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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

- Revenue decreased by approximately 14.2% to approximately RMB821,476,000 for the six months ended 30 June 2023 from approximately RMB957,058,000 for the six months ended 30 June 2022 mainly attributable to the lower quantity of linen yarn sold due to weaker demand from export markets especially the European Union region, countered off by higher average selling price of linen yarn, the launch of REEL linen products and organic hemp yarn and the appreciation of United States Dollars against Renminbi during the Review Period.

- Gross profit margin slightly decreased by approximately 0.6 percentage point to approximately 18.8% for the six months ended 30 June 2023 from approximately 19.4% for the six months ended 30 June 2022 as a result of the surge in raw material costs, countered by higher selling price of linen yarn, scaling up of production capacity of the Ethiopia factory and the appreciation of the United States Dollars against Renminbi during the Review Period.

- Profit for the Review Period dropped by approximately 20.1% to RMB67,500,000 for the six months ended 30 June 2023 from approximately RMB84,439,000 for the six months ended 30 June 2022.

- Profit attributable to the owners of the parent dropped by approximately 18.1% to RMB67,549,000 for the six months ended 30 June 2023 from approximately RMB82,494,000 for the six months ended 30 June 2022.

- Basic earnings per share at approximately RMB0.11 for the six months ended 30 June 2023 (for the six months ended 30 June 2022: RMB0.13).

The board of directors (the "**Board**") of Kingdom Holdings Limited (the "**Company**") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2023 (the "**Review Period**"):

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023 (unaudited)

	Notes	**For the six months ended 30 June** **2023** ***RMB'000*** **(Unaudited)**	2022 *RMB'000* (Unaudited)
REVENUE	*4*	**821,476**	957,058
Cost of sales		**(666,775)**	(770,976)
Gross profit		**154,701**	186,082
Other income and gains	*4*	**13,100**	37,842
Selling and distribution expenses		**(13,957)**	(23,210)
Administrative expenses		**(49,361)**	(60,087)
Other expenses		**(673)**	(5,998)
Finance costs	*5*	**(15,326)**	(17,624)
PROFIT BEFORE TAX	*6*	**88,484**	117,005
Income tax expense	*7*	**(20,984)**	(32,566)
PROFIT FOR THE PERIOD		**67,500**	84,439
Attributable to:			
Owners of the parent		**67,549**	82,494
Non-controlling interests		**(49)**	1,945
		67,500	84,439
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	*9*	**RMB0.11**	RMB0.13
Diluted	*9*	**RMB0.11**	RMB0.13

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023 (unaudited)

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**67,500**	84,439
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(620)**	(1,527)
TOTAL COMPREHENSIVE INCOME, FOR THE PERIOD	**66,880**	82,912
Attributable to:		
Owners of the parent	**66,929**	80,967
Non-controlling interests	**(49)**	1,945
	66,880	82,912

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023 (unaudited)

	Notes	**30 June 2023** ***RMB'000*** **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,071,353**	1,075,398
Investment property		**4,233**	4,533
Right-of-use assets		**67,382**	68,815
Other intangible assets		**5,743**	6,173
Prepayments for equipment		**4,641**	1,082
Deferred tax assets		**10,038**	8,473
Other non-current assets		**3,407**	3,407
Total non-current assets		**1,166,797**	1,167,881
CURRENT ASSETS			
Inventories		**1,042,867**	685,180
Trade and bills receivables	*10*	**440,733**	426,267
Prepayments, deposits and other receivables		**130,292**	96,225
Pledged deposits		**139,903**	61,900
Cash and cash equivalents		**168,180**	467,469
Total current assets		**1,921,975**	1,737,041
CURRENT LIABILITIES			
Trade and bills payables	*11*	**433,421**	367,096
Other payables and accruals		**194,330**	228,094
Interest-bearing bank and other borrowings		**786,642**	696,344
Dividend payable		**52,464**	307
Tax payable		**21,577**	27,866
Total current liabilities		**1,488,434**	1,319,707
NET CURRENT ASSETS		**433,541**	417,334
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,600,338**	1,585,215

