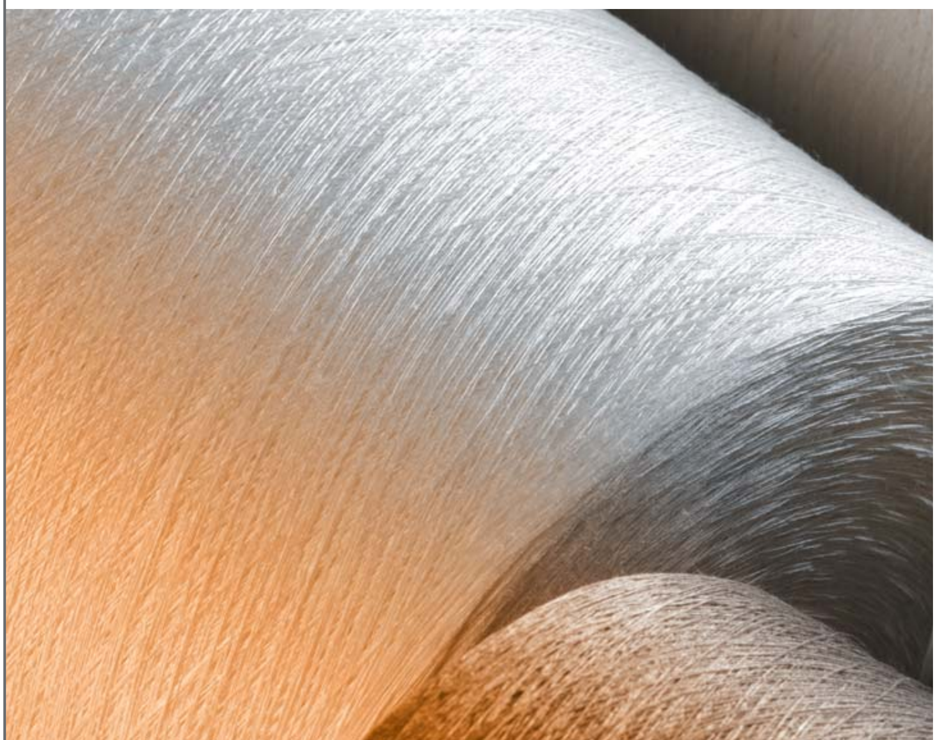
KINGDOM

INTERIM REPORT 2008



KINGDOM HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock code : 528)

Contents

REVIEW REPORT
TO THE BOARD OF DIRECTORS OF
KINGDOM HOLDINGS LIMITED
for the six months ended 30 June 2008

Introduction

We have reviewed the interim financial report set out on pages 4 to 17 which comprises the consolidated balance sheet of Kingdom Holdings Limited as of 30 June 2008 and the related consolidated income statement, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month 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 2008 has not been 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

5 September 2008

Consolidated Income Statement

for the six months ended 30 June 2008

(Expressed in Renminbi)

		Six months ended 30 June	
	Note	**2008**	2007
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Turnover	2	**178,302**	231,066
Cost of sales		**(150,987)**	(177,123)
Gross profit		**27,315**	53,943
Other operating income		**824**	179
Distribution expenses		**(8,933)**	(7,676)
Administrative expenses		**(18,585)**	(17,529)
Other operating expenses		**(419)**	(1,038)
Profit from operations		**202**	27,879
Finance income		**6,207**	1,492
Finance expenses		**(12,698)**	(8,890)
Net finance costs	3(a)	**(6,491)**	(7,398)
(Loss)/profit before taxation	3	**(6,289)**	20,481
Taxation	4	**(1,771)**	(3,116)
(Loss)/profit for the period - attributable to the equity shareholders of the Company		**(8,060)**	17,365
Basic and diluted (loss)/earnings per share	6	**RMB(0.01)**	RMB0.03

The notes on pages 9 to 17 form part of this unaudited interim financial report.

