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**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)**

**SUPPLEMENTARY ANNOUNCEMENT IN RESPECT OF  
MAJOR TRANSACTION  
PROVISION OF GUARANTEES**

**INTRODUCTION**

Reference is made to the announcement of the Company dated 30 December 2020 in relation to, inter alia, the major transaction for the provision of the Guarantees (the “**Announcement**”). Unless otherwise specified, capitalised terms defined in the Announcement shall have the same meanings when used in this announcement.

The Company wishes to provide supplementary information in relation to matters disclosed in the Announcement.

**THE ARRANGEMENT**

As disclosed in the Announcement and represented by the Wrongdoing Director, an arrangement (the “**Arrangement**”) was entered into between the Guarantor and the Borrower, under which the Guarantor and the Borrower agreed to provide guarantees for each other in obtaining banking facilities. Further details of the Arrangement are set out as follows:

Date: 8 February 2020 (the “**Date of Arrangement**”)

Parties: (i) the Guarantor

(ii) the Borrower being Fujian Greenfresh Foods Group Company Limited, an indirectly wholly owned subsidiary of China Greenfresh Group Co., Ltd. (“**China Greenfresh**”)

The Arrangement was orally entered into by the Wrongdoing Director and Mr. Zheng Songhui (“**Mr. Zheng**”), the chairman, the chief executive officer and an executive director of China Greenfresh on behalf of the Guarantor and the Borrower respectively.

Based on the information provided by the Guarantor, the Guarantor entered into the Guarantees with the Banks on the dates specified below:

<b>Date</b>	<b>The guarantee entered into by the Guarantor</b>	<b>Maximum amount guaranteed</b>
3 April 2020	BCOM Guarantee	RMB20,000,000
7 April 2020	ABC Guarantee	RMB16,000,000
27 April 2020	Everbright Guarantee	RMB20,000,000
26 May 2020	CITIC Guarantee	RMB21,000,000
29 September 2020	BOC Guarantee	RMB49,990,000
	<b>Total</b>	RMB126,990,000 (the “ <b>Guaranteed Amount</b> ”)

For clarification, the Guarantor entered into a guarantee on 7 April 2020 in favour of BOC for the due performance of the Borrower’s repayment obligations to BOC under a line of credit agreement dated 7 April 2020 for the aggregate amount of RMB50,000,000 (the “**First BOC Guarantee**”). On 29 September 2020, the Guarantor entered into the BOC Guarantee to replace the First BOC Guarantee, as requested by BOC. As a result, the amount guaranteed in favour of BOC had been decreased from RMB50,000,000 to RMB49,990,000.

As at the date of this announcement, despite the details disclosed in the December Announcement (as defined below), the Company is still uncertain about whether the Borrower has failed to fulfil its relevant payment obligations under the Guarantees and the likelihood for the relevant Banks to exercise their rights under the respective Guarantees because the identity of the Plaintiff Bank (as defined below) was not disclosed in the December Announcement. The maximum exposure to be borne by the Guarantor is estimated to be the Guaranteed Amount if the Banks seek to exercise their full rights under all of the Guarantees. In such event, the Guarantor may negotiate with the Banks to settle the Guaranteed Amount and/or seek additional financial resources to fulfil its obligations under the Guarantees. In the worst case, the Guarantor may go into liquidation if it is unable to repay the Guaranteed Amount to the Banks. In the meantime, the Group will seek opinion from the legal advisers in the PRC on the legality of the Guarantees.

As at the date of this announcement, the Group does not receive any demand from the Banks for enforcing the Guarantees and claiming the Guaranteed Amount and the Group's current business operation and/or financial position is not adversely affected by the Arrangement.

The Internal Control Committee (as defined below) is still in the progress of conducting investigation to ascertain whether there are any other guarantees provided by the Group that have not been properly approved and announced, save for the Guarantees.

### **IDENTITY OF THE WRONGDOING DIRECTOR**

The Wrongdoing Director is Mr. Chen Yihui who resigned as an executive Director of the Company with effect from 31 December 2020, as disclosed in the announcement of the Company dated 31 December 2020. There was no other person involved in the negotiation and formation of the Arrangement.

