KINGDOM

KINGDOM HOLDINGS LIMITED
金 達 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability and carrying on business in Hong Kong as "Kingdom (Cayman) Limited")

(Stock Code: 528)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- Revenue of the Group increased by approximately 20.4% to approximately RMB1,499,560,000 for the year ended 31 December 2019 from approximately RMB1,245,643,000 for the year ended 31 December 2018.

- Gross profit margin for the year ended 31 December 2019 further improved by 3.5 percentage points to 24.2% (2018: 20.7%) due to increase of selling price of linen yarn during the year.

- Profit for the year surged by approximately 51.0% to RMB155,765,000 for the year ended 31 December 2019 as compared to RMB103,187,000 for the year ended 31 December 2018.

- Profit attributable to owners of the parent surged by approximately 48.5% to approximately RMB151,468,000 for the year ended 31 December 2019 as compared to approximately RMB102,006,000 for the year ended 31 December 2018.

- Basic earnings per share for the year ended 31 December 2019 increased by approximately 47.1% to RMB0.25 (2018: RMB0.17).

- The Board proposed a payment of final dividend of HK$7.0 cents per ordinary share for the year ended 31 December 2019 (2018: HK$6.0 cents).

For the reasons explained below under "Review of Unaudited Annual Results", the auditing process for the annual results of Kingdom Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") has not been completed. In the meantime, the board (the "**Board**") of directors (the "**Directors**") of the Company is pleased to announce the unaudited consolidated results of the Group for the year ended 31 December 2019 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT AND LOSS

For the year ended 31 December 2019

	Notes	**2019** ***RMB'000*** ***(Unaudited)***	2018 *RMB'000* *(Audited)*
REVENUE	*5*	**1,499,560**	1,245,643
Cost of sales		**(1,136,293)**	(987,762)
Gross profit		**363,267**	257,881
Other income and gains	*5*	**17,364**	24,308
Selling and distribution expenses		**(49,453)**	(48,687)
Administrative expenses		**(82,061)**	(73,020)
Other expenses		**(10,327)**	(6,818)
Finance costs	*6*	**(22,148)**	(21,520)
Gain on disposal of a subsidiary		**235**	–
PROFIT BEFORE TAX	*7*	**216,877**	132,144
Income tax expense	*8*	**(61,112)**	(28,957)
PROFIT FOR THE YEAR		**155,765**	103,187
Attributable to:			
Owners of the parent		**151,468**	102,006
Non-controlling interests		**4,297**	1,181
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	*10*	**RMB0.25**	RMB0.17
Diluted	*10*	**RMB0.24**	RMB0.16

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 *RMB'000* *(Unaudited)*	2018 *RMB'000* *(Audited)*
PROFIT FOR THE YEAR	**155,765**	103,187
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(61)**	86
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**155,704**	103,273
Attributable to:		
Owners of the parent	**151,407**	102,092
Non-controlling interests	**4,297**	1,181
	155,704	103,273

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	**2019** **RMB'000** **(Unaudited)**	2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,054,148**	803,778
Investment properties		**6,329**	6,929
Right-of-use assets		**76,109**	–
Prepaid land lease payments		**–**	63,062
Other intangible assets		**4,703**	7,248
Prepayments for equipment		**5,602**	17,139
Deferred tax assets		**5,680**	5,596
Other non-current assets		**48,407**	407
Total non-current assets		**1,200,978**	904,159
CURRENT ASSETS			
Inventories	*11*	**795,592**	557,087
Trade and notes receivables	*12*	**345,813**	295,115
Prepayments, deposits and other receivables		**92,238**	60,704
Derivative financial instruments	*13*	**198**	–
Pledged deposits		**146,168**	68,857
Cash and cash equivalents		**144,798**	241,826
Total current assets		**1,524,807**	1,223,589
CURRENT LIABILITIES			
Trade and notes payables	*14*	**358,817**	245,675
Other payables and accruals		**131,457**	123,300
Derivative financial instruments	*13*	**–**	3,438
Interest-bearing bank and other borrowings	*15*	**823,482**	508,984
Dividend payable		**17**	1
Tax payable		**32,096**	28,133
Total current liabilities		**1,345,869**	909,531
NET CURRENT ASSETS		**178,938**	314,058
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,379,916**	1,218,217

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2019 (Continued)

	Notes	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,379,916**	1,218,217
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**20,152**	14,308
Interest-bearing bank and other borrowings	*15*	**78,869**	50,400
Total non-current liabilities		**99,021**	64,708
Net assets		**1,280,895**	1,153,509
EQUITY			
Equity attributable to owners of the parent			
Share capital		**6,329**	6,329
Treasury shares	*16*	**(18,493)**	(19,508)
Reserves		**1,249,974**	1,126,068
		1,237,810	1,112,889
Non-controlling interests		**43,085**	40,620
Total equity		**1,280,895**	1,153,509

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 yarn.

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 2019. 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 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 new and revised IFRSs for the first time for the current year's financial statements

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 and IFRIC 23, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

IFRS 16 Leases

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17 and related interpretations.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property and vehicles. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold buildings previously included in investment properties and accounted for using the cost model, the Group has continued to include them as investment properties at 1 January 2019. They continue to be accounted for using the cost model applying IAS 40.