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2023 (unaudited)

	Notes	**30 June 2023** ***RMB'000*** **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,600,338**	1,585,215
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**39,704**	40,666
Interest-bearing bank and other borrowings		**56,387**	56,559
Total non-current liabilities		**96,091**	97,225
Net assets		**1,504,247**	1,487,990
EQUITY			
Equity attributable to owners of the parent			
Share capital		**6,329**	6,329
Treasury shares		**(13,305)**	(13,305)
Reserves		**1,429,270**	1,412,964
		1,422,294	1,405,988
Non-controlling interests		**81,953**	82,002
Total equity		**1,504,247**	1,487,990

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023 (unaudited)

1. CORPORATE AND GROUP INFORMATION

Kingdom Holdings Limited (the "**Company**") 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 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong.

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2023 have been prepared in accordance with International Accounting Standard ("**IAS**") 34 "Interim Financial Reporting".

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2022.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of the following new and revised International Financial Reporting Standards ("**IFRSs**") for the first time for the current period's financial information.

IFRS 17	*Insurance Contracts*
Amendments to IFRS 17	*Insurance Contracts*
Amendment to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 – Comparative Information*
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to IAS 8	*Definition of Accounting Estimates*
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to IAS 12	*International Tax Reform – Pillar Two Model Rules*

The nature and impact of the revised IFRSs are described below:

(a) Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.

(b) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to IAS 12 narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The Group has applied the amendments on temporary differences related to leases as at 1 January 2022, with any cumulative effect recognised as an adjustment to the balance of retained profits or other component of equity as appropriate at that date. In addition, the Group has applied the amendments prospectively to transactions other than leases that occurred on or after 1 January 2022, if any.

    Prior to the initial application of these amendments, the Group applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. Upon initial application of these amendments, the Group recognised (i) a deferred tax asset for all deductible temporary differences associated with lease liabilities (provided that sufficient taxable profit is available), and (ii) a deferred tax liability for all taxable temporary differences associated with right-of-use assets as at 1 January 2022. The quantitative impact on the financial information is immaterial, so no adjustment was made to the balance of retained profits as at 1 January 2022.

(d) Amendments to IAS 12 International Tax Reform – Pillar Two Model Rule introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

3. OPERATING SEGMENT

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

Geographical information

(a) Revenue

An analysis of the Group's geographical information on revenue attributed to the regions on the basis of the customers' locations for the six months ended 30 June 2023 is set out in the following table:

	Revenue For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China	**344,603**	312,827
European Union	**240,230**	339,165
Non-European Union	**236,643**	305,066
Total	**821,476**	957,058

(b) Non-current assets

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Mainland China	**799,890**	790,849
Ethiopia	**356,869**	368,559
	1,156,759	1,159,408

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 six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

4. REVENUE, OTHER INCOME AND GAINS

Revenue 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.

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

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Type of goods or services		
Sales of linen yarn, hemp yarn and scraps	**802,256**	929,011
Other services	**19,220**	28,047
	821,476	957,058
Timing of revenue recognition		
Goods transferred at a point in time	**802,256**	929,011
Services provided over time	**19,220**	28,047
	821,476	957,058

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Other income		
Foreign exchange gains, net	**4,223**	28,238
Gain on disposal of items of property, plant and equipment	**1,982**	–
Government grants	**2,889**	8,117
Bank interest income	**1,958**	529
Others	**2,048**	958
	13,100	37,842

5. FINANCE COSTS

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank loans	**16,235**	20,751
Interest on lease liabilities	**196**	363
Total interest expense on financial liabilities not at fair value through profit or loss	**16,431**	21,114
Less: interest capitalised	**(1,105)**	(3,490)
	15,326	17,624

