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

ANNUAL REPORT 2018

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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.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Yuan Yuan *(Chairlady and Chief Executive Officer)*
Mr. Chen Yihui
Mr. Zheng Jiafu (resigned on 14 January 2019)

Independent Non-Executive Directors

Dr. Hu Xudong
Dr. Mu Zhirong
Mr. Shum Shing Kei

COMPANY SECRETARY

Ms. Huen Lai Chun *(HKICS)*

COMPLIANCE OFFICER

Ms. Yuan Yuan

AUTHORISED REPRESENTATIVES

Ms. Yuan Yuan
Ms. Huen Lai Chun

AUDIT COMMITTEE

Mr. Shum Shing Kei *(Chairman)*
Dr. Mu Zhirong
Dr. Hu Xudong

REMUNERATION COMMITTEE

Dr. Mu Zhirong *(Chairman)*
Ms. Yuan Yuan
Mr. Shum Shing Kei

NOMINATION COMMITTEE

Ms. Yuan Yuan *(Chairlady)*
Mr. Shum Shing Kei
Dr. Mu Zhirong

COMPLIANCE ADVISER

Essence Corporate Finance (Hong Kong) Limited
39/F, One Exchange Square
Central, Hong Kong

AUDITORS

RSM Hong Kong
Certified Public Accountants
29th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay, Hong Kong

PRINCIPAL BANKER

Agricultural Bank of China (Longhai Jiuhu Sub-branch)
Nandadaoshang Road, Lingdou Village
Jiuhu Town, Longhai City
Fujian Province
China

REGISTERED OFFICE

P.O. Box 1350
Clifton House, 75 Fort Street
Grand Cayman
KY1-1108
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Xiawei Village, Fugong Town
Longhai City, Fujian Province
PRC

PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART 16 OF THE COMPANIES ORDINANCE

Room 1204, 12/F
C C Wu Building
302-308 Hennessy Road, Wan Chai
Hong Kong

HONG KONG LEGAL ADVISERS

LF LEGAL
Suites 1001-02, 10/F
135 Bonham Strand Trade Centre
No. 135 Bonham Strand
Sheung Wan, Hong Kong

PRINCIPAL SHARE REGISTRAR

Estera Trust (Cayman) Limited
P.O. Box 1350
Clifton House, 75 Fort Street
Grand Cayman
KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PLACE OF LISTING

Stock Exchange

STOCK CODE

8506

WEBSITE OF THE COMPANY

www.kx-machine.com

CHAIRLADY'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am pleased to present the audited consolidated financial results of the Group for the year ended 31 December 2018.

For the year ended 31 December 2018, the Group recorded revenue of approximately RMB133.9 million, representing an increase of approximately 1.8% as compared to the year ended 31 December 2017. Profit attributable to owners of the Company increased by approximately 8.9% from approximately RMB19.0 million for the year ended 31 December 2017 to approximately RMB20.7 million for the year ended 31 December 2018.

For most manufacturers, the year under review was full of opportunities and challenges. The Group's business operations developed steadily and maintained a healthy growth. In January 2018, the shares of the Company were successfully listed on GEM of the Stock Exchange. Leveraging on its listing status, capital funding and human resources, the Group further strengthened its position as one of the top ten circular knitting machine manufacturers in the PRC. In addition, the Group attained notable achievements in research and development and was recognised as a national high and new technology enterprise, which enabled us to maintain our market competitiveness.

The Group will continue to develop its business in the PRC, Southeast Asia and other Asian markets and expand its business scale, in order to maximise its overall profits and returns to the Shareholders.

On behalf of the Board, I would like to express our sincere gratitude for the hard work of our staff, and the continuous and valuable support of the Group from all our Shareholders and stakeholders.

Yuan Yuan
Chairlady

Hong Kong, 22 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in R&D, 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 year ended 31 December 2018, the Group recorded a turnover of approximately RMB133.9 million, representing a slight increase of approximately 1.8% from approximately RMB131.6 million recorded for the year ended 31 December 2017. Profit attributable to owners of the Company for the year ended 31 December 2018 amounted to approximately RMB20.7 million, representing an increase of approximately 8.9% as compared with the profit of approximately RMB19.0 million for the year ended 31 December 2017.

In 2018, the global economy continued to recover and the macro economy in the PRC grew steadily. However, the continuous trade tensions between the PRC and the United States had a profound impact on the overall operation of the textile industry and the demands in the international and domestic textile markets. The Group strived to overcome the adverse market conditions brought by market changes and the increase in raw material costs. The Group's revenue and profits from primary operations remained stable. Apart from the Korean market, the sales from our markets increased steadily.

The Group focuses on enhancing its innovative initiatives in its development in order to improve the positioning and quality of its products and to secure the recognition as a national high and new technology enterprise. For the year ended 31 December 2018, the Group has registered three utility model patents for its circular knitting machines and has applied for eight utility model patents in the PRC.

OUTLOOK

In 2019, the Group's mission to provide high quality and efficient circular knitting machines to its customers remains unchanged. The Group will continue to fulfill this commitment and differentiate ourselves in the market through its on-going product development and enhanced services. As the overseas markets continue to expand, the Group aims to achieve a higher revenue in overseas markets.

Due to fierce market competition in the industry and the international trading market, the Group anticipates a forthcoming challenging year. However, the Group will continue to adhere to its strategic development plan and seize business opportunities in various regions. During the year under review, the Group achieved good progress in R&D. The Group will continue to allocate stable manpower and resources to keep abreast of the current market trends and technologies, so as to maintain a competitive advantage.

FINANCIAL REVIEW

Revenue

The Group derives its revenue primarily from 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 year ended 31 December 2018, the Group recorded revenue of approximately RMB133.9 million, representing a slight increase of approximately 1.8% when compared with the previous year of approximately RMB131.6 million.

The sales of single circular knitting machines increased by approximately 26.1% from approximately RMB36.4 million for the year ended 31 December 2017 to approximately RMB45.9 million for the year ended 31 December 2018. The sales of double circular knitting machines decreased by approximately 8.5% from approximately RMB94.4 million for the year ended 31 December 2017 to approximately RMB86.3 million for the year ended 31 December 2018. The fluctuations in the sale of single circular knitting machines and double circular knitting machines were mainly attributable to the constant change in the demand of the Group's customers during the year ended 31 December 2018.

Domestic sales increased by approximately 1.8% from approximately RMB59.3 million for the year ended 31 December 2017 to approximately RMB60.3 million for the year ended 31 December 2018. Overseas sales increased by approximately 1.8% from approximately RMB72.4 million for the year ended 31 December 2017 to approximately RMB73.6 million for the year ended 31 December 2018.

Cost of Goods Sold

The Group's cost of goods sold for the year ended 31 December 2018 was approximately RMB89.5 million, representing an increase of approximately 6.7% from approximately RMB83.9 million in respect of the year ended 31 December 2017. Such increase was primarily due to the price increase of raw materials of the Group and the increase in sale of single circular knitting machines (which require a higher production cost) for the year ended 31 December 2018.

Gross Profit and Gross Profit Margin

The Group's gross profit for the year ended 31 December 2018 was approximately RMB44.5 million, representing a decrease by approximately 6.9% when compared with its gross profit of approximately RMB47.8 million for the year ended 31 December 2017. This was primarily due to the magnitude of the increase in cost of raw materials and production cost of circular knitting machines (in particular the single circular knitting machines) which was larger than the increase in revenue for the year ended 31 December 2018.

The Group's gross profit margin decreased from approximately 36.3% for the year ended 31 December 2017 to approximately 33.2% for the year ended 31 December 2018. This was mainly attributable to the magnitude of the increase in sale of single circular knitting machines (which would generate a lower gross profit margin) that was larger than the decrease in sale of double circular knitting machines (which would generate a higher gross profit margin).

Other Income

The Group's other income consists of incentive fees for the Listing, rental income, scrap sales and interest income. The Group's other income increased by approximately 292.8% from approximately RMB0.8 million for the year ended 31 December 2017 to approximately RMB3.3 million for the year ended 31 December 2018. This was primarily due to the incentive fees for the Listing of RMB2.0 million received by the Group from the government of the Longhai City of the PRC.

Selling Expenses

The Group's selling expenses mainly consist of travelling, entertainment and transportation expenses, sales staff salary and staff benefits expenses and promotion expenses. For the year ended 31 December 2018, the Group's selling expenses were approximately RMB2.7 million, representing an increase of approximately 10.0% over the selling expenses of approximately RMB2.5 million for the year ended 31 December 2017. The increase was primarily due to the increase in (i) transportation expenses incurred from higher overseas sales and (ii) sales staff salary.

Administrative Expenses

The Group's administrative expenses mainly include (i) R&D expenses; (ii) employee salary and benefits expenses; and (iii) Listing expenses. The Group's administrative expenses for the year ended 31 December 2018 were approximately RMB17.5 million, representing a decrease of approximately 9.1% over the administrative expenses of approximately RMB19.2 million for the year ended 31 December 2017. The decrease was primarily attributable to the decrease in non-recurring Listing expenses.

Finance Costs

The Group's finance costs remained stable at approximately RMB2.3 million and RMB2.4 million for the year ended 31 December 2018 and 31 December 2017 respectively.

Income Tax Expense

The Group's income tax expense for the year ended 31 December 2018 was approximately RMB4.6 million, representing a decrease of approximately 17.6% from approximately RMB5.6 million for the year ended 31 December 2017. Such decrease was primarily due to the decrease in non-recurring Listing expenses which were not tax deductible. The effective income tax rates of the Group, which equal to the income tax expense divided by profit before tax, were approximately 22.7% and 18.2% for the year ended 31 December 2017 and 31 December 2018 respectively. The decrease in the effective income tax rate for the year ended 31 December 2018 was primarily attributable to Zhangzhou Fukai being entitled to the preferential enterprise income tax rate as a recognised small and thin profit enterprise in the PRC.

Profit for the year attributable to owners of the Company

Profit attributable to owners of the Company for the year ended 31 December 2018 amounted to approximately RMB20.7 million, representing an increase of approximately 8.9% as compared with the profit of approximately RMB19.0 million for the year ended 31 December 2017. The increase was primarily attributable to (i) the increase in other income which mainly consists of the incentive fees for the Listing and (ii) the decrease in income tax expense and Listing expenses.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's operations are financed mainly by a combination of cash generated from operations and bank borrowings. The Group recorded net current assets of approximately RMB98.7 million as at 31 December 2018 (2017: RMB31.2 million).

As at 31 December 2018, the Group's current assets amounted to approximately RMB176.8 million (2017: RMB118.4 million) of which approximately RMB14.1 million (2017: RMB12.9 million) was inventories; approximately RMB28.5 million was trade receivables (2017: RMB24.5 million); approximately RMB1.3 million was deposits, prepayments and other receivables (2017: RMB6.6 million); and approximately RMB133.0 million was bank and cash balances (2017: RMB74.4 million).

As at 31 December 2018, the Group's total borrowings amounted to approximately RMB45.9 million (2017: RMB53.8 million). The Group's borrowings only consist of bank loans of approximately RMB45.9 million (2017: RMB44.9 million) and are denominated in Renminbi. The bank loans are charged at fixed interest rates and repayable on demand or within one year. The amount due to an owner of the former ultimate parent as at 31 December 2017 was fully repaid during the year ended 31 December 2018.

The Group's gearing ratio as at 31 December 2017 and 2018, which was calculated by dividing the total debt by the total equity as at those dates, was approximately 94.8% and 37.1% respectively. The decrease in the Group's gearing ratio as at 31 December 2018 was primarily attributable to the increase in the Group's reserves from approximately RMB56.4 million for the year ended 31 December 2017 to approximately RMB115.3 million for the year ended 31 December 2018 due to issue of the Shares and the net profit during the year ended 31 December 2018..

The Group's financial position has been further enhanced by the proceeds from the Listing obtained in January 2018.

CAPITAL STRUCTURE

The Shares were listed on GEM of the Stock Exchange on 4 January 2018. There has been no change in the capital structure of the Company since then. As at 31 December 2018, the capital structure of the Company comprised mainly of bank borrowings, issued share capital and reserves.

CHARGE ON GROUP ASSETS

As at 31 December 2018, the Group has pledged (i) property, plant and equipment with carrying amount of approximately RMB17.7 million (2017: RMB19.2 million); and (ii) prepaid land lease payments with carrying amount of approximately RMB2.7 million (2017: RMB2.7 million) as security for the Group's bank loans.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not make any significant investments or material acquisitions and disposals of subsidiaries during the year ended 31 December 2018.

