



# CHINA FUTEX HOLDINGS LIMITED

## 中國福紡控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8506

FIRST QUARTERLY REPORT

# 2019



## **CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE**

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

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

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

## FIRST QUARTERLY RESULTS

The Board is pleased to announce the unaudited condensed consolidated results of the Group for the three months ended 31 March 2019 together with the unaudited comparative figures for the corresponding period in 2018, as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2019

	Note	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
<b>Revenue</b>	2,3	<b>32,222</b>	31,306
Cost of goods sold		<b>(21,616)</b>	(19,933)
<b>Gross profit</b>		<b>10,606</b>	11,373
Other income		<b>400</b>	478
Selling expenses		<b>(552)</b>	(528)
Administrative expenses		<b>(3,729)</b>	(6,275)
<b>Profit from operations</b>		<b>6,725</b>	5,048
Finance costs		<b>(587)</b>	(532)
<b>Profit before tax</b>		<b>6,138</b>	4,516
Income tax expense	4	<b>(1,153)</b>	(1,381)
<b>Profit for the period and total comprehensive income attributable to owners of the Company</b>	5	<b>4,985</b>	3,135
<b>Earnings per share</b>	6		
– Basic (RMB cents)		<b>0.50</b>	0.32



# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2019

	Attributable to owners of the Company					
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
As at 1 January 2018 (unaudited)	360	10,588	1,830	6,170	37,831	56,779
Profit for the period and total comprehensive income for the period (unaudited)	-	-	-	-	3,135	3,135
Issue of ordinary shares (unaudited)	7,726	38,648	-	-	-	46,374
Changes in equity for the period (unaudited)	7,726	38,648	-	-	3,135	49,509
As at 31 March 2018 (unaudited)	8,086	49,236	1,830	6,170	40,966	106,288
As at 1 January 2019 (unaudited)	<b>8,411</b>	<b>48,784</b>	<b>1,830</b>	<b>6,223</b>	<b>58,445</b>	<b>123,693</b>
Profit for the period and total comprehensive income for the period (unaudited)	-	-	-	-	4,985	4,985
As at 31 March 2019 (unaudited)	<b>8,411</b>	<b>48,784</b>	<b>1,830</b>	<b>6,223</b>	<b>63,430</b>	<b>128,678</b>

## 1. BASIS OF PREPARATION

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

The unaudited consolidated financial statements for the three months ended 31 March 2019 are presented in Renminbi.

The unaudited consolidated financial statements for the three months ended 31 March 2019 have been prepared in accordance with International Financial Reporting Standards (“IFRSs”, which comprise all applicable respective International Financial Reporting Standards, International Accounting Standards and Interpretations). The unaudited consolidated financial statements also include applicable disclosure required by GEM Listing Rules.

The unaudited consolidated financial statements for the three months ended 31 March 2019 should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2018 and the notes thereto (the “**2018 Audited Consolidated Financial Statements**”). The significant accounting policies adopted in the preparation of the unaudited consolidated financial statements for the three months ended 31 March 2019 are consistent with those followed in the preparation of the 2018 Audited Consolidated Financial Statements. It should be noted that accounting estimates and assumptions were adopted in the preparation of the unaudited consolidated financial statements for the three months ended 31 March 2019. Although the estimates are based on the management’s best knowledge of and judgement on the present events and actions, the actual results may eventually differ from those estimates.

Certain new and revised IFRSs have been issued. Adoption of new IFRSs which are effective for the accounting periods beginning on 1 January 2019 will not have any material impact on the preparation and presentation of the results and financial conditions of the current period and previous periods. For the IFRSs that are not yet effective nor have not been early adopted, the Group is in the process of making an assessment of the potential impact of the new IFRSs.

## 2. REVENUE

The revenue of the Group recognised in the three months ended 31 March 2019 includes the following:

	For the three months ended 31 March	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Sales of circular knitting machines	30,878	31,036
Sales of parts and consumables of circular knitting machines	1,344	270
	<b>32,222</b>	31,306

### 3. SEGMENT INFORMATION

The Group has three operating segments as follows:

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

Information about operating segment profit or loss:

	Single circular knitting machine RMB'000 (Unaudited)	Double circular knitting machine RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<b>For the three months ended 31 March 2019</b>				
Revenue from external customers	8,506	22,372	1,344	32,222
Segment profits	2,628	7,735	243	10,606
<b>For the three months ended 31 March 2018</b>				
Revenue from external customers	7,719	23,317	270	31,306
Segment profits	2,802	8,540	31	11,373

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

	For the three months ended 31 March	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
PRC	11,484	12,181
Overseas	20,738	19,125
Consolidated total	32,222	31,306

#### 4. INCOME TAX EXPENSE

	For the three months ended 31 March	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Provision – PRC	<b>1,153</b>	1,381

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.