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**647,555**	742,929
Cost of services	**19,220**	28,047
Depreciation	**50,869**	51,420
Depreciation of right-of-use asset	**1,987**	2,346
Amortisation of intangible assets	**430**	362
Research and development ("**R&D**") expenses	**12,656**	15,699
Auditors' remuneration	**1,100**	1,025
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries and other benefits	**73,511**	91,649
Pension scheme contributions	**6,750**	5,769
	80,261	97,418
Foreign exchange gains, net	**(4,223)**	(28,238)
Fair value loss on derivative financial instruments – transactions not qualifying as hedges	**–**	4,875
(Reversal of provision)/Provision for impairment of inventories	**(3,296)**	2,884
Provision for impairment of trade and bills receivables	**74**	3,841
Finance costs	**15,326**	17,624
Bank interest income	**(1,958)**	(529)

7. INCOME TAX

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

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current charge for the period	**23,511**	22,533
Deferred	**(2,527)**	10,033
Total tax charge for the period	**20,984**	32,566

(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 Group for the year, except for Zhejiang Kingdom Linen Co., Ltd. ("**Zhejiang Kingdom**"), an indirectly wholly-owned subsidiary of the Group. Zhejiang Kingdom obtained the High-new Technology Certificate for the years from 2022 to 2024 and is 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. 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%.

(v) Pursuant to the rules and regulations of Ethiopia, the Group is subject to tax at an income tax rate of 30%. The Group enjoys a tax holiday of profit tax exemption of 5 years since 2020.

8. DIVIDEND

The board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

9. BASIC AND DILUTED 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 period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 616,447,000 (six months ended 30 June 2022: 616,447,000) in issue during the reporting period.

The calculation of the diluted earnings per share amount is based on the profit for the reporting period 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 reporting period, 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:

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**67,549**	82,494

	Number of shares	
	2023	2022
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**616,447**	616,447
Effect of dilution – weighted average number of ordinary shares:		
Share award plan*	**–**	–
	616,447	616,447

* The share award is subject to profit target which is contingently issuable and as the condition is not met by the end of the period/year, it is not included in the calculation of diluted earnings per share calculation.

10. TRADE AND BILLS RECEIVABLES

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**335,142**	273,073
Bills receivable	**105,991**	153,520
Impairment	**(400)**	(326)
	440,733	426,267

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

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

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 month	**186,069**	148,389
1 to 2 months	**62,215**	49,438
2 to 3 months	**63,823**	37,250
Over 3 months	**22,635**	37,670
	334,742	272,747

11. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at 30 June 2023, based on the invoice date, is as follows:

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Due within 1 month or on demand	**55,170**	65,609
Due after 1 month but within 3 months	**343,251**	252,383
Over 3 months	**35,000**	49,104
	433,421	367,096

The above balances are unsecured and non-interest-bearing with credit terms of 90 days. The carrying amount of trade and bills payables at the end of each reporting period approximates to their fair value due to their short-term maturity.

12. EVENTS AFTER THE REPORTING PERIOD

There was no material subsequent event undertaken by the Group after 30 June 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

(Certain comparative figures have been reclassified to conform with current year's presentation)

BUSINESS REVIEW

The COVID-19 finally came to an end when the Director-General of World Health Organisation (WHO) announced COVID-19 emergency was over in May 2023 but geo-political tension among different countries remains. Many developed and developing countries predicted low single digit growth or even contraction of their economies in 2023.

During the Review Period, revenue of the Group dropped by approximately 14.2% on a year-on-year basis from RMB957,058,000 to RMB821,476,000. There were 7,275 tonnes of linen yarn sold during the Review Period, which was 31.2% fewer than the 10,572 tonnes of linen yarn sold during the six months ended 30 June 2022. The decrease in revenue was mainly attributable to the lower quantity of linen yarn sold during the Review Period, partially netted off by the higher average selling price of linen yarn sold, as well as the appreciation of the United States Dollars against Renminbi during the Review Period.