Consolidated Balance Sheet

As at 30 June 2008

(Expressed in Renminbi)

	Note	At 30 June 2008 RMB'000 (unaudited)	At 31 December 2007 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	7	**408,936**	366,413
Lease prepayments		**40,570**	38,147
Deferred tax assets		**2,774**	1,507
		452,280	406,067
Current assets			
Inventories		**390,626**	272,747
Prepaid income tax		**2,630**	1,314
Trade and other receivables, deposits and prepayments	8	**194,122**	248,046
Pledged bank deposits		**98,417**	66,678
Cash and cash equivalents	9	**100,360**	158,256
		786,155	747,041
Current liabilities			
Bank loans		**280,905**	205,714
Trade payables, other payables and accruals	10	**231,358**	198,168
Deferred tax liabilities		**418**	—
		512,681	403,882

Consolidated Balance Sheet

As at 30 June 2008

(Expressed in Renminbi)

	Note	At 30 June 2008 RMB'000 (unaudited)	At 31 December 2007 RMB'000 (audited)
Net current assets		**273,474**	343,159
Total assets less current liabilities		**725,754**	749,226
Non-current liabilities			
Bank loans		**75,000**	75,000
Net assets		**650,754**	674,226
Capital and reserves			
Share capital		**6,272**	6,272
Reserves		**644,482**	667,954
Total equity-attributable to equity holders of the Company		**650,754**	674,226

Approved and authorised for issue by the board of directors on 5 September 2008.

Ren Wei Ming)
) Directors
Shen Yueming)

The notes on pages 9 to 17 form part of this unaudited interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2008 (unaudited)

(Expressed in Renminbi)

	Attributable to equity holders of the Company						
	Share capital	**Share premium**	**Merger reserve**	**PRC statutory reserve**	**Retained earnings**	**Translation reserve**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2007	6,272	268,001	196,816	27,128	154,321	—	652,538
Profit for the period	—	—	—	—	17,365	—	17,365
Dividend approved during the period (note 5)	—	—	—	—	(23,344)	—	(23,344)
As at 30 June 2007	6,272	268,001	196,816	27,128	148,342	—	646,559
As at 1 January 2008	6,272	268,001	196,816	34,310	168,827	—	674,226
Loss for the period	—	—	—	—	(8,060)	—	(8,060)
Foreign exchange translation difference	—	—	—	—	—	151	151
Dividend approved during the period (note 5)	—	—	—	—	(15,563)	—	(15,563)
As at 30 June 2008	6,272	268,001	196,816	34,310	145,204	151	650,754

The notes on pages 9 to 17 form part of this unaudited interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2008

(Expressed in Renminbi)

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash used in operating activities	**(38,366)**	(62,222)
Net cash used in investing activities	**(88,968)**	(27,176)
Net cash generated from /(used in) financing activities	**69,407**	(39,721)
Net decrease in cash and cash equivalents	**(57,927)**	(129,119)
Cash and cash equivalents at 1 January	**158,256**	330,010
Effect of foreign exchange rate fluctuations on cash held	**31**	(920)
Cash and cash equivalents at 30 June	**100,360**	199,971

The notes on pages 9 to 17 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 2008 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.

This interim financial report has been prepared in accordance with the same accounting policies adopted by the Group in its annual financial statements for the year ended 31 December 2007.

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 2007 annual financial statements. The interim financial report does not include all of the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2007.

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 pages 2-3.

The financial information relating to the financial year ended 31 December 2007 included in the interim financial report does not constitute the Group's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2007 are available from the Company's registered office. The Company's independent auditors have expressed an unqualified opinion on those financial statements in their audit report dated 22 April 2008.

2 Segment reporting

The Group's turnover and operating results are almost entirely generated from the manufacture and sale of linen yarns. Accordingly, no business segment analysis is provided. In presenting the information in respect of geographical segments, segment turnover is based on the geographical location of customers. The Group's assets and liabilities are almost entirely situated in the PRC and accordingly, no analysis of segment assets, liabilities and capital expenditure is provided.

