

KINGDOM

金达控股

KINGDOM HOLDINGS LIMITED

Stock code: 528.HK

**Macquarie Greater China Gem Corporate Day
Corporate Presentation
9 – 10 July 2014**

The PRC's largest linen yarn manufacturer and exporter



Company Overview

- ✓ One of the leading linen yarn manufacturers and suppliers in the world; accounted for 29.3% of the PRC's linen yarn export in 2013
- ✓ The PRC's largest linen yarn exporter for 11 consecutive years

About Kingdom Holdings Limited

Stock information

Stock code	:	528.HK
Stock price (as of 30 Jun 2014)	:	HK\$1.33
Market cap (as of 30 Jun 2014)	:	HK\$840 mn
P/E ratio (as of 30 Jun 2014)	:	6.7x

- Mainly produces high quality linen yarns, and will gradually enhance product mix to high margin dyed linen yarns and linen fiber products
- In 2013, 63% of revenue was derived from export sales to high-end markets such as the EU, Korea & Japan; approximately 37% of the revenue was contributed by domestic sales
- **Annual production capacity reached 18,000 tons, the largest in China**
- Products are used in the following international brands:

Ermenegildo Zegna

ZARA MANGO

GAP

H&M

MUJI
無印良品



Loro Piana

2013 Result highlights

- ✓ Profit attributable to Owners of the parent amounted to RMB100,438,000, up 6.6% yoy
- ✓ Net profit margin reached 13.2%, up 0.1 p.p. yoy
- ✓ Earnings per share amounted to RMB0.16, up 6.7% yoy
- ✓ High dividend payout ratio of 37.5%

Core competency

Scale - As the industry leader in the linen yarn industry, Kingdom has strong pricing power over suppliers

Technology - Equipped with leading technologies and equipment with over 30 patents in linen yarn manufacturing

Brand - Core brands “Kingdom” and “紫薇” are well-recognized in both international and domestic markets; “Kingdom” is one of the two leading linen yarn brands worldwide

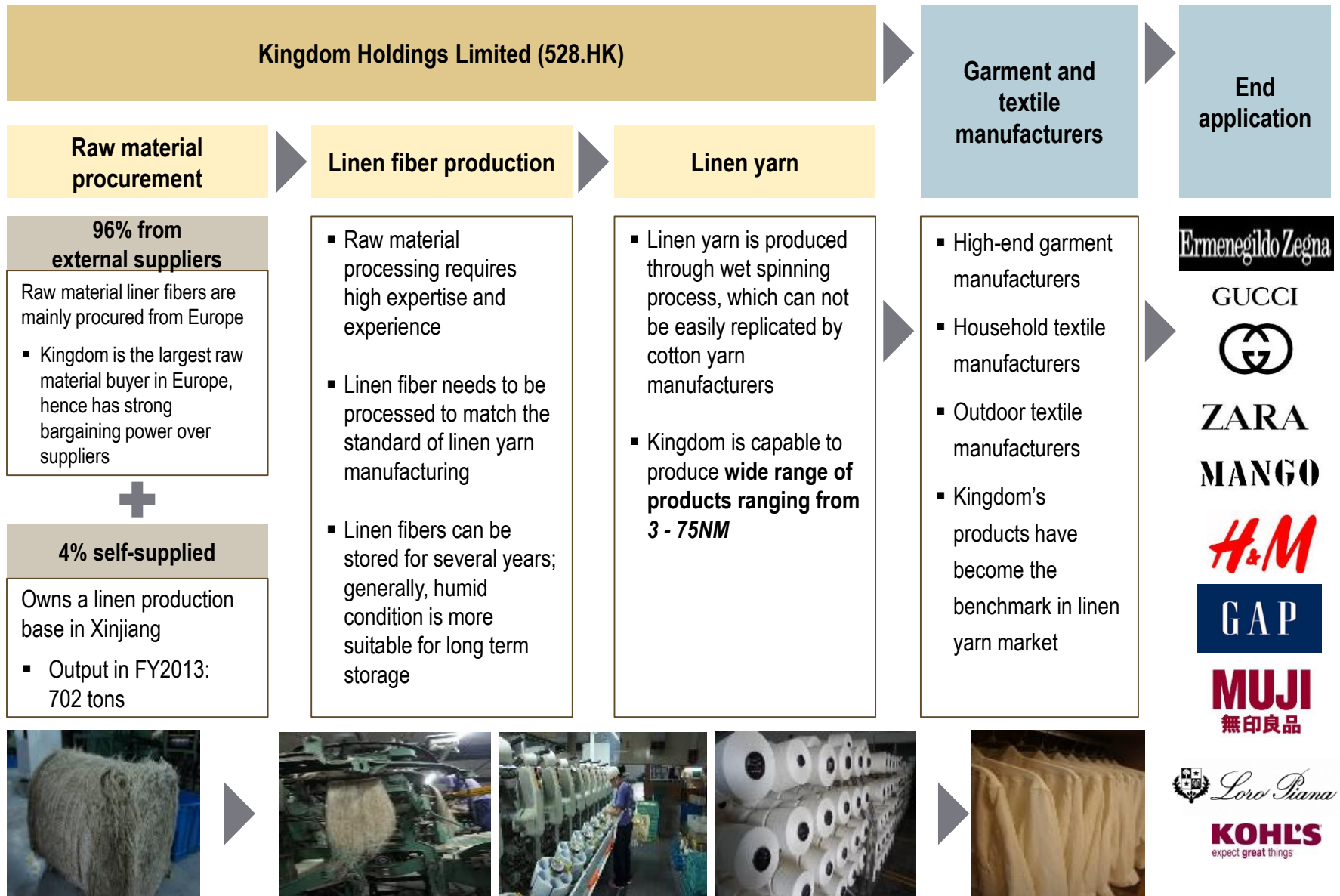
Management - Kingdom obtained ISO9000 quality system certification; ISO14000 environment system certification; TEX 100 ecological textile certification; and IMO certified organic flax fiber