On 21 March 2018, the Inland Revenue (Amendment) (No. 7) Bill 2017 of Hong Kong introduced a two-tiered profits tax regime. 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 was required since the Group had no assessable profit for the three months period ended 31 March 2019 (2018: 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 Zhangzhou Kaixing.

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 from the year ended 31 December 2018.



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

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

	For the three months ended	
	31 March	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Amortisation of prepaid land lease payments	18	18
Depreciation	516	541
Research and development expenditure	1,535	1,422
Cost of inventories sold	21,616	19,933
Net exchange loss	42	471

## 6. EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on profit attributable to owners of the Company for the three months ended 31 March 2019 of approximately RMB4,985,000 (2018: RMB3,135,000) and weighted average number of 1,000,000,000 Shares in issue for the three months ended 31 March 2019 (2018: 993,333,333 Shares).

## 7. INTERIM DIVIDENDS

The Directors do not recommend any payment of dividend for the three months ended 31 March 2019 (2018: Nil).



## 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 three months ended 31 March 2019, the Group recorded a turnover of approximately RMB32.2 million, representing a slight increase of approximately 2.9% from approximately RMB31.3 million recorded for the three months ended 31 March 2018.

## OUTLOOK

In the first quarter of 2019, the world economy further recovered and the PRC economy as a whole remained stable and positive. Under this macroeconomic background, the economic sentiment of China's textile industry continued to improve. Domestic consumption saw a gradual recovery during the three months ended 31 March 2019. In March 2019, 40 out of 41 major industries in the PRC maintained their growth as compared with the corresponding period last year, of which the textile industry grew by 9.0% as compared with the corresponding period last year. Despite fierce competition in the textile knitting machinery market, the Group will continue to consolidate its market position and expand its market share. The Group will closely monitor the market conditions and carry out necessary adjustments as to its strategies and operations.

## FINANCIAL REVIEW

### Revenue

The Group derives its revenue primarily from the manufacturing and sales of circular knitting machines which can be classified into (i) single circular knitting machines; and (ii) double circular knitting machines. For the three months ended 31 March 2019, the Group recorded revenue of approximately RMB32.2 million, representing a slight increase of approximately 2.9% when compared with the three months ended 31 March 2018 of approximately RMB31.3 million.

The sales of single circular knitting machines increased by approximately 10.2% from approximately RMB7.7 million for the three months ended 31 March 2018 to approximately RMB8.5 million for the three months ended 31 March 2019. The sales of double circular knitting machines decreased by approximately 4.1% from approximately RMB23.3 million for the three months ended 31 March 2018 to approximately RMB22.4 million for the three months ended 31 March 2019. 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 three months ended 31 March 2019.

Domestic sales decreased by approximately 5.7% from approximately RMB12.2 million for the three months ended 31 March 2018 to approximately RMB11.5 million for the three months ended 31 March 2019. Overseas sales increased by approximately 8.4% from approximately RMB19.1 million for the three months ended 31 March 2018 to approximately RMB20.7 million for the three months ended 31 March 2019.

The Group also derives revenue from the manufacture and sales of parts of circular knitting machines and sales of consumables. The sales from such operating segment increased by approximately 400% from approximately RMB270,000 for the three months ended 31 March 2018 to approximately RMB1.3 million for the three months ended 31 March 2019. The significant increase was primarily due to the increased orders for replacement of parts and consumables such as cylinders and needles which were mainly from the domestic customers of the Group.

### Cost of Goods Sold

The Group's cost of goods sold increased by 8.4% from approximately RMB19.9 million for the three months ended 31 March 2018 to approximately RMB21.6 million for the three months ended 31 March 2019. 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 required a higher production cost for the three months ended 31 March 2019.

### Gross Profit and Gross Profit Margin

The Group's gross profit for the three months ended 31 March 2019 was approximately RMB10.6 million, representing a decrease by approximately 6.7% when compared with its gross profit of approximately RMB11.4 million for the three months ended 31 March 2018. Such decrease 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 three months ended 31 March 2019.