Major Markets and Customers

By implementing an international sales strategy, the Group has a sales network covering approximately 20 countries and regions around the world. During the Review Period, the Group's domestic sales of RMB344,603,000, which contributed to approximately 41.9% of the Group's total revenue, recorded an increase of approximately 10.2% as compared with the corresponding period last year, while the Group's overseas sales of RMB476,873,000, which contributed to approximately 58.1% of the Group's total revenue, recorded a drop of approximately 26.0% on a year-on-year basis. In particular, total sales to European Union countries and non-European Union countries reported a decrease of 29.2% and 22.4% on a year-on-year basis respectively, as a result of the weak demand during the Review Period. Key European Union countries that the Group sold its products to include Italy, Portugal, Belgium and Lithuania. Meanwhile, the Group continues to develop the domestic market with an objective to secure more cooperation with target customers in China.

Raw Material Procurement

The Group mainly sources its fibre flax, the major raw material of linen yarn, from well-established suppliers such as those in France, Belgium and the Netherlands. Being one of the largest buyers in these regions, the Group has developed long term business relationships with its suppliers. During the Review Period, the Group procured approximately 19,419 tonnes (six months ended 30 June 2022: 22,426 tonnes) of raw materials abroad, representing a year-on-year decrease of approximately 13.4%. The average procurement unit price was approximately RMB44,658 per tonne, representing a surge of approximately 64.3% from approximately RMB27,177 for the corresponding period last year, due to shortage of supplies as a result of poor harvest yield. The Group is optimistic about the future of the linen textile industry. It is the corporate procurement strategy of the Group to maintain its production scale and to secure a steady volume of production going forward. The Group will continue to closely monitor the international market development and plan its procurement cautiously at the same time.

Production Capacity

As at 30 June 2023, the Group had five productions bases as follows:

No.	Factory	Location	Country	Annual capacity (Tonnes)	Utilisation/Status
1	Haiyan 1st Factory	Zhejiang	China	7,000	Approximately 90%
2	Rugao Factory	Jiangsu	China	6,000	Approximately 90%
3	Haiyan 2nd Factory	Zhejiang	China	5,000	Approximately 80%
4	Qinggang Factory	Heilongjiang	China	4,000	Approximately 90%
5	Ethiopia	Adama	Ethiopia	5,000	Approximately 60%

The Group is equipped with advanced equipment for its unique spinning technique, namely wet spinning and long and short spinning, and can manufacture products with multiple specifications from 3nm to 75nm, thereby broadening its customers' choices and achieving higher satisfaction from them at the same time.

A total of 194 tonnes of hemp yarn under various specifications were produced during the Review Period. The Group owns 75.34% of the equity interest in the Heilongjiang venture, namely Heilongjiang Kingdom Enterprise Co., Ltd.#（黑龍江金達麻業有限公司）, and this is the Group's maiden attempt to explore the hemp yarn market. The Group believes that the hemp yarn market will grow rapidly in the next few years due to the national policy in China to promote the planting of hemp in the Heilongjiang region and the use of the hemp textile products.

Apart from China, the Group has also committed to investing in Ethiopia. The investment is expected to help the Group outperform its competitors not only by helping the Group save land cost, labour cost, energy cost and tax expenses, but also by allowing the Group to benefit from the Everything but Arms (EBA) initiative of the European Union for least developed countries (LDCs), which grants duty-free and quota-free access to all products made in LDCs into European Union countries, except for arms and ammunitions.

In order to ensure the well-being of the Group's employees in the Adama factory in Ethiopia, the factory operation in Ethiopia was halted in 2020 but has since re-commenced the recruitment of workers and started trial production in the second quarter of the year 2021. The Ethiopia factory was under normal production and ramping up its production capacity during the Review Period.

WEAVING AND FABRIC PROJECT

By leveraging on some local government incentives, we will tap into the linen weaving and fabric business with an aim to broaden different linen applications and ultimately creating a bigger market for linen yarn in general. The weaving and fabric factory in China was still under construction during the Review Period and is expected to start trial production in the fourth quarter of 2023.

