FUXING CHINA GROUP LIMITED

(Incorporated in Bermuda)
(Company Registration No.: 38973)

RESPONSES TO QUERIES RECEIVED FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The Board of Directors (the "Board" or "Directors") of the Company (together with its subsidiaries, the "Group") refers to the queries raised by Securities Investors Association (Singapore) ("SIAS") in relation to the annual report of the Group for the financial year ended 31 December 2021. The Company wishes to provide its responses to the queries below:

Q1. **As highlighted in the chairman's message to shareholders, the group delivered a stellar set of financial performance as investments in automation began to bear fruits.**

Gross profit margin for the financial year ended 31 December 2021 (FY2021) increased to 9.3% from 2.6% in the previous year. Revenue increased by 9.3% to RMB762.6 million and profit for the year was RMB55.3 million.

(i) **Can management help shareholders to better understand the sentiments on the ground in Fujian Province? How are the group's operations affected by the fluid COVID-19 situation in China?**

Management has previously announced that it allocated RMB110 million to the group's automation upgrade. As shown in Note 13 (page 79; Property, plant and equipment), additions to plant and machinery amounted to RMB117.4 million in FY2021 and RMB7.0 million in FY2020. As at 31 December 2021, the carrying value of property, plant and equipment increased by 51% from RMB211.1 million to RMB317.8 million (or RMB106.7 million).

As at 31 March 2022, the group has received 322 sets of the automated zipper forming machine and 400 sets of stitching machine, with most of the machines installed and in use.

(ii) **Can management confirm that the automation upgrade has been completed?**

(iii) **What is the improvement/enhancement to the group's manufacturing capacity following the upgrade?**

(iv) **What is the expected/targeted increase in productivity and/or cost efficiency? How much productivity increase can the group achieve (in terms of reduction in headcount through automation)?**

The increase in revenue has been attributed to higher sales in the Zipper segment (RMB 62.6 million) as customers who had previously purchased from Vietnam and India diverted their orders to China arising from the COVID-19 situations in Vietnam and India.

(v) **Does management expect to retain such customers even after the COVID-19 situation improves? How cost competitive is the group compared to suppliers in Vietnam and India?**

Separately, in the processing segment, the group recognised revenue of RMB87.3 million (with RMB57 million in sales to external customers) and a segment loss of RMB(7.98) million in FY2021. The segment losses in the processing segment are as follows:

FY2016 - RMB (15.9) million
FY2017 – RMB (5.8) million
FY2018 – RMB (8.8) million
FY2019 – RMB (9.1) million
FY2020 – RMB (10.5) million
FY2021 – RMB (7.98) million

(vi) **What are the challenges faced by the group in the processing segment? What are management's plans to turn around the segment?**

Company's response:

(i) The mandatory COVID-19 lockdowns and restriction of movements measures were imposed in Jinjiang City, Fujian Province, the People's Republic of China from mid-March 2022 onwards. The restriction of movements and lockdowns were eased progressively in the third week of April 2022 to early May 2022. During the period of restriction of movements and lockdowns, the Group's factory operations were not materially affected as the workers reside at the factory dormitories. As such, the manufacturing operations continued to function as per normal, but the goods were not able to be delivered out to customers due to the lockdowns and restrictive measures. From early April onwards, the delivery of goods resumed. As of to-date, the restriction of movements measures and travelling restrictions have been lifted. The factory operations are currently functioning smoothly.

(ii) The Group's automation upgrade plan is a long term plan over the next few years to automate the Group's manufacturing processes and production lines progressively. The RMB110 million allocation was component of the long term automation upgrade plan. The Management confirmed that the automation upgrade pertaining to the RMB110 million allocation has been completed. As of to-date, 400 sets of the automated zipper forming machines and 400 sets of stitching machines have been tested, installed and deployed in factory operation.

(iii) After the automation upgrade, the Group's manufacturing capacity is forecast to increase by approximately 18% to 20%.

(iv) The Group expects increase in productivity through reduction in headcount of approximately 21 workers with cost saving of approximately RMB1.47 million per annum. In addition, the quality of the zippers is enhanced with automation.

(v) The Group is fairly confident to retain the customers after the COVID-19 situation improves. As of to-date, these customers still continue to place orders with the Group. The Group is unable to comment on the Group's relative cost competitiveness as compared to suppliers in Vietnam and India as the Group does not possess sensitive cost information of the suppliers, but the Group believes its zippers are competitively priced to enable the customers to continue to transact with the Group.

