KINGDOM

ANNUAL REPORT

2009 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

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

QUALIFIED ACCOUNTANT & COMPANY SECRETARY

Mr. Cheng Yee Fai, Fred FCPA, CA

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PLACE OF BUSINESS IN HONG KONG

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AUDITORS

KPMG

LEGAL ADVISORS

Sidley Austin

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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26th Floor
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STOCK CODE

528

Linen textile in Florence

佛罗伦萨的亚麻纺织业

长期以来，人们认为佛罗伦萨是欧洲的艺术之都，是一个充满诗意和艺术灵感的地方，自然被诗人、作家、画家和雕塑家看成他们的精神家园。事实上，在这个城市所具有的浪漫、热情的气质下面，是多少有些冷冰冰的工业，以及它那网络欧洲、无孔不入的国际贸易和纺织业。因此文艺复兴时期的佛罗伦萨，是文化艺术和工商金融活动的双子星座。

Florence has been recognized as the capital of art in Europe for a long time, a place fulfilled with artistic inspiration and romance, taken as the spiritual garden by poets, authors, painters and sculptors. In fact under the atmosphere of elegance and passion, it is based on the coldness of enterprises, trading network and textile. Florence to some extent is a combination of art, culture, and the activities of industry, commerce and finance.

到十三世纪中期，佛罗伦萨开始逐步壮大起来。它的城市一再扩建，人口日渐增多，工商业繁荣，其活动从本地区扩大到较远的地方，开始以意大利中部一个大城市的面目，出现在历史舞台上，其“毛纺织行业和银行业的兴起使该城有了作为首都的基础”。

这时，欧洲历史也进入一个新的转折点。这就是封建社会发展到后期阶段，内部出现了资本主义关系萌芽。随着经济基础的变化，政治和文化等上层建筑也酝酿着巨变。佛罗伦萨正是走在这些变化前列的城市。十三世纪末十四世纪初，佛罗伦萨已成为欧洲最大的工商业城市之一，它不再是一只普通的燕雀，而是一只傲立枝头的凤凰了。佛罗伦萨真是一派兴旺景象：它拥有欧洲最发达的毛织工业，羊毛纺织和印染工业，可称全球之冠，它的羊毛业行会是英国羊毛的最大买主，左右了欧洲呢绒贸易，国际贸易的足迹，遍及欧洲，甚至远至中国。

从留传下来的一些零散记载，可以看出当时佛罗伦萨工商业发展的大致情况。据当时该城著名历史学家乔瓦尼·维兰尼记载，“1336-1338年，佛罗伦萨有200多家呢绒纺织工场，生产过程细分为20多道工序，年产7-8万匹呢绒，价值达120万佛罗林”，直接靠这个行业为生的市民达三万人。进口布匹加工业的规模也不小，1338年佛罗伦萨城内有二十座大商店，每年购入加工的呢绒，仅在佛罗伦萨一地销售的就有一万多匹，价值约三十万佛罗林。

佛罗伦萨经济在14世纪达到鼎盛，14世纪30年代，佛罗伦萨的纺织业由传统的行会生产转变为工场手工业，这是欧洲最早出现的资本主义萌芽。佛罗伦萨雄厚的资本主义经济为文艺复兴运动的兴起提供了坚实的经济基础。

到目前为止，佛罗伦萨的纺织业还是全世界最好的，当然包括亚麻纺织。

By the 13th century the city became a commercial and financial centre attracting bankers, traders and all types of craftsmen. The trading of wool and cotton led to rapid development of the textile and dyeing industries. The wealth created was spent on the constructing some of the finest palaces, churches and bridges being built in this era. European politics and culture also underwent rapid changes. The decline of the feudal system coincided with the rise of the gilts and the merchant classes.

By early 14th century, Florence was the undisputable centre of the linen trade. A local historian recorded duringthe period 1336-1338, Florence had 200 linen mills. Each production line was divided into over 20 processes. Total capacity was 80,000 meters of linen cloth. Records dated back to 1338 showed that overall the textile industry employed over 30,000 workers, and there were 20 big traders in Florence. Today Tuscany remains as an important centre of the finest textile, including linen for the world renowned fashion houses.

佛罗伦萨最古老的一座桥Pont Vecchio，建于1345年，设计者则是乔托的弟子哥第负责的，沿着这座桥的上方，有一条瓦萨利走廊(Corridoio Vasariano)，架空在商店的上方，连结河对岸的比堤宫(Palazzo Pitti)和旧宫之间。

The picture above shows the oldest bridge in Florence named PONT VECCHIO, which was built in 1345.

I am pleased to present the annual report of Kingdom Holdings Limited ("Kingdom" or the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2009.

Despite a rally in China's economy and the favourable general market conditions, the slower pace of recovery in global economic stability, especially in the European and US markets, cast uncertainty over the overall exports of linen yarns. The PRC linen yarns manufacturing industry experienced unprecedented difficulties in 2009. However, the Group implemented various strategic measures to make reasonable price and market adjustments during the year and its overall performance turned around. In late 2009, the Copenhagen Climate conference further stimulated the environmental protection consciousness of consumers and their demand for natural fibre textile products. As the positive effect of the economic recovery in 2010 begins to be reflected on the demand for linen yarns, the outlook of the sales of linen yarns, the major product of the Group, will be more positive.

During the year under review, the initial success of the Group's expansion strategy into the non-European market offset the repercussion of the weaker European market on the Group and turnover increased to RMB491,165,000 (2008: RMB448,231,000). However, due to the higher cost of raw materials held since 2008 being used during the year under review, the operating benefits resulting from the lower cost of the raw materials in the market failed to completely emerge. The overall cost of sales of the Group during the year under review remained high, which kept gross profit at a low level of RMB56,017,000 (2008: RMB54,315,000).

Despite the higher finance costs, the Group successfully reduced the loss attributable to the shareholders to RMB18,156,000 for the year ended 31 December 2009 from RMB22,827,000 for the year ended 31 December 2008 by actively employing the measures such as strictly monitoring the procurement costs, making rational use of raw materials and formulating production workshop performance appraisals. The board of directors (the "Board") of the Company does not recommend the payment of a final dividend for the year ended 31 December 2009.

Kingdom has been the largest exporter of linen yarns in China and has built a well known brand based on its reputation for quality. There is unbounded potential for the demand for linen yarns in the domestic market. The domestic turnover of the Group was still basically level despite the reduced overall domestic demand during the year resulting from the market downturn. As the overseas markets demonstrated good growth opportunities for linen yarn sales, the Group recently began to develop the markets of India, Japan and South East Asia, which were vigorously developing. During the year under review, the Group successfully expanded into the Brazilian market and the Group plans to develop the Eastern European and North European markets. A multi-country market strategy will be beneficial to the sales of the Group in terms of stability.

The linen yarn raw material production base in Xinjiang helps the Group to control the raw material costs and the by-products in the course of raw material production will also be sold to third parties, thus providing the Group with another source of income.

Technological advances play a key role in enabling Kingdom to maintain its market-leading position for many years. Kingdom successfully applied for various patents during the year. In the future, Kingdom will continue to import, research and develop new production technologies, thus actively improving its operations and product technology and enabling the linen yarn production technology of the Group to remain at the forefront of the international standard and the Group to maintain its long term competition advantage in the domestic and international markets.

The Group has been focused on the production of high-end products which have strong market competitiveness and high ability to resist risks. Currently, there are more varieties of linen yarns products of the Group, with an increased yarn count to 3 NM and 75 NM and the introduction of differential linen yarns products. The Group will continue to invest in the development of high-end products and increase the production of high count and patterned linen yarns in the future with a target of 45% of its products being in these categories.

The demand for natural fibre textile products, including linen yarns, from the Chinese, European and American markets and emerging markets will continuously grow in the future due to the economic turnaround, the consumers being more conscious of environmental protection and the favourable government policies towards the industry, thus benefiting the development of the Group. The Group will continue to gain more market share with its high-end products and develop more new markets to extend our existing overseas sales network in order to seize the market opportunities.

The Group believes a competitive advantage in the Chinese and global markets can only be maintained and expanded through the dedication and effort of the Group's entire staff. On behalf of the Board, I would like to express my gratitude to the staff for their endeavours and contribution and my sincere appreciation to our customers, suppliers and shareholders for their support. 2010 will be a turnaround year and we will seize the opportunities and are dedicated to working together towards the continued success of Kingdom.

Ren Wei Ming
Chairman

Haiyan County, PRC, 29 March 2010

April

四月 / 在阳光、雨露和土地的孕育下绿色的亚麻开始成长

Beginning the growth in sunlight, dew and earth

BUSINESS REVIEW

Industry overview

The year 2009 was the most challenging and difficult year for the PRC linen yarns manufacturing industry. Although China´s economy stabilised and resumed growth and the market was generally favourable, while global economy, particularly the European and American markets, showed an upturn as the markets began to pick up at a relatively slow pace, the positive developments did not immediately reflect on the demands for linen yarn products, and the market dynamics of the industry had not seen any recovery during the year under review. Despite that, the Group further optimised the product structure of linen yarns and further increased the Group's market share to raise demands for high end products, and initial success was achieved with respect to structural adjustment and technological advancement.

