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 2019

- Revenue increased by approximately 42.4% to approximately RMB731,167,000 for the six months ended 30 June 2019 from approximately RMB513,401,000 for the six months ended 30 June 2018.

- The Group accounted for over 40% of the total pure linen yarn exports from China by volume during the Review Period.

- Gross profit margin increased by approximately 10.6 percentage points to approximately 26.6% for the six months ended 30 June 2019 from approximately 16.0% for the six months ended 30 June 2018 as a result of the improvement in the selling price of linen yarn throughout the Review Period.

- Profit for the Review Period increased by 303.6% to approximately RMB90,729,000 for the six months ended 30 June 2019 from approximately RMB22,481,000 for the six months ended 30 June 2018.

- Profit attributable to the owners of the parent surged by approximately 280.2% to approximately RMB87,814,000 for the six months ended 30 June 2019 from approximately RMB23,099,000 for the six months ended 30 June 2018.

- Basic earnings per share grew approximately 2.5 times to approximately RMB0.14 for the six months ended 30 June 2019 compared to approximately RMB0.04 for the six months ended 30 June 2018.

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 2019 (the "**Review Period**"):

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019 (unaudited)

		For the six months ended 30 June	
		2019	2018
		RMB'000	*RMB'000*
	Notes	**(Unaudited)**	(Unaudited)
REVENUE FROM CONTRACTS WITH CUSTOMERS	*4*	**731,167**	513,401
Cost of sales		**(536,332)**	(431,156)
Gross profit		**194,835**	82,245
Other income and gains	*4*	**9,480**	7,199
Selling and distribution expenses		**(23,070)**	(21,227)
Administrative expenses		**(36,461)**	(29,993)
Other expenses		**(9,465)**	(4,391)
Finance costs	*5*	**(9,275)**	(9,253)
Gain on disposal of a subsidiary		**235**	–
PROFIT BEFORE TAX	*6*	**126,279**	24,580
Income tax expense	*7*	**(35,550)**	(2,099)
PROFIT FOR THE PERIOD		**90,729**	22,481
Attributable to:			
Owners of the parent		**87,814**	23,099
Non-controlling interests		**2,915**	(618)
		90,729	22,481
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	*9*	**RMB0.14**	RMB0.04
Diluted	*9*	**RMB0.14**	RMB0.04

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019 (unaudited)

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**90,729**	22,481
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(59)**	(255)
TOTAL COMPREHENSIVE INCOME, FOR THE PERIOD	**90,670**	22,226
Attributable to:		
Owners of the parent	**87,755**	22,844
Non-controlling interests	**2,915**	(618)
	90,670	22,226

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019 (unaudited)

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**891,440**	803,778
Investment property		**6,629**	6,929
Right-of-use assets		**2,654**	–
Prepaid land lease payments		**63,651**	63,062
Other intangible assets		**4,975**	7,248
Prepayments for equipment		**30,775**	17,139
Other non-current assets		**407**	407
Deferred tax assets		**5,209**	5,596
Total non-current assets		**1,005,740**	904,159
CURRENT ASSETS			
Inventories	*10*	**609,157**	557,087
Trade and notes receivables	*11*	**299,667**	295,115
Prepayments, deposits and other receivables		**80,969**	60,704
Pledged deposits		**153,183**	68,857
Cash and cash equivalents		**219,724**	241,826
Total current assets		**1,362,700**	1,223,589
CURRENT LIABILITIES			
Trade and notes payables	*12*	**295,419**	245,675
Other payables and accruals		**111,850**	123,300
Interest-bearing bank and other borrowings	*13*	**631,739**	508,984
Derivative financial instruments	*17*	**222**	3,438
Dividend payable		**33,235**	1
Tax payable		**22,326**	28,133
Total current liabilities		**1,094,791**	909,531

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019 (unaudited)

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
NET CURRENT ASSETS		**267,909**	314,058
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,273,649**	1,218,217
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**22,252**	14,308
Interest-bearing bank and other borrowings	*13*	**39,282**	50,400
Total non-current liabilities		**61,534**	64,708
Net assets		**1,212,115**	1,153,509
EQUITY			
Equity attributable to owners of the parent			
Share capital	*14*	**6,329**	6,329
Treasury shares	*15*	**(18,493)**	(19,508)
Reserves		**1,182,576**	1,126,068
		1,170,412	1,112,889
Non-controlling interests		**41,703**	40,620
Total equity		**1,212,115**	1,153,509

