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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 2017

FINANCIAL HIGHLIGHTS

- Revenue of the Group increased by approximately 19.6% to approximately RMB1,023,962,000 for the year ended 31 December 2017 from approximately RMB856,243,000 for the year ended 31 December 2016.

- Gross profit margin for the year end 31 December 2017 dropped to 11.4% (2016: 17.7%) as a result of global market impact and the Group's strategic price adjustment.

- Profit for the year decreased by approximately 99% to RMB622,000 for the year end 31 December 2017, compared to RMB70,029,000 for the year ended 31 December 2016.

- Loss attributable to owners of the parent amounted to approximately RMB3,132,000 for the year ended 31 December 2017, compared to a profit attributable to owners of the parent amounted to approximately RMB66,344,000 for the year ended 31 December 2016.

- Basic loss per share for the year ended 31 December 2017 was RMB0.01 (2016: earnings per share of RMB0.11).

- Despite the short-term decline in profitability, the Board is confident in the Group's future operation and profitability in the long run. The Board proposed a payment of final dividend of HK2.0 cents per ordinary share for the year ended 31 December 2017 (2016: HK5.0 cents).

The board (the "**Board**") of directors (the "**Directors**") of Kingdom Holdings Limited (the "**Company**") announced the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017 together with the comparative figures for the corresponding year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

		2017	2016
	Notes	***RMB'000***	*RMB'000*
REVENUE	*5*	**1,023,962**	856,243
Cost of sales		**(907,694)**	(704,365)
Gross profit		**116,268**	151,878
Other income and gains	*5*	**25,575**	54,358
Selling and distribution expenses		**(39,361)**	(37,951)
Administrative expenses		**(49,670)**	(58,968)
Other expenses		**(38,200)**	(643)
Finance costs	*6*	**(17,712)**	(16,059)
(LOSS)/PROFIT BEFORE TAX	*7*	**(3,100)**	92,615
Income tax credit/(expense)	*8*	**3,722**	(22,586)
PROFIT FOR THE YEAR		**622**	70,029
Attributable to:			
Owners of the parent		**(3,132)**	66,344
Non-controlling interests		**3,754**	3,685
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	*10*	**RMB(0.01)**	RMB0.11
Diluted	*10*	**RMB(0.01)**	RMB0.11

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017	2016
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**622**	70,029
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**613**	(280)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,235**	69,749
Attributable to:		
Owners of the parent	**(2,519)**	66,064
Non-controlling interests	**3,754**	3,685
	1,235	69,749

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**726,532**	601,537
Investment properties		**7,529**	8,129
Prepaid land lease payments		**64,837**	66,283
Other intangible assets		**5,834**	8,137
Prepayments for equipment		**7,571**	31,401
Deferred tax assets		**14,640**	3,304
Other non-current assets		**407**	–
Total non-current assets		**827,350**	718,791
CURRENT ASSETS			
Inventories	*11*	**531,212**	509,591
Trade and notes receivables	*12*	**310,215**	297,964
Prepayments, deposits and other receivables		**68,650**	44,435
Derivative financial instruments	*13*	**–**	5,788
Other current assets		**851**	–
Pledged deposits		**50,314**	74,355
Cash and cash equivalents		**173,824**	279,511
Total current assets		**1,135,066**	1,211,644
CURRENT LIABILITIES			
Trade and notes payables	*14*	**189,783**	129,489
Other payables and accruals		**93,979**	50,314
Interest-bearing bank borrowings		**519,561**	531,103
Derivative financial instruments	*13*	**7,002**	–
Tax payable		**16,054**	16,009
Other current liability		**851**	–
Total current liabilities		**827,230**	726,915
NET CURRENT ASSETS		**307,836**	484,729
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,135,186**	1,203,520

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,135,186**	1,203,520
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**9,390**	16,284
Interest-bearing bank borrowings		**75,600**	100,800
Total non-current liabilities		**84,990**	117,084
Net assets		**1,050,196**	1,086,436
EQUITY			
Equity attributable to owners of the parent			
Share capital		**6,329**	6,329
Treasury shares		**(19,508)**	–
Reserves		**1,030,936**	1,061,422
		1,017,757	1,067,751
Non-controlling interests		**32,439**	18,685
Total equity		**1,050,196**	1,086,436

1. CORPORATE AND GROUP INFORMATION

Kingdom Holdings Limited was incorporated in the Cayman Islands as an exempted company with limited liability on 21 July 2006. The Company's shares were listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 December 2006.

The Group is principally engaged in the manufacture and sale of linen yarns.

The Company's registered office address is Cricket Square, Hutchins Drive, P.O. Box 2681 GT, Grand Cayman KY1-1111, Cayman Islands; and the principal place of business is located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

2.1 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 ("IASB") and the disclosure requirements of the Hong Kong 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 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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 on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries above. 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 derecognises (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 recognises (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 recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a significant financial effect on these financial statements. Disclosure has been made to the financial statements upon the adoption of amendments to IAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

There is no significant effect on the amounts recognised in the consolidated financial statements arising from the judgements, apart from those involving estimations, made by management in the process of applying the Group's accounting policies.

Estimation uncertainty

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

(a) Impairment of long-lived assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

The recoverable amounts of the Group has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The assumption that has the most significant impact on the determination of the recoverable amount of its assets is the discount rate. The pre-tax discount rate applied to the cash flow projections as at 31 December 2017 was 21%.