FINANCIAL REVIEW

Revenue

For the Review Period, the Group's revenue dropped only by approximately 14.2% to approximately RMB821,476,000 (six months ended 30 June 2022: RMB957,058,000). The decrease in revenue was mainly attributable to the lower quantity of linen yarn sold due to weaker demand from export markets especially the European Union region as a result of the COVID-19 pandemic and geo-political tensions, countered off by higher average selling price of linen yarn, the launch of REEL linen products and organic hemp yarn and the appreciation of United States Dollars against Renminbi during the Review Period. Domestic sales in China grew by 10.2% while export sales to European Union and non-European Union regions recorded a drop of approximately 29.2% and 22.4% respectively during the Review Period.

The breakdown of revenue by sales regions is as follows:

	For the six months ended 30 June 2023		For the six months ended 30 June 2022		Year-on-year change in revenue	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
China	**344,603**	**41.9%**	312,827	32.7%	31,776	+10.2%
European Union	**240,230**	**29.3%**	339,165	35.4%	(98,935)	-29.2%
Non-European Union	**236,643**	**28.8%**	305,066	31.9%	(68,423)	-22.4%
Total Revenue	**821,476**	**100.0%**	957,058	100.0%	(135,582)	-14.2%

Gross Profit and Gross Profit Margin

The Group's gross profit for the Review Period decreased by approximately 16.9% to approximately RMB154,701,000 (six months ended 30 June 2022: approximately RMB186,082,000). Gross profit margin for the Review Period dropped by approximately 0.6 percentage point to approximately 18.8% (six months ended 30 June 2022: approximately 19.4%) as a result of the surge in raw material costs, countered by higher selling price of linen yarn, scaled up of production capacity of the Ethiopia factory and the appreciation of the United States Dollars against Renminbi during the Review Period.

Other Income and Gains

Other income and gains for the Review Period mainly comprises government grants and subsidies of approximately RMB2,889,000 (six months ended 30 June 2022: approximately RMB8,117,000), interest income of approximately RMB1,958,000 (six months ended 30 June 2022: approximately RMB529,000) and a net exchange gain of RMB4,223,000 (six months ended 30 June 2022: RMB28,238,000). The net exchange gain was mainly contributed by the appreciation of United States Dollars against Renminbi during the Review Period, as all overseas invoices were billed in United States Dollars. There were more government grants and subsidies provided by the Chinese government during the six months ended 30 June 2022, targeted to alleviate the negative financial impacts to corporations during the lockdown to curb the spread of the COVID-19 in China.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the Review Period amounted to approximately RMB13,957,000 (six months ended 30 June 2022: approximately RMB23,210,000), which accounted for approximately 1.7% (six months ended 30 June 2022: approximately 2.4%) of the Group's total revenue. The decrease in selling costs as a percentage of revenue was mainly due to less sales commission payable during the Review Period, as sales agent commission is only payable to certain export sales and there is no sales commission payable for domestic sales in China.

Administrative Expenses

The Group's administrative expenses for the Review Period amounted to approximately RMB49,361,000 (six months ended 30 June 2022: approximately RMB60,087,000), representing a drop of approximately 17.9% as compared with the corresponding period last year. The decrease in the Group's administrative expenses was mainly due to lower staff costs of RMB3.0 million, lower research and development expenses of RMB3.0 million and a reduction in provision in bad debts of RMB3.8 million during the Review Period.

Other Expenses

The Group's other expenses for the Review Period amounted to approximately RMB673,000 (six months ended 30 June 2022: approximately RMB5,998,000). There was no fair value loss on derivative instruments (six months ended 30 June 2022: RMB4,875,000) and no assets disposal loss (six months ended 30 June 2022: approximately RMB621,000) during the Review Period.