Overall performance

During the year under review, the Group implemented a number of strategic measures to cope with adverse market circumstances, including focusing on exploring more varieties of high-end linen yarns products and adopting price adjustment initiatives. In addition, in response to the changes in domestic and overseas market environments, the Group flexibly allocated marketing efforts to deepen expansion in domestic markets, while also reaped satisfactory results from the Group's development strategies targeting the non-European markets. Benefiting from the effective price adjustments and measures implemented to cope with market conditions, the Group's sales of linen yarns increased during the year under review in a declining market, recording total sales volume of 10,740 tonnes. This is a significant surge of 34.9% compared to 7,961 tonnes in 2008. Total sales of linen yarns amounted to RMB491,165,000, of which RMB243,089,000, or 49.5%, was derived from export sales. Although the overall linen yarns export volume from China shrank by 1.4%, the linen yarns export volume of the Group in 2009 grew by 28.19% compared with the corresponding period of last year. This result further reinforced the Group's position as the leading exporter of linen yarns in China.

With respect to raw materials, the prices of raw materials further dropped in the first half of 2009. However, since the higher cost raw materials purchased in 2008 were still used during the year under review, the operating benefits from lower market price of raw materials only began to reflect in the results gradually in the second half of 2009. The overall cost of sales of the Group during the year under review remained at a high level, which kept gross profit margin of the Group low.

The success of the Group's expansion strategy in non-European markets had offset the impact of the European markets on the Group. Meanwhile, the Group adopted more stringent measures to monitor procurement costs. Measures adopted include rational matching of different raw materials, formulating performance appraisals on various aspects of production workshops, as well as drawing up proposals on distribution of procurement on raw materials, the Group managed to reduce the extent of losses.

Development of the markets

In view of the infinite potential of demand for linen yarns in the PRC market, the Group started active expansion in the domestic sales market in the previous years. The Group made great efforts in consummating the distribution network and focused on providing services to major customers in order to increase the number of orders from those major customers. This strategy adopted by the Group was proved to be appropriate and effective. The domestic sales during the year under review maintained at RMB248,076,000, accounted for 50.5% of the total sales of the Group.

For overseas markets, the Group concentrated on optimizing the overall arrangement of the sales network in overseas markets, in order to further consolidate the Group's position in these overseas markets, and to capture opportunities that arise in the future when these markets recover. During the year under review, the Group made exceptional achievements with the strategy of expanding into non-European Union markets; sales derived from non-European Union markets doubled that of 2008 to RMB100,175,000, boosting overall export sales of the Group to grow by 20.4% at RMB243,089,000, or 49.5% of total sales, in a market that had not been fully recovered.

Although the impact of the financial tsunami on the European markets was so severe that the sales of linen yarns recovered at a slow rate, the Group took into account the traditional high demands for linen yarns in European markets and was determined to maintain its market share and to quickly capture sales position once the economy picks up. As a result, the Group gained over 10 new customers in Italy during the year under review. This has further increased the Group's customer coverage in the region. In future, the European markets will continue to be a crucial foothold for the Group´s development in the overseas markets. For the year of 2010, the Group's expansion into Europe will be predominantly focused on Eastern Europe and Northern Europe.

In respect of non-European markets, the Group focused its expansion into the target market of India and drove regional sales up by 15 times. In addition, the Japanese market, which the Group tapped into in 2008, recorded satisfactory sales with a growth of 2.3 times. Development in the Southeast Asian markets also flourished, the sales from the Southeast Asian markets are expected to account for 10% of the total production capacity of the Group in 2010. During the year under review, the Group succeeded in entering the Brazilian market by establishing a solid foundation, with customer procurement amounting to 110 tonnes. In 2010, in order to continue to roll out its global sales strategy and extend its existing overseas sales network, the Group will continue to enhance the market shares in the Indian and the Japanese markets.

Awards and achievements in research and development

During the year under review, the aims of the Group's research and development team were to improve product quality and lower production costs, and the team succeeded in developing new products, such as linen covered yarns, microwave- and radiation-proof linen yarns, linen chenille yarns, and knitting yarns. During the year under review, the Group was awarded patent for the device used for knitting slubby yarns (utility patent), and applied for 12 patents (including 5 invention patents, 6 utility patents and 1 design patent). All such applications had been accepted for registration by the patent departments. Besides, the new thin yarn machines of the Group had commenced test running, and completed technological modification to the spreading machines. These new developments have further improved the product quality of the Group and enhanced the competitiveness of the Group's products.

During the year under review, the Group obtained a number of accreditations and certifications, including the quality management system ISO9001:2000 and environment management system ISO14001:2004 of China Quality Mark Certification Group (中國方圓委), the GOTS (Global Organic Textile Standard) of the Netherlands Control Union (荷蘭管制聯盟), and the Oeko-Tex Standard 100 of Swiss Textile Testing Institute (瑞士紡織檢定有限公司).

Furthermore, the Group was honoured to be named the Chairman Company (理事長單位) of World Eminence Chinese Business Association, 2008-2009 Top 100 China Textile & Garment Industry Export Enterprises (二零零八一二零零九年度中國紡織服裝行業出口百強企業), 2008-2009 Top 500 Competitive China Textile & Garment Enterprises (二零零八一二零零九年度中國紡織服裝企業競爭力 500 強); 2008-2009 Top 10 Competitive China Linen Knitting Enterprises (二零零八年一二零零九年度中國麻紡行業競爭力 10 強企業), and the Councillor Company of Linen Professional Committee (亞麻專業委員會主任單位), etc.

Production of raw materials

Since the global economy has yet to fully recover, the linen yarns raw material production base in Xinjiang produced lesser raw materials (869 tonnes) during the year under review. The figure is expected to climb up to 1,500 tonnes for the whole year of 2010, which is approximately 8% of the Group's demands for raw materials, and representing a growth of 5% of 2009. The raw materials produced by the Group will help stabilising and reducing the production costs of the Group. In addition, the by-products result from the course of production of raw materials can be sold to third parties, further expanding the revenue sources of the Group.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2009, the Group's turnover amounted to approximately RMB491,165,000 (2008: RMB448,231,000). The Group relies on its high-quality brands, flexible market tactics and dominating market position to capture the opportunities arising from the recovery of the global economy and increase turnover.

The following table summarises the turnover arising from sales outlets during the relevant period:

Area:	Turnover	
	2009	2008
	RMB	RMB
PRC	**248,076,000**	246,353,000
European Union	**142,914,000**	145,156,000
Non-European Union	**100,175,000**	56,722,000
Total	**491,165,000**	448,231,000

Gross profit and gross profit margin

During the year under review, the inventory of relatively high price raw materials and high cost finished goods at the beginning of the year resulted in higher costs in 2009 than that of 2008. Therefore, despite an increase in sales, gross profit from sales amounted to RMB56,017,000 (2008: RMB54,315,000), while gross profit margin for 2009 was approximately 11.4% (2008: 12.1%). In 2009, the Group emphasized emerging market sales in relation to total sales. Meanwhile, the Group implemented stringent cost control measures and effectively used the existing capacity of the raw material production bases.

Expenses

The Group's selling and distribution expenses in 2009 amounted to approximately RMB18,625,000 (2008: RMB17,700,000), and accounted for approximately 3.8% of the total turnover for 2009 (2008: 3.9%).

The Group's administrative expenses in 2009 amounted to approximately RMB34,597,000 (2008: RMB38,292,000), and accounted for approximately 7% of the total turnover for 2009 (2008: 8.5%). Administrative expenses decreased mainly due to the reduction of administrative expenses and streamlined management personnel.

Net finance costs in 2009 were approximately RMB20,077,000 (2008: RMB23,361,000). There was a decrease in financing cost, mainly due to decrease in the amount of bank borrowings, as well as the reduction in the interest rate on borrowings.

Loss attributable to equity shareholders of the Company

The Group's loss attributable to equity shareholders of the Company in 2009 amounted to approximately RMB18,156,000 (2008: RMB22,827,000). The Group's net loss margin in 2009 was approximately 3.7% (2008: 5.1%).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, the Group had net current assets of approximately RMB178,510,000 (31 December 2008: RMB200,371,000). The Group finances its operations with internally generated resources and bank borrowings. As at 31 December 2009, the Group had cash and bank deposits of approximately RMB95,517,000 (31 December 2008: RMB107,899,000). The current ratio of the Group as at 31 December 2009 was approximately 137.2% (31 December 2008: 140.3%).

Shareholders' fund of the Group as at 31 December 2009 was approximately RMB616,902,000 (31 December 2008: RMB634,909,000). As at 31 December 2009, the bank borrowings of the Group, repayable within 12 months from the balance sheet date, amounted to approximately RMB308,977,000 (31 December 2008: RMB386,590,000), while there was no long-term borrowings (31 December 2008: RMB30,000,000), together giving a gross debt gearing (i.e. total borrowings/shareholders' funds) of approximately 50.1% (31 December 2008: 65.6%).

As at 31 December 2009, the Group had unutilised revolving banking facilities of RMB304,252,000.

The financial strength of the Group has been greatly improved since its listing on the Stock Exchange. The Board believes that after taking into account the capital expenditure planned to be made within 2010, the Group's existing financial resources will be sufficient for the Group's future needs.

CAPITAL COMMITMENTS

Capital commitments in respect of purchases of property, plant and equipment outstanding as at 31 December 2009 but not included in the consolidated financial statements were RMB2,428,000.

CONTINGENT LIABILITIES

As at 31 December 2009, the Group had no contingent liabilities.

