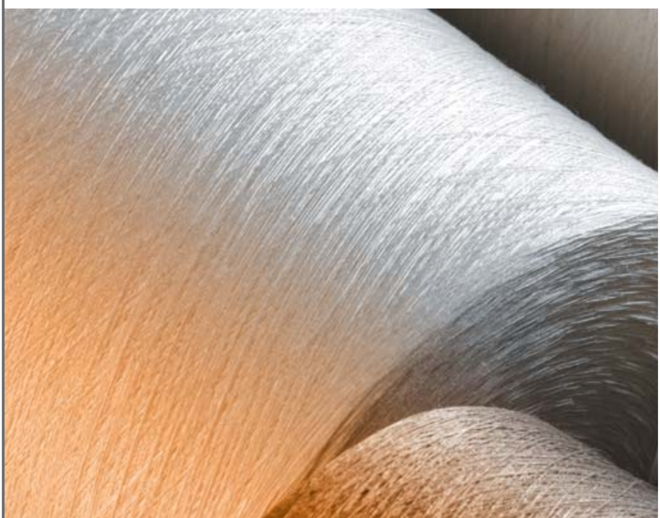
KINGDOM

INTERIM REPORT

2007



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 2007

Introduction

We have reviewed the interim financial report set out on pages 4 to 22 which comprises the consolidated balance sheet of Kingdom Holdings Limited as of 30 June 2007 and the related consolidated income statements, consolidated statement of changes in equity and condensed consolidated cash flows 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 the 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 2007 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

14 September 2007

Consolidated Income Statement

for the six months ended 30 June 2007 (unaudited)
(Expressed in Renminbi)

	Note	Six months ended 30 June **2007** RMB'000	2006 RMB'000
Turnover	3	**231,066**	219,612
Cost of sales		**(177,123)**	(153,852)
Gross profit		**53,943**	65,760
Other operating income		**179**	262
Distribution expenses		**(7,676)**	(7,845)
Administrative expenses		**(17,529)**	(9,207)
Other operating expenses		**(1,038)**	(253)
Profit from operations		**27,879**	48,717
Net finance costs		**(7,398)**	(8,367)
Profit before taxation	3, 4	**20,481**	40,350
Taxation	5	**(3,116)**	(1,287)
Profit for the period		**17,365**	39,063
Attributable to:			
Equity holders of the Company		**17,365**	39,408
Minority interest		**—**	(345)
Profit for the period		**17,365**	39,063
Basic and diluted earnings per share (RMB)	7	**RMB0.03**	RMB0.09

The notes on pages 9 to 22 form part of this unaudited interim financial report.

Consolidated Balance Sheet

As at 30 June 2007 (unaudited)
(Expressed in Renminbi)

	Note	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Non-current assets			
Lease prepayments		**38,472**	37,684
Property, plant and equipment	8	**319,501**	302,373
Deferred tax assets		**694**	—
		358,667	340,057
Current assets			
Inventories		**239,832**	164,671
Prepaid income tax		**—**	122
Trade and other receivables, deposits and prepayments	9	**155,936**	171,934
Pledged bank deposits		**67,321**	75,426
Cash and cash equivalents	10	**199,971**	330,010
		663,060	742,163
Current liabilities			
Bank loans		**95,500**	193,800
Trade payables, other payables and accruals	11	**188,297**	210,882
Tax payable		**1,371**	—
		285,168	404,682

Consolidated Balance Sheet *(Continued)*

As at 30 June 2007 (unaudited)
(Expressed in Renminbi)

	Note	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Net current assets		**377,892**	337,481
Total assets less current liabilities		**736,559**	677,538
Non-current liabilities			
Bank loans		**90,000**	25,000
Net assets		**646,559**	652,538
Capital and reserves			
Share capital		**6,272**	6,272
Reserves		**640,287**	646,266
Total equity-attributable to equity holders of the Company		**646,559**	652,538

Approved and authorised for issue by the board of directors on 14 September 2007.