### **INFORMATION RELATING TO THE BORROWER AND CHINA GREENFRESH AND THEIR RELATIONSHIP**

China Greenfresh is a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange (stock code: 6183). China Greenfresh (together with its subsidiaries including the Borrower, the “**China Greenfresh Group**”) is principally engaged in primary food processing (canned vegetables, canned fruits, canned edible fungi and snacks).

The Wrongdoing Director first met Mr. Zheng in a meeting for investment strategies held in Xiamen, Fujian Province, PRC on or about 16 April 2016.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Borrower (and its ultimate beneficial owner and connected persons) are third parties independent of the Company and its connected person.

### **THE ROLE OF THE COMPANY AS AT THE DATE OF ARRANGEMENT**

As disclosed in the Announcement and represented by the Wrongdoing Director, and subject to further investigation by the Internal Control Committee, the Wrongdoing Director considered that the Guarantor was in real need of the Arrangement because of the operational needs of the Guarantor and mistakenly believed that (1) he, as the sole director and the sole legal representative of the Guarantor, had the full authority to enter into the Arrangement with the Borrower on behalf of the Guarantor and (2) that the provision of Guarantees by the Guarantor as a subsidiary of the Company is not subject to the GEM Listing Rules.

Subject to further investigation by the Internal Control Committee, the Wrongdoing Director was the only director of the Guarantor and the only person of the Group participating in the negotiation and formation of the Arrangement. In the absence of any written agreement in relation to the Arrangement, the Company's only source of information about the Arrangement was the Wrongdoing Director. Whilst the Wrongdoing Director had neglected to report to the Company of the existence of the Arrangement, the other Directors had no opportunity to consider the Arrangement and the terms thereof and to assess the suitability of the entering into of the Arrangement by the Guarantor and to properly approve the Arrangement at the time when the same was concluded.

As a result of the above, the Board and the audit committee of the Company were not aware of the Arrangement during the preparation of the Company's interim report for the six months ended 30 June 2020 and it was prepared without regard to the Arrangement.

### **FURTHER REASONS FOR ENTERING INTO OF THE ARRANGEMENT**

The Wrongdoing Director has considered that China Greenfresh is a company listed on the main board of the Stock Exchange whilst the Company is listed only on GEM of the Stock Exchange. Also, the Wrongdoing Director noted that China Greenfresh had been well known to be a successful enterprise within the area of Zhangzhou, Fujian Province, PRC where the principal places of business of both the Company and China Greenfresh are located. As disclosed in the Announcement, banking facilities and bank loans are the Group's one of the major sources of funding which may require third party guarantee as security. As such, the Wrongdoing Director considered that the cooperation with China Greenfresh in respect of the Arrangement would offer great financial supports to the Group and expected that the Guarantor would be more accessible to bank loans at a lower interest rate.

The outbreak of COVID-19 (the "Outbreak") has threatened the PRC's and global economic environment. As at the Date of Arrangement, the development of the pandemic was unpredictable and the extent of its impact on the economy was subject to numerous uncertainties. The textile industry, in which the Group operates, might be affected adversely. As disclosed in the Company's interim report 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. As such, the Wrongdoing Director considered that the Company needed to secure a sufficient and stable funding.

On or around the Date of Arrangement, the PRC was within the most severe period of the Outbreak. As such, the Arrangement was considered by the Wrongdoing Director to be a necessary precautionary measure to ensure that the Group could obtain sufficient and stable funding when in need, especially during the difficult and unpredictable year of 2020.

The Wrongdoing Director conducted no due diligence exercise on the financial soundness of the China Greenfresh Group. However, as at the Date of Arrangement, there was also no information available to the Wrongdoing Director which would immediately cause the Wrongdoing Director to be aware of the existence of any financial difficulties that the China Greenfresh Group might be facing in the near future.

