker**”) and each of the Purchasers and Broker is not related or connected to the Group, its Directors and substantial shareholders of the Company and their respective associates.

## 2.3 Information on the Valuer and the Valuation

The Company had commissioned Quanzhou Decheng Asset Appraisal Co., Ltd. (泉州德诚资产评估有限责任公司) (the “**Valuer**”) to undertake an independent valuation on the Office Building to provide shareholders with an opinion of the market value of the Office Building. To the best of the Directors’ knowledge, the Valuer was established in 2000 and has 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 organization 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.

Based on the valuation report by the Valuer (“**Valuation Report**”), the market value of the Office Building is RMB447,690,000 or approximately S\$88,347,081 (based on the currency exchange of S\$1.00 : RMB5.0674 as at 3 July 2020) as at 30 June 2020. The said valuation was made on the “Market Value” basis. The term “**Market Value**” means the estimated amount for which a property should be sold on the date of valuation between a willing buyer and a willing seller in an arms-length transaction wherein each party had acted rationally and without compulsion. The said valuation was made on the assumption, amongst others, that assets traded on the market, or assets to be traded on the market, the parties to the asset transaction have equal bargaining power, and each party has the opportunity and time to obtain sufficient information in relation to the use and functions of the asset and the transaction price to come to a rational decision.

Accordingly, based on the valuation by the Valuer, the Company is of the reasonable opinion that the market value of the Disposal Property is RMB417,867,373 or approximately S\$82,461,888 (based on the currency exchange of S\$1.00 : RMB5.0674 as at 3 July 2020).

## 2.4 Consideration and Payment Terms

The Consideration shall be fully satisfied in cash and was arrived at after arms’ length negotiations and based on a willing-buyer willing-seller basis, having taken into account, *inter alia*, the market value of the Disposal Property of approximately RMB417,867,373 or approximately S\$82,461,888 (based on the currency exchange of S\$1.00 : RMB5.0674 as at 3 July 2020).

The Consideration shall, *inter alia*, be payable by the Purchasers to the Vendor as follows:

- (a) a total deposit of not less than 15% of the Consideration (“**Deposit**”) shall be payable within 15 days from the date of the Provisional SPA; and
- (b) the balance of the Consideration shall be payable in accordance with the formal sale and purchase agreements (“**Formal SPAs**”) to be entered into between the Vendor and each of the Purchasers within 15 days of the Effective Date (as defined in Section 2.5 below).

## 2.5 Conditional Disposal

The Proposed Disposal is conditional upon, *inter alia*, the following conditions precedent (the “**Conditions Precedent**”):

- (a) all relevant approvals being granted for the Proposed Disposal in respect of the Vendor, including the approval of its board of directors and shareholders; and
- (b) all relevant approvals being granted for the Proposed Disposal in respect of the Purchasers, including the approval of its board of directors and shareholders (where relevant),

and the date of grant of the last of the abovementioned approvals shall be the “**Effective Date**”.

Under the terms of the Provisional SPAs, the Formal SPAs shall be entered into within 15 days of the Effective Date. Upon execution of the Formal SPAs, the Provisional SPAs shall lapse. Where the statutory and contractual requirements to the Proposed Disposal have been satisfied in accordance with the Provisional SPA, if the Vendor refuses to execute the Formal SPA, it shall be liable to refund to Purchaser twice the amount of the Deposit; and if the Purchaser refuses to execute the Formal SPA, the Vendor shall have the right to terminate the Provisional SPA and confiscate the Deposit.

## 2.6 Sale subject to leases

The Disposal Property is sold subject to and with the benefit of the existing leases and licenses in relation to the Disposal Property (“**Leases**”). The Vendor and the Purchasers have agreed that the rent payable for the Leases during the period commencing from completion date of the transfer of the Disposal Property to be stipulated in the Formal SPA to the end of the Lease shall accrue to the benefit of the Purchasers.

## 3. RATIONALE FOR THE PROPOSED DISPOSAL

The Board is of the view that the Proposed Disposal would be beneficial for and in the interest of the Group for the following reasons:

- (i) Based on the report by real estate service provider, Savills plc, on Xiamen City’s commercial real estate market (第一太平戴维斯报告：厦门房地产市场 2019 年回顾与 2020 年展望), in 2019, there has been an increase in the amount of commercial office buildings in Xiamen City, Fujian Province, PRC, with eight new projects in the city with an aggregate build up area of approximately 438,000 square metres. As at the end of 2019, the year-on-year increase for 2019 in the total number of office buildings in Xiamen City was 10.6%. In the next three to five years, the amount of Grade A office buildings in Xiamen City is expected to continue to increase and the average annual supply of Grade A commercial office buildings in the next five years will be about 1.1 times the average annual supply of the past five years.

Furthermore, as a result of the Coronavirus pandemic (COVID-19), economic growth in the PRC has declined. Amid economic uncertainties, leasing demand is expected to continue to weaken and further depress the real estate market and the prices of commercial office buildings in Xiamen City. As such, the Group would like to dispose of the Disposal Property now at a consideration higher than current market value in order to realise its current investment value and to avoid being exposed to potential declines

in the market value of the Disposal Property in the next three years. The Group's management was of the view that the prices of the commercial office buildings in Xiamen City would continue to be depressed for the next three years.