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019 (unaudited)

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**126,279**	24,580
Adjustments for:		
Fair value loss/(gains) on derivative financial instruments transactions not qualifying as hedges	**211**	(5,474)
Equity-settled share award expenses	**2,988**	510
Depreciation	**35,602**	37,151
Depreciation of right-of-use assets	**775**	–
Amortisation of prepaid land lease payments	**918**	866
Amortisation of intangible assets	**273**	278
Provision for/(Reversal of) impairment of inventories	**5,507**	(2,519)
Losses on disposal of items of property, plant and equipment	**1,331**	335
Provision for/(Reversal of) impairment of trade and notes receivables	**422**	(8)
Provision for impairment of property, plant and equipment	**6,173**	–
Gain on disposal of a subsidiary	**(235)**	–
Finance costs	**9,275**	9,253
Exchange (gains)/losses, net	**(2,221)**	95
Bank interest income	**(201)**	(326)
	187,097	64,741
(Increase)/Decrease in inventories	**(57,577)**	2,365
(Increase)/Decrease in trade and notes receivables	**(5,622)**	35,542
(Increase)/Decrease in prepayments, deposits and other receivables	**(22,922)**	3,582
Proceeds from pledged deposits	**66,972**	77,538
New pledged deposits	**(113,423)**	(79,183)
Decrease in derivative financial instruments	**(1,075)**	(3,235)
Increase/(Decrease) in trade and notes payables	**49,744**	(38,488)
(Decrease)/Increase in other payables and accruals	**(9,139)**	8,413
Cash generated from operations	**94,055**	71,275
Interest received	**201**	326
Income tax paid	**(33,460)**	(968)
Net cash flows generated from operating activities	**60,796**	70,633

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019 (unaudited)

		For the six months ended 30 June	
		2019	2018
		RMB'000	*RMB'000*
	Notes	**(Unaudited)**	(Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(115,890)**	(47,046)
Prepayments for equipment		**(30,775)**	(10,582)
Proceeds from disposal of items of property, plant and equipment and other intangible assets		**1,342**	32
Disposal of a subsidiary	*16*	**5,505**	–
Net cash flows used in investing activities		**(139,818)**	(57,596)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital injection from non-controlling shareholders		**–**	5,000
New bank loans		**567,015**	525,387
Repayment of bank loans		**(478,310)**	(523,555)
New related party loans		**20,000**	–
Interest paid		**(12,907)**	(11,301)
Payment of lease liabilities		**(944)**	–
Proceeds from pledged deposits		**44,094**	33,669
New pledged deposits		**(81,969)**	(82,554)
Net cash flows generated from/(used in) financing activities		**56,979**	(53,354)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(22,043)**	(40,317)
Cash and cash equivalents at beginning of period		**241,826**	173,824
Effect of foreign exchange rate changes, net		**(59)**	(255)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**219,724**	133,252
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**219,724**	133,252
Cash and cash equivalents as stated in the statement of financial position		**219,724**	133,252

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019 (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 Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2019 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 2018.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements for the six months ended 30 June 2019 are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2018, except in relation to the new and revised International Financial Reporting Standards ("IFRSs", which also include IASs and interpretations) as set out in note 2.3 that are adopted for the first time for the current period's unaudited interim condensed consolidated financial statements, the adoption of these new and revised IFRSs has had no significant impact on the results and the financial position of the Group.

2.3 ADOPTION OF NEW AND REVISED IFRSs

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 2018, except for the adoption of new standards and interpretations effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

All of the new and revised IFRSs adopted for the first time in these interim condensed consolidated financial statements are listed below.

IFRS 16	*Leases*
IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	*Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23*

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 from contracts with customers

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 2019 is set out in the following table:

	Revenue from contracts with customers For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China	**308,887**	162,603
European Union	**185,638**	137,479
Non-European Union	**236,642**	213,319
Total	**731,167**	513,401

(b) Non-current assets

	30 June	31 December
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Mainland China	**792,741**	780,140
Ethiopia	**205,136**	118,423
	997,877	898,563

Information about a major customer

No revenue amounting to 10 percent or more of the Group's total revenue was derived from sales to a single customer for the six months ended 30 June 2019 (six months ended 30 June 2018:Nil).

