

**KINGDOM**

**INTERIM**

**REPORT**

**2011**



**KINGDOM HOLDINGS LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

(Stock code : 528)

美麗是從自然開始的 . . . . .  
Beauty is from nature

### 金達的願景

成為世界領先、具有國際影響力的亞麻紡紗企業。

### 金達的使命

致力於可持續發展、綠色、環保的亞麻紡紗事業，不斷開發高附加值產品，為客戶提供增值服務，為股東和員工提供最大價值，並真誠回饋社會。

### 金達的行動綱領

我們滿腔熱情的工作，把全身心投入進去，我們與僱員成為伙伴，不斷追求更高的目標。

### Kingdom's hope

to be a linen yarn manufacturer ahead of all other counterparts in the world and cast an influence internationally.

### Kingdom's mission

we dedicate ourselves into a business on spinning linen yarn which is green, environment-friendly and supports sustainable development. We engaged in developing value-added products in order to benefit more our customers, to maximize the interest of our shareholders and our staff, and to return to our society as well.

### Kingdom's resolution

we will work together with all Kingdom staff by devoting all our passion to pursue a higher prospect all the time.



## Contents

Corporate Information	2
Financial Highlights	3
Management Discussion and Analysis	4
Disclosure of Interest	11
Corporate Governance and Other Information	14
Interim Condensed Consolidated Income Statement	16
Interim Condensed Consolidated Statement of Comprehensive Income	17
Interim Condensed Consolidated Statement of Financial Position	18
Interim Condensed Consolidated Statement of Changes in Equity	20
Interim Condensed Consolidated Statement of Cash Flows	21
Notes to Interim Condensed Consolidated Financial Statements	22

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Ren Wei Ming (*Chairman*)  
Mr. Shen Yueming  
Mr. Zhang Hong Wen

### Non-executive Directors

Mr. Ngan Kam Wai Albert  
Mr. Tse Chau Shing Mark

### Independent Non-executive Directors

Mr. Yang Donghui  
Mr. Lau Ying Kit  
Mr. Lo Kwong Shun Wilson

## AUDIT COMMITTEE

Mr. Lau Ying Kit (*Chairman*)  
Mr. Yang Donghui  
Mr. Lo Kwong Shun Wilson

## REMUNERATION COMMITTEE

Mr. Zhang Hong Wen (*Chairman*)  
Mr. Yang Donghui  
Mr. Lo Kwong Shun Wilson

## COMPANY SECRETARY

Ms. Chan Ching Yi

## REGISTERED OFFICE

Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
Grand Cayman KY1-1111  
Cayman Islands

## HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS

### In China

Henggang Town  
Haiyan Country  
Zhejiang Province  
China

### In Hong Kong:

Level 28  
Three Pacific Place  
1 Queen's Road East  
Hong Kong

## AUTHORISED REPRESENTATIVES

Mr. Ren Wei Ming  
Ms. Chan Ching Yi

## AUDITORS

Ernst & Young

## LEGAL ADVISORS

Sidley Austin

## PRINCIPAL BANKERS

Bank of China, Rugao Branch  
Bank of China, Haiyan Branch

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 705, George Town  
Grand Cayman  
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited  
26th Floor  
Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

## STOCK CODE

528

## COMPANY WEBSITE

<http://www.kingdom-china.com>

## INVESTOR RELATION CONTACT

Email: [kingdom@kingdom-china.com](mailto:kingdom@kingdom-china.com)



## Financial Highlights

- For the six months ended 30 June 2011, revenue of Kingdom Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) increased by 13.2% to approximately RMB320.2 million from approximately RMB282.9 million for the six months ended 30 June 2010.
- For the six months ended 30 June 2011, gross profit margin increased by 11.5% to 34.9% from 23.4% for the six months ended 30 June 2010.
- The Group’s profit attributable to owners of the parent recorded a substantial increase by 218.1% to approximately RMB57.9 million for the six months ended 30 June 2011 from approximately RMB18.2 million for the six months ended 30 June 2010.
- Basic earnings per share for the six months ended 30 June 2011 was RMB0.09, representing a 200% growth from RMB0.03 for the six months ended 30 June 2010.



## Management Discussion and Analysis

### Industry Overview

In the first half of 2011, the linen manufacturing industry maintained its upward momentum. Demand in both domestic and international markets saw growth over the corresponding period in 2010. During the six months ended 30 June 2011, linen products successfully established their presence in the international high-end apparel market for their unique characteristics of eco-friendliness and naturalness, and even led the fashion in Europe, the United States and Japan. Linen products aroused the interest of international brands and the high-end linen textiles launched by those brands were well-received by the market. The market anticipates that such fashion trend will continue to be in style in the coming years.

In addition, due to the fine performance of linen in terms of air permeability and its ability to be able to dry quickly, together with the consistent innovation in weaving technique in recent years, linen yarn and many functional fabrics made with new blended fibres have offered new market opportunities for linen products. Such blended linen fabrics are now widely applied to various fields including high-end fashion, car seat sets and curtains. The Group, being a leading enterprise in the Chinese linen yarn manufacturing industry, successfully captured these favorable industry development trends and opportunities and has shown improvements in its performance as compared with the corresponding period in 2010.