Products - Actively developing high margin and value-added products, such as dyed linen yarn, to drive profit growth and cater the European textile market



Business Overview

Business Model



Production Plants and Capacity



Production plant	Product	Annualized production capacity	Annual production capacity utilization in FY13
Haiyan, Zhejiang Phase I	Linen yarn / dyed linen yarn	7,000 tons (after technical enhancement)	100%
Rugao, Jiangsu	Linen yarn	6,000 tons (after technical enhancement)	100%
Haiyan, Zhejiang Phase II (trial production)	Linen yarn	5,000 tons	Commence production in 2Q 2014
Total	--	18,000 tons	100%

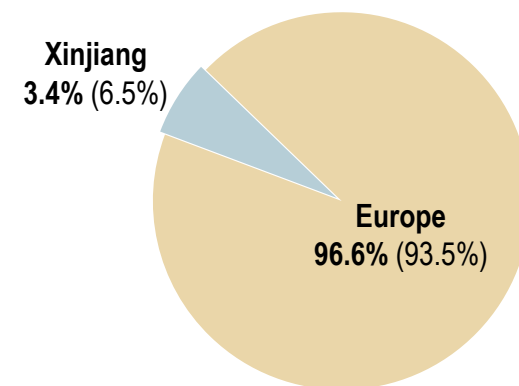
Raw Material Procurement & Risk Management

- ✓ The largest raw material purchaser in Europe with strong bargaining power over suppliers
- ✓ Normally, the Group stores 3-4 months of raw materials to support production needs

Raw material procurement

	FY2012		FY2013	
	Volume (tons)	Unit cost (RMB/ton)	Volume (tons)	Unit cost (RMB/ton)
Europe (Mainly France and Belgium)	14,400	17,500	20,073	18,000
Xinjiang	1,000	17,000	702	17,800

Procurement volume as of 31 Dec 2013



*Comparable figures of 2012 in parentheses

Self-owned raw material production base in Xinjiang

Location	: Zhaosu County, Yili, Xinjiang
Area	: 6,000 mu
Production capacity	: 1,200 tons

Raw material production base in Xinjiang

- Mainly produce organic raw materials to supply the Group's high margin organic linen yarn products
- Production volume @ 702 tons in FY2013, accounted for approximately 4% of the raw material procurement

Sales Network

- ✓ Extensive sales network covering over 20 countries and regions worldwide
- ✓ With 5 distribution agents located in textile manufacturing centers

Sales network and agents

5 sales agents located in Europe and Asia:

- 1 in Portugal, Turkey and India respectively
- 2 in Korea

A sales branch in Italy with stocks to ensure quality and timely services to high-end customers in Europe



Brands



Products: Linen yarn

Markets: Korea, Japan and EU

Established in 2005



Products: Linen yarn

Markets: Domestic market

Established in 2002

CRAPE MYRTLE

Products: Linen yarn

Markets: Eastern Europe

Established in 2001



Growth Strategies and Plans

Major Markets of Linen Textile Products



- Mature market
- Emerging market
- Potential market



Growth Strategy

- ✓ **Brand building to strengthen exposure in core markets**
- ✓ **Apply stringent cost control measures and further adapt production automation**
- ✓ **Improve production technology**

