KINGDOM

KINGDOM HOLDINGS LIMITED
金達控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 528)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

- Revenue of the Group surged by approximately 21.6% to approximately RMB1,245,643,000 for the year ended 31 December 2018 from approximately RMB1,023,962,000 for the year ended 31 December 2017.
- Gross profit margin for the year ended 31 December 2018 rebounded to 20.7% (2017: 11.4%) due to increase of selling price of linen yarn during the year.
- Profit for the year surged to RMB103,187,000 for the year ended 31 December 2018, compared to RMB622,000 for the year ended 31 December 2017.
- Profit attributable to owners of the parent amounted to approximately RMB102,006,000 for the year ended 31 December 2018, compared to a loss attributable to owners of the parent amounted to approximately RMB3,132,000 for the year ended 31 December 2017.
- Basic earnings per share for the year ended 31 December 2018 increased to RMB0.17 (2017: loss per share of RMB0.01).
- The Board proposed a payment of final dividend of HK$6.0 cents per ordinary share for the year ended 31 December 2018 (2017: HK$2.0 cents).

The board (the "**Board**") of directors (the "**Directors**") of Kingdom Holdings Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018 together with the comparative figures for the corresponding year as follows:

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

For the year ended 31 December 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
REVENUE	*5*	**1,245,643**	1,023,962
Cost of sales		**(987,762)**	(907,694)
Gross profit		**257,881**	116,268
Other income and gains	*5*	**24,308**	25,575
Selling and distribution expenses		**(48,687)**	(39,361)
Administrative expenses		**(73,020)**	(49,670)
Other expenses		**(6,818)**	(38,200)
Finance costs	*6*	**(21,520)**	(17,712)
PROFIT/(LOSS) BEFORE TAX	*7*	**132,144**	(3,100)
Income tax (expense)/credit	*8*	**(28,957)**	3,722
PROFIT FOR THE YEAR		**103,187**	622
Attributable to:			
Owners of the parent		**102,006**	(3,132)
Non-controlling interests		**1,181**	3,754
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	*10*	**RMB0.17**	RMB(0.01)
Diluted	*10*	**RMB0.16**	RMB(0.01)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	2017
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**103,187**	622
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**86**	613
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**103,273**	1,235
Attributable to:		
Owners of the parent	**102,092**	(2,519)
Non-controlling interests	**1,181**	3,754
	103,273	1,235

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**803,778**	726,532
Investment properties		**6,929**	7,529
Prepaid land lease payments		**63,062**	64,837
Other intangible assets		**7,248**	5,834
Prepayments for equipment		**17,139**	7,571
Deferred tax assets		**5,596**	14,640
Other non-current assets		**407**	407
Total non-current assets		**904,159**	827,350
CURRENT ASSETS			
Inventories	*11*	**557,087**	531,212
Trade and notes receivables	*12*	**295,115**	310,215
Prepayments, deposits and other receivables		**60,704**	68,650
Other current assets		**–**	851
Pledged deposits		**68,857**	50,314
Cash and cash equivalents		**241,826**	173,824
Total current assets		**1,223,589**	1,135,066
CURRENT LIABILITIES			
Trade and notes payables	*13*	**245,675**	189,783
Other payables and accruals		**123,300**	93,979
Derivative financial instruments	*14*	**3,438**	7,002
Interest-bearing bank borrowings	*15*	**508,984**	519,561
Dividend payable		**1**	–
Tax payable		**28,133**	16,054
Other current liability		**–**	851
Total current liabilities		**909,531**	827,230
NET CURRENT ASSETS		**314,058**	307,836
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,218,217**	1,135,186

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,218,217**	1,135,186
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**14,308**	9,390
Interest-bearing bank borrowings	*15*	**50,400**	75,600
Total non-current liabilities		**64,708**	84,990
Net assets		**1,153,509**	1,050,196
EQUITY			
Equity attributable to owners of the parent			
Share capital		**6,329**	6,329
Treasury shares		**(19,508)**	(19,508)
Reserves		**1,126,068**	1,030,936
		1,112,889	1,017,757
Non-controlling interests		**40,620**	32,439
Total equity		**1,153,509**	1,050,196

1. CORPORATE AND GROUP INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

(b) rights arising from other contractual arrangements; and

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	*Amendments to IFRS 1 and IAS 28*

Other than as explained below regarding the impact of IFRS9 and IFRS15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group adopted IFRS 9 from 1 January 2018. The Group has not adjusted the applicable opening balances at 1 January 2018 because the adoption of IFRS 9 has limited effect on the Group's financial position statements.