(vi) The processing segment have incurred additional costs in recent years due to the tougher environmental laws and regulations. The additional costs included the enhancement of environmental protection equipments and sewage facilities etc.

Plans to turn around the segment: short-term lease of the extra factory space to earn rental income and sell the unutilized sewage and wastage water quota monthly to cover part of the increased cost. Long term develops electroplating and dyeing processing services for new market segments of hardware and cloth etc. The processing segment formed integral part of the Group's business process through its provision of essential services of colour dyeing of fabric tapes for zippers and electroplating for zipper sliders.

Q2. The group retained the unsold office units in the lower floors of level 2 to 4 in its Xiamen HQ and management expects to be able to sell the remaining units within the next twelve months. As shown on page 86 (Note 22 - Assets held for sale), the carrying value of assets held for sale is RMB38.6 million.

	Group	
	2021	2020
	RMB'000	RMB'00(
At fair value:		
At 1 January	40,370	–
Reclassified from property, plant and equipment (Note 13)	–	24,700
Reclassified from investment property (Note 14)	–	437,918
Disposal	(1,770)	(418,852
Fair value loss included in profit or loss	–	(3,396
At 31 December	38,600	40,370

(Source: company annual report)

(i) **What are the challenges faced by the group, if any, in selling the remaining office units?**

(ii) **How is the group marketing the remaining units?**

(iii) **Are any units currently being leased out for rental income?**

In FY2020, the group recognised sale proceeds of RMB399.4 million for the disposal of office units. This has funded the group's upgrade of its machinery required for its zipper operations.

As at 31 December 2021, the gearing ratio (calculated by net debt divided by total capital plus net debt) remained steady at 0.33 (FY2020: 0.30). Cash and unpledged fixed deposits amounted to RMB168.4 million (FY2020: RMB197.3 million). Net cash flows generated from operating activities in FY2021 was RMB103.3 million.

(iv) **What deliberations did the board have on the declaration of a special dividend (or a capital reduction) to reward shareholders who have supported and believed in the group over the years?**

Company's response:

(i) In recent years, there has been an oversupply of commercial office buildings as quite a few was completed. As such, this has exerted competitive pressures on the Group's efforts to sell the remaining office units.

(ii) A marketing counter has been set up at the management office on the ground floor of Xiamen building to display the information of the remaining office units available for sale.

(iii) The remaining office units are currently leased out for rental income.

(iv) A substantial portion of the disposal proceeds of the office units of Xiamen building had already been deployed for the automation upgrade plan and repayment of bank loans. With the recent headwinds the world economy is facing over the ongoing Ukraine war and inflationary pressures being built up and increased uncertainties in the business environment and possible recession fears, the Management is of the view that the Company needs to be prudent to set aside the cash for operational needs and for future automation upgrade to support the Group's growth. In addition, the Company and the Group are still in accumulated losses positions, the Company would need to seek legal advice on the payment of a special dividend through a capital reduction exercise. The Management is of the view that the Company will deliberate on the payment of special dividend when the Group has shown sustainability in its profitability.

Q3. The attendance of directors at board and board committee meetings is shown below:

FY2021

The number of Board and Board Committees meetings as well as general meetings held during FY2021, and the attendance of Directors and key management personnel ("KMP") during these meetings, are as follows:

Meetings	Board	AC	NC	RC	General Meetings*
Total held	**4**	**3**	**1**	**1**	**2**
Directors	**No. of Meetings attended**				
Hong Qing Liang	1	–	0	–	2
Hong Peng You	4	3#	1#	1#	2
Dr Hong Kah Leong	4	3	1	1	2
Lim Cheng Kee	4	3	1	1	2
Qiu Qing Yuan	4	3	1	1	2
KMP	**No. of Meetings attended**				
James Ma - Chief Financial Officer	4#	3#	1#	1#	2

Notes:

\# By invitation.
* Annual General Meeting and Special General Meeting both held on 29 April 2021.

FY2020

The number of Board meetings and general meetings held during FY2020 and the attendance of each Board member at those meetings are disclosed as follows:

Meetings	Board	AC	NC	RC	General*
Total held in FY2020	**4**	**4**	**1**	**2**	**2**
Directors	**No. of Meetings attended in FY2020**				
Hong Qing Liang	2	3#	0	1#	2
Hong Peng You	4	3#	N.A.	1#	2
Dr Ho Kah Leong	4	4	1	2	2
Lim Cheng Kee	4	4	1	2	2
Qiu Qing Yuan	4	4	1	2	2

\# By invitation

* Annual General Meeting held on 3 June 2020 and Special General Meeting held on 18 November 2020

N.A. Not Applicable.