Develop high margin products

1. Focus on developing value-added dyed linen yarn products to cater the fast-fashion market
 - Gross margin to reach 35%
 - Well-prepared to manufacture 500 tons of dyed linen yarn in 2014; targets to penetrate overseas markets such as Italy, South Korea, and Turkey

Promote linen yarn products and venture into new markets

1. Relentlessly promote linen yarn products and venture into new markets; plan to attend industry forums in Turkey in 2014
2. Expansion in emerging markets
 - India - Rapid growth of linen textile market, it is gradually becoming the largest importer of linen yarn from China
 - Japan & Korea – Linen textile products are increasingly popular
 - Brazil – New emerging market

Enhance production capacity

1. The third production plant (Haiyan, Zhejiang Phase II) commenced production in the second quarter of 2014
 - Annualized production capacity will reach 18,000 tons, representing a 38% increase as compared with 13,000 tons in 2013

Production and CAPEX Plan

- ✓ Annualized production capacity will reach 18,000 tons in 2014, a 38% increase as compared with 13,000 tons in 2013
- ✓ New product, dyed linen yarn, is expected to drive profit growth

Production Capacity

	FY2013		FY2014		FY2015	
	Production capacity (tons)	Gross margin	Production capacity (tons)	Target gross margin	Production capacity (tons)	Target gross margin
Linen yarn (standard)	13,000	27.2%	15,500	28%	18,000	29%
Dyed linen yarn (Introduced to the market in 1Q13)	50	35%	500	35%	1,000	35%

CAPEX plan

	Project	CAPEX	Source
FY2014	<ul style="list-style-type: none"> ▪ R&D of new products ▪ Technological enhancement and market development 	RMB 50 million	<ul style="list-style-type: none"> ▪ Internal resources
FY2015	<ul style="list-style-type: none"> ▪ R&D new products ▪ Technical enhancement and equipment upgrade 	RMB 50 million	<ul style="list-style-type: none"> ▪ Internal resources
Total		RMB 350 million	



2013 Annual Results

2013 Results Summary

For the year ended 31 Dec

RMB '000	FY2012	FY2013	Change
Revenue	718,912	761,915	+6.0%
Gross profit	209,300	206,883	-1.2%
Profit attributable to Owners of the parent	94,180	100,438	6.6%
Gross margin	29.1%	27.2%	-1.9 p.p.
Net margin	13.1%	13.2%	+0.1 p.p.
Weighted average number of ordinary shares ('000 shares)	623,107	627,353	--
Earnings per share (RMB)	0.15	0.16	6.7%
Dividend per share (HK cents)	7.00	7.50	--
Dividend payout ratio*	37.3%	37.5%	+0.2 p.p.