The Wrongdoing Director only completed secondary education and was not specially equipped with banking and finance skills. Therefore, the Wrongdoing Director was not aware of the needs of conducting due diligence on the China Greenfresh Group. The Board reiterated that as the Wrongdoing Director neglected to report to the Company of the existence of the Arrangement, the Company had no opportunity to conduct due diligence on the China Greenfresh Group.

## **DISCOVERY OF THE ARRANGEMENT**

The Wrongdoing Director first became aware of the financial difficulties and the delay in results announcement of China Greenfresh only after China Greenfresh published on 24 December 2020 an announcement (the “**December Announcement**”) regarding legal proceedings on loan agreements in which it was disclosed that a bank in China (the “**Plaintiff Bank**”) had instigated legal proceedings against the Borrower in a court in China due to default in repayments of the remaining principal amount of RMB159,900,000 and all related interests. Upon knowing the legal proceedings in China against the Borrower, the Wrongdoing Director had informed the Board of his findings without delay for immediate remedial actions, including but not limited to the publication of the Announcement. Prior to the publication of the December Announcement, neither the Wrongdoing Director nor the Company had knowledge about the financial difficulties faced by the China Greenfresh Group and had conducted continuous monitoring on the financial results of the Borrower.

The Directors thereafter checked the announcements made by China Greenfresh and noted that the China Greenfresh Group has been under multiple winding up petitions and civil actions in Hong Kong (the “**Legal Proceedings**”). The first announcement of China Greenfresh in relation to the Legal Proceedings (the “**Legal Proceedings Announcement**”) was made only on 12 August 2020 on which more than six months had lapsed since the Date of Arrangement. The Wrongdoing Director had not been aware of and notified of the Legal Proceedings before 24 December 2020. The Internal Control Committee is still in the progress of conducting investigation in this regard.

## **THE GUARANTEE PROVIDED BY THE BORROWER**

As far as the Board is aware, on 13 April 2020, China Greenfresh Group provided a guarantee in favour of the Guarantor for the due performance of the repayment obligations of the Guarantor for the amount of RMB21,000,000.

As at the date of this announcement, the Group is still not in need of the loan amount equivalent to the Guaranteed Amount. Whilst substantial amount of interest would be incurred from obtaining of banking facilities, it was not practical for the Group to obtain banking facilities at the amount equivalent to the Guaranteed Amount when the Group’s financial need of the Group was yet to warrant banking facilities at such large amount.

Despite the initial view of the Board disclosed in Announcement about the reasons and benefits of the provision of the Guarantees, the Internal Control Committee is still in the progress of conducting investigation and therefore the Company is still unable to reconsider whether the Arrangement is fair and reasonable, on normal commercial terms and in the interests of the Company and its shareholders as a whole. In the PRC, it is nevertheless conventional and common though not always for the cross guarantee to be provided at no costs and/or security and the cross guarantee is usually provided on the basis of the tacit understanding between the parties to such cross guarantee. The Board would further assess whether the Company's interests are protected in the absence of any charges, securities and written agreement entered in relation to the Arrangement upon the completion of the investigation conducted by the Internal Control Committee.

Further, the Company would not be able to determine (1) if the Guarantor would seek to release the Guarantees; and (2) if the Guarantor would charge a guarantee fee or ask for security/pledge from the Borrower and has not commenced any negotiation with the Banks and the Borrower regarding the same, until the Internal Control Committee completes the investigation on the Arrangement to have a full picture of the Arrangement.

## **GEM LISTING RULES IMPLICATIONS**

If each of the Guarantees is viewed on a standalone basis, the applicable percentage ratio calculated pursuant to Rule 19.07 of the GEM Listing Rules in respect of the provision of each of the Guarantees exceeds 5% but is less than 25%, the provision of each of the Guarantees constitutes a disclosable transaction. Alternatively, if the Guarantees are viewed in aggregation, the applicable percentage ratio calculated pursuant to Rule 19.07 of the GEM Listing Rules exceeds 25% but is less than 75%, the provision of the Guarantees constitutes a major transaction and was therefore subject to the reporting, announcement and shareholders' approval requirements under the GEM Listing Rules. Accordingly, the Company regrettably admits that it has breached Rules 19.34, 19.38, 19.40 and 19.41 of the GEM Listing Rules regarding the provision of the Guarantees.