4. **REVENUE FROM CONTRACTS WITH CUSTOMERS, OTHER INCOME AND GAINS**

Revenue from contracts with customers, which is also the Group's turnover, represents the sales value of linen yarn, hemp yarn and scraps, net of sales tax and deduction of any sales discounts and returns.

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

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Type of goods or services		
Sales of linen yarn, hemp yarn and scraps	**731,167**	513,401
Timing of revenue recognition		
Goods transferred at a point in time	**731,167**	513,401
Other income		
Bank interest income	**201**	326
Government grants	**6,177**	865
Foreign exchange gains, net	**2,221**	–
Others	**881**	534
	9,480	1,725
Gains		
Fair value gains on derivative financial instruments, net	**–**	5,474
	9,480	7,199

5. **FINANCE COSTS**

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank loans	**13,237**	10,995
Less: interest capitalised	**(3,962)**	(1,742)
	9,275	9,253

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**536,332**	431,156
Depreciation	**35,602**	37,151
Depreciation of right-of-use asset	**775**	–
Amortisation of prepaid land lease payments	**918**	866
Amortisation of intangible assets	**273**	278
Research and development ("R&D") expenses	**5,846**	3,378
Auditors' remuneration	**975**	979
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries and other benefits	**99,511**	89,764
Pension scheme contributions	**5,017**	5,755
Equity-settled share award expense	**2,988**	510
	107,516	96,029
Foreign exchange (gains)/loss, net	**(2,221)**	3,793
Fair value loss/(gains) on derivative financial instruments – transactions not qualifying as hedges	**211**	(5,474)
Provision for/(Reversal of) inventories to net realisable value	**5,507**	(2,519)
Provision for/(Reversal of provision for) impairment of trade and notes receivables	**422**	(8)
Provision for impairment of property, plant and equipment	**6,173**	–
Finance costs	**9,275**	9,253
Bank interest income	**(201)**	(326)

7. INCOME TAX EXPENSE

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

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current charge/(credit) for the period	**27,653**	(2,854)
Deferred	**7,897**	4,953
Total tax charge for the period	**35,550**	2,099

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

(ii) In accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, the provision for Mainland China current income tax has been based on a statutory rate of 25% of the assessable profits of the Company for the year except for Zhaosu Jindi Flax Co., Ltd. ("Zhaosu Jindi"), one indirect wholly-owned subsidiaries of the Group. Zhaosu Jindi is engaged in the preliminary processing of agriculture products and is exempted from PRC income tax.

(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%.

8. DIVIDEND

The board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2019 (six months ended 30 June 2018: 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 610,474,000 (six months ended 30 June 2018: 629,678,000) 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	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**87,814**	23,099

	Number of shares	
	2019	2018
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**610,474**	629,678
Effect of dilution – weighted average number of ordinary shares:		
Share award plan	**19,174**	–
Share options	**16,250**	16,250
	645,898*	645,928

* *Because the exercise price of share options is higher than the market price, the share options were ignored in the calculation of diluted earnings per share. Therefore, the diluted earnings per share amount is based on the earnings for the year of RMB87,814,000 and the weighted average number of ordinary shares of 629,648,000 in issue during the period.*

10. INVENTORIES

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Raw materials	**355,852**	362,836
Work in progress	**46,380**	38,451
Finished goods	**206,925**	155,800
	609,157	557,087

As at 30 June 2019, inventories with a carrying amount of RMB40,000,000 (31 December 2018: Nil) were pledged to secure bank loans granted to the Group as set out in note 13(i).

11. TRADE AND NOTES RECEIVABLES

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**252,957**	234,075
Notes receivable	**47,857**	61,765
Impairment	**(1,147)**	(725)
	299,667	295,115

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

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

11. TRADE AND NOTES RECEIVABLES (CONTINUED)

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 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 month	**107,690**	127,962
1 to 2 months	**69,267**	46,125
2 to 3 months	**53,328**	36,677
Over 3 months	**21,525**	22,586
	251,810	233,350

12. TRADE AND NOTES PAYABLES

An aged analysis of the trade and notes payables as at 30 June 2019, based on the payment due date, is as follows:

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Due within 1 month or on demand	**95,233**	157,645
Due after 1 month but within 3 months	**200,186**	88,030
	295,419	245,675

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

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Current			
Secured bank loans	*(i)*	**296,985**	267,056
Unsecured bank loans		**313,236**	241,928
Unsecured related party loan		**20,330**	–
Lease liability		**1,188**	–
Subtotal		**631,739**	508,984
Non-current			
Secured bank loans	*(ii)*	**37,800**	50,400
Lease liability		**1,482**	–
Subtotal		**39,282**	50,400
Total		**671,021**	559,384

Notes:

(i) As at 30 June 2019, the current interest-bearing bank loans with a carrying amount of RMB296,985,000 were secured by certain property, plant and equipment, prepaid land lease payments, inventories and pledged deposits with carrying amounts of approximately RMB128,187,000 (31 December 2018: approximately RMB80,992,000), approximately RMB39,656,000 (31 December 2018: approximately RMB43,806,000), approximately RMB40,000,000 (31 December 2018: RMB Nil) and approximately RMB31,386,000 (31 December 2018: RMB Nil) respectively.

(ii) As at 30 June 2019, the non-current interest-bearing bank borrowings with a carrying amount of RMB37,800,000 were secured by certain property, plant and equipment, prepaid land lease payments, of the Group with carrying amounts of RMB72,879,000 (31 December 2018: approximately RMB74,962,000) and RMB16,521,000 (31 December 2018: approximately RMB15,102,000), respectively.

(iii) The bank borrowings bear interest at rates ranging from 1.20% to 5.22% per annum (31 December 2018: 2.48% to 5.22% per annum).

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 30 June 2019 was assessed to be insignificant. Management has assessed that the carrying amount of the non-current interest-bearing bank loans of the Group approximates to the fair value due to their floating interest rate.

14. SHARE CAPITAL

Authorised:

	30 June 2019		31 December 2018	
	Number of shares	**Amount**	Number of shares	Amount
		HK$'000		*HK$'000*
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
Ordinary shares of HK$0.01 each	**3,000,000,000**	**30,000**	3,000,000,000	30,000

Issued and fully paid:

	30 June 2019			31 December 2018		
	Number of shares	**Amount**		Number of shares	Amount	
		HK$'000	***RMB'000*** **equivalent**		*HK$'000*	*RMB'000* equivalent
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	(Audited)	(Audited)	(Audited)
At the beginning and the end	**629,678,000**	**6,297**	**6,329**	629,678,000	6,297	6,329

15. TREASURY SHARES

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

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

16. DISPOSAL OF A SUBSIDIARY

	For the six months ended 30 June 2019 *RMB'000* (Unaudited)
Net assets disposed of:	
Property, plant and equipment	**5,181**
Other intangible assets	**2,000**
Deferred tax assets	**434**
Cash and bank balances	**1,995**
Trade receivables	**648**
Prepayments and other receivables	**1,150**
Accruals and other payables	**(2,311)**
Non-controlling interests	**(1,832)**
	7,265
Gain on disposal of a subsidiary	**235**
	7,500
Satisfied by:	
Cash	**7,500**

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	For the six months ended 30 June 2019 *RMB'000* (Unaudited)
Cash consideration	**7,500**
Cash and bank balances disposed of	**(1,995)**
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	**5,505**

17. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 30 June 2019:

	30 June 2019		31 December 2018	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
Financial liabilities:				
Derivative financial instruments	**222**	**222**	3,438	3,438

Management has assessed that the fair values of cash and cash equivalents, trade and notes receivables, financial assets included in prepayments, deposits and other receivables, pledged deposits, current interest-bearing bank and other borrowings, trade and notes payables, dividend payable, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments. The carrying amount of the non-current interest-bearing bank and other borrowings of the Group approximates to their fair value because the loans have a floating interest rate.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with AAA credit ratings. Derivative financial instruments, including forward currency contracts and cross-currency swap, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts are the same as their fair values.

As at 30 June 2019, the marked to market value of the derivative asset position is net of a debt valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the financial instruments recognised at fair value.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities measured at fair value:

		Fair value measurement using		
	30 June 2019	**Quoted prices in active markets Level 1**	Significant observable inputs Level 2	Significant unobservable inputs Level 3
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Financial liabilities at fair value through profit or loss – foreign exchange forward contracts and cross-currency swap	**(222)**	**–**	(222)	–

		Fair value measurement using		
	31 December 2018	**Quoted prices in active markets Level 1**	Significant observable inputs Level 2	Significant unobservable inputs Level 3
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Financial liabilities at fair value through profit or loss – foreign exchange forward contracts and cross-currency swap	**(3,438)**	**–**	(3,438)	–

During the six month ended 30 June 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements (2018: Nil).

18. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Contracted, but not provided for:		
Plant and machinery	**159,411**	146,431

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the midst of the rising protectionism of certain countries and punitive tariffs on products made in or exported from China, especially the threat of the trade war between the United States and China during the Review Period, the global trade environment has become volatile.

According to the General Administration of Customs of the People's Republic of China, the total value of all yarn and textile products exports from China only grew by approximately 0.7% on a year-on-year basis during the Review Period.

Whilst China's pure linen yarn exports by volume recorded a drop by approximately 31.5% year-on-year during the Review Period, the Group's pure linen yarn exports by volume only decreased by 13.7%.

There has been an increasing trend of environmental-friendliness and use of natural fibers. Linen yarn continues to benefit from this trend as it is one of the most environmentally-friendly fibers. In addition, from the market's perspective, consumers of fast fashion brands in Asian countries like China and India are increasingly accepting linen products in their stores and a linen consumption pattern has been established. Linen products have gained more and more recognition from the consumers, and the market consumption volume has gradually recovered and expanded.

The Group was well-managed during the Review Period. The Group continued to account for more than 40% of the total pure linen yarn exports from China by volume during the Review Period. The growth was contributed by the capacity expansion in Heilongjiang and improvement in the selling price of linen yarn during the Review Period.

During the Review Period, revenue of the Group increased by approximately 42.4% on a year-on-year basis to RMB731,167,000. The increase in revenue was mainly attributable to strong growth in sales in the China market and the improvement of the selling price of linen yarn 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, which contributed to approximately 42.2% of the Group's total revenue, recorded an increase of approximately 90.0% as compared to the same period last year, while the Group's overseas sales, which contributed to approximately 57.8% of the Group's total revenue, recorded a growth of approximately 20.4% on a year-on-year basis. In particular, total sales to European Union countries reported a strong growth of 35.0% on a year-on-year basis during the Review Period. Key European Union countries that the Group sold its products to include Italy, Portugal and Lithuania. The Group also constantly maintains stable and amicable collaborations with international fashion brands. Meanwhile, the Group will also persist in developing the domestic market and secure more cooperation with target customers in China.

The Department of Commerce, Government of India has imposed definitive anti-dumping duty for five years ranging from USD0.5 to USD4.83 per kilogram of "flax yarn" of below 70 Lea Count (or below 42 Nm) originating in or exported from China. The Group's linen yarn are subject to USD2.42/kg of such definitive antidumping duty for exports to India from 2019 onwards. As a result, the sale to India has dropped by approximately 36.6% to 1,127 tonnes during the Review Period as compared to the same period last year.

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 14,734 tonnes (2018: 14,173 tonnes) of raw materials abroad, representing a year-on-year increase of approximately 4.0%. The average procurement unit price was approximately RMB25,928 per tonne, representing an annual increase of approximately 28.0% from approximately RMB20,253 for the same period last year. The Group is cautiously optimistic about the future of the linen textile industry and it is the corporate procurement strategy of the Group to maintain its production scale and to secure a steady volume of production going forward.

Production Capacity

As at 30 June 2019, the Group had four productions bases. The production bases in (1) Haiyan County, Zhejiang Province (1st Phase of the Haiyan Plant); (2) Rugao in Jiangsu Province; (3) Haiyan County, Zhejiang Province (2nd Phase of the Haiyan Plant); and (4) Qinggang in Heilongjiang Province have designed annual production capacities of 7,000 tonnes, 6,000 tonnes, 5,000 tonnes, and 4,000 tonnes, respectively, resulting in the Group's aggregate annual production capacity reaching 22,000 tonnes based on the 24 nm standard specification. 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 10,030 tonnes of linen and hemp yarn under various specifications was produced during the Review Period. The Group owns 72.73% of the equity interest of the Heilongjiang venture and this is the Group's maiden attempt to explore the hemp yarn market. The Group believes that hemp 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. There were 415 tonnes of hemp yarn produced during the Review Period.

Apart from China, the Group has also committed to investing in Ethiopia. The investment is expected to help the Group outcompete its competitors not only by helping the Group save land cost, labour cost, energy cost and tax expenses, but also by enabling the Group to benefit from the favourable treatment under the African Growth and Opportunity Act (AGOA), a legislation approved by the U.S. Congress which allows eligible apparel articles made in qualifying sub-Saharan African countries, including Ethiopia, to be imported without duty and quota. The Group also expects the investment 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 into European Union countries, except for arms and ammunitions. The first phase of the Ethiopia project, with a designed annual production capacity of 5,000 tonnes, is expected to commence trial production in early 2020.

FINANCIAL REVIEW

Revenue

For the Review Period, the Group's revenue increased by approximately 42.4% to approximately RMB731,167,000 (six months ended 30 June 2018: RMB513,401,000). The increase of revenue was mainly attributable to (i) the capacity expansion in Heilongjiang and (ii) the improved average selling price of linen yarn during the Review Period. There were approximately 13.3% more in quantity and resulting in 9,340 tonnes of linen yarn sold during the Review Period (six months ended 30 June 2018: 8,243 tonnes). Sales to all regions had year-on-year improvement, in particular, each of domestic, European Union and non–European Union regions grew approximately 90.0%, 35.0% and 10.9%, respectively, during the Review Period.

The breakdown of revenue by sales regions is as follows:

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
China	**308,887**	162,603
European Union Countries	**185,638**	137,479
Non-European Union Countries	**236,642**	213,319
	731,167	513,401

Gross Profit and Gross Profit Margin

The Group's gross profit for the Review Period increased by approximately 136.9% to approximately RMB194,835,000 (six months ended 30 June 2018: approximately RMB82,245,000). Gross profit margin for the Review Period improved by approximately 10.6 percentage points to approximately 26.6% (six months ended 30 June 2018: approximately 16.0%) mainly due to the improvement of selling prices of linen yarn and the capacity expansion in Heilongjiang during the Review Period.

Other Income and Gains

Other income and gains for the Review Period mainly comprises of government grants and subsidies of approximately RMB6,177,000 (six months ended 30 June 2018: approximately RMB865,000) and interest income of approximately RMB201,000 (six months ended 30 June 2018: approximately RMB326,000) and a net exchange gain of RMB2,221,000 (six months ended 30 June 2018: a net exchange loss of approximately RMB3,793,000 recorded in Other Expenses). There was no fair value gain on derivative instruments during the Review Period (six months ended 30 June 2018: approximately RMB5,474,000). There was an increase of government grants and subsidies in the amount of RMB5,312,000 for the Review Period mainly due to government rebates of profits tax and social securities contribution paid, in a series of measures to cut costs for businesses by the Chinese government.

Selling and Distribution Costs

The Group's selling and distribution costs for the Review Period amounted to approximately RMB23,070,000 (six months ended 30 June 2018: approximately RMB21,227,000), which accounted for approximately 3.2% (six months ended 30 June 2018: approximately 4.1%) of the Group's total revenue. The decrease in selling costs as a percentage of revenue during the Review Period was mainly due to a higher percentage of domestic sales in China resulting in a lower percentage of freight and custom clearance fee incurred to sales.

Administrative Expenses

The Group's administrative expenses for the Review Period amounted to approximately RMB36,461,000 (six months ended 30 June 2018: approximately RMB29,993,000), representing an increase of approximately 21.6% as compared with the corresponding period last year. The increase in the Group's administrative expenses was mainly due to additional research and development (R&D) costs of RMB2,430,000, additional staff costs of RMB1,776,000, consulting fee of RMB820,000 and share award plan expenses of RMB901,000, respectively.

Other Expenses

Other expenses mainly comprises of impairment provisions of RMB6,173,000 for certain machinery for production of colour yarn being left idle during the Review Period (six months ended 30 June 2018: Nil), asset disposal losses of RMB1,331,000 (six months ended 30 June 2018: RMB335,000), and compensation expenses of RMB1,160,000 (six months ended 30 June 2018: Nil). Other expenses in the same period last year mainly comprised of a net exchange loss of approximately RMB3,793,000.

Finance Costs

Net finance costs for the Review Period amounted to approximately RMB9,275,000 (six months ended 30 June 2018: approximately RMB9,253,000). Net finance costs represent the total interest expense on bank loans less amount capitalized attributable to capital assets.
An interest expense of approximately RMB3,962,000 was capitalized during the Review Period (six months ended 30 June 2018: approximately RMB1,742,000).

Income Tax Expense

Income tax expense for the Review Period amounted to approximately RMB35,550,000 (six months ended 30 June 2018: approximately RMB2,099,000). The effective tax rate for the Review Period and the corresponding period in 2018 was approximately 28.2% and 8.5% respectively. The relatively high effective tax rate was due to the fact that the Company had been accruing the provision of dividend withholding tax using the standard rate of 10% but the relevant tax authorities had been charging at 5% in previous years.

Minority interests

The minority interests of approximately RMB2,915,000 represents the share of the net profit of certain subsidiaries of the Group attributable to the minority shareholders during the Review Period (six months ended 30 June 2018: share of net loss of approximately RMB618,000). The increase was mainly attributable to the close to full operation of our factory in the Heilongjiang Province in China.

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 RMB87,814,000 (six months ended 30 June 2018: RMB23,099,000), representing an increase of approximately 280.2% as compared with the corresponding period last year.

Liquidity and Financial Resources

As at 30 June 2019, the Group had net current assets of approximately RMB267,909,000 (as at 31 December 2018: approximately RMB314,058,000). The Group financed its operations with internally generated resources and bank loans during the Review Period.

As at 30 June 2019, the Group had cash and cash equivalents of approximately RMB219,724,000 (as at 31 December 2018: approximately RMB241,826,000). The liquidity ratio of the Group as at 30 June 2019 was approximately 124.5% (as at 31 December 2018: approximately 134.5%).

Total equity of the Group as at 30 June 2019 was approximately RMB1,212,115,000 (as at 31 December 2018: approximately RMB1,153,509,000). As at 30 June 2019, the Group had interest-bearing bank and other borrowings repayable within 12 months from the date of the statement of financial position of approximately RMB631,739,000 (as at 31 December 2018: approximately RMB508,984,000) and long-term interest-bearing bank and other borrowings of approximately RMB39,282,000 (as at 31 December 2018: approximately RMB50,400,000). Together they represented a gross debt gearing ratio (i.e. total borrowings/total equity) amounted to approximately 55.4% (as at 31 December 2018: approximately 48.5%).

The Board believes that the Group's existing financial resources (even without capital financing) would be sufficient for the Group's capital expenditure requirements in the remaining period of 2019. In the event that additional financing is required for the Ethiopia project, the Group may also consider other financing methods, 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 as well as borrowings are mainly denominated in Renminbi, United States Dollars, Euro and Hong Kong Dollars.

CAPITAL COMMITMENTS

As at 30 June 2019, 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 RMB159,411,000 (as at 31 December 2018: approximately RMB146,431,000). As at 30 June 2019, there was no capital commitment authorised but not contracted for (as at 31 December 2018: Nil).

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any contingent liabilities.

CHARGE ON ASSETS

As at 30 June 2019, the current interest-bearing bank loans with a carrying amount of RMB296,985,000 were secured by certain property, plant and equipment, prepaid land lease payments, inventories and pledged deposits with carrying amounts of approximately RMB128,187,000 (31 December 2018: approximately RMB80,992,000), approximately RMB39,656,000 (31 December 2018: approximately RMB43,806,000), approximately RMB40,000,000 (31 December 2018: Nil) and approximately RMB31,386,000 (31 December 2018: Nil) respectively.

As at 30 June 2019, the non-current interest-bearing bank borrowings with a carrying amount of RMB37,800,000 were secured by certain property, plant and equipment, prepaid land lease payments, of the Group with carrying amounts of RMB72,879,000 (31 December 2018: approximately RMB74,962,000) and RMB16,521,000 (31 December 2018: approximately RMB15,102,000), respectively.

MATERIAL ACQUISITION AND DISPOSAL

On 28 January 2019, Zhejiang Jinyuan, an indirect wholly-owned subsidiary of the Company, entered into equipment purchase agreement with Zhejiang Golden Eagle, pursuant to which Zhejiang Jinyuan agreed to purchase and Zhejiang Golden Eagle agreed to sell the 2019 Equipment at a consideration of RMB24,470,000 for the Group's project in Ethiopia. Please refer to the Company's announcement dated 28 January 2019 for further details.

On 24 May 2019, Heilongjiang Jinda, a 72.73% indirectly owned subsidiary of the Company, entered into an equity transfer agreement with Heilongjiang Kangyuan, pursuant to which Heilongjiang Jinda agreed to dispose and Heilongjiang Kangyuan agreed to acquire, the 75% equity interest of Kangyuan Seed at the consideration of RMB7,500,000. Please refer to the Company's announcement dated 24 May 2019 for further details.

