



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

INTERIM REPORT

2020

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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

Independent Non-Executive Directors

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

COMPANY SECRETARY

Ms. Huan Lai Chun (*HKICS*)

COMPLIANCE OFFICER

Ms. Yuan Yuan

AUTHORISED REPRESENTATIVES

Ms. Yuan Yuan
Ms. Huan Lai Chun

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPLIANCE ADVISER

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

AUDITORS

RSM Hong Kong
Certified Public Accountants
29/F, 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
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China

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Xiawei Village, Fugong Town
Longhai City, Fujian Province
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PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART 16 OF THE COMPANIES ORDINANCE

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HONG KONG LEGAL ADVISERS

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PRINCIPAL SHARE REGISTRAR

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Grand Cayman
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HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
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PLACE OF LISTING

Stock Exchange

STOCK CODE

8506

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TO THE BOARD OF DIRECTORS OF CHINA FUTEX HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 5 to 16 which comprises the condensed consolidated statement of financial position of the Company as at 30 June 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board (the "IASB"). The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

RSM Hong Kong

Certified Public Accountants

Hong Kong
14 August 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six-month period ended 30 June 2020

	Note	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	4	25,033	60,491
Cost of goods sold		(17,429)	(41,126)
Gross profit		7,604	19,365
Other income		645	879
Selling expenses		(673)	(1,219)
Administrative expenses		(4,728)	(7,324)
Profit from operations		2,848	11,701
Finance costs		(1,371)	(1,265)
Profit before tax		1,477	10,436
Income tax expense	5	(42)	(1,304)
Profit for the period attributable to owners of the Company	6	1,435	9,132
Other comprehensive income for the period, net of tax		-	-
Total comprehensive income for the period attributable to owners of the Company		1,435	9,132
Earnings per share			
– Basic (RMB cents)	8	0.14	0.91

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	9	19,308	20,269
Right-of-use assets	10	2,559	2,596
Total non-current assets		21,867	22,865
Current assets			
Inventories		9,032	11,618
Trade receivables	11	11,305	25,446
Deposits, prepayments and other receivables		121	545
Current tax assets		79	–
Bank and cash balances		157,754	148,259
Total current assets		178,291	185,868
TOTAL ASSETS		200,158	208,733
EQUITY			
Share capital	12	8,411	8,411
Reserves		133,331	131,896
Total equity		141,742	140,307
LIABILITIES			
Current liabilities			
Trade payables	13	5,518	15,651
Deposits received, accruals and other payables		2,158	3,104
Contract liabilities		715	–
Bank loans		50,025	48,925
Current tax liabilities		–	746
Total current liabilities		58,416	68,426
TOTAL EQUITY AND LIABILITIES		200,158	208,733
NET ASSETS		141,742	140,307

Approved by the Board of Directors on 14 August 2020:

Yuan Yuan
Director

Chen Yihui
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2020

	(Unaudited)					
	Attributable to owners of the Company					
	Share capital	Share premium	Capital reserve	Statutory surplus reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	8,411	48,784	1,830	6,223	58,445	123,693
Total comprehensive income for the period	-	-	-	-	9,132	9,132
At 30 June 2019	8,411	48,784	1,830	6,223	67,577	132,825
At 1 January 2020	8,411	48,784	1,830	6,287	74,995	140,307
Total comprehensive income for the period	-	-	-	-	1,435	1,435
At 30 June 2020	8,411	48,784	1,830	6,287	76,430	141,742

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	8,222	2,273
Purchases of property, plant and equipment	(58)	–
Interest received	231	199
Net cash generated from investing activities	173	199
Bank loans raised	73,000	45,900
Repayment of bank loans	(71,900)	(45,900)
Net cash generated from financing activities	1,100	–
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,495	2,472
CASH AND CASH EQUIVALENTS AT 1 JANUARY	148,259	132,939
CASH AND CASH EQUIVALENTS AT 30 JUNE	157,754	135,411
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	157,754	135,411

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2020

1. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (the “IASB”) and the applicable disclosures required by the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

These condensed consolidated financial statements should be read in conjunction with the 2019 annual financial statements. The accounting policies (including the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty) and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2019.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised International Financial Reporting Standards (“IFRSs”) issued by the IASB that are relevant to its operations and effective for its accounting period beginning on 1 January 2020. IFRSs comprise International Financial Reporting Standards (“IFRS”); International Accounting Standards (“IAS”); and Interpretations. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The accounting policies applied in the condensed consolidated financial statements are the same as those applied in the Group’s consolidated financial statements as at and for the year ended 31 December 2019. A number of new or amended standards are effective from 1 January 2020 but they do not have a material effect on the Group’s financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2020