The Group has used the following elective practical expedient when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) *RMB'000* *(Unaudited)*
Assets	
Increase in right-of-use assets	66,286
Decrease in prepaid land lease payments	(63,062)
Increase in total assets	3,224
Liabilities	
Increase in interest-bearing bank and other borrowings	3,341
Decrease in retained earnings	(117)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000 *(Unaudited)*
Operating lease commitments as at 31 December 2018	4,196
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(759)
	3,437
Weighted average incremental borrowing rate as at 1 January 2019	4.41%
Discounted operating lease commitments as at 1 January 2019	3,341

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation did not have any impact on the financial position or performance of the Group.

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 non-current 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 amount of the non-current assets 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 2019 was 22%.

(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 2019 was RMB795,592,000 (2018: RMB557,087,000). Further details are contained in note 11 to the financial statements.

(d) Provision for expected credit losses on trade and notes receivables

The Group uses a provision matrix to calculate expected credit losses ("**ECLs**") for trade and notes receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, customer type and rating, coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade and notes receivables is disclosed in note 12 to the financial statements.

(e) Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

(f) 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 2019 was RMB1,054,148,000 (2018: RMB803,778,000).

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 locations for the year ended 31 December 2019 is set out in the following table:

	Revenue from external customers	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Mainland China	**650,576**	470,690
European Union	**349,183**	307,854
Non-European Union	**499,801**	467,099
	1,499,560	1,245,643

(b) Non-current assets

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Mainland China	**869,898**	780,140
Ethiopia	**325,400**	118,423
	1,195,298	898,563

The non-current asset information of continuing operations above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

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 2019 (2018: Nil).

5. REVENUE, OTHER INCOME AND GAINS

Revenue from contracts with customers, which is also the Group's turnover, represents the sales value of linen yarn, hemp yarn and scraps, net of sales tax and deduction of any sales discounts and returns. The performance obligation is satisfied upon delivery of linen yarn, hemp yarn and scraps and payment is generally due within 30 to 150 days from delivery, except for new customers, where payment in advance is normally required.

An analysis of revenue from contracts with customers, other income and gains is as follows:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Type of goods		
Sales of linen yarn, hemp yarn and scraps	**1,499,560**	1,245,643
Timing of revenue recognition		
Goods transferred at a point in time	**1,499,560**	1,245,643

Revenue recognised that was included in contract liabilities at the beginning of the reporting period was RMB24,036,000 (2018: RMB6,595,000).

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Other income		
Bank interest income	**1,051**	1,044
Government grants	**8,161**	2,501
Foreign exchange gains, net	**5,186**	19,235
Others	**2,768**	1,528
	17,166	24,308
Gains		
Fair value gains on derivative financial instruments, net	**198**	–
	17,364	24,308

6. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Interest on bank loans	**35,003**	26,392
Interest on lease liabilities	**208**	–
Total interest expense on financial liabilities not at fair value through profit or loss	**35,211**	26,392
Less: interest capitalised	**(13,063)**	(4,872)
	22,148	21,520

7. PROFIT BEFORE TAX

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

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Cost of inventories sold	**1,136,293**	987,762
Depreciation	**70,667**	71,424
Depreciation of right-of-use asset (2018: amortisation of prepaid land lease payments)	**3,612**	1,814
Amortisation of other intangible assets	**545**	586
Research and development ("**R&D**") expenses	**14,998**	13,052
Minimum lease payments under operating leases	**–**	1,689
Lease payment not included in the measurement of lease liabilities	**737**	–
Auditors' remuneration	**1,950**	1,800
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries and other benefits	**184,237**	168,986
Pension scheme contributions	**14,204**	11,270
Equity-settled share award expense	**5,631**	3,567
	204,072	183,823
Foreign exchange differences, net	**(5,186)**	(19,235)
Fair value (gain)/loss on derivative instruments – transactions not qualifying as hedges	**(198)**	3,438
Loss on disposal of items of property, plant and equipment	**1,374**	405
Provision/(reversal of provision) for impairment of inventories	**17,069**	(1,179)
Provision for impairment of trade receivables	**2,014**	412
Provision for impairment of property, plant and equipment	**6,173**	–
Finance costs	**22,148**	21,520
Bank interest income	**(1,051)**	(1,044)

8. INCOME TAX

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

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Current – Mainland China		
– Charge for the year	**50,318**	12,429
– Overprovision in respect of prior years	**(47)**	(105)
Current – Hong Kong		
– Charge for the year	**3,366**	1,849
– Under provision/overprovision in respect of prior years	**604**	(423)
Current – Italy		
– Charge for the year	**1,545**	1,245
Deferred	**5,326**	13,962
Total tax charge for the year	**61,112**	28,957

(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 current income tax of Mainland China 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 Jinda Flax Co., Ltd. ("**Zhejiang Jinda**"), two indirectly wholly-owned subsidiaries of the Group. Zhaosu Jindi is engaged in the preliminary processing of agricultural products and is exempted from PRC income tax. Also, Zhejiang Jinda obtained the High-new Technology Certificate for the years from 2019 to 2022 and was entitled to a tax rate of 15%.

