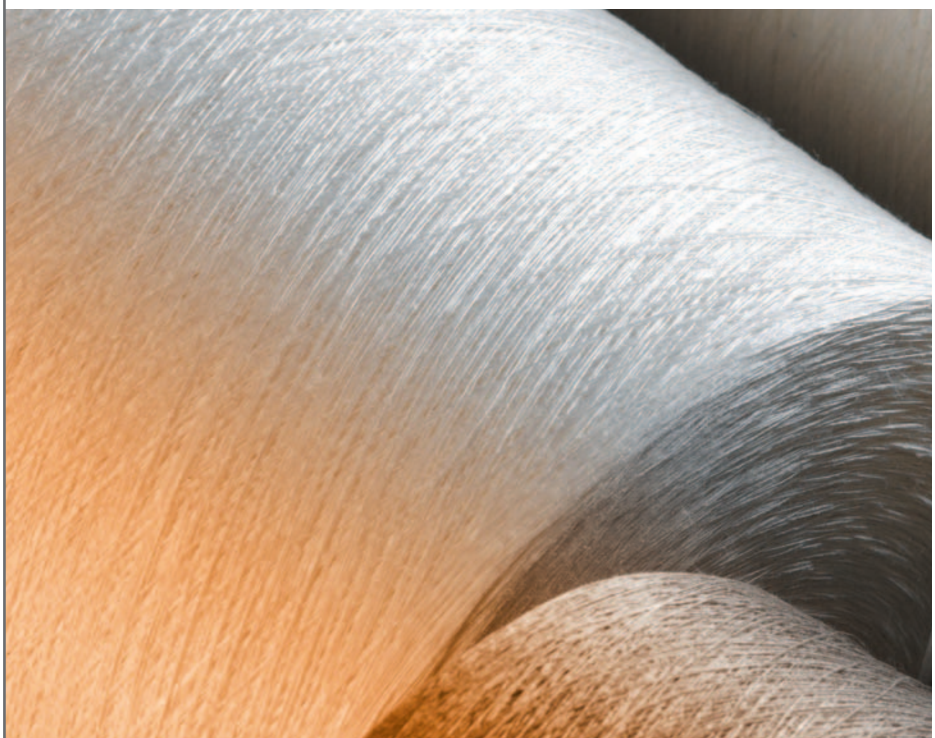
KINGDOM

INTERIM REPORT 2009



KINGDOM HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock code : 528)

Contents

KPMG

REVIEW REPORT TO THE BOARD OF DIRECTORS OF
KINGDOM HOLDINGS LIMITED
for the six months ended 30 June 2009

Introduction

We have reviewed the interim financial report set out on pages 3 to 20 which comprises the consolidated balance sheet of Kingdom Holdings Limited as of 30 June 2009 and the related consolidated income statement, statement of comprehensive income and statement of changes in equity and condensed consolidated statement of cash flows for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

18 September 2009

Consolidated Income Statement

for the six months ended 30 June 2009 (unaudited)

(Expressed in Renminbi)

	Note	Six months ended 30 June **2009** **RMB'000**	2008 RMB'000
Turnover		**151,455**	178,302
Cost of sales		**(160,078)**	(150,987)
Gross (loss)/profit		**(8,623)**	27,315
Other operating income		**3,210**	824
Distribution expenses		**(5,818)**	(8,933)
Administrative expenses		**(15,877)**	(18,585)
Other operating expenses		**(2,665)**	(419)
(Loss)/Profit from operations		**(29,773)**	202
Finance income		**3,210**	6,207
Finance expenses		**(11,487)**	(12,698)
Net finance costs	4(a)	**(8,277)**	(6,491)
Loss before taxation	4	**(38,050)**	(6,289)
Taxation	5	**6,388**	(1,771)
Loss for the period – attributable to the equity shareholders of the Company		**(31,662)**	(8,060)
Basic and diluted loss per share	7	**RMB(0.05)**	RMB(0.01)

The notes on pages 9 to 20 form part of this unaudited interim financial report.

Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2009 (unaudited)

(Expressed in Renminbi)

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Loss for the period	**(31,662)**	(8,060)
Other comprehensive income for the period (after tax and reclassification adjustments):		
Exchange difference on translation of financial statements of overseas subsidiaries	**(196)**	151
	(196)	151
Total comprehensive income for the period		
– attributable to equity shareholders of the Company	**(31,858)**	(7,909)

The notes on pages 9 to 20 form part of this unaudited interim financial report.

Consolidated Balance Sheet

at 30 June 2009 (unaudited)

(Expressed in Renminbi)

	Note	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Non-current assets			
Fixed assets			
– Investment properties		**10,006**	10,272
– Other property, plant and equipment		**401,157**	409,502
		411,163	419,774
Lease prepayments		**36,967**	37,368
Deferred tax assets		**14,052**	7,396
		462,182	464,538
Current assets			
Inventories	8	**288,471**	312,381
Prepaid income tax		**3,824**	3,489
Trade receivables, prepayments and other receivables	9	**181,417**	226,064
Pledged bank deposits		**127,395**	47,352
Fixed deposits with banks		**—**	10,350
Cash and cash equivalents	10	**42,377**	97,549
		643,484	697,185
Current liabilities			
Bank loans	11	**373,363**	386,590
Trade and other payables	12	**99,252**	110,224
		472,615	496,814

The notes on pages 9 to 20 form part of this unaudited interim financial report.

Consolidated Balance Sheet

at 30 June 2009 (unaudited)

(Expressed in Renminbi)

	Note	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Net current assets		**170,869**	200,371
Total assets less current liabilities		**633,051**	664,909
Non-current liabilities			
Bank loans	11	**30,000**	30,000
Net assets		**603,051**	634,909
Capital and reserves			
Share capital		**6,272**	6,272
Reserves		**596,779**	628,637
Total equity		**603,051**	634,909

Approved and authorised for issue by the board of directors on 18 September 2009.

Ren Wei Ming)
) Directors
Shen Yueming)

The notes on pages 9 to 20 form part of this unaudited interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2009 (unaudited)

(Expressed in Renminbi)

	Note	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	PRC statutory reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2008		6,272	268,001	196,816	34,310	—	168,827	674,226
Changes in equity for the six months ended 30 June 2008:								
Total comprehensive income for the period		—	—	—	—	151	(8,060)	(7,909)
Dividends approved in respect of the previous year		—	—	—	—	—	(15,563)	(15,563)
Balance at 30 June 2008		6,272	268,001	196,816	34,310	151	145,204	650,754
Balance at 1 January 2009		6,272	268,001	196,816	35,172	(927)	129,575	634,909
Changes in equity for the six months ended 30 June 2009:								
Total comprehensive income for the period		—	—	—	—	(196)	(31,662)	(31,858)
Balance at 30 June 2009		**6,272**	**268,001**	**196,816**	**35,172**	**(1,123)**	**97,913**	**603,051**

The notes on pages 9 to 20 form part of this unaudited interim financial report.

Condensed Consolidated Statement of Cash Flows

for the six months ended 30 June 2009 (unaudited)

(Expressed in Renminbi)

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Cash generated from/(used in) operation	**51,611**	(22,004)
Income tax paid	**(604)**	(3,936)
Interest expense paid	**(10,897)**	(12,426)
Net cash generated from /(used in) operating activities	**40,110**	(38,366)
Net cash used in investing activities	**(82,055)**	(88,968)
Net cash (used in)/generated from financing activities	**(13,227)**	69,407
Net decrease in cash and cash equivalents	**(55,172)**	(57,927)
Cash and cash equivalents at 1 January	**97,549**	158,256
Effect of foreign exchange rate fluctuations on cash held	**—**	31
Cash and cash equivalents at 30 June	**42,377**	100,360

The notes on pages 9 to 20 form part of this unaudited interim financial report.

1 Basis of preparation

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 interim financial report of the Company for the six months ended 30 June 2009 comprises the Company and its subsidiaries (together referred to as the "Group").

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, adopted by the International Accounting Standards Board ("IASB").

The interim financial report has been prepared in accordance with the same accounting policies adopted by the Group in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in Note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2008 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's review report to the Board of Directors is included on page 2.