3. SEGMENT INFORMATION

	Single circular knitting machine RMB'000	Double circular knitting machine RMB'000	Others RMB'000	Total RMB'000
6 months ended 30 June 2020 (Unaudited):				
Revenue from external customers	11,871	12,684	478	25,033
Segment profit	3,451	4,083	70	7,604
As at 30 June 2020 (Unaudited):				
Segment assets	5,166	8,818	2,797	16,781

6 months ended 30 June 2019 (Unaudited):				
Revenue from external customers	24,009	34,459	2,023	60,491
Segment profit	7,259	11,774	332	19,365
As at 31 December 2019 (Audited):				
Segment assets	11,095	16,306	3,101	30,502

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Reconciliation of segment profit or loss:		
Total profit or loss of reportable segments	7,604	19,365
Research and development expenditure	(1,445)	(3,092)
Interest expenses	(1,371)	(1,265)
Depreciation	(1,056)	(1,067)
Other profit or loss	(2,255)	(3,505)
Consolidated profit before tax	1,477	10,436

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2020

4. REVENUE

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is derived from contracts with customers.

In the following table, revenue is disaggregated by primary geographical markets and timing of revenue recognition.

For the six months ended 30 June	Sales of circular knitting machines		Sales of parts and consumables of circular knitting machines		Total	
	2020	2019	2020	2019	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Primary geographical markets						
The People's Republic of China (the "PRC")	9,232	16,202	459	1,403	9,691	17,605
Vietnam	-	12,680	-	504	-	13,184
Bangladesh	13,837	11,630	18	14	13,855	11,644
India	511	9,811	1	102	512	9,913
South Korea	310	8,005	-	-	310	8,005
Turkey	396	-	-	-	396	-
Others	269	140	-	-	269	140
Total	24,555	58,468	478	2,023	25,033	60,491
Timing of revenue recognition						
Products transferred at a point in time	24,555	58,468	478	2,023	25,033	60,491

The following table provides information about trade receivables and contract liabilities from contracts with customers:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Trade receivables	11,305	25,446
Contract liabilities	715	-

The contract liabilities relate to the consideration billed and received from customers in advance for the sales of circular knitting machines.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2020

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax – PRC		
Provision for the period	512	1,734
Over-provision in prior period	(470)	(430)
	42	1,304

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

Under the two-tiered profits tax regime, profits tax rate for the first HK\$2 million of assessable profits of qualifying corporations established in Hong Kong will be lowered to 8.25%, and profits above that amount will be subject to the tax rate of 16.5%. On 19 June 2020, the Legislative Council of the Government of Hong Kong Special Administrative Region passed and gazetted the one-off legislation to reduce profits tax for the year of assessment 2019/2020 by 100%, subject to a ceiling of HK\$20,000.

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the period (six-month period ended 30 June 2019: RMB 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 Corporation is 25%. Zhangzhou Kaixing was granted the status of "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.

No provision for EIT is required since the other subsidiaries incurred tax loss for the period (period ended 30 June 2019: RMB Nil).

NOTES TO THE CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

For the six-month period ended 30 June 2020

6. PROFIT FOR THE PERIOD

The Group's profit for the period is stated after charging the following:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation	1,056	1,067
Research and development expenditure	1,445	3,092
Cost of inventories sold	17,429	41,126
Net exchange (gain)/loss	(51)	321

7. DIVIDENDS

The directors do not recommend the payment of an interim dividend (six-month period ended 30 June 2019: RMB Nil).

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to owners of the Company	1,435	9,132
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,000,000,000	1,000,000,000

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2020

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired property, plant and equipment of approximately RMB58,000 (six-month period ended 30 June 2019: RMB Nil).

As at 30 June 2020, certain of property, plant and equipment with a carrying amount of RMB16,933,000 (as at 31 December 2019: RMB17,929,000) were pledged as security for the Group's bank loans.

10. RIGHT-OF-USE ASSETS

As at 30 June 2020, the right-of-use assets with a carrying amount of RMB2,559,000 (as at 31 December 2019: RMB2,596,000) were pledged as security for the Group's bank loans.

