KINGDOM HOLDINGS LIMITED
金達控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 528)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

- Revenue decreased by approximately 20.3% to approximately RMB358,534,000 for the six months ended 30 June 2016 from approximately RMB449,619,000 for the six months ended 30 June 2015.

- Gross profit margin decreased by approximately 5.9 percentage points to approximately 21.1% for the six months ended 30 June 2016 from approximately 27.0% for the six months ended 30 June 2015 due to strategic reduction of selling price of linen yarn.

- Profit for the period dropped by approximately 33.0% to approximately RMB41,519,000 for the six months ended 30 June 2016 from approximately RMB62,010,000 for the six months ended 30 June 2015.

- Profit attributable to the owners of the parent decreased by approximately 39.1% to approximately RMB37,751,000 for the six months ended 30 June 2016 from approximately RMB62,010,000 for the six months ended 30 June 2015.

- Basic earnings per share were approximately RMB0.06 for the six months ended 30 June 2016 and approximately RMB0.10 for the six months ended 30 June 2015.

The board of directors (the "**Board**") of Kingdom Holdings Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2016:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016 (unaudited)

		For the six months ended 30 June	
	Notes	**2016** ***RMB'000*** **(Unaudited)**	2015 *RMB'000* (Unaudited)
REVENUE	*4*	**358,534**	449,619
Cost of sales		**(282,816)**	(328,439)
Gross profit		**75,718**	121,180
Other income and gains	*4*	**29,132**	13,221
Selling and distribution costs		**(16,005)**	(17,532)
Administrative expenses		**(28,592)**	(24,022)
Other expenses		**(582)**	(3,546)
Finance costs	*5*	**(5,925)**	(5,926)
Share of profits or losses of an associate		**–**	(230)
PROFIT BEFORE INCOME TAX EXPENSE	*6*	**53,746**	83,145
Income tax expense	*7*	**(12,227)**	(21,135)
PROFIT FOR THE PERIOD		**41,519**	62,010
Attributable to:			
Owners of the parent		**37,751**	62,010
Non-controlling interests		**3,768**	–
		41,519	62,010
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	*9*	**RMB0.06**	RMB0.10
Diluted	*9*	**RMB0.06**	RMB0.10

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016 (unaudited)

	For the six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**41,519**	62,010
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(826)**	(532)
TOTAL COMPREHENSIVE INCOME, FOR THE PERIOD	**40,693**	61,478
Attributable to:		
Owners of the parent	**36,925**	61,478
Non-controlling interests	**3,768**	–
	40,693	61,478

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016 (unaudited)

	Notes	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**565,565**	543,976
Investment property		**1,995**	2,080
Prepaid land lease payments		**67,383**	52,065
Intangible asset		**8,780**	9,083
Prepayments for equipment		**12,046**	13,194
Deferred tax assets		**5,457**	5,935
Total non-current assets		**661,226**	626,333
CURRENT ASSETS			
Inventories	*10*	**460,695**	340,902
Trade and notes receivables	*11*	**217,171**	306,821
Prepayments, deposits and other receivables		**45,939**	28,226
Pledged deposits		**85,725**	60,351
Cash and cash equivalents		**396,374**	237,214
Total current assets		**1,205,904**	973,514
CURRENT LIABILITIES			
Trade and notes payables	*12*	**164,640**	98,048
Other payables and accruals		**51,985**	51,462
Interest-bearing bank borrowings	*13*	**524,788**	368,033
Derivative financial instruments	*14*	**–**	2,258
Dividend payable		**43,244**	187
Tax payable		**13,249**	23,693
Total current liabilities		**797,906**	543,681

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016 (unaudited)

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
NET CURRENT ASSETS	**407,998**	429,833
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,069,224**	1,056,166
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**16,990**	12,188
Total non-current liabilities	**16,990**	12,188
Net assets	**1,052,234**	1,043,978
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**6,329**	6,329
Reserves	**1,032,137**	1,037,649
	1,038,466	1,043,978
Non-controlling interests	**13,768**	–
Total equity	**1,052,234**	1,043,978