CHARGES ON GROUP ASSETS

As at 31 December 2009, the Group's bank deposits of RMB56,941,000 were pledged to banks as a security for the Group's bank loans and other banking facilities. The pledge over bank deposits is releasable upon the termination of relevant banking and borrowing facilities. In addition, certain property, plant and equipment, land use rights and inventories of the Group, with an aggregate carrying amount of RMB199,070,000, RMB22,770,000 and RMB70,247,000, respectively, were pledged as security for the Group's banking facilities and bank loans.

MATERIAL ACQUISITIONS OR DISPOSALS

There was no material acquisition or disposal of the Group's subsidiaries and associated companies during the year ended 31 December 2009.

FOREIGN EXCHANGE RISK

The Group's transactions are mainly denominated in RMB, United States Dollars, Euro and Hong Kong Dollars. During the year under review, the Group had basically the same value of imports and exports, therefore the Group was not exposed to any significant risks associated with foreign exchange fluctuations.

EMPLOYEES AND EMOLUMENTS POLICIES

As at 31 December 2009, the Group had a total of 1,959 employees (2008: 2,484 employees). Total staff costs incurred for the year ended 31 December 2009 amounted to RMB55,090,000 (2008: RMB61,242,000).

The Group offers comprehensive and competitive remuneration, retirement scheme and benefit packages to its employees. The Group is required to make contributions to a social insurance scheme in the PRC. Moreover, the Group and its employees in the PRC are each required to make contributions to fund the endowment insurance and unemployment insurance at rates specified in the relevant PRC laws and regulations.

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

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

PROSPECTS

The various stimulating economic policies of the PRC central government introduced in 2009 in view of the difficult industrial condition, benefit the technical reform and enhancement in and foster the development of the textile industry. The linen yarns industry gained support for overcoming operating hardship as a result. The domestic linen yarns market has a stable development with growth when the peak season comes as the global economy gradually recovers in 2010. There are signs of overall recovery in the textile industry. Meanwhile, the demand for natural fibre textile products greatly grows as the consumers become more conscious of environmental protection. The major product of the Group, linen yarns, a completely environmental-friendly natural fibre textile product, will take advantage of the favourable economic, policy and market environment. It is expected that the sales of linen yarns will gradually recover in 2010.

The Group has focused on the production of high-end products to enhance its market competitiveness and its ability to resist the risks. During the year under review, the sales of high count and patterned linen yarns exceeded 2,500 tonnes, which accounted for over 25% of the total sales in the year and fully reflected the production direction of the Group. Looking forward, the Group will continue to invest in the development of high-end products. The product orders of the Group for the first quarter of 2010 have been confirmed. The Group has successfully sold approximately 1,819 tonnes linen yarns during January and February 2010, which increased by approximately twice of the sales volume compared to approximately 603 tonnes during the same period of last year. The Group will increase its capacity to satisfy the growth of demand. It is expected that both the production and sales will continuously grow in 2010.

For its marketing strategy, the Group will continue to place great emphasis on domestic and overseas sales with greater market expansion in 2010. We will set up sales agencies in Eastern Europe and South Africa when conditions are mature to make every effort to gain more market share. The Group intends to set up raw materials companies in Europe to consolidate the raw materials resources across Europe. A long term, effective and promising raw materials quality and quantity operating mechanism will be set up to ensure the Group's advantage in terms of supply. As for the domestic market, the Group's raw material plantation will focus on organic linen and the Group will strive to become a leading organic linen raw materials and yarns producer and supplier.

June

六月 / 紫色亚麻花海是大自然的神迹

The purple ocean of flowers

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Company's shareholders. The Directors believe that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. In the opinion of the Directors, save as disclosed below, the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules for the year ended 31 December 2009.

Code Provision A.2.1

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

Code Provision E.1.3

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

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 with all Directors, all the Directors confirm that they have complied with the provisions of the Model Code and the Company's code of conduct regarding Directors' securities transactions for the year ended 31 December 2009 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 of whom 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 is 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 of the Company, and considers and approves 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		
	Board	Remuneration Committee	Audit Committee
Directors			
Executive Directors			
Mr. Ren Wei Ming *(Chairman of the Board)*	4/4		
Mr. Shen Yueming	4/4		
Mr. Zhang Hong Wen *(Chairman of the Remuneration Committee)*	4/4	1/1	
Non-Executive Directors			
Mr. Ngan Kam Wai Albert	4/4		
Mr. Tse Chau Shing Mark	3/4		
Independent Non-Executive Directors			
Mr. Yang Donghui	3/4	1/1	2/2
Mr. Yu Chongwen	3/4	1/1	2/2
Mr. Lau Ying Kit *(Chairman of the Audit Committee)*	2/4		2/2

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 expense. 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/Board committee members with reasonable notice in advance of the meetings. Minutes of Board meetings and meetings of Board committees, which records 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.

Directors' Responsibility

The following statement, which sets out the responsibilities of the Directors in relation to the financial statements, should be read in conjunction with, but be distinguished from, the Report of the Auditors on pages 37 to 38 which states the reporting responsibilities of the Group's auditors.

Annual Report and Accounts

The Directors acknowledge their responsibility to prepare financial statements for each financial year which gives a true and fair view of the state of affairs of the Group.

Accounting Policies

The Directors consider that in preparing the financial statements the Group has used appropriate accounting policies that are consistently applied, and that all applicable accounting standards have been followed.

Accounting Records

The Directors are responsible for ensuring that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the Hong Kong Companies Ordinance and the applicable accounting standards.

Safeguarding Assets

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the Code, the roles of the 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 1 January 2010, whereas each of the independent non-executive Directors has entered into a letter of appointment with the Company and is appointed for an initial term of 1 year commencing from 13 November 2009.

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 rule 3.13 of the Listing Rules, each of the independent non-executive Directors has confirmed his independence and continues to be considered by the Company to be independent.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company was 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 ended 31 December 2009, the Remuneration Committee comprised one executive Director and two independent non-executive Directors, namely Mr. Zhang Hong Wen (chairman of the Remuneration Committee), Mr. Yang Donghui and Mr. Yu Chongwen.

The Remuneration Committee shall meet at least once every year to review 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.

One meeting was held during the year ended 31 December 2009 and prior to the publishing of this report. At the meeting, the Remuneration Committee reviewed the remuneration policies of the Directors and the senior management.

NOMINATION COMMITTEE

No nomination committee has been established to nominate Directors. The task of nominating Directors is vested with the Board. The Board reviews the structure and the composition of the Board regularly, then identifies and nominates qualified individuals to be appointed as new Directors.

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.

AUDITORS' REMUNERATION

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

Services rendered	**Fee paid** RMB'000
Audit services	1,844

The responsibilities of the external auditors with respect to the 2009 financial statements are set out in the section headed "Independent auditor's report" on pages 37 to 38. Save as disclosed above and in the section headed "Independent auditor's report", the Company did not engage KPMG for any non-audit services during the year.

AUDIT COMMITTEE

The Audit Committee was 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 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, namely Mr. Lau Ying Kit, Mr. Yang Donghui and Mr. Yu Chongwen, of which are all independent non-executive Directors. Mr. Lau Ying Kit, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the Audit Committee.

During the year under review, the Audit Committee held two meetings. At the meeting, the Audit Committee reviewed the interim and the final results for 2009 with the external auditors and also the effectiveness of the Group's internal control functions. The Audit Committee 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 complies with the requirements of the Listing Rules. There has been no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

INTERNAL CONTROL

The Company has in place sound and effective internal controls to safeguard shareholders' investment and assets of the Company and its subsidiaries. The Board is responsible for monitoring the effectiveness of the Company's internal control and risk management systems on a regular basis so as to ensure that the internal control and risk management systems in place are adequate.

The Company has established written policies and procedures applicable to all operating units to ensure the effectiveness of internal controls. The Company also has a process for identifying, evaluating, and managing the significant risks to the achievement of its operational objective. This process is subject to continuous improvement and was in place throughout 2009 and up to the date of this report. The day-to-day operation is entrusted to the individual department, which is accountable for its own conduct and performance, and is required to strictly adhere to the polices set by the Board. The Company carries out reviews on the effectiveness of the internal control systems from time to time in order to ensure that they are able to meet and deal with the dynamic and ever changing business environment.

The Board conducted a review and assessment of the effectiveness of the Company's internal control systems including financial, operational and compliance controls and risk management for the year ended 31 December 2009. The assessment was made after discussions with the management of the Company, its external and internal auditors, and its internal control adviser and a review performed by the Audit Committee. The Board is of the view that the existing internal control system is adequate and effective.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The rights of shareholders of the Company are contained in the Articles. The Group firmly believes the importance of communicating with the investment community and the shareholders in attaining a high level of transparency. Since its listing, the Group has maintained various communication channels with analysts and fund managers such as one-to-one meetings, telephone communications, and press releases. The general meetings of the Company provide a platform for communication between the shareholders and the Board. The Chairman of the Board as well as chairman of the Remuneration Committee and Audit Committee or if, in their absence, other members of the respective committees, and where applicable, the independent board committee, are available to answer questions at the shareholders' meetings. The Company endeavours to provide timely and accurate information to the investors to enhance the understanding of the investors about the linen industry, as well as the business development strategy and direction of the Group.

The Group will continue to maintain a close relationship with investors and develop greater understanding about the Group for international investors, to enhance investors' confidence in the Group.