(b) ***Deferred tax assets***

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(c) ***Write-down of inventories***

The Group's inventories are stated at the lower of cost and net realisable value. The Group writes down its inventories based on estimates of the realisable value with reference to the age and conditions of the inventories, together with the economic circumstances on the marketability of such inventories. Inventories will be reviewed annually for write-down, if appropriate. The carrying amount of inventories at 31 December 2017 was RMB531,212,000 (2016: RMB509,591,000). Further details are contained in note 11.

(d) ***Impairment of trade and notes receivables***

Impairment of trade and notes receivables is made based on assessment of the recoverability of trade and notes receivables. The identification of bad and doubtful receivables requires management judgement and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or expectation in future is different from the original estimate, the differences will impact the carrying value of the receivables and related asset impairment charge or write-back in the period in which the estimate has been changed. The carrying amount of trade and notes receivables at 31 December 2017 was RMB310,215,000 (2016: RMB297,964,000). Further details are contained in note 12.

(e) ***Useful lives of property, plant and equipment***

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives or management will write off or write down technically obsolete or non-strategic assets that have been abandoned. The carrying amount of property, plant and equipment at 31 December 2017 was RMB726,532,000 (2016: RMB601,537,000).

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into one single business unit that is 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 regions on the basis of customer location for the year ended 31 December 2017 is set out in the following table:

	Revenue from external customers	
	2017	2016
	RMB'000	*RMB'000*
Mainland China	**387,135**	329,853
European Union	**251,705**	251,724
Non-European Union	**385,122**	274,666
Total	**1,023,962**	856,243

(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 further geographical information for non-current assets is presented.

Information about major customers

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 2017 (2016: 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:

	2017	2016
	RMB'000	*RMB'000*
Revenue		
Sale of linen yarns	**1,023,962**	856,243
Other income		
Bank interest income	**899**	2,260
Government grants	**24,135**	30,372
Foreign exchange gains, net	**–**	14,072
Gain from disposal of non-current assets	**–**	1,191
Others	**541**	675
	25,575	48,570
Gains		
Fair value gains on derivative instruments		
– transactions not qualifying as hedges	**–**	5,788
	25,575	54,358

6. FINANCE COSTS

	2017	2016
	RMB'000	*RMB'000*
Interest on bank loans	**25,351**	17,823
Less: interest capitalised	**(7,639)**	(1,764)
	17,712	16,059

7. (LOSS)/PROFIT BEFORE TAX

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

	2017	2016
	RMB'000	*RMB'000*
Cost of inventories sold	**907,694**	704,365
Depreciation	**60,717**	60,137
Amortisation of prepaid land lease payments	**1,446**	2,171
Amortisation of other intangible assets	**536**	573
Research and development ("R&D") expenses	**6,851**	8,279
Minimum lease payments under operating leases:		
Land and buildings	**1,745**	1,900
Auditors' remuneration	**1,800**	1,800
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries and other benefits	**157,354**	152,381
Pension scheme contributions	**10,435**	9,803
Equity-settled share option expense	**195**	376
	167,984	162,560
Foreign exchange differences, net	**28,894**	(14,072)
Fair value loss/(gain) on derivative instruments		
– transactions not qualifying as hedges	**7,002**	(5,788)
Loss/(gain) on disposal of items of property, plant and equipment	**730**	(1,191)
(Reversal of)/provision for impairment of inventories	**(4,540)**	4,274
Reversal of impairment of trade receivables	**(312)**	(677)
Finance costs	**17,712**	16,059
Bank interest income	**(899)**	(2,260)

8. INCOME TAX

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

	2017	2016
	RMB'000	*RMB'000*
Current – Mainland China		
– Charge for the year	**13,232**	14,605
Current – Hong Kong		
– Charge for the year	**1,089**	1,438
– Overprovision in respect of prior years	**–**	(290)
Current – Italy		
– Charge for the year	**187**	106
Deferred	**(18,230)**	6,727
Total tax (credit)/charge for the year	**(3,722)**	22,586

(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) In accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, the provision for Mainland China current income tax has been based on a statutory rate of 25% of the assessable profits of the Company for the year except for Zhaosu Jindi Flax Co., Ltd. ("Zhaosu Jindi") and Zhejiang Jinlainuo Fiber Co., Ltd. ("Zhejiang Jinlainuo"), two indirect wholly-owned subsidiaries of the Group. Zhaosu Jindi is engaged in the preliminary processing of agriculture products and is exempted from PRC income tax. Also, Zhejiang Jinlainuo obtained the High-new Technology Certificate for the years from 2017 to 2020 and was entitled to a tax rate of 15%.

(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 tax at an income tax rate of 28.82%, which comprises the Italy Corporate Income Tax at 24% and the Italy Regional Income Tax at 4.82%.