SIGNIFICANT INVESTMENTS HELD AND PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Company did not hold any significant investments as at 31 December 2018. Save as those plans disclosed in the Prospectus, the Company did not have other plans for material investments or capital assets during the year ended 31 December 2018.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group's revenue and costs are primarily denominated in Renminbi. Some revenue and costs are denominated in other currencies. The Group currently does not have a foreign currency hedging policy. However, the Directors continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

HUMAN RESOURCES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had a workforce of 91 (2017: 91) full-time employees. The remuneration of the Group's employees are determined depending on a number of factors, including their qualifications, function, experience, work performance and local market conditions. The Group regularly reviews its compensation and benefit policies to ensure that the remuneration package offered remains competitive and in line with relevant labour regulations. For the year ended 31 December 2018, the total employee benefit expenses of the Group (including salaries, bonuses, allowances and retirement benefit scheme contributions) was approximately RMB8.4 million (2017: RMB6.6 million).

Pursuant to relevant PRC laws and regulations, the Group is required to contribute to housing provident funds and social insurance funds (including pension, medical, unemployment, maternity and workplace injury insurance) for its employees. The Company has adopted a share option scheme on 11 December 2017 to enable the Company to grant options to, amongst others, the employees and directors of the Group.

USE OF PROCEEDS FROM LISTING AND COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The proceeds from the Listing, after deducting related issuance expenses, amounted to approximately HK$40.9 million. The below table sets out the proposed applications of the proceeds and actual use of proceeds from the date of the Listing up to 31 December 2018 and a comparison of the Group's business plan as set out in the Prospectus with its actual business progress up to 31 December 2018.

Business objectives and implementation plans up to 31 December 2018 as set out in the Prospectus	Planned use of proceeds to be applied up to 31 December 2018 HK$'000 *(Note 1)*	Actual use of proceeds up to 31 December 2018 HK$'000	Actual implementation progress up to 31 December 2018
Enhance customer loyalty and brand awareness	3,200	630	
(i) Arrange customer seminars and attend industry exhibitions to promote the Group's brand name and products			The Group organised one customer seminar in December 2017 and attended one industry exhibition in October 2018. The Group also leased a billboard for advertising purpose
(ii) An office building (the "**New Office Building**") will be constructed on the land of the Group to be used for sales and marketing, R&D and appointment of architectural firm and construction firm for the construction			The Group engaged a design consultancy firm for preliminary design of the New Office Building. The Group has closely monitored the progress of construction of the New Office Building and is yet to appoint a construction firm for the construction
Continue to maintain and enhance the Group's R&D Capabilities	4,900	230	
(i) Construct the New Office Building – Same as above			Same as above
(ii) Collaborations with higher education institutions to provide training to the Group's R&D personnel			The Group provided training to its R&D personnel offered by a higher education institution in April and October 2018

Business objectives and implementation plans up to 31 December 2018 as set out in the Prospectus	Planned use of proceeds to be applied up to 31 December 2018 HK$'000 *(Note 1)*	Actual use of proceeds up to 31 December 2018 HK$'000	Actual implementation progress up to 31 December 2018
(iii) R&D of a new model of circular knitting machine			The Group is in the process of R&D of a new model of double circular knitting machines
Expand customer base in the overseas market	1,800	–	
(i) Setting up overseas sales offices in Mumbai of India and Dhaka of Bangladesh			The Group is in the process of identifying suitable locations for setting up overseas sales offices in Mumbai and Dhaka. The Group has closely monitored the progress of setting up the overseas sale offices
Expand the Group's production capacity	4,100	2,290	
(i) Payment of the purchase price in relation to one high-end CNC machinery and the lathe, a type of machine used for milling and drilling			The Group purchased one CNC machine, one lathe and other production machineries. The Group will continue to acquire suitable machineries to cater for its increasing production needs
Expand the Group's production capabilities upstream	8,600	–	
(i) Purchase of machineries for the manufacturing of Hearts			The Group is at the preliminary consultation stage

The Group will apply the proceeds from the Listing in the manner consistent with the proposed applications of the proceeds set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. The implementation plans for business objectives and use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus. The Group implemented its business objectives and applied the proceeds of the Listing based on the actual development of the Group's business and industry, as well as market conditions.

Note:

1. The amount of the planned use of proceeds is calculated based on the mid-point of the indicative offer price range of the Shares as stated in the Prospectus.

PRINCIPAL RISKS AND UNCERTAINTIES

Below are principal risks and uncertainties that may have a material and adverse effect on the Group's business, financial conditions and results of operations and the Group's risk management measures:

1. The Group may not be able to maintain its historical growth rates or profit margins, and its results of operations may fluctuate significantly.

   Building on its existing client base, the Group will continue to develop its overseas markets and seek new customers. In addition, the Group leverages on the expertise and experience of its senior management to deliver efficient operation and management, so as to reduce the risk of instability.

2. The Group's R&D may not be able to catch up with technological advancements.

   The Group is in the process of establishing a new R&D center to improve its R&D capability. The Group will collaborate with higher education institutions to conduct R&D and offer staff training in order to maintain its R&D capability.

3. The Group's business depends on its ability to retain key personnel.

   The Group maintains good relationship with its senior management and provides its staff with sufficient professional trainings. Staff remuneration and benefits are in line with the prevailing market rates and subject to regular review by the Group.

4. Labour shortages and increase in labour costs may have an adverse effect on the Group's business operations.

   The Group will step up its publicity efforts to attract talents and recruit new employees through various channels. The Group is committed to cultivating junior employees with great potential to become more productive senior staff.

5. The Group may be unable to collect its trade receivables in a timely manner and have to record impairment losses.

   The Group will adhere to contract terms strictly and recover its trade receivables within the periods as prescribed in the relevant contracts.

In addition, the Group's activities are exposed to a variety of financial risks including foreign currency risk, credit risk, liquidity risk and interest rate risk. Details of the financial risks of the Group for the year ended 31 December 2018 are set out in note 6 to the consolidated financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Ms. Yuan Yuan (袁遠) ("Ms. Yuan", formerly named Yuan Min (袁敏)), aged 43, is the Chairlady of the Board, a chief executive officer of the Company and an executive Director. Ms. Yuan was appointed as a Director in July 2016 and was redesignated as an executive Director on 11 December 2017. She is the chairlady of the nomination committee and a member of the remuneration committee of the Company. She is responsible for the overall operation and development strategy of the Group as well as supervising internal control. Ms. Yuan currently also serves as a chairlady of the board of directors or a director of several subsidiaries of the Group.

Ms. Yuan has over 16 years of experiences in manufacturing and trading industry. She joined the Group as deputy general manager of Zhangzhou Kaixing(漳州凱星) in October 2013. From July 1996 to May 2000, Ms. Yuan was the accounting clerk of Xiamen Fifth Plastic Factory (廈門市第五塑料廠). From June 2000 to August 2005, she was the accountant of Xiamen Xie Feng Tai Trading Company Limited (廈門協豐泰貿易有限公司). From September 2005 to February 2007, she also worked for Xiamen Longhuai Import & Export Co., Ltd (廈門龍懷進出口貿易有限公司) ("**Longhuai Import & Export**") as finance manager and was promoted as the deputy general manager in March 2007 and as the general manager and executive director from March 2011 to November 2017.

Ms. Yuan graduated from Jiangxi University of Finance and Economics in July 1996, majoring in investment and finance. She obtained the Executive Master of Business Administration degree from the Shanghai University of Finance and Economics in January 2017.

Mr. Chen Yihui (陳毅輝) ("Mr. Chen"), aged 33, is an executive Director. Mr. Chen was appointed as a Director in July 2016 and was redesignated as an executive Director on 11 December 2017. He has over 10 years of experiences in manufacturing and trading industry. From September 2006 to February 2008, Mr. Chen worked at Xiamen Tianan Import and Export Company Limited (廈門田岸進出口有限公司) ("**Xiamen Tianan**") as a foreign trading officer. From March 2008 to August 2010, he was promoted to be the foreign trading supervisor of Xiamen Tianan. From September 2010 to August 2013, he was appointed as deputy general manager of Xiamen Tianan. Mr. Chen joined the Group in October 2013 as the chairman and general manager of Zhangzhou Kaixing and was responsible for the overall management and strategic planning of the Group. He currently also serves as a director or legal representative or general manager or executive director of several subsidiaries of the Group. Mr. Chen completed his secondary school education at Longhai Chengxi Middle School (龍海市程溪中學) in August 2004.

Mr. Zheng Jiafu (鄭加福) ("Mr. Zheng"), aged 46, is an executive Director (resigned as an executive Director on 14 January 2019). Mr. Zheng was appointed as a Director in July 2016 and was redesignated as an executive Director on 11 December 2017. He joined the Group as a sales manager of Zhangzhou Kaixing in January 2006 and is responsible for the market research and promotion for the Group's products and management of customer relationship. He also assists in developing the Group through active participation in its production and operation. In addition, Mr. Zheng has actively involved in corporate research and development work of the Group and a number of patents were successfully developed with his assistance and guidance. Mr. Zheng currently also serves as a director or executive director of several subsidiaries of the Group.

Mr. Zheng was appointed as the executive director and manager of Fujian Fufang since its establishment in November 2010 to oversee its daily business management. From October 2004 to October 2005, Mr. Zheng was the sales manager of Zhangzhou Nanfang Canned Food Machinery Company Limited (漳州市南坊罐頭食品機械有限公司). He has over 11 years of management experiences in the machinery manufacturing industry. Mr. Zheng completed his secondary school education at Fujian Longhai No. 2 Secondary School (福建省龍海第二中學) in July 1989.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Hu Xudong (胡旭東) ("Dr. Hu"), aged 59, is an independent non-executive Director. Dr. Hu was appointed as an independent non-executive Director on 11 December 2017. He is also a member of the audit committee of the Company. Dr. Hu is mainly engaged in the design of textile machinery and research on theories and engineering applications of integrated control of electromechanical systems. In addition, Dr. Hu received his master's degree from Zhejiang Institute of Silk Textiles (which was later renamed as Zhejiang Institute of Science and Technology and now the Zhejiang Sci-Tech University) ("**Zhejiang Sci-Tech**") in June 1989, majoring in silk engineering (絲綢工程), and received his doctorate in mechanical engineering from Zhejiang University in March 2004.

Dr. Hu has over 30 years of teaching experiences in the areas of textile machinery design and integrated control of electromechanical systems. From September 1983 to October 1995, Dr. Hu served as the Lecturer of Zhejiang Sci-Tech and was promoted as an Associate Professor in November 1995 and as a Professor since November 2002. From September 2005 to October 2016, he was also the department head of Zhejiang Sci-Tech.

During January 2013 to January 2019, Dr. Hu had been an independent director of Zhejiang ZhaoFeng Mechanical and Electronics Co., Ltd. (浙江兆豐機電股份有限公司), a company listed on the ChiNext market of the Shenzhen Stock Exchange (stock code: 300695) of the PRC.

Mr. Shum Shing Kei (沈成基) ("Mr. Shum"), aged 47, is an independent non-executive Director. Mr. Shum was appointed as an independent non-executive Director on 11 December 2017.

He is also the chairman of the audit committee and a member of the remuneration committee and the nomination committee of the Company.

Mr. Shum is currently the company secretary of Yusei Holdings Limited (stock code: 96), Jiangsu Nandasoft Technology Company Limited (stock code: 8045) and Chengdu Putian Telecommunications Cable Company Limited (stock code: 1202), companies currently listed on GEM or Main Board of the Stock Exchange respectively. In addition, Mr. Shum has been an independent non-executive director of Nanjing Sample Technology Company Limited (stock code: 1708), a company listed on the Main Board of the Stock Exchange since May 2011, and Zhejiang Shibao Company Limited (stock code: 1057), a company listed on the Main Board of the Stock Exchange and the Shenzhen Stock Exchange (stock code: 002703) since June 2015. He is currently also the chief financial officer and company secretary of Asia Cassava Resources Holdings Limited (stock code: 841), a company currently listed on the Main Board of the Stock Exchange, the practicing partner of CC Alliance CPA & Co. and the company secretary of Anhui Tianda Oil Pipe Company Limited, a company delisted from the Main Board of the Stock Exchange in December 2016.