从左到右依次为:
From left to right:

董事 张鸿文先生
高管 沈鸿女士
董事长 任维明先生
董事／总经理 沈跃明先生
Director: Mr. Zhang Hongwen
Financial Director: Ms. Shen Hong
Chairman: Mr. Ren Weiming
Director / General Manager: Mr. Shen Yueming

DIRECTORS

Executive Directors

Mr. Ren Wei Ming (任維明), aged 50, 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 worked in the silk and textiles 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-president of 中國麻紡行業協會 (China Bast and Leaf Fibers Textile Association*), 全國優秀青年廠長 (National Excellent Young Factory Manager), 浙江省優秀企業經營者 (Zhejiang Provincial Excellent Entrepreneur), the vice-president of The Hong Kong General Chamber of Textiles and 浙江省第九屆、十屆人民代表大會代表 (Representative of the 9th and 10th National People's Congress of Zhejiang Province*). He is also a director of Kingdom Investment Holdings Limited with 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 29 to 30 of this annual report.

Mr. Shen Yueming (沈躍明), aged 48, 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 operations and management of the Group and also takes part in the decision making of the Group. He has been a director of Kingdom Creative since April 2000. He was then appointed as director of Haiyan Ziwei in December 2001, before joining the Group in March 2003.

Mr. Zhang Hong Wen (張鴻文), aged 43, is an executive Director. He is the director and financial controller of Zhejiang Jinyuan and 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 60, is a non-executive Director. He is the chairman of Millionfull Company Limited, a company incorporated in Hong Kong engaged in the trading of linen and linen mixture fabrics. He has been a member of the 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 29 to 30 of this annual report.

Mr. Tse Chau Shing Mark (謝宙勝), aged 56, is a non-executive Director. Mr. Tse is currently an independent business consultant. Mr. Tse has been a part time advisor since 2005. He has previously been employed at the First National Bank of Chicago in USA from 1975 to 1980. Before 1987, he was employed at Hill Samuel Merchant Bank in Hong Kong. In 1987, Mr. Tse was appointed as managing director of Tractebel Pacific Limited and remained full time in this position until 1993. Since 1994, Mr. Tse has worked as an independent business consultant for over 20 multinational companies on different assignments. He has 16 years of experience in advising European and US companies on joint ventures in China and South East Asia. Among his various duties, Mr. Tse is also a senior advisor-China of Caledonia Investments plc., a shareholder of the Company. Mr. Tse joined the Group in May 2009.

Independent Non-executive Directors

Mr. Yang Donghui (楊東輝), aged 64, 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 the 中國紡織工業協會 (China National Textile & Apparel Council*) (formerly known as the 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 the 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), a listed company in Hong Kong, since July 2005. He joined the Group in November 2006.

Mr. Yu Chongwen (郁崇文), aged 47, 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*) 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 the Hong Kong Sang Ma Trust Fund, as well as several awards relating to the technology of production of jute and hemp granted by the PRC provincial governments. Mr. Yu has been an independent director of Shanghai Worldlast Industry Development Co., Ltd., a company listed on Shanghai Stock Exchange since December 2006. He joined the Group in November 2006.

Mr. Lau Ying Kit (劉英傑), aged 37, is an independent non-executive Director. He is also an independent non-executive director of Shandong Chenming Paper Holdings Limited (a listed company in Hong Kong). Mr. Lau is a member of the Hong Kong Institute of Certified Public Accountants and obtained a Master of Finance degree from City University of Hong Kong. He has more than 12 years of experience in financial and accounting in China and Hong Kong. He joined the Group in November 2006.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Cheng Yee Fai, Fred (鄭怡輝), aged 51, is employed on a full-time basis as the company secretary and qualified accountant of the Group. 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. Cheng Yee Fai, Fred (鄭怡輝), aged 51, is employed on a full-time basis as the company secretary, chief financial officer and qualified accountant of the Group. 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 44, is the internal audit controller of the Group and a director and financial controller of Rugao Jinda. She completed her 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.

All the executive directors of the Company are responsible for the various aspects of the business and operation of the Group.

The English names of the PRC entities mentioned herein marked "" are translated from their Chinese names. If there are any inconsistencies, the Chinese names shall prevail.*

伟大的当代西方现代画派艺术家毕加索在意大利索比亚迪纺织公司购买亚麻画布时使用的支票

This is the cheque used by Pablo Picasso, the Spanish painter and co-founder of the Cubist movement, when he purchased painting canvas from Michele Solbiati Sosil S.P.A., a major Italian linen company.

油画的介质是油（亚麻油和调色油），一般画在亚麻布上。油画最早起源于欧洲，大约15世纪时由荷兰人发明的，用亚麻子油调和颜料，在亚麻布或板上作画，因为油画颜料干后不变色，多种颜色调和不会变得肮脏，画家可以画出丰富、逼真的色彩。油画颜料不透明，覆盖力强，所以绘画时可以由深到浅，逐层覆盖，使绘画产生立体感，油画适合创作大型、史诗般的巨作，成为西方绘画史中的主体绘画方式，现在存世的西方绘画作品主要是油画作品。

With the media-oil (linseed oil and colour-mixture oil), oil painting is done on linen fabrics, pioneered from Europe. In 15th century, Dutch people found mixing colour by linseed oil can leave clean and stable colour after painting, so that artists can paint vivid pictures. Paint is not transparent , easily creating stair-effect by different colour distribution from dark to light. Oil painting is fit for sizable picture in grand and epic manners, which is the main style in west for the remained works.

巴伯罗·毕加索 Pablo Picasso (1881-1973)

毕加索是当代西方最有创造性和影响最深远的艺术家，是20世纪最伟大的艺术天才，他的艺术生涯几乎贯穿其一生，作品风格丰富多样，特别是西方艺术家，几乎没有未受过他的影响的。毕加索的艺术成就除去绘画以外，还涉及到各种材质的雕塑、陶艺、书籍装帧等方面。毕加索从9岁起就开始作画，无论质还是量，都是惊人的，他的作品约达六万件，仅油画一项就在万件以上。这位才华横溢的艺术家在极其漫长的创作活动的每一刻，似乎想做的都让他准确无误地做到了。

During his long life (1881-1973) Picasso left his influence on all contemporary artists. His work is often categorized into five main periods: the Blue Period (1901-1904), the Rose Period (1905-1907), the Africa-influenced Period (1908-1909), Analytic Cubism (1909-1912) and Synthetic Cubism (1912-1919). Picasso was exceptionally prolific throughout his life time. The total number of artworks he produced has been estimated at 50,000, comprising 1,885 paintings, 1,228 sculptures, 2,880 ceramics, and roughly 12,000 drawings, many thousand of prints, and numerous tapestries and rugs. In the 1950s, his style changed once again, as he took to reinterpretation of the work of other artists, from Goya to Manet and Delacioix.

It is the Board's 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 2009.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 16 to the financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated income statement on page 39.

DIVIDENDS

The Company did not record a profit in 2009. The Board does not recommend the payment of a final dividend for the year ended 31 December 2009.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 44.

DISTRIBUTABLE RESERVES

As at 31 December 2009, the Company's distributable reserves calculated under the Companies Law of the Cayman Islands amounted to RMB632,548,000.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately RMB544,800.

SHARE CAPITAL

Details of the movements in the share capital of the Group are set out in note 26(c) to the financial statements.

FINANCIAL HIGHLIGHTS

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 104.

PROPERTY, PLANT AND EQUIPMENT

During the financial year ended 31 December 2009, the Group acquired property, plant and equipment of approximately RMB20,445,000. Details of the movements are set out in note 14 to the financial statements.

DIRECTORS

The Directors during the financial year ended 31 December 2009 were:

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

Non-executive Directors
Mr. Ngan Kam Wai Albert
Mr. Tse Chau Shing Mark

Independent Non-executive Directors
Mr. Yang Donghui
Mr. 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 Listing Rules and the Company still considers such Directors to be independent.

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. Ren Wei Ming, Mr. Ngan Kam Wai Albert, Mr. Yu Chongwen and Mr. Shen Yueming shall retire from office by rotation at the forthcoming annual general meeting. Mr. Yu Chongwen will not offer himself for re-election, whereas Mr. Ren Wei Ming, Mr. Ngan Kam Wai Albert and Mr. Shen Yueming, the other three retiring Directors, being eligible, will offer themselves for re-election as Directors at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed to be re-elected 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 to and in which a Director had a material interest in, 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 Directors' remuneration are set out in note 8 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 23 to 25.

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

As at 31 December 2009, the Directors 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:

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

	Ordinary shares of HKD 0.01 each			
Director Name	**Personal interests** (Note 1)	**Corporate interests**	**Total number of shares held**	**Approximately percentage of issued share capital (%)**
Mr. Ren Wei Ming	3,656,000	279,200,000 (Note 2)	282,856,000	45.44
Mr. Ngan Kam Wai Albert	—	64,800,000 (Note 3)	64,800,000	10.41
Mr. Tse Chau Shing Mark	17,550,000	—	17,550,000	2.82

Notes:

1. The shares are registered under the names of the directors who are the beneficial shareholders.

2. 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).

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

Share options

As at 31 December 2009, no share options were granted to the Directors of the Company or any of their associates.