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

	2017	2016
	RMB'000	*RMB'000*
(Loss)/profit before tax	**(3,100)**	92,615
Tax at an applicable tax rate of 25%	**(775)**	23,154
Effect of different tax rates	**(3,400)**	(3,725)
Overprovision in respect of prior years	**–**	(290)
Income not subject to tax	**(1,600)**	(2,920)
Tax losses utilised from prior years	**(327)**	–
Tax losses not recognised	**–**	247
Expenses not deductible for tax	**3,122**	3,612
Tax credit arising from additional deduction of R&D expenditures of a PRC subsidiary	**(742)**	(921)
Deferred tax liability on withholding tax	**–**	3,429
Total tax (credit)/charge for the year	**(3,722)**	22,586

9. DIVIDEND

	2017	2016
	RMB'000	*RMB'000*
Proposed final – HK2.0 cents (2016: HK5.0 cents) per ordinary share	**10,527**	28,162
	10,527	28,162

At a meeting of the board of directors held on 23 March 2018, the payment of a final dividend of HK2.0 cents per ordinary share totalling approximately RMB10,527,000 was recommended for the year ended 31 December 2017, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

10. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share is based on the (loss)/profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 615,060,000 (2016: 629,678,000) in issue during the year, as adjusted to reflect the shares purchased by the Trustee during the year.

The calculation of the diluted (loss)/earnings per share is based on the (loss)/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 (loss)/earnings per share are based on:

	2017	2016
	RMB'000	*RMB'000*
(Loss)/earnings attributable to ordinary equity holders of the parent used in the basic earnings per share calculations	**(3,132)**	66,344

	Number of shares	
	2017	2016
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**615,060**	629,678
Effect of dilution – weighted average number of ordinary shares:		
Share options	**16,250**	20,162
	631,310	649,840

* *Because the diluted earnings per share amount is increased when taking share options into account, the share options had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share. Therefore, the diluted earnings per share amount are based on the loss for the year of RMB3,132,000 and the weighted average number of ordinary shares of 615,060,000 in issue during the year.*

11. INVENTORIES

	31 December 2017 RMB'000	31 December 2016 RMB'000
Raw materials	**326,175**	205,594
Work in progress	**37,995**	39,235
Finished goods	**167,042**	264,762
	531,212	509,591

As at 31 December 2017, inventories with a carrying amount of RMB40,000,000 (2016: RMB40,000,000) were pledged to secure bank loans granted to the Group.

12. TRADE AND NOTES RECEIVABLES

	31 December 2017 RMB'000	31 December 2016 RMB'000
Trade receivables	**194,552**	198,858
Notes receivable	**116,589**	100,344
Impairment	**(926)**	(1,238)
	310,215	297,964

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 receivable were all aged within six months and were neither past due nor impaired.

An ageing 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 2017	31 December 2016
	RMB'000	*RMB'000*
Within 1 month	**74,737**	45,440
1 to 2 months	**59,856**	86,576
2 to 3 months	**40,177**	33,084
Over 3 months	**18,856**	32,520
	193,626	197,620

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

	31 December 2017	31 December 2016
	RMB'000	*RMB'000*
At 1 January	**1,238**	1,915
Impairment losses accrued	**106**	325
Impairment losses reversed	**(418)**	(1,002)
	926	1,238

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB926,000 (2016: RMB1,238,000) with a carrying amount before provision of RMB1,214,000 (2016: RMB2,061,000).

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

	31 December 2017 *RMB'000*	31 December 2016 *RMB'000*
Neither past due nor impaired	**176,783**	131,629
Less than 1 month past due	**9,545**	31,234
1 to 3 months past due	**4,672**	31,429
Over 3 months past due	**2,338**	2,505
	193,338	196,797

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 receivable that are not derecognised in their entirety

At 31 December 2017, the Group endorsed certain notes receivable accepted by banks in the PRC (the "Endorsed Notes") with a carrying amount of RMB9,831,000 (31 December 2016: RMB10,374,000) 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 these Endorsed Notes, and accordingly, it continued to recognise 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 to which the suppliers have recourse was RMB9,831,000 as at 31 December 2017 (31 December 2016: RMB10,374,000).

Notes receivable that are derecognised in their entirety

At 31 December 2017, the Group endorsed certain notes receivable accepted by banks in the PRC (the "Derecognised Notes") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB11,384,000 (31 December 2016: RMB8,378,000). The Derecognised Notes had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Notes. Accordingly, it has derecognised the full carrying amounts of the Derecognised Notes and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant.

The Group has not recognised any gain or loss on the date of transfer of the Derecognised Notes in 2017 (2016: Nil). No gains or losses were recognised from the continuing involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the year.

13. DERIVATIVE FINANCIAL INSTRUMENTS

		31 December 2017	31 December 2016
		RMB'000	*RMB'000*
(Liabilities)/Assets:			
Foreign currency forward contracts – current	*(i)*	**(555)**	5,788
Cross-currency swap	*(ii)*	**(6,447)**	–
		(7,002)	5,788

(i) The Group uses forward currency contracts to manage some of its foreign currency transaction exposures. These currency forward contracts are not designated as cash flow, fair value or net investment hedges and are entered into for periods consistent with foreign currency transaction exposures, generally from one to twelve months. These contracts will mature within 2018.

(ii) In 2017, the Group entered into cross-currency swap agreements with a bank to swap the USD and the relevant interest payments into RMB to manage the interest rate and currency risks. These contracts will mature within 2018.

The derivatives are measured at fair value as at 31 December 2017.

