KINGDOM

ANNUAL REPORT

2006 年報

金達控股有限公司
（於開曼群島註冊成立的有限公司）
(股票代號 : 528)

KINGDOM HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)
(Stock code : 528)

Contents

Corporate Information

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Mr. Ngan Kam Wai Albert
Mr. John Michael May

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yang Donghui
Mr. Yu Chongwen
Mr. Lau Ying Kit

QUALIFIED ACCOUNTANT & COMPANY SECRETARY

Mr. Cheng Yee Fai, Fred FCPA, CA

REGISTERED OFFICE

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

PLACE OF BUSINESS IN HONG KONG

Unit 12, 27th Floor
Seapower Tower
Concordia Plaza
No.1 Science Museum Road
Kowloon
Hong Kong

AUDITORS

KPMG

LEGAL ADVISORS

Johnson Stokes & Master

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

528

On behalf of the board of directors (the "Board") of Kingdom Holdings Limited ("Kingdom" or the "Company") and its subsidiaries (together the "Group"), I am pleased to report that the Group achieved steady growth in 2006, and our turnover amounted to RMB537,364,000 (2005: RMB452,349,000), and our profit attributable to shareholders amounted to RMB90,710,000 (2005: RMB91,749,000).

Review of operations

For the financial year ended 31 December 2006, with our established strength, experience and vision, the results we achieved were outstanding. We had a number of enviable achievements during the year, which brought about a lot of opportunities.

We were listed on the Main Board of the Hong Kong Stock Exchange on 12 December 2006, thus becoming the first company in Haiyan County to be listed. This enhanced our international and brand name recognition and facilitated the expansion of our business in the international market. It has also improved our ability to recruit management and our corporate governance and management standards. The listing gave us access to capital for our future development and marks a milestone for Kingdom in the growth of its business.

Currently, our scale of production for linen yarns has reached 52,000 spindles, thus placing us as one of the largest linen yarns manufacturers in the world. By having the technical guidance of overseas experts and the innovative capability of our staff, the quality of linen yarns has been markedly improved, especially for high-count products so that the total sales volume of high-count products had almost doubled comparing to that in 2005.

Looking forward, through the platform available to us through listing, the Company will move forward to face the challenge of the future with more resources, and our operations will grow more rapidly. The Group will continue with its expansion both horizontally and vertically and work together with our business partners in order to sustain growth and quicken our pace in product development and technological innovation. We have a strong capital base; we shall enhance our brand name value and develop our people to increase our core competitiveness and we shall work hard to explore new markets both domestically and overseas and strive to improve our cost-effectiveness and overall strong market position.

Acknowledgement

On behalf of the Board, I would like to express my heart-felt gratitude to our customers, suppliers, banks, business partners and shareholders for their continued support and trust, and to the dedicated work of our staff of companies in the Group. The achievements of the Group are the direct result of the efforts and commitment of our staff.

Ren Wei Ming
Chairman

Haiyan County, PRC, 19 April 2007

BUSINESS REVIEW

The Group is principally engaged in the manufacture and sale of linen yarns. The Group is the largest exporter of linen yarns in the PRC. The products of the Group 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, India, Russia and Turkey.

At present, the Group's scale of production for linen yarns has reached 52,000 spindles. Thus, the Directors believe that the Group is one of the largest linen yarns manufacturers in the world. By having the technical guidance of overseas experts and the innovative capability of the Group's staff, the quality of linen yarns has been markedly improved, especially for high-count (fine quality) products. So that the total sales volume of high-count products this year had almost doubled compared to that in 2005. Through innovation, the Group has improved aspects of equipment and manufacturing techniques. The Group has applied to the relevant department of the People's Republic of China ("PRC") government for the patent of invention of three new products, one of which has been granted the patent by such relevant department of the PRC government.

Following a year's preparation and effort, the Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing") on 12 December 2006. The Listing brings new resources for the development of the Group which we believe, as a public company, will enjoy greater opportunities.

FINANCIAL OVERVIEW

(1) Turnover

For the year ended 31 December 2006, the Group's turnover amounted to approximately RMB537,364,000 (2005: RMB452,349,000). The increase in turnover was due to the Group's shift of focus to develop the domestic market with quotas operating on exports to the European Union ("EU") countries. These domestic sales also reflected the increased production volume arising from the operation of the Group's production base in Rugao, Jiangsu province in the PRC, which commenced operation in 2005.

(2) Gross profit

The Group's gross profit for the year ended 31 December 2006 amounted to approximately RMB146,675,000 (2005: RMB134,061,000) with a gross profit margin of approximately 27.3%, a slight decrease from 29.6% of the previous year. This was due to the fact that the gross profit margin of domestic sales which increased during the year was less than that of export sales.

(3) Profit attributable to shareholders

The Group's profit attributable to shareholders for the year ended 31 December 2006 amounted to approximately RMB90,710,000 (2005: RMB91,749,000), a decrease of approximately 1.1% compared to that of 2005. The Group's net profit margin for the year ended 31 December 2006 was approximately 16.9% (2005: 20.3%). The decrease in net profit margin from the previous year was a result of the decrease in gross profit margin, increase in administrative expenses and rise in the cost of borrowings as well as the effect of income tax.

(4) Expenses

The Group's selling and distribution expenses amounted to approximately RMB16,701,000 (2005: RMB14,802,000), and accounted for approximately 3.1% of the turnover for the year ended 31 December 2006 (2005: 3.3%).

The Group's administrative expenses amounted to approximately RMB22,118,000 (2005: RMB14,753,000), accounted for approximately 4.1% of the turnover for the year ended 31 December 2006 (2005: 3.3%). Administrative expenses increased by approximately 50% over 2005, which was mainly due to the increase in the number of management staff and their salaries and the increase in auditing and consulting fees.

Net finance costs were approximately RMB17,649,000 (2005: RMB11,940,000). Finance costs increased by approximately 48% over 2005, which was due to the increase in bank borrowings and the rise in interest rate on borrowings.

IMPORTANT EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to the PRC enterprise income tax passed by the Fifth Plenary Session of Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% and will be effective from 1 January 2008. The impact of such change of enterprise income tax rate on the Group's consolidated financial statements will depend on detailed pronouncements that have yet to be issued. Since implementation and transitional guidance applicable to the Group has not yet been announced, the Group cannot reasonably estimate the financial impact of the new law to the Group at this stage.

FUTURE PLANS AND PROSPECTS

The Directors expect that the Company may utilize the proceeds of the initial public offering undertaken in connection with the Listing for investment on new projects in 2007. These include a capital investment of approximately RMB130 million for a new production facility in Rugao to increase the Group's production capacity by 5,000 tonnes, and of some RMB60 million in the cultivation of the raw material of linen yarns in order to increase the Group's product competitiveness and to reduce exposure to raw material pricing risk. The Group will further increase its capability of research and development centre to speed up the development of production equipment and new products seeking continuous improvement in the technological standard of the Group's production equipment and the standard of the Group's products.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group had net current assets of approximately RMB337,481,000 (2005: RMB20,379,000). The Group finances its operations with internally generated resources and bank borrowings. As at 31 December 2006, the Group had cash and bank deposits of approximately RMB330,010,000 (2005: RMB60,566,000). The current ratio of the Group was approximately 183.4% (2005: 105.8%).

Shareholders' funds of the Group as at 31 December 2006 was approximately RMB652,538,000 (2005: RMB287,563,000). As at 31 December 2006, the bank borrowings of the Group, payable within 12 months from the balance sheet date amounted to approximately RMB193,800,000 (2005: RMB180,098,000) while long-term borrowings amounted to approximately RMB25,000,000 (2005: RMB30,000,000), together giving a gross debt gearing (i.e. total borrowings/shareholders' fund) of approximately 33.5% (2005: 73.1%).

As at 31 December 2006, the maturity profile of non-current bank borrowings of the Group is as follows:

Repayable	**2006** **RMB'000**
Within 1 year	35,000
Over 1 year but less than 2 years	10,000
Over 2 years but less than 5 years	15,000
	25,000
	60,000

As at 31 December 2006, other than the bank borrowings already utilized, the Group has the facility granted by certain banks in the amount of RMB214 million.

The financial strength of the Group has been greatly improved after the Listing. The Board believes that taking into account capital expenditure to be made in 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 31 December 2006, the Group's bank borrowings are mainly denominated in Renminbi and US dollars whilst the Group's cash and cash equivalents are mainly denominated in Renminbi, US dollars and Hong Kong dollars. Approximately 73% of the Group's bank borrowings bear fixed rate interest.

The Group has constantly monitored its interest rate and foreign exchange exposure. For the year ended 31 December 2006, 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 linked 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, profits and dividends 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, as a result of which a total of HK$301.875 million was raised from the Company's initial public offering. The proceeds, which are currently placed with licensed banks in Hong Kong and the PRC, are intended to be applied in the following manner as set out in the Company's prospectus dated 30 November 2006 (the "Prospectus"):

– construction of a third production base;

– establishment or acquisition of a production base for the manufacture of flax fibres;

– repayment of existing bank loans; and

– in respect of the balance thereof, general working capital of the Group.

SEGMENTAL ANALYSIS

For the year ended 31 December 2006, the Group successfully developed the domestic market. Domestic sales sharply increased by approximately 93.3% from RMB119,675,000 for the year ended 31 December 2005 to RMB231,349,000 for the year ended 31 December 2006. Despite export sales to EU countries decreasing due to the quota restrictions imposed by the EU countries with effect from June 2005, the total turnover of Group increased by 18.8%. However, as the gross profit margin of domestic sales was less than that of export sales, the Group's overall gross profit margin decreased accordingly.

CHARGES ON GROUP ASSETS

As at 31 December 2006, the Group's bank deposits of RMB75,426,000 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, certain land use rights and inventories with an aggregate carrying amount of RMB100,668,000, RMB30,131,000 and RMB33,340,000 respectively were pledged as security for the Group's bank loans.

CAPITAL COMMITMENTS

As at 31 December 2006, the Group's contracted capital commitments in respective of purchase of property, plant and equipment outstanding, but not provided for in the consolidated financial statements was RMB8,650,000.

STAFF POLICY

As at 31 December 2006, the Group had a total of 2,463 (2005: 2,252) employees. Total staff costs incurred during the year 2006 amounted to RMB41 million (2005: RMB32 milllion). The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Share options under the share option scheme of the Company and discretionary bonuses may be granted to the Group's staff depending on their performance. 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.

The Group from time to time provides training courses both internally and externally for its employees.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group had no contingent liabilities.

MATERIAL ACQUISITIONS OR DISPOSALS

There was no material acquisition or disposal of the Company's subsidiaries and associated companies during the year ended 31 December 2006 save for those disclosed in the Prospectus.

FINAL DIVIDEND

Subject to the approval at the forthcoming annual general meeting, the Board recommends the payment of a final dividend of RMB0.0375 per ordinary share for the year ended 31 December 2006.

SIGNIFICANT INVESTMENTS

Other than holding share interests in the subsidiaries, the Group does not have any significant investments.

Ren Wei Ming
Chairman
Haiyan County, PRC, 19 April 2007

CORPORATE GOVERNANCE PRACTICES

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 of the Company ("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 Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31 December 2006.

Code Provision A.1.1

Under code provision A.1.1 of the Code, the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals.

As the shares of the Company have only been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for a few months, the board of Directors (the "Board") was unable to meet regularly and to hold board meetings at least four times a year at approximately quarterly intervals during the year. Nevertheless, the Company planned four scheduled board meetings a year at approximately quarterly intervals for the year 2007 in order to make sure all Directors could plan in advance their availability to attend the scheduled board meetings. Additional meetings will be held as and when required.

