



CHINA FUTEX HOLDINGS LIMITED

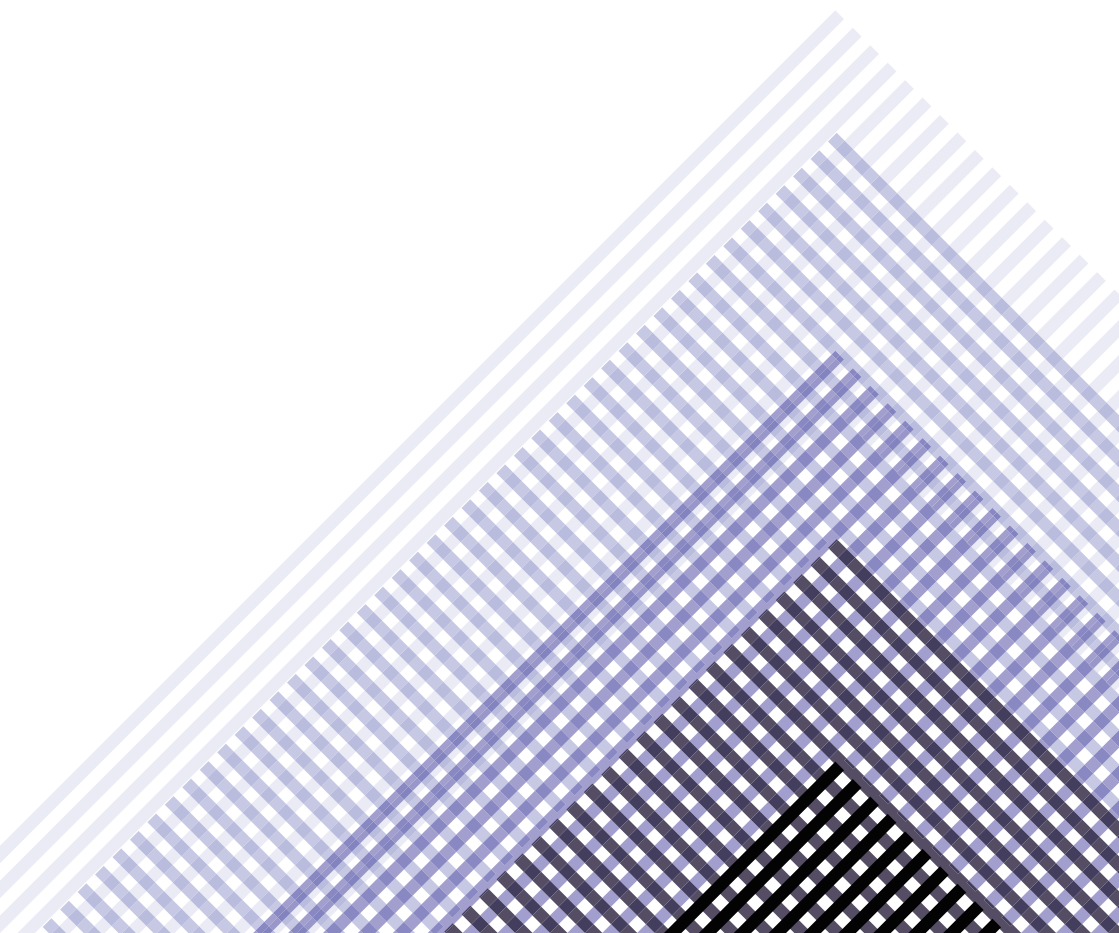
中國福紡控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8506

FIRST QUARTERLY REPORT

2018



CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

FIRST QUARTERLY RESULTS

The Board is pleased to announce the unaudited condensed consolidated results of the Group for the three months ended 31 March 2018 together with the unaudited comparative figures for the corresponding period in 2017, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Note</i>	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Revenue	<i>2, 3</i>	31,306	31,321
Cost of goods sold		(19,933)	(20,332)
Gross profit		11,373	10,989
Other income		478	163
Selling expenses		(528)	(453)
Administrative expenses		(6,275)	(5,185)
Profit from operations		5,048	5,514
Finance costs		(532)	(592)
Profit before tax		4,516	4,922
Income tax expense	<i>4</i>	(1,381)	(1,461)
Profit for the period attributable to owners of the Company	<i>5</i>	3,135	3,461
Earnings per share (RMB cents)	<i>6</i>		
– Basic		0.32	0.51