The financial information relating to the financial year ended 31 December 2008 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2008 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 17 April 2009.

2 Changes in accounting policies

The IASB has issued one new IFRS, a number of amendments to IFRS and new interpretations that are effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 8, Operating segments
- IAS 1(revised 2007), Presentation of financial statements
- Improvements to IFRSs (2008)
- Amendments to IAS 27, Consolidated and separate financial statements — cost of an investment in a subsidiary, jointly controlled entity or associate
- Amendments to IFRS 7, Financial instruments: Disclosure — improving disclosures about financial instruments
- IAS 23(revised 2007), Borrowing costs

The "Improvements to IFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of IFRSs which the IASB has issued as an omnibus batch of amendments. The amendments had no material impact on the Group's interim financial report.

The amendments to IAS 23 have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. In addition, the amendments to IFRS 7 do not contain any addition disclosure requirements specifically applicable to the interim financial report.

The impact of the remainder of these developments on the interim financial report is as follows:

- IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The adoption of IFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management (see Note 3). As this is the first period in which the Group has presented segment information in accordance with IFRS 8, additional explanation has been included in the interim financial report which explains the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.

2 Changes in accounting policies *(Continued)*

- As a result of adoption of IAS 1(revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expenses are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- The amendments to IAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post acquisition profits, will be recognised in the company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the company would recognise an impairment loss. In accordance with the transitional provisions in the amendments, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous period have not been restated.

3 Segment information

In prior periods, segment information reported externally was analysed on the basis of business segments and geographical segments in accordance with the requirements of IAS 14.

As explained in Note 2, IFRS 8 requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the production and sale of linen yarns.

The measure used for reporting segment profit is "gross profit", which is reconciled to consolidated loss before taxation on the consolidated income statement on page 3.

4 Loss before taxation

Loss before taxation is arrived at after charging/(crediting):

(a) Net finance costs

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Interest income	**(905)**	(1,190)
Foreign exchange gain, net	**(2,305)**	(5,017)
Finance income	**(3,210)**	(6,207)
Interest on bank loans	**10,897**	12,426
Less: interest expense capitalised into property, plant and equipment	**(100)**	(1,247)
Interest expenses, net	**10,797**	11,179
Bank charges	**690**	1,519
Finance expenses	**11,487**	12,698
Net finance costs	**8,277**	6,491

4 Loss before taxation *(Continued)*

(b) Other items

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Depreciation	**23,685**	17,138
Amortisation of lease prepayments	**401**	441
Operating lease charges on properties	**596**	144
Inventories write-down and losses	**16,043**	1,617
Allowance for doubtful debts	**1,087**	—
Gross rentals from investment properties	**(277)**	—

5 Taxation

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Provision for PRC corporate income tax	**117**	2,597
Under-provision in respect of prior year	**151**	23
	268	2,620
Changes in deferred taxes	**(6,656)**	(849)
	(6,388)	1,771

(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 2009 and 2008 as the Group did not earn any assessable income for Hong Kong profits tax purpose.

5 Taxation *(Continued)*

(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 ("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 ("Tax Holidays").

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("New Tax Law"). According to the New 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 preliminary processing of agriculture products and is exempted from PRC income tax. Pursuant to the transitional arrangement under the New Tax Law, Jiangsu Ziwei and Jiangsu Jinyuan will continue to enjoy 50% reduction on the applicable income tax rate under the New Tax Law in 2009 until the expiry of the Tax Holidays previously granted under the FEIT Law, and thereafter they are subject to the unified rate of 25%.

In addition, 7% withholding tax of RMB117,000 (2008: RMB448,000) is levied on the subsidiaries located outside PRC in respect of their interest income earned from loans to the subsidiaries located in the PRC under the New Tax Law. Apart from the above withholding tax, no provision for PRC income tax has been made during the six months ended 30 June 2009 (2008: RMB2,149,000) as none of the subsidiaries located in the PRC earned any taxable profit for PRC income tax purpose.

(iv) No provision has been made for Italian income tax during the six months ended 30 June 2009 (2008: Nil) as the Group did not earn any taxable profit for Italian income tax purpose.