▪ Increased average selling price during the Year

▪ Lower transportation costs due to increase in domestic sales

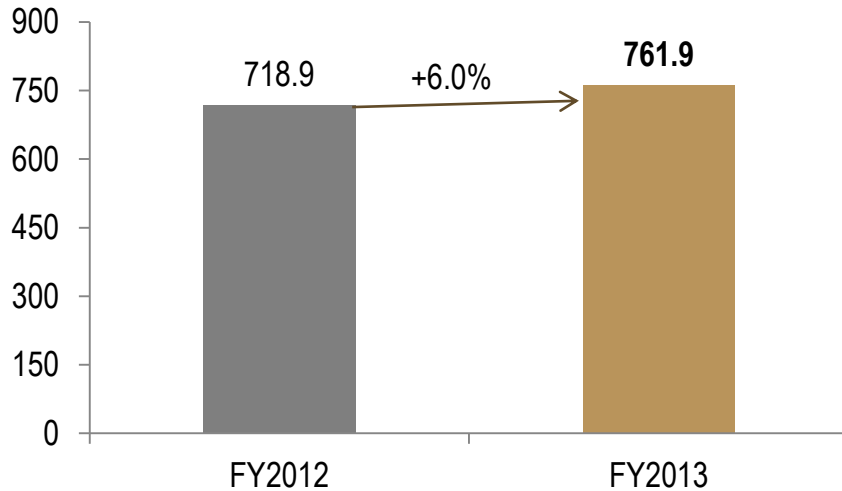
* Currency Rate: 1RMB = 1.25HKD

Revenue Analysis

For the year ended 31 Dec

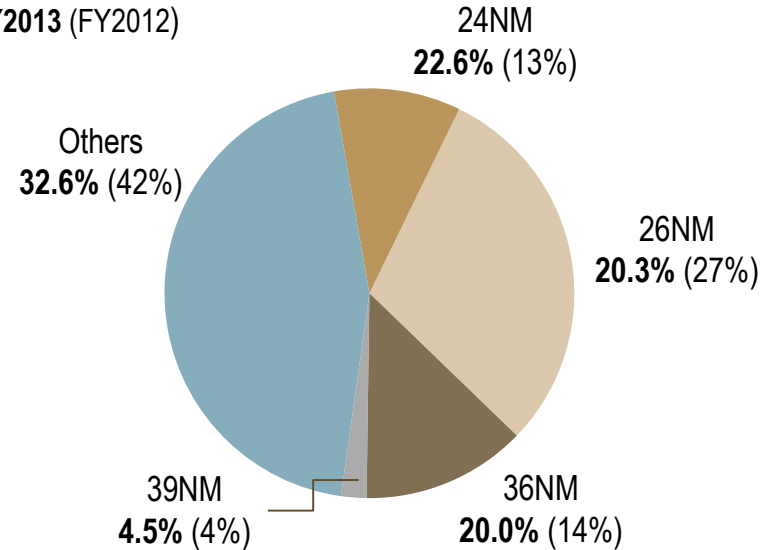
Revenue analysis

RMB million



Revenue contribution from major linen yarn products

FY2013 (FY2012)



*Comparable figures of FY2012 in parentheses

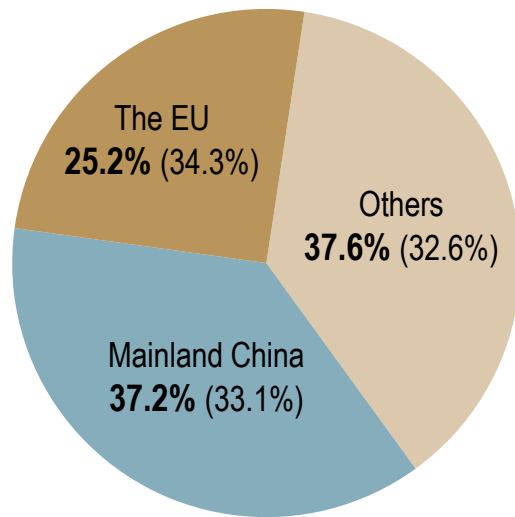
Average selling price and sales volume of standard linen yarn products

	FY2012	FY2013	Change	
Average selling price (RMB '000/ton)	58.1	58.2	+0.2%	<ul style="list-style-type: none"> Increased the average selling price in Nov & Dec 2013
Sales volume (ton)	12,148	12,280	+1.1%	
Gross profit margin	29%	27%	-2.0 p.p.	<ul style="list-style-type: none"> Rising labor costs USD to RMB depreciation

2013 Revenue Geographical Breakdown

- ✓ Sales in Mainland China increased by 4.1 p.p. yoy
- ✓ Sales in emerging markets Korea, Turkey and Japan increased by 2.1 p.p. , 2.3 p.p. and 1.9 p.p. respectively