- (ii) The Proposed Disposal at the Consideration would allow the Group to realise a substantial amount of cash (being the consideration received from the Proposed Disposal, less transaction costs), and bolster the Group's working capital and reduce its gearing ratio and enable the Group to be in a stronger financial position to face future economic challenges and headwinds arising from a more uncertain business environment post COVID-19.

#### 4. FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL

The pro forma financial effects of the Proposed Disposal on the consolidated net tangible assets ("**NTA**") and consolidated earnings per share ("**EPS**") of the Group are purely for illustrative purposes only and do not necessarily reflect the actual results and financial position of the Group and of the Company following the completion of the Proposed Disposal.

The pro forma financial effects of the Proposed Disposal on the Group's consolidated NTA, consolidated EPS and gearing ratio are set out below, and have been prepared on the basis of the following assumptions:

- (a) for the purpose of the balance sheet, that the Proposed Disposal had been effected as at 31 December 2019, being the date to which the latest full year audited financial statements of the Group were made up;
- (b) for the purpose of the profit and loss account, that the Proposed Disposal had been effected as at 1 January 2019, being the start of the latest audited financial year;
- (c) the expenses in connection with the Proposed Disposal of amount approximating RMB55,559,000; and
- (d) exchange rate of S\$1.00 : RMB5.0674 as at 3 July 2020 is used for the computations.

##### 4.1 NTA

	<b>Before adjusting for the Proposed Disposal</b>	<b>After adjusting for the Proposed Disposal</b>
NTA (RMB'000)	622,892	546,524
NTA per share (RMB)	36.20	31.77

## 4.2 EPS

	<b>Before the Proposed Disposal</b>	<b>After the Proposed Disposal</b>
Net loss after tax (RMB '000)	(38,859)	(115,227)
Weighted average number of shares ('000)	(17,205)	(17,205)
Earnings per Share (RMB)	(2.27)	(6.70)

## 4.3 Gearing

	<b>Before the Proposed Disposal</b>	<b>After the Proposed Disposal</b>
Total Debt (RMB '000)	271,186	271,186
Total Equity (RMB '000)	622,892	546,524
Debt to Equity Ratio	0.44	0.50

## 4.4 Book Value

The NBV of the Disposal Property is approximately RMB451,100,169 or approximately S\$89,020,044 (based on the currency exchange of S\$1.00 : RMB5.0674 as at 3 July 2020) based on the audited financial statements for FY2019. The aggregate gross Consideration proceeds of RMB430,290,420 or approximately S\$84,913,451 (based on the currency exchange of S\$1 to RMB5.0674 as at 3 July 2020) represents a deficit to the NBV of the Disposal Property of RMB20,809,749 or approximately S\$4,106,593 (based on the currency exchange of S\$1.00 : RMB5.0674 as at 3 July 2020).

## 4.5 LOSS ON THE PROPOSED DISPOSAL

Based on the Consideration of RMB430,290,420 for the Disposal Property, the Proposed Disposal will give rise to a net loss on disposal of RMB76,368,438 or approximately S\$15,070,537 (based on the currency exchange of S\$1.00 : RMB5.0674 as at 3 July 2020) for the Group.

The loss on disposal was calculated as follows:

	<b>RMB</b>
Disposal of the Disposal Property at the Consideration	430,290,420
Less: Carrying value of the Disposal Property <sup>(1)</sup>	426,857,676
Less: Book value of the property, plant and equipment <sup>(2)</sup>	24,242,493
Less: Costs of disposal <sup>(3)</sup>	55,558,689
Loss on disposal	<u><u>(76,368,438)</u></u>

**Notes:**

- (1) Carrying value of the Disposal Property as at 31 December 2019 was approximately RMB426,857,676 under “Investment property”, which represented the NBV of the Disposal Property save for the 24<sup>th</sup> floor of the Disposal Property which was originally intended to be used by the Group.
- (2) Book value of the property, plant and equipment represented the NBV of the 24<sup>th</sup> floor of Disposal Property as at 31 December 2019 and was approximately RMB24,242,493. The 24<sup>th</sup> floor was originally intended for the Group’s own usage, and thus the value was classified under “Property, plant and equipment” instead of under “Investment property”. Upon receiving buyers’ interests for the 24<sup>th</sup> floor, the Group decided to also sell the 24<sup>th</sup> floor.
- (3) Costs of disposal represented mainly the various taxes and marketing and sales commission to be paid in connection with the disposal.

**4.6 USE OF PROCEEDS**

The estimated net proceeds to be raised from the Proposed Disposal, if and when completed, after deducting estimated expenses of approximately RMB 55,559,000 to be incurred in connection with the Proposed Disposal, would be RMB 374,731,420 (“**Net Proceeds**”).