6 Dividends

(i) Dividends payable to equity shareholders attributable to the interim period

No interim dividend was declared and paid after the interim period.

(ii) Dividends payable to the equity shareholders of the Company attributable to the previous financial year, approved and paid during this period

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of RMB Nil per share (six months ended 30 June 2008: RMB0.025 per share)	**—**	15,563
	—	15,563

7 Basic and diluted loss per share

The calculation of basic and diluted loss per share is based on the loss attributable to equity shareholders of the Company of RMB31,662,000 (2008: loss of RMB8,060,000) and the weighted average of 622,500,000 ordinary shares (2008: 622,500,000) in issue during the interim period.

No dilutive potential ordinary shares were in issue as at 30 June 2009 (2008: Nil).

8 Inventories

Inventories in the consolidated balance sheet comprise:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Raw materials	**94,652**	95,270
Work in progress	**13,417**	23,208
Finished goods	**175,270**	165,675
Goods in transit	**5,132**	28,228
	288,471	312,381

9 Trade receivables, prepayments and other receivables

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Trade and bills receivable	**149,397**	193,003
Prepayments and other receivables	**32,020**	31,492
Amounts due from related parties	**—**	1,569
	181,417	226,064

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

An ageing analysis of the Group's trade and bills receivable (net of provisions for bad and doubtful debts) is as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Current	**109,492**	165,933
Less than 1 month past due	**7,896**	12,564
1-3 months past due	**6,105**	4,640
Over 3 months but less than 12 months past due	**25,626**	5,738
Over 12 months past due	**278**	4,128
Total amounts past due	**39,905**	27,070
	149,397	193,003

10 Cash and cash equivalents

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Deposits with banks within three months of maturity	**—**	7,228
Cash at bank and in hand	**42,377**	90,321
	42,377	97,549

11 Bank loans

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Current		
Secured bank loans	**243,392**	162,839
Bank advances under discounted bills	**18,902**	38,370
Unsecured bank loans	**81,069**	140,381
Current portion of non-current bank loans:		
– secured bank loans	**—**	15,000
– unsecured bank loans	**30,000**	30,000
	373,363	386,590
Non-current		
Secured bank loans	**—**	15,000
Unsecured bank loans	**60,000**	60,000
Less: current portion		
– secured bank loans	**—**	(15,000)
– unsecured bank loans	**(30,000)**	(30,000)
	30,000	30,000
Total	**403,363**	416,590

11 Bank loans *(Continued)*

The Group's non-current bank loans are repayable as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Within 1 year	**30,000**	45,000
Over 1 year but less than 2 years	**30,000**	30,000
Total	**60,000**	75,000

As at 30 June 2009, the banking facilities and bank loans were secured by certain property, plant and equipment, land use rights, inventories and pledged deposits of the Group with a carrying amount of RMB164,535,000 (2008: RMB139,250,000), RMB31,828,000 (2008: RMB32,208,000), RMB51,229,000 (2008: Nil) and RMB127,395,000 (2008: RMB47,352,000) respectively.

As at 30 June 2009, the Group had cash and bank deposits totaling RMB169,772,000 of which RMB127,395,000 had been pledged to banks to secure banking facilities granted. As at 30 June 2009, the Group had revolving banking facilities of RMB441,490,000 (31 December 2008: RMB375,950,000) of which RMB184,786,000 (31 December 2008: RMB145,952,000) had been drawn down. All of these revolving banking facilities were granted by stated-owned banks in the PRC including Bank of China, Agricultural Development Bank of China and China Construction Bank. Amongst these revolving banking facilities, RMB230,950,000 expire before 30 June 2010 while RMB210,540,000 do not expire until after 30 June 2010. The directors believe that the Group will be able to obtain continued borrowing facilities from these banks so that when required by the Group, the bank loans due for repayment within the next 12 months can be successfully replaced with new loans drawn down from existing revolving banking facilities or new borrowing facilities.