For the year ended 31 Dec



*Comparable figures of FY 2012 in parentheses

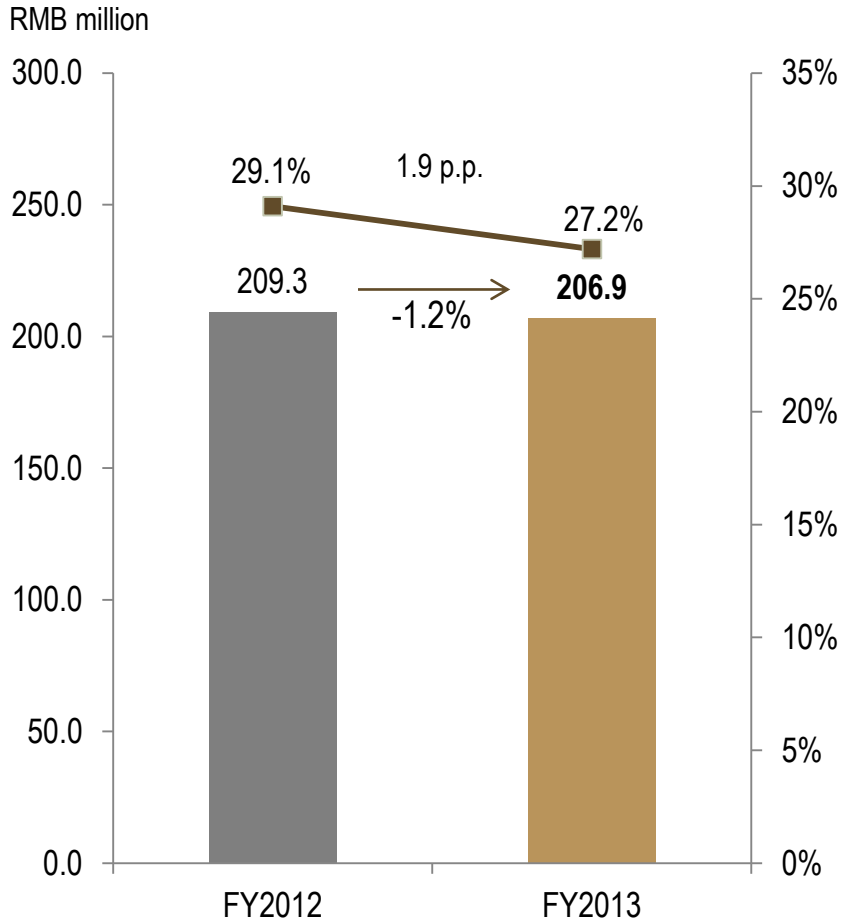
For the year ended 31 Dec

	FY2012	FY2013	Change
Mainland China	33.1%	37.2%	+4.1 p.p.
Italy	20.1%	16.7%	-3.4 p.p.
Korea	8.9%	11.0%	+2.1 p.p.
Turkey	12.5%	10.8%	-1.7 p.p.
India	6.4%	8.7%	+2.3 p.p.
Portugal	10.6%	6.0%	-4.6 p.p.
Japan	3.1%	5.0%	+1.9 p.p.
Others	5.3%	4.6%	-0.7 p.p.
Total	100%	100%	--