(a) Classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets, including financial assets at fair value through profit of loss, loans and receivables, available-for-sale financial investments and held-to-maturity investments have been replaced by:

Debt instruments at amortised cost;

Debt instruments at fair value through other comprehensive income, with gains or losses recycled to profit or loss on derecognition;

Equity instruments at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition; and

Financial assets at fair value through profit or loss.

As of 1 January 2018, the category of loans and receivables under IAS 39, including *cash and cash equivalents, trade and notes receivables, financial assets included in prepayments, deposits and other receivables and pledged deposits*, were transferred to debt instruments at amortised cost under IFRS 9. Meanwhile, *financial assets at fair value through profit or loss* remained unchanged under IFRS 9.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applied the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its *trade and notes receivables*. Furthermore, the Group applied the general approach and record twelve-month expected credit losses that are estimated based on the possible default events and credit losses expected over the remaining life of the exposure for which there has been a significant increase in credit risk since initial recognition on its *financial assets included in deposits and other receivables*. The adoption of the standard had no material impact on the Group's financial performance and position.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 and its amendments replace IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions,to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard requires entities to exercise judgement, taking into consideration all of the relevant fact and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the modified retrospective method of adoption after performing a detailed assessment on the impact of the adoption.

The Group is involved in the business of selling linen yarns. The Group's contracts with customers for the sale of linen yarns only include one performance obligation. The Group has concluded that revenue should be recognised at the point in time when control of the asset is transferred to the customer, generally upon delivery of the goods. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance in other payables and accruals. Under IFRS 15, the amount is classified as contract liabilities which is also included in other payables and accruals. Therefore, upon adoption of IFRS 15, the Group reclassified RMB6,595,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018. As at 31 December 2018, under IFRS 15, RMB24,036,000 was reclassified from advances from customers to contract liabilities in relation to the consideration received from customers in advance for the sale of goods.

As for the disclosure requirements for the consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature and timing are affected by economic factors. Refer to Note 5 for the disclosure on disaggregated revenue.

In conclusion, the adoption of IFRS 15 did not have a significant impact on the consolidated financial statements 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 amounts of the non-current asset 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 2018 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 2018 was RMB557,087,000 (2017: RMB531,212,000). 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 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) ***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 2018 was RMB803,778,000 (2017: RMB726,532,000).

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 2018 is set out in the following table:

	Revenue from external customers	
	2018	2017
	RMB'000	*RMB'000*
Mainland China	**470,690**	387,135
European Union	**307,854**	251,705
Non-European Union	**467,099**	385,122
	1,245,643	1,023,962

(b) Non-current assets

	2018	2017
	RMB'000	*RMB'000*
Mainland China	**780,140**	799,555
Ethiopia	**118,423**	13,155
	898,563	812,710

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 2018 (2017: 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, industrial 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, industrial hemp yarn and scraps and payment is generally due within 30 to 150 days from delivery, except for new industrial customers, where payment in advance is normally required.

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

	2018	2017
	RMB'000	*RMB'000*
Type of goods		
Sales of linen yarn, industrial hemp yarn and scraps	**1,245,643**	1,023,962
Timing of revenue recognition		
Goods transferred at a point in time	**1,245,643**	1,023,962

Revenue recognised that was included in contract liabilities at the beginning of the reporting period was RMB6,595,000.

	2018	2017
	RMB'000	*RMB'000*
Other income		
Bank interest income	**1,044**	899
Government grants	**2,501**	24,135
Foreign exchange gains, net	**19,235**	–
Others	**1,528**	541
	24,308	25,575

6. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interest on bank loans	**26,392**	25,351
Less: interest capitalised	**(4,872)**	(7,639)
	21,520	17,712

7. PROFIT/(LOSS) BEFORE TAX

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

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories sold	**987,762**	907,694
Depreciation	**71,424**	60,717
Amortisation of prepaid land lease payments	**1,814**	1,446
Amortisation of other intangible assets	**586**	536
Research and development ("R&D") expenses	**13,052**	6,851
Minimum lease payments under operating leases:		
Land and buildings	**1,689**	1,745
Auditors' remuneration	**1,800**	1,800
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries and other benefits	**168,986**	157,354
Pension scheme contributions	**11,270**	10,435
Equity-settled share award expense	**3,567**	–
Equity-settled share option expense	**–**	195
	183,823	167,984
Foreign exchange differences, net	**(19,235)**	28,894
Fair value loss on derivative instruments		
– transactions not qualifying as hedges	**3,438**	7,002
Loss on disposal of items of property, plant and equipment	**405**	730
Reversal of impairment of inventories	**(1,179)**	(4,540)
Provision/(reversal of provision) for impairment of trade receivables	**412**	(312)
Finance costs	**21,520**	17,712
Bank interest income	**(1,044)**	(899)