11. TRADE RECEIVABLES

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

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
0 to 90 days	8,311	16,068
91 to 180 days	1,622	5,660
181 to 365 days	1,372	3,718
	11,305	25,446

12. SHARE CAPITAL

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Authorised:		
20,000,000,000 ordinary shares of HK\$0.01 each	177,502	177,502
Issued and fully paid:		
1,000,000,000 ordinary shares of HK\$0.01 each	8,411	8,411

NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
For the six-month period ended 30 June 2020

13. TRADE PAYABLES

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

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
0 to 90 days	5,518	15,651

14. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the condensed consolidated interim financial statements, the Group had no other transactions with its related parties during the period.

(b) Key management personnel remuneration

During the period, the remuneration of directors and other members of key management personnel was as follows:

	Six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Salaries, bonuses and other employee benefits	443	471
Retirement benefit scheme contributions	8	55
	451	526

15. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2020 (as at 31 December 2019: RMB Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2020

16. EVENT AFTER THE REPORTING PERIOD

After the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across the globe. The Group is paying close attention to the development of, and the disruption to business and economic activities caused by, the COVID-19 outbreak and evaluate its impact on the financial position, cash flows and operating results of the Group. Given the dynamic nature of the COVID-19 outbreak, it is not practicable to provide a reasonable estimate of its impacts on the Group's financial position, cash flows and operating results at the date on which these financial statements are authorised for issue.

17. APPROVAL OF FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 14 August 2020.

BUSINESS REVIEW

The Group is principally engaged in R&D, manufacturing and sales 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.

During the period under review, the Group was seriously and adversely affected by the outbreak of COVID-19. For the six months ended 30 June 2020, the Group recorded a net profit of approximately RMB1.4 million, representing a decrease of approximately 84.3% compared to approximately RMB9.1 million for the six months ended 30 June 2019.

The Group has continued to strengthen its R&D capabilities in order to respond to and anticipate changes in the market and enhance the Group's competitiveness within the circular knitting machinery industry. For the six months ended 30 June 2020, the Group has registered seven utility model patents in relation to its circular knitting machines and has applied for five utility model patents in the PRC.

OUTLOOK

The outbreak of COVID-19 has posed a threat to the Chinese and global economic environment. The development of the pandemic is unpredictable at this stage and the extent of impact it will cause to the economy in future is subject to numerous uncertainties. The textile industry, in which the Group operates, may continue to be affected. Taken into consideration the global economic uncertainties and the impact of COVID-19, the Group will strive to implement a number of safety production measures, further tighten and control our operating costs, streamline our production management and enhance our production efficiency.

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 six months ended 30 June 2020, the Group recorded a revenue of approximately RMB25.0 million, representing a decrease of approximately 58.6% from approximately RMB60.5 million for the six months ended 30 June 2019. The sales of single circular knitting machines decreased by approximately 50.6% from approximately RMB24.0 million for the six months ended 30 June 2019 to approximately RMB11.9 million for the six months ended 30 June 2020. The sales of double circular knitting machines decreased by approximately 63.2% from approximately RMB34.5 million for the six months ended 30 June 2019 to approximately RMB12.7 million for the six months ended 30 June 2020.

Overseas sales decreased by approximately 64.2% from approximately RMB42.9 million for the six months ended 30 June 2019 to approximately RMB15.3 million for the six months ended 30 June 2020. Domestic sales decreased by approximately 45.0% from approximately RMB17.6 million for the six months ended 30 June 2019 to approximately RMB9.7 million for the six months ended 30 June 2020. Amongst the domestic sales, sale of single circular knitting machines has increased but the increment does not have substantial contribution to the overall domestic sales.

Cost of Goods Sold

The Group's cost of goods sold decreased by 57.6% from approximately RMB41.1 million for the six months ended 30 June 2019 to approximately RMB17.4 million for the six months ended 30 June 2020, which is generally in line with the decrease in revenue for the period.

Gross Profit and Gross Profit Margin

The Group's gross profit for the six months ended 30 June 2020 was approximately RMB7.6 million, representing a decrease by approximately 60.7% when compared with its gross profit of approximately RMB19.4 million for the six months ended 30 June 2019.

The Group's gross profit margin decreased from approximately 32.0% for the six months ended 30 June 2019 to approximately 30.4% for the six months ended 30 June 2020. This was primarily due to an increase in production costs.

Other Income

The Group's other income mainly consists of rental income, scrap sales and interest income. The Group's other income was approximately RMB0.6 million for the six months ended 30 June 2020, representing a decrease of approximately 26.6% as compared with the other income of approximately RMB0.9 million for the six months ended 30 June 2019. This was primarily due to the decrease in subsidies and reward from the PRC government for the R&D and advancement in technology of the Group.