Ren Wei Ming)
) Directors
Shen Yueming)

The notes on pages 9 to 22 form part of this unaudited interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2007 (unaudited)
(Expressed in Renminbi)

	Attributable to equity holders of the Company							
	Share capital	**Share premium**	**Capital reserve**	**Merger reserve**	**PRC statutory reserve**	**Retained earnings**	**Minority interests**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2006	1,318	165,339	30,167	—	14,265	76,474	1,873	289,436
Profit for the period	—	—	—	—	—	39,408	(345)	39,063
Acquisition of interest in a subsidiary from a minority shareholder	—	—	—	—	—	—	(1,528)	(1,528)
As at 30 June 2006	1,318	165,339	30,167	—	14,265	115,882	—	326,971
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 and paid during the period (note 6)	—	—	—	—	—	(23,344)	—	(23,344)
As at 30 June 2007	6,272	268,001	—	196,816	27,128	148,342	—	646,559

The notes on pages 9 to 22 form part of this unaudited interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2007 (unaudited)
(Expressed in Renminbi)

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Net cash used in operating activities	**(62,222)**	(1,283)
Net cash used in investing activities	**(27,176)**	(44,686)
Net cash (used in)/generated from financing activities	**(39,721)**	14,695
Net decrease in cash and cash equivalents	**(129,119)**	(31,274)
Cash and cash equivalents at 1 January	**330,010**	60,566
Effect of foreign exchange rates changes	**(920)**	—
Cash and cash equivalents at 30 June	**199,971**	29,292

The notes on pages 9 to 22 form part of this unaudited interim financial report.

1 Reorganisation

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. Pursuant to a reorganisation (the "Reorganisation") of the Company and its subsidiaries (collectively referred to as the "Group") on 23 November 2006 to rationalise the group structure in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries now comprising the Group. The shares of the Company were listed on the Stock Exchange on 12 December 2006.

Details of the Reorganisation are set out in the Prospectus of the Company dated 30 November 2006.

The Group is regarded as a continuing entity resulting from the Reorganisation of entities under common control. The interim financial report has been prepared on the basis that the Company was the holding company of the Group for both periods presented, rather than from the date when the Company became the holding company of the Group pursuant to the Reorganisation. Accordingly, the consolidated results of the Group for the six months ended 30 June 2006 include the results of the Company and its subsidiaries with effect from 1 January 2006 or, if later, since their respective dates of incorporation or the date that common control was established as if the current group structure had been in existence throughout the two periods presented. All material intra-group transactions and balances have been eliminated on consolidation.

2 Basis of preparation

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.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements.

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 2006 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, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2006.

2 Basis of preparation (continued)

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 to 3.

The financial information relating to the financial year ended 31 December 2006 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 2006 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 19 April 2007.

3 Segment reporting

The Group's turnover and operating results are almost entirely generated from the manufacture and sales of linen yarns. Accordingly, no business segment analysis is provided. In presenting the information on the basis 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.

3 Segment reporting (continued)

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

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Turnover		
PRC	**64,054**	86,992
Overseas		
- European Union	**89,183**	89,661
- Non-European Union	**77,829**	42,959
Total	**231,066**	219,612
Segment results		
PRC	**9,267**	18,453
Overseas		
- European Union	**25,255**	31,890
- Non-European Union	**17,371**	12,652
Total	**51,893**	62,995
Unallocated operating income and expenses	**(24,014)**	(14,278)
Profit from operations	**27,879**	48,717
Net finance costs	**(7,398)**	(8,367)
Taxation	**(3,116)**	(1,287)
Profit for the period	**17,365**	39,063

4 Profit before taxation

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

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Interest expenses on bank loans	**5,411**	7,756
Depreciation	**15,150**	13,356
Amortisation of lease prepayments	**394**	366
Provision for/(reversal of) inventories	**690**	(178)
Allowance for doubtful debts	**624**	147

5 Taxation

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Provision for PRC income tax	**3,931**	3,505
Income tax refund	**—**	(2,218)
Over-provision in prior year	**(121)**	—
	3,810	1,287
Changes in deferred taxes	**(694)**	—
	3,116	1,287

5 Taxation (continued)

(i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.