8. INCOME TAX

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

	2018	2017
	RMB'000	*RMB'000*
Current – Mainland China		
– Charge for the year	**12,429**	13,232
– Overprovision in respect of prior years	**(105)**	–
Current – Hong Kong		
– Charge for the year	**1,849**	1,089
– Overprovision in respect of prior years	**(423)**	–
Current – Italy		
– Charge for the year	**1,245**	187
Deferred	**13,962**	(18,230)
Total tax charge/(credit) for the year	**28,957**	(3,722)

(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 Jinlainuo Fiber Co., Ltd. ("Zhejiang Jinlainuo"), 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 Jinlainuo obtained the High-new Technology Certificate for the years from 2017 to 2020 and was entitled to a tax rate of 15%.

(iii) Hong Kong profits tax has been provided at the rate of 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:

	2018	2017
	RMB'000	*RMB'000*
Profit/(loss) before tax	**132,144**	(3,100)
Tax at an applicable tax rate of 25%	**33,036**	(775)
Effect of different/beneficial tax rates	**(1,463)**	(558)
Overprovision in respect of prior years	**(528)**	–
Income not subject to tax	**(2,023)**	(1,600)
Tax losses utilised from prior years	**–**	(327)
Tax losses not recognised	**126**	–
Expenses not deductible for tax	**1,495**	3,122
Tax credit arising from additional deduction of R&D expenditures of a PRC subsidiary	**(2,374)**	(742)
Accrual/(Reversal) of withholding tax liability	**688**	(2,842)
Total tax charge/(credit) for the year	**28,957**	(3,722)

9. DIVIDEND

	2018	2017
	RMB'000	*RMB'000*
Proposed final – HK6.0 cents (2017: HK2.0 cents) per ordinary share	**33,103**	10,527

At the meeting of the board of directors of the Company held on 22 March 2019, the payment of a final dividend of HK6.0 cents per ordinary share totalling approximately RMB33,103,000 was recommended for the year ended 31 December 2018, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 610,278,000 (2017: 615,060,000) in issue during the year, as adjusted to reflect the shares purchased by the Trustee during the year.

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

	2018	2017
	RMB'000	*RMB'000*
Earnings/(loss) attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**102,006**	(3,132)

	Number of shares	
	2018	2017
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**610,278**	615,060
Effect of dilution – weighted average number of ordinary shares:		
Share options	**16,250**	16,250
Share award plan	**11,837**	–
	638,365*	631,310

* *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 are based on the earnings for the year of RMB102,006,000 and the weighted average number of ordinary shares of 622,115,000 in issue during the year.*

11. INVENTORIES

	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
Raw materials	**362,836**	326,175
Work in progress	**38,451**	37,995
Finished goods	**155,800**	167,042
	557,087	531,212

As at 31 December 2018, inventories with a carrying amount of nil (2017: RMB40,000,000) were pledged to secure bank loans granted to the Group as set out in note 15(i).

12. TRADE AND NOTES RECEIVABLES

	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
Trade receivables	**234,075**	194,552
Notes receivable	**61,765**	116,589
Impairment	**(725)**	(926)
	295,115	310,215

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 2018 *RMB'000*	31 December 2017 *RMB'000*
Within 1 month	**127,962**	74,737
1 to 2 months	**46,125**	59,856
2 to 3 months	**36,677**	40,177
Over 3 months	**22,586**	18,856
	233,350	193,626

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

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
At beginning of year	**926**	1,238
Impairment losses, net	**412**	(312)
Amount written off as uncollectible	**(613)**	–
	725	926

Impairment under IFRS 9 for the year ended 31 December 2018

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 2018

		Past due			
	Current	**Less than 1 month**	**1 to 3 months**	**Over 3 months**	**Total**
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

Impairment under IAS 39 for the year ended 31 December 2017

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	31 December 2017 *RMB'000*
Neither past due nor impaired	176,783
Less than 1 month past due	9,545
1 to 3 months past due	4,672
Over 3 months past due	2,338
	193,338

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

Receivables that were past due but not impaired relate to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

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

Notes receivable that are not derecognised in their entirety

As at 31 December 2018, the Group endorsed certain notes receivable accepted by banks in the PRC (the "Endorsed Notes") with a carrying amount of RMB33,097,000 (31 December 2017: RMB9,831,000) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors 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 RMB33,097,000 as at 31 December 2018 (31 December 2017: RMB9,831,000).