(iii) Hong Kong profits tax has been provided at the rate of 8.25% on the estimated assessable profits arising in Hong Kong up to HK$2 million. And the assessable profits over HK$2 million are subject to a tax rate of 16.5%.

(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:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Profit before tax	**216,877**	132,144
Tax at an applicable tax rate of 25%	**54,219**	33,036
Effect of different/beneficial tax rates	**(1,163)**	(1,463)
Underprovision/(Overprovision) in respect of prior years	**557**	(528)
Income not subject to tax	**(1,705)**	(2,023)
Tax losses not recognised	**–**	126
Expenses not deductible for tax	**2,509**	1,495
Tax credit arising from additional deduction of R&D expenditures of a Mainland China subsidiary	**(2,065)**	(2,374)
Accrual of withholding tax liability	**8,760**	688
Total tax charge for the year	**61,112**	28,957

9. DIVIDEND

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Proposed final – HK7.0 cents (2018: HK6.0 cents) per ordinary share	**39,484**	33,103

At the meeting of the board of directors of the Company held on 20 March 2020, the payment of a final dividend of HK7.0 cents per ordinary share totalling approximately RMB39,484,000 was recommended for the year ended 31 December 2019, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount 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 610,881,000 (2018: 610,278,000) in issue during the year, as adjusted to reflect the shares purchased by the Trustee during the year.

The calculation of the diluted earnings per share amount 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:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Earnings attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**151,468**	102,006

	Number of shares	
	2019	2018
	'000	*'000*
	(Unaudited)	*(Audited)*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**610,881**	610,278
Effect of dilution – weighted average number of ordinary shares:		
Share options	**10,608**	16,250
Share award plan	**18,767**	11,837
	640,256*	638,365

* *Because the exercise price of share options is higher than the market price, the share options were ignored in the calculation of diluted earnings per share. Therefore, the diluted earnings per share amount is based on the earnings for the year of RMB151,468,000 and the weighted average number of ordinary shares of 629,648,000 in issue during the year.*

11. INVENTORIES

	31 December 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Raw materials	**443,335**	362,836
Work in progress	**59,313**	38,451
Finished goods	**292,944**	155,800
	795,592	557,087

As at 31 December 2019, inventories with a carrying amount of RMB40,000,000 (unaudited) (2018: RMB40,000,000 (audited)) were pledged to secure bank loans granted to the Group as set out in note 15(i).

12. TRADE AND NOTES RECEIVABLES

	31 December 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Trade receivables	**263,102**	234,075
Notes receivable	**85,078**	61,765
Impairment	**(2,367)**	(725)
	345,813	295,115

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 loss allowance, is as follows:

	31 December 2019 *RMB'000* *(Unaudited)*	31 December 2018 *RMB'000* *(Audited)*
Within 1 month	**121,065**	127,962
1 to 2 months	**45,908**	46,125
2 to 3 months	**46,354**	36,677
Over 3 months	**47,408**	22,586
	260,735	233,350

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

	31 December 2019 *RMB'000* *(Unaudited)*	31 December 2018 *RMB'000* *(Audited)*
At beginning of year	**725**	926
Impairment losses, net *(note 7)*	**2,014**	412
Amount written off as uncollectible	**(372)**	(613)
	2,367	725

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019

		Past due			
	Current *(Unaudited)*	**Less than 1 month** *(Unaudited)*	**1 to 3 months** *(Unaudited)*	**Over 3 months** *(Unaudited)*	**Total** *(Unaudited)*
Expected credit loss rate	0.00%	0.88%	3.26%	9.29%	0.90%
Gross carrying amount (RMB'000)	213,814	9,675	23,202	16,411	263,102
Expected credit losses (RMB'000)	–	85	757	1,525	2,367

As at 31 December 2018

		Past due			
	Current *(Audited)*	Less than 1 month *(Audited)*	1 to 3 months *(Audited)*	Over 3 months *(Audited)*	Total *(Audited)*
Expected credit loss rate	0.00%	0.00%	1.25%	21.18%	0.31%
Gross carrying amount (RMB'000)	210,296	16,669	3,918	3,192	234,075
Expected credit losses (RMB'000)	–	–	49	676	725

Notes receivable that are not derecognised in their entirety

As at 31 December 2019, the Group endorsed certain notes receivable accepted by banks in the PRC (the "**Endorsed Notes**") with a carrying amount of RMB29,323,000 (unaudited) (31 December 2018: RMB33,097,000 (audited)) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "**Endorsement**"). In the opinion of the directors of the Company, 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 RMB29,323,000 (unaudited) as at 31 December 2019 (31 December 2018: RMB33,097,000 (audited)).

Notes receivable that are derecognised in their entirety

As at 31 December 2019, 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 RMB54,755,000 (unaudited) (31 December 2018: RMB10,745,000 (audited)). 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 of the Company, 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 of the Company, 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 2019 (2018: 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 2019	31 December 2018
		RMB'000	*RMB'000*
		(Unaudited)	*(Audited)*
Assets:			
Foreign currency forward contracts – current	*(i)*	**198**	–
Liabilities:			
Foreign currency forward contracts – current		**–**	414
Cross-currency swap		**–**	3,024
		–	3,438

(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 flows, 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 2020.