Finance Costs

Finance costs include net borrowing interest expense and interest on lease liabilities.

Net borrowing interests for the Review Period amounted to approximately RMB15,130,000 (six months ended 30 June 2022: approximately RMB17,261,000). Net borrowing interests represent the total interest expense on bank loans less amount capitalized attributable to capital assets.

An interest expense of approximately RMB1,105,000 was capitalized during the Review Period (six months ended 30 June 2022: approximately RMB3,490,000).

Interest on lease liabilities for the Review Period amounted to approximately RMB196,000 (six months ended 30 June 2022: RMB363,000).

Total finance costs for the Review Period amounted to approximately RMB15,326,000 (six months ended 30 June 2022: approximately RMB17,624,000). The total finance cost was lower in the Review Period as the average loan balance was lower during the Review Period as compared to that of the same period last year.

Income Tax Expense

Income tax expense for the Review Period amounted to approximately RMB20,984,000 (six months ended 30 June 2022: RMB32,566,000). The effective tax rate for the Review Period and the corresponding period last year was approximately 23.7% and 27.8% respectively.

Profit for the Review Period

The Group recorded a profit for the Review Period of approximately RMB67,500,000 (six months ended 30 June 2022: RMB84,439,000), representing a decline of approximately 20.1% as compared with the corresponding period last year.

Minority Interests

The minority interests of approximately RMB49,000 represented the share of loss of certain subsidiaries of the Group attributable to the minority shareholders during the Review Period (six months ended 30 June 2022: share of profit of RMB1,945,000).

Profit Attributable to Owners of the Parent

As a result of the aforesaid, the Group recorded a profit attributable to owners of the parent for the Review Period of approximately RMB67,549,000 (six months ended 30 June 2022: RMB82,494,000), representing a decline of approximately 18.1% as compared with the corresponding period last year.

Liquidity and Financial Resources

As at 30 June 2023, the Group had net current assets of approximately RMB433,541,000 (as at 31 December 2022: approximately RMB417,334,000). The Group financed its operations with internally generated resources and bank loans during the Review Period.

As at 30 June 2023, the Group had cash and cash equivalents of approximately RMB168,180,000 (as at 31 December 2022: approximately RMB467,469,000). The liquidity ratio of the Group as at 30 June 2023 was approximately 129.1% (as at 31 December 2022: approximately 131.6%).

Total assets of the Group as at 30 June 2023 were approximately RMB3,088,772,000 (as at 31 December 2022: RMB2,904,922,000).

Total equity of the Group as at 30 June 2023 was approximately RMB1,504,247,000 (as at 31 December 2022: approximately RMB1,487,990,000). As at 30 June 2023, the Group had interest-bearing bank and other borrowings repayable within 12 months from the date of the statement of financial position of approximately RMB786,642,000 (as at 31 December 2022: approximately RMB696,344,000) and long-term interest-bearing bank and other borrowings of approximately RMB56,387,000 (as at 31 December 2022: approximately RMB56,559,000). Together they represented a gross debt gearing ratio (i.e. total borrowings divided by total equity) amounted to approximately 56.0% (as at 31 December 2022: approximately 50.6%).

The Board believes that the Group's existing financial resources are relatively sufficient. In the event that additional financing is required, the Group may consider all possible financing options, including capital raising in the capital market as and when appropriate, with an objective to maintain the Group's gearing ratio at a healthy level.

The Group's cash and cash equivalents are mainly denominated in Renminbi, United States Dollars, Euros, Hong Kong Dollars and Ethiopian Birrs. Borrowings are mainly denominated in Renminbi and Euros.

CAPITAL COMMITMENTS

As at 30 June 2023, outstanding contractual capital commitments of the Group in respect of the purchase of property, plant and equipment not provided for in the interim condensed consolidated financial statements amounted to approximately RMB172,371,000 (as at 31 December 2022: approximately RMB208,855,000). As at 30 June 2023, there was no capital commitment authorised but not contracted for (as at 31 December 2022: Nil).

