

## **FUXING CHINA GROUP LIMITED**

(Incorporated in Bermuda)

(Company Registration No.:38973)

### **RESPONSE 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 fourth quarter and full year ended 31 December 2015 results announcement released to SGX-ST via SGXNet on 24 February 2016.

The following information is in response to the SGX-ST’s queries dated 4 March 2016:

- 1. In the income statement, “General and administrative expenses” increased 215% from RMB7.69 million to RMB 24.26 million;**

**Please provide and disclose following:**

- a) Breakdown of the items in “General and administrative expenses” of RMB 24.26 million; and**
- b) Explain the nature of the items causing with material increases and elaborate on the reasons for the increase;**

#### **Company’s response:**

Breakdown of “General and administrative expenses” as follows:

	3 months Ended 31/12/2015 RMB’000	3 months Ended 31/12/2014 RMB’000	Increase / (Decrease) %	Note
Net allowance for/(writeback of ) doubtful trade receivables	1,516	(4,179)	NM	<1>
Write off of advances to suppliers	5,094	-	100	<2>
Allowance for inventory written down	1,956	-	100	<3>
Written off of property, plant and equipment	5,271	-	100	<4>
Salaries	4,700	4,239	11	
Provision for social security	(588)	1,464	NM	<5>

Amortisation of land use right	242	263	(8)	
Depreciation of property, plant and equipment	3,008	2,438	23	
Tax expenses	573	548	5	<6>
Others	2,492	2,920	(15)	<7>
Total	24,264	7,693	215	

*N.M denotes not meaningful.*

**Notes:**

- 1) Net allowance for doubtful trade receivables in 4Q2015 when compared with written back for doubtful trade receivables in 4Q2014. The reason for written back in 4Q2014 was some long outstanding balance was received in 4Q2014 for which doubtful allowance had been made in 3Q2014.
  - 2) Please refer to company's response under paragraph 6 below.
  - 3) The written down of inventory value represented the decrease in raw materials price.
  - 4) Please refer to company's response under paragraph 5 below.
  - 5) The decrease in provision for social security was due to the decrease in the number of staff as a result of automation of plant and machineries.
  - 6) Tax expenses included property house tax, stamp duty, increment tax on land value, Employment guarantee fund for the disabled, etc
  - 7) Others included bank charges, transportation, entertainment, insurance, legal and professional fee, training fee, etc.
- 2. In the balance sheet, "Trade and other receivables" amounted to RMB 280.46 million as at 31 December 2015 which is material compared against the Company's NAV of RMB715.5 million.**

**Please provide and disclose following:**

- a) A breakdown of the major items and an aging schedule;
- b) An elaboration on any material items; and
- c) In view of the significant "other receivables", to provide an explanation of the nature of the other receivables.

**Company's response:**

Aging schedule of trade and other receivables as follows:

Name of customer	1 to 90 days RMB'000	91 to 180 days RMB'000	> 180 days RMB'000	Total	Note
晉江市宏偉服飾發展有限公司	19,723	4,544	-	24,267	<1>
深圳市新宏基貿易有限公司	23,020	9,663	-	32,683	<1>
廈門宏菲工貿有限公司	20,304	12,226	-	32,530	<1>
PHILIPPINE HONGFEI LOGISTICS	30,105	10,172	-	40,277	<1>
金天（厦門）进出口貿易有限公司	32,826	16,854	5,115	54,795	<1>
Others	48,425	7,481	22,283	78,189	<2>
Total trade receivables	174,403	60,940	27,398	262,741	
Bill receivables				12,711	
Other receivables				5,034	<3>
Trade and other receivables				280,486	

**Notes:**

- 1) The top 5 customers represented 70% of the trade receivables for which their credit period is around 120 days to 180 days. According to our records, only 1.9% of the outstanding balance from the top 5 customers was over 180 days.
- 2) “Others” under trade receivables represented a thousand plus customers for the Group. Their credit period is between 90 days to 180 days. Due to the general slowdown in the global economy, the group would extend some customers’ credit period in order to retain their orders.
- 3) Other receivables represented VAT tax receivables, and cash advances to sales representatives for business trips.

3. In the balance sheet, “Prepayments to suppliers” amounted to RMB 65.09 million as at 31 December 2015 which is material compared against the Company’s NAV of RMB715.5 million.

**Please provide and disclose the following:**

- a) A breakdown of the major items and provide an aging schedule; and
- b) Nature of these goods supplied by the suppliers.

**Company's response:**

Aging schedule of prepayments as follows:

Name of supplier	1 to 90 days RMB'000	91 to 180 days RMB'000	> 180 days RMB'000	Total	Note
福建百宏聚纤科技实业有限公司	26,780	7,283	-	34,063	<1>
上海安泰科物贸发展有限公司	20,086	-	-	20,086	<1>
玉龙翔化纤（福建）有限公司	628	473	-	1,101	<1>
Others	6,038	2,237	1,560	9,835	<2>
Total	53,532	9,993	1,560	65,085	

**Notes:**

- 1) Prepayments to suppliers for purchases of raw materials including zinc, polyester, etc.
- 2) Others represented the prepayments for purchase of raw materials, consumable goods, office accessories, IT services, repairs and maintenance services and spare parts, etc.