12 Trade and other payables

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Trade and bills payable	**77,590**	85,487
Other payables and accrued expenses	**21,562**	24,737
Amount due to a related party	**100**	—
	99,252	110,224

An ageing analysis of trade and bills payable is as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Due within 1 month or on demand	**26,346**	31,382
Due after 1 month but within 3 months	**45,354**	45,732
Due after 3 months but within 6 months	**5,259**	7,740
Due after 6 months but within 12 months	**631**	633
	77,590	85,487

13 Capital commitments

Capital commitments in respect of purchase of property, plant and equipment outstanding at 30 June 2009 and 31 December 2008 but not provided for in the interim financial report was as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Contracted for	**1,211**	5,294
Authorised but not contracted for	**—**	—
	1,211	5,294

14 Related party transactions

(a) Transactions with the Company's shareholders and companies controlled by the ultimate controller of the Group

During the six months ended 30 June 2009, 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 (2008: RMB100,000). Mr. Ren Wei Ming, who ultimately controls the Group, also has a controlling equity interests over Kingdom Creative.

(b) Transactions with key management personnel

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Short-term employee benefits	**1,392**	740
Post-employment benefits	**55**	11
Discretionary bonuses	**—**	—
	1,447	751

(c) Contribution to defined contribution retirement plans

The Group participates in a defined contribution pension plan managed by PRC local government authorities for its employees employed in the PRC. The Group's contribution to these post-employment benefit plans amounted to RMB2,189,000 for the six months ended 30 June 2009 (2008: RMB1,832,000). As at 30 June 2009 and 31 December 2008, there was no material outstanding contribution to post-employment benefit plans.

15 Comparative figures

As a result of the application of IAS 1(revised 2007), *Presentation of financial statements*, and IFRS 8, *Operating segments*, certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in Note 2.

Industry overview

As the effects of the financial tsunami continued to impact on the global economy, demands from the major linen yarns markets such as Europe and US posted significant declines over the same period of last year. China, the largest exporting country of linen yarns in the world, was affected in terms of export volume of linen yarns. During the period under review, export volume of linen yarns and linen fabrics decreased by 37% and 23%, respectively, over the same period of last year. In China, the repercussion of the financial crisis also led to contracted demands from domestic linen yarns markets, which presented a strenuous challenge to the China linen yarns industry as a whole. The series of economic stimulus measures promulgated by the PRC government, which included, among others, raising export refund tax for linen yarns from 11% to 16% and provision of financial grants for the premium on credit insurance, helped alleviate some financial pressure on the companies; however, there existed a certain phase lag which could effect the stimulus measures to reflect the economic benefits to the companies, which means that the companies themselves must possess solid financial strengths and business foundation to overcome this challenging period for the industry.

Business review

Overall performance

During the period under review, the Group took into consideration the changes in domestic and overseas markets and actively increased its market share. Apart from enhancement of its network penetration in overseas markets to further strengthen the Group's leading position in the linen yarns export business, we also excelled in expansion in the domestic market, with an effort to offset the impact of slowdown in export to the Group's results. During the period under review, the Group recorded total linen yarns sales of RMB151 million, of which domestic sales amounted to RMB65 million, representing 43.22% of its total sales. Export sales amounted to RMB86 million, representing 56.78% of its total sales. Although the Group's export sales fell by 17.21% over the same period of last year, it still managed to represent approximately 41.76% of national export sales amount of linen yarns, up by 9 percentage points over the same period of last year (2008: 32.79%). As a result, the Group maintains its leading position in linen yarns export among PRC players.

Facing the severe challenges in the linen yarns market, the Group adjusted its production volume moderately board on the estimated market demands, so as to avoid any over-supply of linen yarns conditions. Meanwhile, the Group implemented proactive measures such as central tendering and procurement of machinery, parts and auxiliary chemical agents to strictly control production costs, and with a view to maintaining the profitability of the Group.

For the six months ended 30 June 2009, the Group recorded a turnover of RMB151 million. However, as affected by the slowdown in demand for and the drop in the price of linen yarns, the Group had a gross loss of RMB8.6 million. The loss attributable to shareholders amounted to approximately RMB31.7 million, and the basic loss per share was RMB0.05.