CONTINGENT LIABILITIES

As at 30 June 2023, the Group did not have any material contingent liabilities (as at 31 December 2022: Nil).

CHARGE ON ASSETS

As at 30 June 2023, the current interest-bearing bank loans with a carrying amount of RMB220,000,000 (31 December 2022: RMB408,000,000) were secured by certain property, plant and equipment, and inventories with carrying amounts of approximately RMB286,967,000 (31 December 2022: RMB298,487,000), approximately RMB40,000,000 (31 December 2022: RMB40,000,000), respectively.

MATERIAL ACQUISITION AND DISPOSAL

The Group did not have any material acquisition or disposal of subsidiaries, associates and joint ventures during the Review Period.

SIGNIFICANT INVESTMENTS HELD

The Group did not have any significant investment held during the Review Period.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for the various up-keeping and maintenance of existing factory projects, vertical expansion into weaving and fabric business, the Directors confirmed that as at the date of this announcement, there is no current plan to acquire any material investment or capital assets.

FOREIGN CURRENCY EXPOSURE

The Group’s transactions are mainly denominated in Renminbi, United States Dollars, Euros, Hong Kong Dollars and Ethiopian Birrs. The exchange rate fluctuations of such currencies are monitored regularly and managed appropriately. The Company may enter into certain foreign currency forward contracts and derivative financial instruments by utilising its credit line as and when required.

REMUNERATION POLICY

As at 30 June 2023, the Group had a total of 3,842 employees (30 June 2022: 4,342 employees). Total staff costs incurred for the Review Period amounted to approximately RMB80,261,000 (six months ended 30 June 2022: RMB97,418,000).

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

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

The Group has also adopted a share option scheme 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. The Board will constantly review and determine at its absolute discretion such number of awarded shares of the Company (the "**Shares**") to be awarded to the selected persons under the share award plan with such vesting conditions as the Board may deem appropriate.

MISCELLANEOUS

The Board is of the opinion that there have been no material changes to the information published in the Company's annual report for the year ended 31 December 2022, other than those disclosed in this announcement.

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 the subsidiary in Italy are invoiced in Euros. 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 imposed on products made in China, stable supplies of raw materials, depreciation of United States Dollars against Renminbi, the implementation risks of the new expansion project in Ethiopia, and outbreak of epidemic causing disruption of production.

OUTLOOK AND PLANS

Business operation is getting back to normal after COVID-19 pandemic officially ended. However, the trade tension between the United States and China is expected to continue in the foreseeable future.

The Group's factory in Ethiopia has been in operation and would contribute extra production capacity to the Group.

Being the first company in the linen industry to obtain the carbon neutrality certification, we will continue to cultivate the growth of the hemp fiber base in China. We target to establish a scaled hemp yarn production within three years to satisfy the market demand.

In addition, the Group has partnered with COTTONCONNECT from the United Kingdom for the development of REEL Linen Code of Conduct. REEL stands for "Responsible Environment, Enhanced Livelihoods". REEL Linen Code of Conduct is a social responsibility initiative committed to the improvement and promotion of environmental safety, quality responsibility and traceability of the global flax industry from farm to yarn, and to promote the sustainable development of the whole industry chain from planting to end user. REEL Linen Code of Conduct version 2.0 was issued in May 2022.

The Group will continue to promote the REEL Linen Code of Conduct for the sustainability of the linen industry.

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

The Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities during the Review Period.

CORPORATE STRATEGY AND LONG TERM BUSINESS MODEL

The primary objective of the Group is to enhance long-term total return for Shareholders. The strategy of the Group is to deliver sustainable returns with solid financial fundamentals. To achieve this objective, the Company strives to be one of the largest linen yarn manufacturers in the world through implementation of strategic global production layout, its commitment to sustainable development and technical innovation, developing proprietary intellectual property rights, branding of products and pursuing advanced management for lean management and excellent performance to generate or preserve value over a longer term. The section headed "Management Discussion and Analysis" of this announcement contains discussions and analyses of the performance of the Group and the basis on which the Group generates or preserves value over the longer term and the strategy for delivering the objective of the Group.