The analysis of the geographical location of the operations of the Group during the period is set out below:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Turnover		
PRC	**74,423**	64,054
Overseas		
– European Union	**81,955**	89,183
– Non-European Union	**21,924**	77,829
Total	**178,302**	231,066
Segment results		
PRC	**8,257**	9,267
Overseas		
– European Union	**6,245**	25,255
– Non-European Union	**2,290**	17,371
Total	**16,792**	51,893
Unallocated operating income and expenses	**(16,590)**	(24,014)
Profit from operations	**202**	27,879
Net finance costs	**(6,491)**	(7,398)
Taxation	**(1,771)**	(3,116)
(Loss)/profit for the period	**(8,060)**	17,365

3 (Loss)/profit before taxation

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

(a) Net finance costs

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Interest income	**(1,190)**	(1,492)
Foreign exchange gain, net	**(5,017)**	—
Finance income	**(6,207)**	(1,492)
Interest on bank loans	**12,426**	5,411
Less: borrowing costs capitalised	**(1,247)**	—
Net interest expenses	**11,179**	5,411
Bank charges	**1,519**	1,634
Foreign exchange losses, net	**—**	1,845
Finance expenses	**12,698**	8,890
Net finance costs	**6,491**	7,398

The borrowing costs have been capitalised at the weighted average rate of 7.70% per annum for the six months ended 30 June 2008.

(b) Other items

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Cost of inventories	**150,987**	177,123
Depreciation	**17,138**	15,150
Amortisation of lease prepayments	**441**	394
Operating lease charges on properties	**144**	249
Provision for inventories	**1,617**	690
Allowance for doubtful debts	**—**	624

4 Taxation

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Provision for PRC income tax	**2,597**	3,931
Under/(over)-provision in respect of prior year	**23**	(121)
	2,620	3,810
Changes in deferred taxes	**(849)**	(694)
	1,771	3,116

(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 2008 and 2007 as the Group did not earn any assessable income for Hong Kong profits tax purpose.

(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.

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 were unified at 25% with effect from 1 January 2008. Pursuant to the transitional arrangements under the New Tax Law, certain of the Group's subsidiaries in the PRC will continue to enjoy tax holidays that were previously granted prior to the enactment of the New Tax Law, of a tax-exemption for two years followed by a 50% reduction on the applicable income tax rate for three years and thereafter they will be subject to the unified rate of 25%.

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

5 Dividends

Dividends payable to the equity shareholders of the Company attributable to the previous financial year, and approved during this period:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, and approved during the period, of RMB0.025 per share (year ended 31 December 2007: RMB0.0375)	**15,563**	23,344
	15,563	23,344

Pursuant to a resolution passed at the Annual General Meeting held on 28 May 2008, a final dividend of RMB 15,563,000 (2007: RMB 23,344,000) was declared and approved for the year ended 31 December 2007. The directors do not propose the payment of an interim dividend for the six months ended 30 June 2008 (2007: Nil).

6 Basic and diluted (loss)/earnings per share

The calculation of basic and diluted (loss)/earnings per share is based on the loss attributable to equity holders of the Company of RMB8,060,000 (2007: a profit of RMB17,365,000) and the weighted average number of 622,500,000 (2007: 622,500,000) ordinary shares in issue during the period.

No dilutive potential ordinary shares were in issue as at 30 June 2008 (2007: Nil).

7 Property, plant and equipment

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Cost:		
Balance at 1 January	**443,175**	349,129
Acquisitions for the period/year	**59,661**	94,707
Disposals for the period/year	**—**	(661)
Balance at 30 June/31 December	**502,836**	443,175
Depreciation:		
Balance at 1 January	**(76,762)**	(46,756)
Depreciation charge for the period/year	**(17,138)**	(30,389)
Disposals for the period/year	**—**	383
Balance at 30 June/31 December	**(93,900)**	(76,762)
Net book value:		
At 30 June/31 December	**408,936**	366,413

8 Trade and other receivables, deposits and prepayments

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Trade and bills receivable	**145,392**	216,846
Less: allowance for doubtful debts	**(1,272)**	(1,272)
Net trade and bills receivable	**144,120**	215,574
Other receivables, deposits and prepayments	**50,002**	32,472
	194,122	248,046

The Group normally allows a credit period ranging from 30 days to 120 days to its customers.