(ii) No provision has been made for Hong Kong profits tax during the six months ended 30 June 2007 and 2006 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 applicable rates on the estimated assessable income of the Group's subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC. The applicable tax rates of the Group's operating subsidiaries in the PRC ranged from 24% to 33%. Pursuant to the income tax rules and regulations of the PRC, certain subsidiaries located in the PRC 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.

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 new enterprise income tax rates for all companies in the PRC are unified at 25% effective from 1 January 2008. Pursuant to the grandfathering arrangement under the New Tax Law, the Group's subsidiaries in the PRC will continue to enjoy the existing preferential tax treatment until the end of above mentioned tax holiday. Thereafter, they are subject to the unified tax rate of 25%. Deferred tax is recognized based on the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

6 Dividends

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	
	2007	2006
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the period, of RMB 0.0375 per share (year ended 31 December 2005: Nil)	**23,344**	—
	23,344	—

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2007 (2006: Nil).

7 Basic and diluted earnings per share

The calculation of basic and diluted earnings per share is based on the profit attributable to equity holders of the Company of RMB17,365,000 (six months ended 30 June 2006: RMB39,408,000) and the weighted average number of 622,500,000 (2006: 450,000,000) ordinary shares in issue during the period.

The weighted average number of shares used to calculate the basic earnings per share for the six months ended 30 June 2006 included 750,000 ordinary shares in issue as at the date of the prospectus of the Company and 449,250,000 ordinary shares issued upon the listing of the Company's shares on the Stock Exchange of Hong Kong Limited pursuant to a capitalisation issue authorized in a board resolution dated 15 November 2006, as if such shares were outstanding on 1 January 2006.

No dilutive potential ordinary shares were in issue as at 30 June 2007 (2006: Nil).

8 Property, plant and equipment

	2007	2006
	RMB'000	RMB'000
Cost:		
Balance at 1 January	**349,129**	285,762
Acquisitions for the period/year	**32,470**	64,733
Disposals for the period/year	**(218)**	(1,366)
Balance at 30 June/31 December	**381,381**	349,129
Depreciation:		
Balance at 1 January	**46,756**	21,373
Depreciation charge for the period/year	**15,150**	25,990
Disposals for the period/year	**(26)**	(607)
Balance at 30 June/31 December	**61,880**	46,756
Net book value:		
At 30 June/31 December	**319,501**	302,373

9 Trade and other receivables, deposits and prepayments

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Trade and bills receivable	**131,760**	152,372
Other receivables	**15,878**	11,126
Deposits and prepayments	**8,298**	8,436
	155,936	171,934

The Group normally allows a credit period ranging from 30 days to 180 days to its 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 2007 RMB'000	At 31 December 2006 RMB'000
Within 1 month	**52,490**	72,281
Over 1 month but less than 3 months	**57,146**	56,731
Over 3 months but less than 6 months	**14,527**	14,671
Over 6 months but less than 12 months	**6,073**	7,974
Over 12 months	**1,524**	715
	131,760	152,372

10 Cash and cash equivalents

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Deposits with banks within three months of maturity	—	4,000
Cash at bank and in hand	**199,971**	326,010
	199,971	330,010

11 Trade payables, other payables and accruals

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Trade and bills payable	**147,652**	173,674
Other payables and accruals	**40,545**	36,818
Amount due to a related party	**100**	390
	188,297	210,882

Amount due to a related party as at 30 June 2007 represents balance arising from the transaction entered with a related party during the six months ended 30 June 2007 set out in note 13(a)(i). The balance is unsecured, interest-free and repayable on demand.