Save as disclosed above, as at 31 December 2009, none of the Directors 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 to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director, as at 31 December 2009, the following persons, other than a Director or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which were recorded or required to be recorded in the register required to be kept under Section 336 of the SFO:

Long positions in Shares

Name of Shareholder	Capacity	Number of Shares	Approximately percentage of issued share capital (%)
Kingdom Investment Holdings Limited ("Kingdom Investment (BVI)")	Beneficial owner	279,200,000	44.85
Millionfull International Co., Ltd. ("Millionfull International")	Beneficial owner	64,800,000	10.41
Caledonia Investments plc	Beneficial owner	66,825,000	10.73
Atlantis Investment Management Ltd	Beneficial owner	50,000,000	8.03

Save as disclosed above, as at 31 December 2009, 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 under review, sales to the Group's five largest customers accounted for approximately 16.46% of the Group's total sales for the year and sales to the Group's largest customer amounted to approximately 3.93%. Purchases from the Group's five largest suppliers accounted for approximately 68.7% of the total purchases for the year and purchase from the Group's largest supplier amounted to approximately 23.5%.

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

Connected transaction

During the year ended 31 December 2009, the Group entered into the following connected transaction with its connected person. The transaction constituted a connected transaction for the Company under the Listing Rules.

(1) Formation of a PRC joint venture company

On 8 December 2009, a joint venture contract was entered into among Zhejiang Jingyuan Flax Co., Ltd. ("Zhejiang Jingyuan"), a wholly-owned subsidiary of the Company, Mr. Ren Wei Ming, Mr. Zhou Yanfeng, Mr. Li Haikang, Ms. Hu Tingting, Ms. Shen Hong and Mr. Zhang Xiaoping for the establishment of Zhejiang Huaning Flax Electronic Commerce Co., Ltd. ("Zhejiang Huaning"), pursuant to Zhejiang Jingyuan has agreed to make a capital contribution of RMB5,400,000 to the registered capital of Zhejiang Huaning. Upon the establishment of Zhejiang Huaning, Zhejiang Jinyuan, Mr. Ren Wei Ming, Mr. Zhou Yanfeng, Mr. Li Haikang, Ms. Hu Tingting, Ms. Shen Hong and Mr. Zhang Xiaoping respectively own 18%, 20%, 16.6667%, 16.6667%, 16.6667%, 10% and 2% of the equity interest in Zhejiang Huaning. Mr. Ren Wei Ming is a director and a substantial shareholder of the Company, and hence a connected person of the Company under the Listing Rules. Details of the terms of this joint venture contract have been set out in the Company's announcement dated 8 April 2010. The joint venture arrangement under this joint venture contract constituted a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting and announcement requirements but exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Continuing connected transactions

During the year ended 31 December 2009, the Group entered into the following continuing connected transactions with its connected persons. The transactions constituted "continuing connected transactions" for the Company under the Listing Rules.

(1) Lease agreement

On 20 October 2008, a lease agreement was entered into by the Group with Zhejiang Kingdom Creative Co., Ltd. ("Kingdom Creative") in respect of an office premises for a term up to and until 31 December 2011 at an annual rental of RMB200,000. Kingdom Creative is an associate of Mr. Ren Wei Ming and hence a connected person of the Company. Rental and other terms for this lease arrangement was negotiated between the parties on arm's length basis with reference to the then prevailing market rates. Details of the terms of this lease agreement have been set out in the prospectus of the Company dated 30 November 2006. The transaction under this lease agreement is exempted from all reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(2) Agreement for sale of linen fabric to Millionfull Company Limited

On 10 November 2008, Zhejiang Jinyuan entered into an agreement with Millionfull Company Limited ("Millionfull"), pursuant to which Zhejiang Jinyuan agreed to sell linen fabric to Millionfull or its associate for a term from 10 November 2008 to 31 December 2010. The prices of linen fabric under this agreement were determined with reference to: (i) a comparable market price of linen fabric; or (ii) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties at cost-plus basis, if no comparable market price can be taken as a reference. Millionfull is owned as to 50.22% by Mr. Ngan Kam Wai Albert, a substantial shareholder and a director of the Company. Accordingly, Millionfull is a connected person of the Company. Details of the terms of this agreement have been set out in the Company's announcement dated 12 November 2008. The transactions under this agreement are subject to reporting and announcement requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.38 of the Listing Rules, the Board has engaged the auditors of the Company to perform certain agreed-upon procedures on the aforesaid continuing connected transactions. Based on the work performed, the auditors of the Company have provided a letter to the Board confirming that the aforesaid continuing connected transactions:

(i) have been approved by the Directors;

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

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

(iv) did not exceed the annual cap amounts.

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 the business of the Company;

(ii) either (a) on normal commercial terms or; (b) where there is no available comparable terms, on terms no less favorable to the Company than terms available to or from independent third parties; and

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

Save as disclosed in note 31 to the financial statements, there was no other transaction which needs to be disclosed as a connected transaction in accordance with the requirements of the Listing Rules during the year ended 31 December 2009.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2009 are set out in note 24 to the financial statements.

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

The Company has not redeemed any of its listed shares during the year ended 31 December 2009. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares during the year ended 31 December 2009.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles 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 5 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float throughout the year ended 31 December 2009.

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 2009, 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 organization 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 plans to inject the aforesaid Excluded Business into the Group.

As at 28 March 2010, 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.

CORPORATE GOVERNANCE

The Group's principal corporate governance practices are set out on page 17 to 21.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 May 2010 to 17 May 2010, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement to attend and vote at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 11 May 2010.

AUDITORS

The accounts for the year have been audited by KPMG who shall retire at the forthcoming annual general meeting. A resolution will be proposed at the forthcoming annual general meeting to appoint Ernst & Young as auditors of the Company.

On behalf of the Board

Ren Wei Ming
Chairman

Haiyan County, PRC, 29 March 2010

Independent auditor's 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 39 to 103, which comprise the consolidated and Company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, 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 and the disclosure requirements of the Hong Kong Companies Ordinance. 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.

Auditor's 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 auditor's judgement, 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

29 March 2010

Consolidated income statement

for the year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Turnover	3	**491,165**	448,231
Cost of sales		**(435,148)**	(393,916)
Gross profit		**56,017**	54,315
Other operating income	4	**4,054**	3,184
Distribution expenses		**(18,625)**	(17,700)
Administrative expenses		**(34,597)**	(38,292)
Other operating expenses		**(3,091)**	(2,749)
Profit/(loss) from operations		**3,758**	(1,242)
Finance income		**2,320**	6,196
Finance expenses		**(22,397)**	(29,557)
Net finance costs	6(a)	**(20,077)**	(23,361)
Loss before taxation	6	**(16,319)**	(24,603)
Taxation	7(a)	**(1,837)**	1,776
Loss for the year			
– attributable to equity shareholders of the Company		**(18,156)**	(22,827)
Basic and diluted loss per share (RMB)	11	**(0.03)**	(0.04)

The notes on pages 47 to 103 form part of these financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Loss for the year		**(18,156)**	(22,827)
Other comprehensive income for the year (after tax and reclassification adjustments):			
Exchange difference on translation of financial statements of overseas subsidiaries, net of tax (nil)		**149**	(927)
		149	(927)
Total comprehensive income for the year – attributable to equity shareholders of the Company		**(18,007)**	(23,754)

The notes on pages 47 to 103 form part of these financial statements.

Consolidated balance sheet

at 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Fixed assets			
– Investment properties	13	—	10,272
– Other property, plant and equipment	14	393,298	409,502
		393,298	419,774
Lease prepayments	15	36,567	37,368
Interest in an associate	17	2,700	—
Deferred tax assets	7(c)	5,827	7,396
		438,392	464,538
Current assets			
Inventories	18	223,143	312,381
Biological assets	19	561	—
Prepaid income tax	7(e)	2,629	3,489
Trade receivables, prepayments and other receivables	20	280,176	226,064
Pledged bank deposits	21	56,941	47,352
Fixed deposits with banks	22	—	10,350
Cash and cash equivalents	23	95,517	97,549
		658,967	697,185
Current liabilities			
Bank loans	24	308,977	386,590
Trade and other payables	25	171,480	110,224
		480,457	496,814
Net current assets		178,510	200,371
Total assets less current liabilities		616,902	664,909
Non-current liabilities			
Bank loans	24	—	30,000
Net assets		616,902	634,909

The notes on pages 47 to 103 form part of these financial statements.

Consolidated balance sheet (continued)

at 31 December 2009

	Note	**2009 RMB'000**	2008 RMB'000
Capital and reserves			
Share capital	26(c)	**6,272**	6,272
Reserves		**610,630**	628,637
Total equity		**616,902**	634,909

Approved and authorised for issue by the board of directors on 29 March 2010.

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

The notes on pages 47 to 103 form part of these financial statements.

Company balance sheet

at 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Investments in subsidiaries	16	**370,221**	370,221
Current assets			
Trade and other receivables	20	**270,761**	272,082
Cash and cash equivalents	23	**1,638**	2,629
		272,399	274,711
Current liabilities			
Trade and other payables	25	**3,800**	2,000
		3,800	2,000
Net current assets		**268,599**	272,711
Net assets		**638,820**	642,932
Capital and reserves			
Share capital	26(c)	**6,272**	6,272
Reserves	26(d)	**632,548**	636,660
Total equity		**638,820**	642,932

Approved and authorised for issue by the board of directors on 29 March 2010.