### Business Review

#### Overall performance

During the six months ended 30 June 2011, the Group had exerted great efforts into product research and development and focused on the expansion of market share in the high-end market. The result was encouraging as the Group managed not only to consolidate its leading position in the domestic market, but also to explore important overseas markets and emerging markets with potentials in response to the changing global economic conditions.

For the six months ended 30 June 2011, the Group's total sales of linen yarn amounted to approximately RMB320.2 million, representing an upsurge of approximately 13.2% as compared with the corresponding period in 2010, of which approximately RMB106.2 million was derived from domestic sales, accounted for approximately 33.2% of the total sales, and RMB214.0 million was generated from export sales, with a year-on-year growth of approximately 21.2% and accounted for approximately 66.8% of the total sales. The Group's exports witnessed a strong growth during the six months ended 30 June 2011, and constituted approximately 30.7% of China's total export value of linen yarn. With the export value up by approximately 21.2% as compared to the corresponding period in 2010 (first half of 2010: 41.8%), the Group sustained its position as the leading exporter of linen yarn in China.

During the six months ended 30 June 2011, rising raw material cost driven by the surge and fluctuation in the market price of raw linen put pressure on the Group. However, given the Group's extensive market experience and its leading position within the industry, the Group managed to transfer most of the increased cost to consumers by prompt containment of raw material prices and timely adjustment to product prices. During the six months ended 30 June 2011, revenue of the Group leaped to approximately RMB320.2 million and gross profit increased to RMB111.6 million. Profit attributable to shareholders was approximately RMB57.9 million and earnings per share was RMB0.09.

# Management Discussion and Analysis

## **Development of the markets**

During the six months ended 30 June 2011, the Group endeavored to further extend its presence in overseas markets and strategically optimize the overall distribution of its sales network while consolidating in the domestic market. In the first half of 2011, the Group's vast development network covered major exporting regions such as Europe, Asia and India markets, and exporting countries including Italy, Korea, Turkey, India and Japan. Its marketing strategy of balanced distribution protected the Group from the impact of the economic conditions of particular regions and provided the Group with long-term stability. For the six months ended 30 June 2011, the Group's export sales accounted for approximately 66.8% of the total sales.

During the six months ended 30 June 2011, in view of the gradual recovery of the European Union ("EU") markets and the consequent market demand, the Group continued to focus on extending its presence in Portugal and Spain as well as actively developing its presence in emerging markets such as South America and North Africa. The Group further expanded its sales channels and achieved outstanding overall performance in market expansion.

## **Achievements in research and development**

In the first half of 2011, the development of the Group's new key products were substantially completed. It is anticipated that new key products will be launched in the second half of 2011 and 2012. The success in research and development of new products marked the new height of the Company's strength in research and development and production technology.

It is anticipated that the new products to be launched in the second half of 2011 will be the first of its kind in the market with obviously enhanced quality and softness and wider application. With greater added-value and higher gross profit as compared with traditional linen yarn, it is expected that the new products will be the highlights of the Group's future growth. The Group will continue to enhance the value of existing products, to innovate and to improve its weaving technology in terms of both functionality and practicality.

## **New plants and raw material base**

The technological modification of new model of preparatory machine for the Group's production plants in Jiangsu and Zhejiang is expected to be completed and put into operation in 2012. The new model will significantly enhance production efficiency.

In addition, in respond to the global enthusiasm for organic products, organic linen products are becoming more popular within the markets and among consumers. The Group seized the opportunity to take the lead in cultivating organic linen in its raw material base in Xinjiang, which was the very first move of organic linen cultivation in China and even around the world. The Group's organic linen products are certified as "Global Organic Textile Standard" (GOTS) and the production output for the first half of 2011 reached 398 tonnes. The Group will closely monitor the prevailing market trend and flexibly adjust its output in response to market demand.

# Management Discussion and Analysis

## Financial Review

### Revenue

For the six months ended 30 June 2011, the Group's revenue increased significantly by 13.2% to approximately RMB320.2 million (for the six months ended 30 June 2010 approximately RMB282.9 million). The increase was mainly due to the increasing demand for linen yarn products in China and internationally and with flexible marketing strategies, the Group successfully seized the business opportunities in the industry.

The breakdown of the Group's revenue by regions are as follow:

### Sales regions

	For the six months ended 30 June	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
The PRC	106,219	106,390
Italy	103,578	83,025
Other countries	110,358	93,512
Total	<u>320,155</u>	<u>282,927</u>

### Gross Profit and Gross Profit Margin

For the six months ended 30 June 2011, the average selling price of linen yarn products increased due to strong market demand, thus the Group's gross profit increased by 68.3% to approximately RMB111.6 million (for the six months ended 30 June 2010 approximately RMB66.3 million). Gross profit margin for the six months ended 30 June 2011 rose to approximately 34.9% (for the six months ended 30 June 2010 approximately 23.4%), primarily attributable to the recovery of market selling price, the lowered raw material cost under judicious and appropriate purchasing policies, and the improved product mix and increased share high-end products in its product portfolio.

With a view to maintaining its gross profit margin, the Group reinforced its cost control measures and promptly fixed the raw material prices and adjusted selling prices in light of the surge of linen material prices during the period, thereby successfully limited the increase in costs.