Code Provision A.2.1

Details are set out below in the section headed "Chairman and Chief Executive Officer" in this corporate governance report.

Code Provision A.5.4

Under code provision A.5.4 of the Code, the board should establish written guidelines for relevant employees in respect of their dealings in the securities of the Company.

As the shares of the Company have only been listed on the Stock Exchange for a few months, the Company has not issued any written guidelines for relevant employees in respect of their dealings in the securities of the Company. The Board will review the current measures of the Company and will consider adopting such written guidelines in accordance with the Code.

Code Provisions B.1.4 and C.3.4

Under code provisions B.1.4 and C.3.4 of the Code, the Company should make available the terms of reference of its remuneration committee and audit committee, which is suggested by the Code to be complied with by making them available on request and by including the information on the Company's website. Since the Company has not yet established its own website, the above suggested measure with regard to providing such information on a website cannot be met accordingly. However, the terms of reference of the two said committees are available on request.

Code Provision C.2.1

Under code provision C.2.1 of the Code, the Directors should at least annually conduct a review of the effectiveness of the system of internal control of the Group.

As the Group had appointed the PRC auditors of a subsidiary of the Company to review the internal controls of the Company and its subsidiaries (hereafter collectively referred to as the "Group") and such PRC auditors opined in the internal control audit report dated 1 November 2006 that they were satisfied with the effectiveness of the internal control of the Group, the Directors have not conducted any other review of the effectiveness of the internal control of the Group during the year.

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 year ended 31 December 2006 and up to the date of the Company's announcement of annual results for the year.

THE BOARD

The Board consists of 8 Directors, 3 of whom are executive Directors, 2 of whom are non-executive Directors and 3 are independent non-executive Directors. The functions and duties conferred on the Board include: convening shareholders' meetings and reporting on the work of the Board to the shareholders at shareholders' meetings as may be required by applicable laws, implementing resolutions passed at shareholders' meetings, determining the Company's business plans and investment plans, formulating the Company's annual budget and final accounts, formulating the Company's proposals for dividend and bonus distributions as well as exercising other powers, functions and duties as conferred on it by the articles of association of the Company (the "Articles") and applicable laws. The senior management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group.

The Board meets regularly to review the financial and operating performance, and consider and approve the overall strategies and policies of the Company.

The composition of the Board and attendance of individual Directors at meetings of the Board, Remuneration Committee and Audit Committee during the year, and up to the date of this report, was as follows:

	Meetings Attended/Held		
Directors	**Board**	**Remuneration Committee**	**Audit Committee**
Executive Directors			
Mr. Ren Wei Ming *(Chairman)*	5/6		
Mr. Shen Yueming	6/6		
Mr. Zhang Hong Wen *(Chairman of the Remuneration Committee)*	3/6	1/1	
Non-Executive Directors			
Mr. Ngan Kam Wai Albert	2/6		
Mr. John Michael May	2/6		
Independent Non-Executive Directors			
Mr. Yang Donghui	2/6	1/1	1/1
Mr. Yu Chongwen	2/6	1/1	1/1
Mr. Lau Ying Kit *(Chairman of the Audit Committee)*	2/6		1/1

All Board members have separate and independent access to the Company's senior management to fulfil their duties, and upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. All Directors also have access to the Company Secretary who is responsible for ensuring that the Board procedures, and all applicable rules and regulations, are followed. An agenda and accompanying Board/ committee papers are distributed to the Directors/ committee members with reasonable notice in advance of the meetings. Minutes of board meetings and meetings of board committees, which recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views expressed, are kept by the Company Secretary and are open for inspection by Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate 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.

NON-EXECUTIVE DIRECTORS

Each of the non-executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from 13 November 2006, whereas each of the independent non-executive Directors has entered into letters of appointment with the Company and be appointed for an initial term of 1 year commencing from 13 November 2006.

In accordance with article 87 of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.

Pursuant to the guidelines set out in rule 3.13 of the Listing Rules, each of the independent non-executive Directors has confirmed his independence and is continued to be considered by the Company to be independent.

REMUNERATION OF DIRECTORS

The Remuneration Committee of the Company has been established with written terms of reference in compliance with the Code. It considers and recommends to the Board the remuneration and other benefits paid by the Company to the Directors. The remuneration of all Directors is subject to regular monitoring by the Remuneration Committee to ensure that the levels of their remuneration and compensation are appropriate. Throughout the year, the Remuneration Committee comprised one executive Director and two independent non-executive Directors, namely Mr. Zhang Hong Wen (Chairman of the Committee), Mr. Yang Donghui and Mr. Yu Chongwen.

The Remuneration Committee shall meet at least once every year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior executives and other related matters. No executive Director is allowed to be involved in deciding his own remuneration.

During the year, no meeting of the Remuneration Committee was held since all members of the Remuneration Committee were only appointed on 13 November 2006. One meeting was held subsequent to the year ended 31 December 2006 and prior to the publishing of this report. At the meeting, the Remuneration Committee reviewed the remuneration policies of the Directors and the senior executives and approved the remuneration packages of the executive Directors for the year 2007.

NOMINATION OF DIRECTORS

There is no nomination committee in the Group for the time being.

Candidates to be nominated as Directors are experienced, high calibre individuals.

Pursuant to article 87 of the Articles, one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting of the Company provided that every Director shall be subject to retirement at least once every three years. In accordance with article 87 of the Articles, Mr. Shen Yueming, Mr. Zhang Hong Wen and Mr. Ngan Kam Wai Albert shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election as Directors. Mr. Ren Wei Ming, who was appointed as Director by the Board would retire at the forthcoming annual general meeting by virtue of article 86(3) of the Articles and, being eligible, would offer himself for re-election as Director.

AUDITORS' REMUNERATION

During the year, the remuneration paid to the Company's external auditors, KPMG, is set out as follows:

Services rendered	**Fee paid RMB$'000**
Audit services	1,500

The responsibilities of the external auditors with respect to the 2006 financial statements are set out in the section headed "Auditors' Report" on pages 30 to 31. Save as disclosed above and in the section headed "Auditors' Report", the Company did not engage KPMG for any non-audit services during the year.

AUDIT COMMITTEE

The Audit Committee has been established in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the Code. The primary duties of of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the Board. The Audit Committee consists of three members who are all independent non-executive Directors, namely, Mr. Lau Ying Kit, Mr. Yang Donghui and Mr. Yu Chongwen. Mr. Lau Ying Kit, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman.

During the year, no meeting of the Audit Committee was held since all members of the Audit Committee were only appointed on 13 November 2006. One meeting was held subsequent to the year ended 31 December 2006 and prior to the publishing of this report.

At the meeting, the Audit Committee reviewed the final results for 2006 with the external auditors and also the activities of the Group's internal control functions. It also reviewed the Company's progress in implementing the corporate governance requirements as set out in the Code.

The Directors are collectively responsible for preparing the consolidated financial statements of the Group which have been prepared on a going concern basis, and complied with requirements of the Listing Rules. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Also, there is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

As the Group had appointed the PRC auditors of a subsidiary of the Company to review the internal control of the Group and such PRC auditors opined in the internal control audit report dated 1 November 2006 that they were satisfied with the effectiveness of the internal control of the Group, the Directors had not conducted any other review of the effectiveness of the internal control of the Group during the year.

DIRECTORS

Executive Directors

Mr. Ren Wei Ming（任維明）, aged 47, is the chairman of the Group and an executive Director. Mr. Ren is responsible for the overall management of the Group and making decisions on the business development strategy of the Group. He has been in the silk industry since 1979. He has been the chairman and general manager of 浙江金達創業股份有限公司 (Zhejiang Kingdom Creative Co., Ltd.*) ("Kingdom Creative") since 2000. He started to engage in the linen yarn manufacturing business through 海鹽紫薇亞麻有限公司 (Haiyan Ziwei Flax Co., Ltd.*) ("Haiyan Ziwei") in December 2001 as its director. He joined the Group in March 2003 when the first operating member of the Group, 浙江金元亞麻有限公司 (Zhejiang Jinyuan Flax Co., Ltd.*) ("Zhejiang Jinyuan") was established. He obtained various awards including "農業部全國鄉鎮企業家" (National Township Entrepreneur awarded by the Agriculture Department*). He is currently the vice-director of 中國麻紡行業協會 (China Bast and Leaf Fibers Textile Association*), the vice-president of The Hong Kong General Chamber of Textiles and 浙江省第十屆人民代表大會代表 (Representative of the 10th National People's Congress of Zhejiang Province*). He is also a director of Kingdom Investment Holdings Limited which has discloseable interests in the shares of the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance. For further details, please refer to pages 21 to 22 of this annual report.

Mr. Shen Yueming（沈躍明）, aged 45, is an executive Director. He is also a director and general manager of Zhejiang Jinyuan and a director and general manager of Jiangsu Jinyuan. Mr. Shen is responsible for the day-to-day operation and management of the Group and also takes part in the decision making of the Group. He was appointed as director of Haiyan Ziwei in December 2001, before joining the Group in March 2003. He then joined Kingdom Creative and he has been a director of Kingdom Creative since April 2000.

Mr. Zhang Hong Wen（張鴻文）, aged 40, is an executive Director. He is the financial controller of Zhejiang Jinyuan and a director and financial controller of Jiangsu Jinyuan. Before joining the Group in 2003, he was the assistant to the general manager and the head of 資金結算部 capital clearing division of Kingdom Creative from 2000 to 2002.

Non-executive Directors

Mr. Ngan Kam Wai Albert（顏金煒）, aged 57, is a non-executive Director. He is the chairman of Millionfull Company Limited, a company incorporated in Hong Kong engaging in the trading of linen and linen mixture fabrics. He has been a member of 中國人民政治協商會議福建省第九屆委員會 (membership of the Fujian Provincial People's Political Consultative Conference) since 2003 and a director of Po Leung Kuk since 2004. He was appointed as the executive vice president of The Hong Kong General Chamber of Textiles Ltd. in 2005 and a director of 華僑大學 (HuaQiao University*) in 2002. He joined the Group in September 2004. He is also a director of Millionfull International Co., Ltd which has disclosable interests in the shares of the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance. For further details, please refer to pages 21 to 22 of this annual report.

Mr. John Michael May, aged 52, is a non-executive Director. He graduated with law degrees from Cambridge University. Mr. May has some 30 years experience in international merchant-banking, financial services and investment and has advised or represented financial investors on the boards of numerous companies. For over 20 years until 1999, he worked for the Hambros Group where he was an executive director of Hambros Bank. He has been an executive director of Caledonia Investments plc, an investment trust listed on the London Stock Exchange, since September 2003 and represents them as a non-executive director on a number of their investments. Caledonia Investments plc is a 10.73% shareholder of the Company. He joined the Group in September 2005.

Independent Non-executive Directors

Mr. Yang Donghui（楊東輝）, aged 61, is an independent non-executive Director. He graduated from 工程化學系 (Department of Chemical Engineering) of 清華大學 (Tsinghua University*) in 1970. He has been working in 中國紡織工業協會 (China National Textile & Apparel Council*) (formerly known as 中國紡織工業部 (China Textile Industry Department*) and 中國紡織總會 (China Textile General Chambers*)) since 1977 and is currently the vice president of this organisation. He has been the president of National Association of Domestic Textile Products Industry（中國家用紡織品行業協會）since 1999. He is also a director of U-Right International Holdings Limited (Stock code: 627) since July 2005. He joined the Group in November 2006.