Saved for disclosed above, the Group did not have any material acquisition or disposal during the Review Period.

FOREIGN CURRENCY EXPOSURE

The Group's transactions are mainly denominated in Renminbi, United States Dollars, Euros and Hong Kong Dollars. The exchange rate changes of such currencies are monitored regularly and managed appropriately. Currently, the Company has also entered into certain foreign currency forward contracts and derivative financial instruments by utilising its credit line, and derivative financial instruments with a current liabilities of approximately RMB222,000 was recognized as at 30 June 2019 (as at 31 December 2018: approximately RM3,438,000).

REMUNERATION POLICY

As at 30 June 2019, the Group had a total of 3,169 employees (30 June 2018: 3,125 employees). Total staff costs incurred for the Review Period amounted to approximately RMB107,516,000 (six months ended 30 June 2018: RMB96,029,000).

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, the Group and its employees in China are each required to make contributions to fund pension insurance and unemployment insurance at rates specified in the relevant laws and regulations in China.

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

The Group has also adopted 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.

The Board will constantly review and determine at its absolute discretion such number of awarded Shares to be awarded to the selected persons under the Share Award Plan with such vesting conditions as the Board may deem appropriate.

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 Group's subsidiary in Italy which 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 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 risks of the new expansion project in Ethiopia.

OUTLOOK AND PLANS

Politically, the rise in sentiment of protectionism and unilateralism led by the United States has been severely affecting global free trade in almost every sector and it is expected that such unilateral actions by individual countries will continue in the foreseeable future.

The trend of environmental-friendliness and the use of natural fibers has been set. Linen yarn will surely benefit from this trend as it is one of the most environmentally-friendly fibers. 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.

Having said that, the price of cotton in China has dropped over 20% since May 2019. As such, the demand of linen yarn has also started to see signs of a slowing momentum in recent months and the operating environment of the whole textile industry has also become more challenging. The Group will cautiously monitor the situation and react to the market accordingly.

The Ethiopia project will not only help the Group in saving land cost, labour cost, energy cost and tax expenses, but will also enable the Group to benefit from the favourable treatment under the African Growth and Opportunity Act (AGOA) of United States and the Everything but Arms (EBA) initiative of the European Union for least developed countries (LDCs), which grants duty-free quota-free access to all products into these countries, to counter the threats of protectionism and unilateralism. The Ethiopia factory is expected to commence trial production in early 2020.

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 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 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 management discussion and analysis 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 2019 (30 June 2018: Nil).

SHARE OPTION SCHEMES

The share option scheme adopted on 15 November 2006 (the "**Old Scheme**") expired in 2016. The Group adopted a new share option scheme (the "**New Scheme**") at the annual general meeting held 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. Options carrying rights to subscribe for a maximum of 22,250,000 Share were granted in 2015 and 16,250,000 options remained outstanding under the Old Scheme as at 30 June 2019. All of the 16,250,000 options carrying rights to subscribe for 16,250,000 Share have been vested and become exercisable at an exercise price of HK$2.00 per Share. No share option under the Old Scheme was exercised during the Review Period. No option was granted or exercised under the New Scheme during the Review Period.

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.

The Trustee had purchased an aggregate of 19,400,000 Shares on the market in 2017 to hold on trust for the selected persons pursuant to the terms and conditions of the rules of the Share Award Plan and the trust deed. No Share was purchased by the Trustee during the Review Period.

On 25 May 2018, 19,400,000 Shares have been awarded to selected persons of which 19,370,000 Shares have been accepted pursuant to the Share Award Plan.

On 25 May 2019, 1,010,000 of the awarded Shares have been vested and transferred from the Trustee to the names of 29 awardees.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules regarding securities transactions by Directors on terms no less exacting than the required standard as set out in the Model Code. 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 interim results 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 Company's Shareholders. The Directors believe that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. In the opinion of the Directors, save for the deviation to code provision A.2.1 of the Corporate Governance Code (the "**Code**") contained in Appendix 14 of the Listing Rules as disclosed below, the Company has complied with the code provisions set out in the Code throughout the Review Period.

Code Provision A.2.1

Under code provision A.2.1 of the Code, the roles of the chairman and chief executive officer of the Company should be 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, was appointed as 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

21 August 2019

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.