



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: Fuxing China Group Limited

Security: Fuxing China Group Limited

Meeting details:

Date: 24 April 2019

Time: 9.30 a.m.

Venue: 137 Cecil Street, HengDa Building, #04-01, Singapore 069537

Company Description

Fuxing China Group Limited, an investment holding company, manufactures and markets zipper products in the People's Republic of China. The company operates through Zippers, Processing, and Trading segments. It offers zipper chains and sliders; provides processing services, such as color dyeing of fabric tapes for zippers, and electroplating services for zipper sliders; manufactures and sells dyed yarns; and trades in raw materials, including rubber threads, nylon fabrics, and nylon yarn. The company is also involved in the real estate development activities. It sells its zipper products primarily to manufacturers of apparel and footwear products, camping equipment, bags, and upholstery furnishings, as well as other zipper manufacturers. The company also exports its zipper products to Australia, European Union, Russia, Turkey, Korea, Thailand, Vietnam, Indonesia, and other countries. Fuxing China Group Limited was founded in 1993 and is based in Jinjiang, the People's Republic of China.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=AWK)

1. On 11 March 2019, the company posted an announcement titled “Responses to queries from SGX-ST” in response to the exchange’s queries on the company’s fourth quarter (“4Q2018”) and full year ended 31 December 2018 (“FY2018”) results announcement released to SGX-ST via SGXNet on 28 February 2019.

The exchange has asked for more clarity on the following issues, including:

- allowance for advances to suppliers of RMB 6.0 million
- prepayments made to suppliers at RMB84.6 million
- prepayment made to suppliers in 4Q2018 amounted to RMB26.9 million
- cash and bank balance and loans
- amounts due to a director
- addition to property, plant amounting to RMB33.1 million
- selling and distribution expenses (particularly roadshow expenses)
- rental income and Management fee
- The new Xiamen HQ

The response to the queries by the exchange was 9 pages long.

- (i) How did the audit committee (AC) review the quarterly and full year financial statements before they were published on SGXNet?**
- (ii) What deliberations did the AC have over the level of disclosure on changes in accounting policies and practices, major risk areas, compliance with accounting standards as well as compliance with statutory and regulatory requirements?**
- (iii) In its review, did the AC ensure that sufficient information is provided to shareholders to let them assess the performance and risk of the group?**
- (iv) Can the board, especially the independent directors on the audit committee, help shareholders understand their accounting and related financial management expertise or experience?**

In fact, in the 2018 financial year, the exchange had queried the company on the Q1, Q2, Q3 and FY/Q4 quarterly results. In FY2017, the company was queried by the exchange after each quarterly reporting as well.

The exchange has been querying the company from as early as December 2014.

- (v) Has the AC reviewed the queries by the exchange and evaluated the company’s quality of the financial reporting and made improvements to the processes and raised its level of disclosure?**
- (vi) Has the AC evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity and quality of the financial statements?**

2. Would the board/management provide shareholders with better clarity on the following operational, financial and strategic matters?

- (i) **Core business:** In the Zipper segment, the gross profit margin has fallen to a 5-year low, of 8.2% (page 4). The gross profit margin for the zipper segment in FY2014-FY2017 ranged from 10.6% to 11.6%. **Would the board elaborate further on how its business model creates sustainable value for shareholders over time? Did the group maintain or consolidate its market share?**
- (ii) **Trading:** Can management help shareholders understand the risks involved in the group's trading business? What are the safeguards to minimise its exposure to market price risks and counter-party risks?
- (iii) **Internal controls:** The group recognised allowance for advances to suppliers of RMB 6.0 million in FY2018. As explained by management, this was due to prepayments made to nearly 20 suppliers for spare parts, raw material and a waste water treatment project. **Can management help shareholders understand how it selects its suppliers? What kinds of checks are carried out to ensure that the suppliers are established and reliable? What are the reasons that the group provided over RMB6 million to nearly 20 suppliers for more than 6 months without getting its stocks?**

3. The board is currently made up of six directors, including three independent directors namely Dr Ho Kah Leong (also lead independent director), Mr Lim Cheng Kee and Mr Qiu Qing Yuan.

Mr Qiu Qing Yuan and Dr Ho Kah Leong were each appointed to the board on 3 August 2007. As such, both directors have each served on the board for more than 11 years.

Mr Lim Cheng Kee, the other independent director was appointed to the board on 23 May 2014.

In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 CG Code"). As a consequence of the revised 2018 CG Code, the Singapore Exchange has made amendments to its Listing Rules which came into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

- (i) **Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?**
- (ii) **Has the nominating committee reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?**



- (iii) Would the nominating committee elaborate in greater detail its search and nomination process for directors, especially independent directors? How often are professional search firms used to cast a wider net to source for independent directors?**

- (iv) As two of the independent directors have been appointed to the board for more nine years, what are the company's near term plans to refresh the membership of the board to comply with the new 2018 Code in good time? Doing so would avoid undue disruption and maintain institutional knowledge and continuity in the board.**