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 Full Year Results For the Year ended 31 December 2017 results announcement released to SGX-ST via SGXNet on 27 February 2018.

The following information is in response to the SGX-ST's queries dated 2 March 2018:

1. Please provide a breakdown of general and administrative expenses for FY2016 and FY2017 and explain the material changes.

Company's response:

The breakdown of general and administrative expenses for FY 2016 and FY2017 is as follows:

	FY2017 RMB'000	FY2016 RMB'000	Decrease RMB'000	Decrease %	Notes
Salaries and benefits	19,581	23,743	(4,162)	(18)	1
Depreciation	6,992	10,878	(3,886)	(36)	2
Professional fees	2,412	2,550	(138)	(5)	
Amortization of land use rights	905	937	(32)	(3)	
(Write back of)/Net allowance for doubtful trade receivables	(275)	13,216	(13,491)	NM	3
Allowance for prepayments	(2,340)	1,184	(3,524)	NM	4
Written off of property, plant and equipment	-	16,368	(16,368)	(100)	5
Allowance for doubtful other receivables	-	15,989	(15,989)	(100)	6
Inventory written down	-	1,086	(1,086)	(100)	7
Others	6,396	8,264	(1,868)	(23)	8
Total	33,671	94,215	(60,544)	(64)	

Notes:

1) Salaries and benefits decreased mainly due to the decrease in administrative staff in FY2017.
2) Depreciation expense decreased due to the reduction in plant and machineries as the Group had written off RMB16.4 million of old plant and machineries after the installation of its automated machineries in FY2016.
3) The written back of doubtful trade receivables of RMB 0.3 million in FY2017 was due to the settlement of outstanding balances by customers in FY2017 arising from close follow ups by the salespersons while allowance for doubtful trade receivables of RMB13.2 million was provided in FY2016.
4) The written back of prepayments was due to the utilization of the prepayments into purchases following the receipt of raw materials in FY2017.
5) In FY2016, the Group's old plant and machineries were written off after the successful installation of its automation machineries to replace the old machineries. There was no such replacement in FY2017.
6) Allowance for doubtful other receivables of Qingdao Hong Shi High Technological Co. Ltd. ("Qingdao HS") which amounted to RMB 16.0 million was provided in FY2016. The amount was subsequently received in 2Q2017 and thus the allowance was written back in the same period.
7) Inventory was written down in FY2016 arising from the damages caused by typhoon while there was no such occurrence in FY2017.
8) Others represented electricity, water, insurance, gasoline, repair and maintenance, etc. The decrease was due to the cost controls measures in FY2017.

2. Please provide the background of the provision for social security contribution and explain for the fluctuation in the amount.

Company's response:

The social security contribution represented five types of social insurance: pension, medical, unemployment, maternity and work-related injury insurance. These social insurance are mandatory for employees and the contribution formulas vary depending on the employer's location. Detailed computation of the provision required for social security contribution for each year was made by the Group. The fluctuation of provision for social contribution was a result of the changes in the number of staff in the Group.

3. Please discuss if there are any controls put in place to ensure trade receivables are recovered, given the long turnover rate.

Company 's response:

Management has been closely monitoring the collections of these customers and for the

cases of long outstanding debts, the Group's salespersons would visit the customers' offices to follow up and collect the outstanding balances from them in cash. So far, most of the customers had paid up after on-site visits by the Group's salespersons.

4. In relation to allowance for doubtful receivables, please provide:

a. Details of the identity of the beneficial shareholder of Qingdao HS;

b. Details of these outstanding receivables of Qingdao HS of RMB16.0 million and the date of transactions;

c. Whether the Company has charged accrued interest for the late payment;

d. Aging analysis and reasons why the receivables was written off in 2016; and

e. What had changed to result in the eventual collection in 2017?

Company's response:

a) As disclosed in the Company's announcement released to SGX-ST on 4 March 2016, "Proposed Disposal of Qingdao Hong Shi High Technological Co. Ltd. (Qingdao HS")", the beneficial shareholder of Qingdao HS is Mr Cai Chang Cheng who is an independent third party unrelated to any of the Directors and Controlling Shareholders of the Group.

b) The outstanding receivables of Qingdao HS arose from the advances made to Qingdao HS and also from the selling of goods to Qingdao HS.

c) The Group had not charged any interest on the outstanding receivables as the outstanding receivables were inter-group transactions before the disposal. In addition, in the Share Transfer Agreement signed with the purchaser, there was no late payment interest clause.

d) As mentioned in the Company's FY2016 results announcement 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. According to the Group's accounting policy, provision for doubtful other receivables will be made for outstanding amounts which are overdue for more than 6 months.