11 Trade payables, other payables and accruals (continued)

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

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Within 1 month	**18,162**	83,383
Over 1 month but less than 3 months	**124,885**	27,023
Over 3 months but less than 6 months	**3,293**	61,138
Over 6 months but less than 12 months	**931**	1,543
Over 12 months	**381**	587
	147,652	173,674

12 Capital commitments

Capital commitments in respect of purchase of property, plant and equipment outstanding at 30 June 2007 and 31 December 2006 but not provided for in the interim financial report were as follows:

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Contracted for	**52,134**	8,650

(Expressed in Renminbi)

13 Related party transactions

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

(i) During the six months ended 30 June 2007, the Group leased an office premise located in the PRC from Zhejiang Kingdom Creative Co., Ltd ("Kingdom Creative") and paid operating lease charges of RMB100,000 (2006: RMB100,000) to Kingdom Creative. Mr Ren Wei Ming, the ultimate controller of the Group, also has controlling equity interests over Kingdom Creative.

(ii) In addition to the transactions disclosed in note 13(a)(i) above, the Group also entered into the following transactions with Kingdom Creative, Haiyan Kingdom Import and Export Co., Ltd. ("Kingdom Import and Export") and Unique Source Chem-Textile Group, Inc. ("Unique Source") during the six months ended 30 June 2006. Mr Ren Wei Ming had controlling equity interests over Kingdom Import and Export. Unique Source is one of the Company's shareholders. These transactions were discontinued after the listing of the Company's shares on the Stock Exchange of Hong Kong Limited on 12 December 2006.

	Six months ended 30 June 2006
Transactions with Kingdom Creative:	
- Sales of goods	1,862
- Sales of fixed assets	710
- Purchase of fixed assets	14,178
- Purchase of land use rights	3,646
- Utility fee paid by the Group on behalf	712
- Sewage processing fee charged	1,706
Transaction with Unique Source:	
- Purchase of raw materials	2,736
Transactions with Kingdom Import and Export	
- Sales of goods	3,809

13 Related party transactions (continued)

(b) Transactions with key management personnel

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Short-term employee benefits	**728**	510
Post-employment benefits	**9**	2
Discretionary bonuses	**—**	—
	737	512

(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 RMB1,010,000 for the six months ended 30 June 2007 (six months ended 30 June 2006: RMB743,000). As at 30 June 2007 and 31 December 2006, there was no material outstanding contribution to post-employment benefit plans.

Overall Performance

For the six months ended 30 June 2007, turnover of the Group reached RMB231.1 million, an increase of 5.2% from RMB219.6 million for the same period last year. Gross profit margin decreased from 29.9% to 23.3%. Profit attributable to equity shareholders decreased by 55.9% to RMB17.4 million, compared with RMB39.4 million for the six months ended 30 June 2006. Basic earnings per share for the six months ended 30 June 2007 was RMB0.03 (six months ended 30 June 2006: RMB0.09).

Business Review

The Group is principally engaged in the manufacture and sale of linen yarns. The Group's products include yarns with counts ranging from 8.5 Nm to 60 Nm, which are sold and marketed under the brands of "紫薇", "Crape Myrtle" and "Kingdom" to domestic and overseas markets. The Group's main overseas markets include Italy, South Korea, Russia and Turkey.

At present, the Group's production capacity for linen yarns is over 10,000 tons per annum. The Directors believe that the Group is one of the largest linen yarn manufacturers in the world. Flat sales to the European Union ("EU") continued to restrict the Group's overall turnover growth in the first 6 months of 2007. However, export sales to non-EU countries were significantly higher in the first 6 months of 2007 than that of the same period last year and the Group continued to rank number one among PRC enterprises for the export of linen yarns for the six months ended 30 June 2007. Domestic sales were significatly lower than that of the same period last year.