Mr. Yu Chongwen（郁崇文）, aged 44, is an independent non-executive Director. He obtained a doctor of philosophy degree in textile engineering at 東華大學 (Donghua University*) (formerly known as 中國紡織大學 (China Textiles University*)) in 1994. He joined 東華大學 (Donghua University*) (formerly known as 中國紡織大學 (China Textiles University*)), in 1987 as an assistant tutor and is now a professor of the School of Textile of 東華大學 (Donghua University*). He obtained various awards for his achievements in the research of textile science and technology and for his contributions in education in textile engineering, including the Textile Science and Technology Award granted by Hong Kong Sang Ma Trust Fund, several awards relating to the technology of production of jute and hemp granted by the PRC provincial governments. He joined the Group in November 2006.

Mr. Lau Ying Kit（劉英傑）, aged 33, an independent non-executive Director, is the chief financial officer of China Glass Holdings Limited (Stock code: 3300), a listed company in Hong Kong principally engaged in glass production. Mr. Lau holds a Bachelor degree from Victoria University of Technology, Australia and is an Associate Member of the Hong Kong Institute of Certified Public Accountants. He joined the Group in November 2006.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Cheng Yee Fai, Fred（鄭怡輝）, aged 48, is the company secretary and qualified accountant of the Group employed on a full-time basis. He is a fellow of the Hong Kong Institute of Certified Public Accountants and the Institute of Certified Public Accountants of Singapore and a member of the Macau Society of Certified Practising Accountants. He is also an Australian and New Zealand Chartered Accountant. Mr. Cheng has been engaged in investment banking as well as in management and financial control for over 20 years with large multi-national groups and international accounting firms. He joined the Group in November 2006.

SENIOR MANAGEMENT

Mr. Zhu Jihong（朱繼弘）, aged 37, is the assistant to the general manager of the Group and a director of Rugao Jinda. He graduated from 華東師範大學 (East China Normal University*) with a master degree in economics. He worked in the investment banking division of a PRC incorporated securities firm from June 1999 to April 2003. He joined the Group in June 2003.

Mr. Wang Zhijin（王志瑾）, aged 30, is the financial controller of the Group. He graduated from 上海財經大學 (Shanghai University of Finance and Economics*) with major in accounting and a bachelor degree in economics in 1998. Before joining the Group in December 2005, he worked as audit manager in PricewaterhouseCoopers.

Mr. Cheng Yee Fai, Fred（鄭怡輝）, aged 48, is the company secretary and qualified accountant of the Group employed on a full-time basis. Please refer to the paragraph headed "Company Secretary and Qualified Accountant" in this section for further details of Mr. Cheng.

Ms. Shen Hong（沈鴻）, aged 41, is the internal audit controller of the Group and a director and financial controller of Rugao Jinda. She completed professional accounting studies at 浙江長征財經進修學院 (Zhejiang Long March Finance School*) and has more than 16 years of experience in finance. Before joining the Group in March 2003, she worked in Kingdom Creative as the head of finance management department.

Mr. Huang Renming（黃仁明）, aged 38, is the vice general manager of Jiangsu Jinyuan and the chairman and a director of Rugao Jinda. He graduated from 浙江廣播電視大學 (Zhejiang Broadcast Television University*) in business enterprise operations management studies. Before joining the Group in October 2003, he worked in the silk factory of Kingdom Creative. He was awarded "優秀職業經理人" (Best Occupation Manager) in 2006 by 中共江蘇省如皋經濟開發區工作委員會 (Jiangsu Rugao Economic Development District Committee of the Chinese Communist Party*).

The English names of the PRC entities mentioned herein marked with "" are translations from their Chinese names. If there is any inconsistency, the Chinese name shall prevail.*

The board of directors (the "Board") of the Company has pleasure in presenting their annual report on the affairs of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") together with the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 18 to the financial statements.

Details of the analysis of the Group's performance for the year by geographical segments are set out in note 5 to the financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated income statement on page 32.

DIVIDENDS

The Board recommended the payment of a final dividend of RMB0.0375 per ordinary share for the year ended 31 December 2006.

RESERVES

Movements in the reserves of the Group during the year are set out in note 26 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company's distributable reserves calculated under the Companies Law of the Cayman Islands amounted to RMB637,890,000.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately RMB100,000.

SHARE CAPITAL

Details of the movements in share capital of the Group are set out in note 25 to the financial statements.

FINANCIAL HIGHLIGHTS

A summary of the results and of the assets and liabilities of the Group and 浙江金元亞麻有限公司(Zhejiang Jinyuan Flax Co. Ltd.*)("Zhejiang Jinyuan") for the last four financial years is set out on page 80.

FIXED ASSETS

Details of the movements in property, plant and equipment of the Group are set out in note 16 to the financial statements.

DIRECTORS

The directors of the Company (the "Directors")during the financial year ended 31 December 2006 were:

Executive Directors
Mr. Rei Wei Ming *(Chairman)*
Mr. Shen Yueming
Mr. Zhang Hong Wen

Non-executive Directors
Mr. Ngan Kam Wai Albert
Mr. John Michael May

Independent Non-executive Directors
Mr. Yang Donghui
Mr. Yu Chongwen
Mr. Lau Ying Kit

The Company has received from each of the independent non-executive Directors an annual confirmation of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the Company still considers such Directors to be independent.

Pursuant to article 87 of the articles of association of the Company ("Articles"), one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting of the Company provided that every Director shall be subject to retirement at least once every three years. In accordance with article 87 of the Articles, Mr. Shen Yueming, Mr. Zhang Hong Wen and Mr. Ngan Kam Wai Albert shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election as Directors. Mr. Ren Wei Ming, who was appointed as Director by the Board would retire at the forthcoming annual general meeting by virtue of article 86(3) of the Articles and, being eligible, would offer himself for re-election as Director.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year except as disclosed under the section headed "Connected Transactions" below and note 31 to the financial statements.

DIRECTORS' REMUNERATION

The remuneration committee considers and recommends to the Board the remuneration and other benefits paid by the Company to the Directors. The remuneration of all Directors is subject to regular monitoring by the remuneration committee to ensure that the levels of their remuneration and compensation are appropriate.

Details of the Directors' remuneration are set out in note 11 to the financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and senior management are set out on pages 16 to 18.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the directors and chief executives of the Company and their associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), which were recorded or required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"):

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 holds approximately 76.38% of the issued share capital of Kingdom Investment (BVI) (as defined below). Mr. Ren therefore holds a controlling interest in Kingdom Investment (BVI) and is deemed under the SFO to be interested in the Shares held by Kingdom Investment (BVI).

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

Share options

As at 31 December 2006, no share options were granted to the directors and chief executives of the Company or any of thier associates.

Save as disclosed above, as at 31 December 2006, none of the directors and chief executive of the Company or their associates had or were deemed to have any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded or required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to any director of the Company, as at 31 December 2006, the following persons, other than a director or chief executive of the Company, had interests or short positions in the Shares or underlying shares of the Company which were recorded or required to be recorded in the register required to be kept under Section 336 of the SFO:

Long positions in Shares

Name of Director	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)*	47,002,000	7.55

Note: ABN AMRO Holding N.V. holds the entire issued share capital of ABN AMRO Bank N.V.. ABN AMRO Holding N.V. is therefore deemed under the SFO to be interested in 47,002,000 Shares held by ABN AMRO Bank N.V..

Short positions in Shares

Name of Director	Capacity	Number of Shares	Approximate percentage of issued share capital (%)
ABN AMRO Holding N.V.	Interest in controlled corporation *(Note)*	10,000,000	1.61

Note: ABN AMRO Holding N.V. holds the entire issued share capital of ABN AMRO Bank N.V.. ABN AMRO Holding N.V. is therefore deemed under the SFO to have the short position of 10,000,000 Shares held by ABN AMRO Bank N.V..

Save as disclosed above, as at 31 December 2006, the Company had not been notified by any person, other than a director or chief executive of the Company, who had interests or short positions in the Shares or underlying shares of the Company which were recorded or required to be recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the sole shareholder of the Company passed on 15 November 2006, the Company adopted a share option scheme (the "Scheme").

Subject to the terms of the Scheme, the Board may at its discretion grant options to: (i) any director, employee, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company ("Affiliate"); or (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate; or (iii) a company beneficially owned by any director, employee, consultant, professional, customer, supplier, agent, partner, adviser of or contractor to the Group or an Affiliate.

The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes must not exceed 30% of the Shares in issue from time to time. Subject to the aforesaid limit, the total number of Shares available for issue under options which may be granted under the Scheme and any other schemes must not, in aggregate, exceed 60,000,000 Shares, being 10% of the issued share capital of the Company as at 12 December 2006, the date of listing of the Shares, unless separate shareholders' approval has been obtained.

The maximum entitlement for any one participant under the Scheme shall not in any 12-month period up to the date of grant exceed 1% of the issued share capital of the Company from time to time.

The period within which the options must be exercised will be specified by the Board at the time of the grant, and must expire no later than 10 years from the effective date of the Scheme.

The subscription price for any Share shall not be less than the highest of (i) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option, which must be a business day, (ii) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the relevant option and (iii) the nominal value of a Share.

No option has been granted by the Company under the Scheme since its adoption.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACT OF SIGNIFICANCE

No contracts of significance were entered into between the Company or any of its subsidiaries and any controlling shareholder or any of its subsidiaries during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 29.9% of the Group's total sales for the year and sales to the Group's largest customer amounted to approximately 10.3%. Purchases from the Group's five largest suppliers accounted for approximately 65.9% of the total purchases for the year and purchase from the Group's largest supplier amounted to approximately 18.0%.

None of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors own more than 5% of the Company's issued shares) had any interests in the Group's five largest customers or suppliers noted above.

CONNECTED TRANSACTIONS

(A) Connected transaction

Significant related party transactions entered by the Group during the year ended 31 December 2006, which do not constitute connected transactions under the Listing Rules are disclosed in note 31 to the financial statements. All the said related party transactions (save for the operating lease charge on premises charged by Zhejiang Kingdom Creative Co., Ltd. ("Kingdom Creative") to the Group as disclosed below) were discontinued prior to or upon listing of the Company's shares on the Stock Exchange on 12 December 2006 (the "Listing").

(B) Continuing connected transactions

Save as disclosed above, during the year, the Group had the following exempt continuing connected transactions, details of which were disclosed in the prospectus of the Company dated 30 November 2006 (the "Prospectus"):

Lease agreement

The Group has been leasing office premises from Kingdom Creative, an associate of Mr. Ren Wei Ming and hence a connected person, since July 2003.

Rental and other terms for the above lease arrangement was negotiated between the parties on an arm's length basis with reference to the then prevailing market rates.

A tenancy agreement has been entered into by the Group with Kingdom Creative in respect of the above-mentioned office premises for a term up to and until 31 December 2008 at an annual rental of RMB200,000. To the extent that each of the applicable percentage ratios (other than the profit ratio) of this transaction does not exceed 0.1%, this transaction is exempted from all reporting, announcement and independent shareholders' approval requirements contained in Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of business of the Company;

(ii) either on normal commercial terms or, on terms no less favourable to the Company than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Directors have engaged the auditors to perform certain agreed-upon procedures on the aforesaid continuing connected transactions on a sample basis and the auditors have, based on the work performed, provided a letter to the Directors stating that:

(i) the transactions have been approved by the Directors;

(ii) the transactions were entered into in accordance with the pricing policies of the Company;

(iii) the transactions were entered into in accordance with the terms of the relevant agreements governing such transactions; and

(iv) the transactions did not exceed the relevant annual limits as set out in the Prospectus.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

The Company has not redeemed any of its listed shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares during the year.