The Group's gross profit margin decreased from approximately 36.3% for the three months ended 31 March 2018 to approximately 32.9% for the three months ended 31 March 2019. This was primarily due to the price increase of raw materials of the Group which resulted in the decrease in gross profit margin for both single circular knitting machines and double circular knitting machines.

### Other Income

The Group's other income consists of rental income, interest income and R&D subsidies. The Group's other income was approximately RMB400,000 for the three months ended 31 March 2019, representing a decrease of approximately 16.3% as compared with the other income of approximately RMB478,000 for the three months ended 31 March 2018. The decrease was primarily due to no income generated from scrap sales and the decrease in interest income from bank deposits for the three months ended 31 March 2019 when compared with the corresponding period last year notwithstanding R&D subsidies of RMB144,000 granted by the PRC government authorities of the Longhai City to the Group.

## Selling Expenses

The Group's selling expenses mainly consist of travelling, entertainment and transportation expenses, sales staff salary and promotion expenses. For the three months ended 31 March 2019, the Group's selling expenses were approximately RMB552,000, representing an increase of approximately 4.5% over the selling expenses of approximately RMB528,000 for the three months ended 31 March 2018. The increase was primarily due to the increase in travelling expenses, salary increment of sales staff and leasing of a billboard for advertising purpose.

## Administrative Expenses

The Group's administrative expenses mainly include (i) R&D expenses; (ii) employee salary and benefits expenses; (iii) Listing expenses; and (iv) professional fees. The Group's administrative expenses for the three months ended 31 March 2019 were approximately RMB3.7 million, representing a significant decrease of approximately 40.6% over the administrative expenses of approximately RMB6.3 million for the three months ended 31 March 2018. The decrease was primarily attributable to the decrease in non-recurring Listing expenses and professional fees.

## Profit for the Period Attributable to Owners of the Company

Profit attributable to owners of the Company for the three months ended 31 March 2019 amounted to approximately RMB5.0 million, representing an increase of approximately 59% as compared with the profit of approximately RMB3.1 million for the three months ended 31 March 2018. The increase was primarily attributable to the significant decrease in administrative expenses.

## USE OF PROCEEDS FROM LISTING

The proceeds from the Listing, after deducting related issuance expenses, amounted to approximately HK\$40.9 million. Since the date of the Listing and up to 31 March 2019, approximately HK\$0.6 million has been used to enhance customer loyalty and brand awareness; approximately HK\$0.2 million has been used to maintain and enhance the Group's R&D capabilities; approximately HK\$2.3 million has been used to purchase machineries; and approximately HK\$3.6 million has been used as working capital.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months ended 31 March 2019.



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

As at 31 March 2019, 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 the 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 controlled corporation	81,195,379 <i>(note 1)</i>	8.119%

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.

Save as disclosed above, as at 31 March 2019, 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 are required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

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

As at 31 March 2019, 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.



## MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above, as at 31 March 2019, 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.

### COMPETING INTERESTS

During the three months ended 31 March 2019, none of the Directors or the Controlling Shareholders or substantial Shareholders or their respective close associates (as defined in the GEM Listing Rules) is interested in any business which competes or may compete, either directly or indirectly, with the business of the Group nor any conflicts of interest which has or may have with the Group.

### DEED OF NON-COMPETITION

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

### INTEREST OF COMPLIANCE ADVISER

As notified by Essence Corporate Finance (Hong Kong) Limited (“**ECF**”), the Company’s compliance adviser, save for (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 March 2019, which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

### AUDIT COMMITTEE

The audit committee of the Company, which consists of Mr. Shum Shing Kei, Dr. Mu Zhirong and Dr. Hu Xudong, all being independent non-executive Directors, has reviewed this report and the Group’s unaudited consolidated financial results for the three months ended 31 March 2019, and is of the opinion that the preparation of such results complied with applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures have been made in respect thereof.

### DIVIDENDS

The Board does not recommend the payment of any interim dividend for the three months ended 31 March 2019 (2018: Nil).

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

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



## DEFINITIONS

“Prospectus”	the prospectus of the Company published on 20 December 2017 in connection with the Listing
“R&D”	research and development
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhangzhou 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

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

Hong Kong, 8 May 2019

*As at the date hereof, the Board comprises Ms. Yuan Yuan and Mr. Chen Yihui as executive Directors; and Dr. Hu Xudong, Dr. Mu Zhirong and Mr. Shum Shing Kei as independent non-executive Directors.*