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

The notes on pages 47 to 103 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2009

	Share capital RMB'000 (Note 26(c))	Share premium RMB'000 (Note 26 (d))	Merger reserve RMB'000 (Note 26 (d))	PRC statutory reserve RMB'000 (Note 26 (d))	Exchange reserve RMB'000 (Note 26 (d))	Retained earnings RMB'000	Total RMB'000
As at 1 January 2008	6,272	268,001	196,816	34,310	—	168,827	674,226
Transfer to reserve	—	—	—	862	—	(862)	—
Dividends approved and paid during the year (Note 26(b))	—	—	—	—	—	(15,563)	(15,563)
Total comprehensive income for the year	—	—	—	—	(927)	(22,827)	(23,754)
As at 31 December 2008	6,272	268,001	196,816	35,172	(927)	129,575	634,909
As at 1 January 2009	6,272	268,001	196,816	35,172	(927)	129,575	634,909
Total comprehensive income for the year	—	—	—	—	149	(18,156)	(18,007)
As at 31 December 2009	**6,272**	**268,001**	**196,816**	**35,172**	**(778)**	**111,419**	**616,902**

The notes on pages 47 to 103 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Operating activities			
Loss before taxation		**(16,319)**	(24,603)
Adjustments for:			
– Gain from changes in fair value less estimated point-of-sale costs	19	**(563)**	—
– Depreciation for fixed assets		**46,571**	37,978
– Amortisation of lease prepayment		**801**	849
– Provision for inventories		**16,043**	9,314
– Loss on disposal of other property, plant and equipment		**250**	—
– Allowance for doubtful debts		**2,890**	2,550
– Interest expenses		**19,325**	27,432
– Interest income		**(2,320)**	(3,525)
Operating profit before changes in working capital		**66,678**	49,995
– Change in inventories		**73,195**	(48,948)
– Change in biological assets		**2**	—
– Change in trade receivables, prepayments and other receivables		**(57,077)**	4,026
– Change in trade and other payables		**67,502**	(74,773)
Cash generated from/(used in) operations		**150,300**	(69,700)
Interest expense paid		**(19,808)**	(29,532)
PRC income tax refund/(paid)		**592**	(6,288)
Net cash generated from/(used in) operating activities		**131,084**	(105,520)
Investing activities			
Acquisition of property, plant and equipment		**(26,072)**	(86,497)
Proceeds from disposal of property, plant and equipment		**100**	—
Payment for lease prepayments		**—**	(70)
Capital injection for interest in an associate		**(2,700)**	—
Interest received		**2,320**	3,525
Change in fixed deposits with banks		**10,350**	(10,350)
Change in pledged deposits		**(9,589)**	19,326
Net cash used in investing activities		**(25,591)**	(74,066)

The notes on pages 47 to 103 form part of these financial statements.

for the year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Financing activities			
Proceeds from interest-bearing borrowings		**455,714**	416,556
Repayment of interest-bearing borrowings		**(563,327)**	(280,680)
Dividends paid		**—**	(15,563)
Net cash (used in)/generated from financing activities		**(107,613)**	120,313
Net decrease in cash and cash equivalents		**(2,120)**	(59,273)
Cash and cash equivalents at 1 January	23	**97,549**	158,256
Effect of foreign exchange rates change on cash		**88**	(1,434)
Cash and cash equivalents at 31 December	23	**95,517**	97,549

The notes on pages 47 to 103 form part of these financial statements.

1 Significant accounting policies

Kingdom Holdings Limited ("the Company") is a company incorporated in the Cayman Islands as an exempted company with limited liability on 21 July 2006 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 December 2006.

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (IASs) and related Interpretations promulgated by the International Accounting Standards Board ("IASB"), and the applicable disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with 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.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for biological assets, the measurement basis of which are explained in the accounting policies set out in Note 1(i).

These consolidated financial statements are presented in Renminbi ("RMB"). Except for share and per share data, financial information presented in RMB has been rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

1 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements (continued)

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in applying accounting policies that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 33.

(c) 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.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (Note 1(j)).

(d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Note 1(j)). The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

1 Significant accounting policies (continued)

(d) Associates (continued)

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

(e) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the consolidated income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Renminbi at the exchange rate approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items arising on consolidation of foreign operations are translated into Renminbi at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the consolidated income statement when the profit or loss on disposal is recognised.

1 Significant accounting policies (continued)

(f) Investment properties

Investment properties are properties owned or held under a leasehold interest to earn rental income and/or for capital appreciation. Investment properties are measured at cost less accumulated depreciation and impairment losses (Note 1(j)). Depreciation is recognised in the consolidated income statement on a straight-line basis over the estimated useful lives of 20 years. Rental income from investment properties is accounted for as described in Note 1(q)(ii).

When the use of a property changes from own-occupied to investment property, the cost and accumulated depreciation of that property are reclassified as investment property. When the use of a property changes from investment property to own-occupied property, the cost and accumulated depreciation of that property are reclassified as property, plant and equipment.

(g) Other 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 1(j)).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, other costs directly attributable to bringing the asset to a working condition for its intended use, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 1(s)).

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the consolidated income statement on the date of retirement or disposal.

1 Significant accounting policies (continued)

(g) Other property, plant and equipment (continued)

(ii) Depreciation

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

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

Both the useful lives of an asset and its residual values, if any, are reviewed annually.

(h) Inventories

Inventories are measured at the lower of cost and net realisable 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 realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 Significant accounting policies (continued)

(i) Biological assets

Biological assets comprise flax seeds and immature flax before harvest.

Biological assets are measured at fair value less estimated point-of-sale costs except where fair value cannot be measured reliably due to unavailability of market-determined prices and no reliable alternative estimates exist to determine fair value in which case the assets are held at cost less accumulated depreciation and impairment losses (Note 1(j)). Once the fair value becomes reliably measurable, the biological assets are measured at fair value less point-of-sale costs. Where assets are held at fair value, changes in fair value are taken to the consolidated income statement. Point-of-sale costs include all costs that would be necessary to sell the assets, excluding costs necessary to get the assets to market.

After harvesting, flax are transferred to inventories as agricultural produce at their fair value less the estimated point-of-sale costs at the point of harvest. Fair value at harvest is based on the selling prices for similar flax prevailing in the market as at or close to the harvest dates.

(j) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities (other than investments in subsidiaries: see Note 1(j)(ii)) and other current and non-current receivables that are stated at cost or amortised cost are reviewed at each reporting date to determine whether there is any objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;
— a breach of the contract;
— it becoming probable that the debtor will enter bankruptcy; and
— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

1 Significant accounting policies (continued)

(j) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and other receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in associates recognised using the equity method (Note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with Note 1(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 1(j)(ii).

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the consolidated income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade receivables, prepayments and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the consolidated income statement.

1 Significant accounting policies (continued)

(j) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each reporting date to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

— investment properties;
— other property, plant and equipment;
— lease prepayments; and
— investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

An impairment loss is recognised in the consolidated income statement if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated income statement in the year in which the reversals are recognised.

1 Significant accounting policies (continued)

(j) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (Note 1(j)(i) and (ii)).

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (Note 1(j)), except where the receivables are interest-free advances made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (Note 1(j)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition and are unrestricted as to withdrawal and use.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the consolidated income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

1 Significant accounting policies (continued)

(p) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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.

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in the consolidated income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

1 Significant accounting policies (continued)

(q) Revenue recognition (continued)

(iii) Government Grants

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised in the consolidated 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 deducted from the carrying amount of the asset and consequently are effectively recognised in the consolidated income statement over the useful life of the asset by way of reduced depreciation expense.

(iv) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(v) Interest income

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

(r) Lease prepayments

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

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 1(j)). Amortisation is charged to the consolidated income statement on a straight-line basis over the respective periods of the rights.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1 Significant accounting policies (continued)

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

1 Significant accounting policies (continued)

(t) Income tax (continued)

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Dividends

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

(v) 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.

1 Significant accounting policies (continued)

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(x) Related parties

For the purposes of these financial statements, a party is 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 plan 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.

2 Changes in accounting policies

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

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

The "Improvements to IFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of IFRSs which the IASB has issued as an omnibus batch of amendments. The amendments had no material impact on the Group's financial statements. In addition, the amendments to IFRS 7 do not contain any additional disclosure requirements specifically applicable to the Group's financial statements.

The amendments to IAS 23 have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group.

2 Changes in accounting policies (continued)

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

- IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The adoption of IFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management (see Note 12). Corresponding amounts have also been provided on a basis consistent with the revised segment information.

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

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

3 Turnover

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

The Group's customer base is diversified and the Group does not have any single customer with whom transactions exceeded 10% of the Group's revenue during the years ended 31 December 2009 and 2008.

Turnover represents the sales value of goods sold to customers, net of value added tax and is after deduction of any sales discounts and returns.

4 Other operating income

	Note	2009 RMB'000	2008 RMB'000
Gain from changes in fair value less estimated point-of-sale costs of biological assets	19	**563**	—
Government grants		**2,460**	1,229
Gross rentals from investment properties		**464**	727
Sundry income		**567**	1,228
		4,054	3,184

During the year ended 31 December 2009, the Group was granted subsidies of RMB2,460,000 (2008: RMB1,229,000) by the local government authorities of the PRC as encouragement for its development.

5 Personnel expenses

	2009 RMB'000	2008 RMB'000
Salaries, wages and other benefits	**50,266**	56,140
Contributions to defined contribution plans	**4,824**	5,102
	55,090	61,242

The Group participates in defined contribution pension plans managed by the PRC local government authorities whereby the Group is required to pay annual contributions at 15%~20% of the average salary level determined by the respective PRC authorities. 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.