TRANSACTION IN THE COMPANY'S SECURITIES, OR SECURITIES OF ITS SUBSIDIARIES

As disclosed in the Prospectus, on 22 June 2006, Zhejiang Kingdom Investment Management Co., Ltd. ("Kingdom Investment") and Zhejiang Jinyuan entered into an agreement to transfer 40% and 30% interests in Rugao Jinda Flax Co., Ltd. ("Rugao Jinda") respectively to Jiangsu Jinyuan Flax Co., Ltd. ("Jiangsu Jinyuan").

On 23 November 2006, in preparation for the Listing, certain share swaps took place in relation to the acquisition of Kingdom Group Holdings Limited ("Hong Kong Kingdom") by Overseas Kingdom Limited ("Overseas Kingdom"), a subsidiary of the Company.

Details of the above transactions are set out in the section headed "Further Information about the Company - Reorganisation" in appendix V to the Prospectus.

CAPITAL RAISING THROUGH INITIAL PUBLIC OFFERING

In connection with the listing of its shares on the Stock Exchange on 12 December 2006, the Company issued an aggregate of 172,500,000 new shares (including the shares issued pursuant to the exercise of the over-allotment option) by way of placing and public offer at an issue price of HK$1.75 per share. The net proceeds from the said issue of shares were approximately HK$301.875 million, which are currently placed with licensed banks in Hong Kong and the PRC, and would be used in accordance with the intended use of proceeds as stated in the Prospectus.

Details of the above are set out in the Prospectus.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company and the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

PENSION SCHEMES

Details of the Group's pension scheme and the basis of calculation are set out in note 8 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Set out below is information disclosed pursuant to rule 8.10(2) of the Listing Rules:

As at 31 December 2006, none of the Directors nor their respective associates had interests in businesses which compete or are likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules, except for Mr. Ren Wei Ming ("Mr. Ren"), who holds directorships and/ or interests respectively, either directly and/or through Kingdom Investment (BVI) (a controlling shareholder of the Company), in certain private companies (the "Private Companies").

The Private Companies are engaged in the silk and/ or silk products manufacturing and/ or trading industry (the "Excluded Business"), which are fundamentally different from the products manufactured by the Group.

Mr. Ren undertakes, subject to the exceptions mentioned in the Prospectus, that he will not, and will procure that his associates will not (a) either on his own account or in conjunction with or on behalf of any person, firm or company, directly or indirectly be interested or involved or engaged in or acquire or hold an interest (in each case whether as a shareholder, partner, agent, consultant, employee or otherwise and whether for profit, reward or otherwise) in any business which is or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the Group's business, those other businesses of the Group as set out in the Prospectus, in Hong Kong, the PRC and any other country or jurisdiction to which the Group markets or sells its products and/or in which any member of the Group carries on business mentioned above from time to time ("Restricted Activity") or (b) either on his own account or in conjunction with or on behalf of any person, firm or company, or as a principal, shareholder, partner, agent, consultant, employee or otherwise and whether for profit, reward or otherwise, directly or indirectly, solicit, interfere with or endeavour to entice away from any member in the Group any person, firm, company or organisation who to its or his knowledge is now or has been a customer, supplier or employee of any member in the Group.

By reasons of the fact that the Excluded Business does not pose any direct or indirect actual competition with the Group's business and that Mr. Ren has already given an undertaking as above referred to, the Group is therefore capable of carrying on its business independently of, and at arms length from, the Excluded Business as described above.

Presently, Mr. Ren has no plan to inject the aforesaid Excluded Business into the Group.

The Company has received from Kingdom Investment (BVI) and Mr. Ren an annual confirmation that it/he has fully complied with its/his obligations under the deed of non-competition in favour of the Company dated 27 November 2006.

VALUATION OF PROPERTY ASSETS OR OTHER TANGIBLE ASSETS

In preparation for the Listing, certain lease prepayments and buildings of the Group with net book value of RMB111,340,000 as at 30 September 2006 had been valued. The valuation of such lease prepayments and buildings amounted to RMB120,980,000 as at 30 September 2006, the valuation date. The lease prepayments and buildings had not been stated at valuation in the consolidated financial statements of the Group. In the consolidated financial statements of the Group, the lease prepayments are expensed in the income statement on a straight-line basis over the period of the lease. Buildings are stated at cost less accumulated depreciation. Should the lease prepayments and buildings be stated at valuation, the additional depreciation and amortisation that would be charged to the income statement amounted to approximately RMB88,000.

CORPORATE GOVERNANCE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the year covered by the annual report, in compliance with the Code as set out in Appendix 14 of the Listing Rules save as disclosed in the corporate governance report in this annual report.

AUDITORS

The accounts for the year have been audited by KPMG who shall retire and, being eligible, shall offer themselves for re-appointment.

On behalf of the Board

Ren Wei Ming
Chairman

Haiyan County, PRC, 19 April 2007

The English names of the PRC entities mentioned herein marked with "" are translations from their Chinese names. If there is any inconsistency, the Chinese name shall prevail.*

Auditors' report to the shareholders of Kingdom Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Kingdom Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 32 to 79, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

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

19 April 2007

Consolidated income statement

for the year ended 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
Turnover	4	**537,364**	452,349
Cost of sales		**(390,689)**	(318,288)
Gross profit		**146,675**	134,061
Other operating income	7	**6,308**	2,587
Distribution costs		**(16,701)**	(14,802)
Administrative expenses		**(22,118)**	(14,753)
Other operating expenses		**(902)**	(626)
Profit from operations		**113,262**	106,467
Net finance costs	9(a)	**(17,649)**	(11,940)
Profit before tax	9	**95,613**	94,527
Income tax	10(a)	**(5,247)**	—
Profit for the year		**90,366**	94,527
Attributable to:			
Equity holders of the Company	26(a)	**90,710**	91,749
Minority interest		**(344)**	2,778
Profit for the year		**90,366**	94,527
Dividends payable to equity holders attributable to the year			
Special dividend declared during the year	14	**—**	8,106
Final dividend proposed after balance sheet date	14	**23,344**	—
		23,344	8,106
Basic diluted earnings per share (RMB)	15	**0.20**	0.20

The notes on pages 38 to 79 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment	16	**302,373**	264,389
Lease prepayments	17	**37,684**	34,668
		340,057	299,057
Current assets			
Inventories	19	**164,671**	152,557
Prepaid income tax	10(d)	**122**	7,710
Trade and other receivables	20	**171,934**	77,966
Pledged deposits	21	**75,426**	72,305
Cash and cash equivalents	22	**330,010**	60,566
		742,163	371,104
Current liabilities			
Bank loans	23	**193,800**	180,098
Trade and other payables	24	**210,882**	170,627
		404,682	350,725
Net current assets		**337,481**	20,379
Total assets less current liabilities		**677,538**	319,436
Non-current liabilities			
Bank loans	23	**25,000**	30,000
Net assets		**652,538**	289,436
Capital and reserves			
Share capital	25	**6,272**	1,318
Reserves	26(a)	**646,266**	286,245
Total equity attributable to equity holders of the Company		**652,538**	287,563
Minority interests		**—**	1,873
Total equity		**652,538**	289,436

Approved and authorised for issue by the board of directors on 19 April 2007.

Ren Wei Ming)
)
) *Directors*
Shen Yueming)

The notes on pages 38 to 79 form part of these financial statements.

Balance sheet

at 31 December 2006

	Note	2006 RMB'000
Non-current assets		
Investments in subsidiaries	18	**370,221**
Current assets		
Trade and other receivables	20	**205,271**
Cash and cash equivalents	22	**79,473**
		284,744
Current liabilities		
Trade and other payables	24	**10,803**
Net current assets		**273,941**
Net assets		**644,162**
Capital and reserves		
Share capital	25	**6,272**
Reserves	26(b)	**637,890**
Total equity		**644,162**

Approved and authorised for issue by the board of directors on 19 April 2007.

Ren Wei Ming)
)
) *Directors*
Shen Yueming)

The notes on pages 38 to 79 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2006

	Attributable to equity holders of the Company							
	Share capital RMB'000 (Note 25)	**Share premium** RMB'000 (Note 26(a))	**Capital reserve** RMB'000 (Note 26(a))	**Merger reserve** RMB'000 (Note 26(a))	**PRC statutory reserve** RMB'000 (Note 26(a))	**Retained earnings** RMB'000	**Minority interests** RMB'000	**Total** RMB'000
As at 1 January 2005	1,057	100,613	28,354	—	6,987	109	30,707	167,827
Capital injection	261	64,726	—	—	—	—	944	65,931
Acquisition of interest in a subsidiary from a minority shareholder	—	—	1,813	—	—	—	(32,556)	(30,743)
Profit for the year	—	—	—	—	—	91,749	2,778	94,527
Transfer to reserve	—	—	—	—	7,278	(7,278)	—	—
Distribution to the then equity holders	—	—	—	—	—	(8,106)	—	(8,106)
As at 31 December 2005	1,318	165,339	30,167	—	14,265	76,474	1,873	289,436
As at 1 January 2006	1,318	165,339	30,167	—	14,265	76,474	1,873	289,436
Arising from reorganisation	(1,310)	(165,339)	(30,167)	196,816	—	—	—	—
Issuance of share by placing and public offer	1,511	262,984	_	—	—	—	—	264,495
Capitalisation issue	4,527	(4,527)	—	—	—	—	—	—
Issuance of share under the over-allotment option related to the Placement	226	39,350	—	—	—	—	—	39,576
Share issuance Expenses	—	(29,806)	—	—	—	—	—	(29,806)
Profit for the year	—	—	—	—	—	90,710	(344)	90,366
Transfer to reserve	—	—	—	—	12,863	(12,863)	—	—
Acquisition of interest in a subsidiary from a minority shareholder	—	—	—	—	—	—	(1,529)	(1,529)
As at 31December 2006	6,272	268,001	—	196,816	27,128	154,321	—	652,538

The notes on pages 38 to 79 form part of these financial statements..

Consolidated cash flow statement

for the year ended 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
Profit before taxation		**95,613**	94,527
Adjustments for:			
- Depreciation		**25,990**	20,367
- Amortisation of lease prepayment		**724**	703
- Provision for obsolete and slow moving inventories		**—**	68
- Loss on disposal of property, plant and equipment		**49**	—
- Provision for bad and doubtful debts		**509**	—
- Interest expenses		**17,064**	13,020
- Interest income		**(1,468)**	(2,183)
Operating profit before changes in working capital		**138,481**	126,502
Increase in inventories		**(12,114)**	(86,297)
Increase in trade and other receivables		**(97,868)**	(48,688)
Increase in trade and other payables		**36,196**	57,701
Cash generated from operations		**64,695**	49,218
Interest expense paid		**(17,064)**	(13,020)
PRC income tax refunded/(paid)		**2,341**	(7,710)
Net cash from operating activities		**49,972**	28,488
Investing activities			
Acquisition of property, plant and equipment		**(57,283)**	(71,770)
Proceeds from disposal of property, plant and equipment		**710**	1,459
Payment for lease prepayments		**(3,740)**	(3,803)
Payment for the acquisition of a subsidiary in prior year		**—**	(63,502)
Acquisition of additional interests in a subsidiary from a minority shareholder		**(1,529)**	(30,743)
Interest received		**1,468**	2,183
(Increase)/decrease in pledged deposits		**(3,121)**	4,051
Net cash used in investing activities		**(63,495)**	(162,125)

The notes on pages 38 to 79 form part of these financial statements..

for the year ended 31 December 2006

	Note	**2006** **RMB'000**	2005 RMB'000
Financing activities			
Proceeds from issuance of shares, net of issuance expenses		**274,265**	—
Capital contribution from the equity holders		**—**	128,489
Capital contribution from a minority shareholder		**—**	944
Proceeds from loans and borrowings		**344,991**	245,625
Repayment of loans and borrowings		**(336,289)**	(226,564)
Dividends paid to equity holders		**—**	(8,106)
Net cash generated from financing activities		**282,967**	140,388
Net increase in cash and cash equivalents		**269,444**	6,751
Cash and cash equivalents at 1 January		**60,566**	53,815
Cash and cash equivalents at 31 December	22	**330,010**	60,566

The notes on pages 38 to 79 form part of these financial statements..