The Net Proceeds are intended to be used for the following purposes:

<b>Use of Net Proceeds</b>	<b>Amount (RMB'000)</b>	<b>Percentage</b>
Repayment of bank loan including the mortgage loan for the Office Building <sup>(1)</sup>	170,000	45.4%
Automation plan to upgrade and replace its machineries <sup>(2)</sup>	110,000	29.4%
Working capital	71,731	19.1%
Repayment of Director loans <sup>(3)</sup>	23,000	6.1%
Total Net Proceeds	<u>374,731</u>	100%

**Notes:**

- (1) The Group intends to repay the mortgage term loan for the Office Building of approximately RMB 41,250,000 as and when due payable and reduce its other bank loans by approximately RMB 128.8 million, which will reduce the Group’s interest expenses by approximately RMB 6 million annually.
- (2) 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. Currently, the Group’s automation of its production processes has yet to reach its optimal level, thus 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.
- (3) The amount due to a director was due to funds remitted from the Group’s Executive Chairman and CEO, Mr Hong Qing Liang for the settlement of provision for minimum tax contribution in FY2019.

## 5. REQUIREMENTS UNDER CHAPTER 10 OF THE LISTING MANUAL

### Rule 1006 and Rule 1014 of the Listing Manual

Based on the audited financial statements of the Group for FY2019 in the Company's FY2019 Annual Report announced on 14 April 2020, the relative figures of the Proposed Disposal computed on the bases set out in Rule 1006(a) to (e) of the Listing Manual of the SGX-ST are as follows:

Rule 1006	Bases	Relative Figures
(a)	Net asset value of the Disposal Property, compared with the Group's net asset value <sup>(1)</sup>	72.42%
(b)	Net loss of RMB76.4 million attributable to the Disposal Property, compared with the Group's net loss before tax <sup>(2)</sup> of RMB45.8 million	166.59%
(c)	Aggregate value of the consideration to be received for the disposal of the Disposal Property being RMB430,292,420 million, compared with the Company's market capitalisation of RMB53.2 million on 3 July 2020 <sup>(3)</sup>	809.06%
(d)	Number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue	Not Applicable
(e)	Aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Group's proved and probable reserves (applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company)	Not Applicable

#### Notes:

- (1) Under Rule 1002(3)(a), "net assets" means total assets less total liabilities. The net asset value of the Disposal Property was RMB451.1 million as at 31 December 2019. The net asset value of the Group was RMB622.9 million as at 31 December 2019.
- (2) Under Rule 1002(3)(b), "net profits" means profit or loss before income tax, minority interests and extraordinary items. The Group's audited net loss before income tax was approximately RMB45.8 million for FY2019 and the aggregate net loss attributable to the Disposal Property was RMB76.4 million.
- (3) Under Rule 1002(5), "market capitalization" is determined by multiplying the number of shares in issue by the volume weighted average price of such shares transacted on 3 July 2020, being the last market day whereby the Company's shares were traded preceding the date of the Provisional SPA. An exchange rate of S\$1.00:RMB5.0674 as at 3 July 2020 was used to calculate the consideration for the Proposed Disposal.

As the relative figures computed under Rule(s) 1006(a), (b) and (c) exceed 20%, the Proposed Disposal falls within the definition of a major transaction within the meaning of Rule 1014 of the Listing Manual of the SGX-ST which requires approval of the shareholders of the Company.

Accordingly, the Company intends to seek approval from its shareholders for the Proposed Disposal at a special general meeting of the Company to be convened in due course.

## **6. INTERESTS OF THE DIRECTORS AND SUBSTANTIAL SHAREHOLDERS**

None of the Directors, controlling shareholders and substantial shareholders of the Company has any interest, direct or indirect, in the Proposed Disposal (other than through their respective shareholding interests in the Company).

## **7. SERVICE CONTRACTS**

No person will be appointed to the Board, and no service contracts will be entered into by the Company, in connection with the Proposed Disposal.

## **8. DOCUMENTS FOR INSPECTION**

Copies of the Provisional SPAs and the Valuation Report will be made available for inspection during normal business hours at 138 Robinson Road, #26-03, Oxley Tower, Singapore 068906 for three (3) months from the date of this announcement.

## **9. CAUTION IN TRADING**

Shareholders are advised to exercise caution in trading their shares. There is no certainty or assurance as at the date of this announcement that the Proposed Disposal will be completed or that no changes will be made to the terms thereof. The Company will make the necessary announcements when there are further developments on the Proposed Disposal and other matters contemplated by this announcement. Shareholders are advised to read this announcement and any further announcements by the Company carefully. Shareholders should consult their stock brokers, bank managers, solicitors or other professional advisors if they have any doubt about the actions they should take.

## **10. FURTHER ANNOUNCEMENTS**

The Company will make further announcements in relation to the Proposed Disposal as and when there are material developments.

## **11. DIRECTORS' RESPONSIBILITY STATEMENT**

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this announcement and confirm after making all reasonable enquiries, that to the best of their knowledge and belief, this announcement constitutes full and true disclosure of all material facts about the Proposed Disposal, the Disposal Property, the Provisional SPAs, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this announcement misleading. Where information in the announcement has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that

such information has been accurately and correctly extracted from those sources and/or reproduced in the announcement in its proper form and context.

**FOR AND ON BEHALF OF THE BOARD**

**Hong Qing Liang**  
Executive Chairman and CEO  
6 July 2020