14. TRADE AND NOTES PAYABLES

An ageing analysis of the trade and notes payables as at 31 December 2017, based on the payment due date, is as follows:

	31 December 2017	31 December 2016
	RMB'000	*RMB'000*
Due within 1 month or on demand	**115,400**	19,813
Due after 1 month but within 3 months	**62,361**	108,644
Due after 3 months but within 6 months	**12,022**	1,032
	189,783	129,489

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

BUSINESS REVIEW

According to the National Bureau of Statistics of the People's Republic of China (the "**PRC**" or "**China**"), the GDP growth rate in China for the year ended 31 December 2017 (the "**Year**") was 6.9%, topped the government target of around 6.5%. The overall textile industry in China recorded a growth of 4.5% in export during the Year. The cotton price was relatively stable throughout 2017 which was good for the recovery of the market demand of linen yarn.

According to the statistics of the General Administration of Customs of the PRC, the total value of all yarn-and-textile-product exports grew by approximately 4.5% in 2017 as compared with 2016. The total volume of pure linen yarn exports of China in 2017 grew by approximately 9.8% year-on-year, while the total volume of all textile with linen (including pure linen and linen mixed with other fabrics) of China in 2017, on the other hand, dropped by approximately 5.9% year-on-year. In the trough of the economic cycle, the low level of cotton yarn price may lead to a reduction in demand for pure linen yarn from fashion brands and garment manufacturers, which favours cotton or cotton/linen blended yarn and enables products made of these materials to be more appealing to relatively cost conscious consumers. The market has proven that pure linen yarn is a preferred choice over linen mixed yarn once the price is not the only concern. For years, the Group has been focusing on upholding excellent quality and offering tailored customer services. As such, the Group has always been a key partner of major overseas linen fabric and garment manufacturers.

During the Year, the Group's pure linen yarn exports amounted to 11,734 tonnes (2016: 8,618 tonnes), representing a year-on-year increase of approximately 36.2%. The growth was far greater than the 9.8% growth of the overall pure linen yarn export market during the Year. The Group accounted for approximately 45.0% of the total pure linen yarn export from China in 2017 (2016: 36.3%), signifying the Group's continuous leading position as the largest pure linen yarn exporter in China for 15 consecutive years.

As a result of global market impact and the Group's strategic price adjustment, with the significant increase in volume sold, as a result, revenue of the Group for the Year increased by approximately 19.6% year-on-year to RMB1,023,962,000 (2016: RMB856,243,000). Gross profit dropped by approximately 23.4% year-on-year to RMB116,268,000 (2016: RMB151,878,000) and overall gross margin dropped to 11.4% in 2017 (2016: 17.7%), as a result of the strategic price reduction. Profit for the year was RMB622,000, representing a decrease of approximately 99% as compared from RMB70,029,000 in 2016. Basic loss per share amounted to RMB0.01 (2016: earnings per share of RMB0.11). Despite the short term decline in profitability, the Board is confident in the Group's future operation and profitability in the long run. To reciprocate the shareholders of the Company (the "**Shareholders**") for their continuous support for the Group while reserving resources for further expansions, the Board has recommended the payment of a final dividend of HK2.0 cents per ordinary share for the Year (2016: HK5.0 cents per ordinary share).

Major Markets and Customers

Being the largest linen yarn exporter in China, the Group has a sales network covering over 20 countries and regions around the world. In order to timely seize market opportunity, keep abreast of market trends and deliver comprehensive and efficient services, the Group has established presence in major overseas linen textile and consumer markets. The Group currently has one subsidiary in Italy and five agents in Turkey, Portugal, India and Korea. The Group's subsidiary in Italy keeps its own stocks so that it can serve the immediate needs and tighten its co-operations with high-end customers in Europe. In 2017, revenue derived from overseas sales amounted to RMB636,827,000, representing approximately 62.2% of the Group's total revenue. In particular, revenue from European Union countries amounted to approximately RMB251,705,000, representing approximately 24.6% of the Group's total revenue, while revenue from non-European Union countries amounted to approximately RMB385,122,000, representing approximately 37.6% of the Group's total revenue. During the Year, India has overtaken Italy as the largest export market of the Group and accounted for approximately 30.3% of the Group's total export revenue, followed by, in descending order, Italy, Korea, Turkey, Lithuania and Portugal.

Domestic sales in China increased by approximately 17.4% during the Year to RMB387,135,000, representing approximately 37.8% of the Group's total revenue. In light of the increasing income level, there have been fundamental changes in the consumption patterns of the general public in China. Consumers' concerns have shifted from pure practicality to quality and the ability to reflect their personal taste. Linen textiles are not only anti-bacterial and comfortable, but also highly environment-friendly in their production process. Therefore, linen textiles perfectly suit the taste of new-generation consumers who may have stronger preference over environment-friendly and sustainable products. Many leading domestic and overseas trend-setting brands and fast-moving fashion brands have now embarked on their own linen selections. For example, a famous Japanese brand has not only launched a linen garment line, but also introduced a tracking system for the use of its raw materials to allow its product quality and environment-friendliness to be monitored by itself together with its consumers.