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016 (unaudited)

	For the six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**53,746**	83,145
Adjustments for:		
Share of profits and losses of an associate	**–**	230
Fair value gains on derivative instruments		
– transactions not qualifying as hedges	**249**	(8,985)
Equity-settled share option expenses	**230**	–
Depreciation	**31,174**	31,796
Amortisation of prepaid land lease payments	**663**	659
Amortisation of an intangible asset	**303**	303
Provision for impairment of inventories	**1,344**	2,729
Gain on disposal of items of property, plant and equipment	**–**	(2)
Provision for/(reversal of) impairment of doubtful debts	**977**	(17)
Finance costs	**5,925**	5,926
Exchange losses, net	**390**	–
Bank interest income	**(1,309)**	(971)
	93,692	114,813
Increase in inventories	**(121,137)**	(84,072)
Decrease in trade and notes receivables	**88,673**	12,705
Increase in prepayments, deposits and other receivables	**(17,713)**	(11,202)
(Increase)/decrease in derivative financial instruments	**(2,507)**	2,121
Increase in trade and notes payables	**66,592**	6,932
Increase/(decrease) in other payables and accruals	**523**	(1,439)
Decrease in an amount due to an associate	**–**	(100)
Cash generated from operations	**108,123**	39,758
Interest received	**1,309**	971
Income tax paid	**(17,391)**	(22,250)
Net cash flows generated from operating activities	**92,041**	18,479

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016 (unaudited)

	For the six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(70,012)**	(34,207)
Prepayments for equipment	**(12,046)**	(12,682)
Proceeds from disposal of items of property, plant and equipment	**–**	4
Proceeds from pledged deposits	**60,351**	69,186
New pledged deposits	**(85,725)**	(54,552)
Net cash flows used in investing activities	**(107,432)**	(32,251)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	**358,979**	155,760
Repayment of bank loans	**(202,224)**	(157,312)
Share repurchase	**–**	(2,034)
Interest paid	**(7,305)**	(6,996)
Government grants received	**15,930**	–
Capital injection from non-controlling shareholders	**10,000**	–
Dividends paid	**–**	(127)
Net cash flows generated from/(used in) financing activities	**175,380**	(10,709)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**159,989**	(24,481)
Cash and cash equivalents at beginning of period	**237,214**	217,185
Effect of foreign exchange rate changes, net	**(829)**	(524)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**396,374**	192,180
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**482,099**	246,732
Less: Pledged deposits	**85,725**	54,552
Cash and cash equivalents as stated in the statement of financial position	**396,374**	192,180

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2016 (unaudited)

1. CORPORATE 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 2016 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 2015.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements for the six months ended 30 June 2016 are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2015, except in relation to the new and revised International Financial Reporting Standards ("**IFRSs**", which also include IASs and interpretations) as set out in note 2.3 that are adopted for the first time for the current period's unaudited interim condensed consolidated financial statements, the adoption of these new and revised IFRSs has had no significant impact on the results and the financial position of the Group.

2.3 ADOPTION OF NEW AND REVISED IFRSs

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016.

The Group has applied, for the first time, several new standards and amendments in 2016. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

The Company has adopted the following new and revised IFRSs for the first time in these interim condensed financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs

The adoption of these new and revised IFRSs has had no significant financial effect on the Group's interim condensed consolidated financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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 external 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 2016 is set out in the following table:

	Revenue from external customers For the six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China	**107,428**	148,311
European Union	**128,375**	111,398
Non-European Union	**122,731**	189,910
Total	**358,534**	449,619

(b) Non-current assets

Since the principal non-current assets, other than deferred tax assets, employed by the Group are located in Mainland China, no geographical information for non-current assets is presented.

Information about a major customer

No revenue amounting to 10 percent or more of the Group's revenue was derived from sales to a single customer for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the sales value of linen yarns, net of sales tax and deduction of any sales discounts and returns.