Notes receivable that are derecognised in their entirety

As at 31 December 2018, 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 RMB10,745,000 (31 December 2017: RMB11,384,000). The Derecognised Notes had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors 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 2018 (2017: 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. TRADE AND NOTES PAYABLES

An ageing analysis of the trade and notes payables as at 31 December 2018, based on the payment due date, is as follows:

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Due within 1 month or on demand	**157,645**	115,400
Due after 1 month but within 3 months	**88,030**	62,361
Due after 3 months but within 6 months	**–**	12,022
	245,675	189,783

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.

14. DERIVATIVE FINANCIAL INSTRUMENTS

		31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Liabilities:			
Foreign currency forward contracts – current	*(i)*	**414**	555
Cross-currency swap	*(ii)*	**3,024**	6,447
		3,438	7,002

(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 2019.

(ii) In 2018, the Group entered into cross-currency swap agreements with banks to manage the interest rate and currency risks. These contracts will mature within 2019.

The derivatives are measured at fair value as at 31 December 2018.

15. INTEREST-BEARING BANK BORROWINGS

	2018			2017		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Current						
Secured bank loans	2.48 – 5.05	2019	267,056	1.49 – 4.57	2018	334,221
Unsecured bank loans	2.55 – 5.22	2019	241,928	2.08 – 4.70	2018	185,340
Subtotal			508,984			519,561
Non-current						
Secured bank loans	4.28	2021	50,400	4.28	2021	75,600
Total			559,384			595,161

	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
Analysed into:		
Bank loans repayable:		
Within one year	**508,984**	519,561
In the second year	**25,200**	25,200
In the third to fifth years, inclusive	**25,200**	50,400
	559,384	595,161

Notes:

(i) As at 31 December 2018, the current interest-bearing bank borrowings with a carrying amount of RMB267,056,000 were secured by certain property, plant and equipment, prepaid land lease payments, and inventories with carrying amounts of RMB80,992,000 (2017: RMB112,775,000), RMB43,806,000 (2017: RMB27,421,000) and Nil (2017: RMB40,000,000), respectively.

(ii) As at 31 December 2018, the non-current interest-bearing bank borrowings with a carrying amount of RMB50,400,000 were secured by certain property, plant and equipment and prepaid land lease payments of the Group with carrying amounts of RMB74,962,000 (2017: RMB78,961,000) and RMB15,102,000 (2017: RMB15,422,000), 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 2018 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

According to the National Bureau of Statistics of the People's Republic of China (the "**PRC**" or "**China**"), the GDP growth rate in China for the year ended 31 December 2018 (the "**Year**") was 6.6%. The overall textile industry in China recorded a growth of 8.1% in export during the Year. The cotton price was relatively stable throughout 2018 which was good for the recovery of the market demand of linen yarn.

According to the statistics of the General Administration of Customs of the PRC, the total volume of pure linen yarn exports of China in 2018 dropped by approximately 1.0% year-on-year, while the total volume of all textile with linen (including pure linen and linen mixed with other fabrics) of China in 2018, on the other hand, grew by approximately 0.1% year-on-year. In the trough of the economic cycle, the low level of cotton yarn price may lead to a reduction in demand for pure linen yarn from fashion brands and garment manufacturers, which favours cotton or cotton/linen blended yarn and enables products made of these materials to be more appealing to relatively cost conscious consumers. The market has proven that pure linen yarn is a preferred choice over linen mixed yarn once the price is not the only concern. For years, the Group has been focusing on upholding excellent quality and offering tailored customer services. As such, the Group has always been a key partner of major overseas linen fabric and garment manufacturers.

