KINGDOM

KINGDOM HOLDINGS LIMITED
金達控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 528)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

FINANCIAL HIGHLIGHTS

- Revenue increased by 1.1% to approximately RMB718.9 million for the year ended 31 December 2012 from approximately RMB711.0 million for the year ended 31 December 2011.

- Gross profit margin decreased by 3.0 percentage points to 29.1% for the year ended 31 December 2012 from 32.1% for the year ended 31 December 2011.

- Profit attributable to the owners of the parent decreased by 8.6% to approximately RMB94.2 million for the year ended 31 December 2012 from approximately RMB103.1 million for the year ended 31 December 2011.

- Basic earnings per share for the year ended 31 December 2012 was RMB0.15, representing a 11.8% drop from RMB0.17 for the year ended 31 December 2011.

- Proposed declaration of a final dividend of HK7 cents per ordinary share for the year ended 31 December 2012.

The board of directors (the "**Board**") of Kingdom Holdings Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2012 together with the comparative figures for the corresponding year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	5	**718,912**	710,960
Cost of sales		**(509,612)**	(482,957)
Gross profit		**209,300**	228,003
Other income and gains	5	**8,320**	9,403
Selling and distribution expenses		**(34,358)**	(30,268)
Administrative expenses		**(39,821)**	(39,191)
Other expenses		**(3,544)**	(8,165)
Finance costs		**(12,848)**	(14,720)
Share of profits and losses of an associate		**(285)**	17
PROFIT BEFORE TAX	6	**126,764**	145,079
Income tax expense	7	**(32,584)**	(41,940)
PROFIT FOR THE YEAR		**94,180**	103,139
Attributable to:			
Owners of the parent		**94,180**	103,139
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	9	**RMB0.15**	RMB0.17
Diluted	9	**RMB0.15**	RMB0.17

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	31 December 2012 *RMB'000*	31 December 2011 *RMB'000*
PROFIT FOR THE YEAR	**94,180**	103,139
Exchange differences on translation of foreign operations	**210**	(786)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**94,390**	102,353
Attributable to:		
Owners of the parent	**94,390**	102,353

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2012

	Notes	31 December 2012 RMB'000	31 December 2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**366,033**	378,226
Prepaid land lease payments		**56,579**	34,032
Intangible asset		**10,818**	11,323
Investment in an associate		**5,784**	6,069
Deferred tax assets	*10*	**8,322**	7,004
Total non-current assets		**447,536**	436,654
CURRENT ASSETS			
Inventories		**240,570**	235,995
Trade and notes receivables	*11*	**218,077**	149,338
Prepayments, deposits and other receivables		**43,393**	21,972
Derivative financial instruments		**68**	1,033
Pledged deposits		**35,900**	37,600
Cash and cash equivalents		**163,643**	163,502
Total current assets		**701,651**	609,440
CURRENT LIABILITIES			
Trade payables		**43,186**	58,349
Other payables and accruals		**43,506**	30,947
Interest-bearing bank loans	*12*	**215,684**	164,100
Amount due to a related company		**55**	–
Tax payable		**13,428**	22,415
Total current liabilities		**315,859**	275,811
NET CURRENT ASSETS		**385,792**	333,629
TOTAL ASSETS LESS CURRENT LIABILITIES		**833,328**	770,283
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*10*	**10,449**	8,420
Total non-current liabilities		**10,449**	8,420
Net assets		**822,879**	761,863
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**6,301**	6,272
Reserves		**781,041**	720,265
Proposed final dividend	*8*	**35,537**	35,326
Total equity		**822,879**	761,863

Notes to the financial statements

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board and the disclosure requirements of the Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000), except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments – Disclosures: Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Taxes: Recovery of Underlying Assets*

Other than as further explained below regarding the impact of IFRS 7, the adoption of the above revised IFRSs does not have significant impact on these financial statements.

The principal effects of amendments to IFRS 7 are as follows:

The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enable users of the Group's consolidated financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about the entity's continuing involvement in derecognized assets to enable users to evaluate the nature of, and risks associated with, such involvement. The amendments are effective for annual periods beginning on or after 1 July 2011. Details of the relevant disclosures are included in note 11 to the consolidated financial statements.

3. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans*[1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[1]
IFRS 9	*Financial Instruments*[3]
IFRS 10	*Consolidated Financial Statements*[1]
IFRS 11	*Joint Arrangements*[1]
IFRS 12	*Disclosure of Interests in Other Entities*[1]
IFRS 13	*Fair Value Measurement*[1]
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance*[1]
IFRS 10, IFRS 12 Amendments and IAS 27 (Revised)	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – *Investment Entities*[2]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits*[1]
IAS 27 (Revised)	*Separate Financial Statements*[1]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[1]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* [1]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[1]
Annual Improvements 2009 – 2011 Cycle	Amendments to a number of IFRSs issued in June 2012[1]

[1] *Effective for annual periods beginning on or after 1 January 2013*

[2] *Effective for annual periods beginning on or after 1 January 2014*

[3] *Effective for annual periods beginning on or after 1 January 2015*

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into one single business unit that includes primarily the manufacture and sale of linen yarns. Management reviews the consolidated results when making decisions about allocating resources and assessing the performance of the Group. Accordingly, no segment analysis is presented.