In the first half of 2007, the linen yarn industry operated under a much more challenging environment. In addition to EU quota restriction, sharp rises in the price of raw materials, the revaluation of RMB, a fall in tax refunds on export sales and intense pricing pressure for domestic sales all continued to decrease the gross profit margin of the Group for the six months ended 30 June 2007. In response to these pressures, the Group has been striving to maintain the price level of its products in the first half of 2007. Furthermore, the Group has also been increasing its efforts on its export sales, which provides higher gross profit margin than that of domestic sales.

Prospects

As mentioned in the 2006 Annual Report, the Group plans to invest in new production facilities and cultivation of flax, which is the raw material of linen yarns. In Rugao, the construction of the new factory is almost completed, and the purchase of equipment and machines are still in progress. The Directors believe that the investment of around RMB130 million for this new factory will increase the production capacity of the Group and diversify the Group's product range strategically.

The construction of the Group's new factory in Xinjiang proceeds to plan, and the new factory is expected to commence production of scutched flax out of locally grown flax in 2008. This project, costing around RMB60 million, will reduce the Group's dependence on external suppliers of scutched flax and exposure to raw material pricing risk.

Recently the Group has also taken steps to strengthen and invest in its European sales resource with a view to increasing the European sales.

The effect of the above investments may not be crystalised in the short term but will in the long run put the Group in a stronger position to restore profit margins and increase EU sales after the lifting of quota restriction in 2008.

Financial Review

Turnover

For the six months ended 30 June 2007, the Group's turnover amounted to approximately RMB231,066,000 (first half of 2006: RMB219,612,000). The increase in turnover was due to the Group's continued increase in focus on developing the non-EU market to cope with quota restriction on exports to the EU countries and fierce price-competition of the domestic market.

Gross Profits

The Group's gross profit for the six months ended 30 June 2007 amounted to approximately RMB53,943,000 (first half of 2006: RMB65,760,000) with a gross profit margin of approximately 23.3%, a significant decrease of 6.6% from that for the same period last year. This was mainly due to the fact that the price of imported scutched flax, which is the raw material and major cost component of linen yarn, increased by over 20%.

Profit attributable to shareholders

The Group's profit attributable to equity holders of the Company for the six months ended 30 June 2007 amounted to approximately RMB17,365,000 (first half of 2006: RMB39,408,000), a decrease of approximately 55.9% compared to that of the same period of 2006. The Group's net profit margin for the six months ended 30 June 2007 was approximately 7.5% (first half of 2006: 17.8%). The decrease from the previous year was a result of the decrease in gross profit margin, increase in administrative expenses and the effect of income tax.

Expenses

The Group's selling and distribution expenses amounted to approximately RMB7,676,000 (first half of 2006: RMB7,845,000), and accounted for approximately 3.3% of the turnover for the six months ended 30 June 2007 (first half of 2006: 3.6%).

The Group's administrative expenses amounted to approximately RMB17,529,000 (first half of 2006: RMB9,207,000), and accounted for approximately 7.6% of the turnover for the six months ended 30 June 2007 (first half of 2006: 4.2%). Administrative expenses increased by approximately 90.4% over the six months ended 30 June 2006, which was mainly due to the increase in the number of directors and other management staff and their remuneration, as well as the increase in office expenses and other miscellaneous items.

Net finance costs were approximately RMB7,398,000 for the six months ended 30 June 2007 (first half of 2006: RMB8,367,000). Finance costs decreased by approximately 11.6% from that for the six months ended 30 June 2006, despite the increase in interest rate on borrowings, due to the decrease in bank borrowings.

Charges on Group's assets

As at 30 June 2007, the Group's bank deposits of RMB67,321,000 had been pledged to banks as security for the Group's bank loans and other banking facilities. The pledged bank deposits will be released upon the termination of relevant banking facilities. In addition, certain properties and equipment and certain land use rights with an aggregate carrying amount of RMB101,974,000 and RMB32,089,000 respectively were pledged as security for the Group's bank loans.