During the Year, the Group's pure linen yarn exports amounted to 11,472 tonnes (2017: 11,734 tonnes). The Group accounted for approximately 44.4% of the total pure linen yarn export from China in 2018 (2017: 45.0%), signifying the Group's continuous leading position as the largest pure linen yarn exporter in China for 16 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 upward price adjustments during the Year, revenue of the Group for the Year increased by approximately 21.6% year-on-year to RMB1,245,643,000 (2017: RMB1,023,962,000). Gross profit surged by approximately 121.8% year-on-year to RMB257,881,000 (2017: RMB116,268,000) and overall gross margin rebounded to 20.7% in 2018 (2017: 11.4%), as a result of the price adjustments in 2018. Profit for the year was RMB103,187,000, representing a remarkable growth as compared from RMB622,000 in 2017. Basic earnings per share amounted to RMB0.17 (2017: loss per share of RMB0.01). To reciprocate the shareholders of the Company (the "**Shareholders**") for their continuous support for the Group while reserving resources for further expansions, the Board has recommended the payment of a final dividend of HK6.0 cents per ordinary share for the Year (2017: HK2.0 cents per ordinary share).

Major Markets and Customers

Being the largest linen yarn exporter in China, the Group has a sales network covering over 20 countries and regions around the world. In order to timely seize market opportunity, keep abreast of market trends and deliver comprehensive and efficient services, the Group has established presence in major overseas linen textile and consumer markets. The Group currently has one subsidiary in Italy and agents in Turkey, Portugal, Lithuania, India 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 RMB774,953,000, representing approximately 62.2% of the Group's total revenue. In particular, revenue from European Union countries amounted to approximately RMB307,854,000, representing approximately 24.7% of the Group's total revenue, while revenue from non-European Union countries amounted to approximately RMB467,099,000, representing approximately 37.5% 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 28.9% of the Group's total export revenue, followed by, in descending order, Italy, Korea, Turkey, Portugal and Lithuania.

Domestic sales in China increased by approximately 21.6% during the Year to RMB470,690,000, representing approximately 37.8% of the Group's total revenue. In light of the increasing income level, there have been fundamental changes in the consumption patterns of the general public in China. Consumers' concerns have shifted from pure practicality to quality and the ability to reflect their personal taste. Linen textiles are not only anti-bacterial and comfortable, but also highly environment-friendly in their production process. Therefore, linen textiles perfectly suit the taste of new-generation consumers who may have 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 Markets

	FY2018		**FY2017**		**Year-on-year change in revenue**	**Year-on-year change in revenue**
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
China	470,690	37.8%	387,135	37.8%	83,555	21.6%
European Union	307,854	24.7%	251,705	24.6%	56,149	22.3%
Non-European Union	467,099	37.5%	385,122	37.6%	81,977	21.3%
Total Revenue	1,245,643	100.0%	1,023,962	100.0%	221,681	21.6%

Raw Material Procurement and Related Strategies

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

Production Bases and Productivity

As at 31 December 2018, 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 continously 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 2019.

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 Factories project to be constructed on this land parcel into one of the model projects of the "Belt & Road" initiative in Ethiopia. The Chinese government also encouraged manufacturers to expand overseas by facilitating political risk insurance coverage by state-owned insurance company. The Ethiopia project is expected to generate savings on land lease, labour, energy and tax and there are possibly exemptions of quota and custom duty for exports of linen yarn manufactured in Ethiopia to a vast number of countries in the world. Despite there have been on and off ethno-political conflicts since October 2016 leading to the resignation of the Prime Minister of Ethiopia in February 2018, the Government of Ethiopia had reaffirmed their commitment in maintaining the industrialization agenda that has already been initiated. The Board believes the strategic investment in Ethiopia will have significant long-term benefit to the Group. On 25 January 2018, the Group entered into a master agreement with The IT Electronics Eleventh Design & Research Institute Scientific and Technological Engineering Corporation Limited* (信息產業電子第十一設計研究院科技工程股份有限公司) for the engineering, procurement and construction/turnkey contract for the Ethiopia project at an aggregate contract price of RMB208,670,000. The construction of the factory is close to completion and machinery and equipment will be installed in 2019 and the Ethiopia production facility is expected to commence trial production in late 2019/early 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 Factory	Adama	Ethiopia	5,000	Expects trial production in late 2019/early 2020

Patents, Awards and Recognition

The Group has continued to invest in technology and innovation. As at 31 December 2018, the Group owned 64 registered patents and there were another 28 patents applications pending formal approval by relevant authorities.

FINANCIAL REVIEW

Revenue

For the Year, the Group's revenue increased by approximately 21.6% to approximately RMB1,245,643,000 (2017: RMB1,023,962,000). The increase of revenue was mainly attributable to the upward price adjustments of pure linen yarn sold during the Year. As a result of global market impact and the Group's strategic upward price adjustments, revenue for all markets (including domestic market, European countries and non-European countries) recorded similar growth during the Year.

