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 2020

- Revenue decreased by approximately 42.0% to approximately RMB424,317,000 for the six months ended 30 June 2020 from approximately RMB731,167,000 for the six months ended 30 June 2019.

- Gross profit margin dropped by approximately 13.4 percentage points to approximately 13.2% for the six months ended 30 June 2020 from approximately 26.6% for the six months ended 30 June 2019 as a result of the sluggish demand of linen yarn due to the COVID-19 pandemic throughout the Review Period.

- Profit for the Review Period decreased by approximately 87.5% to approximately RMB11,340,000 for the six months ended 30 June 2020 from approximately RMB90,729,000 for the six months ended 30 June 2019.

- Profit attributable to the owners of the parent decreased by approximately 88.5% to approximately RMB10,093,000 for the six months ended 30 June 2020 from approximately RMB87,814,000 for the six months ended 30 June 2019.

- Basic earnings per share dropped by approximately 85.7% to approximately RMB0.02 for the six months ended 30 June 2020 compared to approximately RMB0.14 for the six months ended 30 June 2019.

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 2020 (the "**Review Period**"):

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020 (unaudited)

		For the six months ended 30 June	
		2020	2019
		RMB'000	*RMB'000*
	Notes	**(Unaudited)**	(Unaudited)
REVENUE FROM CONTRACTS WITH CUSTOMERS	*4*	**424,317**	731,167
Cost of sales		**(368,119)**	(536,332)
Gross profit		**56,198**	194,835
Other income and gains	*4*	**15,509**	9,480
Selling and distribution expenses		**(15,947)**	(23,070)
Administrative expenses		**(31,592)**	(36,461)
Other expenses		**(1,683)**	(9,465)
Finance costs	*5*	**(11,481)**	(9,275)
Gain on disposal of a subsidiary		**–**	235
PROFIT BEFORE TAX	*6*	**11,004**	126,279
Income tax credit/(expense)	*7*	**336**	(35,550)
PROFIT FOR THE PERIOD		**11,340**	90,729
Attributable to:			
Owners of the parent		**10,093**	87,814
Non-controlling interests		**1,247**	2,915
		11,340	90,729
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	*9*	**RMB0.02**	RMB0.14
Diluted	*9*	**RMB0.02**	RMB0.14

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020 (unaudited)

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**11,340**	90,729
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**236**	(59)
TOTAL COMPREHENSIVE INCOME, FOR THE PERIOD	**11,576**	90,670
Attributable to:		
Owners of the parent	**10,329**	87,755
Non-controlling interests	**1,247**	2,915
	11,576	90,670

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020 (unaudited)

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*10*	**1,044,296**	1,054,148
Investment property		**6,029**	6,329
Right-of-use assets		**72,662**	76,109
Other intangible assets	*11*	**4,430**	4,703
Prepayments for equipment		**16,638**	5,602
Deferred tax assets		**8,832**	5,680
Other non-current assets		**48,407**	48,407
Total non-current assets		**1,201,294**	1,200,978
CURRENT ASSETS			
Inventories	*12*	**943,066**	795,592
Trade and notes receivables	*13*	**231,108**	345,813
Prepayments, deposits and other receivables		**86,989**	92,238
Derivative financial instruments	*19*	**–**	198
Pledged deposits		**109,629**	146,168
Cash and cash equivalents		**153,654**	144,798
Total current assets		**1,524,446**	1,524,807
CURRENT LIABILITIES			
Trade and notes payables	*14*	**164,095**	358,817
Other payables and accruals		**112,439**	131,457
Interest-bearing bank and other borrowings	*15*	**1,061,306**	823,482
Dividend payable		**39,501**	17
Tax payable		**13,121**	32,096
Total current liabilities		**1,390,462**	1,345,869

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2020 (unaudited)

	Notes	**30 June 2020** *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
NET CURRENT ASSETS		**133,984**	178,938
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,335,278**	1,379,916
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**20,916**	20,152
Interest-bearing bank and other borrowings	*15*	**65,670**	78,869
Total non-current liabilities		**86,586**	99,021
Net assets		**1,248,692**	1,280,895
EQUITY			
Equity attributable to owners of the parent			
Share capital	*16*	**6,329**	6,329
Treasury shares	*17*	**(13,305)**	(18,493)
Reserves		**1,211,336**	1,249,974
		1,204,360	1,237,810
Non-controlling interests		**44,332**	43,085
Total equity		**1,248,692**	1,280,895

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020 (unaudited)

	Attributable to owners of the parent										
	Issued capital	**Share premium**	**Treasury shares**	**Merger reserve**	**Statutory reserve**	**Share award reserve**	**Exchange reserve**	**Retained profits**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2019 (audited)	6,329	270,308	(18,493)	196,816	144,757	8,401	(2,996)	632,688	1,237,810	43,085	1,280,895
Profit for the period	–	–	–	–	–	–	–	10,093	10,093	1,247	11,340
Exchange differences on translation of foreign operations	–	–	–	–	–	–	236	–	236	–	236
Total comprehensive income for the period	–	–	–	–	–	–	236	10,093	10,329	1,247	11,576
Equity-settled share awards plan	–	–	–	–	–	(4,295)	–	–	(4,295)	–	(4,295)
Transfer of share award plan reserve upon the vesting	–	(1,082)	5,188	–	–	(4,106)	–	–	–	–	–
Final 2019 dividend declared	–	–	–	–	–	–	–	(39,484)	(39,484)	–	(39,484)
At 30 June 2020 (unaudited)	6,329	269,226	(13,305)	196,816	144,757	–	(2,760)	603,297	1,204,360	44,332	1,248,692

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020 (unaudited)

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**11,004**	126,279
Adjustments for:		
Fair value loss on derivative financial instruments transactions not qualifying as hedges	**–**	211
(Reversal of)/Provision for equity-settled share award expenses	**(4,295)**	2,988
Depreciation	**33,775**	35,602
Depreciation of right-of-use assets	**2,019**	1,693
Amortisation of intangible assets	**273**	273
Provision for impairment of inventories	**3,054**	5,507
Losses on disposal of items of property, plant and equipment	**69**	1,331
Provision for impairment of trade and notes receivables	**786**	422
Provision for impairment of property, plant and equipment	**–**	6,173
Gain on disposal of a subsidiary	**–**	(235)
Finance costs	**11,481**	9,275
Exchange gains, net	**–**	(2,221)
Bank interest income	**(328)**	(201)
	57,838	187,097
Increase in inventories	**(150,528)**	(57,577)
Decrease/(Increase) in trade and notes receivables	**113,919**	(5,622)
Decrease/(Increase) in prepayments and other assets	**6,829**	(22,922)
Proceeds from pledged deposits	**85,972**	66,972
New pledged deposits	**(76,868)**	(113,423)
Increase/(Decrease) in derivative financial instruments	**198**	(1,075)
(Decrease)/Increase in trade and notes payables	**(194,722)**	49,744
Decrease in other payables and accruals	**(19,018)**	(9,139)
Cash (used in)/generated from operations	**(176,380)**	94,055
Interest received	**328**	201
Income tax paid	**(21,027)**	(33,460)
Net cash flows (used in)/generated from operating activities	**(197,079)**	60,796

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June 2020 (unaudited)

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(7,992)**	(115,890)
Prepayments for equipment	**(16,638)**	(30,775)
Proceeds from disposal of items of property, plant and equipment and other intangible assets	**111**	1,342
Disposal of a subsidiary	**–**	5,505
Net cash flows used in investing activities	**(24,519)**	(139,818)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	**931,259**	567,015
Repayment of bank loans	**(705,754)**	(478,310)
New related party loans	**–**	20,000
Interest paid	**(21,690)**	(12,907)
Payment of lease liabilities	**(1,032)**	(944)
Proceeds from pledged deposits	**104,327**	44,094
New pledged deposits	**(76,892)**	(81,969)
Net cash flows generated from financing activities	**230,218**	56,979
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**8,620**	(22,043)
Cash and cash equivalents at beginning of period	**144,798**	241,826
Effect of foreign exchange rate changes, net	**236**	(59)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**153,654**	219,724
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**153,654**	219,724
Cash and cash equivalents as stated in the statement of financial position	**153,654**	219,724

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (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 2020 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 2019.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised International Financial Reporting Standards ("IFRSs") for the first time for the current period's financial information.

Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
Amendments to IFRS 16	*Covid-19-Related Rent Concessions*
Amendments to IAS 1 and IAS 8	*Definition of Material*

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

Amendments to IFRS 3 *Definition of a Business*

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

Amendments to IFRS 9, IAS 39 and IFRS 7

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

Amendment to IFRS 16

Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendment did not have any impact on the financial position and performance of the Group as no lease payment for the lease of the Group has been reduced or waived by the lessors as a result of the covid-19 pandemic during the current period.

Amendments to IAS 1 and IAS 8

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

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 2020 is set out in the following table:

	Revenue from contracts with customers For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China	**133,763**	308,887
European Union	**155,314**	185,638
Non-European Union	**135,240**	236,642
Total	**424,317**	731,167

(b) Non-current assets

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Mainland China	**842,276**	869,898
Other countries/regions	**350,186**	325,400
	1,192,462	1,195,298

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

Information about major customers

No revenue amounting to 10 percent or more of the Group's total revenue was derived from sales to a single customer for the six months ended 30 June 2020 (six months ended 30 Jun 2019: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	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Type of goods or services		
Sales of linen yarn, hemp yarn and scraps	**424,317**	731,167
Timing of revenue recognition		
Goods transferred at a point in time	**424,317**	731,167
Other income		
Bank interest income	**328**	201
Government grants	**9,463**	6,177
Foreign exchange gains, net	**5,399**	2,221
Others	**319**	881
	15,509	9,480

5. FINANCE COSTS

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank loans	**21,439**	13,168
Interest on lease liabilities	**251**	69
Total interest expense on financial liabilities not at fair value through profit or loss	**21,690**	13,237
Less: interest capitalised	**(10,209)**	(3,962)
	11,481	9,275

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**368,119**	536,332
Depreciation	**33,775**	35,602
Depreciation of right-of-use asset	**2,019**	1,693
Amortisation of intangible assets	**273**	273
Research and development ("R&D") expenses	**8,271**	5,846
Auditors' remuneration	**975**	975
Employee benefit expense		
(including directors' and chief executive's remuneration):		
Wages, salaries and other benefits	**69,962**	99,511
Pension scheme contributions	**3,865**	5,017
(Reversal of)/Accrual for equity-settled share award expense	**(4,295)**	2,988
	69,532	107,516
Foreign exchange gains, net	**(5,399)**	(2,221)
Fair value loss on derivative financial instruments		
– transactions not qualifying as hedges	**–**	211
Write-down of inventories to net realisable value	**3,054**	5,507
Provision for impairment of trade and notes receivables	**786**	422
Provision for impairment of property, plant and equipment	**–**	6,173
Finance costs	**11,481**	9,275
Bank interest income	**(328)**	(201)

7. INCOME TAX

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

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current charge for the period	**2,052**	27,653
Deferred	**(2,388)**	7,897
Total tax (credit)/charge for the period	**(336)**	35,550

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

(ii) In accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, the provision for current income tax of Mainland China has been based on a statutory rate of 25% of the assessable profits of the Group for the year, except for Zhaosu Jindi Flax Co., Ltd. ("Zhaosu Jindi") and Zhejiang Jinda Flax Co., Ltd. ("Zhejiang Jinda"), two indirectly wholly-owned subsidiaries of the Group. Zhaosu Jindi is engaged in the preliminary processing of agricultural products and is exempted from PRC income tax. Also, Zhejiang Jinda obtained the High-new Technology Certificate for the years from 2019 to 2022 and was entitled to a tax rate of 15%.

(iii) Hong Kong profits tax has been provided at the rate of 8.25% on the estimated assessable profits arising in Hong Kong up to HK$2 million. 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 2020 (six months ended 30 June 2019: 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 612,692,000 (six months ended 30 June 2019: 610,474,000) 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	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**10,093**	87,814

	Number of shares	
	2020	2019
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**612,692**	610,474
Effect of dilution – weighted average number of ordinary shares:		
Share award plan	**16,956**	19,174
Share options	**–**	16,250
	629,648	645,898

10. PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings *RMB'000*	Machinery *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Leasehold improvements *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 31 December 2019 and at 1 January 2020:							
Cost	405,042	719,870	117,883	11,480	18,005	431,948	1,704,228
Accumulated depreciation	(135,080)	(435,814)	(52,514)	(8,914)	(11,585)	–	(643,907)
Impairment provision	–	(6,173)	–	–	–	–	(6,173)
Net carrying amount	269,962	277,883	65,369	2,566	6,420	431,948	1,054,148
At 1 January 2020, net of accumulated depreciation	269,962	277,883	65,369	2,566	6,420	431,948	1,054,148
Additions	12,616	1,695	600	–	738	8,154	23,803
Depreciation provided during the period	(10,354)	(16,084)	(5,250)	(224)	(1,563)	–	(33,475)
Transfers	15,675	34,177	259	–	–	(50,111)	–
Disposals	–	(173)	(7)	–	–	–	(180)
Exchange realignment	–	(1)	1	–	–	–	–
At 30 June 2020, net of accumulated depreciation	287,899	297,497	60,972	2,342	5,595	389,991	1,044,296
At 30 June 2020:							
Cost	433,333	754,017	118,675	11,480	18,743	389,991	1,726,239
Accumulated depreciation	(145,434)	(450,347)	(57,703)	(9,138)	(13,148)	–	(675,770)
Impairment provision	–	(6,173)	–	–	–	–	(6,173)
Net carrying amount	287,899	297,497	60,972	2,342	5,595	389,991	1,044,296

As at 30 June 2020, the Group's property, plant and equipment with a net carrying amount of approximately RMB243,099,000 (31 December 2019: RMB194,209,000) were pledged to secure bank loans granted to the Group as set out in note 15(i) and (ii).

11. OTHER INTANGIBLE ASSETS

	Certified emission rights *RMB'000*
At 1 January 2020, net of accumulated amortisation	4,703
Amortisation provided during the period	(273)
At 30 June 2020, net of accumulated amortisation	4,430
At 30 June 2020:	
Cost	9,852
Accumulated amortisation	(5,422)
Net carrying amount	4,430

12. INVENTORIES

	30 June 2020 ***RMB'000*** **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Raw materials	**456,884**	443,335
Work in progress	**46,570**	59,313
Finished goods	**439,612**	292,944
	943,066	795,592

As at 30 June 2020, inventories with a carrying amount of RMB40,000,000 (31 December 2019: RMB40,000,000) were pledged to secure bank loans granted to the Group as set out in note 15(i).

13. TRADE AND NOTES RECEIVABLES

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**185,058**	263,102
Notes receivable	**49,185**	85,078
Impairment	**(3,135)**	(2,367)
	231,108	345,813

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.

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 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 month	**110,619**	121,065
1 to 2 months	**40,351**	45,908
2 to 3 months	**8,140**	46,354
Over 3 months	**22,813**	47,408
	181,923	260,735

14. TRADE AND NOTES PAYABLES

An aged analysis of the trade and notes payables as at 30 June 2020, based on the payment due date, is as follows:

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Due within 1 month or on demand	**53,197**	61,839
Due after 1 month but within 3 months	**60,898**	268,978
Due after 3 months but within 6 months	**50,000**	28,000
	164,095	358,817

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

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	**30 June 2020** *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Current			
Secured bank loans	*(i)*	**379,124**	304,284
Unsecured bank loans		**680,419**	517,155
Lease liability		**1,763**	2,043
Subtotal		**1,061,306**	823,482
Non-current			
Secured bank loans	*(ii)*	**12,600**	25,200
Other loans – unsecured		**44,000**	44,000
Lease liability		**9,070**	9,669
Subtotal		**65,670**	78,869
Total		**1,126,976**	902,351

Notes:

(i) As at 30 June 2020, the current interest-bearing bank loans with a carrying amount of RMB379,124,000 were secured by certain property, plant and equipment, prepaid land lease payments, and inventories with carrying amounts of approximately RMB122,508,000 (31 December 2019: RMB122,816,000), approximately RMB39,043,000 (31 December 2019: RMB39,397,000) and approximately RMB40,000,000 (31 December 2019: RMB40,000,000), respectively.

(ii) As at 30 June 2020, the non-current interest-bearing bank borrowings with a carrying amount of RMB12,600,000 were secured by certain property, plant and equipment and prepaid land lease payments of the Group with carrying amounts of RMB127,563,000 (31 December 2019: RMB71,393,000) and RMB14,623,000 (31 December 2019: RMB14,783,000), respectively.

(iii) The bank borrowings bear interest at rates ranging from 1.34% to 5.22% per annum (31 December 2019: 2.01% 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 2020 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.

16. SHARE CAPITAL

Authorised:

	30 June 2020		31 December 2019	
	Number of shares (Unaudited)	**Amount *HK$'000* (Unaudited)**	Number of shares (Audited)	Amount *HK$'000* (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 2020			31 December 2019		
	Number of shares	**Amount *HK$'000* (Unaudited)**	**Amount *RMB'000* equivalent (Unaudited)**	Number of shares	Amount *HK$'000* (Audited)	Amount *RMB'000* equivalent (Audited)
At the beginning and the end	**629,678,000**	**6,297**	**6,329**	629,678,000	6,297	6,329

17. TREASURY SHARES

	30 June 2020			31 December 2019		
	Number of shares	**Amount *HK$'000* (Unaudited)**	**Amount *RMB'000* equivalent (Unaudited)**	Number of shares	Amount *HK$'000* (Audited)	Amount *RMB'000* equivalent (Audited)
At the beginning	**18,390,000**	**21,006**	**18,493**	19,400,000	22,160	19,508
Vested shares transferred	**(5,159,250)**	**(6,374)**	**(5,188)**	(1,010,000)	(1,154)	(1,015)
At the end	**13,230,750**	**14,632**	**13,305**	18,390,000	21,006	18,493

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 Trustee purchased 19,400,000 shares of the Company at a total consideration of approximately RMB19,508,000 and 19,370,000 shares were granted to award holders. In the six months ended 30 June 2020, 5,159,250 vested shares which amounted to RMB5,188,000 were transferred to award holders.

18. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	Financial assets at amortised cost *RMB'000* (Unaudited)
As at 30 June 2020	
Trade and notes receivables	231,108
Financial assets included in deposits and other receivables	19,487
Pledged deposits	109,629
Cash and cash equivalents	153,654
	513,878

	Financial assets at amortised cost *RMB'000* (Audited)	Financial assets at fair value through profit or loss *RMB'000* (Audited)	Total *RMB'000* (Audited)
As at 31 December 2019			
Trade and notes receivables	345,813	–	345,813
Financial assets included in deposits and other receivables	18,941	–	18,941
Derivative financial instruments	–	198	198
Pledged deposits	146,168	–	146,168
Cash and cash equivalents	144,798	–	144,798
	655,720	198	655,918

	Financial liabilities at amortised cost ***RMB'000*** **(Unaudited)**
As at 30 June 2020	
Interest-bearing bank and other borrowings	**1,126,976**
Financial liabilities included in other payables	**80,915**
Dividend payable	**39,501**
Trade and notes payables	**164,095**
	1,411,487

	Financial liabilities at amortised cost *RMB'000* (Audited)
As at 31 December 2019	
Interest-bearing bank and other borrowings	902,351
Financial liabilities included in other payables	84,987
Trade and notes payables	358,817
	1,346,155

19. 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 2020:

	Carrying amounts		Fair values	
	2020	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
Financial assets				
Derivative financial instruments	–	198	–	198

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, and 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 the end of the period, 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:

Assets measured at fair value:

		Fair value measurement using		
	31 December 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*
	(Audited)	(Audited)	(Audited)	(Audited)
Financial assets at fair value through profit or loss — foreign exchange forward contracts	198	–	198	–

During the six month ended 30 June 2020, 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 (2019: Nil).

20. COMMITMENTS

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

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Contracted, but not provided for:		
Plant and machinery	**49,765**	41,370

21. RELATED PARTY TRANSACTIONS

(a) Transactions with companies controlled by one of the Company's directors

(i) During the six months ended 30 June 2020, the Group leased offices and manufacturing facilities located in Mainland China from Zhejiang Kingdom Creative Co., Ltd. ("Kingdom Creative") and incurred operating lease charges of RMB250,000 (six months ended 30 June 2019: RMB250,000). Mr. Ren Weiming has a controlling equity interest in Kingdom Creative. Rental and other terms for these lease arrangements were negotiated between the parties on arm's length basis with reference to the then prevailing market rates.

(ii) During the six months ended 30 June 2020, the Group purchased electricity from Zhejiang Yuyuan Solar Co., Ltd. with an amount of RMB1,067,000 (six months ended 30 June 2019: RMB1,196,000). Mr. Ren Weiming has a controlling equity interest in this company. The price of electricity was made with a discount rate of approximately 3.5% to the market prices.

(iii) During the six months ended 30 June 2020, the Group purchased chemicals and additives from Zhejiang Jinxiu Jiangnan Silk Co.,Ltd. with an amount of RMB2,082,000 (six months ended 30 June 2019: RMB1,225,000). Mr. Ren Weiming has a controlling equity interest in this company. The raw material purchase was made according to published prices and conditions offered by the supplier to its major customers.

(iv) During the six months ended 30 June 2020, the Group sold finished goods to Zhejiang Jinxiu Jiangnan Silk Co., Ltd. with an amount of RMB75,000 (six months ended 30 June 2019: Nil). Mr. Ren Weiming has a controlling equity interest in this company. The sales of finished goods were made according to published prices and conditions offered to the Group's major customers.

(v) During the six months ended 30 June 2020, the Group leased cars from and leased an office to Interconnect Financial Leasing (Shanghai) Co., Ltd, which incurred lease charges of RMB196,000 (six months ended 30 June 2019: RMB138,000) and generated lease income of RMB289,000 (six months ended 30 June 2019: RMB210,000). Mr. Ren Weiming has a controlling equity interest in Interconnect Financial Leasing (Shanghai) Co., Ltd.'s parent company, Kingdom Creative. Rental and other terms for these lease arrangements were negotiated between the parties on arm's length basis with reference to the then prevailing market rates.

(b) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Short-term employee benefits	**2,465**	2,450
Post-employment benefits	**76**	70
Share award plan	**101**	101
	2,642	2,621

22. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 21 August 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

COVID-19 identified in late 2019 has severely affected the global economies. Many countries had imposed different form of restrictions of movement of people, forced closure of office, schools and shopping malls, etc. Such measures had severely weaken the sales and demand of fashion and garments. Many fashion brands had filed bankruptcy petition or announced massive scale down of their outlets and operation. As a result, demand of the linen yarn during the Review Period was inevitably affected and fallen off a cliff.

During the Review Period, revenue of the Group decreased by approximately 42.0% on a year-on-year basis to RMB424,317,000. The decrease in revenue was mainly attributable to the drop in demand of linen yarn in all markets during the Review Period.

Major Markets and Customers

By implementing an international sales strategy, the Group has a sales network covering approximately 20 countries and regions around the world. During the Review Period, the Group's domestic sales of RMB133,763,000, which contributed to approximately 31.5% of the Group's total revenue, recorded a decrease of approximately 56.7% as compared to the same period last year, while the Group's overseas sales of RMB290,554,000, which contributed to approximately 68.5% of the Group's total revenue, recorded a decline of approximately 31.2% on a year-on-year basis. In particular, total sales to European Union countries and non-European Union countries reported a drop of 16.3% and 42.9% on a year-on-year basis respectively, as a result of the COVID-19 pandemic during the Review Period. Key European Union countries that the Group sold its products to include Italy, Portugal and Lithuania.

Despite the deterioration, the Group will continue in developing the domestic market with an objective to secure more cooperation with target customers in China.

Raw Material Procurement

The Group mainly sources its fibre flax, the major raw material of linen yarn, from well-established suppliers such as those in France, Belgium and the Netherlands. Being one of the largest buyers in these regions, the Group has developed long term business relationships with its suppliers. During the Review Period, the Group procured approximately 15,346 tonnes (2019: 14,734 tonnes) of raw materials abroad, representing a year-on-year increase of approximately 4.2%. The average procurement unit price was approximately RMB27,430 per tonne, representing an increase of approximately 5.8% from approximately RMB25,928 for the same period last year. The Group is cautiously optimistic about the future of the linen textile industry. Although the demand and sales of linen yards was not as promising as originally expected due to the outbreak of COVID-19, it is the corporate procurement strategy of the Group to maintain its production scale and to secure a steady volume of production going forward. The Group will continue to closely monitor the international market development and plan its procurement cautiously at the same time.

Production Capacity

As at 30 June 2020, the Group had five productions bases as follows:

Production Base		**Annual Production Capacities**
1.	Haiyan County, Zhejiang Province (1st Phase of the Haiyan Plant)	7,000 tonnes
2.	Rugao in Jiangsu Province	6,000 tonnes
3.	Haiyan County, Zhejiang Province (2nd Phase of the Haiyan Plant)	5,000 tonnes
4.	Qinggang in Heilongjiang Province	4,000 tonnes
5.	Adama in Ethiopia *(Note)*	5,000 tonnes
	Total annual production capacity:	**27,000 tonnes** *(based on the 24 Nm standard specification)*

Note: During the Review Period, due to COVID-19 pandemic, the Adama factory in Ethiopia had not been able to commence its normal operation.

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 7,754 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 611 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 preparatory works including the construction of the factory in Ethiopia and the commissioning of machinery were completed during the Review Period. Raw materials were also imported into Ethiopia to prepare for the trial production. Based on public information of the World Health Organisation, there were only 5,846 confirmed COVID-19 cases in Ethiopia as of 30 June 2020. However, the number of confirmed cases have been growing exponentially to over 34,000 cases by mid-August 2020. It is not an appropriate time for large scale recruitment of workers. In order to ensure the well-being of the Group's employees in the Adama factory in Ethiopia, the first phase of the Ethiopia project, with a designed annual production capacity of 5,000 tonnes, will be delayed until the COVID-19 pandemic is under control in Ethiopia and/or vaccines are available for the Group's employees. Our factory operation will be resumed immediately once the COVID-19 pandemic is under control in Ethiopia and/or vaccines are available. The Company will continue to monitor the situation in Ethiopia and make appropriate arrangement as necessary.

FINANCIAL REVIEW

Revenue

For the Review Period, the Group's revenue decreased by approximately 42.0% to approximately RMB424,317,000 (six months ended 30 June 2019: RMB731,167,000). The decrease of revenue was mainly attributable to sluggish demand of linen yarn due to COVID-19 pandemic during the Review Period. A decrease of approximately 40.7% was experienced in terms of sales quantity and thereby resulting in only a total of 5,567 tonnes of linen yarn being sold during the Review Period (six months ended 30 June 2019: 9,394 tonnes). Sales to all regions had a year-on-year decrease, in particular, each of domestic, European Union and non– European Union regions dropped approximately 56.7%, 16.3% and 42.9%, respectively, during the Review Period.

The breakdown of revenue by sales regions is as follows:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
China	**133,763**	308,887
European Union	**155,314**	185,638
Non-European Union	**135,240**	236,642
	424,317	731,167

Gross Profit and Gross Profit Margin

The Group's gross profit for the Review Period decreased by approximately 71.2% to approximately RMB56,198,000 (six months ended 30 June 2019: approximately RMB194,835,000). Gross profit margin for the Review Period dropped by approximately 13.4 percentage points to approximately 13.2% (six months ended 30 June 2019: approximately 26.6%) mainly due to the decrease of selling prices of linen yarn in response to the sluggish demand of linen yarn due to COVID-19 pandemic persisted 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 RMB9,463,000 (six months ended 30 June 2019: approximately RMB6,177,000) and interest income of approximately RMB328,000 (six months ended 30 June 2019: approximately RMB201,000) and a net exchange gain of RMB5,399,000 (six months ended 30 June 2019: RMB2,221,000). There was an increase of government grants and subsidies in the amount of RMB3,286,000 for the Review Period mainly due to government rebates of profits tax and social securities contribution paid, and subsidies to assist corporates during the trade tension between US and China and the COVID-19 pandemic by the Chinese government.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the Review Period amounted to approximately RMB15,947,000 (six months ended 30 June 2019: approximately RMB23,070,000), which accounted for approximately 3.8% (six months ended 30 June 2019: approximately 3.2%) of the Group's total revenue. The slight increase in selling costs as a percentage of revenue was mainly due to a higher percentage of export sales of 68.5% during the Review Period as compared to 57.8% for the same period in last year, resulting in a higher percentage of freight and custom clearance fee incurred to sales.

Administrative Expenses

The Group's administrative expenses for the Review Period amounted to approximately RMB31,592,000 (six months ended 30 June 2019: approximately RMB36,461,000), representing a decrease of approximately 13.4% as compared with the corresponding period last year. The decrease in the Group's administrative expenses was mainly due to expenses control measures and reduced operation during the Review Period as a result of the COVID-19 pandemic.

Other expenses

The Group's other expenses for the Review Period amounted to approximately RMB1,683,000 (six months ended 30 June 2019: approximately RMB9,465,000). The Group had donated RMB1,000,000 to the local community to combat the COVID-19 during the Review Period.

Finance Costs

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

Net borrowing interests for the Review Period amounted to approximately RMB11,230,000 (six months ended 30 June 2019: approximately RMB9,206,000). Net borrowing interests represent the total interest expense on bank loans less amount capitalized attributable to capital assets.

An interest expense of approximately RMB10,209,000 was capitalized during the Review Period (six months ended 30 June 2019: approximately RMB3,962,000).

Interest on lease liabilities for the Review Period amounted to approximately RMB251,000 (six months ended 30 June 2019: RMB69,000).

Total finance costs for the Review Period amounted to approximately RMB11,481,000 (six months ended 30 June 2019: approximately RMB9,275,000).

Income Tax Expense

Income tax expense for the Review Period amounted to a tax credit of approximately RMB336,000 (six months ended 30 June 2019: tax expense of approximately RMB35,550,000). The effective tax rate for the Review Period and the corresponding period in 2019 was approximately –3.1% and 28.2% respectively. The negative 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. There was a net reversal of dividend withholding tax provision during the Review Period.

Profit for the period

The Group recorded a profit for the Review Period of approximately RMB11,340,000 (six months ended 30 June 2019: RMB90,729,000), representing a decrease of approximately 87.5% as compared with the corresponding period last year.

Minority interests

The minority interests of approximately RMB1,247,000 represents the share of the net results of certain subsidiaries of the Group attributable to the minority shareholders during the Review Period (six months ended 30 June 2019: approximately RMB2,915,000).

Profit Attributable to Owners of the Parent

As a result of the aforesaid, the Group recorded a profit attributable to owners of the parent for the Review Period of approximately RMB10,093,000 (six months ended 30 June 2019: RMB87,814,000), representing a decrease of approximately 88.5% as compared with the corresponding period last year.

Liquidity and Financial Resources

As at 30 June 2020, the Group had net current assets of approximately RMB133,984,000 (as at 31 December 2019: approximately RMB178,938,000). The Group financed its operations with internally generated resources and bank loans during the Review Period.

As at 30 June 2020, the Group had cash and cash equivalents of approximately RMB153,654,000 (as at 31 December 2019: approximately RMB144,798,000). The liquidity ratio of the Group as at 30 June 2020 was approximately 109.6% (as at 31 December 2019: approximately 113.3%).

Total equity of the Group as at 30 June 2020 was approximately RMB1,248,692,000 (as at 31 December 2019: approximately RMB1,280,895,000). As at 30 June 2020, the Group had interest bearing bank and other borrowings repayable within 12 months from the date of the statement of financial position of approximately RMB1,061,306,000 (as at 31 December 2019: approximately RMB823,482,000) and long-term interest bearing bank and other borrowings of approximately RMB65,670,000 (as at 31 December 2019: approximately RMB78,869,000). Together they represented a gross debt gearing ratio (i.e. total borrowings/ total equity) amounted to approximately 90.3% (as at 31 December 2019: approximately 70.4%).

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

The Group's cash and cash equivalents as well as borrowings are mainly denominated in Renminbi, United States Dollars, Euro and Hong Kong Dollars.

CAPITAL COMMITMENTS

As at 30 June 2020, 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 RMB49,765,000 (as at 31 December 2019: approximately RMB41,370,000). As at 30 June 2020, there was no capital commitment authorised but not contracted for (as at 31 December 2019: Nil).

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any contingent liabilities.

CHARGE ON ASSETS

As at 30 June 2020, the current interest-bearing bank loans with a carrying amount of RMB379,124,000 were secured by certain property, plant and equipment, prepaid land lease payments, and inventories with carrying amounts of approximately RMB122,508,000 (31 December 2019: RMB122,816,000), approximately RMB39,043,000 (31 December 2019: RMB39,397,000) and approximately RMB40,000,000 (31 December 2019: RMB40,000,000), respectively.

As at 30 June 2020, the non-current interest-bearing bank borrowings with a carrying amount of RMB12,600,000 were secured by certain property, plant and equipment and prepaid land lease payments of the Group with carrying amounts of RMB127,563,000 (31 December 2019: RMB71,393,000) and RMB14,623,000 (31 December 2019: RMB14,783,000), respectively.

MATERIAL ACQUISITION AND DISPOSAL

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

SIGNIFICANT INVESTMENTS HELD

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

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. There was no derivative financial instruments as at 30 June 2020 (as at 31 December 2019: Nil).

REMUNERATION POLICY

As at 30 June 2020, the Group had a total of 3,207 employees (30 June 2019: 3,169 employees). Total staff costs incurred for the Review Period amounted to approximately RMB69,532,000 (six months ended 30 June 2019: RMB107,516,000).

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, the execution risks of the new expansion project in Ethiopia, and outbreak of epidemic causing disruption of production.

OUTLOOK AND PLANS

The trade tension between United States and China continues to escalate to unseen levels for decades, especially 2020 is the presidential election year in the United States.

The COVID-19 pandemic has infected millions of peoples worldwide and many countries are still imposing various forms of restriction of movement and economic activities. The demand of the linen yarn for the rest of this year remain weak, and recovery of demand may need to wait until the end of this year, depending on any effective cure is developed to combat the COVID-19.

The preparatory works including the construction of the factory in Ethiopia and the commissioning of machinery were completed during the Review Period. Raw materials were also imported into Ethiopia to prepare for the trial production. Based on public information of the World Health Organisation, there were only 5,846 confirmed COVID-19 cases in Ethiopia as of 30 June 2020. However, the number of confirmed cases have been growing exponentially to over 34,000 cases by mid-August 2020. It is not an appropriate time for large scale recruitment of workers. In order to ensure the well-being of the Group's employees in the Adama factory in Ethiopia, the first phase of the Ethiopia project, with a designed annual production capacity of 5,000 tonnes, will be delayed until the COVID-19 pandemic is under control in Ethiopia and/or vaccines are available for the Group's employees. Our factory operation will be resumed immediately once the COVID-19 pandemic is under control in Ethiopia and/or vaccines are available. The Company will continue to monitor the situation in Ethiopia and make appropriate arrangement as necessary.

The Group is also partnering with COTTONCONNECT from the United Kingdom for the "REEL LINEN" project, REEL stands for "Responsible Environment, Enhanced Livelihoods". "REEL LINEN" is a social responsibility initiative and code of conduct, committed to the improvement and promotion of environmental safety, quality responsibility and traceability of the global flax industry from farm to yarn, and to promote the sustainable development of the whole industry chain from planting to end user.

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

None of the Company or any of its subsidiaries purchased, sold or redeemed 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 2020 (30 June 2019: 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. No share option under the Old Scheme was outstanding 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.

On 29 April 2020, 5,159,250 of the awarded Shares have been vested and transferred from the Trustee to the names of 51 awardees.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") 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 2020

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.