An analysis of revenue, other income and gains is as follows:

	For the six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Sales of linen yarns	**358,534**	449,619
Other income		
Bank interest income	**1,309**	971
Government grants	**25,050**	3,124
Others	**60**	141
	26,419	4,236
Gains		
Foreign exchange gains, net	**2,713**	–
Fair value gains on derivate financial instruments		
– transactions not qualifying as hedges	**–**	8,985
	2,713	8,985
	29,132	13,221

5. FINANCE COSTS

	For the six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank loans, wholly repayable within five years	**7,305**	6,996
Less: interest capitalised	**(1,380)**	(1,070)
	5,925	5,926

6. PROFIT BEFORE INCOME TAX EXPENSE

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

	For the six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**282,816**	328,439
Depreciation	**31,174**	31,796
Amortisation of prepaid land lease payments	**663**	659
Amortisation of intangible assets	**303**	303
Research and development ("R&D") expenses	**2,742**	2,768
Minimum lease payments under operating lease		
– land and buildings	**802**	894
Auditors' remuneration	**900**	900
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries and other benefits	**75,542**	74,179
Pension scheme contributions	**4,938**	4,767
Equity- settled share option expense	**230**	–
	80,710	78,946
Foreign exchange differences, net	**(2,713)**	3,345
Fair value gains on derivative financial instruments		
– transactions not qualifying as hedges	**–**	(8,985)
Write-down of inventories to net realisable value	**1,344**	2,729
Impairment of trade receivables/ (Reversal of provision for impairment of trade receivables)	**977**	(17)
Finance costs	**5,925**	5,926
Bank interest income	**(1,309)**	(971)

7. INCOME TAX EXPENSE

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

	For the six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current – Mainland China	**6,849**	18,613
Current – Hong Kong	**98**	927
Deferred	**5,280**	1,595
Total tax charge for the period	**12,227**	21,135

(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) The provision for Mainland China income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in Mainland China as determined in accordance with the relevant income tax rules and regulations of the People's Republic of China ("**the PRC**").

During the Fifth Session of the Tenth National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "**Corporate Income Tax Law**") was approved and became effective on 1 January 2008. According to the Corporate Income Tax Law, the applicable tax rates of the Group's subsidiaries in Mainland China are unified at 25% with effect from 1 January 2008 except for Zhaosu Jindi Flax Co., Ltd. ("**Zhaosu Jindi**") and Zhejiang Jinlainuo Fiber Co., Ltd. ("**Zhejiang Jinlainuo**"), two indirect wholly-owned subsidiaries of the Group. Zhaosu Jindi is engaged in the preliminary processing of agriculture products and is exempted from PRC income tax. Also, Zhejiang Jinlainuo obtains the High-new Technology Certificate for years from 2014 to 2016 with a tax rate of 15%.

(iii) Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period.

(iv) Pursuant to the rules and regulations of Italy, the Group is subject to an income tax rate at 31.4%, which comprises Italy Corporate Income Tax at 27.5% and Italy Regional Income Tax at 3.9%. No Italy profits tax has been provided as the Group has not generated any assessable profits arising in Italy during the period (six months ended 30 June 2015: Nil).

8. DIVIDEND

The board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2016 (six months ended 30 June 2015: 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 629,678,000 (six months ended 30 June 2015: 630,716,000) 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	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**37,751**	62,010

	Number of shares	
	2016	2015
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**629,678**	630,716
Effect of dilution – weighted average number of ordinary shares:		
Share options	**22,250**	–
	651,928*	630,716

* *Because the diluted earnings per share amount is increased when taking share options into account, the share options had an anti-dilutive effect on the basic earnings per share for the period and were ignored in the calculation of diluted earnings per share. Therefore, the diluted earnings per share amounts are based on the profit for the period of RMB37,751,000 and the weighted average number of ordinary shares of 629,678,000 in issue during the period.*

10. INVENTORIES

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Raw materials	**162,962**	178,318
Work in progress	**33,320**	32,741
Finished goods	**264,413**	129,843
	460,695	340,902

As at 30 June 2016, inventories with a carrying amount of RMB40,000,000 (31 December 2015: RMB40,000,000) were pledged to secure bank loans granted to the Group as set out in note 13(i).