Market exploration strategies

In order to further consolidate the Group's overseas markets to capture market opportunities when the market recovers, the Group strove to optimise the overall structure of the sales network in its overseas markets during the period under review. The Group realigned the organisational structure of its Italian subsidiary and increased credit insurance provided to clients during the period under review, which successfully boosted the number of direct orders placed with the subsidiary and resulted in a 150% increase in its sales over the same period of last year. In the meantime, the Group actively expanded its sales network in non-European Union markets and recorded sales increases of 207% and 114% in Japan and India, respectively, over the same period of last year. In the second half of 2009, the Group will devote its efforts in increasing its market share in non-European Union markets, and step up exploration in Eastern the European and South African markets. In order to focus the Group's development and exploration efforts in the domestic market, the Group endeavored to optimise its marketing network and strengthened services to major clients during the period under review, in order to strive to increase the number of orders from major clients. Under the prevailing difficult circumstances, the Group maintained a stable level of domestic sales in the first half of 2009.

Achievements in research and development and awards

The Group maintained its objective of developing high value-adding products and high-efficiency spinning technologies in the first half of 2009. During the period under review, the Group succeeded in developing new high value-adding products such as linen chenille yarns, covered yarns, blended yarns and fibre dyed plied yarns. Also, the Group completed the development of new thin yarn machines and carried out batch production of yarns, and finished technological improvement to spreading machines. In addition, the Group's applications to the State Intellectual Property Office of the PRC for the registration of 9 technological patents were successfully obtained during the period under review, helping to lay a more solid foundation for its efforts in enhancing production efficiency and lowering production costs.

New factory and raw material production facility

During the period under review, the Group continued to perform the final stage of equipment testing and tuning in the new factory for production of differential linen yarns. The factory is expected to commence production once the demands for linen yarns begin to stabilise. The development progress of the Group's raw material production facility was very satisfactory. The first phase of raw material production facility located in Zhaosu County, Xinjiang recorded a production of 306 tons during the period under review. Such production facility is expected to provide approximately 1,000 tons of raw materials to the Group for the whole year of 2009, which will account for about 7% of its total demands and became the largest and the only one organic linen yarn fibers manufacturer and supplier inf PRC in 2009.

Financial review

Turnover

For the six months ended 30 June 2009, the Group's turnover amounted to RMB151,455,000 (six months ended 30 June 2008: RMB178,302,000). The decrease in turnover was mainly due to the slowdown in demands for linen yarns globally, which directly affected the export volume of linen yarns and prices of products made with linen yarns.

The following table summarises turnover of the Group from selling areas during the relevant periods:

	Six months ended 30 June	
	2009	2008
	RMB	RMB
Selling areas:		
PRC	**65,457,000**	74,423,000
European Union	**60,075,000**	81,955,000
Non-European Union	**25,923,000**	21,924,000
Total	**151,455,000**	178,302,000

Gross profit

For the six months ended 30 June 2009, the decrease in demand for linen yarns products led to a drop in prices. The Group recorded a gross loss of RMB8,623,000 (six months ended 30 June 2008: gross profit of RMB27,315,000), and the gross loss margin was approximately 6%.

Expenses

The Group's selling and distribution expenses for the six months ended 30 June 2009 amounted to RMB5,818,000 (six months ended 30 June 2008: RMB8,933,000), accounted for approximately 3.8% of the Group's turnover for the six months ended 30 June 2009 (six months ended 30 June 2008: 5.0%).

The Group's administrative expenses amounted to RMB15,877,000 (six months ended 30 June 2008: RMB18,585,000), accounted for approximately 10.5% of the Group's turnover for the six months ended 30 June 2009 (six months ended 30 June 2008: 10.4%). Administrative expenses of the Group decreased by approximately 14.6% over 2008, which was mainly due to realignment of administrative personnel as well as reduction of administrative expenses.

Net finance costs for the six month ended 30 June 2009 amounted to RMB8,277,000 (six months ended 30 June 2008: RMB6,491,000).

Loss attributable to shareholders

For the six months ended 30 June 2009, the Group's loss attributable to shareholders amounted to RMB31,662,000 (loss attributable to shareholders for the six months ended 30 June 2008: RMB8,060,000).