Mr. Shum was the qualified accountant and company secretary of Changhong Jiahua Holdings Limited ("**Changhong Jiahua**") (formerly known as China Data Broadcasting Holdings Limited) (stock code: 8016), a company listed on GEM of the Stock Exchange, from March 2002 to July 2005 and the company secretary of Changhong Jiahua from July 2005 to December 2006. From September 2004 to September 2008, he was the qualified accountant consultant of Great Wall Motor Company Limited (stock code: 2333), a company listed on the Main Board of the Stock Exchange.

Mr. Shum was awarded a Bachelor of Arts in Accountancy by the Hong Kong Polytechnic (now the Hong Kong Polytechnic University) in November 1993. He later obtained a master degree in financial management from the University of London, the United Kingdom through long distance learning in December 1998. He was admitted as a member of the Hong Kong Society of Accountants (now the Hong Kong Institute of Certified Public Accountants) in January 1997 and has become a fellow member of the Hong Kong Institute of Certified Public Accountants in May 2010.

Dr. Mu Zhirong (木志榮) ("Dr. Mu"), aged 47, is an independent non-executive Director. Dr. Mu was appointed as an independent non-executive Director on 11 December 2017. He is also the chairman of the remuneration committee and a member of the nomination committee and the audit committee of the Company.

Dr. Mu obtained his doctorate degree in economics from Xiamen University in July 2003. Since September 2007, Dr. Mu was the Associate Professor of business management department of the School of Management of Xiamen University. From September 2008 to January 2013, he was the director of EDP center of the School of Management of Xiamen University. From January 2013 to May 2016, he was the assistant to the President of the School of Management of Xiamen University. In addition, since November 2015, he has been the independent director of ReCulture Renewable Energy Co. Ltd, a company listed on the National Equities Exchange and Quotations Co., Ltd. (stock code: 833250) in the PRC. Since July 2016, he has been the director of Hongxin Entrepreneur Incubator Investment Group Co., Ltd (弘信創業工場投資集團股份有限公司).

SENIOR MANAGEMENT

Ms. Wang Lina (王麗娜) ("Ms. Wang"), aged 35, is the financial controller of the Group. Ms. Wang joined the Group in August 2012 as the financial controller of Zhangzhou Kaixing and is responsible for the assessment, management and control of corporate risks as well as the management of investments, financing and assets, in addition to improving the internal control of the Group. She has over 10 years of experiences in accounting and financial management. She served as an assistant accountant at Zhangzhou Longhai Minhui Industry and Trade Company Limited (漳州市龍海閩輝工貿有限公司) ("**Longhai Minhui**") from April 2006 to April 2007 and was appointed as an accountant from May 2007 to February 2010. From March 2010 to June 2012, she was promoted as the finance manager of Longhai Minhui. Ms. Wang graduated from Hainan Vocational and Technical College (海南職業技術學院) in June 2006 majoring in accounting and received a bachelor's degree in accounting from Zhangzhou Normal University in January 2013.

Mr. Zhao Jingyang (趙京陽) ("Mr. Zhao"), aged 38, is the sales manager of the Group. Mr. Zhao joined the Group in November 2010 as a sales manager of Fujian Fufang and is primarily responsible for the Group's sales operations.

Mr. Zhao currently serves as a supervisor of several subsidiaries of the Group. From March 2001 to August 2004, he served respectively as an assembling technician and a lathe technician at Zhangzhou Weiliang Machinery Company Limited (漳州煒喨機械有限公司) ("**Weiliang Machinery**"). He was later promoted and worked as the lathe team leader from September 2004 to February 2007 and was promoted to be the production supervisor of Weiliang Machinery from March 2007 to September 2010. Mr. Zhao graduated from the School of Continuing Education (成人教育學院) of Zhangzhou Institute of Technology in April 2011, majoring in mechanical design and manufacturing.

DIRECTORS' REPORT

The Directors are pleased to present this report and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

CORPORATE REORGANISATION AND LISTING

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 28 July 2016 under the Companies Law. Pursuant to a reorganisation of the Group in preparation for the listing of the Shares on GEM of the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 9 November 2016. Details of the corporate reorganisation are set out in the section headed "History, Reorganisation and Group Structure" in the Prospectus. The Shares were listed on GEM of the Stock Exchange on 4 January 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company comprise R&D, manufacturing and sales of circular knitting machines. Details of the principal activities of the subsidiaries are set out in note 18 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2018.

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a fair review of the Group's business, a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the "Chairlady's Statement" and "Management Discussion and Analysis" set out on pages 4 to 12 of this annual report. The discussion forms part of this Directors' report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2018 and the Group's financial position at that date are set out in the consolidated financial statements on pages 41 to 84 of this annual report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017:Nil).

There is no arrangement under which a Shareholder has waived or agreed to waive any dividends.

DIVIDEND POLICY

The Board has adopted a dividend policy of the Company on 28 December 2018. The aim of this policy is to distribute to the Shareholders the funds surplus to the operating needs of the Group. The distribution of dividend depends upon, among others, the financial performance, future funding needs of the Company and the interests of the shareholders of the Company as a whole.

FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the last four financial years, as extracted from the published audited consolidated financial statements and the financial information from the Prospectus, is set out on page 86 of this annual report. This summary does not form part of the audited financial statements for the year ended 31 December 2018.

SEGMENT INFORMATION

An analysis of the Group's performance for the year ended 31 December 2018 by operating segment is set out in note 9 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2018 are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2018 are set out in note 23 to the consolidated financial statements.

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 for the year ended 31 December 2018.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2018 are set out in note 25(b) to the consolidated financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the reserves of the Company available for distribution under the Companies Law amounted to approximately RMB30.1 million.

CHARITABLE DONATIONS

During the year ended 31 December 2018, the Group did not make any charitable or other donations.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2018, sales to the Group's five largest customers accounted for 52.3% (2017: 46.4%) of the total sales for the year and sales to the largest customer included therein amounted to 14.5% (2017: 11.4%). Purchases from the Group's five largest suppliers accounted for 51.4% (2017: 56.6%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 20.9% (2017: 20.0%).

None of the Directors, their close associates (as defined in the GEM Listing Rules) or any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued Shares) had any beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS

The Directors during the year ended 31 December 2018 and up to the date of this report were:

EXECUTIVE DIRECTORS

Ms. Yuan Yuan *(Chairlady and Chief Executive Officer)*
Mr. Chen Yihui
Mr. Zheng Jiafu (resigned on 14 January 2019)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Hu Xudong
Dr. Mu Zhirong
Mr. Shum Shing Kei

In accordance with article 108 of the Articles, Mr. Chen Yihui and Dr. Mu Zhirong will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received, from each of the independent non-executive Directors, a written confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and as at the date of this report still considers them to be independent.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 13 to 15 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years and each of the independent non-executive Directors has entered into a letter of appointment with the Company and is appointed for a term of one year.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment compensation, other than statutory compensation.

EMOLUMENT POLICY AND PENSION SCHEME

The remuneration of the Group's employees are determined depending on a number of factors, including their qualifications, function, experience, work performance and local market conditions. The Group regularly reviews its compensation and benefit policies to ensure that the remuneration package offered remains competitive and in line with relevant labour regulations. Pursuant to relevant PRC laws and regulations, the Group is required to contribute to housing provident funds and social insurance funds (including pension, medical, unemployment, maternity and workplace injury insurance) for its employees. The Company has adopted the Share Option Scheme on 11 December 2017 to enable the Company to grant options to, amongst others, the employees and directors of the Group.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The Remuneration Committee is set up for reviewing the Group's emolument policy and structure for making recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group. The Directors' remuneration are subject to Shareholders' approval at general meetings. Other emoluments of the Directors are determined with reference to market conditions, their duties, responsibilities and performance, and the results of the Group.

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in notes 14 and 13 to the consolidated financial statements, respectively.

PERMITTED INDEMNITY PROVISION

Every Director shall be entitled under the Articles to be indemnified out of the assets of the Company against all actions, costs, charges, losses, damages and expenses incurred or sustained by him or her as a Director in the execution or discharge of his or her duty.

As at the date of this report, the Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against the Directors.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, the holding company of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2018.

CONTRACT OF SIGNIFICANCE

Save for the related party transactions disclosed in note 31 to the consolidated financial statements, there was no contract of significance between the Company or any of its subsidiaries and a Controlling Shareholder or any of its subsidiaries, nor any contract of significance for provision of services to the Company or any of subsidiaries by a Controlling Shareholder or any of its subsidiaries during the year ended 31 December 2018.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company did not enter into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of business of the Company during the year ended 31 December 2018.

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

As at 31 December 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) 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 *(note 1)*	8.119%
Mr. Zheng Jiafu (resigned on 14 January 2019)	Interest in a controlled corporation	41,877,649 *(note 2)*	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 December 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 which was required to be recorded in the register kept by the Company pursuant to section 352 of the SFO, or which was 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 IN SHARES AND UNDERLYING SHARES

As at 31 December 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 in ordinary Shares

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 (柯葳彬)	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 (柯葳彬) 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) Sheen Vision Group Limited is wholly owned by Mr. Chen Yihui. 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.

Save as disclosed above, as at 31 December 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 which was required to be recorded in the register kept by the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEME

The Company operates the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include directors (including executive directors, non-executive directors and independent non-executive directors) and employees of any members the Group and any advisers, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture partners, promoters, service providers of any members of the Group. The Share Option Scheme became effective on 11 December 2017 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The total number of securities available for issue under the Share Option Scheme is 100,000,000 ordinary Shares, being 10% of the issued Shares as at the date of this report. The maximum number of share options currently permitted to be granted under the Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the ordinary Shares in issue at any time. The maximum number of Shares issuable under share options granted to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the Shares in issue at any time. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

Share options granted to a Director, chief executive or substantial Shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial Shareholder or an independent non-executive Director, or to any of their associates, in excess of 0.1% of the Shares in issue at any time or with an aggregate value (based on the closing price of the Company's Shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to Shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within five Business Days from the date of grant together with payment of a nominal consideration of HK$1 in total by the grantee. The exercisable period of the share options granted is determinable and notified by the Directors, but shall end not later than ten years from the date on which the share option is deemed to be granted and accepted in accordance with the Share Option Scheme.

The exercise price of share options is determinable by the Directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Shares for the five Business Days immediately preceding the date of offer; and (iii) the nominal value of the Shares.

Share options do not confer rights on the holders to dividends or to vote at general meetings.

The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules. Details of the Share Option Scheme are set out in the paragraph headed "Share Option Scheme" in Appendix V to the Prospectus.

No share option has been granted since the adoption of the Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed in the sections headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" and "Share option scheme" above, at no time during the year ended 31 December 2018 and up to the date of this report were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Directors, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme, no equity-linked agreements were entered into by the Company during the year ended 31 December 2018 or subsisted at the end of the year.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the year ended 31 December 2018 are set out in note 31 to the consolidated financial statements.

The remuneration to key management personnel of the Group including Directors, as described in note 31(b) to the consolidated financial statements, are connected transactions exempt from the connected transaction requirements under Rule 20.71 and Rule 20.93 of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the GEM Listing Rules as at the date of this report.

COMPETING INTERESTS

During the year ended 31 December 2018 and up to the date of this report, 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. Each of the Controlling Shareholders has confirmed that none of them is engaged in, or interested in any business (other than the Group) which, directly or indirectly, competes or may compete with the business of the Group.

The independent non-executive Directors have also reviewed the status of compliance and written confirmation from each of the Controlling Shareholders, and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by each of the Controlling Shareholders since the Listing Date and up to the date of this report.

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

The Company is not aware of any tax relief or exemption available to the Shareholders by reason of their holding of the Company's securities.

INTERESTS OF COMPLIANCE ADVISER

As notified by Essence Corporate Finance (Hong Kong) Limited ("**ECF**"), the Company's compliance adviser, save for (i) the participation of ECF as the sole sponsor in relation to the Listing, and (ii) 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 December 2018, which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to protecting the environment and maintaining environmental sustainability by the prevention of environmental pollutions from its production and maximising the efficiency of resources use from its production, apart from complying with the national environmental laws and regulations, provincial governmental policies and industrial standard. Through the implementation of effective environmental control measures with corresponding treatment facilities, the potential environmental impacts of the productions such as dust, noise and solid wastes generation are properly controlled. The Group also strives to use the resources in a responsible manner by saving energy and water, recycle and reuse of materials.

KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group has maintained a good relationship with its employees, customers and suppliers:

Employees: The employees of the Group are its key assets and their dedication contribute to the successful business operations of the Group. The Group, hence, strives to provide competitive remuneration package to attract and motivate employees, treat employees with respect and equity, and create a safe and motivating workplace for its employees to work in. Remuneration packages are reviewed regularly and make adjustments in order to conform to the requirements of the employment legislations and the market standard. By offering different training programmes and organising staff activities, the Group works to provide development opportunities to reach the full potentials of its people, and strengthen the bonds and cohesion with its employees.

Customers: The Group strives to build up its corporate branding by gaining its customers' trust and satisfaction on its products. With stringent inspections and testing during the production processes, the Group makes sure its products are safe for use and with excellent quality. The Group also maintains regular communications with its customers regarding the product provision and performance, in order to understand the needs and expectations of its customers and continues to make improvements on its products quality.

Suppliers: Maintaining a reliable and sustainable supply chain is the key to the success of the Group's products. The Group has selected suitable suppliers in supporting to its business operations through the established supplier assessment process to ensure that the suppliers can meet the required assessment criteria and standards, and deliver quality products and services. Moreover, inspections on supplied materials are carried out to verify the materials quality and safety and without causing adverse impacts on the environment. Suppliers are required to sign a confidentiality agreement and commit exerting their due diligence to prevent confidential information disclosure to the unauthorized persons or third parties.

For details of the environmental, social and governance matters, please refer to the separate environmental, social and governance report that will be published within three months after the publication of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations, in particular those which have significant impact on the Group. The Board reviews and monitors the Group's policies and practices on compliance with legal and regulatory requirements on a regular basis. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

As at 31 December 2018 and up to the date of this annual report, to the best of the Company's knowledge, information and belief, having made all reasonable enquiries, the Group has complied with the requirements under the GEM Listing Rules, SFO and the Companies Law. Details of the Company's compliance with the code provisions under the CG Code are set out in the Corporate Governance Report of this annual report.

CORPORATE GOVERNANCE

Details of the principal corporate governance practices as adopted by the Company are set out in the section headed "Corporate Governance Report" on pages 26 to 36 of this annual report.

CLOSURE OF REGISTER OF MEMBERS FOR FORTHCOMING ANNUAL GENERAL MEETING

The register of members of the Company will be closed from Tuesday, 7 May 2019 to Friday, 10 May 2019 (both dates inclusive) for determining eligibility to attend and vote at the forthcoming annual general meeting. All transfer of Share(s), accompanied by the relevant share certificate(s) with the properly completed transfer form(s) either overleaf or separately, must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m., Monday, 6 May 2019.

EVENTS AFTER THE REPORTING PERIOD

There is no significant event after the year ended 31 December 2018 and up to the date of this report.

INDEPENDENT AUDITORS

The Company was incorporated in the Cayman Islands with limited liability on 28 July 2016 and RSM Hong Kong were appointed as the first auditors of the Company. A resolution for the reappointment of RSM Hong Kong as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board

Yuan Yuan
Chairlady and Executive Director

Hong Kong, 22 March 2019

CORPORATE GOVERNANCE REPORT

The Board hereby presents this corporate governance report (the "**CG Report**") for the year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential in providing a framework for the Company to safeguard the interests of its Shareholders, enhance its corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions as set out in the CG Code as the basis of the Company's corporate governance practices.

The CG Code has been applicable to the Company with effect from the Listing Date. The Board is of the view that since the Listing Date and up to the date of this CG Report (the "**Relevant Period**"), the Company has complied with all applicable code provisions as set out in the CG Code, except for the deviation as disclosed in the following sub-section headed "Chairman and Chief Executive Officer" in this CG Report.

BOARD OF DIRECTORS

Board composition and responsibilities

Our Board consisted of six Directors, including three executive Directors and three independent non-executive Directors during the year ended 31 December 2018. Details of the Board composition by category are as follows:

Executive Directors

Ms. Yuan Yuan *(Chairlady and Chief Executive Officer)*
Mr. Chen Yihui
Mr. Zheng Jiafu (resigned on 14 January 2019)

Independent Non-Executive Directors

Dr. Hu Xudong
Dr. Mu Zhirong
Mr. Shum Shing Kei

Details of background and qualifications of all Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. There is no relationship, including financial, business, family or other material/relevant relationship(s), among members of the Board.

RESPONSIBILITIES OF THE BOARD

The Board oversees the overall management and administration of the business and operations of the Group. The Board is primarily responsible for overall development, strategic planning, reviewing and monitoring the business performance, approving the financial statements and annual budgets, overseeing the internal control and risk management systems as well as supervising the management of the Group.

The Board may delegate any of its powers, authorities and discretions to any committees, consisting of such Director(s) and other person(s) as the Board thinks fit, and the Board may, from time to time, revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes. Any committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations which may be imposed on it by the Board.

Regular meetings of the Board will be held to deliberate the strategic planning of the Company, including significant acquisitions and disposals, review and approve annual budgets, review the performance of business and approve the public release of periodic financial results. Directors are also provided with access to independent professional advice in carrying out their obligations as Directors as and when required, at the expenses of the Company.

Appointment and Re-election of Directors

Each executive Director has entered into a service contract with the Company for a term of three years and each independent non-executive Director has entered into a letter of appointment with the Company for a term of one year. Each Director is subject to retirement by rotation at least once every three years but is eligible for re-election at annual general meetings in accordance with the Articles.

The Articles have specified that any Directors appointed during the year to fill a casual vacancy are subject to re-election by Shareholders at the first general meeting of the Company after such appointments, and any Directors appointed by the Board as an addition to the Board during the year shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract or letter of appointment with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Independent Non-executive Directors

During the Relevant Period, the Board at all times met the requirements of the GEM Listing Rules relating to the appointment of at least three independent non-executive Directors, representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 5.09 of the GEM Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Corporate Governance Functions

The Board as a whole is responsible for performing the corporate governance functions set out in code provision D.3.1 of the CG Code, namely:

(i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board where appropriate;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (including in relation to securities trading) applicable to employees and Directors; and

(v) to review the Company's compliance with the CG Code and disclosure in the corporate governance report contained in the Company's annual reports.

Continuous Professional Development of Directors

During the year ended 31 December 2018, the Directors have participated in continuous professional development by attending a training session in respect of the roles and responsibilities of directors of a company listed on the GEM, as well as reading related materials. They also received from the Company from time to time updates on laws, rules and regulations which may be relevant to their roles, duties and functions as directors of a listed company. Particulars of participation by the Directors are set out as follows:

	Reading materials relevant to the directors' roles and responsibilities	Attending training session relevant to the directors' roles and responsibilities
Executive Directors		
Ms. Yuan Yuan	✓	✓
Mr. Chen Yihui	✓	✓
Mr. Zheng Jiafu (resigned on 14 January 2019)	✓	✓
Independent Non-Executive Directors		
Dr. Hu Xudong	✓	✓
Dr. Mu Zhirong	✓	✓
Mr. Shum Shing Kei	✓	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. During the Relevant Period, the Company has complied with the code provisions as set out in the CG Code, except for the deviation from code provision A.2.1 of the CG Code. Ms. Yuan Yuan is currently performing the roles of chairlady and chief executive officer of the Company. Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should not be performed by the same individual. Taking into account of Ms. Yuan's working experiences in the manufacturing and trading industry, the Board considered that the roles of chairman and chief executive officer being performed by Ms. Yuan enables more effective and efficient overall business planning, decision making and implementation thereof by the Group. In order to maintain good corporate governance and comply with such code provision, the Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

BOARD COMMITTEES

In order to assist the Board in discharging its duties in a more efficient manner, the Board has established, with written terms of reference, three Board committees, namely the Audit Committee, Remuneration Committee and Nomination Committee, to oversee particular aspects of the Company's affairs. The Board committees are provided with sufficient resources to discharge their duties. The written terms of reference for each Board committee are in compliance with the GEM Listing Rules and they are posted on the websites of the Stock Exchange and the Company.

Audit Committee

The Company established the Audit Committee on 11 December 2017 in compliance with Rule 5.28 of the GEM Listing Rules. Written terms of reference in compliance with Rule 5.29 of the GEM Listing Rules and code provision C.3.3 of the CG Code have been adopted. The primary duties of the Audit Committee are mainly to make recommendations to the Board on appointment, reappointment and removal of the external auditor; and review the financial reporting process, the financial controls, and the internal control and risk management systems of the Company.

The Audit Committee consists of three independent non-executive Directors, being Dr. Hu Xudong, Mr. Shum Shing Kei and Dr. Mu Zhirong. Mr. Shum Shing Kei is the chairman of the Audit Committee.

The Audit Committee held four meetings during the year ended 31 December 2018 and its members' attendance records are disclosed on page 32 in this CG Report.

Summary of work during the year ended 31 December 2018

- reviewed the quarterly, interim and annual financial results of the Group
- reviewed the financial reporting and internal control matters of the Group
- approved the external auditor's audit engagement letter and fee, and statutory audit plan
- reviewed the external auditor's independence
- recommended to the Board on the reappointment of the external auditor

The audited annual results and the adopted accounting policies and practices of the Group for the year ended 31 December 2018 have been reviewed by the Audit Committee at a meeting held on 22 March 2019 and the Audit Committee 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.

Nomination Committee

The Company established the Nomination Committee on 11 December 2017. Written terms of reference in compliance with code provision A.5.2 of the CG Code have been adopted. The primary duties of the Nomination Committee are mainly to review the structure, size and composition (including skills, knowledge, length of service and breath of expertise) of the Board and make recommendations to the Board on any proposed changes to the Board to complement the Company's corporate strategy; identify individuals suitably qualified as potential Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; assess the independence of independent non-executive Directors; and make recommendations to the Board on appointment or reappointment of Directors and succession planning of Directors, in particular that of the chairman and the chief executive.

The Nomination Committee consists of three Directors (including two independent non-executive Directors), being Ms. Yuan Yuan, Mr. Shum Shing Kei and Dr. Mu Zhirong. Ms. Yuan Yuan is the chairlady of the Nomination Committee.

The Board recognises the importance of its diversity in relation to its business, and adopted on 11 December 2017 a Board diversity policy (the "**Diversity Policy**"). As a summary of the Diversity Policy, selection of candidates has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board members' appointments will be based on meritocracy, and will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The ultimate decision of Board members' appointment will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee held one meeting during the year ended 31 December 2018 and its members' attendance records are disclosed on page 32 in this CG Report.

Summary of work during the year ended 31 December 2018

- reviewed the independence of the independent non-executive Directors
- considered the qualifications of the retiring Directors standing for election at the annual general meeting held in 2018
- reviewed the structure, size and composition of the Board and review the Diversity Policy

The Nomination Committee held a meeting on 22 March 2019 to review, among others, the structure, size and composition of the Board and the Diversity Policy. In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the Company's corporate strategy and achieve Board diversity, where appropriate, before making recommendations to the Board. Having reviewed the composition of the Board, the Nomination Committee considered that there is an appropriate balance of Board diversity.

Remuneration Committee

The Company established the Remuneration Committee on 11 December 2017 in compliance with Rule 5.34 of the GEM Listing Rules. Written terms of reference in compliance with Rule 5.35 of the GEM Listing Rules and code provision B.1.2 of the CG Code have been adopted. The primary duties of the Remuneration Committee are mainly to make recommendations to the Board on the remuneration policy and the structure relating to all Directors and senior management of the Group; review the remuneration packages of the Directors and senior management of the Group; and ensure none of the Directors determine their own remuneration.

The Remuneration Committee consists of three Directors (including two independent non-executive Directors), being Dr. Mu Zhirong, Ms. Yuan Yuan and Mr. Shum Shing Kei. Dr. Mu Zhirong is the chairman of the Remuneration Committee.

The Remuneration Committee held one meeting during the year ended 31 December 2018 and its members' attendance records are disclosed on page 32 in this CG Report.

Summary of work during the year ended 31 December 2018

- reviewed the remuneration of the Directors and senior management of the Group

The Remuneration Committee held a meeting on 22 March 2019 to review the remuneration of the Directors and senior management of the Group. No Director and any of his/her associates was involved in deciding his/her own remuneration.