11. TRADE AND NOTES RECEIVABLES

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**180,638**	226,473
Notes receivable	**39,425**	82,263
Impairment	**(2,892)**	(1,915)
	217,171	306,821

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

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

11. TRADE AND NOTES RECEIVABLES (CONTINUED)

An aged analysis of the Group's trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 month	**89,339**	191,785
1 to 2 months	**19,454**	11,969
2 to 3 months	**31,453**	13,201
Over 3 months	**37,500**	7,603
	177,746	224,558

12. TRADE AND NOTES PAYABLES

An aged analysis of the trade and notes payables as at 30 June 2016, based on the payment due date, is as follows:

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Due within 1 month or on demand	**32,100**	52,518
Due after 1 month but within 3 months	**132,540**	45,530
	164,640	98,048

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

13. INTEREST-BEARING BANK BORROWINGS

	Notes	**30 June 2016** **RMB'000** **(Unaudited)**	31 December 2015 *RMB'000* (Audited)
Current			
Secured bank loans	*(i)*	**252,057**	90,708
Unsecured bank loans		**272,731**	277,325
		524,788	368,033

Notes:

(i) As at 30 June 2016, the current interest-bearing bank loans were secured by certain property, plant and equipment, prepaid land lease payments, inventories and pledged deposits of the Group with carrying amounts of approximately RMB111,012,000 (31 December 2015: approximately RMB70,282,000), approximately RMB28,075,000 (31 December 2015: approximately RMB28,598,000), approximately RMB40,000,000 (31 December 2015: approximately RMB40,000,000) and approximately RMB45,907,000 (31 December 2015: approximately RMB41,511,000), respectively.

(ii) The bank borrowings bear interest at rates ranging from 1.21% to 5.09% per annum (31 December 2015: 3.06% to 5.40% per annum).

The carrying amount of the interest-bearing bank loans of the Group approximates to their fair value due to their short term maturity.

14. 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 2016:

	30 June 2016		31 December 2015	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
Financial Assets:				
Derivative financial instruments	–	–	(2,258)	(2,258)

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

As at 30 June 2016, the marked to market value of the derivative asset position is net of a credit 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 Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

As at 30 June 2016, financial assets at fair value through profit or loss– foreign currency forward contracts was measured to be nil by using significant observable inputs (Level 2).

During the six months ended 30 June 2016, 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 (2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The global economy for the six months ended 30 June 2016 (the "**Review Period**") remained weak. China has been experiencing structural transformation and excessive production capacity in many industries. Europe faced various terrorist attacks and continuous influx of refugees caused by civil wars in Syria and Iraq. The refugee problem is believed to have an impact on the referendum results in Britain to leave from the European Union ("**Brexit**") in June 2016. On the other hand, subdued economic growth might give rise to the adoption of more aggressive monetary easing policies by Central banks around the world, leading to a prolonged low interest rate environment to help the economic recovery in developed and developing countries. As the Group is principally engaged in the manufacturing of linen yarn and selling linen yarn products to over 20 countries and regions around the world, its business performance was affected by the sluggish global economy.

According to the General Administration of Customs of the People's Republic of China, the total value of all yarn and textile products export from China grew by approximately 4.2% on a year-on-year basis during the Review Period. The pure linen yarn export, however, was contracted by approximately 20.4% year over year during the Review Period. The relatively soft demand for linen yarn during the Review Period was mainly attributable to the higher linen yarn prices compared to that of the cotton yarn, which has been declining for the past few years and continued to stood at a low level. Generally, the unit price of linen yarn is higher than that of cotton yarn on the same technical specification. In the trough of the economic cycle, the low level of cotton yarn price may lower the demand for pure linen yarn from fashion brands and garment manufacturers, in favour of cotton or cotton/linen blended yarn to make products more appealing to cost conscious consumers. Despite this, the Group continued to lead the market and accounted for approximately 34.0% of the total pure linen yarn export from China during the Review Period.