Geographical information

(a) Revenue from external customers

An analysis of the Group's geographical information on revenue attributed to the region on the basis of the customer's location for the year ended 31 December 2012 is set out in the following table:

	Revenue from external customers	
	2012	2011
	RMB'000	*RMB'000*
Mainland China	**237,860**	274,939
European Union	**246,520**	225,979
Non-European Union	**234,532**	210,042
Total	**718,912**	710,960

(b) Non-current assets

Since the principal non-current assets, other than deferred tax assets, employed by the Group are located in Mainland China, no geographical information for non-current assets is presented.

Information about a major customer

No revenue amounting to 10 percent or more of the Group's total revenue was derived from sales to a single customer for the year ended 31 December 2012 (2011: Nil).

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the sales value of linen yarns, net of sales tax and deduction of any sales discounts and returns.

An analysis of revenue, other income and gains is as follows:

	2012	2011
	RMB'000	*RMB'000*
Revenue		
Sale of linen yarns	**718,912**	710,960
Other income		
Bank interest income	**1,546**	2,787
Government grants	**6,023**	4,510
Exchange gain	**50**	–
Others	**633**	131
	8,252	7,428
Gain		
Fair value gains on derivative instruments – transactions not qualifying as hedges	**68**	1,975
	8,320	9,403

6. PROFIT BEFORE INCOME TAX EXPENSE

The Group's profit before income tax expense is arrived at after charging/(crediting):

	2012	2011
	RMB'000	*RMB'000*
Cost of inventories sold	**509,612**	482,957
Depreciation	**49,644**	47,704
Amortization of prepaid land lease payments	**859**	867
Amortization of an intangible asset	**599**	596
Research and development ("R&D") expenses	**5,512**	5,308
Minimum lease payments under operating leases:		
Land and buildings	**1,065**	989
Auditors' remuneration	**1,500**	1,500
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries and other benefits	**95,382**	94,435
Pension scheme contributions	**6,042**	5,576
Equity-settled share option expense	**771**	1,028
	102,195	101,039
Foreign exchange differences, net	**(50)**	2,677
Fair value gains on derivative financial instruments transactions not qualifying as hedges	**(68)**	(1,975)
Loss on disposal of items of property, plant and equipment	**33**	1,350
Reversal of impairment provision against inventories	**(178)**	(3,225)
Provision for doubtful debts	**26**	979
Finance costs	**12,848**	14,720
Bank interest income	**(1,546)**	(2,787)

7. INCOME TAX EXPENSE

Major components of the Group's income tax expense for the year are as follows:

	2012	2011
	RMB'000	*RMB'000*
Current – Mainland China		
– Charge for the year	**30,486**	39,587
– Under provision in respect of prior years	**824**	460
Current – Hong Kong	**28**	–
Current – Italy	**535**	1,058
Deferred	**711**	835
Total tax charge for the year	**32,584**	41,940

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands or the British Virgin Islands.

(ii) The provision for Mainland China income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in Mainland China as determined in accordance with the relevant income tax rules and regulations of the People's Republic of China ("the PRC").

Pursuant to the income tax rules and regulations of the PRC ("FEIT Law"), certain subsidiaries located in Mainland China ("Mainland China subsidiaries") including Zhejiang Jinyuan Flax Co., Ltd. ("Zhejiang Jinyuan"), Jiangsu Jinyuan Flax Co., Ltd. ("Jiangsu Jinyuan") and Jiangsu Ziwei Flax Co., Ltd. ("Jiangsu Ziwei") are entitled to a tax holiday of a tax-free period for two years from their first profit-making years of operations and thereafter, they are subject to PRC enterprise income tax at 50% of the applicable income tax rate for the following three years ("Tax Holidays"). The years of 2003, 2005 and 2008 are the first profit-making years for Zhejiang Jinyuan, Jiangsu Jinyuan and Jiangsu Ziwei, respectively.

During the Fifth Session of the Tenth National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "Corporate Income Tax Law") was approved and became effective on 1 January 2008. According to the Corporate Income Tax Law, the applicable tax rates of the Group's subsidiaries in Mainland China are unified at 25% with effect from 1 January 2008 except Zhaosu Jindi Flax Co., Ltd. ("Zhaosu Jindi") which is engaged in the preliminary processing of agriculture products and is exempted from PRC income tax. Pursuant to the transitional arrangement under the Corporate Income Tax Law, Jiangsu Ziwei will continue to enjoy a 50% reduction on the applicable income tax rate under the Corporate Income Tax Law until the expiry of the Tax Holidays previously granted under the FEIT Law as at 31 December 2012, and thereafter will be subject to the unified rate of 25%.