Pursuant to code provision B.1.5 of the CG Code, details of the remuneration of the senior management (other than Directors) by bands for the year ended 31 December 2018 is as follows:

	Number of employees
Not exceeding HK$500,000	2

Board meetings and attendance record of Directors

Code provision A.1.1 of the CG Code states that at least four regular Board meetings should be held each year at approximately quarterly intervals with active participation of a majority of Directors, either in person or through other electronic means of communication.

The Board held four regular meetings during the year ended 31 December 2018.

During the year ended 31 December 2018, the Board reviewed, among others, the effectiveness of the Group's risk management and internal controls, the Directors' compliance with the Model Code, and the Company's compliance with the CG Code and disclosure in this corporate governance report.

The attendance record of each Director at the Board and Board committee meetings and general meeting held during the year ended 31 December 2018 is set out in the table below:

	Attendance/Number of Meeting				
Name of Director	Board meeting	Audit Committee	Nomination Committee	Remuneration Committee	General Meeting
Ms. Yuan Yuan	6/6		1/1	1/1	1/1
Mr. Chen Yihui	6/6				0/0
Mr. Zheng Jiafu (resigned on 14 January 2019)	5/6				0/0
Dr. Hu Xudong	6/6	4/4			1/1
Dr. Mu Zhirong	4/6	2/4	1/1	1/1	0/0
Mr. Shum Shing Kei	6/6	4/4	1/1	1/1	1/1

COMPANY SECRETARY

Ms. Huen Lai Chun ("**Ms. Huen**"), the company secretary of the Company, was appointed on 31 December 2018 and has undertaken no less than 15 hours of relevant professional training to update her skills `and knowledge in respect of the year ended 31 December 2018. Ms. Huen does not act as an individual employee of the Company, but as an external service provider in respect of her appointment as the company secretary of the Company. Pursuant to code provision F.1.1. of the CG Code, an issuer can engage an external service provider as its company secretary, provided that the issuer should disclose the identity of a person with sufficient seniority at the issuer whom the external provider can contact. The Company has assigned Ms. Yuan Yuan, the Chairlady of the Board and chief executive officer of the Company, as the contact person with Ms. Huen. Information in relation to the performance, financial position and other major developments and affairs of the Group are speedily delivered to Ms. Huen through the contact person assigned.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

Specific enquiry has been made with all Directors and all Directors have confirmed that they have complied with the Model Code throughout the Relevant Period.

During the Relevant Period, the Company is not aware of any incident of non-compliance of the Model Code by the Directors.

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR ACCOUNTS

The Directors acknowledge their responsibilities for the preparation of consolidated financial statements of the Group for the year ended 31 December 2018 under applicable statutory and regulatory requirements, which give a true and fair view of the state of affairs, profit or loss and cash flows of the Group on a going concern basis.

Statements of Directors' responsibilities for preparing the consolidated financial statements of the Group and external auditors' responsibilities for the audit of the consolidated financial statements of the Group for the year ended 31 December 2018 are set out in the "Independent Auditor's Report" in this annual report.

AUDITORS' REMUNERATION

The fees paid or payable to the external auditors of the Group, RSM Hong Kong, for the year ended 31 December 2018 are as follows:

Services rendered	Fees paid/ payable (RMB)
Audit services	
– Statutory audit services	640,000
Non-audit services	
– Review of interim results	350,000
	990,000

RISK MANAGEMENT AND INTERNAL CONTROL

The Group's internal control system has a key role in the identification and management of risks that are significant to the achievement of its business objectives. The Group has adopted risk management policies and procedures that the Directors believe are appropriate for the Group's business operations in order to identify different types of risks; assess such identified risks; formulate risk management strategies; monitor and manage identified risks; and execute responses to identified risks.

The identification and assessment of the risks involve a five-stage procedure which includes establishing the concept of risk management in the Group, assessing the Group's risk profile on various types of risks, determining the Group's goals on risk management, identifying and analysing the risks, and designing the counter-measure on risks.

The Group's effective internal control measures include the establishment of:

(1) a delegation system – setting out the job responsibilities, scopes, requirements and limits of delegated parties;

(2) a reporting system – setting out the reporting mechanism;

(3) an authorisation system – setting out the approval process, conditions, limits, necessary documents, and the authorised departments and personnel with their responsibilities;

(4) an accountability system – setting out the authorities, obligations and responsibilities of each relevant departments, units and personnel with a clear reward and punishment system;

(5) an internal audit system, integrating all internal control requirements, methods, standards and flow – setting out the audit targets, content, methodologies, and the relevant departments responsible for the audit works;

(6) an evaluation and appraisal system, linking the wages and performance evaluation of different subsidiaries of the Group with their risk management performance;

(7) a warning system of material risks and contingency response mechanism – setting out clearly the responsible personnel and processes to ensure all contingencies can be handled promptly;

(8) a mechanism to seek external legal advice to prevent legal risks – leading by the management with the support from the Group's legal counsel and involvement of all employees; and

(9) a control mechanism on the checks and balances of various positions – setting out segregation of duties and authorities, including approval authority, business development, accounting, treasury, asset management and auditing functions.

The Board is responsible for the Group's risk management and internal control systems, and overseeing and reviewing the effectiveness of the Group's risk management and internal control systems. The Board, with the assistance of the Audit Committee, will review the effectiveness and adequacy of the risk management and internal control systems of the Group at least annually.

For the purpose of the Listing, the Group engaged an independent external consulting firm as the Group's internal control adviser (the "**Internal Control Adviser**") to undertake a review on, among others, the internal control system on entity-level controls, revenue and receipts, procurement and payments, inventory management, fixed assets management, human resources and payroll management, capital management, taxation management, information technology general controls, management of intellectual property rights and compliance procedures of certain rules and regulations.

The Audit Committee has reviewed the internal control review report issued by the Internal Control Adviser and the Group's risk management and internal control systems in respect of the year ended 31 December 2018 and considered that they are effective and adequate. The Board has assessed the effectiveness of the Group's internal control systems for the year ended 31 December 2018 by considering the internal control review report and reviews performed by the Audit Committee and concurred the same view of the Audit Committee.

In addition, the Group has established an internal audit department to assist the Board in overseeing internal audit function of the Group. The internal audit department carries out ongoing monitoring of the risk management and internal control systems of the Group, and identifies material deficiencies in the design and implementation of risk management and internal controls for improvement.

Handling and Dissemination of Inside Information

With respect to the handling and dissemination of inside information, the Company is aware of the relevant obligations under the SFO and the GEM Listing Rules. The Group adopts and implements an information disclosure policy and procedures in order to protect inside information from unauthorised and inaccurate disclosure.

The Board strictly prohibits unauthorised use of confidential or inside information. Any inside information and any information which may potentially constitute inside information is promptly identified, assessed and escalated to the Chairlady of the Board and the chief financial officer to decide the need for disclosure. The Audit Committee regularly reviews and assesses the effectiveness of the information disclosure policy and procedures and makes recommendations to the Board where appropriate.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide a forum for the Shareholders to exchange views directly with the Board. Subject to the provisions of the applicable laws in the Cayman Islands and the rules and regulations of the Stock Exchange, an annual general meeting of the Company is held each year at the venue as determined by the Board. Each general meeting, other than an annual general meeting, is called an extraordinary general meeting (the "**EGM**").

Right and Procedures to Convene EGMs

Pursuant to Article 64 of the Articles, the Board may, whenever it thinks fit, convene an EGM. Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings of the Company shall have the right, by written requisition to the Board or the company secretary of the Company, to request an EGM to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. The requisition must be deposited at the registered office or the head office of the Company.

If within 21 days of such deposit, the Board fails to proceed to convene such EGM, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to requisitionist(s) by the Company.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company for the attention of the Board or the company secretary of the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following addresses:

PRC Address:	Xiawei Village, Fugong Town, Longhai City, Fujian Province, PRC
Hong Kong Address:	Room 1204, 12/F, C C Wu Building, 302-308 Hennessy Road, Wan Chai, Hong Kong
Telephone:	+86 (0) 596-6841968
Fax:	+86 (0) 596-6841969
Email:	info@kx-machine.com

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry to the registered office of the Company or above addresses (as the case may be) and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders, in particular, through annual general meetings and other general meetings. At the annual general meetings of the Company, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

The Company maintains a website at www.kx-machine.com as a communication platform with the Shareholders and investors, where the financial information and other relevant information of the Company are available for public access.

Right to Put Forward Proposals at General Meetings

There are no provisions allowing Shareholders to propose new resolutions at the general meetings of the Company under the Companies Law. Subject to the provisions of the Articles, eligible Shareholders who wish to move a resolution may by means of requisition convene an EGM following the procedures set out above.

INVESTOR RELATIONS

The Company establishes different communication channels with investors to update them with the latest business development and financial performance, including the publication of quarterly, interim and annual reports, and the publish and posting of notices, announcements and circulars on the websites of the Stock Exchange and the Company, in order to maintain a high level of transparency.

CONSTITUTIONAL DOCUMENTS

Pursuant to Rule 17.102 of the GEM Listing Rules, the Company has published its memorandum of association and the Articles on the websites of the Stock Exchange and the Company. Since the Listing, no amendments were made to the constitutional documents of the Company during the Relevant Period.

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF CHINA FUTEX HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Futex Holdings Limited ("the Company") and its subsidiaries (the "Group") set out on pages 41 to 84 which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Boards (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matter we identified is:

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue Recognition	
The Group's revenue of approximately RMB133.9 million for the year was derived from the sales of circular knitting machines. The revenue was recognised when control over a product is transferred to the customers, at the amount of promised consideration, to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. There is a risk of improper revenue recognition, particularly with regard to cut-off at the year end date.	Our audit procedures included, amongst others, assessing the design and operating effectiveness of the controls over revenue recognition. We performed tests of control and tests of details on a sampling basis, including checking approval of sale transactions, sales contracts, and delivery and shipping documents. We also assessed the sales of goods taking place before and after year-end to determine whether the revenue was recognised in proper period.

OTHER INFORMATION

The directors are responsible for the Other Information. The Other Information comprises all of the information in the Company's 2018 annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the Other Information, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee assists the directors in discharging their responsibility for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tam Shing Yu.

RSM Hong Kong
Certified Public Accountants
Hong Kong
22 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	**2018** **RMB'000**	2017 RMB'000
Revenue	7	**133,948**	131,627
Cost of goods sold		**(89,487)**	(83,860)
Gross profit		**44,461**	47,767
Other income	8	**3,284**	836
Selling expenses		**(2,716)**	(2,468)
Administrative expenses		**(17,478)**	(19,238)
Profit from operations		**27,551**	26,897
Finance costs	10	**(2,294)**	(2,351)
Profit before tax		**25,257**	24,546
Income tax expense	11	**(4,590)**	(5,571)
Profit for the year attributable to owners of the Company		**20,667**	18,975
Other comprehensive income for the year, net of tax		**–**	–
Total comprehensive income for the year attributable to owners of the Company		**20,667**	18,975
Earnings per share			
– Basic (RMB cents)	15	**2.07**	2.73

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	22,334	22,851
Prepaid land lease payments	17	2,667	2,738
Total non-current assets		25,001	25,589
Current assets			
Inventories	19	14,093	12,890
Trade receivables	20	28,453	24,532
Deposits, prepayments and other receivables	21	1,305	6,636
Bank and cash balances	22	132,939	74,380
Total current assets		176,790	118,438
TOTAL ASSETS		201,791	144,027
EQUITY			
Share capital	23	8,411	360
Reserves	25	115,282	56,419
Total equity		123,693	56,779
LIABILITIES			
Current liabilities			
Trade payables	26	28,809	21,149
Receipt in advance, accruals and other payables	27	2,140	10,799
Bank loans	28	45,900	44,900
Due to an owner of the former ultimate parent	29	–	8,909
Current tax liabilities		1,249	1,491
Total current liabilities		78,098	87,248
TOTAL EQUITY AND LIABILITIES		201,791	144,027
NET ASSETS		123,693	56,779

Approved by the Board of Directors on 22 March 2019 and are signed on its behalf by:

Yuan Yuan	**Chen YIhui**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2017	338	–	1,830	3,825	21,201	27,194
Total comprehensive income for the year	–	–	–	–	18,975	18,975
Issue of ordinary shares (note 23(a))	22	10,588	–	–	–	10,610
Transfer to statutory surplus reserve	–	–	–	2,345	(2,345)	–
Changes in equity for the year	22	10,588	–	2,345	16,630	29,585
At 31 December 2017	360	10,588	1,830	6,170	37,831	56,779
At 1 January 2018	360	10,588	1,830	6,170	37,831	56,779
Total comprehensive income for the year	–	–	–	–	20,667	20,667
Issue of ordinary shares under the global offering (note 23(d))	2,520	43,727	–	–	–	46,247
Share capitalisation (note 23(e))	5,531	(5,531)	–	–	–	–
Transfer to statutory surplus reserve	–	–	–	53	(53)	–
Changes in equity for the year	8,051	38,196	–	53	20,614	66,914
At 31 December 2018	8,411	48,784	1,830	6,223	58,445	123,693

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2018

	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**25,257**	24,546
Adjustments for:		
Finance costs	**2,294**	2,351
Interest income	**(472)**	(180)
Depreciation	**2,125**	2,141
Amortisation of prepaid land lease payments	**71**	71
Unrealised exchange gain	**(375)**	–
Operating profit before working capital changes	**28,900**	28,929
Increase in inventories	**(1,203)**	(2,811)
Increase in trade receivables	**(3,546)**	(11,356)
Decrease/(increase) in deposits, prepayments and other receivables	**5,331**	(3,918)
Increase in trade payables	**7,660**	13,620
(Decrease)/increase in receipt in advance, accruals and other payables	**(8,659)**	6,713
Cash generated from operations	**28,483**	31,177
Income tax paid	**(4,832)**	(4,570)
Interest paid	**(2,294)**	(2,351)
Net cash generated from operating activities	**21,357**	24,256
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(1,608)**	(231)
Interest received	**472**	180
Net cash used in investing activities	**(1,136)**	(51)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease)/increase in due to an owner of the former ultimate parent	**(8,909)**	8,909
Bank loans raised	**45,900**	44,900
Repayment of bank loans	**(44,900)**	(44,900)
Proceeds from issue of ordinary shares	**46,247**	10,948
Repayment to a related company	**–**	(4,130)
Decrease in due to director	**–**	(460)
Decrease in due to owners	**–**	(8,572)
Net cash generated from financing activities	**38,338**	6,695
NET INCREASE IN CASH AND CASH EQUIVALENTS	**58,559**	30,900
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**74,380**	43,480
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**132,939**	74,380
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**132,939**	74,380

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2018

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The address of its principal place of business is Xiawei Village, Fugong Town, Longhai City, Fujian Province, the People's Republic of China (the"PRC"). The Company's shares are listed on GEM of The Stock Exchange on 4 January 2018.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 18 to the consolidated financial statements.

In the opinion of the directors of the Company, as at 31 December 2017, Azure Wealth Limited, a company incorporated in the Republic of Seychelles, was the immediate and ultimate parent.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

(a) Application of new and revised IFRSs

The IASB has issued a number of new and revised IFRSs that are first effective for annual periods beginning on or after 1 January 2018. Of these, the following developments are relevant to the Group's consolidated financial statements:

(i) IFRS 9 Financial instruments; and
(ii) IFRS 15 Revenue from contracts with customers

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(a) Application of new and revised IFRSs (Continued)

IFRS 9 Financial instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

The adoption of IFRS 9 resulted in the following changes to the Group's accounting policies.

(a) Classification

From 1 January 2018, the Group classifies its financial assets measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

(b) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classified its debt instruments at amortised cost.

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(a) Application of new and revised IFRSs (Continued)

IFRS 9 Financial instruments (Continued)

(c) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the ECLs associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires ECLs to be recognised from initial recognition of the receivables.

Set out below is the impact of the adoption of IFRS 9 on the Group.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets as at 1 January 2018.

Financial assets	Note	Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 RMB'000	Carrying amount under IFRS 9 RMB'000
Trade and other receivables	(a)	Loans and receivables	Amortised cost	25,405	25,405

Note (a) Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. No allowance for impairment over these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application.

IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and IAS 11 Construction Contracts and the related interpretations.

For the Year Ended 31 December 2018

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(a) Application of new and revised IFRSs (Continued)

IFRS 15 Revenue from contracts with customers (Continued)

For contracts with customers in which the sales of manufactured goods and trading of raw materials are the only performance obligation, adoption of IFRS 15 does not expect to have any impact on the Group's revenue or profit or loss. The revenue recognition occurs at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Group generally provides for warranties for repairs to its circular knitting machines and does not provide extended warranties in its contracts with customers. As such, most existing warranties will be assurance-type warranties under IFRS 15, which are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, consistent with its current practice.

(b) New and revised IFRSs in issue but not yet effective

The Group has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2018. These new and revised IFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. Further details of the expected impacts are discussed below.

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). IFRS 16 carries forward the accounting requirements for lessors in IAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

The Group has no lease arrangements as leasee. The directors expect that IFRS 16 will not have material effects on the Group's accounting for its lease arrangements as lessor.

For the Year Ended 31 December 2018

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) New and revised IFRSs in issue but not yet effective (Continued)

IFRIC 23 uncertainty over income tax treatments

The interpretation of IAS 12 Income Taxes sets out how to apply that standard when there is uncertainty about income tax treatments. Entities are required to determine whether uncertain tax treatments should be assessed separately or as a group depending on which approach will better predict the resolution of the uncertainties. Entities will have to assess whether it is probable that a tax authority will accept an uncertain tax treatment. If yes, the accounting treatment will be consistent with the entity's income tax filings. If not, however, entities are required to account for the effects of the uncertainty using either the most likely outcome or expected value method depending on which method is expected to better predict its resolution.

The Group is unable to estimate the impact of the interpretation on the consolidated financial statements until a more detailed assessment has been completed.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated foreign currency translation reserve relating to that subsidiary.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Consolidation (Continued)

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, unless the investments are classified as held for sale (or included in a disposal group that is classified as held for sale).

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's presentation and functional currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency translation (Continued)

(iii) Translation on consolidation (Continued)

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

(c) Property, plant and equipment

Property, plant and equipment, including buildings, held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Buildings	20 years
Plant and machinery	10 years
Motor vehicles	5 years
Office equipment and others	5 years

The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(d) Leases

Operating leases – as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(g) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVPTL are recognised immediately in profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(h) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows. Cash and cash equivalents are assessed for expected credit losses.

(k) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(m) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Equity instruments

An equity instrument is any contract that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Revenue recognition

Revenue is recognised when control over a product is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue from the sale of circular knitting machines is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following delivery, the customer has the primary responsibility when on using the machine and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or fair value through other comprehensive income (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

Rental income is recognised on a straight-line basis over the lease term.

Policy prior to 1 January 2018

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group when specific criteria have been met for each of the Group's activities.

Revenue from the sales of goods is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

Rental income is recognised on a straight-line basis over the lease term.

(p) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits (Continued)

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

(q) Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

(r) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(s) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(t) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Impairment of financial assets

The Group recognises a loss allowance for ECLs on trade receivables. The amount of ECLs is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECLs for trade receivables. The ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECLs when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Lifetime ECLs represent the ECLs that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(i) The financial instrument has a low risk of default,

(ii) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

(iii) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

– when there is a breach of financial covenants by the counterparty; or

– information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

– significant financial difficulty of the issuer or the counterparty;

– a breach of contract, such as a default or past due event;

– the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider; or

– it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or

– the disappearance of an active market for that financial asset because of financial difficulties.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Impairment of financial assets (Continued)

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECLs is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECLs are estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECLs in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECLs are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECLs at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

Policy prior to 1 January 2018

At the end of each reporting period, the Group assesses whether its financial assets (other than those at fair value through profit or loss) are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected.

For trade receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Impairment of financial assets (Continued)

Policy prior to 1 January 2018 (Continued)

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

(v) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(w) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

The carrying amount of property, plant and equipment as at 31 December 2018 was RMB22,334,000 (2017: RMB22,851,000).

(b) Impairment of trade receivables

Prior to the adoption of IFRS 9 on 1 January 2018, the management of the Group assesses at the end of each reporting period whether there is any objective evidence that trade receivables are impaired. The provision policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of trade receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

As at 31 December 2017, the carrying amount of trade receivables was RMB24,532,000 and no allowance was made.

Since the adoption of IFRS 9 on 1 January 2018, the management of the Group estimates the amount of impairment loss for ECLs on trade receivables based on the credit risk of trade receivables. The amount of the impairment loss based on ECLs model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 December 2018, the carrying amount of trade receivables was RMB28,453,000 and no allowance was made.

For the Year Ended 31 December 2018

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(c) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the aging and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

No allowance for slow-moving inventories was made for the years ended 31 December 2018 and 2017.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

Most of the Group's business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities, but the Group has certain exposure to foreign currency risk as it has its direct sales to overseas markets, which are denominated in United States dollars ("US$"). The Group has foreign currency exposure in respect of such direct overseas sales. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2018, if the RMB had weakened 5 per cent against the US$ with all other variables held constant, consolidated profit after tax for the year would have been RMB163,000 (2017: RMB160,000) higher, arising mainly as a result of the foreign exchange loss on trade receivables and bank balances denominated in US$. If the RMB had strengthened 5 per cent against US$ with all other variables held constant, consolidated profit after tax for the year would have been RMB163,000 (2017: RMB160,000) lower, arising mainly as a result of the foreign exchange gain on trade receivables and bank deposits denominated in US$.

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit-rating assigned by international credit-rating agencies, for which the Group considers to have low credit risk.

For the Year Ended 31 December 2018

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 365 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases. The Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018 are estimated as immaterial as the trade receivable were neither past due nor has recent history of default.

Expected loss rates are based on actual loss experience over the past 2 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Prior to 1 January 2018

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment. At 31 December 2017, no trade receivables were determined to be impaired.

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

For the Year Ended 31 December 2018

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis based on contractual undiscounted cash flows of the Group's non-derivative financial liabilities is as follows:

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2018					
Trade payables	**28,809**	**–**	**–**	**–**	**28,809**
Accruals and other payables	**1,948**	**–**	**–**	**–**	**1,948**
Bank loans	**46,280**	**–**	**–**	**–**	**46,280**
At 31 December 2017					
Trade payables	21,149	–	–	–	21,149
Accruals and other payables	7,883	–	–	–	7,883
Bank loans	45,423	–	–	–	45,423
Due to an owner of the former ultimate parent	8,909	–	–	–	8,909

(d) Interest rate risk

The Group's bank loans bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

The Group's exposure to interest-rate risk arises from its bank deposits. These deposits bear interests at variable rates varied with the then prevailing market condition.

At 31 December 2018, if interest rates had been 50 basis points lower/higher with all other variables held constant, consolidated profit after tax for the year would have been RMB1,000 (2017: RMB4,000) lower/higher, arising mainly as a result of lower/higher interest income on bank deposits.

(e) Categories of financial instruments at 31 December

	2018 RMB'000	2017 RMB'000
Financial assets:		
Financial assets measured at amortised cost	**162,685**	–
Loans and receivables (including cash and cash equivalents)	**–**	99,785
Financial liabilities:		
Financial liabilities measured at amortised cost	**76,657**	82,841

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. REVENUE

Disaggregation of revenue from contracts with customers by products for the year is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by products		
– Sales of circular knitting machines	132,253	130,800
– Sales of parts and consumables of circular knitting machines	1,695	827
	133,948	131,627

The Group derives revenue from the transfer of goods at a point in time and has initially applied IFRS 15 using the cumulative effect method.

8. OTHER INCOME

	2018 RMB'000	2017 RMB'000
Rental income	514	515
Scrap sales	203	141
Interest income on bank deposits	319	180
Interest income from third parties	153	–
Incentive fees from the government of the Longhai City of the PRC (note)	2,000	–
Net exchange gain	95	–
	3,284	836

Note:

The Group received the incentive fees from the government of the Longhai City of the PRC for its listing on GEM of the Stock Exchange on 4 January 2018.

For the Year Ended 31 December 2018

9. 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

The accounting policies of the operating segments are the same as those described in note 4 to the consolidated financial statements. Segment profits or losses do not include corporate income and expenses. Segment assets do not include property, plant and equipment, prepaid land lease payments, deposits, prepayments and other receivables and bank and cash balances.