The derivatives were measured at fair value as at 31 December 2019.

14. TRADE AND NOTES PAYABLES

An ageing analysis of the trade and notes payables as at 31 December 2019, based on the payment due date, is as follows:

	31 December 2019 ***RMB'000*** ***(Unaudited)***	31 December 2018 *RMB'000* *(Audited)*
Due within 1 month or on demand	**61,839**	157,645
Due after 1 month but within 3 months	**268,978**	88,030
Due after 3 months but within 6 months	**28,000**	–
	358,817	245,675

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.

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2019			**1 January 2019**	**31 December 2018**		
	Effective interest rate (%) ***(Unaudited)***	**Maturity** ***(Unaudited)***	***RMB'000*** ***(Unaudited)***	***RMB'000*** ***(Unaudited)***	**Effective interest rate (%)** ***(Audited)***	**Maturity** ***(Audited)***	***RMB'000*** ***(Audited)***
Current							
Secured bank loans	2.60-4.79	2020	304,284	267,056	2.48 – 5.05	2019	267,056
Unsecured bank loans	2.01-5.22	2020	517,155	241,928	2.55 – 5.22	2019	241,928
Lease liabilities	4.41	2020	2,043	1,575			–
Subtotal			823,482	510,559			508,984
Non-current							
Secured bank loans	4.28	2021	25,200	50,400	4.28	2021	50,400
Other loans – unsecured	4.91	2024	44,000	–			–
Lease liabilities	4.41	2021-2031	9,669	1,766			–
Subtotal			78,869	52,166			50,400
Total			902,351	562,725			559,384

	31 December 2019 *RMB'000* *(Unaudited)*	31 December 2018 *RMB'000* *(Audited)*
Analysed into:		
Bank loans repayable:		
Within one year	**821,439**	508,984
In the second year	**25,200**	25,200
In the third to fifth years, inclusive	**–**	25,200
	846,639	559,384

	31 December 2019 *RMB'000* *(Unaudited)*	31 December 2018 *RMB'000* *(Audited)*
Other borrowings repayable:		
Within one year	**2,043**	–
In the second year	**1,404**	–
In the third to fifth years, inclusive	**46,691**	–
Over five years	**5,574**	–
	55,712	–

Notes:

(i) As at 31 December 2019, the current interest-bearing bank borrowings with a carrying amount of RMB304,284,000 (unaudited) were secured by certain property, plant and equipment, prepaid land lease payments, and inventories with carrying amounts of RMB122,816,000 (unaudited) (2018: RMB80,992,000 (audited)), RMB39,397,000 (unaudited) (2018: RMB43,806,000 (audited)) and RMB40,000,000 (unaudited) (2018: RMB40,000,000 (audited)), respectively.

(ii) As at 31 December 2019, the non-current interest-bearing bank borrowings with a carrying amount of RMB25,200,000 (unaudited) were secured by certain property, plant and equipment and prepaid land lease payments of the Group with carrying amounts of RMB71,393,000 (unaudited) (2018: RMB74,962,000 (audited)) and RMB14,783,000 (unaudited) (2018: RMB15,102,000 (audited)), respectively.

The carrying amount of the current interest-bearing bank loans of the Group approximates to their fair value due to their short-term maturity.

The fair values of the non-current interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2019 was assessed to be insignificant. Management has assessed that the carrying amount of the non-current interest-bearing bank loans of the Group approximates to their fair value due to their floating interest rate.

16. TREASURY SHARES

	31 December 2019			31 December 2018		
	Number of shares	**Amount**		Number of shares	Amount	
		HK$'000	***RMB'000* equivalent**		*HK$'000*	*RMB'000* equivalent
	(Unaudited)	***(Unaudited)***	***(Unaudited)***	***(Audited)***	***(Audited)***	***(Audited)***
At the beginning of year	**19,400,000**	**22,160**	**19,508**	19,400,000	22,160	19,508
Vested shares transferred	**(1,010,000)**	**(1,154)**	**(1,015)**	–	–	–
At the end of year	**18,390,000**	**21,006**	**18,493**	19,400,000	22,160	19,508

On 26 August 2016, the Company adopted a share award plan, which is not subject to the provisions of Chapter 17 of the Listing Rules (the "**Share Award Plan**"). The board of directors may, at their discretion, grants shares of the Company to eligible participants. The Company has appointed a trustee for administration of the Share Award Plan (the "**Trustee**"). The principal activity of the Trustee is administrating and holding the Company's shares for the Share Award Plan for the benefit of the Company's award holders. The Company's shares will be purchased by the Trustee in the market with cash paid by the Company and held in the trust for relevant award holders until such shares are vested in accordance with the provisions of the Share Award Plan. Upon vesting, the Trustee shall either transfer the vested awarded shares at no cost to such award holders or sell the vested awarded shares at the then prevailing market price by way of market order and remit the net proceeds to the award holders in accordance with the direction given by such award holders. The total number of the Company's shares purchased by the Trustee under the Share Award Plan will not exceed 5% of the total issued shares of the Company at the beginning of the fiscal year. During the year ended 31 December 2017, the Trustee purchased 19,400,000 shares of the Company at a total consideration of approximately RMB19,508,000. At the end of the reporting period, 19,370,000 shares were granted under the Share Award Plan and 1,010,000 vested shares were transferred to award holders.