(iii) Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

(iv) Pursuant to the rules and regulations of Italy, the Group is subject to an income tax rate at 31.4%, which comprises Italy Corporate Income Tax at 27.5% and Italy Regional Income Tax at 3.9%.

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2012	2011
	RMB'000	*RMB'000*
Profit before tax	**126,764**	145,079
Tax at an applicable tax rate of 25%	**31,691**	36,270
Effect of different tax rates	**(5,279)**	(4,059)
Under provision in respect of prior years	**824**	460
Share of profits and losses of an associate	**71**	(4)
Income not subject to tax	**(31)**	–
Expenses not deductible for tax	**479**	2,700
Tax credit arising from additional deduction of R&D expenditures of a PRC subsidiary	**(403)**	(662)
Tax losses utilised from prior years	**–**	(716)
Tax effect of unused tax losses and deductible temporary differences not recognized	**–**	2,221
Deferred tax liability on withholding tax	**5,232**	5,730
Total charge for the year	**32,584**	41,940

8. DIVIDEND

	2012	2011
	RMB'000	*RMB'000*
Proposed final – HK7 cents (2011: HK7 cents) per ordinary share	**35,537**	35,326
	35,537	35,326

At a meeting of the Board held on 15 March 2013, the Board recommended the payment of a final dividend of HK7 cents per ordinary share totalling approximately RMB35,537,000 for the year ended 31 December 2012, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

9. BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 623,107,000 (2011: 622,500,000) in issue during the year, as adjusted to reflect the rights issued during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2012	2011
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	**94,180**	103,139

	Number of shares	
	2012	2011
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**623,107**	622,500
Effect of dilution – weighted average number of ordinary shares:		
Share options	**2,043**	1,997
	625,150	624,497

10. DEFERRED TAX

The movements in deferred tax assets and liabilities of the Group during the year are as follows:

Deferred tax assets:

	Loss available for offsetting against future taxable profit	Accruals	Allowance for doubtful debts	Provision against inventories	Elimination of unrealised profits	Depreciation in excess of related depreciation allowance	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2011	438	1,886	28	368	1,026	375	4,121
Deferred tax credited/(charged) to the income statement during the year	(438)	1,607	470	649	498	355	3,141
At 31 December 2011 and 1 January 2012	–	3,493	498	1,017	1,524	730	7,262
Deferred tax credited/(charged) to the income statement during the year	–	405	(153)	186	450	189	1,077
At 31 December 2012	–	3,898	345	1,203	1,974	919	8,339

Deferred tax liabilities:

	Withholding tax on undistributed profits of the Mainland China subsidiaries	Fair value gains on derivative financial instruments	Depreciation allowance in excess of related depreciation	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2011	3,774	928	–	4,702
Deferred tax charged/ (credited) to the income statement during the year	4,103	(670)	543	3,976
At 31 December 2011 and 1 January 2012	7,877	258	543	8,678
Deferred tax charged/ (credited) to the income statement during the year	1,898	(241)	131	1,788
At 31 December 2012	9,775	17	674	10,466

Pursuant to the Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings generated after 31 December 2007.

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

Deferred tax of the Group as at 31 December 2012 and 2011 relates to the following:

	31 December 2012	31 December 2011
	RMB'000	*RMB'000*
Deferred tax assets arising from:		
– Allowance for doubtful debts	**345**	498
– Provision against inventories	**1,203**	1,017
– Elimination of unrealized profits	**1,974**	1,524
– Accruals	**3,898**	3,493
– Depreciation in excess of related depreciation allowance	**919**	730
	8,339	7,262

	31 December 2012	31 December 2011
	RMB'000	*RMB'000*
Deferred tax liabilities arising from:		
– Withholding tax on undistributed profits of Mainland China subsidiaries	**(9,775)**	(7,877)
– Depreciation allowance in excess of related depreciation	**(674)**	(543)
– Fair value gains on derivative financial instruments	**(17)**	(258)
	(10,466)	(8,678)
Deferred tax, net	**(2,127)**	(1,416)
Reflected in the consolidated statement of financial position:		
– Deferred tax assets	**8,322**	7,004
– Deferred tax liabilities	**(10,449)**	(8,420)

11. TRADE AND NOTES RECEIVABLES

	31 December 2012 *RMB'000*	31 December 2011 *RMB'000*
Trade receivables	**145,896**	117,827
Notes receivables	**73,561**	33,125
Impairment	**(1,380)**	(1,614)
	218,077	149,338

Customers are normally granted credit terms ranging from 30 days to 150 days depending on the creditworthiness of the individual customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

The Group's notes receivables were all aged within six months and were neither past due nor impaired.