# Management Discussion and Analysis

## **Other income and gains**

For the six months ended 30 June 2011, the Group recorded a net exchange gain of approximately RMB5.0 million (for the six months ended 30 June 2010 net exchange loss recorded in other expenses: RMB2.7 million), mainly through appreciation of Euro against RMB for settlement of sales to the EU, and the realized effect of the foreign currency forward contracts.

## **Selling and distribution costs**

For the six months ended 30 June 2011, the Group's selling and distribution costs amounted to approximately RMB12.3 million (for the six months ended 30 June 2010 approximately RMB15.5 million), which accounted for approximately 3.8% of the Groups total turnover for the first half of 2011 (for the six months ended 30 June 2010 5.5%). The decrease in selling and distribution costs was mainly due to the decrease in transportation cost during the period.

## **Administrative expenses**

For the six months ended 30 June 2011, the Group's administrative expenses amounted to approximately RMB16.0 million (for the six months ended 30 June 2010 RMB13.1 million), representing an increase of approximately 22.1% as compared with the corresponding period in 2010. The increase was mainly due to the expenses incurred in the project improving management efficiency with hiring outsourced advisory company, the increase in staff cost as well as research and development cost.

## **Finance costs**

For the six months ended 30 June 2011, finance costs amounted to approximately RMB7.8 million (for the six months ended 30 June 2010 RMB7.0 million), representing an increase of approximately 11.4%. The increase was mainly due to the increased interest rates regulated in the PRC.

## **Share of profits of an associate**

For the six months ended 30 June 2011, share of profits of an associate, namely Huaning Flax Electronic Business (Zhejiang) Co. Ltd. (浙江華凝亞麻電子商務有限公司) was approximately RMB79,000 (for the six months ended 30 June 2010 loss of approximately RMB139,000). This associate was established on 28 December 2009 in the PRC which principal business is sale of linen yarn products and provision of transaction services.

## **Profit attributable to owners of the parent**

For the six months ended 30 June 2011, the Group's profit attributable to owners of the parent recorded a substantial increase by 218.1% to approximately RMB57.9 million as compared to corresponding period of 2010 (for the six months ended 30 June 2010 approximately RMB18.2 million), the increase was primarily attributable to the recovery of market selling price, improved control on raw material costs and enhanced cost assessment.

# Management Discussion and Analysis

## **Liquidity and financial resources**

As at 30 June 2011, the Group had net current assets of approximately RMB284.4 million (as at 31 December 2010: RMB261.1 million). The Group finances its operations with internally generated resources and bank loans during the six months ended 30 June 2011.

As at 30 June 2011, the Group had cash and bank deposits of approximately RMB204.6 million (as at 31 December 2010: RMB223.5 million). The liquidity ratio of the Group as at 30 June 2011 was approximately 157.9% (as at 31 December 2010: 156.4%).

Total equity of the Group as at 30 June 2011, was approximately RMB716.8 million (as at 31 December 2010: RMB685.0 million).

As at 30 June 2011, the interest-bearing bank loans of the Group, repayable within 12 months from the financial position date, amounted to approximately RMB232.4 million (as at 31 December 2010: RMB302.8 million), while there was no long-term loans (31 December 2010: Nil), together giving a gross debt gearing (i.e. total loans/total equity) of approximately 32.4% (31 December 2010: 44.2%). The Board believes that the Group's existing financial resources are sufficient for the Group's required capital expenditure in the remaining period of 2011.

## **Capital Commitments**

Capital commitments in respect of purchases of property, plant and equipment outstanding as at 30 June 2011 but not provided for in the interim financial report was approximately RMB20.1 million (31 December 2010: RMB4.3 million).

## **Contingent liabilities**

As at 30 June 2011, the Group had no contingent liabilities.

## **Charges on group assets**

As at 30 June 2011, the interest-bearing bank loans were secured by certain property, plant and equipment, prepaid land lease payments, and pledged deposits of the Group with a carrying amount of RMB65.0 million (31 December 2010: RMB66.8 million), RMB20.7 million (31 December 2010: RMB6.7 million), and RMB27.1 million (31 December 2010: RMB62.1 million), respectively.

## **Material investments**

There was no material acquisition or disposal of the Group's subsidiaries and associated companies for the six months ended 30 June 2011.

## Management Discussion and Analysis

### **Foreign currency risk**

The Group's transactions are mainly denominated in RMB, United States Dollars, Euro and Hong Kong Dollars. For the six months ended 30 June 2011, the Group has monitored the changes and fluctuations on the exchange rate of such currencies on a regular basis. The Company also entered into certain foreign currency forward contracts by utilizing its credit line, which recorded as at 30 June 2011 an asset of derivative financial instruments of RMB0.7 million for the Group (31 December 2010: RMB3.7 million).

### **Remuneration policy and share option scheme**

As at 30 June 2011, the Group had a total of 2,349 employees (as at 30 June 2010: 2,241 employees). Total staff costs incurred for the six months ended 30 June 2011 amounted to approximately RMB35.9 million (for the six months ended 30 June 2010 RMB33.3 million).

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 insurance scheme in the PRC. Moreover, the Group and its employees in the PRC are each required to make contributions to fund the endowment insurance and unemployment insurance at rates specified in the relevant PRC laws and regulations.