6 Loss before taxation

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

(a) Net finance costs

	2009 RMB'000	2008 RMB'000
Interest income	**(2,320)**	(3,525)
Foreign exchange gain, net	**—**	(2,671)
Finance income	**(2,320)**	(6,196)
Interest on bank loans	**19,808**	29,532
Less: interest expense capitalised into property, plant and equipment	**(483)**	(2,100)
Interest expenses, net	**19,325**	27,432
Bank charges	**2,059**	2,125
Foreign exchange loss, net	**1,013**	—
Finance expenses	**22,397**	29,557
Net finance costs	**20,077**	23,361

The borrowing costs have been capitalised at the weighted average rate of 5.36% (2008: 6.70%) per annum for the year ended 31 December 2009.

6 Loss before taxation (continued)

(b) Other items

	2009 RMB'000	2008 RMB'000
Cost of inventories*	**435,148**	393,916
Depreciation	**46,571**	37,978
Amortisation of lease prepayments	**801**	849
Provision for inventories	**16,043**	9,314
Operating lease charges on properties	**1,154**	1,293
Allowance for doubtful debts	**2,890**	2,550
Auditors' remuneration-audit services	**1,844**	2,186

* Cost of inventories includes RMB101,347,000 (2008: RMB89,135,000) relating to staff costs, depreciation expenses, amortisation of lease prepayments and provision for inventories which amounts are also included in the respective total amounts disclosed separately above or in Note 5 for each type of expenses.

7 Income tax

(a) Taxation in the consolidated income statement represents:

	2009 RMB'000	2008 RMB'000
Current tax:		
Provision for PRC income tax	**117**	4,214
Under/(over) provision in respect of prior years	**151**	(101)
	268	4,113
Changes in deferred tax (Note 7(c))	**1,569**	(5,889)
	1,837	(1,776)

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

(ii) No provision for Hong Kong Profits Tax has been made during the year ended 31 December 2009 as the subsidiaries did not earn any assessable income for Hong Kong Profits Tax purposes.

7 Income tax (continued)

(a) Taxation in the consolidated income statement represents: (continued)

(iii) The provision for PRC income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

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

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("New Tax Law"). According to the New Tax Law, the applicable tax rates of the Group's subsidiaries in the PRC are unified at 25% with effect from 1 January 2008 except Zhaosu Jindi Flax Co.,Ltd. ("Zhaosu Jindi") which is engaged in preliminary processing of agriculture products and is exempted from PRC income tax. Pursuant to the transitional arrangement under the New Tax Law, Jiangsu Ziwei and Jiangsu Jinyuan will continue to enjoy 50% reduction on the applicable income tax rate under the New Tax Law in 2009 until the expiry of the Tax Holidays previously granted under the FEIT Law, and thereafter they are subject to the unified rate of 25%.

In addition, 7% withholding tax of RMB117,000 (2008: RMB938,000) is levied on the subsidiaries located outside PRC in respect of their interest income earned from loans to the subsidiaries located in the PRC under the New Tax Law. Apart from the above withholding tax, no provision for PRC income tax has been made during the year ended 31 December 2009 (2008: RMB3,276,000) as none of the subsidiaries located in the PRC earned any taxable profit for PRC income tax purposes.

(iv) The Group's subsidiary in Italy did not earn any taxable income for Italian income tax purposes. Accordingly, no provision for Italy income tax has been made during the year ended 31 December 2009.

7 Income tax (continued)

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

	2009 RMB'000	2008 RMB'000
Loss before taxation	**(16,319)**	(24,603)
Expected tax on loss before tax, calculated at the PRC unified tax rate of 25%	**(4,080)**	(6,150)
Effect of different tax rates	**1,427**	(10)
Tax effect of non-deductible expenses	**662**	1,295
Tax effect of unused tax losses and deductible temporary differences not recognised	**3,677**	3,099
Under/(over) provision in respect of prior years	**151**	(101)
Others	**—**	91
Income tax	**1,837**	(1,776)

(c) Deferred tax assets recognised

The components of deferred tax assets recognised in the consolidated balance sheet and the movements during the year are as follows:

Deferred tax arising from	**Provision for inventories** RMB'000	**Allowance for doubtful debts** RMB'000	**Accruals** RMB'000	**Tax losses** RMB'000	**Unrealised profits** RMB'000	**Others** RMB'000	**Total** RMB'000
At 1 January 2008	251	318	506	—	—	432	1,507
Credited/(charged) to the consolidated income statement for the year	2,127	397	(68)	2,752	1,012	(331)	5,889
At 31 December 2008	2,378	715	438	2,752	1,012	101	7,396
At 1 January 2009	**2,378**	**715**	**438**	**2,752**	**1,012**	**101**	**7,396**
(Charged)/credited to the consolidated income statement for the year	**(1,652)**	**259**	**(35)**	**432**	**(677)**	**104**	**(1,569)**
At 31 December 2009	**726**	**974**	**403**	**3,184**	**335**	**205**	**5,827**

7 Income tax (continued)

(d) Deferred tax assets/ (liabilities) not recognised

At 31 December 2009, deferred tax assets of RMB5,276,000 (2008: RMB2,288,000) and RMB1,500,000 (2008: RMB811,000) in respect of the tax losses and deductible temporary differences respectively for certain subsidiaries have not been recognised because it is not probable that sufficient future taxable profits will be available against which the related subsidiaries can utilise the benefits therefrom.

At 31 December 2009, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB1,439,000 (2008: RMB6,254,000). Deferred tax liabilities of RMB144,000 (2008: RMB313,000) have not been recognised in respect of the tax that would be payable on distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profit will not be distributed in the foreseeable future.

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

	The Group	
	2009	2008
	RMB'000	RMB'000
Balance at beginning of the year	**(3,489)**	(1,314)
Provision for income tax for the year	**117**	4,214
Under/(over) provision in respect of prior years	**151**	(101)
Income tax refunded/(paid) during the year	**592**	(6,288)
Balance at the end of the year	**(2,629)**	(3,489)

8 Directors' remuneration

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

	2009				
	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
Chairman					
Ren Wei Ming	—	1,000	—	19	1,019
Executive directors					
Shen Yueming	—	650	—	19	669
Zhang Hong Wen	—	400	—	19	419
Non-executive directors					
Ngan Kam Wai Albert	105	—	—	—	105
Tse Chau Shing Mark	62	—	—	—	62
Independent non-executive directors					
Yang Donghui	96	—	—	—	96
Yu Chongwen	72	—	—	—	72
Lau Ying Kit	127	—	—	—	127
	462	2,050	—	57	2,569

8 Directors' remuneration (continued)

	2008				
	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
Chairman					
Ren Wei Ming	—	1,000	—	19	1,019
Executive directors					
Shen Yueming	—	650	—	19	669
Zhang Hong Wen	—	400	—	19	419
Non-executive directors					
Ngan Kam Wai Albert	120	—	—	—	120
John Michael May	120	—	—	—	120
Independent non-executive directors					
Yang Donghui	96	—	—	—	96
Yu Chongwen	72	—	—	—	72
Lau Ying Kit	144	—	—	—	144
	552	2,050	—	57	2,659

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2008: three) are directors whose emoluments are disclosed in Note 8.

The aggregate of the emoluments in respect of the other two (2008: two) individuals are as follows:

	2009 **RMB'000**	2008 RMB'000
Salary and other emoluments	**724**	3,537
Contribution to retirement benefit schemes	**14**	567
	738	4,104

The emoluments of the two (2008: two) individuals with the highest emoluments are within the following bands:

	2009 **Number of individuals**	2008 Number of individuals
RMB Nil - RMB 1,000,000	**2**	1
RMB 1,000,001 - RMB 4,000,000	**—**	1

10 Loss attributable to equity shareholders of the Company

The consolidated loss attributable to equity shareholders of the Company include a loss of RMB 4,112,000 (2008: a loss of RMB3,095,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's (loss)/profit for the year:

	2009 **RMB'000**	2008 RMB'000
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	**(4,112)**	(3,095)
Final dividends from a subsidiary attributable to the profit of the previous financial year, approved and paid during the year	**—**	18,180
The Company's (loss)/profit for the year (Note 26 (a))	**(4,112)**	15,085

11 Basic and diluted loss per share

The calculation of basic and diluted loss per share is based on the loss attributable to the shareholders of ordinary shares of RMB18,156,000 (2008: RMB22,827,000) and the weighted average of 622,500,000 (2008: 622,500,000) ordinary shares in issue during the year.

No dilutive potential ordinary shares were in issue as at 31 December 2009 (2008: Nil).

12 Segment reporting

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

As explained in Note 2, IFRS 8 requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. As the financial information regularly provided to the Group's chief operating decision maker does not contain profit or loss information by product and the Group's chief operating decision maker reviews the consolidated financial statements as a whole, the Group has determined that it only has one operating segment which is the manufacturing and sale of linen yarns. Accordingly, no segmental analysis is presented.

The Group's business is mainly based and operated in Mainland China. The following table sets out information about the geographical location of (i) the Group's revenue from external customers; (ii) the Group's fixed assets, lease prepayments and interest in an associate ("specified non-current assets"). The geographical location of customers is based on the location to which the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the assets.