Sales Analysis by Domestic and Overseas Markets

	FY2017		**FY2016**		**Year-on-year change in revenue**	**Year-on-year change in revenue**
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
China	387,135	37.8%	329,853	38.5%	57,282	17.4%
European Union	251,705	24.6%	251,724	29.4%	(19)	0.0%
Non-European Union	385,122	37.6%	274,666	32.1%	110,456	40.2%
Total Revenue	1,023,962	100.0%	856,243	100.0%	167,719	19.6%

Raw Material Procurement and Related Strategies

During the Year, prices of fibre flax, the major raw material of linen yarn, maintained a steady growth. The Group mainly sources its fibre flax from well-established origins such as France, Belgium and the Netherlands. Being one of the largest buyers in these regions, the Group enjoys strong bargaining power when dealing with suppliers. Furthermore, the Group has formulated systematic procurement strategies under which the Group will procure raw materials according to the level of fibre flax harvest, the Group's inventory level and the market prices of fibre flax so as to stabilise its raw material costs and overall market demand and supply as well as reducing the price fluctuations of raw materials. Apart from sourcing raw materials abroad, the Group has established a raw material production base in Yili, Xinjiang, the PRC mainly for the production of organic flax. This production base currently has an annual production capacity of approximately 400 tonnes. Going forward, the Group will continue to look for other suitable flax cultivation bases in other regions with the aim to further stabilise the price fluctuations and supply of raw materials.

Production Bases and Productivity

As at 31 December 2017, the Group had four production bases in China. The one in Rugao City, Jiangsu Province, the PRC has an annual production capacity of 6,000 tonnes. Another two production bases are located in Haiyan County, Zhejiang Province, the PRC, among which the first Haiyan plant has an annual production capacity of 7,000 tonnes and the second Haiyan plant has an annual production capacity of 5,000 tonnes. The Group has established its fourth facility in Heilongjiang Province in China with an annual capacity of 4,000 tonnes for flax and hemp yarn. Currently, the designed annual linen and hemp yarn production capacity of the Group amounts to 22,000 tonnes based on standardized 24Nm specification. The utilization rate of each of the first three production bases was close to 100% during the Year and the production base in Heilongjiang was in trial production during the Year and expected to operate in close to full capacity from second quarter of 2018 onwards.

The production bases are under continuous improvement. New production bases are equipped with the latest management systems, technologies and equipment, a combination of which has resulted in a smooth operation and reduced unnecessary procedures and wastage of raw materials, which has improved our overall production efficiency. These systems have not only made the production processes more environment-friendly, but also reduced the production costs of the Group and have laid a solid foundation of profit growth for the Group in the long run. For further details of the measures taken by the Group in relation to environmental protection, please refer to the separate Environmental, Social and Governance Report of the Group for the Year, which is expected to be despatched together with the annual report of the Company for the Year before the end of April 2018.

In 2016, the Board had authorised the construction of a flax and industrial hemp yarn manufacturing facility with an annual production capacity of 4,000 tonnes (based on 24Nm specification) in Heilongjiang Province, the PRC. The Group owns a 72.72% equity interest in this new venture and it is the Group's maiden attempt to explore the industrial hemp yarn market, as the Company believes industrial hemp yarn market will grow rapidly in the next few years due to the national policy in China to promote the planting of industrial hemp in the Heilongjiang region and the use of the industrial hemp textile products. The new factory in Heilongjiang Province in the PRC is on trial production and is expected to operate close to full capacity from second quarter of 2018 onwards.

In addition, the Group is also committed to investing in Ethiopia for new production facilities and has acquired a parcel of land with a site area of 300,000 square meters located in Adama Industrial Park, Adama, Ethiopia. The phase one development of this land parcel will further boost the annual production capacity of the Group by 5,000 tonnes. The Board believes that the federal government of Ethiopia is keen to develop the Kingdom Linen Yarn Factories project to be constructed on this land parcel into one of the model projects of the "Belt & Road" initiative in Ethiopia. The Chinese government also encouraged manufacturers to expand overseas by facilitating political risk insurance coverage by state-owned insurance company. The Ethiopia project is expected to generate savings on land lease, labour, energy and tax and there are possibly exemptions of quota and custom duty for exports of linen yarn manufactured in Ethiopia to a vast number of countries in the world. Despite there have been on and off ethno-political conflicts since October 2016 leading to the resignation of the Prime Minister of Ethiopia in February 2018, the Government to Ethiopia had reaffirmed their commitment in maintaining the already initiated industrialization agenda. The Board believes the strategic investment in Ethiopia will have significant long-term benefit to the Group. Therefore, the Group will proceed with its plan cautiously and the Ethiopia production facility is expected to commence trial production in 2019.

On 25 January 2018, the Group entered into a master agreement with The IT Electronics Eleventh Design & Research Institute Scientific and Technological Engineering Corporation Limited* (信息產業電子第十一設計研究院科技工程股份有限公司) for the engineering, procurement and construction/turnkey contract for the Ethiopia project at an aggregate contract price of RMB208,670,000.

Existing and planned production bases

No.	Factory	Location	Country	Annual capacity (Tonnes)	Utilisation/Status
1	Haiyan 1st Factory	Zhejiang	China	7,000	Close to 100%
2	Rugao Factory	Jiangsu	China	6,000	Close to 100%
3	Haiyan 2nd Factory	Zhejiang	China	5,000	Close to 100%
4	Qinggang Factory	Heilongjiang	China	4,000	Currently in trial production and full operation in 2nd quarter 2018
5	Adama Factory	Adama	Ethiopia	5,000	Expects trial production in 2nd quarter 2019

Patents, Awards and Recognition

The Group has continued to invest in technology and innovation. As at 31 December 2017, the Group owned 56 registered patents and there were another 23 patents applications pending formal approval by relevant authorities. Further, the brand "KINGDOM" has been awarded "Top 10 Most Influential Brand" by the China Bast and Leaf Fibers Textile Association during the Year. In addition, the Group has been awarded "Quality Assured Zhejiang Product" awarded by the Department of Commerce, Zhejiang Province in China.