The remuneration policy for the employees of the Group is formulated by the Board with reference to the employee's respective qualification and experience, responsibilities, contribution to the Group, and the existing market level of remuneration for a similar position. The remunerations of the directors of the Company (the "Directors") are decided by the remuneration committee of the Company, who are authorised by the shareholders in the annual general meeting of the Company, having regard to the Group's operating results, individual performance and comparable market statistics. From time to time, the Group provides training courses both internally and externally to its employees.

The Group has adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to the Directors, including independent non-executive Directors, and other employees of the Group who contribute to the success of the Group's operations.

As at the date of this report, the Company had 9.1 million share options outstanding under the Scheme, which represented approximately 1.46% of the Company's shares in issue as at that date.



## Management Discussion and Analysis

### Prospects

In the wake of the gradual recovery of global economies and the Chinese government's rigorous policies on stimulating domestic demand, the linen manufacturing industry demonstrated a steady growth. Global sales of linen yarn experienced a greater growth in the first half of 2011. It is expected that the linen yarn market will maintain its strong impetus in the second half of 2011. Meanwhile, with the rising living and aesthetic standard of consumers, the concepts of "low carbon, greenness, eco-friendliness and naturalness" has become a growing concern to domestic and overseas consumers, resulting in the market trend towards pure natural linen products.

In order to maintain its strong competitive edge and risk resistance, the Group has set high-end products as a major component in its product mix. Looking ahead, the Group will consistently increase the input into high-end products by perfecting its existing product mix and exploring new high-end markets with the research and development of new products. The Group's new products, which are expected to be launched in the second half of 2011 and 2012, will not only possess higher added-value and thus larger room for profit, but also help enlarge the existing customer base of the Group.

Looking forward, the Group will keep up innovation through research and development, improvements to client and product compositions, energy saving and consumption cutting, while at the same time focusing on the production of high-end products, with a view to maximizing the return to the shareholders of the Company.

## Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at 30 June 2011, the Directors and their associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), which were recorded or required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

### Long positions in shares of the Company (the "Shares")

Director Name	Ordinary shares of HK\$ 0.01 each			Approximately percentage of issued share capital (%)
	Personal interests (Note 1)	Corporate interests	Total number of shares held	
Mr. Ren Wei Ming	6,370,000	279,200,000 (Note 2)	285,570,000	45.87
Mr. Ngan Kam Wai Albert	–	67,000,000 (Note 3)	67,000,000	10.76
Mr. Tse Chau Shing Mark	17,550,000	–	17,550,000	2.82

Notes:

- The Shares are registered under the names of the Directors who are the beneficial shareholders.
- Mr. Ren Wei Ming holds approximately 67.81% of the issued share capital of Kingdom Investment (BVI) (as defined below). Mr. Ren therefore holds a controlling interest in Kingdom Investment (BVI) and is deemed under the SFO to be interested in the Shares held by Kingdom Investment (BVI).
- Mr. Ngan Kam Wai Albert and Ms. Ngan Chan Kattie Sau Kat, the spouse of Mr. Ngan, hold approximately 51.00% and 23.00% of the issued share capital of Millionfull International (as defined below) and 50.22% and 22.33% of the issued share capital of Millionfull Company Limited, respectively. Mr. Ngan therefore holds controlling interests in both Millionfull International and Millionfull Company Limited and is deemed under the SFO to be interested in 64,800,000 Shares, i.e. 10.41%, held by Millionfull International and 2,200,000 Shares, i.e. 0.35%, held by Millionfull Company Limited.

## Disclosure of Interest

### Share options

As at 30 June 2011, no share options were granted to the Directors or any of their associates.

Save as disclosed above, as at 30 June 2011, none of the Directors or their associates had or were deemed to have any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded or required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed above, at no time during the year was the Company or any of its subsidiary companies a party or parties to any arrangement to enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

### Interests and short positions of substantial shareholders

So far as is known to any Director, as at 30 June 2011, the following persons, other than a Director or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which were recorded or required to be recorded in the register required to be kept under Section 336 of the SFO:

#### Long positions in Shares

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of Shares</b>	<b>Approximately percentage of issued share capital (%)</b>
Kingdom Investment Holdings Limited ("Kingdom Investment (BVI)") (Note 1)	Beneficial owner	279,200,000	44.85
Millionfull International Co., Ltd. ("Millionfull International") (Note 2)	Beneficial owner	64,800,000	10.41
Caledonia Investments plc	Beneficial owner	66,825,000	10.73

Notes:

1. Kingdom Investment (BVI) is owned as to 67.81% by Mr. Ren Wei Ming, an executive Director and substantial shareholder of the Company.
2. Millionfull International is owned as to 51% by Mr. Ngan Kam Wai Albert, a non-executive Director, and 23% by Ms. Ngan Chan Kattie Sau Kat, the spouse of Mr. Ngan.

Save as disclosed above, as at 30 June 2011, the Company had not been notified by any person, other than a Director or chief executive of the Company, who had interests or short positions in the shares or underlying shares of the Company which were recorded or required to be recorded in the register required to be kept by the Company under section 336 of the SFO.



## Corporate Governance and Other Information

### **Purchase, sale or redemption of the Company's listed shares**

The Company and any of its subsidiaries have not redeemed any of the Company's listed shares for the six months ended 30 June 2011. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares for the six months ended 30 June 2011.

### **Interim dividend**

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2011.