Selling Expenses

The Group's selling expenses mainly consist of sale staff salary, travelling, entertainment, transportation and promotion expenses. For the six months ended 30 June 2020, the Group's selling expenses were approximately RMB0.7 million, representing a decrease of approximately 44.8% over the selling expenses of approximately RMB1.2 million for the six months ended 30 June 2019. As a result of COVID-19 and the decrease of orders from customers, most of the Group's selling expenses items have decreased accordingly.

Administrative Expenses

The Group's administrative expenses mainly include (i) R&D expenses; (ii) employee salary and benefits expenses; and (iii) professional fees. The Group's administrative expenses for the six months ended 30 June 2020 were approximately RMB4.7 million, representing a decrease of approximately 35.4% over the administrative expenses of approximately RMB7.3 million for the six months ended 30 June 2019. The decrease was primarily attributable to the (i) reduction in R&D expenses and (ii) reduction in employee salary and benefits due to the decrease in headcount of the Group and a short-term exemption of social insurance contributions during the six months ended 30 June 2020 by virtue of the PRC governmental policies which aimed to alleviate the impact of COVID-19 on domestic enterprises.

Finance Costs

The Group's finance costs recorded an increase of approximately 8.4% from approximately RMB1.3 million for the six months ended 30 June 2019 to RMB1.4 million for the six months ended 30 June 2020. This was due to the increase in bank borrowings of approximately RMB1.1 million which resulted in the increase in interest expenses.

Income Tax Expense

The Group's income tax expense for the six months ended 30 June 2020 was approximately RMB42,000, representing a decrease of approximately 96.8% from approximately RMB1.3 million for the six months ended 30 June 2019. Such decrease was primarily due to the decrease in revenue which resulted in the decrease in profit for the six months ended 30 June 2020. The effective income tax rate of the Group, which equals to the income tax expense divided by profit before tax, were approximately 12.5% and 2.8% for the six months ended 30 June 2019 and 30 June 2020, respectively. The substantial drop in the effective income tax rate for the six months ended 30 June 2020 was primarily caused by an increase in losses incurred by certain subsidiaries of the Group for this period compared to the corresponding period in 2019.

Profit for the Period Attributable to Owners of the Company

Profit attributable to owners of the Company for the six months ended 30 June 2020 amounted to approximately RMB1.4 million, representing a decrease of approximately 84.3% as compared with the profit of approximately RMB9.1 million for the six months ended 30 June 2019. The Group's net profit has substantially decreased mainly due to the decrease in demand for the products of the Group, particularly after the outbreak of COVID-19.

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 RMB119.9 million as at 30 June 2020 (31 December 2019: RMB117.4 million). Such increase was primarily attributable to the increase in bank and cash balances and the streamlining of the operations of the Group such that purchases are made based on orders from customers and reducing current liabilities of the Group in the form of trade payables.

As at 30 June 2020, the Group's current assets amounted to approximately RMB178.3 million (31 December 2019: RMB185.9 million) of which approximately RMB9.0 million (31 December 2019: RMB11.6 million) was inventories; approximately RMB11.3 million (31 December 2019: RMB25.4 million); approximately RMB0.1 million (31 December 2019: RMB0.5 million); and approximately RMB157.8 million (31 December 2019: RMB148.3 million) was bank and cash balances.

As at 30 June 2020, the Group's total borrowings amounted to approximately RMB50.0 million (31 December 2019: RMB48.9 million) which consist only of bank loans and are denominated in Renminbi, charged at fixed interest rates and repayable on demand or within one year.

The Group's gearing ratio as at 31 December 2019 and 30 June 2020, which was calculated by dividing the total debt by the total equity as at those dates, was approximately 34.9% and 35.3% respectively. The total debt includes all bank loans while the total equity includes the share capital and reserves 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 30 June 2020 and a comparison of the Group's business plan as set out in the Prospectus with its actual business progress up to 30 June 2020.