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") 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 on 23 November 2006. This was accomplished by the Company acquiring the entire equity interests of Kingdom Group Holdings Limited, the then holding company of subsidiaries, except for Overseas Kingdom Limited, as set out in Note 18. Details of the Reorganisation are set out in the Prospectus of the Company dated 30 November 2006. The Company's shares were listed on the Stock Exchange on 12 December 2006.

2 Basis of preparation

The Group is regarded as a continuing entity resulting from the Reoganisation of entities under common control. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for both years 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 years ended 31 December 2005 and 2006 include the results of the Company and its subsidiaries with effect from 1 January 2005 or, if later, since their respective dates of incorporation or at the date that common control was established as if the current group structure had been in existence throughout the two years presented. The consolidated balance sheets at 31 December 2005 and 31 December 2006 have been prepared on the basis that the current group structure was in place with effective from 1 January 2005. All material intra-group transactions and balances have been eliminated on consolidation. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole. As the Company was incorporated on 21 July 2006, no comparative figures are presented in respect of the Company's balance sheet.

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis.

2 Basis of preparation (continued)

(c) Functional and presentation currency

These consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional currency. All financial information presented in RMB has been rounded to the nearest thousand.

(d) Accounting estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 32.

3 Significant accounting policies

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (Note 3(f)).

3 Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative periods presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity. Any cash paid for the acquisition is recognised directly in equity.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investees. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iv) Minority interests

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

3 Significant accounting policies (continued)

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign currencies gain and losses are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical costs are translated using the foreign exchange rates ruling at the transaction date.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, pledged deposits, cash and cash equivalents, bank loans, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment loss.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits.

Accounting for interest income and expenses is discussed in Note 3(k).

(ii) Share capital

Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity.

3 Significant accounting policies (continued)

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (Note 3(f)).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are substantially complete, at which time it commences to be depreciated in accordance with the Group's policy.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives for the current and comparative periods are as follows:

— Plant and buildings	20 years
— Machinery	10 years
— Office equipment	5 years
— Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

3 Significant accounting policies (continued)

(e) Inventories

Inventories are measured at the lower of cost and net realizable value.

The cost of inventories is computed using the weighted average method, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the selling expenses.

(f) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories (Note 3(e)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

3 Significant accounting policies (continued)

(f) Impairment (continued)

(ii) Non-financial assets (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution retirement plan

Obligation for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due, except to the extent that they are included in the cost of inventories not yet recognized as an expense.

3 Significant accounting policies (continued)

(h) Provisions and contingent liabilities

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market of the time value of money and the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(i) Revenue

(i) Sales of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(ii) Government Grants

Government grants are recognized initially in the balance sheet as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognized in the income statement on a systematic basis over the useful life of the asset.

(j) Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Lease prepayments in the balance sheet represent cost of land use rights paid to the People's Republic of China ("the PRC") land bureau. Land use rights are carried at cost less accumulated amortisation and impairment losses (Note 3(f)). Amortisation is charged to the income statement on a straight-line basis over the respective periods of the rights.

3 Significant accounting policies (continued)

(k) Net finance costs

Net finance costs comprise interest payable on bank loans, calculated using the effective interest rate method, interest receivable on funds invested, bank charges and foreign exchange gains and losses.

Interest income is recognised in the income statement as it accrues, using the effective interest method.

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of an asset which necessarily take a substantial period of time to get it ready for its intended use. Capitalisation of borrowings cost commences when expenditure for the asset is being incurred, the borrowing costs are being incurred and activities that are necessary to prepare the assets for its intended use are in progress. Capitalization of borrowing costs cease when substantially all the activities necessary to prepare the qualifying assets ready for their intended use are complete.

Other borrowing costs are expensed in the income statement in the period in which they are incurred.

(l) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition for assets or liabilities in a transaction that is not a business combination and that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3 Significant accounting policies (continued)

(m) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(n) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(o) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(p) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a jointly controlled entity in which the Group is a venture;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plans which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3 Significant accounting policies (continued)

(q) New standards and interpretations not yet adopted

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ended 31 December 2006 and which have not been adopted in these financial statements:

	Effective for accounting period beginning on or after
IFRS 7, Financial instruments: disclosures	1 January 2007
IFRS 8, Operating Segments	1 January 2009
Amendment to IAS 23, Borrowings costs	1 January 2009
IFRIC 7, Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies	1 March 2006
IFRIC 8, Scope of IFRS 2, Share-based payment	1 May 2006
IFRIC 9, Reassessment of Embedded Derivatives	1 June 2006
Amendment to IAS 1, Presentation of financial statements: capital disclosures	1 January 2007
IFRIC 10, Interim financial reporting and impairment	1 November 2006
IFRIC 11, IFRS2 - Group and treasury share transaction	1 March 2007
IFRIC 12, Service concession arrangements	1 January 2008

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. Up to the date of issuance of these financial statements, the Group believes that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

4 Turnover

The principal activities of the Group are manufacturing and sales of linen yarns.

Turnover represents the sales value of linen yarns after allowance for goods returns and trade discounts, net of value added taxes.

5 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 basis of geographical segment, 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 year is set out below:

	2006 **RMB'000**	2005 RMB'000
Turnover		
PRC	**231,349**	119,675
Overseas		
- European Union	**124,251**	152,247
- Non-European Union	**181,764**	180,427
Total	**537,364**	452,349
Segment results		
PRC	**51,204**	29,458
Overseas		
- European Union	**40,206**	47,685
- Non-European Union	**49,021**	53,374
Total	**140,431**	130,517
Unallocated operating income and expenses	**(27,169)**	(24,050)
Profit from operations	**113,262**	106,467
Net finance costs	**(17,649)**	(11,940)
Income tax expenses	**(5,247)**	—
Profit for the year	**90,366**	94,527

6 Acquisition of minority interests

On 22 June 2006, the Group acquired an additional 40% equity interest in Rugao Jinda Flax Co., Ltd ("Rugao Jinda") from Zhejiang Kingdom Investment Management Co., Ltd., an entity controlled by the Company's ultimate owner, at a cash consideration of RMB1,600,000. As a result of this acquisition, Rugao Jinda became a wholly-owned subsidiary of the Group.

During the year ended 31 December 2005, the Group acquired an additional 45% equity interest in Jiangsu Jinyuan Flax Co., Ltd. ("Jiangsu Jinyuan") from a minority shareholder at a cash consideration of USD3,710,000 (equivalent to RMB30,743,000). As a result of this acquisition, Jiangsu Jinyuan became a wholly-owned subsidiary of the Group. The excess of the Group's share of the net identifiable assets acquired over the consideration paid by the Group, which amounted to RMB1,813,000, was accounted for as an equity transaction and reflected in the statement of changes in equity.

7 Other operating income

	2006	2005
	RMB'000	RMB'000
Government grants	**4,881**	2,335
Sundry income	**1,427**	252
	6,308	2,587

During the year ended 31 December 2006, the Group was granted by local government an unconditional subsidy of RMB4,881,000 (2005: RMB2,335,000) as encouragement of its development.

8 Personnel expenses

	2006	2005
	RMB'000	RMB'000
Salaries, wages and other benefits	**39,058**	31,200
Contribution to defined contribution plan	**1,957**	937
	41,015	32,137

The Group participates in a defined contribution pension plan managed by the PRC local government authorities whereby the Group is required to pay annual contributions at 18.5%~21% of the average salary level determined by the relevant authorities in the PRC. The Group remits all the pension fund contributions to the respective social security offices, which are responsible for the payments of liabilities relating to the pension fund. The Group has no obligation for the payment of retirement benefits other than the contributions described above.

9 Profit before taxation:

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

(a) Net finance costs

	2006 RMB'000	2005 RMB'000
Interest on bank loans	**17,064**	14,691
Less: borrowing costs capitalised	**—**	(1,671)
Net interest expenses	**17,064**	13,020
Bank charges	**1,913**	1,337
Foreign exchange loss/(gain), net	**140**	(234)
Interest income	**(1,468)**	(2,183)
Net finance costs	**17,649**	11,940

The borrowing costs have been capitalized at the weighted average rate of 4.10% per annum for the year ended 31 December 2005. No interest was capitalized during the year ended 31 December 2006.

(b) Other items

	2006 RMB'000	2005 RMB'000
Cost of inventories*	**390,689**	318,288
Depreciation	**25,990**	20,367
Amortisation of lease prepayments	**724**	703
Provision for inventories	**—**	68
Operation lease charges on premises	**524**	200
Allowance for doubtful debts	**509**	—
Auditors' remuneration	**1,589**	1,036
Total	**420,025**	340,662

* Cost of inventories includes RMB57,542,000 (2005: RMB45,467,000) relating to staff costs, depreciation expenses, amortization of lease prepayments and provision for inventories which amounts are also included in the respective total amounts disclosed separately above or in Note 8 for each type of expenses.

10 Income tax expense

(a) Income tax in the consolidated income statement represents:

	2006 RMB'000	2005 RMB'000
Current tax		
Provision for PRC income tax	**7,272**	8,879
Income tax refund	**(2,218)**	(8,879)
Under provision in prior years	**193**	—
	5,247	—

(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 and the British Virgin Islands.

(ii) No provision for Hong Kong profit tax has been made for the year ended 31 December 2006 (2005: nil) as the Group did not have any assessable profit subject to Hong Kong profit tax.

(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. The applicable tax rate 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, the subsidiaries located in the PRC ("PRC subsidiaries") are entitled to a tax holiday of a tax-free period for two years from their first profit-making year of operations and thereafter, they are subject to PRC enterprise income tax at 50% of the applicable income tax rate for the following three years.

The year of 2003 and 2005 are the first profit making year for Zhejiang Jinyuan Flax Co., Ltd. ("Zhejiang Jinyuan") and Jiangsu Jinyuan respectively. Due to the above-mentioned tax holiday, Zhejiang Jinyuan was subject to PRC enterprise income tax rate at 50% of its applicable tax rate of 26.4% for 3 years from 2005 while Jiangsu Jinyuan was exempted from income tax during the year ended 31 December 2006 and 2005.

(iv) Pursuant to the document "Cai Shui Zi (2000) No. 49" issued by the Ministry of Finance and the State Administration of Taxation of the PRC on 14 January 2000, the Group is entitled to an income tax refund of RMB2,218,000 during the year ended 31 December 2006 (2005: RMB8,879,000) relating to the purchase of equipment produced in the PRC for technological improvements.