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

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Current	**113,982**	188,004
Less than 1 month past due	**4,950**	12,235
More than 1 month but less than 3 months past due	**12,432**	10,543
More than 3 months but less than 6 months past due	**12,247**	3,453
More than 6 months but less than 12 months past due	**509**	1,339
Total amount past due	**30,138**	27,570
	144,120	215,574

9 Cash and cash equivalents

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Deposits with banks within three months of maturity	**27,000**	12,000
Cash at bank and in hand	**73,360**	146,256
	100,360	158,256

10 Trade payables, other payables and accruals

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Trade and bills payable	**202,753**	159,477
Other payables and accrued expenses	**28,505**	38,691
Amount due to a related party	**100**	—
	231,358	198,168

Amount due to a related party as at 30 June 2008 represents balance arising from the transaction entered with a related party during the six months ended 30 June 2008 set out in note 12(a). The balance is unsecured, interest-free and repayable on demand.

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

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Due within 1 month or on demand	**119,516**	97,300
Due after 1 month but within 3 months	**57,020**	23,924
Due after 3 months but within 6 months	**26,217**	33,269
Due after 6 months but within 12 months	**—**	4,984
	202,753	159,477

11 Capital commitments

Capital commitments in respect of purchase of property, plant and equipment outstanding at 30 June 2008 and 31 December 2007 but not provided for in the interim financial report were as follows:

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Contracted for	**8,160**	33,789
Authorised but not contracted for	**—**	39,500
	8,160	73,289

12 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 2008, 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 (2007: 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	
	2008 RMB'000	2007 RMB'000
Short-term employee benefits	**740**	728
Post-employment benefits	**11**	9
Discretionary bonuses	**—**	—
	751	737

(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 RMB1,832,000 for the six months ended 30 June 2008 (six months ended 30 June 2007: RMB1,010,000). As at 30 June 2008 and 31 December 2007, there was no material outstanding contribution to post-employment benefit plans.

Industry overview

In a world economy which has become unstable following the US sub-prime mortgage crisis, there has been a slow down in demand for linen products in the US and the European Union. A substantial increase in prices of imported raw materials has also led to the increase of production costs for linen products. These factors combined with the appreciation of RMB have affected the export of China's linen products, bringing serious challenges to the linen yarn industry in China.

As a leading linen yarn enterprise, the Company strives to develop high-end linen products and move towards the upstream production of raw materials for linen. At the same time, the Company has actively improved its operational efficiency and strengthened its production costs control, with the aim of being well prepared for future development and restoring its profitability.

Business review

Overall performance

In light of the slow down in the demand for linen products in the US and European countries, the Group has adjusted its market strategy and increased its emphasis on domestic selling efforts and the domestic share of overall sales, so as to minimize the impact of tougher European and American markets on the Group. During the period under review, the Group recorded a total sales of 3,326 tons, of which domestic sales amounted to 1,577 tons, representing an increase of approximately 26% over the same period last year. In respect of exports, the Company continued to maintain its leading position in exports in China,where its volume of exports, represent approximately 29% of the national export volume of linen yarns.

For the six months ended 30 June 2008, the Group recorded a turnover of approximately RMB178 million. As a result of the price increases in imported raw materials, salary, transportation and other production costs over the same period last year, the gross profit for the six months ended 30 June 2008 reduced to approximately RMB27 million. The loss attributable to shareholders for the six months ended 30 June 2008 amounted to approximately RMB8 million, and the basic earnings per Share were a loss of RMB0.01.

Expanding into the upstream production of raw materials

The construction of the first phase of the Group's raw material plants in Zhaosu County, Xinjiang Province, China, was completed and put into trial production during the period under review. This should enable the Group to reduce its overall production costs. It is expected that the production volume of the Group's scutched flax will reach approximately 1,000 tons for the second half of the year. The Company has entered its period of certification renewals for scutched flax, and it is anticipated that the Company will produce organic scutched flax products in 2009. As European production equipment and technologies have been introduced into the Group's production process, the quality of the scutched flax produced can rival those produced in the Europe and the US. In addition to the quality improvement of the Group's linen products, its economic benefit is expected to be realized from the second half of 2008.