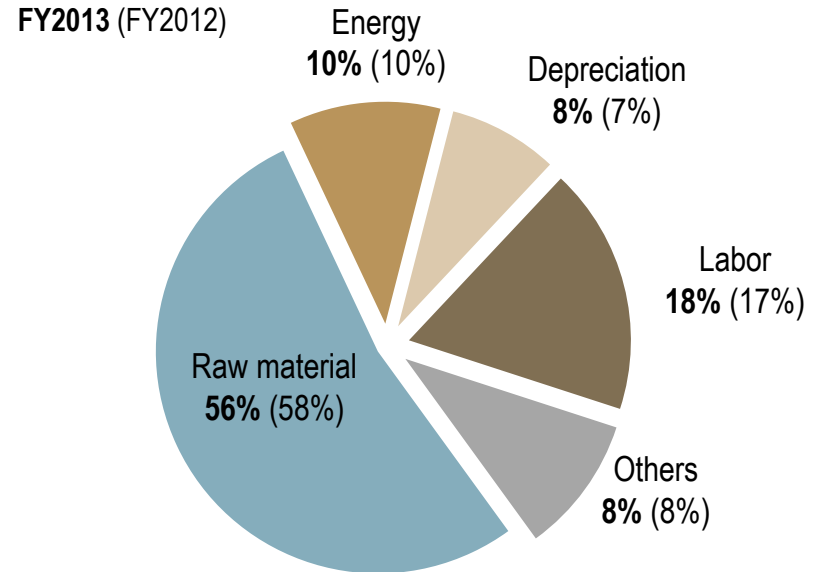
Gross Profit and Gross Margin Analysis

For the year ended 31 Dec

Gross profit and gross margin



Cost structure



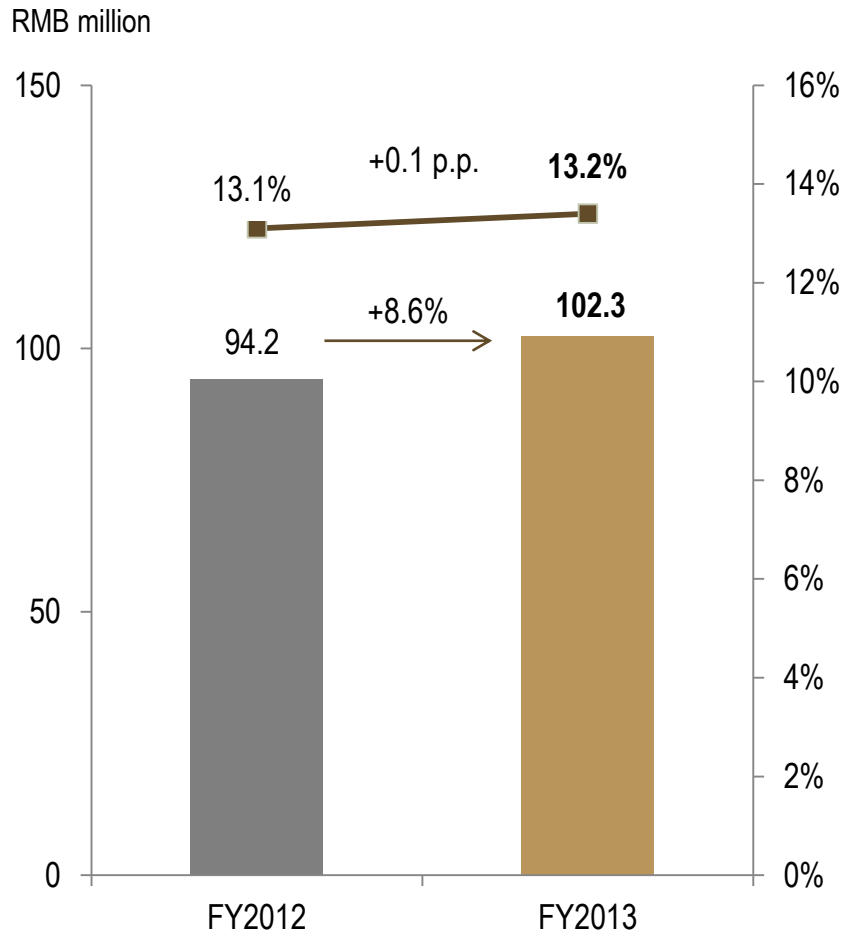
*Comparable figures of FY2012 in parentheses

Major costs	FY2013 and FY2012 Average unit cost comparison	
Raw material	:	+3%
Energy	:	+5%
Labor	:	+11%

Net Profit and Net Margin Analysis

For the year ended 31 Dec

Net profit and net margin



Selling and distribution expenses

RMB '000	FY2012	FY2013	Change
Marketing expenses	8,879	9,318	-4.9%
Transportation costs	17,515	16,509	-5.7%
Insurance expenses	3,200	3,602	+12.6%
Others	4,764	3,188	-33.1%
Total	34,358	32,617	-5.1%

- Lower transportation costs due to increase in domestic sales

Key Financials

RMB'000	As of 31 Dec 2012	As of 31 Dec 2013	Change
Net assets	822,879	889,975	+8.2%
Inventories	240,570	264,344	+9.9%
Cash and cash equivalents	163,643	201,698	+23.3%
Interest-bearing bank loans	215,684	188,548	-12.6%
Current ratio	2.2	2.0	--
Net asset value per share	1.3	1.4	+7.7%
Gearing ratio*	26.2%	26.8%	+0.6 p.p.
Effective tax rate	25.7%	28.9%	+3.2 p.p.

- Tax holiday at Jiangsu production base expired in FY2013

*Total borrowing / equity attributable to owners of the parent

RMB'000	FY2012	FY2013	Change
Net cash flow from operating activities	54,624	274,021	402%

- Cash flow from operating activities: 185 million
- Decrease in trade and notes receivables