FINANCIAL REVIEW

Revenue

For the Year, the Group's revenue increased by approximately 19.6% to approximately RMB1,023,962,000 (2016: RMB856,243,000). The increase of revenue was mainly attributable to the growth in quantity of linen yarn sold. As a result of global market impact and the Group's strategic price adjustment, an effort to boost demand for its products and further increase its market share in the linen yarn market. Revenue for domestic market and non– European countries recorded a year-on-year growth of approximately 17.4% and 40.2% respectively, while European countries remained at similar level to previous year.

Gross Profit and Gross Profit Margin

For the Year, the Group's gross profit decreased to RMB116,268,000, representing a year-on-year decrease of approximately 23.4% (2016: RMB151,878,000). Gross profit margin for the Year decreased to 11.4% (2016: 17.7%) as a result of global market impact and the Group's strategic price adjustment.

Other Income and Gains

For the Year, other income and gains are mainly represented by various government grants which amounted to RMB24,135,000 (2016: RMB30,372,000) and interest income of RMB899,000 (2016: RMB2,260,000). The drop in other income and gains during the Year was mainly due to there were net exchange gain of RMB14,072,000 and fair value gain on financial derivative instruments of RMB5,788,000 in 2016. The net exchange loss and loss on financial derivative instruments during the Year were recorded in Other Expenses.

Selling and Distribution Expenses

For the Year, the Group's selling and distribution expenses amounted to approximately RMB39,361,000 (2016: RMB37,951,000), which accounted for approximately 3.8% (2016: 4.4%) of the Group's revenue. The decrease in the selling and distribution expenses as a percentage of revenue in the Year was mainly due to lower sales agent commission expense paid during the Year.

Administrative Expenses

For the Year, the Group's administrative expenses amounted to approximately RMB49,670,000 (2016: RMB58,968,000), representing an decrease of approximately 15.8% as compared to the year ended 31 December 2016. The decrease of administrative expenses was mainly due to the decreases in consulting fee of RMB1,827,000, research and development costs of RMB1,428,000, office expense of RMB2,333,000, depreciation of RMB1,045,000 and miscellaneous taxes of RMB1,908,000.

Other Expenses

Other expenses of the Group for the Year mainly represent net exchange loss of RMB28,894,000 (2016: gain of RMB14,072,000), loss on financial derivative instruments of RMB7,002,000 (2016: gain of RMB5,788,000), donations and other miscellaneous expenses.

Finance Costs

For the Year, finance costs amounted to approximately RMB17,712,000 (2016: RMB16,059,000), representing an increase of approximately 10.3%. The increase in finance costs was mainly due to an increase in average outstanding loan balance during the Year.

Income Tax Expenses

Income tax expense for the Year was a credit of approximately RMB3,722,000 (2016: income tax expense of approximately RMB22,586,000). It was mainly due to the reversal of provision of dividend withholding tax provided in 2013. It was accrued at 10% but actual charged by tax authorities was 5%. According to PRC tax laws, the time limit of recovery of tax by tax authorities is three years. The effective tax rate for the year ended 31 December 2016 was 24.4%.

Profit for the Year

As a result of the foregoing, the Group recorded a net profit for the Year of approximately RMB622,000 (2016: approximately RMB70,029,000), representing a decrease of approximately 99% as compared to the year ended 31 December 2016.

Minority interests

The minority interests amounted to RMB3,754,000 represent the share of the net profit of the 27.28% of equity interests of Heilongjiang Jinda Flax and Hemp Co., Ltd. (「黑龍江金達麻業有限公司」), attributable to the minority shareholders during the Year (2016: RMB3,685,000).

Loss Attributable to Owners of the Parent

During the Year, the Group recorded a loss attributable to owners of the parent of approximately RMB3,132,000, as compared to a profit attributable to owners of the parents of RMB66,344,000 for the year ended 31 December 2016.

Other Intangible Assets

As at 31 December 2017, the Group's intangible assets were mainly Certified emission rights in 2012 for a term of 20 years, which amounted to RMB5,834,000 (2016: RMB8,137,000). Intangible assets are subject to amortisation based on their useful lives. The Group resold Certified emission rights amounting to RMB1,767,000 to the government during the year. For the Year, amortisation of intangible assets was approximately RMB536,000 (2016: RMB573,000).

Inventories

As at 31 December 2017, inventories of the Group increased by approximately 4.2% to RMB531,212,000 (2016: RMB509,591,000), the average inventory turnover days decreased from 220 days as at 31 December 2016 to 209 days as at 31 December 2017. The lower inventory turnover days was mainly attributable to the increase of sales of linen yarn during the Year and the decrease in finished goods inventory balance as a result of global market impact and the Group's strategic price adjustment.

Trade and Notes Receivables

As at 31 December 2017, trade and notes receivables of the Group increased by approximately 4.1% to RMB310,215,000 (2016: RMB297,964,000), the average accounts receivable turnover days decreased from 129 days as at 31 December 2016 to 108 days as at 31 December 2017.