Developing overseas markets

In response to the market challenges brought by the economic slow down, the Group has developed its overseas operations during the period under review. The Italian subsidiary established by the Group in the end of 2007 has finished all preparation works and formally commenced sales, which provided the Group with a solid foundation for expanding the Italian and European market. In respect of the non-European Union market, as well as seeking potential agents in Turkey during the period under review, the Group also strengthened its selling efforts in India and Japan so as to increase its local market shares, with the aim of increasing turnover of the Group for the second half of 2008.

Product research and development

In order to further improve its production facilities and technology, the Group recruited additional domestic and overseas technical experts to enhance its capability in research and development during the period under review. Furthermore, the Company cooperated with Donghua University to carry out certain joint development projects with self-owned intellectual property rights, which reduce labor costs and enhanced productivity by increasing the spinnability of raw materials and improving the level of automation in production.

Moreover, the Group has successfully developed innovative products such as colored linen spun yarn and slubby yarn during the period under review. The Group successfully applied for patents for these two types of product, which further broadened the Group's high-end product offerings.

Expansion of scale

The equipment instalment for the Group's new differential linen yarn plants located in Jiangsu Province with a site area of approximately 28,800 square meters has almost completed. Part of the equipment has been put into production by the end of August 2008, and the remaining is expected to commence operation by end of September 2008. It is expected that the output for the year of 2008 will amount to approximately 1,000 tons. The new production base will effectively expand the Group's production scale and improve its operational efficiency, so as to make the Group well prepared for future development.

Financial review

Turnover

For the six months ended 30 June 2008, the Group's turnover amounted to approximately RMB178,302,000 (first half of 2007: RMB231,066,000). The decrease in turnover was mainly due to the slow down of the global demand for linen yarns as a result of the weakening world economy, which directly affected the export volume of linen yarns.

Gross profit

For the six months ended 30 June 2008, as a result of the price increase in raw materials of approximately 24%, plus the exchange loss arising from RMB appreciation, the Group recorded a gross profit of approximately RMB27,315,000 (first half of 2007: RMB53,943,000), and the gross profit margin amounted to approximately 15.3% (first half 2007: 23.3%).

Expenses

The Group's selling and distribution expenses amounted to RMB8,933,000 (first half of 2007: RMB7,676,000), and accounted for approximately 5.0% of the Group's turnover for the six months ended 30 June 2008 (first half of 2007: 3.3%).

The Group's administrative expenses amounted to approximately RMB18,585,000 (first half of 2007: RMB17,529,000), and accounted for approximately 10.4% of the Group's turnover for the six months ended 30 June 2008 (first half of 2007: 7.6%). Administrative expenses increased by approximately 6.0% over the first half of 2007, which was mainly due to the increase in the number of staff, as well as the increase in office expenses and other outgoings.

Net finance costs for the six months ended 30 June 2008 amounted to approximately RMB6,491,000 (first half of 2007: RMB7,398,000).

(Loss)/Profit attributable to shareholders

For the six months ended 30 June 2008, the Group's loss attributable to shareholders amounted to approximately RMB8,060,000 (profit attributable to shareholders for the first half of 2007: approximately RMB17,365,000). For the six months ended 30 June 2008, the Group's net loss margin was 4.5% (net profit margin in first half of 2007: 7.5%). The Group's net loss margin in the first half of 2008 was attributable to the decrease in gross profit margin and the increase in selling and distribution expenses and administrative expenses.

Liquidity and financial resources

As at 30 June 2008, the Group had net current assets of RMB273,474,000 (31 December 2007: RMB343,159,000). The Group finances its operations with internally generated resources and bank borrowings. As at 30 June 2008, the Group had cash and bank deposits of RMB100,360,000 (31 December 2007: RMB158,256,000). The current ratio of the Group was 153.3% (31 December 2007: 185.0%).

Shareholders' funds of the Group as at 30 June 2008 were RMB650,754,000 (31 December 2007: RMB674,226,000). As at 30 June 2008, the bank borrowings of the Group, repayable within 12 months from the balance sheet date, amounted to RMB280,905,000 (31 December 2007:RMB205,714,000), while long-term borrowings amounted to RMB75,000,000 (31 December 2007: RMB75,000,000), together aggregating a gross debt gearing (i.e. total borrowings/shareholders' fund) of 54.7% (31 December 2007: 41.6%).

