Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Fuxing China Group Limited

Stock code: AWK

Meeting details:
Date: 3 June 2020
Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. In the Corporate profile, management stated that the group has a diversified customer base of over 1600 customers in the PRC. It was awarded the "Symbolic Brand of China" in 2006 and "PRC Top 10 Famous Zipper Brands" in 2005. In 2008, the group was also named one of the 200 companies in Forbes Asia's Fourth Annual Best Under a Billion List.

(i) **Would management be updating the corporate profile to show some of its more recent achievements and successes?**

Gross margin for the Zipper segment has slipped from 10.8%-11.6% in FY2015-FY2017 to 8.2% in FY2018 and 7.2% in FY2019. In the chairman's message, management disclosed that it "*continued to operate under a highly competitive environment with razor thin profit margins*". The group also experienced higher production costs, namely labour costs and cost of raw materials. Even though revenue decreased by 18%, general and administrative expenses increased by RMB 4.5 million (~10%) due to an increase in allowance of doubtful trade receivables.

(ii) **Given the highly competitive environment with razor thin profit margins, has the board estimated the group's cost of capital?**

(iii) **How much automation has been achieved in the group's production? What is the expected level of cost savings that the group can achieve with automation?**

Management has cautioned that the industry will remain highly challenging and competitive while factory overheads and labour costs are expected to rise.

(iv) **With little/no pricing power and no competitive edge, has the board evaluated the sustainability of the group's business model? Would the group halt its major capital expenditure and review its capital allocation approach?**

Q2. On 2 October 2019, the company announced that it intends to dispose part of the newly completed office building located in Siming District, Xiamen City, Fujian Province, the People's Republic of China. As disclosed, the company occupied 2 floors of its Xiamen HQ and the other floors are tenanted to a single tenant.

On 19 May 2020, the company announced that it has obtained the local authorities' approval to dispose of the office building.

(i) **Can management clarify if the intention is to sell the entire office building, including the two floors occupied by the company?**

As shown in Note 14 (page 72 – Investment property), the valuation of the investment property decreased by RMB 37.6 million to RMB 472.9 million as at 31 December 2019. This was the fair value based on the properties' highest and best use. The outstanding loan

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related to the investment property is approximately RMB 55 million as a 31 December 2019.

(ii) **Should the company successfully divest the investment property, would the board be recommending a special dividend to reward shareholders?** The last dividend paid out by the company was nearly a decade ago in September 2011 amounting to $0.002 (before consolidation).

Q3. As noted in the financial summary (page 4 of the annual report), the average receivable turnover (days) increased from 100 days in FY2017 and FY2018 to 116 days in FY2019.

In Note 30 (page 92 - Financial instruments and financial risk: Credit risk), the group's trade receivables and bill receivables are shown in the table below:

Trade receivables and bill receivables (Note 19) (Continued)

The loss allowance for trade receivables and bill receivables are determined as follows:

		Past due			
	Current	1 to 90 days	91 to 180 days	More than 180 days	Total
31 December 2019					
Expected credit loss rates	0%	0%	0%	67%	
Trade receivables (gross)	69,828	78,591	45,744	98,540	292,703
Bill receivables (gross)	23,103	–	–	–	23,103
Loss allowance (including credit impaired)	–	–	–	66,445	66,445
31 December 2018					
Expected credit loss rates	0%	0%	0%	95.9%	
Trade receivables (gross)	58,651	118,956	63,421	63,674	304,702
Bill receivables (gross)	13,210	–	–	–	13,210
Loss allowance (including credit impaired)	–	–	–	60,818	60,818

(Source: company annual report)

The amount of (gross) trade receivables past due more than 180 days has increased from RMB 63.7 million as at 31 December 2018 to RMB 98.5 million as at the end of the financial year.

(i) **Can management provide a breakdown of the trade receivables past due by 180 days and to indicate the upper limit?**

(ii) **What are the reasons for the big increase in the amount past due by more than 180 days?**

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In Note 2.14 (page 59 - Summary of significant accounting policies: Financial instruments: Financial assets: Impairment of financial assets), the group has stated it uses a practical expedient to recognise the expected credit losses ("ECL") for trade receivables, which is to measure the loss allowance at an amount equal to lifetime ECL using an allowance matrix derived based on historical credit loss experience adjusted for current conditions and forecasts of future economic conditions.

(iii) **Would the audit committee elaborate further how it determined the ECL rates as 0% for 1 to 90 days and 91 to 180 days?**

(iv) **Is the ECL rate for amounts past due by more than 180 days correctly determined based on historical credit loss experienced and adjusted for current and economic conditions?** The ECL rate has dropped to 67% from 95.9%. It would be uncommon for the ECL rate to vary so much if it were based on historical credit loss experience.

^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings)