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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 2021

- Revenue increased by approximately 78.3% to approximately RMB756,724,000 for the six months ended 30 June 2021 from approximately RMB424,317,000 for the six months ended 30 June 2020.

- Gross profit margin improved by approximately 0.5 percentage point to approximately 13.7% for the six months ended 30 June 2021 from approximately 13.2% for the six months ended 30 June 2020 as a result of better operating efficiency this year as compared to partial shut-down of factories in early 2020 due to COVID-19 pandemic.

- Profit for the Review Period increased by 8.4% to approximately RMB12,289,000 for the six months ended 30 June 2021 from approximately RMB11,340,000 for the six months ended 30 June 2020.

- Profit attributable to the owners of the parent surged by approximately 41.5% to approximately RMB14,280,000 for the six months ended 30 June 2021 from approximately RMB10,093,000 for the six months ended 30 June 2020.

- Basic earnings per share remained at approximately RMB0.02 for the six months ended 30 June 2021 (for the six months ended 30 June 2020: RMB0.02).

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 2021 (the "**Review Period**"):

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021 (unaudited)

		For the six months ended 30 June	
		2021	2020
		RMB'000	*RMB'000*
	Notes	**(Unaudited)**	(Unaudited)
REVENUE FROM CONTRACTS WITH CUSTOMERS	*4*	**756,724**	424,317
Cost of sales		**(652,824)**	(368,119)
Gross profit		**103,900**	56,198
Other income and gains	*4*	**3,696**	15,509
Selling and distribution expenses		**(32,281)**	(15,947)
Administrative expenses		**(37,354)**	(31,592)
Other expenses		**(546)**	(1,683)
Finance costs	*5*	**(19,428)**	(11,481)
PROFIT BEFORE TAX	*6*	**17,987**	11,004
Income tax (expense)/credit	*7*	**(5,698)**	336
PROFIT FOR THE PERIOD		**12,289**	11,340
Attributable to:			
Owners of the parent		**14,280**	10,093
Non-controlling interests		**(1,991)**	1,247
		12,289	11,340
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	*9*	**RMB0.02**	RMB0.02
Diluted	*9*	**RMB0.02**	RMB0.02

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021 (unaudited)

	For the six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**12,289**	11,340
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(493)**	236
TOTAL COMPREHENSIVE INCOME, FOR THE PERIOD	**11,796**	11,576
Attributable to:		
Owners of the parent	**13,787**	10,329
Non-controlling interests	**(1,991)**	1,247
	11,796	11,576

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021 (unaudited)

	Notes	**30 June 2021** *RMB'000* **(Unaudited)**	31 December 2020 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*10*	**1,065,843**	1,050,539
Investment property		**5,432**	5,729
Right-of-use assets		**87,791**	72,084
Other intangible assets	*11*	**4,295**	4,158
Prepayments for equipment		**756**	22,570
Deferred tax assets		**19,358**	23,277
Other non-current assets		**407**	407
Total non-current assets		**1,183,882**	1,178,764
CURRENT ASSETS			
Inventories	*12*	**718,868**	793,825
Trade and notes receivables	*13*	**388,566**	375,836
Prepayments, deposits and other receivables		**88,601**	85,947
Derivative financial instruments	*19*	**431**	–
Pledged deposits		**63,477**	32,889
Cash and cash equivalents		**128,733**	166,761
Total current assets		**1,388,676**	1,455,258
CURRENT LIABILITIES			
Trade and notes payables	*14*	**235,149**	198,863
Other payables and accruals		**138,432**	159,501
Interest-bearing bank and other borrowings	*15*	**880,841**	962,399
Dividend payable		**185**	188
Tax payable		**13,618**	12,762
Total current liabilities		**1,268,225**	1,333,713

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2021 (unaudited)

	Notes	**30 June 2021** *RMB'000* **(Unaudited)**	31 December 2020 *RMB'000* (Audited)
NET CURRENT ASSETS		**120,451**	121,545
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,304,333**	1,300,309
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**20,235**	19,870
Interest-bearing bank and other borrowings	*15*	**52,067**	53,204
Total non-current liabilities		**72,302**	73,074
Net assets		**1,232,031**	1,227,235
EQUITY			
Equity attributable to owners of the parent			
Share capital	*16*	**6,329**	6,329
Treasury shares	*17*	**(13,305)**	(13,305)
Reserves		**1,206,107**	1,192,320
		1,199,131	1,185,344
Non-controlling interests		**32,900**	41,891
Total equity		**1,232,031**	1,227,235

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021 (unaudited)

	Attributable to owners of the parent									
	Issued capital	Share premium	Treasury shares	Merger reserve	Statutory 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*
At 31 December 2020 (audited)	6,329	269,226	(13,305)	196,816	145,113	(2,662)	583,827	1,185,344	41,891	1,227,235
Profit/(Loss) for the period	–	–	–	–	–	–	14,280	14,280	(1,991)	12,289
Exchange differences on translation of foreign operations	–	–	–	–	–	(493)	–	(493)	–	(493)
Total comprehensive income/(loss) for the period	–	–	–	–	–	(493)	14,280	13,787	(1,991)	11,796
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(7,000)	(7,000)
At 30 June 2021 (unaudited)	6,329	269,226	(13,305)	196,816	145,113	(3,155)	598,107	1,199,131	32,900	1,232,031

	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 2021 (unaudited)

	For the six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**17,987**	11,004
Adjustments for:		
Fair value gain on derivative financial instruments transactions not qualifying as hedges	**(431)**	–
Reversal of equity-settled share award expenses	**–**	(4,295)
Depreciation	**38,308**	33,775
Depreciation of right-of-use assets	**2,341**	2,019
Amortisation of intangible assets	**272**	273
Provision for impairment of inventories	**716**	3,054
(Gains)/Losses on disposal of items of property, plant and equipment	**(311)**	69
Provision for impairment of trade and notes receivables	**1,783**	786
Finance costs	**19,428**	11,481
Bank interest income	**(180)**	(328)
	79,913	57,838
Decrease/(Increase) in inventories	**74,241**	(150,528)
(Increase)/Decrease in trade and notes receivables	**(14,513)**	113,919
(Increase)/Decrease in prepayments and other assets	**(2,654)**	6,829
Proceeds from pledged deposits	**49,894**	85,972
New pledged deposits	**(90,015)**	(76,868)
Increase in derivative financial instruments	**–**	198
Increase/(Decrease) in trade and notes payables	**36,286**	(194,722)
Decrease in other payables and accruals	**(36,072)**	(19,018)
Cash generated from/(used in) operations	**97,080**	(176,380)
Interest received	**180**	328
Income tax paid	**(573)**	(21,027)
Net cash flows generated from/(used in) operating activities	**96,687**	(197,079)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June 2021 (unaudited)

	For the six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(29,034)**	(7,992)
Prepayments for land lease payment	**(18,047)**	–
Prepayments for equipment	**(756)**	(16,638)
Proceeds from disposal of items of property, plant and equipment and other intangible assets	**893**	111
Proceeds from disposal of a subsidiary	**15,000**	–
Net cash flows used in investing activities	**(31,944)**	(24,519)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	**761,914**	931,259
Repayment of bank loans	**(843,258)**	(705,754)
Interest paid	**(22,134)**	(21,690)
Principal portion of lease payment	**(1,351)**	(1,032)
Proceeds from pledged deposits	**21,475**	104,327
New pledged deposits	**(11,942)**	(76,892)
Dividends paid to non-controlling shareholders	**(7,000)**	–
Net cash flows generated from financing activities	**(102,296)**	230,218
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(37,553)**	8,620
Cash and cash equivalents at beginning of period	**166,761**	144,798
Effect of foreign exchange rate changes, net	**(475)**	236
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**128,733**	153,654
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**128,733**	153,654
Cash and cash equivalents as stated in the statement of financial position	**128,733**	153,654

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021 (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 2021 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 2020.

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 2020, 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 9, IFRS 39, IAS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to IFRS 16	*Covid-19-Related Rent Concessions*

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

Amendments to IFRS 9, IFRS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("**RFR**"). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

Amendment to IFRS 16

Amendment to IFRS 16 issued in April 2021 extends the availability of the 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 by 12 months (the "**2021 Amendment**"). Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted. The amendment did not have any significant impact on the financial position and performance of the Group.

3. OPERATING SEGMENT

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

Geographical information

(a) Revenue 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 2021 is set out in the following table:

	Revenue from contracts with customers For the six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China	**303,921**	133,763
European Union	**224,482**	155,314
Non-European Union	**228,321**	135,240
Total	**756,724**	424,317

(b) Non-current assets

	30 June 2021	31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Mainland China	**806,104**	800,801
Ethiopia	**358,419**	354,686
	1,164,523	1,155,487

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

Information about major customers

No revenue amounting to 10 percent or more of the Group's total revenue was derived from sales to a single customer for the six months ended 30 June 2021 (six months ended 30 June 2020: 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	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Type of goods or services		
Sales of linen yarn, hemp yarn and scraps	**756,724**	424,317
Timing of revenue recognition		
Goods transferred at a point in time	**756,724**	424,317
Other income		
Foreign exchange gains, net	**1,295**	5,399
Government grants	**1,001**	9,463
Bank interest income	**180**	328
Fair value gains on derivative financial instruments	**431**	–
Others	**789**	319
	3,696	15,509

5. FINANCE COSTS

	For the six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank loans	**21,900**	21,439
Interest on lease liabilities	**234**	251
Total interest expense on financial liabilities not at fair value through profit or loss	**22,134**	21,690
Less: interest capitalised	**(2,706)**	(10,209)
	19,428	11,481

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**652,824**	368,119
Depreciation	**38,308**	33,775
Depreciation of right-of-use asset	**2,341**	2,019
Amortisation of intangible assets	**272**	273
Research and development ("**R&D**") expenses	**7,099**	8,271
Auditors' remuneration	**1,025**	975
Employee benefit expense		
(including directors' and chief executive's remuneration):		
Wages, salaries and other benefits	**62,966**	69,962
Pension scheme contributions	**3,479**	3,865
Reversal of equity-settled share award expense	**–**	(4,295)
	66,445	69,532
Foreign exchange gains, net	**(1,295)**	(5,399)
Fair value gain on derivative financial instruments		
– transactions not qualifying as hedges	**(431)**	–
Write-down of inventories to net realisable value	**716**	3,054
Provision for impairment of trade and notes receivables	**1,783**	786
Finance costs	**19,428**	11,481
Bank interest income	**(180)**	(328)

7. INCOME TAX

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

	For the six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current charge for the period	**1,414**	2,052
Deferred	**4,284**	(2,388)
Total tax charge/(credit) for the period	**5,698**	(336)

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

(ii) In accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, the provision for current income tax of Mainland China has been based on a statutory rate of 25% of the assessable profits of the Group for the year, except for Zhejiang Jinda Flax Co., Ltd. ("**Zhejiang Jinda**"), an indirectly wholly-owned subsidiary of the Group. 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 2021 (six months ended 30 June 2020: Nil).

9. BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 616,447,250 (six months ended 30 June 2020: 612,692,000) 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	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**14,280**	10,093

	Number of shares	
	2021	2020
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**616,447**	612,692
Effect of dilution – weighted average number of ordinary shares:		
Share award plan	**–**	16,956
	616,447	629,648

10. PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings	Machinery	Office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2020 and at 1 January 2021:							
Cost	431,088	711,207	120,631	10,367	22,373	390,366	1,686,032
Accumulated depreciation	(145,467)	(412,085)	(55,528)	(8,113)	(14,300)	–	(635,493)
Net carrying amount	285,621	299,122	65,103	2,254	8,073	390,366	1,050,539
At 1 January 2021, net of accumulated depreciation	285,621	299,122	65,103	2,254	8,073	390,366	1,050,539
Additions	3,367	7,408	1,343	912	1,774	39,097	53,901
Depreciation provided during the period	(11,024)	(20,109)	(4,961)	(296)	(1,621)	–	(38,011)
Transfers	209,153	122,466	–	–	2,024	(333,643)	–
Disposals	–	(582)	–	–	–	–	(582)
Exchange realignment	–	(3)	(1)	–	–	–	(4)
At 30 June 2021, net of accumulated depreciation	487,117	408,302	61,484	2,870	10,250	95,820	1,065,843
At 30 June 2021:							
Cost	643,608	832,811	121,967	11,279	26,170	95,820	1,731,655
Accumulated depreciation	(156,491)	(424,509)	(60,483)	(8,409)	(15,920)	–	(665,812)
Net carrying amount	487,117	408,302	61,484	2,870	10,250	95,820	1,065,843

As at 30 June 2021, the Group's property, plant and equipment with a net carrying amount of approximately RMB240,872,000 (31 December 2020: RMB252,403,000) were pledged to secure bank loans granted to the Group as set out in note 15(i).

11. OTHER INTANGIBLE ASSETS

	Certified emission rights *RMB'000*
At 1 January 2021, net of accumulated amortisation	4,158
Additions	409
Amortisation provided during the period	(272)
At 30 June 2021, net of accumulated amortisation	4,295
At 30 June 2021:	
Cost	10,262
Accumulated amortisation	(5,967)
Net carrying amount	4,295

12. INVENTORIES

	30 June 2021 *RMB'000* **(Unaudited)**	31 December 2020 *RMB'000* (Audited)
Raw materials	**348,334**	346,190
Work in progress	**44,526**	54,503
Finished goods	**326,008**	393,132
	718,868	793,825

As at 30 June 2021, inventories with a carrying amount of RMB40,000,000 (31 December 2020: 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 2021	31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**327,797**	232,847
Notes receivable	**64,711**	145,399
Impairment	**(3,942)**	(2,410)
	388,566	375,836

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 2021	31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 month	**242,264**	127,831
1 to 2 months	**3,513**	40,951
2 to 3 months	**55,873**	25,872
Over 3 months	**22,205**	35,783
	323,855	230,437

14. TRADE AND NOTES PAYABLES

An aged analysis of the trade and notes payables as at 30 June 2021, based on the payment due date, is as follows:

	30 June 2021	31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Due within 1 month or on demand	**66,183**	56,991
Due after 1 month but within 3 months	**168,966**	141,872
	235,149	198,863

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

		30 June 2021	31 December 2020
		RMB'000	*RMB'000*
	Notes	**(Unaudited)**	(Audited)
Current			
Secured bank loans	*(i)*	**383,184**	401,682
Unsecured bank loans		**489,936**	488,832
Other loans – unsecured		**5,951**	69,900
Lease liability		**1,770**	1,985
Subtotal		**880,841**	962,399
Non-current			
Other loans – unsecured		**44,000**	44,000
Lease liability		**8,067**	9,204
Subtotal		**52,067**	53,204
Total		**932,908**	1,015,603

Notes:

(i) As at 30 June 2021, the current interest-bearing bank loans with a carrying amount of RMB383,184,000 were secured by certain property, plant and equipment, prepaid land lease payments, and inventories with carrying amounts of approximately RMB240,872,000 (31 December 2020: RMB252,403,000), approximately RMB55,403,000 (31 December 2020: RMB56,029,000), approximately RMB40,000,000 (31 December 2020: RMB40,000,000), respectively.

(ii) The bank borrowings bear interest at rates ranging from 1.67% to 5.00% per annum (31 December 2020: 1.57% to 5.00% 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 2021 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 2021		31 December 2020	
	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 2021			31 December 2020		
	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 2021			31 December 2020		
	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	**13,230,750**	**14,632**	**13,305**	18,390,000	21,006	18,493
Vested shares transferred	**–**	**–**	**–**	(5,159,250)	(6,374)	(5,188)
At the end	**13,230,750**	**14,632**	**13,305**	13,230,750	14,632	13,305

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 2021, no vested shares 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	Financial assets at fair value through profit or loss	Total
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)
As at 30 June 2021			
Trade and notes receivables	388,566	–	388,566
Financial assets included in deposits and other receivables	37,344	–	37,344
Derivative financial instruments	–	431	431
Pledged deposits	63,477	–	63,477
Cash and cash equivalents	128,733	–	128,733
	618,120	431	618,551

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

	Financial assets at amortised cost *RMB'000* (Audited)
As at 31 December 2020	
Trade and notes receivables	375,836
Financial assets included in deposits and other receivables	33,705
Pledged deposits	32,889
Cash and cash equivalents	166,761
	609,191

	Financial liabilities at amortised cost *RMB'000* (Unaudited)
As at 30 June 2021	
Interest-bearing bank and other borrowings	**932,908**
Financial liabilities included in other payables	**117,733**
Dividend payable	**185**
Trade and notes payables	**235,149**
	1,285,975

	Financial liabilities at amortised cost *RMB'000* (Audited)
As at 31 December 2020	
Interest-bearing bank and other borrowings	1,015,603
Financial liabilities included in other payables	117,021
Dividend payable	188
Trade and notes payables	198,863
	1,331,675

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 2021:

	Carrying amounts		Fair values	
	30 June 2021	31 December 2020	**30 June 2021**	31 December 2020
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
Financial assets				
Derivative financial instruments	**431**	–	**431**	–

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 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		
	30 June 2021	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*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Financial assets at fair value through profit or loss — foreign exchange forward contracts and interest rate SWAP contracts	431	–	431	–

During the six month ended 30 June 2021, 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 (2020: Nil).

20. COMMITMENTS

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

	30 June 2021	31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Contracted, but not provided for:		
Plant and machinery	**97,635**	100,889

21. RELATED PARTY TRANSACTIONS

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

(i) During the six months ended 30 June 2021, 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 RMB333,000 (six months ended 30 June 2020: 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 2021, the Group purchased electricity from Zhejiang Yuyuan Solar Co., Ltd. with an amount of RMB1,053,000 (six months ended 30 June 2020: RMB1,067,000). 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 2021, the Group purchased chemicals and additives from Zhejiang Jinxiu Jiangnan Silk Co.,Ltd. with an amount of RMB1,474,000 (six months ended 30 June 2020: RMB2,082,000). 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 2021, the Group sold finished goods to Zhejiang Jinxiu Jiangnan Silk Co., Ltd. with an amount of Nil (six months ended 30 June 2020: RMB75,000). 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 2021, the Group leased cars from and leased an office to Interconnect Financial Leasing (Shanghai) Co., Ltd, which incurred lease charges of RMB191,000 (six months ended 30 June 2020: RMB196,000) and generated lease income of RMB171,000 (six months ended 30 June 2020: RMB289,000). 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	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Short-term employee benefits	**1,870**	2,465
Post-employment benefits	**182**	76
Share award plan	**–**	101
	2,052	2,642

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 20 August 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The COVID-19 pandemic has subsisted since its discovery in late 2019. Vaccination has become available in early 2021. Business activities generally resumed but the mutation of the virus has weaken the efficacy of the vaccine and many countries around the world have once again implemented partial lock down measures to curb the spreading of the virus.

During the Review Period, revenue of the Group surged by approximately 78.3% on a year-on-year basis from RMB424,317,000 to RMB756,724,000. The increase in revenue was mainly attributable to the recovery in demand of linen yarn in all markets during the Review Period, as the previous year was hard-hit by the COVID-19 pandemic.

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 RMB303,921,000, which contributed to approximately 40.2% of the Group's total revenue, recorded an increase of approximately 127.2% as compared to the same period last year, while the Group's overseas sales of RMB452,803,000, which contributed to approximately 59.8% of the Group's total revenue, recorded an increase of approximately 55.8% on a year-on-year basis. In particular, total sales to European Union countries and non-European Union countries reported an increase of 44.5% and 68.8% on a year-on-year basis respectively, as a result of the business activities resumption from COVID-19 pandemic during the Review Period. Key European Union countries that the Group sold its products to include Italy, Portugal and Belgium. Meanwhile, the Group continues 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 13,955 tonnes (2020: 15,346 tonnes) of raw materials abroad, representing a year-on-year decrease of approximately 9%. The average procurement unit price was approximately RMB21,291 per tonne, representing a decrease of approximately 22.3% from approximately RMB27,430 for the same period last year. The Group is optimistic about the future of the linen textile industry. It is the corporate procurement strategy of the Group to maintain its production scale and to secure a steady volume of production going forward. The Group will continue to closely monitor the international market development and plan its procurement cautiously at the same time.

Production Capacity

As at 30 June 2021, the Group had five productions bases as follows:

No.	Factory	Location	Country	Annual capacity (Tonnes)	Utilisation/Status
1	Haiyan 1st Factory	Zhejiang	China	7,000	Close to 100%
2	Rugao Factory	Jiangsu	China	6,000	Close to 100%
3	Haiyan 2nd Factory	Zhejiang	China	5,000	Close to 100%
4	Qinggang Factory	Heilongjiang	China	4,000	Close to 100%
5	Ethiopia	Adama	Ethiopia	5,000	Re-commenced trial production in 2021

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 9,683 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 348 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 outperform 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.

In order to ensure the well-being of the Group's employees in the Adama factory in Ethiopia, the factory operation in Ethiopia was halted last year but has re-commenced the trial production during the Review Period.

FINANCIAL REVIEW

Revenue

For the Review Period, the Group's revenue surged by approximately 78.3% to approximately RMB756,724,000 (six months ended 30 June 2020: RMB424,317,000). The increase of revenue was mainly attributable to recovery of demand of linen yarn due to business activities resumption from COVID-19 pandemic during the Review Period. An increase of approximately 104% was experienced in terms of sales quantity and thereby resulting in a total of 11,370 tonnes of linen yarn being sold during the Review Period (six months ended 30 June 2020: 5,567 tonnes). Sales to all regions had a year-on-year recovery, in particular, each of domestic, European Union and non– European Union regions increased by approximately 127.2%, 44.5% and 68.8%, respectively, during the Review Period.

The breakdown of revenue by sales regions is as follows:

	1H2021		1H2020		Year-on-year change in revenue	Year-on-year change in revenue
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
China	**303,921**	**40.2%**	133,763	31.5%	170,158	127.2%
European Union	**224,482**	**29.7%**	155,314	36.6%	69,168	44.5%
Non-European Union	**228,321**	**30.1%**	135,240	31.9%	93,081	68.8%
Total Revenue	**756,724**	**100.0%**	424,317	100.0%	332,407	78.3%

Gross Profit and Gross Profit Margin

The Group's gross profit for the Review Period increased by approximately 84.9% to approximately RMB103,900,000 (six months ended 30 June 2020: approximately RMB56,198,000). Gross profit margin for the Review Period improved by approximately 0.5 percentage point to approximately 13.7% (six months ended 30 June 2020: approximately 13.2%) mainly due to improvement of operational efficiency of factories during the Review Period as compared to partial shut down of factories in early 2020 due to COVID-19 pandemic.

Other Income and Gains

Other income and gains for the Review Period mainly comprises of government grants and subsidies of approximately RMB1,001,000 (six months ended 30 June 2020: approximately RMB9,463,000) and interest income of approximately RMB180,000 (six months ended 30 June 2020: approximately RMB328,000) and a net exchange gain of RMB1,295,000 (six months ended 30 June 2020: RMB5,399,000). There were more government grants and subsidies in previous year provided by the Chinese government to assist corporates during the trade tension between US and China and the COVID-19 pandemic.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the Review Period amounted to approximately RMB32,281,000 (six months ended 30 June 2020: approximately RMB15,947,000), which accounted for approximately 4.3% (six months ended 30 June 2020: approximately 3.8%) of the Group's total revenue. The increase in selling costs as a percentage of revenue was mainly due to significant increase of sea freight costs during the Review Period, as a result of the COVID-19 pandemic.

Administrative Expenses

The Group's administrative expenses for the Review Period amounted to approximately RMB37,354,000 (six months ended 30 June 2020: approximately RMB31,592,000), representing an increase of approximately 18.2% as compared with the corresponding period last year. The increase in the Group's administrative expenses was mainly due to additional staff costs due to the increase of headcount and bonus of the Group and there was a reversal of share award expense of RMB1,790,000 in previous year.

Other expenses

The Group's other expenses for the Review Period amounted to approximately RMB546,000 (six months ended 30 June 2020: approximately RMB1,683,000). The Group had donated RMB1,000,000 to the local community to combat the COVID-19 in the same period previous year.

Finance Costs

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

Net borrowing interests for the Review Period amounted to approximately RMB19,194,000 (six months ended 30 June 2020: approximately RMB11,230,000). Net borrowing interests represent the total interest expense on bank loans less amount capitalized attributable to capital assets.

An interest expense of approximately RMB2,706,000 was capitalized during the Review Period (six months ended 30 June 2020: approximately RMB10,209,000).

Interest on lease liabilities for the Review Period amounted to approximately RMB234,000 (six months ended 30 June 2020: RMB251,000).

Total finance costs for the Review Period amounted to approximately RMB19,428,000 (six months ended 30 June 2020: approximately RMB11,481,000).

Income Tax Expense

Income tax expense for the Review Period amounted to approximately RMB5,698,000 (six months ended 30 June 2020: tax credit of approximately RMB336,000). The effective tax rate for the Review Period and the corresponding period in 2020 was approximately 31.7% and –3.1% respectively. The high effective tax rate was due to tax losses resulting from deferred tax assets of certain subsidiaries not being recognised during the Review Period. The negative effective tax rate in last year 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 in the corresponding period last year.

Profit for the period

The Group recorded a profit for the Review Period of approximately RMB12,289,000 (six months ended 30 June 2020: RMB11,340,000), representing an increase of approximately 8.4% as compared with the corresponding period last year.