10 Income tax expense (continued)

(b) Reconciliation between income tax expenses and accounting profit at applicable tax rates:

	2006 RMB'000	2005 RMB'000
Profit before tax	**95,613**	94,527
Expected tax on profit before tax, calculated at the applicable tax rate concerned (@26.4%*)	**25,242**	24,955
Rate differential on PRC operations	**(853)**	(555)
Tax effect of non-deductible expenses	**1,382**	651
Tax holiday enjoyed by PRC subsidiaries	**(18,499)**	(16,172)
Income tax refund	**(2,218)**	(8,879)
Under provision in prior years	**193**	—
Income tax expense	**5,247**	—

* Expected tax on profit before tax is calculated based on the applicable tax rate of Zhejiang Jinyuan, the Group's major operating subsidiary that was subject to PRC income tax during the year ended 31 December 2006.

(c) Deferred taxation

No deferred tax was recognised in the financial statements as there were no significant temporary differences as at 31 December 2006 and 2005.

(d) Prepaid income tax in the consolidated balance sheet represents:

	The Group	
	2006 RMB'000	2005 RMB'000
PRC income tax		
Balance at beginning of the year	**(7,710)**	—
Provision for income tax for the year	**7,272**	8,879
Entitlement to income tax refund for the year*	**(2,218)**	(8,879)
Under provision in prior years	**193**	—
Income tax refunded/(paid) during the year	**2,341**	(7,710)
Balance at the end of the year	**(122)**	(7,710)

* This represents the tax refund relating to the purchase of equipment produced in the PRC for technological improvements as mentioned in Note 10 (a)(iv).

11 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2006				
	Directors' fees RMB'000	Salaries allowances and other benefits RMB'000	Discretionary bonuses RMB'000	Contribution for retirement benefit schemes RMB'000	Total RMB'000
Executive directors					
Ren Wei Ming	—	551	180	5	736
Shen Yueming	—	292	150	5	447
Zhang Hong Wen	—	222	95	5	322
Non-executive directors					
Ngan Kam Wai Albert	15	—	—	—	15
John Michael May	15	—	—	—	15
Independent non-executive directors					
Yang Donghui	12	—	—	—	12
Yu Chongwen	9	—	—	—	9
Lau Ying Kit	18	—	—	—	18
	69	1,065	425	15	1,574

11 Directors' remuneration (continued)

	2005				
	Directors' fees RMB'000	Salaries allowances and other benefits RMB'000	Discretionary bonuses RMB'000	Contribution for retirement benefit schemes RMB'000	Total RMB'000
Executive directors					
Ren Wei Ming	—	529	—	2	531
Shen Yueming	—	271	—	2	273
Zhang Hong Wen	—	205	—	2	207
Non-executive directors					
Ngan Kam Wai Albert	—	—	—	—	—
John Michael May	—	—	—	—	—
Independent non-executive directors					
Yang Donghui	—	—	—	—	—
Yu Chongwen	—	—	—	—	—
Lau Ying Kit	—	—	—	—	—
	—	1,005	—	6	1,011

12 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2005: three) are directors whose emoluments are disclosed in Note 11.

The aggregate of the emoluments in respect of the other two (2005: two) individuals are as follows:

	2006 RMB'000	2005 RMB'000
Salary and other emoluments	**1,157**	492
Discretionary bonuses	**—**	—
Contribution to retirement benefit schemes	**5**	4
	1,162	496

12 Individuals with highest emoluments (continued)

The emoluments of the two (2005: two) individuals with the highest emoluments are within the following bands:

	2006 Number of individuals	2005 Number of individuals
RMB Nil – RMB 1,000,000	**2**	2

No emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office in current year and prior year.

13 Profit attributable to equity holders of the Company

The consolidated profit attributable to equity holders of the Company include a loss of RMB324,000 which has been dealt with in the financial statements of the Company.

14 Dividends

Dividends payable to equity holders of the Company attributable to the year

	2006 RMB'000	2005 RMB'000
Special dividend declared and paid	**—**	8,106
Final dividend proposed after balance sheet date of RMB0.0375 per share	**23,344**	—
	23,344	8,106

Special dividend of RMB8,106,000 was declared by a subsidiary in 2005 to the then equity holders of the Company before the Reorganisation.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date. The calculation of final dividend per share is based on 622,500,000 ordinary shares in issue as at 31 December 2006.

15 Basic and diluted earnings per share

The calculation of basic and diluted earnings per share is based on the profit attributable to the shareholders of ordinary shares of RMB90,710,000 (2005:RMB91,749,000) and the weighted average of 458,465,753 (2005: 450,000,000) ordinary shares in issue during the year.

Weighted average number of ordinary shares

	2006 Number of shares
Share issued upon incorporation (Note 25(i))	**1**
Issuance of shares upon the Reorganisation (Note 25(iii))	**749,999**
Capitalisation issue (Note 25(iv))	**449,250,000**
Effect of issuance of shares for placing and public offering (Note 25(v))	**8,219,178**
Effect of issuance of shares under the over-allotment option related to the placement (Note 25(vi))	**246,575**
Weighted average number of ordinary shares at 31 December 2006	**458,465,753**

The weighted average number of shares in issue during the year ended 31 December 2005 represents the 450,000,000 shares in issue before the listing of the Company's shares on the Stock Exchange, as if such shares had been outstanding during the above entire year.

No dilutive potential ordinary shares were in issue as at 31 December 2006 (2005: Nil).

16 Property, plant and equipment

The Group

	Plant and buildings RMB'000	Machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
Balance at 1 January 2005	12,151	114,401	2,086	322	126,211	255,171
Additions	13,579	5,131	2,522	251	10,737	32,220
Transfer in/(out)	46,576	78,568	3,155	—	(128,299)	—
Disposals	(1,629)	—	—	—	—	(1,629)
Balance at 31 December 2005	70,677	198,100	7,763	573	8,649	285,762
Balance at 1 January 2006	70,677	198,100	7,763	573	8,649	285,762
Additions	7,644	12,803	2,413	538	41,335	64,733
Transfer in/(out)	1,416	15,134	1,039	—	(17,589)	—
Disposals	—	(1,366)	—	—	—	(1,366)
Balance at 31 December 2006	79,737	224,671	11,215	1,111	32,395	349,129
Accumulated depreciation:						
Balance at 1 January 2005	(44)	(1,090)	(36)	(6)	—	(1,176)
Charge for the year	(2,319)	(17,069)	(950)	(29)	—	(20,367)
Written back on disposals	170	—	—	—	—	170
Balance at 31 December 2005	(2,193)	(18,159)	(986)	(35)	—	(21,373)
Balance at 1 January 2006	(2,193)	(18,159)	(986)	(35)	—	(21,373)
Charge for the year	(3,559)	(20,527)	(1,806)	(98)	—	(25,990)
Written back on disposals	—	607	—	—	—	607
Balance at 31 December 2006	(5,752)	(38,079)	(2,792)	(133)	—	(46,756)
Carrying amounts:						
At 31 December 2005	68,484	179,941	6,777	538	8,649	264,389
At 31 December 2006	73,985	186,592	8,423	978	32,395	302,373

(i) All plant and buildings are located in the PRC on land under medium term leases.

(ii) As at 31 December 2006, certain properties and equipments with an aggregate carrying amounts of RMB100,668,000 (2005: RMB98,459,000) were pledged as security for the Group's bank loans (Note 23).

17 Lease prepayments

	The Group	
	2006	2005
	RMB'000	RMB'000
Cost		
Balance at beginning of year	**35,382**	31,579
Additions	**3,740**	3,803
Balance at end of year	**39,122**	35,382
Amortisation		
Balance at beginning of year	**714**	11
Amortisation for the year	**724**	703
Balance at end of year	**1,438**	714
Carrying amounts		
At end of year	**37,684**	34,668
At beginning of year	**34,668**	31,568

(i) Lease prepayments represent costs paid to the PRC land bureau in obtaining land use rights in respect of land located in the PRC with a lease period of 50 years when granted.

(ii) As at 31 December 2006, certain land use rights with an aggregate carrying amounts of RMB30,131,000 (2005: RMB25,371,000) had been pledged to banks as security for the Group's bank loans (Note 23).

18 Investments in subsidiaries

	The Company
	2006
	RMB'000
Unlisted equity, at cost	**370,221**

18 Investments in subsidiaries (continued)

All of the following entities are subsidiaries as defined under Note 3(a) and have been consolidated into the Group's financial statements. The class of shares held is ordinary unless otherwise stated.

				Proportion of ownership interest			
Name of company	Place of incorporation and operation	Issued and fully paid-up share/authorised capital	Paid-up/ registered capital	Group's effective interest	Held by company	Held by subsidiary	Principal activities
Overseas Kingdom Limited ("Overseas Kingdom")	British Virgin Islands ("BVI")	HK$ 0.01/ HK$ 500	—	100%	100%	—	Investment holding
Kingdom Group Holdings Limited ("Hong Kong Kingdom")	Hong Kong	HK$1,250,000/ HK$ 1,250,000	—	100%	—	100%	Investment holding
Zhejiang Jinyuan Flax Co., Ltd. ("Zhejiang Jinyuan")	People's Republic of China ("PRC")	—	USD 16,320,000/ USD 16,320,000	100%	—	100%	Manufacture and sales of linen yarns
Jiangsu Jinyuan Flax Co., Ltd. ("Jiangsu Jinyuan")	People's Republic of China ("PRC")	—	USD 11,500,000/ USD 11,500,000	100%	—	100%	Manufacture and sales of linen yarns
Rugao Jinda Flax Co., Ltd. ("Rugao Jinda")	People's Republic of China ("PRC")	—	RMB 5,000,000/ RMB 5,000,000	100%	—	100%	Manufacture and sales of semi-finished goods of linen yarns
Asia Harvest Enterprises Limited ("Asia Harvest")	Hong Kong	HK $ 1/ HK$ 10,000	—	100%	—	100%	Not yet commenced business
Jiangsu Ziwei Flax Co. Ltd ("Jiangsu Ziwei")	People's Republic of China ("PRC")	—	USD 5,000,000/ USD 10,000,000	100%	—	100%	Not yet commenced business

(i) Zhejiang Jinyuan and Jiangsu Ziwei are wholly foreign owned enterprises established in the PRC.

(ii) Jiangsu Jinyuan is a sino-foreign equity joint venture established in the PRC.

(iii) Rugao Jinda is a domestic company established in the PRC.

19 Inventories

Inventories in the balance sheet comprise:

	The Group	
	2006	2005
	RMB'000	RMB'000
Raw materials	**51,762**	56,923
Work in progress	**11,336**	11,937
Finished goods	**45,141**	52,394
Goods in transit	**56,432**	31,303
	164,671	152,557

As at 31 December 2006, full provision of RMB284,000 (2005: RMB284,000) was made against certain slow moving inventories.

As at 31 December 2006, inventories with an aggregated carrying value of RMB33,340,000 (2005: RMB60,557,000) had been pledged to a bank as security for bank loans (Note 23).

20 Trade and other receivables

	The Group		The Company
	2006	2005	**2006**
	RMB'000	RMB'000	**RMB'000**
Trade and bills receivable	**152,372**	65,919	**—**
Deposits and prepayments	**19,562**	12,047	**500**
Amount due from a subsidiary	**—**	—	**204,771**
	171,934	77,966	**205,271**

All trade and bills receivable are expected to be recovered within one year.

Amount due from a subsidiary is unsecured, interest-free and have no fixed repayment terms.

20 Trade and other receivables (continued)

The Group normally allows a credit period ranging from 30 days to 180 days to its customers. The Group's credit policy is set out in Note 27. An ageing analysis of the Group's trade and bills receivable (net of provisions for bad and doubtful debts) is as follows:

	2006	2005
	RMB'000	RMB'000
Within 1 month	**72,281**	49,036
Over 1 month but less than 3 months	**56,731**	12,211
Over 3 months but less than 6 months	**14,671**	2,972
Over 6 months but less than 12 months	**7,974**	1,663
Over 12 months	**715**	37
	152,372	65,919

Receivables denominated in currencies other than the functional currency of the entity to which they relate comprise RMB80,170,000 of trade and bills receivable denominated in U.S. Dollar (2005: RMB31,716,000).