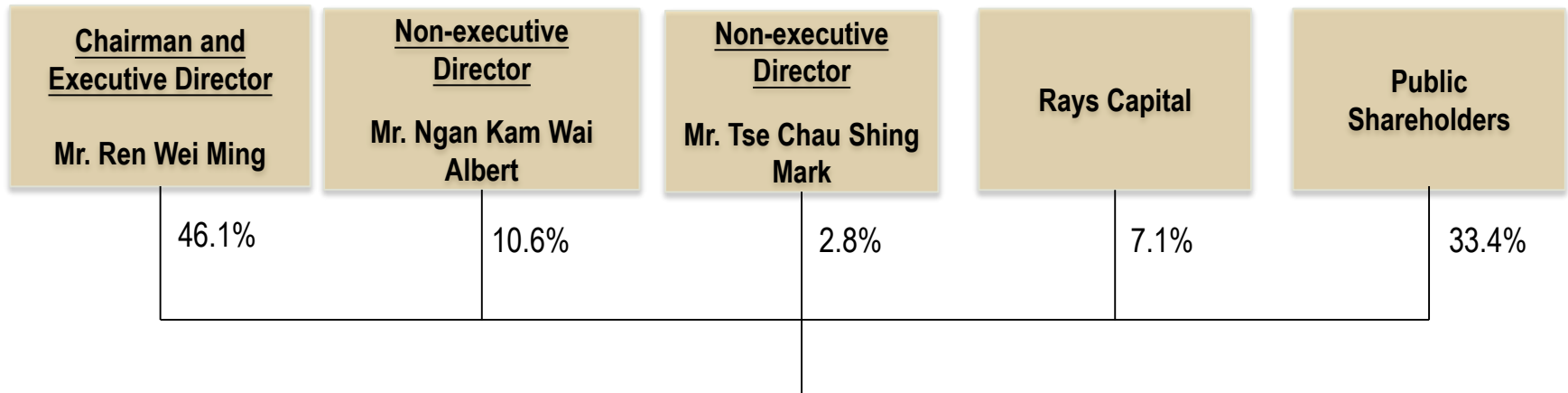
Inventory, AR and AP Turnover Days

For the year ended 31 Dec

	FY2012	FY2013
Inventory turnover days	171	166
Trade receivables turnover days	93	91
Trade payables turnover days	36	52

RMB'000	For the year ended 31 Dec 2012	For the year ended 31 Dec 2013
Raw materials	120,760	186,699
Work in progress	14,413	17,737
Finished goods	105,397	59,908