MANAGEMENT DISCUSSION AND ANALYSIS (NOTE)

BUSINESS REVIEW

2019 was a year full of challenging events which affected the overall market environment, including the protectionism and trade barrier which hindered the free trade. Also, there was the trade war between China and United States, which after numerous rounds of trade talks, resulted in an interim agreement being signed between China and United States in late 2019.

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 2019 (the "**Year**") was 6.1%. The overall textile industry in China recorded a growth of 0.9% in export during the Year, according to the statistics of the General Administration of Customs of the PRC. The market price of cotton has dropped 13.0% in 2019 which may exert negative influence to the market demand of linen yarn.

According to the statistics of the General Administration of Customs of the PRC, the total volume of pure linen yarn exports of China in 2019 dropped by approximately 21.7% year-on-year, compared to a 5.0% drop by Kingdom during the same period. The total export of pure linen yarn from China to India market has seen a whopping 58.0% decline during the Year, while Kingdom recorded a 18.0% decline during the same period. Such decline was a direct result of the implementation of a definitive anti-dumping duty by the Indian government in late 2018 for five years ranging from USD0.5 to USD4.83 per kilogram of "flax yarn" of below 70 Lea Count (or below 42 Nm) originating in or exported from China. 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. However, if the price factor is being put aside, the market has proven that pure linen yarn is a preferred choice over linen mixed yarn. 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.

Note: All figures for the year ended 31 December 2019 under this management discussion and analysis section are unaudited while the comparative figures for year ended 31 December 2018 are audited.

During the Year, the Group's pure linen yarn exports amounted to 10,900 tonnes (2018: 11,472 tonnes). The Group continued to account for more than 40% of the total pure linen yarn export from China, signifying the Group's continuous leading position as the largest pure linen yarn exporter in China for 17 consecutive years.

As a result of the recovery of the global market demand of pure linen yarn since the end of 2017 and the Group's strategic price adjustments during the Year, revenue of the Group for the Year increased by approximately 20.4% year-on-year to RMB1,499,560,000 (2018: RMB1,245,643,000). Gross profit surged by approximately 40.9% year-on-year to RMB363,267,000 (2018: RMB257,881,000) and overall gross margin increased to 24.2% in 2019 (2018: 20.7%). Profit for the Year was RMB155,765,000, representing a surge of 50.1% as compared from RMB103,187,000 for the year 2018. Basic earnings per Share amounted to RMB0.25 (2018: RMB0.17). To reciprocate 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 HK7.0 cents per Share for the Year (2018: HK6.0 cents per 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 agents in Turkey, Portugal, Italy, Lithuania and Korea. The Group's subsidiary in Italy keeps its own inventories so that it can serve the immediate needs and tighten its co-operations with high-end customers in Europe. During the Year, revenue derived from overseas sales amounted to RMB848,984,000, representing approximately 56.6% of the Group's total revenue. In particular, revenue from European Union countries amounted to approximately RMB349,183,000, representing approximately 23.3% of the Group's total revenue, while revenue from non-European Union countries amounted to approximately RMB499,801,000, representing approximately 33.3% of the Group's total revenue. During the Year, despite the Department of Commerce, Government of India has initiated anti-dumping investigation of linen yarn originating in or exported from China, India continued to overtake Italy since 2017 as the largest export market of the Group and accounted for approximately 22.2% of the Group's total export revenue, followed by, in descending order, Italy, Turkey, Korea, Portugal and Lithuania.

Domestic sales in China increased by approximately 38.2% during the Year to RMB650,576,000, representing approximately 43.4% 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 a 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 Market

	FY2019		**FY2018**		**Year-on-year change in revenue**	**Year-on-year change in revenue**
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
	(Unaudited)	*(Unaudited)*	*(Audited)*	*(Audited)*	*(Unaudited)*	*(Unaudited)*
China	650,576	43.4%	470,690	37.8%	179,886	38.2%
European Union	349,183	23.3%	307,854	24.7%	41,329	13.4%
Non-European Union	499,801	33.3%	467,099	37.5%	32,702	7.0%
Total Revenue	1,499,560	100.0%	1,245,643	100.0%	253,917	20.4%

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 and Belgium. 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 expand the cultivation area of organic flax in Xinjiang with the aim to further stabilise the price fluctuations and supply of raw materials.

Production Bases and Productivity

As at 31 December 2019, 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 industrial hemp yarn. Currently, the designed annual linen and industrial hemp yarn production capacity of the Group amounts to 22,000 tonnes based on standardized 24Nm specification. The utilization rate of each of the production bases was close to 100% during the Year.

The Group's production bases are continuously under 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 2020.

The Group owns a 72.72% equity interest in the flax and industrial hemp yarn manufacturing facility in Heilongjiang 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.