21 Pledged deposits

The Group's bank deposits of RMB75,426,000 (2005: RMB72,305,000) had been pledged to banks as security of the Group's bank loans (Note 23) and other banking facilities. The pledged bank deposits will be released upon the termination of relevant banking facilities.

22 Cash and cash equivalents

	The Group		**The Company**
	2006	2005	**2006**
	RMB'000	RMB'000	**RMB'000**
Deposits with banks within three months of maturity	**4,000**	—	**—**
Cash at bank and in hand	**326,010**	60,566	**79,473**
	330,010	60,566	**79,473**

22 Cash and cash equivalents (continued)

Included in cash and cash equivalents are the following amounts denominated in currencies other than the functional currency of the entity to which they relate:

	The Group		The Company
	2006 thousand	2005 thousand	**2006 thousand**
United States Dollars	**US$ 683**	US$ 1,388	**—**
Hong Kong Dollars	**HK$283,320**	HK$141	**HK$79,101**

Except for the above amounts that are denominated in foreign currencies, all cash and cash equivalents are denominated in Renminbi, which is not freely convertible currency. Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

23 Bank loans

		The Group	
		2006 RMB'000	2005 RMB'000
Current			
Secured bank loans	(i)	**83,800**	100,238
Unsecured bank loans	(ii)	**75,000**	79,860
Current portion of non-current bank loans:			
- secured bank loans		**5,000**	—
- unsecured bank loans		**30,000**	—
		193,800	180,098
Non-current			
Secured bank loans	(iii)	**30,000**	—
Unsecured bank loans	(iv)	**30,000**	30,000
Less: current portion			
- secured bank loans		**(5,000)**	—
- unsecured bank loans		**(30,000)**	—
		25,000	30,000
		218,800	210,098

23 Bank loans (continued)

(i) Current secured bank loans of RMB73,800,000 (2005: RMB100,238,000) were secured by certain fixed assets, land use rights, inventories and bank deposits of the Group, details of which refer to Note 16, 17, 19 and 21. Current secured bank loan of RMB10,000,000 (2005: Nil) were secured by certain land use rights of a third party.

Current secured bank loans carried interest at annual rates ranging from 5.85% to 7.04% (2005: 3.4% to 6.0%).

(ii) Current unsecured bank loans carried interest at annual rates ranging from 5.4% to 7.04% (2005: 5.2% to 6.8%).

Current unsecured bank loans totalling RMB69,860,000 as at 31 December 2005 were either guaranteed by Zhejiang Kingdom Creative Co., Ltd. ("Kingdom Creative") or jointly guaranteed by Kingdom Creative and Mr. Ren Wei Ming. Both Kingdom Creative and Mr. Ren Wei Ming are related parties (Note 31). These guarantees were released upon the repayment of the related loans and the listing of the Company's shares on the Stock Exchange during the year ended 31 December 2006.

(iii) Non-current secured bank loans of RMB30,000,000 as at 31 December 2006 were secured by certain fixed assets and land use rights of the Group (Note 16 and 17). They carried floating interest rate at 6.03% per annum on 31 December 2006.

(iv) Non-current unsecured bank loans of RMB30,000,000 carried floating interest rate at 6.03% per annum as at 31 December 2006 (2005: 5.76% per annum). Kingdom Creative and Mr. Ren Wei Ming formerly issued joint guarantees to the bank in respect of this bank loan. The above joint guarantee was released upon the listing of the Company's share on the Stock Exchange.

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

	The Group	
	2006	2005
	RMB'000	RMB'000
Within 1 year	**35,000**	—
Over 1 year but less than 2 years	**10,000**	30,000
Over 2 years but less than 5 years	**15,000**	—
	25,000	30,000
	60,000	30,000

Bank loans denominated in currencies other than the functional currency of the entity to which they relate comprise RMB11,401,000 of a loan denominated in U.S. Dollar (2005: RMB62,818,000).

24 Trade and other payables

	The Group		The Company
	2006	2005	**2006**
	RMB'000	RMB'000	**RMB'000**
Trade and bills payable	**173,674**	144,021	**—**
Non-trade payables and accrued expenses	**36,818**	24,964	**2,220**
Amounts due to related parties (Note 31(b))	**390**	1,642	**—**
Amounts due to subsidiaries	**—**	—	**8,583**
	210,882	170,627	**10,803**

All trade and other payables (including amounts due to related parties) are expected to be settled within one year.

Amounts due to subsidiaries are unsecured, interest-free and have no fixed repayment terms.

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

	The Group	
	2006	2005
	RMB'000	RMB'000
Within 1 month	**83,383**	110,589
Over 1 month but less than 3 months	**27,023**	29,664
Over 3 months but less than 6 months	**61,138**	2,471
Over 6 months but less than 12 months	**1,543**	1,052
Over 12 months	**587**	245
	173,674	144,021

Trade and other payables of the Group denominated in currencies other than the functional currency of the entity to which they relate comprise RMB101,536,000 of payables denominated in U.S. Dollar (2005: RMB77,409,000).

25 Share capital

Authorised:	The Group and the Company 2006 No. of shares	Amount HK$'000
Ordinary shares of HK$0.01 each (note (i) and (ii) below)	3,000,000,000	30,000

Ordinary shares issued and fully paid:

	No. of shares	Amount HK$'000	Amount RMB'000 equivalent
Share issued upon incorporation (note (i) below)	1	—	—
Issuance of new shares pursuant to the Reorganisation (note (iii) below)	749,999	8	8
Capitalisation issue (note (iv) below)	449,250,000	4,492	4,527
Issuance of share by placing and public offering (note (v) below)	150,000,000	1,500	1,511
Issuance of share under the over-allotment option related to the placement (note (vi) below)	22,500,000	225	226
At 31 December 2006	622,500,000	6,225	6,272

25 Share capital (continued)

(i) The Company was incorporated in the Cayman Islands on 21 July 2006 with an authorised share capital of HK$380,000 divided into 38,000,000 ordinary shares of par value HK$0.01 each. On 21 July 2006, 1 ordinary share of HK$0.01 in the Company was allotted and issued to the initial subscriber and such share was then transferred to Kingdom Investment Holdings Limited on the same day.

(ii) Pursuant to written resolution of the sole shareholder of the Company passed on 11 August 2006, the authorised share capital of the Company was increased from HK$380,000 divided into 38,000,000 shares of HK$0.01 each to HK$30,000,000 divided into 3,000,000,000 shares of HK$0.01 each by the creation of an additional 2,962,000,000 shares of HK$0.01 each.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(iii) On 23 November 2006, pursuant to the Reorganisation described in Note 1 to the financial statements, the Company issued in aggregate of 749,999 ordinary shares of HK$0.01 each in the Company to the then shareholders of Hong Kong Kingdom in consideration of acquiring their respective equity interests held in Hong Kong Kingdom.

(iv) On 15 November 2006, the Company authorised the issue of 449,250,000 ordinary shares of HK$0.01 each to the then shareholders of the Company in the proportion of their respective shareholdings in the Company by way of capitalisation of HK$4,492,500 (equivalent to RMB4,527,000) from the share premium account upon the listing of the Company's share on the Stock Exchange. The above shares were issued on 12 December 2006.

(v) On 12 December 2006, 150,000,000 ordinary shares of HK$0.01 each were issued at a price of HK$1.75 per share under the Hong Kong Public Offering ("the Offering") and the International Placing ("the Placement"). The proceeds of HK$1,500,000 (equivalent to RMB1,511,000) representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$261,000,000 (equivalent to RMB262,984,000), before the share issue expenses, were credited to the share premium account.

(vi) On 28 December 2006, the underwriters of the Placement exercised the over-allotment option for the issuance of 22,500,000 ordinary shares of HK$0.01 each at HK$1.75 per share. The proceeds of HK$225,000 (equivalent to RMB226,000) representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$39,150,000 (equivalent to RMB39,350,000), before the share issue expenses, were credited to the share premium account.

(vii) The Company was incorporated on 21 July 2006. Share capital reflected in the consolidated balance sheet at 31 December 2005 represented the aggregate amount of paid-in capital of the companies comprising the Group at that date, after elimination of investment in subsidiaries.

26 Reserves

(a) The Group

	Note	Share premium RMB'000	Capital reserve RMB'000 Note 26(a)(ii)	Merger reserve RMB'000 Note 26(a)(iii)	PRC statutory reserve RMB'000 26(a)(iv)	Retained earnings RMB'000	Total RMB'000
As at 1 January 2005		100,613	28,354	—	6,987	109	136,063
Capital injection		64,726	—	—	—	—	64,726
Acquisition of interest in a subsidiary from a minority shareholder		—	1,813	—	—	—	1,813
Profit for the year		—	—	—	—	91,749	91,749
Transfer to reserve		—	—	—	7,278	(7,278)	—
Distribution to the then equity holders	14	—	—	—	—	(8,106)	(8,106)
As at 31 December 2005		165,339	30,167	—	14,265	76,474	286,245
As at 1 January 2006		165,339	30,167	—	14,265	76,474	286,245
Arising from reorganisation	26(a)(iii)	(165,339)	(30,167)	196,816	—	—	1,310
Issuance of share by placing and public offer	26(a)(i)	262,984	—	—	—	—	262,984
Capitalisation issue	26(a)(i)	(4,527)	—	—	—	—	(4,527)
Issuance of share under the over-allotment option related to the placement	26(a)(i)	39,350	—	—	—	—	39,350
Share issuance expenses	26(a)(i)	(29,806)	—	—	—	—	(29,806)
Profit for the year		—	—	—	—	90,710	90,710
Transfer to reserve		—	—	—	12,863	(12,863)	—
As at 31 December 2006		268,001	—	196,816	27,128	154,321	646,266

26 Reserves (continued)

Nature and purpose of the Group's reserves

(i) Share premium

150,000,000 ordinary shares of HK$0.01 each in the Company were issued at HK$1.75 under the Offering and the Placement on 12 December 2006. An additional 22,500,000 ordinary shares of HK$0.01 each in the Company were issued at HK$1.75 on 28 December 2006 pursuant to the over-allotment option related to the Placement. The excess of the proceeds totaling HK$301,875,000 (equivalent to RMB304,071,000) over the nominal value of the total number of ordinary shares issued, less certain listing costs of HK$29,249,000 (equivalent to RMB29,806,000) incurred in connection with the issue of share capital, amounting to HK$270,901,000 (equivalent to RMB272,528,000), was credited to the share premium account of the Company.

Pursuant to an ordinary resolution passed at a directors' meeting held on 15 November 2006, 449,250,000 ordinary shares of HK$0.01 each in the Company were issued at par value on 12 December 2006 by way of capitalisation of HK$4,492,500 (equivalent to RMB4,527,000) from the share premium account.

The Company was incorporated on 21 July 2006. The share premium reflected in the consolidated financial statements as at 31 December 2005 represented the share premium of Hong Kong Kingdom, which was subsequently transferred to the merger reserve as at the date of Reorganisation (see Note (iii) below).

(ii) Capital reserve

Prior to 31 December 2005, Hong Kong Kingdom acquired equity interests of certain subsidiaries now comprising the Group from related parties. The excess of Hong Kong Kingdom's share of the net identifiable assets acquired over the consideration paid were regarded as equity transactions and recorded in capital reserve, which was subsequently transferred to the merger reserve as at the date of Reorganisation (see Note (iii) below).

