



Securities Investors Association (Singapore)

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GST Reg No: M90367530Y

Issuer: Fuxing China Group Limited

Stock code: AWK

Meeting details:

Date: 30 June 2022

Time: 3.00 p.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.

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 RM57 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?**

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 RMB'000	2020 RMB'000
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?**

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 chairman 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 planning¹.

- (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?**

¹On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings ("Meetings Order") would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such

¹ <https://www.businesstimes.com.sg/companies-markets/answer-my-question-before-i-vote-sgx-regco-sets-new-timelines-for-companies-to>

[^] Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (<https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation>)

time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

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

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