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 Factory 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 of Ethiopia had reaffirmed their commitment in maintaining the industrialization agenda that has already been initiated. With the new Ethiopian Prime Minister Abiy Ahmed Ali being awarded with the Nobel Peace Prize in 2019, the Board believes that the strategic investment in Ethiopia will have a long-term benefit to the Group. The construction of the factory is completed and machinery and equipment have been installed. Due to the outbreak of the coronavirus disease 2019 (COVID-19) in Mainland China in late 2019 (the "**Epidemic**"), secondment of more than 100 Chinese operation technicians to Ethiopia originally scheduled in early February 2020 was then postponed to mid-March 2020. The technicians were sent to Ethiopia to facilitate the trial production of the new factory and to provide training to Ethiopian workers on various operating skills. As a result, the Ethiopia production facility is expected to commence trial production in the second quarter of 2020.

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	Close to 100%
5	Ethiopia	Adama	Ethiopia	5,000	Expects trial production in second quarter of 2020

Patents, Awards and Recognition

The Group has continued to invest in technology and innovation. As at 31 December 2019, the Group owned 67 registered patents and there were another 37 patents applications pending formal approval by relevant authorities.

FINANCIAL REVIEW

Revenue

For the Year, the Group's revenue increased by approximately 20.4% to approximately RMB1,499,560,000 (2018: RMB1,245,643,000). The increase of revenue was mainly attributable to the improved selling price of pure linen yarn sold during the Year. Sales to China, European Union ("**EU**") and non-EU markets recorded growth of 38.2%, 13.4% and 7.0% respectively, during the Year.

Gross Profit and Gross Profit Margin

For the Year, the Group's gross profit surged to RMB363,267,000, representing a year-on-year growth of approximately 40.9% (2018: RMB257,881,000). Gross profit margin for the Year improved by 3.5 percentage points to 24.2% (2018: 20.7%) as a result of improved selling prices of the linen yarn during the Year.

Other Income and Gains

For the Year, other income and gains of RMB17,364,000 (2018: RMB24,308,000) were mainly represented by interest income of RMB1,051,000 (2018: RMB1,044,000), various government grants which amounted to RMB8,161,000 (2018: RMB2,501,000), the net exchange gain of RMB5,186,000 (2018: RMB19,235,000), gain on derivative financial instruments of RMB198,000 (2018: loss on derivative financial instruments of RMB3,438,000 recorded in Other Expenses), and insurance income of RMB1,068,000 (2018: RMB2,000).

Selling and Distribution Expenses

For the Year, the Group's selling and distribution expenses amounted to approximately RMB49,453,000 (2018: RMB48,687,000), which accounted for approximately 3.3% (2018: 3.9%) of the Group's revenue. The drop in the selling and distribution expenses as a percentage of revenue in the Year was mainly due to lower percentage of freight and custom clearance expenses incurred, as higher proportion of sales were made locally in China during the Year.

Administrative Expenses

For the Year, the Group's administrative expenses amounted to approximately RMB82,061,000 (2018: RMB73,020,000), representing an increase of approximately 12.4% as compared to the year ended 31 December 2018. The increase of administrative expenses was mainly due to additional research and development costs of RMB1,946,000, personnel costs of RMB1,905,000, travelling expense of RMB1,244,000, miscellaneous taxes of RMB1,304,000, bank charges of RMB1,485,000, and bad debts of RMB1,528,000.

Other Expenses

Other expenses of the Group for the Year mainly represent impairment provision of RMB6,173,000 for certain machinery for production of colour yarn being left idle during the Year (2018: Nil), asset disposal loss of RMB1,374,000 (2018: RMB405,000) and compensation expense of RMB1,144,000 (2018: Nil).

Finance Costs

For the Year, finance costs amounted to approximately RMB22,148,000 (2018: RMB21,520,000), which comprises of net finance cost of RMB21,940,000 (2018: RMB21,520,000) and interest on lease liabilities arising from modified retrospective adoption of IFRS16 at the beginning of the Year of RMB208,000 (2018: Nil). Net finance costs represent the total interest expense on bank loans of RMB35,003,000 (2018: RMB26,392,000) less amount capitalized attributable to capital assets. An interest expense of approximately RMB13,063,000 was capitalized during the Year (2018: RMB4,872,000).

Income Tax Expenses

Income tax expense for the Year was approximately RMB61,112,000 (2018: RMB28,957,000). The increase in tax was due to additional accrual of dividend withholding tax liability during the Year. The effective tax rate for the Year was 28.2% (2018: 21.9%).

Profit for the Year

As a result, the Group recorded a net profit for the Year of approximately RMB155,765,000 (2018: approximately RMB103,187,000), representing an increase of approximately 51.0% as compared to the year ended 31 December 2018.

Minority Interests

The minority interests amounted to RMB4,297,000 which 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 (2018: RMB1,181,000).

Profit Attributable to Owners of the Parent

During the Year, the Group recorded a profit attributable to owners of the parent of approximately RMB151,468,000 (2018: RMB102,006,000), representing an increase of approximately 48.5% as compared to the year ended 31 December 2018.

Other Intangible Assets

As at 31 December 2019, the Group's intangible assets were mainly certified emission rights in 2012 for a term of 20 years, which amounted to RMB4,703,000 (2018: RMB5,248,000). Intangible assets are subject to amortisation based on their useful lives. For the Year, the amortisation of intangible assets was approximately RMB545,000 (2018: RMB586,000).