Shareholding Structure



KINGDOM HOLDINGS LIMITED

金达控股有限公司

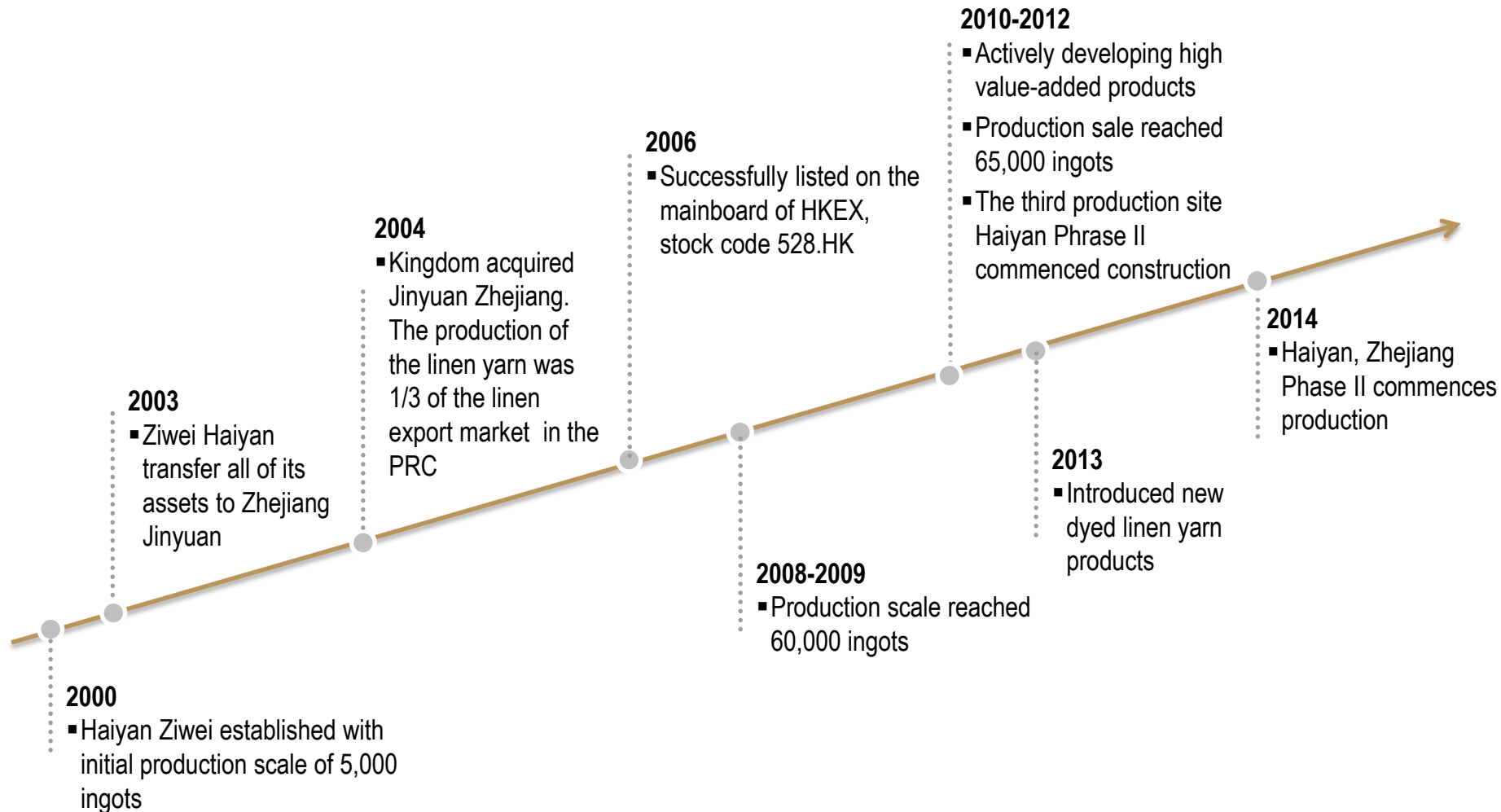
Stock Code : 528.HK

Total number of issued shares as at 30 Jun 2014: 631,600,000 shares



Appendix

Corporate Milestone



Directors and Senior Management

Mr. Ren Wei Ming
Chairman and
Executive Director

- Responsible for the overall management of the Group and drafting business development strategy of the Group
- Has over 30 years of experiences in the textile industry
- The vice-president of the PRC Bast and Leaf Fibers Textile Association and The Hong Kong General Chamber of Textiles Ltd.

Mr. Shen Yue Ming
Executive Director

- Responsible for the day-to-day operations and management of the Group and also take part in the decision making of the Group
- A director of Kingdom Creative since April 2000
- A director and general manager of Zhejiand Jinyuan and Jiangsu Jinyuan Flax Co. Ltd.

Mr. Zhang Hong Wen
Executive Director

- With years of professional experiences in finance and audit industry
- The director and financial controller of Zhejiang Jinyuan and Jiangsu Jinyuan

Mr. Ngan Kam Wai Albert
Non-executive Director

- The chairman of Millionfull Company Limited, a company incorporated in Hong Kong engaged in the trading of linen and linen blend textiles
- Years of professional experiences in trading and procurement of linen
- Permanent honorary chairman of The Hong Kong General Chamber of Textiles Ltd.

Mr. Andy Chan
Chief Financial Officer and
Company Secretary

- Over 20 years of experience in accounting and the financial sector
- A fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants
- A holder of Practitioner's Endorsement certificate issued by the Hong Kong Institute of Chartered Secretaries

Consolidated Statement of Comprehensive Income

For the year ended 31 Dec

RMB'000	FY2012	FY2013
Revenue	718,912	761,915
Cost of sales	(509,612)	555,032
Gross profit	209,300	206,883
Other income and gains	8,320	32,056
Selling and distribution expenses	(34,358)	(32,617)
Administrative expenses	(39,821)	(41,042)
Other expenses	(3,544)	(14,587)
Finance costs	(12,848)	(9,551)
Share of profits and losses of an associate	(285)	99
Profit before tax	126,764	141,241
Income tax expense	(32,584)	(40,803)
Attributable to: Owners of the parent	94,180	100,438
Basic earnings per share (RMB)	0.15	0.16
Gross profit margin	29.1%	27.2%
Net profit margin	13.1%	13.2%

Consolidated Statement of Financial Position

RMB'000	As at 31 Dec 2012	As at 31 Dec 2013
Total current asset	701,651	739,155
Inventories	240,570	264,344
Trade and notes receivables	218,077	162,753
Prepayments, deposits and other receivables	43,393	33,916
Derivative financial instruments	68	7,819
Pledged deposits	35,900	68,625
Cash and cash equivalents	163,643	201,698
Total non-current assets	447,536	575,639
Property, plant and equipment	366,033	455,091
Investment property	--	3,754
Prepaid land lease payments	56,579	54,654
Intangible asset	10,818	10,212
Investment in an associate	5,784	5,883
Prepayments for equipment	--	40,125
Deferred tax assets	8,322	5,920
Total current liabilities	315,859	367,709
Trade and notes payables	43,186	115,902
Other payables and accruals	43,506	37,402
Interest-bearing bank loans	215,684	188,548
Dividend payable	--	167
Amount due to a related company	55	--
Tax payable	13,428	25,690
Total non-current liabilities	10,449	57,110
Deferred tax liabilities	10,449	7,110
Interest-bearing bank loans	--	50,000
Net assets	822,879	889,975
Total equity	822,879	889,975
Equity attributable to owners of the parent	822,879	889,975
Issued capital	6,301	6,345
Reserves	781,041	846,388
Proposed final dividend	35,537	37,242



Thank You

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While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other statutory requirements may render actual developments and results to differ materially from our expectations.

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