Gross Profit and Gross Profit Margin

For the Year, the Group's gross profit surged to RMB257,881,000, representing a year-on-year growth of approximately 121.8% (2017: RMB116,268,000). Gross profit margin for the Year rebounded to 20.7% (2017: 11.4%) as a result of recovery of the market demand of linen yarn and the upward selling price adjustments of the linen yarn during the Year.

Other Income and Gains

For the Year, other income and gains of RMB24,308,000 (2017: RMB25,575,000) were mainly represented by the net exchange gain of RMB19,235,000 (2017: net exchange loss of RMB28,894,000), various government grants which amounted to RMB2,501,000 (2017: RMB24,135,000) and interest income of RMB1,043,000 (2017: RMB899,000).

Selling and Distribution Expenses

For the Year, the Group's selling and distribution expenses amounted to approximately RMB48,687,000 (2017: RMB39,361,000), which accounted for approximately 3.9% (2017: 3.8%) of the Group's revenue. The slight increase in the selling and distribution expenses as a percentage of revenue in the Year was mainly due to a cumulative adjustment of the commission provision being made in 2017 and resulting in a lower sales agent commission expense recorded in last year.

Administrative Expenses

For the Year, the Group's administrative expenses amounted to approximately RMB73,020,000 (2017: RMB49,670,000), representing an increase of approximately 47.0% as compared to the year ended 31 December 2017. The increase of administrative expenses was mainly due to additional research and development costs of RMB6,201,000, consulting fee of RMB2,410,000, personnel costs of RMB3,091,000, depreciation charge of RMB2,375,000 and amortization charges of RMB4,007,000.

Other Expenses

Other expenses of the Group for the Year mainly represent a loss on derivative financial instruments of RMB3,438,000 (2017: RMB7,002,000). The decrease in other expenses was mainly due to there being a net exchange loss of RMB28,894,000 in last year but a net exchange gain for the Year and reported in Other Income and Gains above.

Finance Costs

For the Year, finance costs amounted to approximately RMB21,520,000 (2017: RMB17,712,000), representing an increase of approximately 21.5%. The increase in finance costs was mainly due to fewer interest expenses were capitalised due to the completion of the Heilongjiang factory which commenced full operation during the Year.

Income Tax Expenses

Income tax expense for the Year was approximately RMB28,957,000 (2017: income tax credit of approximately RMB3,722,000). The income tax credit in last year was mainly due to the reversal of provision of dividend withholding tax provided in 2013. It was accrued at 10% but actual charged by tax authorities was 5%. According to PRC tax laws, the time limit of recovery of tax by tax authorities is three years. The effective tax rate for the year ended 31 December 2018 was 21.9%.

Profit for the Year

As a result, the Group recorded a net profit for the Year of approximately RMB103,187,000 (2017: approximately RMB622,000), representing a surge of approximately 165 times as compared to the year ended 31 December 2017.

Minority interests

The minority interests amounted to RMB1,181,000 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 (2017: RMB3,754,000).

Profit Attributable to Owners of the Parent

During the Year, the Group recorded a profit attributable to owners of the parent of approximately RMB102,006,000, as compared to a loss attributable to owners of the parents of RMB3,132,000 for the year ended 31 December 2017.

Other Intangible Assets

As at 31 December 2018, the Group's intangible assets were mainly certified emission rights in 2012 for a term of 20 years, which amounted to RMB5,248,000 (2017: RMB5,834,000). Intangible assets are subject to amortisation based on their useful lives. For the Year, the amortisation of intangible assets was approximately RMB586,000 (2017: RMB536,000).

Inventories

As at 31 December 2018, inventories of the Group increased by approximately 4.9% to RMB557,087,000 (2017: RMB531,212,000), the average inventory turnover days decreased from 209 days as at 31 December 2017 to 201 days as at 31 December 2018. The lower number of inventory turnover days was mainly attributable to the increase of sales of linen yarn during the Year and the decrease in finished goods inventory balance as a result of global market impact and the Group's strategic price adjustment.

Trade and Notes Receivables

As at 31 December 2018, trade and notes receivables of the Group decreased by approximately 4.9% to RMB295,115,000 (2017: RMB310,215,000), the average accounts receivable turnover days decreased from 108 days as at 31 December 2017 to 89 days as at 31 December 2018.

Trade and Notes Payables

As at 31 December 2018, trade and notes payables of the Group increased by approximately 29.5% to approximately RMB245,675,000 (2017: RMB189,783,000). 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 80 days during the Year (2017: 64 days).

Interest-bearing Bank Loans

As at 31 December 2018, the Group's interest-bearing bank loans amounted to approximately RMB559,384,000 (2017: RMB595,161,000), representing a decrease of approximately 6.0%.

Liquidity and Financial Resources

As at 31 December 2018, the Group has net current assets of approximately RMB314,058,000 (2017: RMB307,836,000). The Group financed its operations with internally generated resources and bank loans during the Year. As at 31 December 2018, the Group had cash and cash equivalents of approximately RMB241,826,000 (2017: RMB173,824,000).

The liquidity ratio of the Group as at 31 December 2018 was approximately 134.5% (2017: 137.2%). Total equity of the Group as at 31 December 2018 was approximately RMB1,153,509,000 (2017: RMB1,050,196,000).

As at 31 December 2018, the Group had bank loans repayable within 12 months from the statement of financial position date of approximately RMB508,984,000 (2017: RMB519,561,000) and long-term loans of approximately RMB50,400,000 (2017: RMB75,600,000). Together these loans represented a gross debt gearing (i.e. total borrowings/ total equity) of approximately 48.5% (2017: 56.7%).

CAPITAL COMMITMENTS

As at 31 December 2018, 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 RMB146,431,000 (2017: RMB36,283,000).

MATERIAL ACQUISITION AND DISPOSAL

On 25 January 2018, the Group entered into a master agreement with The IT Electronics Eleventh Design & Research Institute Scientific and Technological Engineering Corporation Limited*（信息產業電子第十一設計研究院科技工程股份有限公司）("**EDRI**"), pursuant to which EDRI agreed to provide the procurement service and the management service to the Group for the development of the linen yarn factory project in Ethiopia ("**Ethiopia Project**") at an aggregate contract price of RMB208,670,000.

On 27 September 2018, the Group entered into the equipment purchase agreement with Zhejiang Golden Eagle Co., Ltd.*（浙江金鷹股份有限公司）to revise certain terms of the original agreement entered on 11 February 2015, pursuant to which the parties agreed to amend the details and specifications of the equipment for the Ethiopia Project to be purchased by the Group and as a result of which, the consideration amended to RMB49,048,000.

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

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any contingent liabilities (2017: Nil).

CHARGE OF ASSETS

As at 31 December 2018, the current interest-bearing bank borrowings with a carrying amount of RMB267,056,000 were secured by certain property, plant and equipment, prepaid land lease payments, and inventories with carrying amounts of RMB80,992,000 (2017: RMB112,775,000), RMB43,806,000 (2017: RMB27,421,000) and Nil (2017: RMB40,000,000), respectively.

As at 31 December 2018, the non-current interest-bearing bank borrowings with a carrying amount of RMB50,400,000 were secured by certain property, plant and equipment and prepaid land lease payments of the Group with carrying amounts of RMB74,962,000 (2017: RMB78,961,000) and RMB15,102,000 (2017: RMB15,422,000), respectively.

FOREIGN CURRENCY RISK

The Group's transactions are mainly denominated in RMB, United States Dollars, Euro and Hong Kong Dollars. The exchange rate changes of such currencies were monitored regularly and managed appropriately. Currently, the Company also has certain foreign currency forward contracts and cross-currencies swap contracts entered into by utilising its credit line, and derivative financial instruments of approximately RMB3,438,000 which were recognised by the Group as a current liability as at 31 December 2018 (2017: RMB7,002,000).

REMUNERATION POLICY AND SHARE OPTION SCHEME

As at 31 December 2018, the Group had a total of 3,048 employees (2017: 2,706 employees). Total staff costs incurred for the Year increased by approximately 9.4% to RMB183,823,000 (2017: RMB167,984,000). The additional headcount was mainly attributable to the workforce recruited for the new Heilongjiang factory during the Year.

The Group offers comprehensive and competitive remuneration, retirement scheme and benefit packages to its employees. The Group is required to make contributions (retirement insurance and unemployment insurance) to a social security scheme in China. The remuneration policy for the employees of the Group is formulated by the Board with reference to the employee's respective qualification, experience, responsibilities and contributions to the Group, as well as the prevailing market rate of remuneration for a similar position. The 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, and the execution risk of the new expansion project in Ethiopia.