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company					
	Paid-in capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
As at 1 January 2017 (audited)	338	–	1,830	3,825	21,201	27,194
Profit for the year (audited)	–	–	–	–	18,975	18,975
Issue of ordinary shares (audited)	22	10,588	–	–	–	10,610
Transfer to statutory surplus reserve (audited)	–	–	–	2,345	(2,345)	–
Total comprehensive income for the year (audited)	22	10,588	–	2,345	16,630	29,585
As at 31 December 2017 (audited)	360	10,588	1,830	6,170	37,831	56,779
As at 1 January 2018 (unaudited)	360	10,588	1,830	6,170	37,831	56,779
Profit for the period (unaudited)	–	–	–	–	3,135	3,135
Issue of ordinary shares (unaudited)	7,726	38,648	–	–	–	46,374
Total comprehensive income for the period (unaudited)	7,726	38,648	–	–	3,135	49,509
As at 31 March 2018 (unaudited)	8,086	49,236	1,830	6,170	40,966	106,288

1. BASIS OF PREPARATION

The Company was incorporated and domiciled in the Cayman Islands with limited liability. The shares of the Company are listed on GEM of the Stock Exchange since 4 January 2018.

The unaudited consolidated financial statements for the three months ended 31 March 2018 are presented in Renminbi.

The unaudited consolidated financial statements for the three months ended 31 March 2018 have been prepared in accordance with International Financial Reporting Standards (“IFRSs”, which comprise all applicable respective International Financial Reporting Standards, International Accounting Standards and Interpretations). The unaudited consolidated financial statements also include applicable disclosure required by GEM Listing Rules.

The unaudited consolidated financial statements for the three months ended 31 March 2018 should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2017 and the notes thereto (the “**2017 Audited Consolidated Financial Statements**”). The significant accounting policies adopted in the preparation of the unaudited consolidated financial statements are consistent with those followed in the preparation of the 2017 Audited Consolidated Financial Statements. It should be noted that accounting estimates and assumptions were adopted in the preparation of the unaudited consolidated financial statements. Although the estimates are based on the management’s best knowledge of and judgement on the present events and actions, the actual results may eventually differ from those estimates.

Certain new and revised IFRSs have been issued. Adoption of new IFRSs which are effective for the accounting periods beginning on 1 January 2018 will not have any material impact on the preparation and presentation of the results and financial conditions of the current period and previous periods. For the IFRSs that are not yet effective nor have not been early adopted, the Group is in the process of making an assessment of the potential impact of the newly issued IFRSs.

2. REVENUE

The revenue of the Group recognised in the three months ended 31 March 2018 includes the following:

	For the three months ended 31 March	
	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Sales of circular knitting machines	31,036	31,063
Sales of parts and consumables of circular knitting machines	270	258
	31,306	31,321

3. SEGMENT INFORMATION

The Group has three operating segments as follows:

- Single circular knitting machine – manufacture and sales of single circular knitting machines
- Double circular knitting machine – manufacture and sales of double circular knitting machines
- Others – manufacture and sales of parts of circular knitting machines and sales of consumables

Information about operating segment profit or loss:

	Single circular knitting machine RMB'000 (Unaudited)	Double circular knitting machine RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
For the three months ended 31 March 2018				
Revenue from external customers	7,719	23,317	270	31,306
Segment profits	2,802	8,540	31	11,373

**For the three months ended
31 March 2017**

Revenue from external customers	8,256	22,807	258	31,321
Segment profits	2,763	8,199	27	10,989

The Group's revenue from external customers by location of operations (included through trading companies) are detailed below:

	For the three months ended 31 March	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
PRC	12,181	18,229
Overseas	19,125	13,092
Consolidated total	31,306	31,321

4. INCOME TAX EXPENSE

	For the three months ended 31 March	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Provision – PRC	1,381	1,461

No provision for Hong Kong profits tax was required since the Group had no assessable profit for the three months period ended 31 March 2018 (2017: Nil).

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

Under the Law of Enterprise Income Tax of the PRC (the “**EIT Law**”) and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

A wholly owned subsidiary of the Company which was granted the status of a “High and New Technology Enterprise” was entitled to a preferential enterprise income tax rate of 15% that covered three years commencing from the year ended 31 December 2012 and further extended for three more years commencing from the year ended 31 December 2015.

5. PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY

The Group's profit attributable to owners of the Company is stated after charging the following:

	For the three months ended 31 March	
	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Amortisation of prepaid land lease payments	18	18
Depreciation	541	539
Research and development expenditure	1,422	1,295
Cost of inventories sold	19,933	20,332
Net exchange loss	471	91

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on profit attributable to owners of the Company for the three months ended 31 March 2018 of approximately RMB3,135,000 (2017: RMB3,461,000) and weighted average number of 993,333,333 ordinary shares in issue for the three months ended 31 March 2018 (2017: 684,494,038 shares).

7. INTERIM DIVIDENDS

The Directors do not recommend any payment of dividend for the three months ended 31 March 2018 (2017: Nil).

BUSINESS REVIEW

The Group is principally engaged in the research and development, manufacturing and sale of circular knitting machines. The Group derives its revenue mainly from the sales of circular knitting machines (i) domestically under the Group's own brands; and (ii) overseas either under the Group's own brands or the brands specified by trading companies purchasing on OEM basis. For the three months ended 31 March 2018 and 31 March 2017, the revenue of the Group remained stable at approximately RMB31.3 million.

The Group has continued to strengthen its research and development capabilities in order to respond to and anticipate changes in the market and enhance the Group's competitiveness within the circular knitting machinery industry. For the three months ended 31 March 2018, two utility model patents of the Group in relation to circular knitting machines have been successfully registered.

OUTLOOK

The National Bureau of Statistics of the PRC has recently announced that the Purchasing Managers' Index averaged 50.3 for the three months ended 31 March 2018, which was higher than the threshold of 50 but represented a negative year-on-year growth. This reflects a downward trend in the expansion of purchasing activities for the Chinese manufacturing industry. The Chinese economy is embracing its "New Normal", featuring a new growth model that emphasises domestic consumption and quality. On one hand, adverse situations will emerge during the process, such as less demand for low-end machinery and equipment. On the other hand, fresh opportunities will appear under the national strategies of "Made in China 2025" and the "Belt and Road Initiative". Leveraging on its experience in the manufacturing sector, the Group will invest more in research and development to bolster its core competitiveness, while proactively exploring overseas markets. To cope with the demand in the new era, the Group will strive to develop new machine models to cater for domestic market demand, and boost promotion and development of its products so as to secure a larger overseas market share. In this regard, the Group will monitor the market prudently and adjust its development plan accordingly.

FINANCIAL REVIEW

Revenue

The Group derives its revenue primarily from the manufacturing and sales of circular knitting machines which can be classified into (i) single circular knitting machines; and (ii) double circular knitting machines. For the three months ended 31 March 2018 and 31 March 2017, the revenue of the Group remained stable at approximately RMB31.3 million. The sales of single circular knitting machines decreased by approximately 6.5% from approximately RMB8.3 million for the three months ended 31 March 2017 to approximately RMB7.7 million for the three months ended 31 March 2018. The sales of double circular knitting machines increased by approximately 2.2% from approximately RMB22.8 million for the three months ended 31 March 2017 to approximately RMB23.3 million for the three months ended 31 March 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Overseas sales increased by approximately 46.1% from approximately RMB13.1 million for the three months ended 31 March 2017 to approximately RMB19.1 million for the three months ended 31 March 2018. In view of the shifting of the manufacturing base of textiles manufacturers to Southeast Asian and other Asian countries with a lower labour costs than the PRC, the Group expanded the geographical coverage of its products and adopted a more proactive approach in the expansion of its overseas business. The Group established a wholly-owned subsidiary, namely Zhangzhou Fukai, which commenced business operations in January 2017 to directly engage in sales to overseas customers and has since then successfully exported the Group's products to various overseas markets. Domestic sales decreased by approximately 33.2% from approximately RMB18.2 million for the three months ended 31 March 2017 to approximately RMB12.2 million for the three months ended 31 March 2018.

Cost of Goods Sold

The Group's cost of goods sold remained stable at approximately RMB19.9 million, and approximately RMB20.3 million for the three months ended 31 March 2018 and 31 March 2017, respectively.

Gross Profit and Gross Profit Margin

The Group's gross profit for the three months ended 31 March 2018 was approximately RMB11.4 million, representing an increase by approximately 3.5% when compared with its gross profit of approximately RMB11.0 million for the three months ended 31 March 2017.

The Group's gross profit margin slightly increased from approximately 35.1% for the three months ended 31 March 2017 to approximately 36.3% for the three months ended 31 March 2018. This was primarily due to the magnitude of the decrease in the cost of goods sold which was larger than the decrease in the revenue for the three months ended 31 March 2018.