During the Review Period, the revenue of the Group decreased by approximately 20.3% on a year-on-year basis to RMB358,534,000. The decrease in revenue was mainly attributable to the weak demand from China and other overseas markets, and the strategic price reduction of the linen yarn products of the Group from April onwards.

Major Markets and Customers

By implementing an international sales strategy, the Group has a sales network covering over 20 countries and regions around the world. During the Review Period, due to weak demands discussed above, the domestic sales, which contributed approximately 30.0% of the Group's total revenue, recorded a decrease of approximately 27.6% as compared with the same period of last year, while the overseas sales, which contributed approximately 70.0% of the Group's total revenue, recorded a decline of approximately 16.7% on a year-on-year basis. In particular, total sales to non-European Union countries accounted for approximately 34.2% of the Group's total revenue during the Review Period. The Group constantly maintains stable and amicable collaborations with international fashion brands. Meanwhile, the Group will also persist in developing the domestic market and secure more cooperation with target customers in China.

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 a stronger bargaining power when dealing with suppliers. During the Review Period, the costs of fibre flax grew steadily and the Group procured approximately 10,972 tonnes of raw materials abroad, representing a year-on-year decrease of approximately 5%. The average procurement unit price was approximately RMB20,740 per tonne, representing an yearly increase of approximately 5%. The volume in overseas procurement of raw materials was relatively stable mainly because the Group is cautiously optimistic about the future of the linen textile industry and it is the corporate procurement strategy of the Group to maintain its production scale and secure a steady volume of production.

Production Capacity

As at 30 June 2016, the Group had three productions bases. The production bases in (1) Haiyan County, Zhejiang Province (1st Phase of the Haiyan Plant); (2) Rugao in Jiangsu Province; and (3) Haiyan County, Zhejiang Province (2nd Phase of the Haiyan Plant) has an annual production capacities of 7,000 tonnes, 6,000 tonnes and 5,000 tonnes, respectively resulting in the Group's aggregate annual production capacity reaching 18,000 tonnes. With the advanced equipment for its unique spinning technique, namely wet spinning and long and short spinning, the Group can manufacture products with multiple specifications from 3nm to 75nm, thereby broadening the choices of its clients and to achieve higher satisfaction at the same time. All the above linen yarn production lines operated at closed to 100% utilisation rate during the Review Period with a total linen yarn production of 8,164 tonnes.

During the Review Period, the Board had authorized the construction of a flax and hemp yarn manufacturing facility in Heilongjiang with an annual production capacity of 5,000 tonnes. The Group owns 80% of the equity interest in this new venture and it is the Group's maiden attempt to explore the hemp yarn market, which the Company believes will grow rapidly in the next few years due to the national policy in China to promote the growing of hemp in Heilongjiang region and the use of hemp textile products. The construction of new factory in Heilongjiang is expected to be completed by March 2017 and trial production is expected to commence in the third quarter of 2017.

Apart from China, the Group has also committed to invest 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 enabling the Group to benefit from the favourable treatment under the African Growth and Opportunity Act (AGOA), a piece of United States legislation which allows eligible apparel articles made in qualifying sub-Saharan African countries, including Ethiopia, to be imported without duty and quota. In addition, knit fabric and woven fabric containing 51% or more by weight of flax is exempted from the "yarn forward" requirement imposed on textile products under Trans-Pacific Partnership (TPP), an international agreement spearheaded by the United States, hence the adverse effect of TPP on our Group is expected to be minimal. Given there is further delay, the phase 1 of the Ethiopia project, with an annual production capacity of 5,000 tonnes, is expected to commence trial production in 2018.

FINANCIAL REVIEW

Revenue

For the Review Period, the Group's revenue decreased by approximately 20.3% to approximately RMB358,534,000 (six months ended 30 June 2015: RMB449,619,000). The drop of revenue was mainly attributable to the weaken demands of linen yarn from China and other non-European countries. To cope with the weak demands for linen yarn caused by continuously low level of cotton yarn prices, the Group has strategically reduced the average selling prices of its linen yarn from April 2016 onwards, in order to boost demand and further increase its market share in the linen yarn market. As a result, the sales in China and non-European countries had a year-on-year decrease of approximately 27.6% and 35.4%, respectively. The adverse effect of declining sales in those countries was partly offset by the yearly increase in revenue from European Union countries by approximately 15.2%.