### **Audit committee**

The audit committee of the Company (the "Audit Committee") comprises three independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Yang Donghui and Mr. Lo Kwong Shun Wilson. The duties of the Audit Committee primarily include the review and supervision of the financial reporting procedures and internal control system of the Group, as well as advising the Board.

The Audit Committee has reviewed the interim results of the Company for the six months ended 30 June 2011. In particular, the Audit Committee has reviewed with the management of the Company on the accounting principles and practices adopted by the Group, held meetings to discuss internal controls and financial reporting matters regarding the Group's unaudited interim financial statements for the six months ended 30 June 2011.

### **Model code for directors' securities transactions**

The Company has adopted 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, all 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 2011 and up to the date of this report.



## Corporate Governance and Other Information

### Compliance with the code on corporate governance practices 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 organization 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 as disclosed below, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2011.

#### Code Provision A.2.1

Under code provision A.2.1 of the Code, the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual.

The Company does not at present have any officer with the title of "chief executive officer". Mr. Ren Wei Ming, 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. 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.

### Appreciation

The chairman of the Group, Mr. Ren Wei Ming, 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.

# Interim Condensed Consolidated Income Statement

For the six months ended 30 June 2011

	Notes	For the six months ended 30 June	
		2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
REVENUE	4	320,155	282,927
Cost of sales		(208,552)	(216,636)
Gross profit		111,603	66,291
Other income and gains	4	8,439	2,628
Selling and distribution costs		(12,279)	(15,475)
Administrative expenses		(16,015)	(13,054)
Other expenses		(4,481)	(4,843)
Finance costs	5	(7,812)	(7,027)
Share of profits/(losses) of an associate		79	(139)
PROFIT BEFORE INCOME TAX EXPENSE	6	79,534	28,381
Income tax expense	7	(21,661)	(10,180)
PROFIT FOR THE PERIOD		57,873	18,201
Attributable to:			
Owners of the parent		57,873	18,201
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		RMB0.09	RMB0.03
Diluted		RMB0.09	RMB0.03

# Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	<u>57,873</u>	<u>18,201</u>
Exchange differences on translation	<u>(71)</u>	<u>(214)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>57,802</u>	<u>17,987</u>
Attributable to:		
Owners of the parent	<u>57,802</u>	<u>17,987</u>

# Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2011

	Notes	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	379,868	383,433
Prepaid land lease payments		34,527	34,965
Intangible asset	11	11,621	–
Investment in an associate		6,131	6,052
Deferred tax assets		6,005	3,193
<b>Total non-current assets</b>		<b>438,152</b>	<b>427,643</b>
<b>CURRENT ASSETS</b>			
Inventories	12	356,160	279,434
Trade and notes receivables	13	132,908	120,434
Prepayments, deposits and other receivables		33,758	34,959
Due from a related company		–	52
Derivative financial instruments		706	3,713
Pledged deposits		47,919	62,057
Cash and cash equivalents		204,568	223,464
<b>Total current assets</b>		<b>776,019</b>	<b>724,113</b>
<b>CURRENT LIABILITIES</b>			
Interest-bearing bank loans	14	232,388	302,781
Trade payables	15	197,698	117,812
Other payables and accruals		47,877	27,592
Tax payable		13,630	14,827
<b>Total current liabilities</b>		<b>491,593</b>	<b>463,012</b>
<b>NET CURRENT ASSETS</b>		<b>284,426</b>	<b>261,101</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>722,578</b>	<b>688,744</b>

# Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2011

	Notes	<b>30 June 2011 RMB'000 (Unaudited)</b>	31 December 2010 RMB'000 (Audited)
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<u>5,780</u>	<u>3,774</u>
Total non-current liabilities		<u>5,780</u>	<u>3,774</u>
Net assets		<u><b>716,798</b></u>	<u>684,970</u>
<b>EQUITY</b>			
Equity attributable to owners of the parent			
Issued capital		6,272	6,272
Reserves		710,526	652,210
Proposed final dividend		–	26,488
Total equity		<u><b>716,798</b></u>	<u>684,970</u>

# Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	Attributable to the owners of the parent								
	Issued capital	Share premium	Merger reserve	Statutory reserve	Share option reserve	Exchange reserve	Proposed final dividend	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	6,272	268,001	196,816	44,511	514	(1,155)	26,488	143,523	684,970
Total comprehensive income for the period	-	-	-	-	-	(71)	-	57,873	57,802
Equity-settled share option arrangements	-	-	-	-	514	-	-	-	514
Final 2010 dividend declared	-	-	-	-	-	-	(26,488)	-	(26,488)
At 30 June 2011 (Unaudited)	<u>6,272</u>	<u>268,001</u>	<u>196,816</u>	<u>44,511</u>	<u>1,028</u>	<u>(1,226)</u>	<u>-</u>	<u>201,396</u>	<u>716,798</u>
At 1 January 2010	6,272	268,001	196,816	35,172	-	(778)	-	111,419	616,902
Total comprehensive income for the period	-	-	-	-	-	(214)	-	18,201	17,987
At 30 June 2010 (Unaudited)	<u>6,272</u>	<u>268,001</u>	<u>196,816</u>	<u>35,172</u>	<u>-</u>	<u>(992)</u>	<u>-</u>	<u>129,620</u>	<u>634,889</u>

# Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	<b>For the six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITIES	<b>88,018</b>	107,120
NET CASH OUTFLOW USED IN INVESTING ACTIVITIES	<b>(3,984)</b>	(16,160)
NET CASH OUTFLOW USED IN FINANCING ACTIVITIES	<b>(102,930)</b>	(19,516)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	<b>(18,896)</b>	71,444
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<b>223,464</b>	95,517
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>204,568</b>	166,961
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>252,487</b>	227,906
Less: Pledged deposits	<b>(47,919)</b>	(60,945)
Cash and cash equivalents	<b>204,568</b>	166,961

# Notes to Interim Condensed Consolidated Financial Statements

*For the six months ended 30 June 2011*

## 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 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. 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 its principal place of business is located at Level 28, Three Pacific Place, 1 Queen’s Road East, Hong Kong.