* *For identification purpose only*

Inventories

As at 31 December 2019, inventories of the Group increased by approximately 42.8% to RMB795,592,000 (2018: RMB557,087,000), the average inventory turnover days increased from 201 days as at 31 December 2018 to 217 days as at 31 December 2019. The higher number of inventory turnover days was mainly attributable to strategic accumulation of raw materials and higher linen yarn inventory level at the end of the Year.

Trade and Notes Receivables

As at 31 December 2019, trade and notes receivables of the Group increased by approximately 17.2% to RMB345,813,000 (2018: RMB295,115,000), the average accounts receivable turnover days decreased from 89 days as at 31 December 2018 to 78 days as at 31 December 2019.

Trade and Notes Payables

As at 31 December 2019, trade and notes payables of the Group increased by approximately 46.1% to approximately RMB358,817,000 (2018: RMB245,675,000). 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 97 days during the Year (2018: 80 days).

Interest-bearing Bank and Other Borrowings

As at 31 December 2019, the Group's interest-bearing bank and other borrowings increased by 61.3% to approximately RMB902,351,000 (2018: RMB559,384,000), of which RMB823,482,000 (2018: RMB508,984,000) were classified under current liabilities and RMB78,869,000 (2018: RMB50,400,000) were classified as non-current liabilities.

Liquidity and Financial Resources

As at 31 December 2019, the Group has net current assets of approximately RMB178,938,000 (2018: RMB314,058,000). The Group financed its operations with internally generated resources and bank loans during the Year. As at 31 December 2019, the Group had cash and cash equivalents of approximately RMB144,798,000 (2018: RMB241,826,000).

The liquidity ratio of the Group as at 31 December 2019 was approximately 113.3% (2018: 134.5%). Total equity of the Group as at 31 December 2019 was approximately RMB1,280,895,000 (2018: RMB1,153,509,000).

As at 31 December 2019, the Group had interest bearing bank and other borrowings repayable within 12 months from the statement of financial position date of approximately RMB823,482,000 (2018: RMB508,984,000) and long-term interest bearing bank and other borrowings of approximately RMB78,869,000 (2018: RMB50,400,000). Together these interest bearing bank and other borrowings represented a gross debt gearing (i.e. total borrowings/total equity) of approximately 70.4% (2018: 48.5%).

CAPITAL COMMITMENTS

As at 31 December 2019, 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 RMB41,370,000 (2018: RMB146,431,000).

MATERIAL ACQUISITION AND DISPOSAL

On 28 January 2019, Zhejiang Jinyuan Flax Co., Ltd. ("**Zhejiang Jinyuan**"), an indirect wholly-owned subsidiary of the Company, entered into an equipment purchase agreement with Zhejiang Golden Eagle Co., Ltd.*（浙江金鷹股份有限公司）("**Zhejiang Golden Eagle**"), pursuant to which Zhejiang Jinyuan agreed to purchase and Zhejiang Golden Eagle agreed to sell certain equipment, consisting of fibre-forming machines, drawing frames and spinning frames at a consideration of RMB24,470,000 for the linen yarn factory project in Ethiopia. For further details, please refer to the announcement of the Company dated 28 January 2019.

On 24 May 2019, Heilongjiang Jinda Flax Hemp Co., Ltd ("**Heilongjiang Jinda**"), a 72.73% indirect owned subsidiary of the Company, entered into an equity transfer agreement with Heilongjiang Kangyuan Bio-tech Co., Ltd.（黑龍江康源生物科技有限公司）("**Heilongjiang Kangyuan**"), pursuant to which Heilongjiang Jinda agreed to dispose and Heilongjiang Kangyuan agreed to acquire the 75% equity interest of Heilongjiang Kangyuan Flax and Hemp Seed Co., Ltd*（黑龍江康源種業有限公司）("**Kanguan Seed**") at a consideration of RMB7,500,000. Upon completion of the disposal, the Company ceased to have any interest in Kangyuan Seed. For further details, please refer to the announcement of the Company dated 24 May 2019.

* *For identification purpose only*

On 29 November 2019, Zhejiang Jinyuan, an indirectly wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Zhejiang Kingdom Creative Co., Ltd.*（浙江金達創業有限公司）(“**Kingdom Creative**”), pursuant to which Zhejiang Jinyuan agreed to acquire and Kingdom Creative agreed to sell a parcel of land located at No. 192, Xinqiao North Road, Wuyuan Town, Haiyan County, Zhejiang Province, the PRC（中國浙江省海鹽縣武原鎮新橋北路192號）with a total area of approximately 15,700 sq.m. and the buildings erected on that land comprising two staff quarters and five other buildings with an aggregate area of approximately 10,000 sq.m at a consideration of RMB50,000,000. For further details, please refer to the announcement of the Company dated 29 November 2019.

Saved as disclosed above, the Group did not have any material acquisitions or disposals during the Year.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any contingent liabilities (2018: Nil).