Other Income

The Group's other income consists of rental income, scrap sales and interest income on bank deposits. The Group's other income was approximately RMB478,000 for the three months ended 31 March 2018, representing a significant increase of approximately 193.2% as compared with the other income of approximately RMB163,000 for the three months ended 31 March 2017. This was primarily due to substantial increase in interest income on bank deposits and scrap sales.

Selling Expenses

The Group's selling expenses mainly consist of travelling, entertainment and transportation expenses, sales staff salary and staff benefits expenses. For the three months ended 31 March 2018, the Group's selling expenses were approximately RMB528,000, representing an increase of approximately 16.6% over the selling expenses of approximately RMB453,000 for the three months ended 31 March 2017. The increase was primarily due to the increase in transportation expenses incurred from higher overseas sales.

Administrative Expenses

The Group's administrative expenses mainly include (i) research and development expenses; (ii) employee salary and benefits expenses; (iii) listing expenses; and (iv) foreign exchange losses. The Group's administrative expenses for the three months ended 31 March 2018 were approximately RMB6.3 million, representing an increase of approximately 21.0% over the administrative expenses of approximately RMB5.2 million for the three months ended 31 March 2017. The increase was primarily attributable to the increase in listing expenses and foreign exchange losses due to Renminbi appreciation.

Profit for the Period Attributable to Owners of the Company

Profit attributable to owners of the Company for the three months ended 31 March 2018 amounted to approximately RMB3.1 million, representing a decrease of approximately 9.4% as compared with the profit of approximately RMB3.5 million for the three months ended 31 March 2017. The decrease was primarily attributable to the increase in administration expenses of the Group for the three months ended 31 March 2018.

USE OF PROCEEDS FROM LISTING

The proceeds from the Listing, after deducting of related issuance expenses, amounted to approximately HK\$40.9 million. Since the date of the Listing and up to 31 March 2018, approximately HK\$0.3 million has been used to enhance customer loyalty and brand awareness, approximately HK\$0.1 million has been used to maintain and enhance the Group's research and development capabilities, approximately HK\$2.1 million has been used to purchase machineries and approximately HK\$3.6 million has been used as working capital.

PURCHASE, SALE OR REDEMPTION OF THE SECURITIES BY THE COMPANY AND ITS SUBSIDIARIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months ended 31 March 2018.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2018, the interests or short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long Positions in Ordinary Shares

Name of Director	Capacity and nature of interest	Number of Shares held	Percentage of the Company's share capital
Mr. Chen Yihui	Interest in a controlled corporation	81,195,379 <i>(note 1)</i>	8.119%
Mr. Zheng Jiafu	Interest in a controlled corporation	41,877,649 <i>(note 2)</i>	4.188%

Notes:

- (1) Sheen Vision Group Limited is wholly owned by Mr. Chen Yihui and is the beneficial owner of 81,195,379 Shares. Accordingly, Mr. Chen Yihui is deemed to be interested in 81,195,379 Shares held by Sheen Vision Group Limited by virtue of the SFO.
- (2) Apex Green International Limited is wholly owned by Mr. Zheng Jiafu and is the beneficial owner of 41,877,649 Shares. Accordingly, Mr. Zheng Jiafu is deemed to be interested in 41,877,649 Shares held by Apex Green International Limited by virtue of the SFO.

Save as disclosed above, as at 31 March 2018, none of the Directors or chief executive of the Company nor their associates had registered an interest or short position in any Shares or underlying Shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they are taken or deemed to have under such provisions of the SFO) or that was required to be recorded in the register kept by the Company pursuant to section 352 of the SFO, or which are required to be notified to the Company and the Stock Exchange, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2018, the following interests and short positions of 5% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long Positions

Name	Capacity and nature of interest	Number of Shares held	Percentage of the Company's share capital
Azure Wealth Limited (藍裕有限公司)	Beneficial owner	369,219,084	36.922%
Ms. Zheng Yonghua (鄭勇華)	Interest in controlled corporation	369,219,084 (note 1)	36.922%
Mr. Ke Weibin (柯威彬)	Interest of spouse	369,219,084 (note 2)	36.922%
Sheen Vision Group Limited	Beneficial owner	81,195,379	8.119%
Ms. Chen Qing (陳晴)	Interest of spouse	81,195,379 (note 3)	8.119%

Notes:

- (1) Azure Wealth Limited is owned as to 95% by Ms. Zheng Yonghua. Accordingly, Ms. Zheng Yonghua is deemed to be interested in 369,219,084 Shares held by Azure Wealth Limited by virtue of the SFO.
- (2) Mr. Ke Weibin (柯威彬) is the spouse of Ms. Zheng Yonghua and is therefore deemed to be interested in all the Shares held/owned by Ms. Zheng Yonghua through Azure Wealth Limited by virtue of the SFO.
- (3) Ms. Chen Qing (陳晴) is the spouse of Mr. Chen Yihui and is therefore deemed to be interested in all the Shares held/owned by Mr. Chen Yihui through Sheen Vision Group Limited by virtue of the SFO.

MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above, as at 31 March 2018, no person, other than the Directors whose interests are set out in the section “Directors’ and chief executive’s interests and short positions in shares, underlying shares and debentures” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

COMPETING INTERESTS

During the three months ended 31 March 2018, none of the Directors or the Controlling Shareholders or substantial Shareholders or their respective close associates (as defined in the GEM Listing Rules) is interested in any business which competes or may compete, either directly or indirectly, with the business of the Group nor any conflicts of interest which has or may have with the Group.

DEED OF NON-COMPETITION

Each of the Controlling Shareholders, namely Azure Wealth Limited, Ms. Zheng Yonghua and Ms. Yuan Yuan, entered into a deed of non-competition dated 19 December 2017 (the “**Deed of Non-Competition**”) in favour of the Company, under which each of the Controlling Shareholders, among other things, irrevocably and unconditionally, jointly and severally, warrants and undertakes to the Company (for itself and as trustee for each of its subsidiaries) on competition related matters. Details of the Deed of Non-Competition are set out in the section headed “Relationship with Controlling Shareholders — Non-competition Undertaking” in the Prospectus.

INTEREST OF COMPLIANCE ADVISER

As notified by Essence Corporate Finance (Hong Kong) Limited (“**ECF**”), the Company’s compliance adviser, save for the compliance adviser’s agreement entered into between the Company and ECF dated 19 December 2017, none of ECF or its directors, employees or close associates (as defined in the GEM Listing Rules) had any interest in the Group as at 31 March 2018, which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

AUDIT COMMITTEE

The audit committee of the Company, which consists of Mr. Shum Shing Kei, Dr. Mu Zhirong and Dr. Hu Xudong, all being independent non-executive Directors, has reviewed this report and the Group’s unaudited consolidated financial results for the three months ended 31 March 2018, and is of the opinion that the preparation of such results complied with applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures have been made in respect thereof.

DIVIDENDS

The Board does not recommend the payment of any interim dividend for the three months ended 31 March 2018 (2017: Nil).

In this report, unless the context otherwise requires, the following expressions have the following meanings:

“Board”	the board of Directors
“Company”	China Futex Holdings Limited 中國福紡控股有限公司, a company incorporated as an exempted company with limited liability in the Cayman Islands on 28 July 2016
“Controlling Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Director(s)”	the director(s) of the Company
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM of the Stock Exchange, as amended, supplemented or otherwise modified from time to time as the context may require
“Group”	the Company and its subsidiaries, or any of them or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of the Company at that time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Listing”	the listing of the Shares on GEM of the Stock Exchange on 4 January 2018
“OEM”	acronym for original equipment manufacturer, whereby products are manufactured in accordance with the customer’s specification and are marketed under the brand names specified by the customers
“PRC”	the People’s Republic of China and, except where the context requires otherwise and only for the purposes of this report, references to China or the PRC exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan

DEFINITIONS

“Prospectus”	the prospectus of the Company published on 20 December 2017 in connection with the Listing
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhangzhou Fukai”	漳州福凱貿易有限公司 (Zhangzhou Fukai Trading Co., Ltd*), a limited liability company established in the PRC on 12 October 2016 and an indirect wholly owned subsidiary of the Company
“%”	per cent

* For identification purposes only

By order of the Board
China Futex Holdings Limited
Yuan Yuan
Chairlady and Chief Executive Officer

Hong Kong, 11 May 2018

As at the date hereof, the Board comprises Ms. Yuan Yuan, Mr. Chen Yihui and Mr. Zheng Jiafu as Executive Directors; and Dr. Hu Xudong, Mr. Shum Shing Kei and Dr. Mu Zhirong as Independent Non-executive Directors.