Liquidity and financial resources

As at 30 June 2009, the Group had net current assets of RMB170,869,000 (31 December 2008: RMB200,371,000). The Group finances its operations with internally generated resources and bank borrowings. As at 30 June 2009, the Group had cash and bank deposits of RMB42,377,000 (31 December 2008: RMB107,899,000). The current ratio of the Group was about 136.2% as at 30 June 2009 (31 December 2008: 140.3%).

Shareholders' equity of the Group as at 30 June 2009 was RMB603,051,000 (31 December 2008: RMB634,909,000). As at 30 June 2009, the bank borrowings of the Group, repayable within 12 months from the balance sheet date, amounted to RMB373,363,000 (31 December 2008: RMB386,590,000), while long-term borrowings amounted to RMB30,000,000 (31 December 2008: RMB30,000,000), together aggregating a gross debt gearing (i.e. total borrowings/shareholders' equity) of about 66.9% (31 December 2008: 65.6%).

As at 30 June 2009, the Group had unutilised revolving banking facilities granted by certain banks in the amount of RMB256,704,000.

The financial strength of the Group has been greatly improved since its listing on the Stock Exchange. The Board believes that after taking into account the capital expenditure planned to be made within 2009, the Group's existing financial resources will be sufficient for the Group's future requirements.

Capital commitments

Capital commitments in respect of contractual purchases of property, plant and equipment outstanding as at 30 June 2009 but not provided for in the interim report were RMB1,211,000.

Contingent liabilities

As at 30 June 2009, the Group had no contingent liabilities.

Exchanger Risk

The Group's transactions are mainly denominated in RMB, United States Dollars, Euro and Hong Kong Dollars. During the period under review, the foreign exchange movements of such currencies were managed properly. Accordingly, the Group was not exposed to any significant risks associated with foreign exchange fluctuations.

The Group has been monitoring its foreign exchange risk with great attention.

Charges on assets

As at 30 June 2009, the Group's bank deposits of RMB127,395,000 had been pledged to banks as security for the Group's bank loans and other banking facilities. Such pledged bank deposits will be released upon full repayment of the bank loans. In addition, certain properties, plants, certain land use rights and inventories with carrying amounts of RMB164,535,000, RMB31,828,000 and RMB51,229,000, respectively, were pledged as security for the Group's bank loans.

Material investments

For the six months ended 30 June 2009, the Group's subsidiaries and associates had no material acquisitions or disposals.

Staff policy

As at 30 June 2009, the Group had a total of 1,921 employees. Total staff costs incurred during the six months ended 30 June 2009 amounted to RMB27,032,000. 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 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 the rates specified in the relevant PRC laws and regulations.

From time to time, the Group provides training courses both internally and externally for its employees.

Outlook

As global economies underwent a gradual recovery, demands from major linen yarns markets in European and US began to stabilise, together with the arising emerging markets (such as India and Brazil), the Group expects export volume for the whole year will be driven up to a level basically similar to that of last year. In addition, the second half year is traditionally the peak season for sales of linen yarns, the Group expects both domestic and export sales to bottom-out and rebound. Therefore, the Group believes sales of linen yarns projects will stabilise in the second half of 2009.

Looking forward, the Group will capture market opportunities arising from recovering demands, and best prepare itself in a number of areas. In terms of sales strategies, the Group will continue to improve its sales network domestically for capturing even higher market share; for overseas business, the Group will focus its efforts in expanding emerging markets like Eastern Europe and South Africa as well as other non-European Union markets. This strategy will help the Group to achieve rapid growth both domestically and overseas. With respect to cost control, the Group will exploit its leading position in the industry to leverage on its bargaining power, and actively seek strategic partnership with different vendors from time to time, with the ultimate aim of lowering production costs.

Furthermore, in terms of product development, the Group will devote itself to the development of special and patented linen yarns products such as high thread count yarns of over 26nm counts and organic linen yarns, the Group's aim is to increase its proportion of high-end products of yarns over 39 nm counts with higher profit margin, to 20% of total production volume in 2010. The Group will operate its business activities with a proactive and prudent attitude, strive to strengthen overall operating efficiencies and devote its efforts to promote the sustained development of the Group in the future.