CHARGE OF ASSETS

As at 31 December 2019, the current interest-bearing bank borrowings with a carrying amount of RMB304,284,000 were secured by certain property, plant and equipment, prepaid land lease payments, and inventories with carrying amounts of RMB122,816,000 (2018: RMB80,992,000), RMB39,397,000 (2018: RMB43,806,000) and RMB40,000,000 (2018: RMB40,000,000), respectively.

As at 31 December 2019, the non-current interest-bearing bank borrowings with a carrying amount of RMB25,200,000 were secured by certain property, plant and equipment and prepaid land lease payments of the Group with carrying amounts of RMB71,393,000 (2018: RMB74,962,000) and RMB14,783,000 (2018: RMB15,102,000), respectively.

FOREIGN CURRENCY RISK

The Group’s transactions are mainly denominated in Renminbi, 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 RMB198,000 which were recognised by the Group as a current asset as at 31 December 2019 (2018: current liability of RMB3,438,000).

* *For identification purpose only*

REMUNERATION POLICY AND SHARE OPTION SCHEME

As at 31 December 2019, the Group had a total of 3,099 employees (2018: 3,048 employees). Total staff costs incurred for the Year increased by approximately 11.0% to RMB204,072,000 (2018: RMB183,823,000). The increase in staff costs which stemmed from the additional headcount mainly represents the workforce recruited by the Group for the new Ethiopia 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 remuneration 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, the execution risk of the new expansion project in Ethiopia, and outbreak of epidemic causing disruption of production.

OUTLOOK AND PLANS

The uncertainties of 2019 continue to carry forward to 2020. Although the trade war between United States and China has temporarily subsided, the next rounds of trade talks are likely to be bumpy especially 2020 is the presidential election year in the United States. The outbreak of the coronavirus disease 2019 (COVID-19) in Mainland China in late 2019 has caused delay to the resumption of the operations of factories and offices in Mainland China after the Chinese New Year, which has caused general disruptions in the supply chain and production across China. Some fashion brands in Europe and the United States have begun to adjust their supply chain and transferred some garment orders from China to Turkey, India and Southeast Asian countries and regions. In addition, the Department of Commerce, Government of India has imposed definitive anti-dumping duty for five years ranging from USD0.5 to USD4.83 per kilogram of "flax yarn" of below 70 Lea Count (or below 42 Nm) originating in or exported from China. The Group's linen yarn will be subject to USD2.42/kg of such definitive antidumping duty for export to India from 2019 onwards. Such duty has been partially reflected in the selling price to the customers.

Despite of the above challenges, the trend of environment-friendliness and the use of natural fibers has been set. Many fashion brands had made commitments to use environmental and sustainable materials for their products. Linen yarn, as one of the most environment-friendly fibers, will surely benefit from this trend. In addition, China has become one of the largest consumer markets for linen textile products. The Company is confident in the sustainable demand for linen yarn in the coming years, as the Chinese government encourages domestic consumption for its GDP growth and transformation of its economy to lessen the reliance on exports. In addition, the first phase of our Ethiopia factory with an annual production capacity of 5,000 tonnes (based on standard 24NM counts) is completed and expected to commence trial production in the second quarter of 2020. Exemptions of quota and custom duty for exports of linen yarn manufactured in Ethiopia to a vast number of countries in the world will help the Group to remain competitive in the coming years.

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

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") throughout the Year.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "**Annual General Meeting**") will be held on Friday, 22 May 2020 and a notice of the Annual General Meeting will be published and despatched in the manner as required by the Listing Rules.

DIVIDEND

The Board proposed a payment of final dividend of HK$7.0 cents per ordinary share for the year ended 31 December 2019 (2018: HK$6.0 cents), subject to the approval by the shareholders of the Company at the Annual General Meeting.

CLOSURE OF REGISTER OF MEMBERS

In order to determine who are entitled to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Friday, 15 May 2020 to Friday, 22 May 2020, 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 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 Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 14 May 2020.

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 Wednesday, 24 June 2020 to Friday, 26 June 2020, 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 above address for registration not later than 4:30 p.m. on Tuesday, 23 June 2020. The proposed final dividend, subject to Shareholders' approval at the Annual General Meeting, will be paid to Shareholders on or before Friday, 17 July 2020 whose names appear on the register of members of the Company at the close of business on Friday, 26 June 2020.

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 "**CG Code**") contained in Appendix 14 of the Listing Rules.

In the opinion of the Directors, save for the deviations to code provisions A.2.1 as disclosed below, the Company has complied with the applicable code provisions as set out in the CG Code throughout the Year.

Code Provision A.2.1

Under code provision A.2.1 of the CG 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 meets 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. The Board will continuously review this structure from time to time to ensure appropriate and timely action to meet changing circumstances, if necessary.

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 2019 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 CG 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 unaudited annual results of the Group for the year ended 31 December 2019 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.

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2019 has not been completed due to restrictions in force in parts of China to combat the COVID-19 coronavirus outbreak. The unaudited results contained herein have not been agreed by the Company's auditors. An announcement relating to the audited results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants. The Company expects the auditing process will be completed on or before 19 April 2020.

The unaudited annual results contained herein have been reviewed by the Audit Committee.

PUBLICATION OF ANNUAL REPORT

This unaudited 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 2019 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.

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

Zhejiang, 20 March 2020

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.

* *For illustration purpose only*