Trade and Notes Payables

As at 31 December 2017, trade and notes payables of the Group increased by approximately 46.6% to approximately RMB189,783,000 (2016: RMB129,489,000). There were additional purchases of raw materials at the end of the Year to ensure stable supply. The average accounts payable turnover days increased to 64 days during the Year (2016: 59 days).

Interest-bearing Bank Loans

As at 31 December 2017, the Group's interest-bearing bank loans amounted to approximately RMB595,161,000 (2016: RMB631,903,000), representing a decrease of approximately 5.8%.

Liquidity and Financial Resources

As at 31 December 2017, the Group has net current assets of approximately RMB307,836,000 (2016: RMB484,729,000). The Group financed its operations with internally generated resources and bank loans during the Year. As at 31 December 2017, the Group had cash and cash equivalents of approximately RMB173,824,000 (2016: RMB279,511,000).

The liquidity ratio of the Group as at 31 December 2017 was approximately 137.0% (2016: 166.7%). Shareholders' fund of the Group as at 31 December 2017 was approximately RMB1,017,757,000 (2016: RMB1,067,751,000).

As at 31 December 2017, the Group had bank loans repayable within 12 months from the statement of financial position date of approximately RMB519,561,000 (2016: RMB531,103,000) and long-term loans of approximately RMB75,600,000 (2016: RMB100,800,000). Together they represented a gross debt gearing (i.e. total borrowings/total equity) of approximately 56.8% (2016: 58.2%).

CAPITAL COMMITMENTS

As at 31 December 2017, 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 RMB36,283,000 (2016: RMB77,930,000).

MATERIAL ACQUISITION AND DISPOSAL

The Group did not have any material acquisitions or disposals during the Year.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any contingent liabilities (2016: Nil).

CHARGE OF ASSETS

As at 31 December 2017, the current interest-bearing bank borrowings with a carrying amount of RMB334,221,000 were secured by certain property, plant and equipment, prepaid land lease payments, and inventories with carrying amounts of RMB112,775,000 (2016: RMB207,598,000), RMB27,421,000 (2016: RMB31,685,000) and RMB40,000,000 (2016: RMB40,000,000), respectively.

As at 31 December 2017, the non-current interest-bearing bank borrowings with a carrying amount of RMB75,600,000 were secured by certain property, plant and equipment, prepaid land lease payments, of the Group with carrying amounts of RMB78,961,000 (2016: RMB57,070,000) and RMB15,422,000 (2016: RMB15,742,000), respectively.

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 and cross-currencies swap contracts entered into by utilising its credit line, and derivative financial instruments of approximately RMB7,002,000 was recognised by the Group as a current liability as at 31 December 2017 (2016: current asset of RMB5,788,000).

REMUNERATION POLICY AND SHARE OPTION SCHEME

As at 31 December 2017, the Group had a total of 2,706 employees (2016: 2,502 employees). Total staff costs incurred for the Year increased by approximately 3.3% to RMB167,984,000 (2016: RMB162,560,000). The additional headcount was mainly attributable to the workforce recruited for the new Heilongjiang factory 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 (retirement insurance and unemployment insurance) to a social security scheme 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 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 share option schemes and a share award plan 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.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Group is principally engaged in the manufacturing of linen yarn and the sale of the products to over 20 countries. Overseas sales are invoiced in United States Dollars, except sales by our subsidiary in Italy which are invoiced in Euro. Domestic sales in China are invoiced in Renminbi. Raw materials (fiber flax) are imported from Europe. The principal risks and uncertainties facing the Group include the demand for linen yarn, protectionism of certain countries and possible punitive tariffs of products made in China, stable supplies of raw materials, continuous decline in cotton price, depreciation of United States Dollars against Renminbi, and the execution risk of the new expansion project in Ethiopia.

OUTLOOK AND PLANS

The cotton price in China was relatively stable throughout the Year, and is expected to be resilient on current price level. Stable or high cotton price is beneficial to the demand of linen yarn as the price gap will be further narrowed. The trend of environment-friendliness and the use of natural fibers has been set. Linen yarn as one of the most environmentally-friendly fibers, will surely benefit from this trend and we are confident in the demand for linen yarn in the coming years.

The cyclical nature of linen yarn has driven the growth of the steady demand since the fourth quarter of 2017, and in view of no massive production capacity launched in the linen yarn market since 2016, while some of the smaller and less efficient competitors exited the market, we are expecting a fairly robust linen yarn market and possible price increases for linen yarn in 2018 and in 2019.

Protectionism is expected on the rise. Department of Commerce, Government of India has initiated anti-dumping investigation concerning imports of "flax yarn" originating in or exported from China in February 2018. The period of investigation is from 1st October 2016 to 30th September 2017. We will closely monitor the progress and will evaluate possible impacts on our operation.

The new industrial hemp and linen yarn factory in Heilongjiang, with an annual production capacity of 4,000 tonnes of yarn, will contribute the capacity to fulfill the market demand. It is also the Group's maiden attempt to explore the industrial hemp yarn market.

The Ethiopia project has a planned site area of approximately 300,000 square metres and will be constructed in phases. The first phase will have a production capacity of 5,000 tonnes of regular linen yarn and is expected to commence trial production in 2019.