The breakdown of revenue by sales regions is as follows:

Sales regions:

	For the six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
China	**107,428**	148,311
European Union Countries	**128,375**	111,398
Non-European Union Countries	**122,731**	189,910
	358,534	449,619

Gross Profit and Gross Profit Margin

The Group's gross profit for the Review Period decreased by approximately 37.5% to approximately RMB75,718,000 (six months ended 30 June 2015: approximately RMB121,180,000). Gross profit margin for the Review Period reduced by 5.9 percentage points to approximately 21.1% (six months ended 30 June 2015: approximately 27.0%) mainly due to the strategic reduction of average selling price of linen yarn during the Review Period and the dropping sales volume of premium linen yarn during the Review Period.

Other Income and Gains

Other income and gains for the Review Period mainly comprises government grants and subsidies of approximately RMB25,050,000 (six months ended 30 June 2015: approximately RMB3,124,000); interest income of approximately RMB1,309,000 (six months ended 30 June 2015: approximately RMB971,000) and an exchange gain of RMB2,713,000 (six months ended 30 June 2015: net exchange loss of approximately RMB3,345,000). There was an unrealised fair value loss on derivative financial instruments of RMB249,000 recognized during the Review Period (six months ended 30 June 2015: fair value gain of RMB8,985,000). The surge in government grants and subsidies received during the Review Period was mainly due to the incentives for the Group's investment in the designated area. The net exchange gain was mainly due to Renminbi depreciation against United States Dollars of approximately 2.4% during the Review Period.

Selling and Distribution Costs

The Group's selling and distribution costs for the Review Period amounted to approximately RMB16,005,000 (six months ended 30 June 2015: approximately RMB17,532,000), which accounted for approximately 4.5% (six months ended 30 June 2015: approximately 3.9%) of the Group's total revenue. The increase in selling costs as a percentage of revenue during the Review Period was mainly due to the increase in proportion of freight charge to sales as a result of the strategic reduction of the selling price of linen yarn since April 2016.

Administrative Expenses

The Group's administrative expenses for the Review Period amounted to approximately RMB28,592,000 (six months ended 30 June 2015: approximately RMB24,022,000), representing an increase of approximately 19.0% as compared with the corresponding period last year. The increase in the Group's administrative expenses was mainly due to an increase of consulting fee of approximately RMB1,202,000 including risk management assessment and design fee of new factory; an increase of provision of bad debt expense of approximately RMB1,041,000 for certain Italian customers; an increase of personnel costs of approximately RMB343,000; and an increase of share option expense of RMB230,000.

Other Expenses

Other expenses for the Review Period amounted to approximately RMB582,000 which included a fair value loss on derivative financial instrument of RMB249,000 (six months ended 30 June 2015: gain of approximately RMB8,985,000).

Finance Costs

Net finance costs for the Review Period amounted to approximately RMB5,925,000 (six months ended 30 June 2015: approximately RMB5,926,000). Net finance costs represent total interest expense on bank loans less amount capitalized attributable to capital assets. An interest expense of approximately RMB1,380,000 was capitalized during the Review Period (six months ended 30 June 2015: approximately RMB1,070,000).

Share of Loss of an Associate

For the Review Period, there was no share of loss of an associate (six months ended 30 June 2015: share of loss of approximately RMB230,000). The investment in Huaning Flax Electronic Business (Zhejiang) Co., Ltd. (浙江華凝亞麻電子商務有限公司), an associate established in China principally engaging in the sale of linen raw material products and provision of transaction services, was disposed of in 2015.

Income Tax Expenses

Income tax expense for the Review Period amounted to approximately RMB12,227,000 (six months ended 30 June 2015: approximately RMB21,135,000). The effective tax rate for the Review Period and the corresponding period in 2015 was 22.7% and 25.4% respectively. The drop in the effective tax rate by approximately 2.7 percentage points was mainly attributable to the reversal of withholding tax and a decrease of non-deductible expenses during the Review Period.