## 2.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2011 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 2010.

## 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 are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2010, 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.



# Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 2.3 Adoption of New and Revised IFRSs

During the six months ended 30 June 2011, the following new standards and interpretations are adopted by the Group:

IFRS 1 Amendment	Amendment to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i>
IAS 24 (Revised)	<i>Related Party Disclosures</i>
IAS 32 Amendment	Amendment to IAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>
IFRIC 14 Amendments	Amendments to IFRIC 14 <i>Prepayments of a Minimum Funding Requirement</i>
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>

Apart from above, the Group has adopted *Improvements to IFRSs 2010*, which sets out amendments to a number of IFRSs.

The adoption of these new and revised IFRSs has had no significant financial effect on these interim condensed financial information and there have been no significant changes to the accounting policies applied in these interim condensed financial information.

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

# Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 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

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 2011 is set out in the following table:

	Revenue from external customers	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
The PRC	106,219	106,390
Italy	103,578	83,025
Other countries	110,358	93,512
Total	<u>320,155</u>	<u>282,927</u>

The principal non-current assets employed by the Group are located in the PRC.

### 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 2011 (2010: Nil).

# Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 4. Revenue, Other Income and Gains

Revenue represents the sales value of linen yarns, net of sales tax and deduction of any sales discounts and returns.

An analysis of revenue and other income is as follows:

	<b>For the six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Revenue</b>		
Sales of linen yarns	<b>320,155</b>	282,927
	<hr/> <hr/>	<hr/> <hr/>
<b>Other income and gains</b>		
Bank interest income	<b>1,678</b>	580
Foreign exchange gains, net	<b>5,033</b>	–
Government grants	<b>1,704</b>	1,732
Gain from changes in fair value of biological assets	–	30
Others	<b>24</b>	286
	<hr/>	<hr/>
	<b>8,439</b>	2,628
	<hr/> <hr/>	<hr/> <hr/>

## 5. Finance Costs

	<b>For the six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Interest on bank loans, overdrafts and other loans wholly repayable with five years	<b>7,812</b>	7,027
	<hr/> <hr/>	<hr/> <hr/>

# Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 6. Profit Before Income Tax Expense

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

	<b>For the six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Cost of inventories sold	<b>208,552</b>	216,636
Depreciation	<b>23,374</b>	21,638
Amortisation of prepaid land lease payments	<b>438</b>	425
Amortisation of an intangible asset	<b>298</b>	–
Minimum lease payments under operating lease – land and buildings	<b>496</b>	547
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	<b>31,272</b>	29,878
Pension scheme contributions	<b>4,086</b>	3,413
Equity-settled share option expense	<b>514</b>	–
	<b>35,872</b>	33,291
Foreign exchange difference, net	<b>(5,033)</b>	2,674
Reversal of inventory provision	<b>(1,047)</b>	(2,556)
Reversal of provision for doubtful debts	<b>(364)</b>	(328)
Interest expenses	<b>7,812</b>	7,027
Bank interest income	<b>(1,678)</b>	(580)
	<b>35,872</b>	33,291

# Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 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	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
Current – PRC		
– Charge for the period	20,554	8,116
– Over-provision in respect of prior periods	(214)	–
Current – Italy tax	616	–
Deferred	705	2,064
Total tax charge for the period	<u>21,661</u>	<u>10,180</u>

- (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) No provision has been made for Hong Kong profits tax during the six months ended 30 June 2011 (2010: Nil) as the Group did not earn any assessable income for Hong Kong profits tax purposes during the period.
- (iii) The provision for PRC income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

Pursuant to the income tax rules and regulations of the PRC (the "FEIT Law"), certain subsidiaries located in the PRC ("PRC subsidiaries") including Zhejiang Jinyuan Flax Co., Ltd. ("Zhejiang Jinyuan"), Jiangsu Jinyuan Flax Co., Ltd. ("Jiangsu Jinyuan") and Jiangsu Ziwei Flax Co., Ltd. ("Jiangsu Ziwei") are entitled to a tax holiday of a tax-free period for two years from their first profit-making year of operations and thereafter, they are subject to PRC enterprise income tax at 50% of the applicable income tax rate for the following three years (the "Tax Holidays"). The years of 2003, 2005 and 2008 are the first profit making years for Zhejiang Jinyuan, Jiangsu Jinyuan and Jiangsu Ziwei, respectively.

# Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 7. Income Tax Expense (Continued)

(iii) (Continued)

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 "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. According to the New Corporate Income Tax Law, the applicable tax rates of the Group's subsidiaries in the PRC are unified at 25% with effect from 1 January 2008 except Zhaosu Jindi Flax Co., Ltd. ("Zhaosu Jindi"), which is engaged in the preliminary processing of agriculture products and is exempted from PRC income tax. Pursuant to the transitional arrangement under the New Corporate Income Tax Law, Jiangsu Ziwei will continue to enjoy 50% reduction on the applicable income tax rate under the New Corporate Income Tax Law in 2011 until the expiry of the Tax Holidays previously granted under the FEIT Law on 31 December 2012, and thereafter it is subject to the unified rate of 25%.

(iv) Kingdom Europe S.R.L. is subject to the tax rate of 31.4%, which comprises the Italian Corporate Income Tax rate of 27.5% and the Italian Regional Income Tax rate of 3.9%.

## 8. Dividends

The board of directors does not recommend the payment of an interim dividend to the ordinary owners of the Company for the six months ended 30 June 2011 (2010: 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 622,500,000 (2010: 622,500,000) in issue during the period.

The calculation of the diluted earnings per share amount is based on the profit for the 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 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.

No options were exercised during the six months ended 30 June 2011.

# Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 9. Basic and Diluted Earnings Per Share Attributable to Ordinary Equity Holders of the Parent (Continued)

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation	<u>57,873</u>	<u>18,201</u>
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<b>622,500</b>	622,500
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>506</u>	–
	<u><b>623,006</b></u>	<u>622,500</u>

# Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 10. Property, Plant and Equipment

	Plant and buildings RMB'000	Machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
Balance at 1 January 2011	156,381	379,816	13,826	6,099	7,448	22,714	586,284
Additions	724	2,720	636	171	–	15,628	19,879
Transfer in	505	21,033	896	–	–	(22,434)	–
Disposals	(68)	(344)	(80)	–	–	–	(492)
Exchange realignment	–	6	8	–	1	–	15
Balance at 30 June 2011 (unaudited)	<u>157,542</u>	<u>403,231</u>	<u>15,286</u>	<u>6,270</u>	<u>7,449</u>	<u>15,908</u>	<u>605,686</u>
Accumulated depreciation:							
Balance at 1 January 2011	(34,219)	(156,721)	(8,528)	(2,003)	(1,380)	–	(202,851)
Charge for the period	(3,795)	(17,445)	(508)	(691)	(935)	–	(23,374)
Written back on disposals	31	310	72	–	–	–	413
Exchange realignment	–	(3)	(3)	–	–	–	(6)
Balance at 30 June 2011 (unaudited)	<u>(37,983)</u>	<u>(173,859)</u>	<u>(8,967)</u>	<u>(2,694)</u>	<u>(2,315)</u>	<u>–</u>	<u>(225,818)</u>
Carrying amounts:							
At 30 June 2011 (unaudited)	<u>119,559</u>	<u>229,372</u>	<u>6,319</u>	<u>3,576</u>	<u>5,134</u>	<u>15,908</u>	<u>379,868</u>
At 31 December 2010	<u>122,162</u>	<u>223,095</u>	<u>5,298</u>	<u>4,096</u>	<u>6,068</u>	<u>22,714</u>	<u>383,433</u>



# Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 11. Intangible Asset

	Certified emission rights RMB'000
At 1 January 2011	–
Additions	11,919
Amortisation	(298)
	<u>11,621</u>
At 30 June 2011	<u><u>11,621</u></u>
At 30 June 2011:	
Cost	11,919
Accumulated amortisation	(298)
	<u>11,621</u>
Net carrying amount	<u><u>11,621</u></u>

## 12. Inventories

	<b>30 June 2011 RMB'000 (Unaudited)</b>	31 December 2010 RMB'000 (Audited)
Raw materials	<b>184,022</b>	151,111
Work in progress	<b>14,883</b>	15,681
Finished goods	<b>80,362</b>	40,315
Goods in transit	<b>76,893</b>	72,327
	<u><b>356,160</b></u>	<u>279,434</u>

# Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 13. Trade and Notes Receivables

	<b>30 June 2011 RMB'000 (Unaudited)</b>	31 December 2010 RMB'000 (Audited)
Trade receivables	<b>116,071</b>	101,586
Notes receivable	<b>17,770</b>	20,145
	<b>133,841</b>	121,731
Allowance for trade and notes receivables	<b>(933)</b>	(1,297)
	<b>132,908</b>	120,434

Customers are normally granted credit terms ranging from 30 to 150 days depending on the creditworthiness of individual customers.

An ageing analysis of the Group's trade and notes receivables (based on the due date and net of provisions for bad and doubtful debts) is as follows:

	<b>30 June 2011 RMB'000 (Unaudited)</b>	31 December 2010 RMB'000 (Audited)
Neither past due nor impaired	<b>110,675</b>	113,039
Less than 1 month past due	<b>11,395</b>	2,517
1-3 months past due	<b>5,781</b>	3,444
Over 3 months but less than 12 months past due	<b>4,341</b>	926
Over 12 months past due	<b>716</b>	508
	<b>132,908</b>	120,434

# Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 14. Interest-bearing Bank Loans

	Notes	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Current			
Secured bank loans	(i)	107,388	157,781
Bank advances under discounted bills		–	20,000
Unsecured bank loans		125,000	125,000
		<u>232,388</u>	<u>302,781</u>

Notes:

- (i) As at 30 June 2011, the interest-bearing bank loans were secured by certain property, plant and equipment, prepaid land lease payments, and pledged deposits of the Group with carrying amounts of RMB65,033,000 (31 December 2010: RMB66,810,000), RMB20,701,000 (31 December 2010: RMB6,662,000), and RMB27,072,000 (31 December 2010: RMB62,057,000), respectively.
- (ii) The bank loans bear interest at rates ranging from 3.004% to 6.94% per annum (31 December 2010: 1.12% to 5.56% per annum)

# Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 15. Trade Payables

An ageing analysis of the trade payables as at 30 June 2011, based on the payment due date, is as follows:

	<b>30 June 2011 RMB'000 (Unaudited)</b>	31 December 2010 RMB'000 (Audited)
Due within 1 month or on demand	<b>16,765</b>	24,461
Due after 1 month but within 3 months	<b>91,120</b>	58,359
Due after 3 months but within 6 months	<b>89,813</b>	34,992
	<b>197,698</b>	117,812

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

## 16. Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, and other employees of the Group in the Company's subsidiaries. The Scheme became effective on 15 November 2006 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors.

# Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 16. Share Option Scheme (Continued)

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK\$0.01 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to three years and ends on a date which is not later than five years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the six months ended 30 June 2011 (2010: Nil):

	<b>Weighted average exercise price</b> HK\$ per share	<b>Number of options</b> '000
At 1 January and 30 June 2011	<u>0.400</u>	<u>9,100</u>

No share options were exercised during the six months ended 30 June 2011 (2010: Nil). The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

<b>Number of options</b> '000	<b>Exercise price</b> HK\$ per share	<b>Exercise period</b>
3,640	0.400	9 July 2012 to 8 July 2015
<u>5,460</u>	0.400	9 July 2013 to 8 July 2015
<u>9,100</u>		

The Group recognised a share option expense of HK\$612,000, equivalent to RMB514,000, during the six months ended 30 June 2011 (2010: Nil).

# Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 16. Share Option Scheme (Continued)

At the end of the reporting period, the Company had 9,100,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 9,100,000 additional ordinary shares of the Company and additional share capital of HK\$91,000, equivalent to RMB76,000, and share premium of HK\$3,549,000, equivalent to RMB2,951,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 9,100,000 share options outstanding under the Scheme, which represented approximately 1.46% of the Company's shares in issue as at that date.

## 17. Operating Leases Commitments

Non-cancellable operating lease rentals were payable as follows:

	<b>30 June 2011 RMB'000 (Unaudited)</b>	31 December 2010 RMB'000 (Audited)
Less than one year	1,210	1,150
Between one and five years	1,431	1,822
	<u>2,641</u>	<u>2,972</u>

The Group leases certain properties located in the PRC and Italy as the Group's offices. The leases run for an initial period of three to six years, with an option to renew the leases after the due date.

# Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 18. Capital Commitments

Capital commitments in respect of purchase of property, plant and equipment outstanding at 30 June 2011 and 31 December 2010 but not provided for in the interim condensed consolidated financial statements are as follows:

	<b>30 June 2011 RMB'000 (Unaudited)</b>	31 December 2010 RMB'000 (Audited)
Contracted for	<b>20,139</b>	4,256
Authorised, but not contracted for	—	—
	<b>20,139</b>	4,256

## 19. Related Party Transactions

### (a) Transactions with a company controlled by the controlling shareholders of the Company's ultimate holding company and a company controlled by one of the Company's directors

- (i) During the six months ended 30 June 2011, the Group leased an office located in the PRC from Zhejiang Kingdom Creative Co., Ltd. ("Kingdom Creative") and incurred operating lease charges of RMB100,000 (2010: RMB100,000). Mr. Ren Wei Ming, who ultimately controls the Group, also has a controlling equity interest in Kingdom Creative.
- (ii) During the six months ended 30 June 2010, the Group sold products totalling RMB52,000 to Millionfull Company Limited ("Millionfull"), a related company controlled by one of the Company's directors and there was no such transaction made between the Group and Millionfull during the six months ended 30 June 2011.

The lease and sales were made according to published prices and conditions offered by the lessor or to the major customers of the Group.

# Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

## 19. Related Party Transactions (Continued)

### (b) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
Short-term employee benefits	1,390	1,340
Post-employment benefits	55	51
Equity-settled share option expense	62	–
	<u>1,507</u>	<u>1,391</u>

## 20. 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 25 August 2011.





這些年裏，我們看到了金達作為世界公認的這一行業的領袖企業在質量和服務方面做出的極大承諾。  
這些年裏我們也可以看到他們付出的巨大的投入和完美的回報。  
我們非常樂意看到傳統的亞麻紡紗能夠繼續由這樣一家強有力的和富有創造力的公司引領着前進。

In recent years we saw an enormous commitment in the research of quality and service that has made Kingdom today one of the companies recognized worldwide for excellence in this industry.  
During these years we have been able to see the huge investments realized and the big return achieved.  
We are pleased to see the tradition of linen spinning carried on by strong and skilled hands.

卡羅·拉瓦薩 Carlo Lavazza

**michele solbiati sasil s.p.a.**

SOLBIATI是世界範圍內久負盛名的，意大利最專業，歷史最悠久的亞麻面料生產商。  
SOLBIATI is long renowned in the world as the most specialized and experienced manufacturer of linen fabrics in Italy.