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

As at 30 June 2009, save as disclosed below, none of the directors and chief executives of the Company had any interests or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were 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 for Securities Transactions by Directors of Listed Issuers:

Long position in shares of the Company (the "Shares")

Name of Director	Directly beneficially owned	Through controlled corporation	Total number of Shares interested	Approximate percentage of issued share capital of the Company (%)
Mr. Ren Wei Ming	3,156,000	279,200,000	282,356,000	45.36
Mr. Ngan Kam Wai Albert	—	64,800,000	64,800,000	10.41
Mr. Tse Chau Shing	675,000	22,500,000	23,175,000	3.72

Notes:

1. *Mr. Ren Wei Ming held approximately 76.38% of the issued share capital of Kingdom Investment (BVI) (as defined below). By virtue of his controlling interest in Kingdom Investment (BVI), Mr. Ren is deemed or taken to be interested in the 279,200,000 Shares held by Kingdom Investment (BVI) for the purpose of the SFO.*

2. *Mr. Ngan Kam Wai Albert held approximately 51% of the issued share capital of Millionfull (as defined below). By virtue of his controlling interest in Millionfull, Mr. Ngan is deemed or taken to be interested in the 64,800,000 Shares held by Millionfull for the purposes of the SFO.*

3. *Mr. Tse Chau Shing held 75% of the issued share capital of Royal Sincere Limited. By virtue of his controlling interest in Royal Sincere Limited, Mr. Tse is deemed or taken to be interested in the 22,500,000 Shares held by Royal Sincere Limited for the purposes of the SFO.*

Interests and short positions of substantial shareholders

So far as is known to any Director, as at 30 June 2009, 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 position in Shares

Name of shareholder	Capacity	Number of Shares	Approximate percentage of issued share capital (%)
Kingdom Investment Holdings Limited ("Kingdom Investment (BVI)")	Beneficial owner	279,200,000	44.85
Millionfull International Co., Ltd. ("Millionfull")	Beneficial owner	64,800,000	10.41
Caledonia Investments plc	Beneficial owner	66,825,000	10.73

As disclosed above, as at 30 June 2009, the Company had not been notified by any person, other an 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 be kept by the Company under section 336 of the SFO.

Share options

Since the adoption of the Company's share option scheme and up to 30 June 2009, no share options had been granted. Other than the said share option scheme, the Company and its subsidiaries have not adopted any share option scheme.

Purchase, sale or redemption of the Company's listed securities

During the six months ended 30 June 2009, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2009.

Publication of the interim results announcement and interim report

This interim results announcement is available for viewing on the website of Hong Kong Exchanges and Clearing Limited ("HKEx") at www.hkex.com.hk under the section "Latest Listed Company Information" and on the website of the Company at www.kingdom-china.com under the section "Investor Relations". The Interim Report will be despatched to shareholders of the Company and will be available on the websites of HKEx and the Company in due course.

Review of interim results

The Audit Committee has reviewed the interim results of the Company for the six months ended 30 June 2009.

Audit committee

The audit committee comprises three independent non-executive Directors and reports to the Board. The audit committee has reviewed with the management and the Company's external auditors the unaudited financial information and interim results of the Company for the six months ended 30 June 2009.

Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by directors. 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 during the six months ended 30 June 2009.

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 maintaining its position as 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, 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 2009, save and except for the following derivations:

Code Provision A.2.1

Under Code Provision A.2.1, the roles of chairman and chief executive officer 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 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.

Code Provision E.1.3

Under Code Provision E.1.3, a notice to shareholders is to be sent at least 20 clear business days before the annual general meeting. The notice to shareholders regarding the annual general meeting of the Company held on 26 May 2009 was sent on 30 April 2009, which was less than 20 business days prior to the annual meeting due to three days of Labour Day holidays starting from 1 May 2009. The Board will endeavour to ensure that sufficient notices covering all subsequent general meetings will be given to all shareholders of the Company in the future.

Purchase, Sale or Redemption of the Company's Listed Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2009.

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.