As at 30 June 2008, other than the bank borrowings already utilized, the Group has obtained facilities granted by certain banks in the amount of RMB181,469,000.

Charges on group assets

As at 30 June 2008, the Group's bank deposits of RMB98,417,000 had been pledged to banks as security for the Group's bank loans and other banking facilities. The pledge of the Group's bank deposits will be released upon full repayment of the bank loans. In addition, properties, plants and equipment and land use rights with an aggregate carrying amount of RMB97,498,000 and RMB31,212,000 respectively were pledged as security for the Group's bank loans.

Capital commitments

Capital commitments in respect of purchases of property, plant and equipment outstanding as at 30 June 2008 but not provided for in the consolidated financial statements were RMB8,160,000.

Contingent liabilities

As at 30 June 2008, the Group had no contingent liabilities.

Foreign exchange risks

The Group is exposed to currency risks primarily through sales, purchases and borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States Dollars, Euro and Hong Kong Dollars.

The following table sets out the Group's exposure at the balance sheet date to currency risk arising from assets or liabilities denominated in a currency other than the functional currency.

	USD'000	EUR'000	HKD'000
Trade and other receivables	5,898	1,207	—
Bank deposits	1,970	81	23,114
Trade and other payables	(17,572)	(49)	—
Bank borrowings	(11,159)	(845)	—

Staff policy

As at 30 June 2008, the Group had a total of 2,616 employees. Total staff costs incurred during the six months ended 30 June 2008 amounted to RMB32,640,000. 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

In order to capitalize upon opportunities brought by increased demand for linen products in emerging markets such as China, India and Brazil, the Group remains committed to improving the quality of products and services and at the same time strengthening its selling efforts, so as to actively increase its market share in emerging markets while maintaining the existing overseas market share. Also, by establishing overseas subsidiaries as the Group's overseas sales network, it is expected that the Group will continue to consolidate the position and brand awareness of the Company in the world. With respect to its products, the Group will continue to focus on the development of high count and diverse linen yarns, while researching and developing quality products with higher counts to broaden its product range. With the strong cost and quality control and increased upstream raw material production for our product, the Group's profitability should be enhanced.

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

As at 30 June 2008, 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	277,432,000	280,588,000	45.08
Mr. Ngan Kam Wai Albert	—	64,800,000	64,800,000	10.41

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 277,432,000 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.*

Interests and short positions of substantial shareholders

So far as is known to any Director, as at 30 June 2008, 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	277,432,000	44.57
Millionfull International Co., Ltd. ("Millionfull")	Beneficial owner	64,800,000	10.41
Caledonia Investments plc	Beneficial owner	66,825,000	10.73
ABN AMRO Bank N.V.	Beneficial owner	31,034,000	4.99
ABN AMRO Holding N.V.	Interest in controlled corporation *(Note)*	31,034,000	4.99
RFS Holdings B.V.	Interest in controlled corporation *(Note)*	31,034,000	4.99
The Royal Bank of Scotland Group plc	Interest in controlled corporation *(Note)*	31,034,000	4.99
Altantis Investment Management Limited	Investment manager	37,608,000	6.04

Note: ABN AMRO Bank N.V. ("ABN Bank") is a wholly owned subsidiary of ABN AMRO Holding N.V. ("ABN Holding"), which in turn a subsidiary of RFS Holdings B.V. ("RFS Holdings"). The Royal Bank of Scotland Group plc ("RFS Group") owns 38.28% of RFS Holdings. Each of ABN Holdings, RFS Holdings and RBS Group is deemed under the SFO to be interested in the 31,034,000 shares of the Company held by ABN Bank.

As disclosed above, as at 30 June 2008, 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 2008, 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 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Interim dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008.

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 2008.

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 regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of 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 2008.

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 2008, save and except for the following deviation:

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.

Appreciation

The chairman of the Company would like to take this opportunity to thank his fellow directors for their invaluable advice and guidance, and to each and every one of the staff of the Group for their hard work and loyalty to the Group.

By Order of the Board
Kingdom Holdings Limited
Ren Wei Ming
Chairman

Haiyan County, PRC, 5 September 2008