Information about operating segment profit or loss and assets:

	Single circular knitting machine RMB'000	Double circular knitting machine RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2018				
Revenue from external customers	**45,925**	**86,328**	**1,695**	**133,948**
Segment profits	**14,523**	**29,685**	**253**	**44,461**
As at 31 December 2018				
Segment assets	**8,407**	**24,281**	**3,714**	**36,402**
Year ended 31 December 2017				
Revenue from external customers	36,426	94,374	827	131,627
Segment profits	12,737	34,928	102	47,767
As at 31 December 2017				
Segment assets	7,849	19,936	2,636	30,421

For the Year Ended 31 December 2018

9. SEGMENT INFORMATION (CONTINUED)

Reconciliations of segment revenue and profit or loss:

	2018 RMB'000	2017 RMB'000
Revenue		
Total revenue of reportable segments and consolidated revenue	133,948	131,627
Profit or loss		
Total profit or loss of reportable segments	44,461	47,767
Research and development expenditure	(6,382)	(6,233)
Interest expenses	(2,294)	(2,351)
Listing expenses	(3,186)	(7,241)
Depreciation	(2,125)	(2,141)
Other profit or loss	(5,217)	(5,255)
Consolidated profit before tax	25,257	24,546

Reconciliations of segment assets:

	2018 RMB'000	2017 RMB'000
Assets		
Total assets of reportable segments	36,402	30,421
Property, plant and equipment	22,334	22,851
Prepaid land lease payments	2,667	2,738
Bank and cash balances	132,939	74,380
Other assets	7,449	13,637
Consolidated total assets	201,791	144,027

All the Group's non-current assets are located in the PRC.

Geographical information:

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

	2018 RMB'000	2017 RMB'000
PRC	60,316	59,271
India	32,110	25,524
South Korea	11,572	25,570
Bangladesh	22,226	19,601
Turkey	5,300	1,378
Others	2,424	283
Consolidated total	133,948	131,627

For the Year Ended 31 December 2018

9. SEGMENT INFORMATION (CONTINUED)

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group is as follows:

	2018 RMB'000	2017 RMB'000
Single circular knitting machine		
Customer A	**3,229**	7,428
Customer B	**6,537**	5,976
Customer C	**5,050**	7,919
Customer D	**–**	359
Customer E	**11,631**	4,526
Double circular knitting machine		
Customer A	**4,407**	7,457
Customer B	**12,911**	7,826
Customer C	**2,649**	5,739
Customer D	**16,539**	2,624
Customer E	**2,833**	324
Others		
Customer A	**3**	82
Customer D	**743**	–

10. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank borrowings	**2,294**	2,351

11. INCOME TAX EXPENSE

Income tax has been recognised in profit or loss as follows:

	2018 RMB'000	2017 RMB'000
Current tax – PRC		
Provision for the year	**4,985**	5,795
Over-provision in prior years	**(395)**	(224)
	4,590	5,571

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.

11. INCOME TAX EXPENSE (CONTINUED)

On 21 March 2018, the Inland Revenue (Amendment) (No. 7) Bill 2017 of Hong Kong, which introduces a two-tiered profits tax regime, was substantively enacted. Under the two-tiered profits tax regime, the first HK$2 million of assessable profits of qualifying corporations will be taxed at 8.25% with effect from the year assessment 2018/2019. Profits above HK$2 million will continue to be subject to the tax rate of 16.5%.

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the year (2017: Nil).

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% except for 漳洲凱星機械有限公司 Zhangzhou Kaixing Machinery Co. Ltd. ("Zhangzhou Kaixing") and 漳洲福凱貿易有限公司 Zhangzhou Fukai Trading Co., Ltd. ("Zhangzhou Fukai").

Zhangzhou Fukai was recognised as a small and thin profit enterprise during the year under relevant enterprise income tax rules and regulations. 50% of its assessable profits is subject to a preferential enterprise income tax rate at 20%. Zhangzhou Kaixing was granted the status of a "High and New Technology Enterprise" and entitled to a preferential enterprise income tax rate at 15% for three years commencing from the year ended 31 December 2015. It was further extended for three more years commencing from the year ended 31 December 2018.

Pursuant to the EIT Law, the subsidiaries incorporated in the PRC are required to withhold 10% PRC enterprise income tax when they distribute dividends to their non-PRC resident enterprise shareholders.

As at 31 December 2018, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is approximately RMB7,765,000 (2017: RMB5,125,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing reversal of the temporary differences and it is probable that such differences will not reverse in foreseeable future.

The reconciliation between the income tax expense and the product of profit before tax multiplied by the PRC Enterprise Income Tax rate is as follows:

	2018 RMB'000	2017 RMB'000
Profit before tax	**25,257**	24,546
Taxation at the applicable PRC Enterprise Income Tax rate of 25%	**6,314**	6,137
Tax effect of expenses not deductible	**1,510**	2,067
Tax effect of others	**193**	422
Tax effect of tax concession	**(2,235)**	(2,073)
Over provision in prior years	**(395)**	(224)
Tax effect of super deduction of qualified R&D expenditure	**(797)**	(758)
Income tax expense	**4,590**	5,571

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12. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging/(crediting) the following:

	2018 **RMB'000**	2017 RMB'000
Amortisation of prepaid land lease payments	**71**	71
Depreciation	**2,125**	2,141
R&D expenditure	**6,382**	6,233
Auditor's remuneration	**990**	580
Listing expenses	**3,186**	7,241
Cost of inventories sold	**89,487**	83,860
Net exchange (gain)/loss	**(95)**	347

Cost of inventories sold includes staff costs, amortisation and depreciation of approximately RMB4,946,000 for the year ended 31 December 2018 (2017: RMB4,050,000), which are included in the amounts disclosed separately.

13. EMPLOYEE BENEFITS EXPENSE

	2018 **RMB'000**	2017 RMB'000
Employee benefits expense:		
Salaries, bonuses and allowances	**7,388**	5,829
Retirement benefit scheme contributions	**1,012**	817
	8,400	6,646

The five highest paid individuals in the Group during the year included three directors (2017: three directors) whose emoluments are reflected in the analysis presented in note 14. The emoluments of the remaining two individuals are set out below:

	2018 **RMB'000**	2017 RMB'000
Basic salaries and allowances	**327**	250
Discretionary bonus	**25**	20
Retirement benefit scheme contributions	**52**	45
	404	315

The emoluments of the five highest paid individuals fell within the following band:

	Number of individuals	
	2018	2017
Nil to HK$1,000,000	**5**	5

14. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking				
	Fees RMB'000	**Salaries and allowances** RMB'000	**Discretionary bonus** RMB'000	**Employer's contribution to a retirement benefit scheme** RMB'000	**Total** RMB'000
Executive Directors					
Ms. Yuan Yuan	**–**	**237**	**18**	**34**	**289**
Mr. Chen Yihui	**–**	**241**	**19**	**34**	**294**
Mr. Zheng Jiafu (Note (b))	**–**	**239**	**18**	**34**	**291**
Independent Non-executive Directors					
Dr. Hu Xudong	**60**	**–**	**–**	**–**	**60**
Dr. Mu Zhirong	**60**	**–**	**–**	**–**	**60**
Mr. Shum Shing Kei	**84**	**–**	**–**	**–**	**84**
Total for 2018	**204**	**717**	**55**	**102**	**1,078**
Executive Directors					
Ms. Yuan Yuan (Note (a))	–	209	15	31	255
Mr. Chen Yihui (Note (a))	–	213	15	31	259
Mr. Zheng Jiafu (Note (b))	–	211	15	31	257
Independent Non-executive Directors					
Dr. Hu Xudong (Note (c))	–	–	–	–	–
Dr. Mu Zhirong (Note (c))	–	–	–	–	–
Mr. Shum Shing Kei (Note (c))	–	–	–	–	–
Total for 2017	–	633	45	93	771

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14. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' emoluments (Continued)

Notes:

(a) Mr. Chen Yihui and Ms. Yuan Yuan redesignated as executive directors of the Company on 11 December 2017. Ms. Yuan Yuan also appointed as the chairlady and the chief executive officer of the Company on the same date.

(b) Mr. Zheng Jiafu was redesignated as executive director of the Company on 11 December 2017 and resigned on 14 January 2019.

(c) Dr. Hu Xudong, Mr. Shum Shing Kei and Dr. Mu Zhirong were appointed as independent non-executive directors of the Company on 11 December 2017.

During the years, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the years.

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts of significance to which the Company or any of its subsidiaries was a party and in which the directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

15. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following:

	2018 RMB'000	2017 RMB'000
Earnings		
Profit attributable to owners of the Company	**20,667**	18,975
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**998,356,164**	696,176,612

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16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2017	32,467	6,463	328	464	–	39,722
Additions	–	21	2	–	208	231
Transfer	208	–	–	–	(208)	–
At 31 December 2017 and 1 January 2018	32,675	6,484	330	464	–	39,953
Additions	–	1,608	–	–	–	1,608
At 31 December 2018	32,675	8,092	330	464	–	41,561
Accumulated depreciation						
At 1 January 2017	11,509	3,000	224	228	–	14,961
Charge for the year	1,470	477	45	149	–	2,141
At 31 December 2017 and 1 January 2018	12,979	3,477	269	377	–	17,102
Charge for the year	1,470	572	27	56	–	2,125
At 31 December 2018	14,449	4,049	296	433	–	19,227
Carrying amount						
At 31 December 2018	18,226	4,043	34	31	–	22,334
At 31 December 2017	19,696	3,007	61	87	–	22,851

As at 31 December 2018, the carrying amount of property, plant and equipment pledged as security for the Group's bank loans amounted to RMB17,696,000 (2017: RMB19,176,000).

17. PREPAID LAND LEASE PAYMENTS

The Group's prepaid land lease payments represent payments for land use rights in the PRC under medium term leases as follow:

	2018 RMB'000	2017 RMB'000
At 1 January	2,738	2,809
Amortisation of prepaid land lease payments	(71)	(71)
At 31 December	2,667	2,738

As at 31 December 2018, the carrying amount of prepaid land lease payments pledged as security for the Group's bank loans amounted to RMB2,667,000 (2017: RMB2,738,000).

18. INVESTMENTS IN SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 2018 are as follows:

Name	Place of incorporation/ establishment	Particular of issued share capital	Percentage of ownership interest/ voting power/ profit sharing		Principal activities
			Direct	Indirect	
Ace Progress Limited	British Virgin Islands	US$50,000	100%	–	Investment holding
Futex Machinery Limited ("Futex Machinery")	Hong Kong	HK$10,000	–	100%	Investment holding
Zhangzhou Kaixing	The PRC	Registered capital of RMB7,340,000	–	100%	Investment holding, R&D, manufacturing and trading of circular knitting machines
福建福紡精密機械有限公司 (Fujian Futex Machinery Co., Ltd)	The PRC	Registered capital of RMB5,000,000	–	100%	Trading of circular knitting machines
Zhangzhou Fukai	The PRC	Registered capital of RMB5,000,000	–	100%	Trading of circular knitting machines

As at 31 December 2018, the bank and cash balances of the Group's subsidiaries in the PRC denominated in RMB amounted to RMB132,886,000 (2017: RMB73,489,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

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19. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	6,144	7,001
Work in progress	3,694	2,552
Finished goods	4,255	3,337
	14,093	12,890

20. TRADE RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	28,453	24,532

The credit terms of trade receivables are in accordance with specific payment schedules agreed with various customers and generally range from 30 to 365 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	2018 RMB'000	2017 RMB'000
0 to 90 days	18,904	14,290
91 to 180 days	4,273	3,115
181 to 365 days	5,276	7,127
	28,453	24,532

As of 31 December 2017 and 2018, no trade receivables were past due nor impaired.