An aged analysis of the Group's trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	31 December 2012 *RMB'000*	31 December 2011 *RMB'000*
Within 1 month	**81,511**	92,115
1 to 2 months	**30,565**	10,985
2 to 3 months	**16,871**	5,640
Over 3 months	**15,569**	7,473
	144,516	116,213

The movements in the provision for impairment of trade receivables are as follows:

	31 December 2012	31 December 2011
	RMB'000	*RMB'000*
At 1 January	**1,614**	1,297
Impairment losses recognized	**31**	1,206
Amount written off as uncollectible	**(260)**	(662)
Impairment losses reversed	**(5)**	(227)
	1,380	1,614

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB1,380,000 (2011: RMB1,614,000) with a carrying amount before provision of RMB2,951,000 (2011: RMB1,614,000).

The impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	31 December 2012	31 December 2011
	RMB'000	*RMB'000*
Neither past due nor impaired	**133,884**	105,181
Less than 1 month past due	**5,406**	4,046
1 to 3 months past due	**2,272**	6,199
Over 3 months past due	**2,954**	787
	144,516	116,213

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The carrying amount of the trade and notes receivables approximates to their fair value due to their short term maturity.

Notes receivables that are not derecognized in their entirety

At 31 December 2012, the Group endorsed certain notes receivables accepted by banks in the PRC (the "Endorsed Notes") with a carrying amount of RMB10,996,000 to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Notes, and accordingly, it continued to recognize the full carrying amounts of the Endorsed Notes and the associated trade payables settled. Subsequent to the endorsement, the Group does not retain any rights on the use of the Endorsed Notes, including sale, transfer or pledge of the Endorsed Notes to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Notes during the year to which the suppliers have recourse is RMB10,996,000 as at 31 December 2012.

12. TRADE PAYABLES

An aged analysis of the trade payables as at 31 December 2012, based on the payment due date, is as follows:

	31 December 2012 *RMB'000*	31 December 2011 *RMB'000*
Due within 1 month or on demand	**30,001**	43,669
Due after 1 month but within 3 months	**10,597**	6,484
Due after 3 months but within 6 months	**2,588**	8,196
	43,186	58,349

The above balances are unsecured and non-interest-bearing. The carrying amount of trade payables at the end of each reporting period approximates to their fair value due to their short term maturity.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The linen yarn industry has gone through thick and thin in 2012, struggled through the hard times at the beginning to good times at the end of the year. In the first half of the year, the retail market in Europe, a key market for linen products, was affected by the sprawling debt crisis and continued to be suppressed. Furthermore, economic growth in China slowed down and the stockpile of inventory in the garment industry was rising. All these factors have restrained the overall demand for linen yarn. Fortunately, as the other key market for linen products, namely the United States, recovered steadily in the second half of the year while demand from emerging markets such as Turkey and India were on the rise, the overall market started to revive in the fourth quarter.

In 2012, the Group held on to its leading position as the largest linen yarn exporter in China for the tenth consecutive year. According to the statistics of China Bast and Leaf Fibers Textile Association, the Group's export of linen yarn in 2012 was up by 10.3% as compared with the corresponding period last year and accounted for 30.3% of the total exports from China. Both export sales and volume of the Group topped the industry. In 2012, the Group's turnover increased by 1.1% as compared with the corresponding period last year to RMB718,900,000. During the period under review, despite the weak demand from major textile markets, the demand for linen yarn showed a stable increasing trend. The Group has been actively exploring new markets such as Portugal, Turkey and India, and the demand from these countries were on the rise, the Group's sales volume as a whole was able to improve. As the Company has adopted a prudent strategy in adjusting the price of linen yarn, the effect of the rise in sales volume on the Group's overall turnover was offset.

Impacted by the year-on-year rises in raw material and labor costs, the Group's gross profit for the year dipped by 8.2% to RMB209,300,000 and the gross profit margin also dropped by 3 percentage points to 29.1%. The Group has taken measures to optimize its production equipment with a view to improving production efficiency and reducing costs. In the meanwhile, the Group has also introduced dope-dyed fiber in the fourth quarter of 2012 so as to capitalize on the market recovery. This initiation was well-received by the market. It is believed that the Group will be able to bring its overall gross profit margin to new heights in 2013.

Major Markets and Customers

With operations in over 20 countries and regions around the world, the Group balances its sales strategy between domestic and overseas markets. In 2012, sales to the domestic market accounted for approximately 33% of the total turnover, representing a 6% decrease as compared with the corresponding period last year, while sales to the overseas markets accounted for approximately 67% of the total turnover, representing a 6% increase as compared with the corresponding period last year. In the past, high-end textiles markets in Europe, such as Italy, have been the most important overseas market for the Group. However, in view of the recovery of the manufacturing industries in Europe and the United States in the past years, the Group has noted the unique position of Portugal as an emerging textile base in Europe. It firstly appointed a brand agency in this market in 2011 in order to establish a foothold in this market. To offer the fastest and most-comprehensive services to high-end fabric and garment manufacturers in Europe and Asia, the Group has now appointed four brand agencies in major linen yarn consuming countries and regions in Europe and Asia in addition to the branch company established in Italy.