Going forward, leveraging its headquarters in China, the Group will continue to explore and penetrate the domestic market and promote the use of linen fabrics so as to tap into the enormous market of China with a population of 1.3 billion. With respect to the overseas market, the Group will further strengthen its communications and interactions with stakeholders of other linen textile production and consumption regions through organizing exchanges and conferences, and participating in product and technology exhibitions. Such initiatives are expected to reinforce the Group's relationship with its clients, strengthen its brand image, further reinforce the Group's leadership in the industry and secure mutual growth in both the domestic and overseas markets.

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

Save for the trustee of the share award plan adopted by the Company on 26 August 2016 (the "**Share Award Plan**") had purchased an aggregate of 19,400,000 Shares at a total consideration of HK$22,160,000 on the market during the Year to hold on trust for the selected persons pursuant to the terms and conditions of the Share Award Plan rules and the trust deed, the Company or any of its subsidiaries did not purchase, sell or redeem any of the Company's listed securities during the Year.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float as required under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") throughout the Year.

DIVIDEND

At a meeting of the Board held on 23 March 2017, the Board recommended the payment of a final dividend of HK2.0 cents per ordinary share of the Company for the Year. The proposed final dividend, if approved by the Shareholders at the annual general meeting of the Company to be held on 25 May 2018 (the "**Annual General Meeting**"), will be paid on or before 6 July 2018 to the Shareholders whose names appear on the register of members of the Company on 8 June 2018.

CLOSURE OF REGISTER OF MEMBERS

In order to determine who are entitled to attend and vote at the forthcoming annual general meeting, the register of members of the Company will be closed from 18 May 2018 to 25 May 2018, 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, unregistered holders of shares of the Company shall ensure that 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 17 May 2018.

In order to determine who are entitled to the proposed final dividend (subject to approval by the Shareholders at the Annual General Meeting), the register of members of the Company will be closed from 7 June 2018 to 8 June 2018, 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 (subject to approval by the shareholders at the annual general meeting), unregistered holders of shares of the Company shall ensure that, 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 the above address for registration not later than 4:30 p.m. on 6 June 2018. The proposed final dividend, subject to Shareholders' approval at the Annual General Meeting, will be paid to Shareholders on or before 6 July 2018 whose names appear on the register of members of the Company at the close of business on 8 June 2018.

PUBLICATION OF ANNUAL REPORT

This annual results announcement is published on the websites of 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 2017 containing all the information required by 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 organisation 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. The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Listing Rules.

In the opinion of the Directors, save for the deviations to code provisions A.2.1 and A.4.3 as disclosed below, the Company has complied with the applicable code provisions as set out in the Code contained in Appendix 14 to the Listing Rules throughout the Year.

Code Provision A.2.1

Under code provision A.2.1 of the Code, the roles of the Chairman and chief executive officer of the Company 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 Weiming, 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. Given the nature and extent of the Group’s operation and Mr. Ren’s extensive experience in the industry, 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.

Code Provision A.4.3

Mr. Lau Ying Kit has been serving as an independent non-executive Director for more than nine years since November 2015. Pursuant to code provision A.4.3 of the Code, if an independent non-executive director has served the Company for more than nine years, his/her appointment could be relevant to the determination of his/her independence, and his/her further appointment should be subject to a separate resolution to be approved by shareholders. Accordingly, the rotation and re-election of Mr. Lau shall be approved by shareholders by way of separate resolution at the annual general meeting of the Company.

Mr. Lau has extensive experience in the accounting field. His participations in the Board bring independent judgments on issues relating to the Group’s accounts, internal controls, nominations of directors, conflicts of interests and other management matters. The Board considered the re-election of Mr. Lau as an independent non-executive Director can safeguard the interests of the Shareholders.

The Board has received from Mr. Lau a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules, and noted that Mr. Lau has not engaged in any executive management of the Group. Taking into consideration of his independent scope of works in the past years, the Directors consider Mr. Lau to be independent under the Listing Rules despite the fact that he has served the Company for more than nine years.

Mr. Lau was re-elected as an independent non-executive Director at the annual general meeting of the Company held on 18 May 2015 pursuant to the requirement of code provision A.4.3 of the Code. For further details, please refer to the shareholders' circular and poll results announcement of the Company dated 15 April 2015 and 18 May 2015, respectively.

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 and devised its own code of conduct regarding Directors' dealings in the Company's securities 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 2017 and up to the date of this annual report.

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, risk management and internal control systems 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. Lo Kwong Shun Wilson and Mr. Yan Jianmiao. 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 2017 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

The remuneration committee of the Company (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. Yan Jianmiao and an executive Director, Mr. Zhang Hongwen. Mr. Yan Jianmiao is the chairman of the Remuneration Committee.

NOMINATION COMMITTEE

The nomination committee of the Company (the "**Nomination Committee**") was established by the Company to review the board diversity policy and 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 forthcoming Annual General Meeting will be held on 25 May 2018 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 Weiming
Chairman

Hong Kong, 23 March 2018

As at the date of this announcement, the executive Directors are Mr. Ren Weiming, Mr. Shen Yueming, Mr. Zhang Hongwen and Ms. Shen Hong; the non-executive Director is Mr. Ngan Kam Wai Albert; and the independent non-executive Directors are Mr. Lau Ying Kit, Mr. Lo Kwong Shun Wilson and Mr. Yan Jianmiao.