Profit for the Review Period

As a result, the Group recorded a net profit for the Review Period of approximately RMB41,519,000 (six months ended 30 June 2015: approximately RMB62,010,000), representing a decrease of approximately 33.0% as compared with the corresponding period last year.

Minority interests

The minority interests represents the share of the net profit of the 20% of equity interests of the Heilongjiang Jinda Flax and Hemp Co., Ltd. ("**Heilongjiang Jinda**"), attributable to the minority shareholders during the Review Period (six months ended 30 June 2015: Nil)

Profit Attributable to Owners of the Parent

The Group recorded a profit attributable to owners of the parent for the Review Period of approximately RMB37,751,000 (six months ended 30 June 2015: RMB62,010,000), representing a decrease of approximately 39.1% as compared with the corresponding period last year.

Liquidity and Financial Resources

As at 30 June 2016, the Group had net current assets of approximately RMB407,998,000 (as at 31 December 2015: approximately RMB429,833,000). The Group financed its operations with internally generated resources and bank loans during the Review Period.

As at 30 June 2016, the Group had cash and cash equivalents of approximately RMB396,374,000 (as at 31 December 2015: approximately RMB237,214,000). The liquidity ratio of the Group as at 30 June 2016 was approximately 151.1% (as at 31 December 2015: approximately 179.1%).

Total equity of the Group as at 30 June 2016 was approximately RMB1,052,234,000 (as at 31 December 2015: approximately RMB1,043,978,000). As at 30 June 2016, the Group had bank loans repayable within 12 months from the date of the statement of financial position of approximately RMB524,788,000 (as at 31 December 2015: approximately RMB368,033,000). The gross debt gearing ratio (i.e. total borrowings/total equity) amounted to approximately 49.9% (as at 31 December 2015: approximately 35.3%). The Board believes that the Group's existing financial resources are sufficient for the Group's capital expenditure requirement in the remaining period of 2016.

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

CAPITAL COMMITMENTS

As at 30 June 2016, 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 RMB163,344,000 (as at 31 December 2015: approximately RMB97,230,000). There was no capital commitment authorised but not contracted for (as at 31 December 2015: Nil).

CONTINGENT LIABILITIES

As at 30 June 2016, the Group did not have any contingent liabilities.

CHARGE ON ASSETS

As at 30 June 2016, the interest-bearing bank loans were secured by certain property, plant and equipment, prepaid land lease payments, inventories and pledged deposits of the Group with carrying amounts of approximately RMB111,012,000 (as at 31 December 2015: approximately RMB70,282,000), approximately RMB28,075,000 (as at 31 December 2015: approximately RMB28,598,000), approximately RMB40,000,000 (as at 31 December 2015: approximately RMB40,000,000) and approximately RMB45,907,000 (as at 31 December 2015: approximately RMB41,511,000), respectively.

MATERIAL INVESTMENTS

During the Review Period, the Board has approved the formation of Heilongjiang Jinda where the Group would own 80% of the equity interest of Heilongjiang Jinda. Heilongjiang Jinda will build a factory in Qinggang County, Heilongjiang for the production of flax and hemp yarn.

Heilongjiang Jinda has engaged one of the largest engineering design institutes in the PRC to provide an engineering procurement construction (EPC)/Turn-key services in respect of the construction of the factory to Heilongjiang Jinda at a contract price of RMB87,800,000. Please refer to the Company's announcement dated 13 May 2016 for details.

Saved for disclosed above, there was no material acquisition or disposal of the Group's subsidiaries and associates during the Review Period.

FOREIGN CURRENCY EXPOSURE

The Group's transactions are mainly denominated in Renminbi, United States Dollars, Euros and Hong Kong Dollars. The exchange rate changes of such currencies are monitored regularly and managed appropriately. Currently, the Company has also entered into certain foreign currency forward contracts and derivative financial instruments by utilising its credit line, and derivative financial instruments with negligible fair value and hence no asset nor liability was recognized as at 30 June 2016 (as at 31 December 2015: liability of RMB2,258,000).