Business objectives and implementation plans up to 31 December 2019 as set out in the Prospectus	Planned use of proceeds to be applied up to 30 June 2020 HK\$'000 (Note 1)	Actual use of proceeds up to 30 June 2020 HK\$'000	Actual implementation plan up to 30 June 2020
Enhance customer loyalty and brand awareness	4,900	735	
(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 made prepayment for two industry exhibitions which were originally scheduled to be held in June and October 2020 and are both subsequently postponed to June 2021. 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, and 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	8,500	230	
(i) Construct the New Office Building – Same as above			Same as above

MANAGEMENT DISCUSSION AND ANALYSIS

Business objectives and implementation plans up to 31 December 2019 as set out in the Prospectus	Planned use of proceeds to be applied up to 30 June 2020 HK\$'000 <i>(Note 1)</i>	Actual use of proceeds up to 30 June 2020 HK\$'000	Actual implementation plan up to 30 June 2020
(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
(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. The Group has successfully registered seven utility models in relation to circular knitting machines for the six months ended 30 June 2020
Expand customer base in the overseas market	3,900	–	
(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	4,500	2,290	

Business objectives and implementation plans up to 31 December 2019 as set out in the Prospectus	Planned use of proceeds to be applied up to 30 June 2020 HK\$'000 <i>(Note 1)</i>	Actual use of proceeds up to 30 June 2020 HK\$'000	Actual implementation plan up to 30 June 2020
(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	14,200	-	
(i) Purchase of machineries for the manufacturing of Hearts			The Group is at the preliminary consultation stage
(ii) Recruitment and training of staff to operate the machinery 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:

- 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 market 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. 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.

5. The Group may be unable to implement its business strategies successfully or it may fail to manage its expansion strategies successfully.

The Group will assess the national policies in the PRC and the economic environment of the markets as a whole to proactively explore suitable markets and develop its business. The Group will closely monitor the development of COVID-19 pandemic to adjust its sales market, and comprehensively review its business cooperation with upstream and downstream business partners, so as to seek business opportunities to fulfill the demand of its customers.

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 30 June 2020, the capital structure of the Company comprised mainly of bank borrowings, issued share capital and reserves.

CHARGE ON GROUP ASSETS

As at 30 June 2020, the Group has pledged (i) property, plant and equipment with carrying amount of approximately RMB17.0 million (31 December 2019: RMB17.9 million); and (ii) right-of-use assets with carrying amount of approximately RMB2.6 million (31 December 2019: RMB2.6 million) as security for the Group's bank loans.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group had not made any significant investments or material acquisitions and disposals of subsidiaries during the six months ended 30 June 2020.

SIGNIFICANT INVESTMENTS AND PLAN FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Company did not have any significant investments as at 30 June 2020. Save as disclosed in the Prospectus, the Company did not have other plans for material investments or capital assets.

CONTINGENT LIABILITIES

As at 30 June 2020, 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 30 June 2020, the Group had a workforce of 68 (31 December 2019: 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 six months ended 30 June 2020, the total employee benefit expenses of the Group (including salaries, bonuses, allowances and retirement benefit scheme contributions) was approximately RMB2.8 million (for the 12 months ended 31 December 2019: RMB8.8 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 (the "**Share Option Scheme**") to enable the Company to grant options to, amongst others, the employees and directors of the Group.

SHARE OPTION SCHEME

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

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

As at 30 June 2020, the interests or short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long positions in Shares

Name of Director	Capacity and nature of interest	Number of Shares held	Percentage of the Company's share capital
Mr. Chen Yihui (陳毅輝)	Interest in controlled corporation	81,195,379 <i>(note)</i>	8.119%

Note: 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 30 June 2020, 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 AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2020, 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 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 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 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 30 June 2020, 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 six months ended 30 June 2020, 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 (“**Ms. 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.

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.

During the six months ended 30 June 2020, the Company has complied with all applicable 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 is currently performing the roles of chairlady of the Board 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 Ms. Yuan’s working experience 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.

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 the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2020. During the six months ended 30 June 2020, the Company is not aware of any incident of non-compliance of the Model Code by the Directors.

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 dated 19 December 2017 entered into between the Company and ECF, 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 30 June 2020, which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 16 to the condensed consolidated financial statements, there are no other material events occurred or undertaken by the Company or by the Group subsequent to 30 June 2020 and up to the date of this report.

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 six months ended 30 June 2020, 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 six months ended 30 June 2020 (six months ended 30 June 2019: RMB Nil).

DEFINITIONS

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

“Board”	the board of Directors
“CG Code”	Corporate Governance Code and Corporate Governance Report set out in Appendix 15 of 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 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
“COVID-19”	coronavirus disease (COVID-2019)
“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
“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”	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
“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
“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
“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
“US\$”	United States dollars, the lawful currency of the United States of America
“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

DEFINITIONS

“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, 14 August 2020

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.