Due to close follow ups with the purchaser of Qingdao HS in 2017, the Group managed to recover the RMB16.0 million in June 2017 after the purchaser of Qingdao HS remitted funds into Qingdao HS to increase its working capital.

5. In relation to investment property, please provide:

a. Further details of the independent valuer (accreditation and experience);

b. Whether the methodology and valuation standards used are in line with IVAS;

c. Reason why there is such a significant fluctuation in a year; and

d. Quantify any major assumptions used in calculation of the value.

Company's response:

a) 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 specialized 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 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,

b) 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 used is in line with International Valuation Standards.

c) The increase in the Group's investment property in FY2017 compared to FY2016 was mainly due to the capitalization of construction costs incurred in FY2017 and the fair valuation gain arising from the independent valuation of the property based on the market comparison method following the completion of the property.

d) The major assumption for market comparison valuation method is that the owner can sell or the purchaser can buy the property in the open market with sufficient market information.

6. Please provide the terms of loan from Mr Hong Qing Liang for the HQ Project.

Company's response:

The loan from Mr Hong Qing Liang is interest free and repayable on demand. As disclosed on page 16 of the results announcement of FY2017, the construction costs were paid by Mr Hong Qing Liang first from his personal account in Hong Kong and the Group would subsequently reimbursed him. If the remittances are made from other locations in China to Xiamen, the Group would need to pay an interest tax on the remittances while remittances from Hong Kong are exempted from such tax.

7. It was announced in the Company's 3Q2017 Results that rectification costs are expected to be incurred for HQ Project to comply with local government regulatory requirements. Please provide a discussion on the additional costs to be incurred, including the furnishings and renovation expenses to attract tenants.

Company's response:

As disclosed on page 17 of the results announcement of FY2017 under item10, RMB38 million of rectification costs had been incurred on the additions and alternation works for compliance with local government regulatory requirements.

As of now, the Group does not intend to incur furnishing and renovation expenses to furnish the office units for tenants after considering the substantial amount of expenditure required. The Group will step up on its leasing efforts to rent out the office units on lower rentals as they are not fully furnished.

8. Please provide further details on the outlook of the HQ Project:

a. How many floors and units are there altogether;

b. How many units are intended to be rented out;

c. What are the estimated costs expected to be incurred within next two quarters of 2018;

d. What is the take-up date committed so far;

e. What are the rental prices and whether these are in line with the market rates;

f. What is the expected percentage of building that will be rented out; and

g. What is the vacancy rate of the building based on current conditions.

Company's response:

a)&b) The HQ building has a total of 25 floors and 4 basement car parks. 1/floor is lobby, 2/floor is the property management office, 3/floor to 23/floor are intended to be rented out, 24/floor and 25/floor are meant for the Group's corporate office use.

From 3/floor to 23/floor, there are approximately 1,500 square metre per each floor which can be sub-divided into 6 units.

c) The estimated costs expected to be incurred by 3Q2018 will be the renovation costs of the 24/floor and 25/floor for the Group's corporate office usage. As of now, the renovation costs are estimated to be approximately RMB10 million. Further update of the renovation costs will be provided in the Group's quarterly results announcement as and when they are incurred.

d) 1/floor and 2/floor are already in use. 24/floor and 25/floor are expected to be used by the Group in 3Q2018 after renovation. 3/floor to 23/floor will be progressively rented out.

e) The market rate for office units rental without renovation is approximately RMB 35 to RMB 40 per square metre, based on the recent rental transactions of comparable offices in the vicinity.

f) The Group expects to rent out 21 floors of its HQ building and this represents approximately 84% of the lettable office area.

g) Currently, only the 1/floor and 2/floor are in use as mentioned in (b) above. The Group will step up on its leasing efforts in FY2018 to increase the occupancy rate of its HQ building.

BY ORDER OF THE BOARD

Hong Qing Liang
Executive Chairman and Chief Executive Officer
6 March 2018