REMUNERATION POLICY AND SHARE OPTION SCHEME

As at 30 June 2016, the Group had a total of 2,605 employees (30 June 2015: 2,671 employees). Total staff costs incurred for the Review Period amounted to approximately RMB80,645,000 (six months ended 30 June 2015: RMB78,946,000).

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 share option scheme adopted in 2006 ("**Old Scheme**") expired in 2016. The Group adopted a new share option scheme ("**New Scheme**") at the annual general meeting held on 30 May 2016, for the purpose of providing rewards and incentives to any Director, employee, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group who have contributed to the success of the Group's operations. Options carrying rights to subscribe for a maximum of 22,250,000 shares were granted in 2015 and remained outstanding under the Old Scheme as at 30 June 2016. Of which, options carrying rights to subscribe for 6,675,000 shares have been vested and become exercisable at an exercise price of HK$2.00 per share. No share option under the Old Scheme was exercised during the Review Period. No option was granted or exercised under the New Scheme during the Review Period.

OUTLOOK AND PLANS

The Brexit, together with the ongoing refugee problem in Europe and the recurrent terrorist attacks by ISIS are expected to seriously damage consumer confidence, especially that in Europe in the short term.

However, the trend of environmental-friendliness and the use of natural fibers has been set.

As many countries have committed to curb climate change at the 2015 United Nations Climate Change Conference held in Paris, many fashion brands had also set their own targets of carbon footprint reduction including the use of sustainable materials and zero hazardous discharges. Linen yarn is made from all natural ingredients. It is environmental-friendly and of low carbon footprint, and resonates with global trend of casual dressing. In light of the above, the Group considers that linen yarn is likely to remain in relatively high demand in the years to come.

In addition, the Group has stepped up its marketing efforts to promote the linen textile industry and to build up its brand. The Group has also organized and participated in various Kingdom Linen Day almost every month during the Review Period in various countries including Turkey, Korea, India, Japan, Italy and in China. The Company believes that those efforts may not be rewarded in the short-term, but will ensure its sustainability and growth of the business in the long run.

Built on the foundation of the past 25 years of industrialization and creating hundreds of millions of middle-class, the Chinese government is also promoting the domestic consumption to lessen the reliance of export for the Chinese gross domestic products ("GDP"). Being a leading enterprise in the linen yarn manufacturing industry, Kingdom will endeavour to boost brand equity and consolidate its industry position by technical innovation, expanding capacity, enhancing production efficiency as well as speeding up the development of domestic and foreign markets.

CORPORATE STRATEGY

The primary objective of the Group is to enhance long-term total return for shareholders. To achieve this objective, the strategy of the Group is to deliver sustainable returns with solid financial fundamentals. The management discussion and analysis contain 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 2016 (30 June 2015: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE LISTING RULES

The Company is committed to establishing 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 as the deviation from paragraph A.2.1 of the Corporate Governance Code (the "**Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as disclosed below, the Company has complied with the code provisions set out in the Code throughout the six months ended 30 June 2016.

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 will meet regularly to consider major matters affecting the operations of the Company. Given the nature and extent of the Group's operation and Mr. Ren's extensive experience in the industry, the Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company and is conducive to strong and consistent leadership, enabling the Company to operate efficiently.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry with all Directors, the Directors confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions for the six months ended 30 June 2016 and up to the date of this announcement.

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 six-month period ended 30 June 2016.

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. Lo Kwong Shun Wilson and Mr. Yan Jianmiao. Mr. Lau Ying Kit, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the Audit Committee. The interim results of the Group for the period ended 30 June 2016 have been reviewed with no disagreement by the Audit Committee.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is available for viewing on the website of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") at www.hkexnews.hk and on the website of the Company at www.kingdom-china.com under the section "Investor Relations". The interim report of the Company for the six months ended 30 June 2016 will be despatched to its shareholders and will be available on the same websites of Stock Exchange and the Company in due course.

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

26 August 2016
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.