INTERIM DIVIDEND

The Board has resolved not to recommend any interim dividend for the six months ended 30 June 2023 (30 June 2022: Nil).

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "**Scheme**") on 30 May 2016, for the purpose of providing rewards and incentives to any Director, employee, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group who have contributed to the success of the Group's operations. No option has been granted under the Scheme since its adoption on 30 May 2016.

SHARE AWARD PLAN

The Company has adopted a share award plan (the "**Share Award Plan**") on 26 August 2016. The purpose of the Share Award Plan is to incentivise, recognize and reward eligible persons for their contribution to the Group, attract and retain personnel, and align the interests of award holders with that of the Shareholders to promote the long-term development and financial performance of the Company.

The Board may, from time to time and at its sole discretion, select any eligible person to participate in the Share Award Plan and determine the number of Shares to be awarded and the terms and conditions of the awards. Awards shall be satisfied by Shares acquired in the market at the prevailing market price and no new Shares will be allotted and issued under the Share Award Plan. The trustee of the Share Award Plan (the "**Trustee**") shall hold the awarded Shares on trust for the award holders until the awarded Shares are vested in the relevant award holders according to the Share Award Plan rules. 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.

No amount is payable by a selected person upon the acceptance of an offer of or transfer of the awarded Shares from the Trustee to such selected person.

Any grant of awarded Shares to a selected person which would result in the aggregate of (i) the number of awarded Shares underlying all awards (whether vested or not); and (ii) the number of Shares issued and to be issued upon exercise of options (whether exercised or outstanding) under any share option scheme adopted by the Company from time to time (including the Scheme), granted to such selected person in the 12-month period up to and including the date of grant of such awarded Shares exceeding 1% of the Shares in issue as at the date of grant of such awarded Shares shall be subject to the approval of the Shareholders in a general meeting. In any financial year of the Company, the maximum number of Shares acquired by the Trustee under the Share Award Plan shall not exceed 5% of the Shares in issue as at the beginning of such financial year.

During the Review Period, no Shares have been awarded pursuant to the Share Award Plan. There were a total of 13,230,750 Shares held by Trustee and available for future granting as at 30 June 2023, representing approximately 2.1% of the issued Shares of the Company as at 30 June 2023.

EVENTS AFTER THE REVIEW PERIOD

The Group has no material events after the Review Period that is required to be disclosed subsequent to 30 June 2023 and up to the date of this announcement.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has devised its own code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). Having made specific enquiries with all Directors, all Directors have confirmed that they have complied with the required standards as set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions for the Review Period and up to the publication date of this announcement.

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 Shareholders. The Directors believe that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. In the opinion of the Directors, save for the deviation from code provision C.2.1 of Part 2 of the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Listing Rules as disclosed below, the Company has complied with the code provisions set out in Part 2 of the Code throughout the Review Period.

Code Provision C.2.1

Under code provision C.2.1 of Part 2 of the Code, the roles of the chairman and chief executive officer of the Company should be separated 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 Group. 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.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

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 system of the Group and to provide advice and comments to the Board. The Audit Committee comprises three members who are all independent non-executive Directors, namely, Mr. Lau Ying Kit, Mr. Yan Jianmiao and Mr. Lo Kwong Shun Wilson. Mr. Lau Ying Kit, who has appropriate professional qualifications and experience in accounting matters as required under Rule 3.10(2) of the Listing Rules, is the chairman of the Audit Committee. The interim results of the Group for the Review Period have been reviewed with no disagreement by the Audit Committee.

APPRECIATION

The chairman of the Company would like to take this opportunity to thank his fellow Directors for their invaluable advice and guidance, and to each and every one 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

30 August 2023
Hong Kong

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.