Capital commitments

As at 30 June 2007, the Group's contracted capital commitments in respect of purchase of property, plant and equipment outstanding, but not provided for in the consolidated financial statements was RMB52,134,000.

Contingent liabilities

As at 30 June 2007, the Group has no contingent liabilities.

Staff policy

As at 30 June 2007, the Group had a total of 2,555 employees. Total staff costs incurred during the six months ended 30 June 2007 amounted to RMB28,797,000. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefits package 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.

Important event after balance sheet date

There is no important event affecting the Group which has occurred since 1 July 2007.

Liquidity and financial resources

As at 30 June 2007, the Group had net current assets of approximately RMB377,892,000 (31 December 2006: RMB337,481,000). The Group finances its operations with internally generated resources and bank borrowings. As at 30 June 2007, the Group had cash and bank deposits of approximately RMB199,971,000 (31 December 2006: RMB330,010,000). The current ratio of the Group was approximately 232.5% (31 December 2006: 183.4%).

Shareholders' fund of the Group as at 30 June 2007 was approximately RMB646,559,000 (31 December 2006: RMB652,538,000). As at 30 June 2007, the bank borrowings of the Group, repayable within 12 months from the balance sheet date amounted to approximately RMB95,500,000 (31 December 2006: RMB193,800,000) while long-term borrowings amounted to approximately RMB90,000,000 (31 December 2006: RMB25,000,000), together giving a gross debt gearing (i.e. total borrowings/shareholders' fund) of approximately 28.7% (31 December 2006: 33.5%).

As at 30 June 2007, the maturity profile of non-current bank borrowings of the Group is as follows:

	RMB'000
Repayable	
Within 1 year	5,000
Over 1 year but less than 2 years	30,000
Over 2 years but less than 5 years	60,000
	90,000
	95,000

As at 30 June 2007, other than the bank borrowings already utilized, the Group had the facility granted by certain banks in the amount of RMB225 million.

The financial strength of the Group has been greatly improved after its listing on the Stock Exchange. The Board believes that taking into account the capital expenditures to be made within 2007, the Group's existing financial resources will be sufficient for the Group's future expansion plans.

Treasury policies

The Group's treasury activities were managed centrally at the corporate level by managing the financial risks, such as interest rate and foreign exchange risks, and for providing cost efficient funding to the Group as a whole.

As at 30 June 2007, the Group's bank borrowings were mainly denominated in Renminbi and US dollars whilst the Group's cash and cash equivalents were mainly denominated in Renminbi, US dollars and Hong Kong dollars. Approximately 49% of the Group's bank borrowings bear interest on fixed rates.

The Group has constantly monitored its interest rate and foreign exchange exposure. For the year ended 30 June 2007, the Group had not adopted any instrument for hedging purpose. Neither had the Group had any foreign currency net investment.

The Group's transactions and currencies are mainly denominated in Renminbi, US dollars and Hong Kong dollars. The operating expenses of the Group's PRC subsidiaries are mainly denominated in Renminbi, and the Group's domestic sales are denominated in Renminbi. Although the People's Bank of China announced that a new system of floating exchange rate for Renminbi be adopted from July 2005, the Group is of the view that it represents a normal adjustment to the prior value of the Renminbi, and whether or not Renminbi will appreciate is a question closely links to the development of the national economy. With the continued development of the economy of the PRC, the Group anticipates that Renminbi will appreciate further. The assets, profit and dividend of the Group will be subject to the impact of the fluctuations of exchange rate of Renminbi.

Use of proceeds from the company's initial public offering

The Company was listed on the Stock Exchange on 12 December 2006, in connection with which a total of HK$301.875 million was raised from the Company's initial public offering. Some of the proceeds have been used to finance the construction of the aforesaid factory in each of Rugao and Xinjiang and to repay bank loans. The balance of the proceeds are currently placed with licensed banks in Hong Kong and the PRC, are intended to be applied in the following manner:

— construction of the said new factory in Rugao;

— construction of the said new factory in Xinjiang for the manufacture of flax fibres; and

— general working capital of the Group.