For the Year Ended 31 December 2018

20. TRADE RECEIVABLES (CONTINUED)

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2018 RMB'000	2017 RMB'000
RMB	**24,137**	20,767
US$	**4,316**	3,765
	28,453	24,532

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Sundry deposits	**3**	3
Prepayments	**9**	5,763
Other receivables	**1,293**	870
	1,305	6,636

22. BANK AND CASH BALANCES

The carrying amounts of the Group's bank and cash balances are denominated in the following currencies:

	2018 RMB'000	2017 RMB'000
RMB	**132,886**	73,489
US$	**24**	491
Hong Kong dollars	**29**	400
	132,939	74,380

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

For the Year Ended 31 December 2018

23. SHARE CAPITAL

	Number of shares issued	Authorised US$'000	Authorised HK$'000	Issued and fully paid RMB'000
Balance at 1 January 2017	50,000	100	–	338
Share capital of the Company				
Ordinary shares of US$1 each				
– issue of 3,322 shares (note (a))	3,322	–	–	22
– repurchase of shares (note (b))	(53,322)	–	–	–
– cancellation of authorised capital (note (c))	–	(100)	–	–
Ordinary shares of HK$0.01 each				
– increase of authorised share capital (note (b))	–	–	200,000	–
– allotment of the shares as consideration for repurchase of the shares of US$1 each from each of the shareholders (note (b))	41,591,160	–	–	–
Balance at 31 December 2017 and 1 January 2018	41,591,160	–	200,000	360
– Shares issued under the global offering (note (d))	300,000,000	–	–	2,520
– Shares capitalisation (note (e))	658,408,840	–	–	5,531
Balance at 31 December 2018	1,000,000,000	–	200,000	8,411

23. SHARE CAPITAL (CONTINUED)

Notes:

(a) On 2 February 2017, the Company issued 3,322 shares of US$1.00 each to PAM Global Opportunities Fund pursuant to a share subscription agreement dated 27 January 2017 at a consideration of HK$12,000,000.

(b) On 7 March 2017, the authorised share capital of the Company increased to the aggregate of US$100,000 and HK$200,000,000 by the creation of an additional 20,000,000,000 shares with a par value of HK$0.01 each.

On the same date, the Company allotted 41,591,160 shares of HK$0.01 each to the shareholders of the Company as fully paid shares in consideration of the repurchase of 53,322 shares of US$1 each in issue from each of the shareholders by the Company.

(c) On 7 March 2017 the authorised but unissued share capital of the Company was then diminished by the cancellation of 100,000 shares of US$1 each and as a result the authorised share capital of the Company became HK$200,000,000 divided into 20,000,000,000 shares of HK$0.01 each.

(d) Pursuant to written resolutions passed on 11 December 2017, the shareholders of the Company approved the allotment and issue of 300,000,000 new ordinary shares of HK$0.01 each of the Company in connection with the global offering of shares by the Company. On 3 January 2018, the Company issued 300,000,000 new ordinary shares ("New Shares") at HK$0.22 each for a total cash consideration, before expenses, of HK$66,000,000 and fully paid up, rank pari passu in all respects with the existing issued and fully paid-up shares of the Company. The premium on the issue of 300,000,000 New Shares, net of listing related expenses, amounting to approximately RMB43,727,000 was credited to the Company's share premium account.

(e) On 3 January 2018, an amount of HK$6,584,088 standing to the credit of the share premium account of the Company was capitalised by applying such sum forwards paying up in full at par a total of 658,408,840 shares for allotment and issue to the then existing shareholders before the completion of the share offering. On 4 January 2018, the Company's shares were listed on GEM of the Stock Exchange.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group reviews the capital structure frequently by considering the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debts, redemption of existing debts or selling assets to reduce debts.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Total debts comprise bank loans and due to an owner of the ultimate parent. Adjusted capital comprises all components of equity (i.e. paid-in capital, share premium, retained profits and other reserves). As the end of the reporting period, the Group has debt outstanding of RMB45,900,000 (2017: RMB44,900,000) and the debt-to-adjusted capital has not been disclosed as the Group has net cash in both years.

The Group receives a report from the share registrars monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year.

For the Year Ended 31 December 2018

24. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Statement of financial position of the Company

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Investments in subsidiaries		338	338
Current assets			
Prepayments		–	5,396
Due from subsidiaries		39,324	–
Bank balances		8	8
		39,332	5,404
Current liabilities			
Accruals and other payables		867	5,662
Due to subsidiaries		338	2,242
Due to an owner of the former ultimate parent		–	213
		1,205	8,117
Net current assets/(liabilities)		38,127	(2,713)
NET ASSETS/(LIABILITIES)		38,465	(2,375)
Capital and reserves			
Share capital	23	8,411	360
Reserves	24(b)	30,054	(2,735)
TOTAL EQUITY/(CAPITAL DEFICIENCIES)		38,465	(2,375)

Approved by the Board of Directors on 22 March 2019 and signed on its behalf by:

Yuan Yuan
Director

Chen YIhui
Director

24. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(b) Reserve movement of the Company

	Share premium RMB'000	**Accumulated losses** RMB'000	**Total** RMB'000
At 1 January 2017	–	(5,400)	(5,400)
Issue of ordinary shares (note 23(a))	10,588	–	10,588
Total comprehensive income for the year	–	(7,923)	(7,923)
At 31 December 2017 and 1 January 2018	10,588	(13,323)	(2,735)
Issue of ordinary shares under the global offering (note 23(d))	43,727	–	43,727
Shares capitalisation (note 23(e))	(5,531)	–	(5,531)
Total comprehensive income for the year	–	(5,407)	(5,407)
At 31 December 2018	48,784	(18,730)	30,054

25. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Capital reserve

Capital reserve comprises difference between the total amount of registered capital and the amount of the contributions from the owners of a subsidiary.

(iii) Statutory surplus reserve

The statutory surplus reserve, which is non-distributable, is appropriated from the profit after taxation of the Group's PRC subsidiaries under the applicable laws and regulations in the PRC.

For the Year Ended 31 December 2018

26. TRADE PAYABLES

	2018 **RMB'000**	2017 RMB'000
Trade payables	**28,809**	21,149

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	2018 **RMB'000**	2017 RMB'000
0-90 days	**28,809**	21,149

The carrying amount of the Group's trade payables is denominated in RMB.

27. RECEIPT IN ADVANCE, ACCRUALS AND OTHER PAYABLES

	2018 **RMB'000**	2017 RMB'000
Receipt in advance	**192**	2,916
Accruals	**1,868**	6,393
Other payables	**80**	1,490
	2,140	10,799

28. BANK LOANS

	2018 **RMB'000**	2017 RMB'000
Bank loans repayable on demand or within one year	**45,900**	44,900

The carrying amount of the Group's bank loans is denominated in RMB.

The average effective interest rates at 31 December were as follows:

	2018	2017
Bank loans	**5.13%**	4.91%

Bank loans as at 31 December 2017 and 2018 were arranged at fixed rates, thus exposing the Group to fair value interest rate risk.

Bank loans as at 31 December 2017 and 2018 were secured by pledge of the Group's property, plant and equipment, prepaid land lease payments. Certain bank loan was jointly liable by a subsidiary and a director.

For the Year Ended 31 December 2018

29. DUE TO AN OWNER OF THE FORMER ULTIMATE PARENT

As at 31 December 2017, amount due to an owner of the former ultimate parent was non-trade in nature, unsecured, interest-free and had no fixed repayment terms.

The amount represented an advance from an owner of the former ultimate parent.

30. LEASE COMMITMENTS

The total future minimum lease payment under non-cancellable operating lease are receivables as follows:

	2018 **RMB'000**	2017 RMB'000
Within one year	**617**	515

31. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transaction with its related parties during the year:

	2018 **RMB'000**	2017 RMB'000
Sales to a related company	**–**	1,026

(b) Key management personnel remuneration

Remuneration for key management personnel, including amount paid to the Company's directors as disclosed in note 14 and certain of the highest paid employees as disclosed in note 13 is as follows:

	2018 **RMB'000**	2017 RMB'000
Salaries, bonuses and other employee benefits	**1,230**	888
Retirement benefit scheme contributions	**138**	125
	1,368	1,013

For the Year Ended 31 December 2018

32. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

	Due to an owner of the former ultimate parent RMB'000	Bank loans RMB'000	Due to a related company RMB'000	Due to a director RMB'000	Due to owners RMB'000
At 1 January 2017	–	44,900	4,130	460	8,572
Cash flows	8,909	–	(4,130)	(460)	(8,572)
At 31 December 2017 and 1 January 2018	8,909	44,900	–	–	–
Cash flows	(8,909)	1,000	–	–	–
At 31 December 2018	–	45,900	–	–	–

33. EVENTS AFTER THE REPORTING PERIOD

Other than disclosed elsewhere in these consolidated financial statements, up to the date of this report, there is no significant event identified by the management subsequent to the reporting period.

34. DIVIDENDS

There was no dividend declared and paid/payable to its Shareholders during the year.

PARTICULARS OF PROPERTY

Particulars of property held for investment by the Group as at 31 December 2018 are as follows:

Location	Approximate site area and gross floor area	Existing use of the investment property	Term of lease
An industrial complex located in Tiantou-Xiawei Industrial Park, Xiawei Village, Fugong Town, Longhai City, Zhangzhou City, Fujian Province, The PRC	The property comprises 2 parcels of land with a total site area of approximately 30,462 sq.m., 7 buildings and various ancillary structures erected thereon. The buildings have a total gross floor area of approximately 20,333.53 sq.m. Approximately 9,004.50 sq.m. of the buildings was held as investment by the Group and was rented to an independent third party	Factories	Long-term lease of 10 years commencing from 3 December 2010

FINANCIAL SUMMARY

The following is a summary of the published results and of the assets and liabilities of the Group prepared on the bases set out in the note below:

	Year ended 31 December			
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
RESULTS				
Revenue	**133,948**	131,627	94,302	73,162
Profit before tax	**25,257**	24,546	14,658	14,357
Income tax expense	**(4,590)**	(5,571)	(3,861)	(3,020)
Profit for the year attributable to owners of the Company	**20,667**	18,975	10,797	11,337
ASSETS AND LIABILITIES				
Non-current assets	**25,001**	25,589	27,570	27,612
Current assets	**176,790**	118,438	69,791	59,661
Current liabilities	**(78,098)**	(87,248)	(70,167)	(60,706)
Net assets	**123,693**	56,779	27,194	26,567
Equity attributable to owners of the Company:				
Share capital	**8,411**	360	338	7,340
Reserves	**115,282**	56,419	26,856	19,227
Total equity	**123,693**	56,779	27,194	26,567

Note: The financial information for the years ended 31 December 2015 and 2016 were extracted from the Prospectus. Such financial information was prepared as if the current structure of the Group had been in existence throughout these financial years.

No consolidated financial statements of the Group for the year ended 31 December 2014 have been published.

DEFINITIONS

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

"Articles"	the articles of association of the Company, as amended, supplemented or otherwise modified from time to time
"Audit Committee"	the audit committee of the Company
"Auditors"	RSM Hong Kong
"Board"	the board of Directors
"Business Day"	has the meaning ascribed to it under the GEM Listing Rules
"China" or "PRC"	the People's Republic of China and, except where the context requires otherwise and only for the purposes of this annual report, references to China or the PRC exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"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
"Companies Law"	the Companies Law (as revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Controlling Shareholder(s)"	has the meaning ascribed to it under the GEM Listing Rules
"CG Code"	Corporate Governance Code and Corporate Governance Report set out in Appendix 15 to the GEM Listing Rules
"Director(s)"	the director(s) of the Company
"Fujian Fufang"	福建福紡精密機械有限公司 (Fujian Futex Machinery Co., Ltd*), a limited liability company established in the PRC on 4 November 2010 and an indirect wholly-owned subsidiary 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
"Heart"	芯臟, a core part of a circular knitting machine, mainly used for stabilising and connecting the Triangles
"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
"Listing Date"	4 January 2018, the date the Shares were listed on GEM of the Stock Exchange
"Model Code"	a code of conduct adopted by the Company regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules effective from the Listing Date
"Nomination Committee"	the nomination committee of the Company
"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
"Prospectus"	the prospectus of the Company published on 20 December 2017 in connection with the Listing
"R&D"	research and development
"Remuneration Committee"	the remuneration committee of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"SFC"	the Securities and Futures Commission of Hong Kong
"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
"Share Option Scheme"	the share option scheme of the Company adopted by the Shareholders on 11 December 2017
"sq.m."	square metres
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Triangle(s)"	三角, a core part of a circular knitting machine, which controls the movement of the needles placed within the cylinder according to the different products being produced by the circular knitting machines
"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
"Zhangzhou Kaixing"	漳州凱星機械有限公司 (Zhangzhou Kaixing Machine Co., Ltd*), a wholly foreign owned enterprise company established in the PRC on 15 March 2004 and an indirect wholly-owned subsidiary of the Company
"%"	per cent

* *For identification purposes only*