(Source: company annual reports; emphasis added)

(i) **What are the extenuating circumstances that had resulted in the executive chairman and chief executive officer being absent from the board and board committee meetings on several occasions in the past?**

(ii) **Can the company confirm that Mr Hong Qing Liang did not participate remotely through voice calls or video conferencing?**

(iii) **How effective is the executive <u>chairman</u> if he has not attended the board meetings that were scheduled in advance (page 14)?**

(iv) **Similarly, has the board been effective and have the directors been able to discharge their fiduciary duties and responsibilities?**

(v) **Would the executive chairman be committing himself to attend the board and board committee meetings?**

(vi) **How can the company secretary and the company work together with the board to improve the attendance of directors at board meetings?**

Separately, two of the independent directors, namely Dr Ho Kah Leong and Mr Qiu Qing Yuan, were appointed in 2007. Notwithstanding that the two directors obtained shareholders' approval for their continued appointment as (long tenured) independent directors, the Singapore Exchange Regulation (SGX RegCo), on 30 November 2021, gave guidance that companies are expected to use the two-tier rule sparingly to promote renewal and succession planning[1].

(vii) **What are the company's plans for board renewal? Has the continued appointment of the long tenured independent directors delayed the company's board renewal process and impeded succession planning?**

(viii) **Would the nominating committee be reviewing the board composition, with the view to onboard new members to achieve board renewal?**

In addition, the long-tenured independent director, Dr Ho Kah Leong, is also the lead independent director.

(ix) **Should Dr Ho Kah Leong be holding himself to higher governance standards and lead by example, especially in setting the tone with regard to the tenure of independent directors?**

Company's response:

(i) The Executive Chairman and CEO, Mr Hong Qing Liang ("Mr HQL") had not been able to attend the Board and Board committee meetings on several occasions as Mr HQL needs to attend local government meetings at the material times.

(ii) The Company confirmed that Mr HQL did not participate remotely through voice calls or video conferencing.

(iii) The absenteeism of some meetings has not impaired Mr HQL's performance as the Executive Chairman. Mr Hong Peng You ("Mr HPY"), the Group's Director of Administration, had attended all the Board and Board committee meetings. Prior to the Board and Board committee meetings, Mr HPY would discuss with Mr HQL on the various matters tabled on the agenda in the Board and Board committees meetings' notices and would seek Mr HQL's opinion and guidance on the matters. After the meetings, Mr HPY would summarise key matters discussed at the meetings and report to Mr HQL. Mr HQL is the key decision maker in operational matters and strategic directions of the Group and in matters pertaining to the Company. His opinions were consulted and taken in and acted upon.

(iv) The Board has been effective and the Directors have been able to discharge their fiduciary duties and responsibilities. Important matters have been tabled at the Board for discussion and the Board is collectively responsible for all the decisions made. The Board and the Board committees, i.e.: AC, NC and RC insofar have performed their functions and discharged their duties per the terms of references of the Board and the Board committees.

(v) The Company has feedback to Mr HQL and he will commit to attend all the meetings if there are no clashes with his other meetings.

(vi) The Company secretary has been dutifully sending out the notices of the Board and Board committee meetings before the meetings and the minutes of all the meetings were circulated to the Board. Going forward, the Company would check in advance of Mr HQL's availability so that he can attend the meetings. Except for Mr HQL, the other directors have attended all the meetings in full.

(vii) The Nominating Committee would recommend to the Board to find new directors to replace long tenured independent directors as part of Board renewal process. Insofar, the long tenured independent directors have discharged their fiduciary duties and responsibilities well. Going forward, the Company would plan for Board renewal and on the lookout for suitable candidates to replace the long tenured independent directors.

(viii) The Nominating committee would be reviewing the Board composition, with the view to onboard new members to achieve Board renewal.

(ix) Dr Ho Kah Leong would be holding himself to higher governance standards and lead by example with regard to the tenure of independent directors. The Nominating Committee will take the necessary steps to review Board renewal and make recommendation to the Board if there are qualified and suitable candidates for appointment as Lead independent director.

FOR AND ON BEHALF OF THE BOARD

Hong Qing Liang
Executive Chairman and Chief Executive Officer
30 June 2022