Segmental analysis

As the gross profit margin of overseas market is higher than that of the domestic market, the Group has been focusing on increasing the portion of its overseas sales. For the six months ended 30 June 2007, the Group successfully developed the non-EU market by sharply increased the sales to non-EU market by approximately 81.2% from RMB42,959,000 for the six months ended 30 June 2006 to RMB77,829,000 for the six months ended 30 June 2007. Due to the said shift in focus, domestic sales for the six months ended 30 June 2007 reduced by approximately 26.4% from that of the same period last year to RMB64,054,000. Despite of the decrease in domestic sales, the success in non-EU market resulted in the total turnover of Group increased by 5.2%. By strategically change the market focus in the more profitable overseas market, the negative impact of the price of raw materials on gross profit margin was partly alleviated.

Material acquisitions or disposals

There was no material acquisition or disposal of the Company's subsidiaries and associated companies during the six months ended 30 June 2007.

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

As at 30 June 2007, 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	Capacity	Number of Shares	Approximate percentage of issued share capital of the Company (%)
Mr. Ren Wei Ming	Interest in controlled corporation *(Note 1)*	273,600,000	43.95
Mr. Ngan Kam Wai Albert	Interest in controlled corporation *(Note 2)*	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). Mr. Ren therefore held a controlling interest in Kingdom Investment (BVI) and was deemed under the SFO to be interested in the Shares held by Kingdom Investment (BVI).*

2. *Mr. Ngan Kam Wai Albert held approximately 51% of the issued share capital of Millionfull (as defined below). Mr. Ngan therefore held a controlling interest in Millionfull and was deemed under the SFO to be interested in the Shares held by Millionfull.*

Interests and short positions of substantial shareholders

The following is a complete list showing those persons, 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 as recorded in the register required to be kept under Section 336 of the SFO as at 30 June 2007:

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	273,600,000	43.95
Millionfull International Co., Ltd. ("Millionfull")	Beneficial owner	64,800,000	10.41
Caledonia Investments plc	Beneficial owner	66,825,000	10.73
ABN AMRO Holding N.V.	Interest in controlled corporation *(Note)*	48,672,000	7.82
Altantis Investment Management Limited	Investment manager	31,300,000	5.03

Note: ABN AMRO Holding N.V. held the entire issued share capital of ABN AMRO Bank N.V. ABN AMRO Holding N.V. was therefore deemed under the SFO to be interested in 48,672,000 Shares held by ABN AMRO Bank N.V.

Short position in Shares

Name of shareholder	Capacity	Number of Shares	Approximate percentage of issued share capital (%)
ABN AMRO Holding N.V.	Interest in controlled corporation *(Note)*	20,000,000	3.21

Note: ABN AMRO Holding N.V. held the entire issued share capital of ABN AMRO Bank N.V. ABN AMRO Holding N.V. was therefore deemed under the SFO to have the short position of 20,000,000 Shares held by ABN AMRO Bank N.V.

Share options

Since the adoption of the Company's share option scheme and up to 30 June 2007, 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 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Dividend

Pursuant to the resolution passed at the meeting of the Board, no interim dividend has been declared for the six months ended 30 June 2007.

Corporate governance

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 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 2007, save and except that (i) the roles of the Chairman and Chief Executive are vested in the same person (Code Provision A.2.1); and (ii) the Company has not issued any written guidelines for relevant employees in respect of their dealings in the securities of the Company (Code Provision A.5.4). Reasons for the deviations were set out in the Corporate Governance Report contained in the 2006 Annual Report.

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 enquiries of all Directors, all Directors confirmed 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 2007.

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 for the six months ended 30 June 2007.

Appreciation

The Chairman of the Group 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
Ren Wei Ming
Chairman

Haiyan County, PRC, 17 September 2007