Minority interests

The minority interests of approximately RMB1,991,000 represents the share of the net loss of certain subsidiaries of the Group attributable to the minority shareholders during the Review Period (six months ended 30 June 2020: share of net profit of approximately RMB1,247,000).

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 RMB14,280,000 (six months ended 30 June 2020: RMB10,093,000), representing an increase of approximately 41.5% as compared with the corresponding period last year.

Liquidity and Financial Resources

As at 30 June 2021, the Group had net current assets of approximately RMB120,451,000 (as at 31 December 2020: approximately RMB121,545,000). The Group financed its operations with internally generated resources and bank loans during the Review Period.

As at 30 June 2021, the Group had cash and cash equivalents of approximately RMB128,733,000 (as at 31 December 2020: approximately RMB166,761,000). The liquidity ratio of the Group as at 30 June 2021 was approximately 109.5% (as at 31 December 2020: approximately 109.1%).

Total equity of the Group as at 30 June 2021 was approximately RMB1,232,031,000 (as at 31 December 2020: approximately RMB1,227,235,000). As at 30 June 2021, the Group had interest bearing bank and other borrowings repayable within 12 months from the date of the statement of financial position of approximately RMB880,841,000 (as at 31 December 2020: approximately RMB962,399,000) and long-term interest bearing bank and other borrowings of approximately RMB52,067,000 (as at 31 December 2020: approximately RMB53,204,000). Together they represented a gross debt gearing ratio (i.e. total borrowings/total equity) amounted to approximately 75.7% (as at 31 December 2020: approximately 82.8%).

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 2021, 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 RMB97,635,000 (as at 31 December 2020: approximately RMB100,889,000). As at 30 June 2021, there was no capital commitment authorised but not contracted for (as at 31 December 2020: Nil).

CONTINGENT LIABILITIES

As at 30 June 2021, the Group did not have any contingent liabilities.

CHARGE ON ASSETS

As at 30 June 2021, the current interest-bearing bank loans with a carrying amount of RMB383,184,000 were secured by certain property, plant and equipment, prepaid land lease payments, and inventories with carrying amounts of approximately RMB240,872,000 (31 December 2020: RMB252,403,000), approximately RMB55,403,000 (31 December 2020: RMB56,029,000), approximately RMB40,000,000 (31 December 2020: RMB40,000,000), respectively.

MATERIAL ACQUISITION AND DISPOSAL

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

SIGNIFICANT INVESTMENTS HELD

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

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 were derivative financial instruments assets of RMB431,000 as at 30 June 2021 (as at 31 December 2020: Nil).

REMUNERATION POLICY

As at 30 June 2021, the Group had a total of 3,254 employees (30 June 2020: 3,207 employees). Total staff costs incurred for the Review Period amounted to approximately RMB66,445,000 (six months ended 30 June 2020: RMB69,532,000).

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, 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

With the COVID-19 vaccination programs rolled out for most of the countries in the world, business operation is gradually getting back to normal. No massive and prolong period of lock down is expected in the future.

The trade tension between United States and China is expected to continue in the foreseeable future and unilateral sanction and retaliation cannot be ruled out.

Despite many challenges including but not limited to the COVID-19 pandemic and civil unrest in Ethiopia, the Group's factory in Ethiopia has gradually put into production and first batch of finished products shipped out in August 2021 and hopefully production will gradually ramp up in the near future.

The Group has partnered with COTTONCONNECT from the United Kingdom for the development of REEL Linen Code of Conduct in last year. REEL stands for "Responsible Environment, Enhanced Livelihoods". REEL Linen Code of Conduct is a social responsibility initiative committed to the improvement and promotion of environmental safety, quality responsibility and traceability of the global flax industry from farm to yarn, and to promote the sustainable development of the whole industry chain from planting to end user. The Company will continue to promote the REEL Linen Code of Conduct for the sustainability of the linen industry.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED 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 implementation of strategic global production layout, its commitment to sustainable development and technical innovation, developing proprietary intellectual property rights, branding of products and pursuing advanced management for lean management and excellent performance to generate or preserve value over a longer term. The 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 2021 (30 June 2020: Nil).

SHARE OPTION SCHEMES

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

No awarded Shares were vested during the Review Period as the vesting condition on performance target for the year 2020 was not satisfied.

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

20 August 2021
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.