Despite his inadequate knowledge of the GEM Listing Rules, the Wrongdoing Director denies that he has failed to fulfil his fiduciary duty as required under Rules 5.01 and 5.02 of the GEM Listing Rules. Pursuant to the Arrangement, the corresponding guarantees ought to be provided by the China Greenfresh Group when the Group is in need of the banking facilities. As the China Greenfresh Group had agreed to provide guarantees for the Group for the amount equivalent to the Guaranteed Amount when the Group is in need of the bank facilities, the Wrongdoing Director had used his best effort to safeguard the Company's assets.

The Board reiterated that the Arrangement was entered into without the proper approval of the Company, so the Directors deny any breach of the fiduciary duty as required under Rules 5.01 and 5.02 of the GEM Listing Rules.



## REMEDIAL ACTIONS

The Internal Control Committee is still in the progress of investigating if the Company has an adequate internal control system in place and has provided enough supervision and training on the GEM Listing Rules' compliance to the Wrongdoing Director when he entered into the Arrangement. However, the Directors wish to inform the Shareholders that the Directors have taken steps to take some remedial actions. The remedial actions that have been taken since the publication of the Announcement include, inter alia:

1. on 19 January 2021, the Company set up an internal control committee (the “**Internal Control Committee**”) which comprises of Mr. Cheng Jun, an executive Director and the chairman of the Board, as the chairman, and Dr. Hu Xudong and Mr. Chan Ka Leung Kevin, independent non-executive Directors, as members;
2. on 26 January 2021, the Company engaged an independent internal control consultant, GRC Chamber Limited (“**GRC**”) to, inter alia, (i) perform a fact-finding exercise to investigate into the Arrangement, estimate the Arrangement's potential impacts on the Company's business and compliance, identify unresolved matters in relation to the Arrangement (if any), and submit an investigation report to the Internal Control Committee upon completion of its relevant investigation and assessment; and (ii) review the internal control procedures of the Company and provide recommendations to the Internal Control Committee to enhance the internal control of the Company. GRC has begun its investigation since 5 February 2021 and the Company has requested GRC to present its first report to the Internal Control Committee in relation to its performed works by 30 April 2021.

Upon the completion of the remedial actions mentioned above, further trainings by professional advisor on the directors' duties under the GEM Listing Rules and provisions of the GEM Listing Rules regarding notifiable and connected transactions will be given to the Directors and senior management staff of the Group. Besides, an email has been sent to the Directors and senior management staff of the Group in late January 2021 by the Company to remind them of the strict compliance of the internal control procedures and in particular, to inform and consult the company secretary and the legal advisor of the Company (if necessary) before entering into transactions which may constitute a notifiable transaction.

The Directors would like to reassure the Shareholders that the Group is firmly committed to ensure compliance with the GEM Listing Rules moving forward and will make further announcement as to the setting up of the internal control system of the Company as and when appropriate.

The Company is currently conducting a throughout investigation into the matters and would make further announcement on the findings as and when appropriate.

By Order of the Board  
**China Futex Holdings Limited**  
**Cheng Jun**  
*Chairman and executive Director*

Hong Kong, 10 March 2021

*As at the date of this announcement, the executive Directors are Mr. Cheng Jun (Chairman), Ms. Yuan Yuan, Mr. Guan Min and Mr. Zheng Liangjian; and the independent non-executive Directors are Dr. Hu Xudong, Mr. Shum Shing Kei and Mr. Chan Ka Leung Kevin.*

*This announcement, 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 announcement 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 announcement misleading.*

*This announcement will remain on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) on the “Latest Listed Company Information” page for at least 7 days from the date of its posting and will be published on the Company’s website at [www.kx-machine.com](http://www.kx-machine.com).*