(iii) Merger reserve

On 15 November 2006, pursuant to the Reorganisation, the Company issued 749,999 ordinary shares of HK$0.01 each to the then shareholders of Hong Kong Kingdom in consideration of acquiring their respective equity interests held in Hong Kong Kingdom. The difference between the then shareholders' total capital contributions to Hong Kong Kingdom over the nominal value of the shares issued by the Company in exchange thereof was transferred to the merger reserve in the consolidated financial statements as at the date of Reorganisation.

26 Reserves (continued)

Nature and purpose of the Group's reserves (continued)

(iv) PRC statutory reserve

Transfers from retained earnings to the following PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective boards of directors.

General reserve fund

The subsidiaries in the PRC are required to transfer at least 10% of their profit after taxation, as determined under the PRC accounting regulations, to the general reserve fund until the reserve balance reaches 50% of their respective registered capital. The transfer to this reserve must be made before the distribution of dividends to shareholders.

The general reserve fund can be used to make good losses and convert into share capital by the issue of new shares to shareholders in proportion to their existing equity holdings.

Enterprise expansion fund

The transfers from retained earnings to the enterprise expansion fund were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries and were approved by the respective boards of directors.

The enterprise expansion fund can be used to convert into share capital, to acquire fixed assets and to increase current assets.

26 Reserves (continued)

(b) The Company

	Share premium RMB'000	Contributed surplus RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 21 July 2006 (date of incorporation)	—	—	—	—
Arising from reorganisation	—	370,213	—	370,213
Issuance of share by placing and public offering	262,984	—	—	262,984
Capitalisation issue	(4,527)	—	—	(4,527)
Issuance of share under the over-allotment option related to the placement	39,350	—	—	39,350
Share issuance expenses	(29,806)	—	—	(29,806)
Loss for the period	—	—	(324)	(324)
As at 31 December 2006	268,001	370,213	(324)	637,890

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Contributed surplus

Contributed surplus represents the excess of the fair value of the shares of Hong Kong Kingdom determined on the basis of the consolidated net assets of Hong Kong Kingdom at the date of the Reorganisation over the nominal value of the shares issued by the Company in exchange thereof.

27 Financial instruments

Exposure to credit, interest rate and foreign currency risks arises in the normal course of the Group's business.

(a) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. At the balance sheet dates, the Group had no significant concentration of credit risk with any of its customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

(b) Interest rate risk

Cash and cash equivalent, pledged deposits and bank loans are the major types of the Group's financial instruments subject to interest rate risk. Cash and cash equivalents and pledged deposits comprise mainly cash at bank, with fixed interest rates of 0.72 % per annum as at 31 December 2006 (2005: 0.72%).

Details of the interest rates and repayment terms of the Group's bank loans and borrowings are disclosed in Note 23 above.

(c) Foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases and borrowings that are denominated in a currency other than Renminbi. The currency giving rise to this risk is primarily United States Dollars.

Certain sales and purchases of the Group are transacted in United States Dollars and the listing of the Company's shares on the Stock Exchange are transacted in Hong Kong Dollar. All the other operating activities of the Group are mainly transacted in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorized to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand. Changes in exchange rate affect the RMB value of sales proceeds of products and purchase costs of raw materials that are denominated in foreign currencies. In particular, an appreciation of RMB against United States Dollars may have the effect of rendering exports from the Group in China more expensive and less competitive than products from other countries.

27 Financial instruments (continued)

(d) Fair value

The carrying amounts of significant financial assets and liabilities approximate to their respective fair values as at 31 December 2006 and 2005.

The following method and assumptions were used to estimate the fair value for each class of financial instruments:

(i) Cash and cash equivalents, pledged deposits, trade and other receivables, and trade and other payables

The carrying values approximate fair values because of the short maturities of these instruments.

(ii) Bank loans

The carrying amounts of bank loans approximate their fair value based on the borrowing rates currently available for bank loans with similar terms and maturity.

28 Operating leases commitments

Non-cancellable operating lease rentals are payable as follows:

	The Group	
	2006	2005
	RMB'000	RMB'000
Less than one year	**699**	—
Between one and five years	**941**	—
	1,640	—

The Group leases certain properties located in the PRC and Hong Kong as the Group's office under operating lease. The leases run for an initial period of 2-3 years, with an option to renew the leases after that date.

29 Capital commitments

Capital commitments in respective of purchase of property, plant and equipment outstanding at 31 December 2006 and 2005 but not provided for in the consolidated financial statements were as follows:

	The Group	
	2006	2005
	RMB'000	RMB'000
Contracted for	**8,650**	1,842

30 Contingent liabilities

	The Group	
	2006	2005
	RMB'000	RMB'000
Guarantees given and assets pledged to banks in respect of facilities utilised by Kingdom Creative	**—**	53,100

Prior to the listing of the Company's share on the Stock Exchange, the Group issued guarantees and pledged certain of the Group's assets to certain banks as security for bank loans borrowed by Kingdom Creative. The above guarantees given and assets pledged by the Group were released upon the repayment of the related loans by Kingdom Creative and the listing of the Company's shares on the Stock Exchange during the year ended 31 December 2006.

31 Related party transactions

Transactions with the following entities are considered as related party transactions for the years ended 31 December 2006 and 2005.

Name of party	**Relationship**
Kingdom Investment Holdings Limited ("Kingdom Investment Holdings")	The ultimate holding company
Mr. Ren Wei Ming	Controlling shareholder of the Company's ultimate holding company ("the Controlling Shareholder")
Zhejiang Kingdom Creative Co., Ltd. ("Kingdom Creative")	Controlled by Mr. Ren Wei Ming
Zhejiang Kingdom Investment Management Co., Ltd. ("Kingdom Investment")	Controlled by Mr. Ren Wei Ming
Haiyan Kingdom Import and Export Co., Ltd. ("Kingdom Import and Export")	Controlled by Mr. Ren Wei Ming
Unique Source Chem-Textile Group, Inc ("Unique Source")	One of the Company's shareholders

The Group also had a related party relationship with its directors and senior officers.

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following related party transactions.

31 Related party transactions (continued)

(a) Transactions with the ultimate holding company, the Company's shareholders and companies controlled by the Controlling Shareholder

	2006 RMB'000	2005 RMB'000
Operating lease charge on premises charged by		
– Kingdom Creative	**200**	200
Sales of goods to:		
– Kingdom Creative	**1,862**	980
– Kingdom Import and Export	**4,186**	—
Sales of raw materials to:		
– Kingdom Creative	**—**	2,293
Sales of fixed assets to:		
– Kingdom Creative	**710**	1,459
Purchase of fixed assets from:		
– Kingdom Creative	**14,178**	12,833
Purchase of land use rights from:		
– Kingdom Creative	**3,646**	3,803
Purchase of raw materials from:		
– Kingdom Creative	**—**	24,381
– Unique Source	**2,736**	1,834
Utility fee paid on behalf of the Group by:		
– Kingdom Creative	**—**	11,413
Utility fee paid by the Group on behalf of:		
– Kingdom Creative	**712**	—
Sewage processing fee charged by:		
– Kingdom Creative	**1,706**	1,820
Steam fee charged by:		
– Kingdom Creative	**—**	1,819
Interest-free advances from:		
– Kingdom Investment Holdings	**390**	—

The directors of the Company have confirmed that the above transactions, except for operating lease charge on premises charged by Kingdom Creative, were discontinued after the listing of the Company's shares on the Stock Exchange on 12 December 2006.

31 Related party transactions (continued)

(b) Balances with related parties

	2006 RMB'000	2005 RMB'000
Amounts due to:		
Unique Source	**—**	1,642
Kingdom Investment Holdings	**390**	—
	390	1,642

(c) Transactions with key management personnel

	2006 RMB'000	2005 RMB'000
Short-term employee benefits	**1,223**	542
Post-employment benefits	**10**	4
Discretionary bonuses	**—**	—
	1,233	546

Total remuneration is included in "personnel expenses" (Note 8).

(d) 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 RMB1,957,000 for the year ended 31 December 2006 (2005: RMB937,000). As at 31 December 2006 and 2005, there was no material outstanding contribution to post-employment benefit plans.

32 Accounting estimates and judgments

Key sources of estimation uncertainty are as follow:

(i) Impairment losses on trade and other receivables

Impairment losses for trade and other receivables are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectibility. A considerable level of judgment is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debts would affect the income statement in future years.

(ii) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(iii) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market condition. Management will reassess the estimations at each balance sheet date.

33 Parent and ultimate holding company

At 31 December 2006, the directors consider the immediate and ultimate controlling party of the Group to be Kingdom Investment Holdings Limited, which is incorporated in British Virgin Islands. This entity does not produce financial statements available for public use.

34 Subsequent events

(i) Dividend

After the balance sheet date, the directors proposed a final dividend on 19 April 2007. Further details are disclosed in Note 14.

(ii) New Corporate Income Tax Law of the People's Republic of China

Pursuant to the PRC enterprise income tax passed by the Fifth Plenary Session of Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% and will be effective from 1 January 2008. The impact of such change of enterprise income tax rate on the Group's consolidated financial statements will depend on detailed pronouncements that are yet to be issued. Since implementation and transitional guidance applicable to the Group has not yet been announced, the Group cannot reasonably estimate the financial impact of the new law to the Group at this stage.

Financial Highlights

The summary of the results and of the assets and liabilities of Kingdom Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") and 浙江金元亞麻有限公司 (Zhejiang Jinyuan Flax Co. Ltd.*) ("Zhejiang Jinyuan") for each of the four years ended 31 December 2006 are extracted from the audited financial statements of the Group of this annual report and the accountants' reports of the Company and Zhejiang Jinyuan included in the prospectus of the Company dated 30 November 2006.

RESULTS

	The Group			**Zhejiang Jinyuan**	
	Year ended 31 December 2006 RMB'000	Year ended 31 December 2005 RMB'000	Period from 17 November 2004 to 31 December 2004 RMB'000	Period from 1 January 2004 to 16 November 2004 RMB'000	Year ended 31 December 2003 RMB'000
Turnover	**537,364**	452,349	31,621	262,077	100,781
Cost of sales	**(390,689)**	(318,288)	(21,750)	(180,233)	(77,747)
Gross profit	**146,675**	134,061	9,871	81,844	23,034
Other operating income	**6,308**	2,587	120	210	11
Distribution costs	**(16,701)**	(14,802)	(716)	(6,721)	(2,346)
Administrative expenses	**(22,118)**	(14,753)	(1,070)	(4,073)	(2,264)
Other operating expenses	**(902)**	(626)	0	(419)	(156)
Profit from operations	**113,262**	106,467	8,205	70,841	18,279
Net financing costs	**(17,649)**	(11,940)	(1,236)	(10,342)	(5,504)
Profit before taxation	**95,613**	94,527	6,969	60,499	12,775
Income tax	**(5,247)**	0	0	0	(752)
Profit for the year/period	**90,366**	94,527	6,969	60,499	12,023

ASSETS AND LIABILITIES

	As at 31 December 2006	As at 31 December 2005	As at 31 December 2004	As at 16 November 2004	As at 31 December 2003
Total assets	**1,082,220**	670,161	574,842	489,591	277,188
Total liabilities	**(429,682)**	(380,725)	(407,015)	(334,755)	(184,859)
Net assets	**652,538**	289,436	167,827	154,836	92,329

The English names of the PRC entities mentioned herein marked with "" are translations from their Chinese names. If there is any inconsistency, the Chinese name shall prevail.*

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