OUTLOOK AND PLANS

The demand of linen yarn has rebounded since the end of 2017 and remained robust throughout the Year. Taking into account that no massive production capacity had launched in the linen yarn market since 2016, while some of the smaller and less efficient competitors exited the market, the average selling price of linen yarn reached its historical high. The trend of environment-friendliness and the use of natural fibers has been set. Linen yarn as one of the most environmentally-friendly fibers, will surely benefit from this trend. 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. The Company is also cautiously optimistic that the selling price of linen yarn is likely to maintain, if not further increase in 2019.

Protectionism is expected to be on the rise. The Department of Commerce, Government of India has recommended imposition of 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 anti-dumping duty for export to India from 2019 onwards. Such duty will be partially reflected to the selling price to the customers. The China-US trade tension is likely to continue in the coming months, if not in years. The Company is fortunate that most of the Group's direct customers or end consumer brands are not US based hence the impact on China-US trade war would be indirect and limited.

The Ethiopia project has a planned site area of approximately 300,000 square metres and will be constructed in phases. The first phase will have a production capacity of 5,000 tonnes of regular linen yarn and is expected to commence trial production in late 2019/early 2020.

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

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

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.

DIVIDEND

The Board proposed a payment of final dividend of HK$6.0 cents per ordinary share for the year ended 31 December 2018 (2017: HK$2.0 cents).

CLOSURE OF REGISTER OF MEMBERS

In order to determine who are entitled to attend and vote at the forthcoming annual general meeting of the Company, the register of members of the Company will be closed from Friday, 17 May 2019 to Friday, 24 May 2019, both days inclusive, during which period no transfer of shares will be effected. In order to determine who are entitled to attend and vote at the forthcoming annual general meeting of the Company, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 16 May 2019.

In order to determine who are entitled to the proposed final dividend (subject to approval by the Shareholders at the forthcoming annual general meeting), the register of members of the Company will be closed from Wednesday, 5 June 2019 to Thursday, 6 June 2019, 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, 4 June 2019. The proposed final dividend, subject to Shareholders' approval at the forthcoming annual general meeting, will be paid to Shareholders on or before Friday, 5 July 2019 whose names appear on the register of members of the Company at the close of business on Thursday, 6 June 2019.

PUBLICATION OF ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.kingdom-china.com. The annual report of the Company for the year ended 31 December 2018 containing all the information required by the Listing Rules is to be despatched to the Company's Shareholders and made available for review on the same websites in due course.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE LISTING RULES

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organisation which is open and accountable to the Company's Shareholders. The Directors believe that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 Listing Rules.

In the opinion of the Directors, save for the deviations to code provisions A.2.1 and A.4.3 as disclosed below, the Company has complied with the applicable code provisions as set out in the 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.

Code Provision A.4.3

Mr. Lo Kwong Shun Wilson ("**Mr. Lo**") will be serving as an independent non-executive Director for nine years in May 2019 since his appointment on 17 May 2010. Pursuant to code provision A.4.3 of the CG Code, if an independent non-executive director has served the Company for more than nine years, his/her appointment could be relevant to the determination of his/her independence, and his/her further appointment should be subject to a separate resolution to be approved by shareholders. Accordingly, the rotation and re-election of Mr. Lo shall be approved by Shareholders by way of separate resolution at the annual general meeting of the Company.

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

The Board has received from Mr. Lo a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules, and noted that Mr. Lo has not engaged in any executive management of the Group.

Taking into consideration of his independence and scope of works in the past years, the Directors consider Mr. Lo to be independent under the Listing Rules despite the fact that he will be serving the Company for more than nine years in May 2019. Mr. Lo will continue to bring valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning and diversity.

Mr. Lo will retire as an independent non-executive Director, being eligible, offer himself for re-election by way of a separate resolution at the forthcoming annual general meeting of the Company to be held on Friday, 24 May 2019.

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 2018 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 annual results of the Group for the year ended 31 December 2018 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.

SCOPE OF WORK OF THE COMPANY'S AUDITOR IN RESPECT OF THIS ANNUAL RESULTS ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position as at 31 December 2018, consolidated statement of profit or loss and consolidated statement of comprehensive income for the year then ended and the related notes thereto as set out in this annual results announcement have been agreed by the Company's auditor to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Company's auditor, Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards in Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this annual results announcement.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting will be held on Friday, 24 May 2019 and notice of the annual general meeting will be published and despatched in the manner as required by the Listing Rules.

APPRECIATION

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

By Order of the Board
Kingdom Holdings Limited
Ren Weiming
Chairman

Hong Kong, 22 March 2019

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*