- 4. In the balance sheet, “Other payables & accruals” increased from RMB 204.19 million as at 31 December 2014 to RMB 225.86 million as at 31 December 2015.**

**Please provide and disclose the following:**

- a) A breakdown and elaborate on the material items; and
- b) An aging schedule.

**Company's response:**

Aging schedule of “Other payables & accruals” as follows:

	1 to 90 days RMB'000	91 to 180 days RMB'000	> 180 days RMB'000	As at 31/12/2015 RMB'000	As at 31/12/2014 RMB'000	Note
Provision for minimum tax contribution	-	-	95,000	95,000	95,000	<1>
Advance payments for	39,816	-	-	39,816	23,527	<2>

construction of Xiamen

Headquarter

Accrued salaries

and bonuses	4,709	-	35,163	39,872	39,757	<3>
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Advances from

customers	10,367	2,276	20,630	33,273	29,870	<4>
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Others	15,441	331	2,128	17,900	16,035	<5>
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Total	70,333	2,607	152,921	225,861	204,189	
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**Notes:**

- 1) Provision for minimum tax contribution expenses was made in FY2011 and FY2012 for unavoidable costs in operating of business in Xiamen Island.
- 2) Advance payments for contractors were paid under the signed contracts for construction of Xiamen Headquarter.
- 3) Accrued salaries and bonuses for FY2015 and FY2014 represented provision for social security contribution, accrued salaries for December 2015 and 2014, and bonus for FY2015 and FY2014 respectively.
- 4) Advance payments received from customers for ordering of goods after signing the contracts with customers.
- 5) Others included VAT tax payables, electricity, water, purchases of consumable goods, legal and professional fee, etc.

5. Under the “General and administrative expenses” in paragraph 8, the Company announced that “the Company written off the spare plant and machineries” amounting to RMB 5.3 million. As this is material compared to the Company’s loss before tax of RMB 13. 6 million, please explain why a significant amount of spares had to be written off and the nature of these plants and machinery.

**Company’s response:**

In FY2014, the Company introduced an automation production line in the manufacturing of zipper sliders. In FY2015, the installation and testing of the automation production line was successfully completed and commenced for production. As a result, the company written off the old machineries which were replaced by the automation production line in FY2015.

6. Under the “General and administrative expenses” in paragraph 8, the Company announced that “The Company had written off the long-term prepayment more

than one year with certain suppliers as the Company had lost contact with the suppliers” amounting to RMB5.1 million. As this is material compared to the Company’s loss before tax of RMB 13. 6 million, please provide and disclose the following:

- a) List and quantify these suppliers;
- b) Reasons why the Company paid in advance long term prepayment when the Company was not in contact with the suppliers;
- c) The nature of the transactions for the long-term prepayments; and
- d) What were the items supplied by these suppliers.

**Company’s response:**

The top 5 suppliers for the prepayment written off and the aging schedule as follows:

Name of supplier	>365 days	Amount RMB’ 000	Note
上海斯达拉姆德一机械制造有限公司	460	460	<1>
泉州市海能贸易有限公司	452	452	<1>
泉州国信企业管理咨询有限公司	292	292	<2>
湖北鑫源纺织有限公司	236	236	<3>
山市南海区里水汇俊五金加工厂	140	140	<3>
Others	3,515	3,514	<4>
Total	5,094	5,094	

**Notes:** (replies to questions b, c& d)

- 1) The company purchased spare parts for repairs and maintenance of plant and machineries from those suppliers. After delivery of several lots of the spare parts to the company, the suppliers stopped to deliver the spare parts. The purchasing department failed to contact the suppliers through e-mail, fax, telephone calls, and site visits.
- 2) The company appointed the suppliers to provide IT services. After several IT services from the IT services company, they stopped their services without notification. The IT department failed to contact the IT services company through e-mail, fax, telephone calls, and site visits.
- 3) The company purchased others raw materials from those suppliers for production. After delivery of several lots of the raw materials to the company, the suppliers

stopped to deliver the raw materials. The purchasing department failed to contact the suppliers through e-mail, fax, telephone calls, and site visits.

- 4) Others represented prepayments for purchase of raw materials, consumable goods, office accessories, IT services, repairs and maintenance services and spare parts, etc. The purchasing department failed to contact the suppliers through e-mail, fax, telephone calls, and site visits.

**BY ORDER OF THE BOARD**

**Hong Qing Liang**

Executive Chairman and Chief Executive Officer

7 March 2016