While exploring new markets, the Group also attaches great importance to the enhancement of cooperation with existing customers. In September 2012, the Group organized Kingdom's first overseas forum on the linen industry with the Group's sole agency in Istanbul, Turkey. More than 30 key customers of the Group as well as major purchasers were invited and attended this forum. This forum provided a platform for the participants to share their production technologies, marketing information and latest products, and also enhanced the communication, trust and confidence between the Group and its customers. The Group also grasped the opportunity to improve the quality of its services and demonstrate its edge over its competitors.

Purchases of Raw Materials and Related Strategies

Linen fiber, the raw material of linen yarn, is mainly imported from European origins such as France, Belgium and Holland. Being one of the largest purchasers in these producing countries, the Group enjoys better bargaining power over its competitors and is capable of purchasing in bulk, and, therefore, has a cost advantage. On the other hand, the Group intends to set up an office in France in the first half of 2013 for raw materials procurement in order to secure a timely and sufficient supply of quality raw materials, thereby enhancing its competitive edge.

The Group's raw material base in Xinjiang with a current annual production capacity of approximately 1,200 tonnes has produced 908 tonnes of organic linen in 2012.

Production Bases and Productivity

As at 31 December 2012, the Group has two production bases in Haiyan County, Zhejiang Province and Rugao City, Jiangsu Province, respectively, with an aggregate annual production capacity of 13,000 tonnes. In 2012, the Group has optimized its production efficiency, enhanced its productivity and reduced its costs by implementing various technological overhaul, including machinery automation such as introducing combined linen hackling and spreading machine（亞麻櫛成一體機）. The Group's production lines have reached saturation point. To take advantage of the rising demand for linen yarn, the Group has started the construction of the third production base, which is scheduled to commence production in the first quarter of 2014. This production base located in Haiyan County, Zhejiang Province will have a planned production capacity of 5,000 tonnes mainly in high-value added linen dope-dyed fiber. At that time, the annual production capacity of the Group will increase significantly by 38% from 13,000 tonnes now to 18,000 tonnes. This production base will be equipped with the latest technologies and equipment. Compared with the two existing bases, this new base will command higher production efficiency, reduce more energy and water, and help the Group to further reduce costs and fight in the current operating environment against the ever rising energy and water prices.

	Major products	**Annual production capacity for 2012** (tonnes)	**Utilization rate** (%)
1st Phase of production base in Haiyan County, Zhejiang Province	Linen yarn	7,000	100
Production base in Rugao City, Jiangsu Province	Linen yarn	6,000	100
Total		13,000	100

Achievements and Awards in Research and Development

The Group is always committed to innovation on technology and technique as well as new product development. In 2012, the Company achieved various new technological breakthroughs and developed high-value added dope-dyed fiber, thereby further expanding the proportion of high-margin products. During the year, the Group applied for a total of 13 patents, including 5 invention patents, 6 utility patents and 2 design patents. As at 31 December 2012, the Group has obtained 34 patents.

In 2012, the Group received various awards which have proven its well-recognized leading position in the linen yarn market.

- "National Innovative and Hi-tech Enterprise of the Linen Industry" from China Bast and Leaf Fibers Textile Association

- 2011-2012 Top 500 Competitive China Textile and Garment Enterprises

- 2011-2012 Top 10 Competitive China Linen Knitting Enterprises

- 2011-2012 Top 100 China Textile and Garment Exporters

- 2012 Major Exporting Industrial Enterprises in Haiyan County

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2012, the Group's turnover increased to RMB718,912,000, representing an increase of approximately 1.1% year-on-year (2011: RMB710,960,000). Despite a slight drop in average selling price of the Group due to the weak textile market in 2012, the Group recorded a positive growth in turnover with the increased sales volume as compared with the corresponding period last year.

Breakdown of turnover by sales regions:

Sales regions:	For the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Mainland China	**237,860**	274,939
European Union	**246,520**	225,979
Non-European Union	**234,532**	210,042
Total	**718,912**	710,960

Gross Profit and Gross Profit Margin

For the year ended 31 December 2012, in light of the reviving sales of linen yarn products and rising raw material prices, the Group's gross profit recorded a year-on-year decrease to RMB209,300,000 (for the year ended 31 December 2011: RMB228,003,000). Gross profit margin for the year ended 31 December 2012 dropped to approximately 29.1% (gross profit margin for the year ended 31 December 2011: 32.1%), mainly attributable to the adoption of a prudent strategy in adjusting the selling prices to transfer costs in view of the waning condition of the overall textile market.

In order to secure its supply for the whole year, the Group purchased a large amount of linen materials in early 2012 as a strategic move, thereby successfully avoiding the adverse impact brought by the increase in raw material prices in the second half of 2012. The Group also engaged an external professional audit firm to audit the Company's infrastructure projects, and continued to implement the sub-contractors appraisal system. Internally, the Group has strengthened internal cost assessment so as to ensure its cost advantage. Greater efforts have also been made by the Group not only in consolidating its domestic market, but also in developing overseas markets.

Other Income and Gains

For the year ended 31 December 2012, the Group recorded government grants of approximately RMB6,023,000 (for the year ended 31 December 2011: RMB4,510,000).

Selling and Distribution Costs

For the year ended 31 December 2012, the Group's selling and distribution costs amounted to approximately RMB34,358,000 (for the year ended 31 December 2011: RMB30,268,000), which accounted for approximately 4.8% of its turnover (for the year ended 31 December 2011: 4.3%). The increase in selling costs was mainly due to the rise in marketing expenses arising from increased marketing effort during the period, as well as the surge in transportation costs brought by increases in export and shipping fees.

Administrative Expenses

For the year ended 31 December 2012, the Group's administrative expenses amounted to approximately RMB39,821,000 (for the year ended 31 December 2011: RMB39,191,000), representing an increase of approximately 1.6% as compared to the corresponding period last year. Administrative expenses increased mainly due to the increase in staff salaries.

Finance Costs

For the year ended 31 December 2012, finance costs were approximately RMB12,848,000 (for the year ended 31 December 2011: RMB14,720,000), representing a decrease of approximately 12.7%. The decrease in finance costs was mainly due to the decrease in average bank loans as compared to last year.

Share of Profits and Losses of an Associate

For the year ended 31 December 2012, share of losses of Huaning Flax Electronic Business (Zhejiang) Co., Ltd. (浙江華凝亞麻電子商務有限公司), an associate established on 28 December 2009 in China principally engaging in sale of linen yarn products and provision of transaction services, was approximately RMB285,000 (for the year ended 31 December 2011: share of profits RMB17,000).

Profit Attributable to Owners of the Parent

For the year ended 31 December 2012, the Group recorded a profit attributable to owners of the parent of approximately RMB94,180,000 (for the year ended 31 December 2011: RMB103,139,000), representing a decrease of 8.7% as compared with the corresponding period last year. The decrease was primarily attributable to decrease in overall gross profit margin.

Intangible Assets

As at 31 December 2012, the Group's intangible assets were sewage rights granted during the year for a term of 20 years, which amounted to RMB10,818,000 (31 December 2011: RMB11,323,000). Intangible assets are subject to amortization based on their useful lives. For the year ended 31 December 2012, amortization of intangible assets was approximately RMB599,000 (for the year ended 31 December 2011: RMB596,000).

Trade and Notes Receivables

As at 31 December 2012, trade and notes receivables of the Group increased by 46.0% to RMB218,077,000 (31 December 2011: RMB149,338,000). The significant increase in trade receivable was mainly attributable to the increase in sales in the fourth quarter of 2012 as compared to the corresponding period last year. Furthermore, with the tightening liquidity of domestic customers due to the slowdown of PRC economy, notes receivables of the Group increased sharply.

Trade Payables

As at 31 December 2012, trade payables of the Group were approximately RMB43,186,000 (31 December 2011: RMB58,349,000), representing a significant drop of 26.0%. Such decrease was mainly due to the Group's fewer purchases of raw materials in the fourth quarter of 2012 as compared to the corresponding period last year.

Interest-bearing Bank Loans

As at 31 December 2012, the Group's interest-bearing bank loans amounted to approximately RMB215,684,000 (31 December 2011: RMB164,100,000), representing a significant increase of 31.4%, mainly reflecting the Company's normal requirement for working capital.

Liquidity and Financial Resources

As at 31 December 2012, the Group had net current assets of approximately RMB385,792,000 (31 December 2011: RMB333,629,000). The Group financed its operations with internally generated resources and bank loans during the year ended 31 December 2012. As at 31 December 2012, the Group had cash and bank deposits of approximately RMB163,643,000 (31 December 2011: RMB163,502,000). The liquidity ratio of the Group as at 31 December 2012 was approximately 222.1% (31 December 2011: 221.0%). Shareholders' fund of the Group as at 31 December 2012 was approximately RMB822,879,000 (31 December 2011: RMB761,863,000).

As at 31 December 2012, the Group had bank loans repayable within 12 months from the statement of financial position date of approximately RMB215,684,000 (31 December 2011: RMB164,100,000) and no long-term loans (31 December 2011: Nil). Together they represented a gross debt gearing (i.e. total borrowings/shareholders' funds) of approximately 19.9% (31 December 2011: 21.5%).

CAPITAL COMMITMENTS

As at 31 December 2012, outstanding contractual capital commitments of the Group in respect of purchase of property, plant and equipment not provided for in the annual financial statements amounted to approximately RMB80,526,000 (31 December 2011: RMB977,000).

CONTINGENT LIABILITIES

As at 31 December 2012, the Group did not have any contingent liabilities.

CHARGE OF ASSETS

As at 31 December 2012, the interest-bearing bank loans were secured by certain property, plant and equipment, prepaid land lease payments, inventories and pledged deposits of the Group with carrying amounts of RMB43,770,000 (2011: RMB48,470,000), RMB28,031,000 (2011: RMB28,738,000), RMB52,302,000 (2011: RMB40,000,000) and RMB35,900,000 (2011: RMB37,600,000), respectively.

MATERIAL INVESTMENTS

During the year ended 31 December 2012, the Group made an investment of RMB45 million for the establishment of Zhejiang Jinda Flax Co., Ltd.（浙江金達亞麻有限公司）, an indirect wholly-owned subsidiary of the Company.

FOREIGN CURRENCY RISK

The Group's transactions are mainly denominated in RMB, United States Dollars, Euro and Hong Kong Dollars. The exchange rate changes of such currencies were monitored regularly and managed appropriately. Currently, the Company also has certain foreign currency forward contracts entered into by utilizing its credit line, and derivative financial instruments of approximately RMB68,000 (31 December 2011: RMB1,033,000) was recognized by the Group as assets as at 31 December 2012.

REMUNERATION POLICY AND SHARE OPTION SCHEME

As at 31 December 2012, the Group had a total of 2,150 employees (31 December 2011: 2,237 employees). Total staff costs incurred for the year ended 31 December 2012 amounted to RMB102,195,000 (for the year ended 31 December 2011: RMB101,039,000), representing an increase of 1.1%, which was mainly because of the rise in the Group's remuneration, offset by the decrease in the number of staff during the year.

The Group offers comprehensive and competitive remuneration, retirement scheme and benefit packages to its employees. The Group is required to make contributions to a social security scheme in China. Moreover, the Group and its employees in China are each required to make contributions to fund pension insurance and unemployment insurance at rates specified in the relevant laws and regulations in China.

The remuneration policy for the employees of the Group is formulated by the Board with reference to the employee's respective qualification, experience, responsibilities and contributions to the Group, as well as the prevailing market rate of remuneration for a similar position. The remunerations of the directors of the Company (the "Directors") are determined by the Board and the remuneration committee of the Company with the mandate given by the shareholders at the annual general meeting having regard to the Group's operating results, individual performance and comparable market statistics. The Group also provides both internal and external training programmes for its employees from time to time.

The Group has also adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to the Directors, including independent non-executive Directors, and other employees of the Group who have contributed to the success of the Group's operations.

The Company granted 9,100,000 share options under the Scheme on 9 July 2010. The Group recognized a share option expense of HK$948,000, equivalent to approximately RMB771,000 (2011: RMB1,028,000) during the year ended 31 December 2012. The 3,640,000 share options exercised during the year resulted in the issue of 3,640,000 ordinary shares of the Company and new share capital of HK$36,400 equivalent to approximately RMB29,000 and share premium of HK$2,596,000 equivalent to approximately RMB2,180,000.

As at 31 December 2012, the Company had 5,460,000 share options outstanding under the Scheme which represented approximately 0.87% of the Company's shares in issue, outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, results in the issue of 5,460,000 additional ordinary shares of the Company and additional share capital of HK$54,600, equivalent to approximately RMB44,000, and share premium of HK$2,129,400, equivalent to approximately RMB1,732,000 (before issue expenses).

PROSPECTS

Prospects and Plans

Recognized for offering supreme ventilation, moisture absorption, anti-bacterial quality and comfort, linen textiles are emerging under the spotlight of large fashion and household textile brands. Apart from traditional uses in woven textiles, the Group has also noted the increasing application of linen yarn in knitted fabrics, and believes that knitted fabric will become a key growth driver in the next few years. As a result of the development and growth of the linen textile industry, many new and blended fibers were introduced into the market. The Group believes that this trend will promote the expansion of linen yarn use as well as the steady growth of the linen yarn market. Being a leader in the linen yarn industry, the Group has always endeavored to promote the use of linen yarn. Through persistent development of new products and expansion in the domestic and overseas markets, the Group is poised to seize any opportunity and surmount any challenge in the future.

Dope-dyed fiber, another high-value added product of the Group, has been introduced in January 2013. Dope-dyed fiber is produced by adding a dyeing process to the original spinning procedures so as to adapt the single-colored linen yarn to be used in the production of a wider selection of fabrics for better uses in the fashion industry. None of the large-scale producers in China currently offer this product. Therefore, the Group is the pioneer in this market and will aggressively market dope-dyed fiber. It plans to use 1/4 of its production capacity to produce this product. In the future, the Group will focus on the high-end market and accelerate the commercialization of new technologies in order to get an edge in the competition. The Group will also expand its production capacity in tandem with product innovation with the aim of equipping itself for greater market share. The third production base of the Group will commence production in the first quarter of 2014 and bring the Group's total production capacity to 18,000 tonnes. At the same time, the Group is actively exploring opportunities in the Yangtze River Delta region for better resources consolidation and core business enhancement.

The Chinese government has lowered the rate of import tariff on linen raw material from 6% to 1% since 2010 which has boosted the competitiveness of Chinese linen yarn producers. The Group is fully committed to the development and promotion of applications and uses of linen yarn in the overseas market with its position as the leader in the industry. In addition to the existing markets, the Group will also set foot in the promising markets in Eastern Europe, such as Belarus, Lithuania and Ukraine. The Group has made the first move in 2012 and visited and studied the linen textile industry in Belarus. It will actively explore the markets in Eastern Europe with a view to establishing new sales channels before all else. Leveraging its established production capacity, advanced manufacturing techniques and comprehensive sales network, the Group will continue to develop applications of linen yarn and lead the global linen yarn market.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

The Company has not redeemed any of its listed shares during the year ended 31 December 2012. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares during the year ended 31 December 2012.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2012.

DIVIDEND

At a meeting of the Board held on 15 March 2013, the Board recommended the payment of a final dividend of HK7 cents per ordinary share of the Company for the year ended 31 December 2012. The proposed final dividend, if approved by the shareholders at the forthcoming annual general meeting of the Company, will be paid to the shareholders whose names appear on the register of members of the Company at the close of business on 17 June 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 May 2013 to 20 May 2013, both days inclusive, during which period no transfer of shares will be effected. In order to determine who are entitled to attend and vote at the forthcoming annual general meeting of the Company, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registrations not later than 4:30 p.m. on 15 May 2013.

The register of members of the Company will be closed from 13 June 2013 to 17 June 2013, both days inclusive, during which period no transfer of shares will be effected. In order to determine who are entitled to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 12 June 2013. The proposed final dividend, subject to shareholders' approval at the forthcoming annual general meeting, will be paid to shareholders whose names appear on the register of members of the Company at the close of business on 17 June 2013.

PUBLICATION OF ANNUAL REPORT

This annual results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at www.hkexnews.hk and the Company at www.kingdom-china.com. The annual report of the Company for the year ended 31 December 2012 containing all the information required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") is to be despatched to the Company's shareholders and made available for review on the same websites in due course.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE LISTING RULES

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Company's shareholders. The Directors believe that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. In the opinion of the Directors, save as disclosed below, the Company has complied with the code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Listing Rules for the year ended 31 December 2012.

Code Provision A.2.1

Under Code Provision A.2.1 of the Code, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have any officer with the title of "chief executive officer". Mr. Ren Wei Ming, who acts as the chairman of the Company, is also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company and is conducive to strong and consistent leadership, enabling the Company to operate efficiently.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiries with all Directors, all the Directors have confirmed that they have complied with the provisions of the Model Code and the Company's code of conduct regarding Directors' securities transactions for the year ended 31 December 2012 and up to the date of this announcement.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the Board. The Audit Committee comprises three members who are all independent non-executive Directors, namely, Mr. Lau Ying Kit, Mr. Yang Donghui and Mr. Lo Kwong Shun Wilson. Mr. Lau Ying Kit, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the Audit Committee. The annual results of the Group for the year ended 31 December 2012 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

The Remuneration Committee was established by the Company to establish policies, review and determine the remuneration of the Directors and the senior management of the Company. The Remuneration Committee comprises two independent non-executive Directors, Mr. Lo Kwong Shun Wilson and Mr. Yang Donghui and an executive Director, Mr. Zhang Hong Wen. Mr. Yang Donghui is the chairman of the Remuneration Committee.

NOMINATION COMMITTEE

The Nomination Committee was established by the Company to make recommendations to the Board on any proposed changes to the Board and senior management to complement the Company's corporate strategy. The Nomination Committee comprises two independent non-executive Directors, Mr. Lau Ying Kit and Mr. Lo Kwong Shun Wilson and an executive Director, Mr. Shen Yueming. Mr. Lo Kwong Shun Wilson is the chairman of the Nomination Committee.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company will be held on 20 May 2013 and notice of the annual general meeting will be published and despatched in the manner as required by the Listing Rules.

APPRECIATION

The Chairman of the Group would like to take this opportunity to thank his fellow Directors for their invaluable advice and guidance, and to each and everyone of the staff of the Group for their hard work and loyalty to the Group.

By Order of the Board
Kingdom Holdings Limited
Ren Wei Ming
Chairman

Hong Kong, 15 March 2013

As at the date of this announcement, the executive directors of the Company are Mr. Ren Wei Ming, Mr. Shen Yueming, and Mr. Zhang Hong Wen; the non-executive directors of the Company are Mr. Ngan Kam Wai Albert and Mr. Tse Chau Shing Mark; and the independent non-executive directors of the Company are Mr. Yang Donghui, Mr. Lo Kwong Shun Wilson and Mr. Lau Ying Kit.