	Revenue from external customers		Specified non-current assets	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Mainland China	**248,076**	246,353	**432,565**	457,142
Italy	**123,006**	114,670	**—**	—
Other countries	**120,083**	87,208	**—**	—
	243,089	201,878	**—**	—
Total	**491,165**	448,231	**432,565**	457,142

13 Investment properties

	The Group	
	2009	2008
	RMB'000	RMB'000
Cost:		
Balance at beginning of year	**11,731**	—
Transfer from other property, plant and equipment (Note 14)	**—**	11,731
Transfer to other property, plant and equipment (Note 14)	**(11,731)**	—
Balance at end of year	**—**	11,731
Accumulated depreciation:		
Balance at beginning of year	**(1,459)**	—
Transfer from other property, plant and equipment (Note 14)	**—**	(940)
Charge for the year	**(396)**	(519)
Transfer to other property, plant and equipment (Note 14)	**1,855**	—
Balance at end of year	**—**	(1,459)
Net book value:		
At end of year	**—**	10,272
At beginning of year	**10,272**	—

As at 31 December 2008, investment properties represented certain units of office premises rented out under the terms of operating leases. The fair value of the investment properties as at 31 December 2008 was determined by the directors to be approximately RMB 12,562,000 based on a valuation analysis on an open market value basis with reference to recent market transactions of similar properties. The valuations were carried out by an independent appraiser, Jiaxing Chang Xin Certified Public Accountants, who have among their staff Fellows of China Appraisal Society with recent experience in the location and category of the property being valued.

During the year ended 31 December 2009, the Group decided to make use of these properties for own use and commenced decoration work of these properties for their change in use when the lease period ended. As a result, the respective cost and accumulated depreciation of these properties were reclassified as other property, plant and equipment at the dates that such intended change in use occurred.

Rental income of RMB464,000 (Note 4) was earned by the Group from these properties during the year ended 31 December 2009 (2008: RMB727,000).

14 Other 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 2008	100,813	256,512	12,666	2,819	70,365	443,175
Additions	2,076	5,835	2,909	471	80,048	91,339
Transfer in/(out)	31,067	105,272	100	—	(136,439)	—
Transfer to investment properties (Note 13)	(11,731)	—	—	—	—	(11,731)
Disposals	—	—	(2)	—	—	(2)
Balance at 31 December 2008	122,225	367,619	15,673	3,290	13,974	522,781
Balance at 1 January 2009	122,225	367,619	15,673	3,290	13,974	522,781
Additions	6,350	1,220	1,408	45	11,422	20,445
Transfer in/(out)	8,817	3,618	8,745	—	(21,180)	—
Transfer from investment properties (Note 13)	11,731	—	—	—	—	11,731
Disposals	—	—	—	(471)	—	(471)
Balance at 31 December 2009	149,123	372,457	25,826	2,864	4,216	554,486
Accumulated depreciation:						
Balance at 1 January 2008	(9,947)	(61,911)	(4,486)	(418)	—	(76,762)
Charge for the year	(5,077)	(29,454)	(2,443)	(485)	—	(37,459)
Transfer to investment properties (Note 13)	940	—	—	—	—	940
Written back on disposals	—	—	2	—	—	2
Balance at 31 December 2008	(14,084)	(91,365)	(6,927)	(903)	—	(113,279)
Balance at 1 January 2009	(14,084)	(91,365)	(6,927)	(903)	—	(113,279)
Charge for the year	(6,450)	(34,668)	(4,496)	(561)	—	(46,175)
Transfer from investment properties (Note 13)	(1,855)	—	—	—	—	(1,855)
Written back on disposals	—	—	—	121	—	121
Balance at 31 December 2009	(22,389)	(126,033)	(11,423)	(1,343)	—	(161,188)
Carrying amounts:						
At 31 December 2009	126,734	246,424	14,403	1,521	4,216	393,298
At 31 December 2008	108,141	276,254	8,746	2,387	13,974	409,502

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

15 Lease prepayments

	The Group	
	2009	2008
	RMB'000	RMB'000
Cost		
Balance at beginning of year	**40,408**	40,338
Additions	**—**	70
Balance at end of year	**40,408**	40,408
Amortisation		
Balance at beginning of year	**3,040**	2,191
Amortisation during the year	**801**	849
Balance at end of year	**3,841**	3,040
Carrying amounts		
At end of year	**36,567**	37,368
At beginning of year	**37,368**	38,147

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.

16 Investments in subsidiaries

	The Company	
	2009	2008
	RMB'000	RMB'000
Unlisted equity, at cost	**370,221**	370,221

All of the following entities are subsidiaries as defined under Note 1(c) 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	the PRC	—	USD36,320,000/ USD36,320,000	100%	—	100%	Manufacture and sale of linen yarns
Jiangsu Jinyuan	the PRC	—	USD11,500,000/ USD11,500,000	100%	—	100%	Manufacture and sale of linen yarns
Asia Harvest Enterprises Limited ("Asia Harvest")	Hong Kong	HK$ 1/ HK$10,000	—	100%	—	100%	Trading
Jiangsu Ziwei	the PRC	—	USD10,000,000/ USD10,000,000	100%	—	100%	Manufacture and sale of linen yarns
Zhaosu Jindi	the PRC	—	RMB20,000,000/ RMB20,000,000	100%	—	100%	Manufacture and sale of flax fibres
Kingdom Europe S.R.L.	Italy	EUR100,000/ EUR100,000	—	100%	—	100%	Trading

16 Investments in subsidiaries (continued)

(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) Zhaosu Jindi is domestic company established in the PRC.

17 Interest in an associate

	The Group	
	2009	2008
	RMB'000	RMB'000
Share of net assets	**2,700**	—

Zhejiang Huaning Flax Electronic Commerce Co., Ltd. ("Zhejiang Huaning") was established on 11 December 2009 in Zhejiang Province, the PRC, by Zhejiang Jinyuan, Mr. Ren Wei Ming and other 5 unrelated third parties. Zhejiang Jinyuan holds 18% of the equity interests of Zhejiang Huaning. The registered capital of Zhejiang Huaning at the date of incorporation and as at 31 December 2009 was RMB 30,000,000. As at 31 December 2009, the investors had contributed the first batch of capital totalling RMB 15,000,000 in cash in accordance with their contribution ratios of the registered capital as set out in the Articles of Association of Zhejiang Huaning. The proposed principal activities of Zhejiang Huaning are the sale of linen yarn products and provision of transaction services. Although the Group holds less than 20% of the equity interests of Zhejiang Huaning, the directors of the Company have determined that the Group exercises significant influence over Zhejiang Huaning in view of composition of the Board of Directors of Zhejiang Huaning. As at 31 December 2009, Zhejiang Huaning had not yet commenced operations.

Summary financial information of the associate:

2009	**Assets**	**Liabilities**	**Equity**	**Revenue**	**Profit/ (loss)**
100 percent	**15,000,000**	**—**	**15,000,000**	**—**	**—**
Group's effective interest	**2,700,000**	**—**	**2,700,000**	**—**	**—**

18 Inventories

Inventories in the balance sheet comprise:

	The Group	
	2009	2008
	RMB'000	RMB'000
Raw materials	**65,303**	95,270
Work in progress	**19,840**	23,208
Finished goods	**77,173**	165,675
Goods in transit	**60,827**	28,228
	223,143	312,381

The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Carrying amount of inventories sold	**419,105**	384,602
Provision for inventories	**16,043**	9,314
	435,148	393,916

As at 31 December 2009, inventories with carrying amount of RMB70,247,000 (2008: RMB Nil) were pledged to banks as security for the Group's bank loans (see Note 24(i)).

19 Biological assets

In previous years, the Group entirely sourced its raw material, flax fibres, from external suppliers for the manufacture of linen yarn. During the year ended 31 December 2009, the Group commenced farming flax on leased agricultural land to meet a portion of its demand for flax fibres raw materials.

Movements in biological assets are summarised as follows:

	Note	**The Group**	
		2009	2008
		RMB'000	RMB'000
Balance at beginning of year		**—**	—
Increase due to cultivation		**1,697**	—
Gain from changes in fair value less estimated point-of-sale costs	4	**563**	—
Harvested flax transferred to inventories		**(1,699)**	—
Balance at end of year		**561**	—

As at 31 December 2009, the balance of biological assets comprised approximately 54,000 kilograms of flax seeds. During the year ended 31 December 2009, the Group harvested approximately 625,000 kilograms of flax, which had a fair value less estimated point-of-sale costs of RMB1,699,000 at the date of harvest.

20 Trade receivables, prepayments and other receivables

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade debtors and bills receivable	**253,877**	196,179	**—**	—
Less: allowance for doubtful debts (Note 20(b))	**(5,222)**	(3,176)	**—**	—
Net trade debtors and bills receivable	**248,655**	193,003	**—**	—
Prepayments and other receivables	**27,621**	31,492	**—**	—
Amounts due from related parties (Note 31)	**3,900**	1,569	**—**	—
Amounts due from subsidiaries	**—**	—	**270,761**	272,082
	280,176	226,064	**270,761**	272,082

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

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

20 Trade receivables, prepayments and other receivables (continued)

(a) Ageing analysis

Included in trade receivables, prepayments and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis at the balance sheet date:

	The Group	
	2009	2008
	RMB'000	RMB'000
Current	**211,619**	165,933
Less than 1 month past due	**20,744**	12,564
More than 1 month but less than 3 months past due	**8,897**	4,640
More than 3 months but less than 12 months past due	**7,395**	5,738
More than 12 months past due	**—**	4,128
Total amount past due	**37,036**	27,070
	248,655	193,003

Customers are normally granted credit terms of 30 to 150 days, depending on the credit worthiness of individual customers. Further details of the Group's credit policy are set out in Note 27(a).

20 Trade receivables, prepayments and other receivables (continued)

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
At 1 January	**3,176**	1,272
Impairment loss recognised	**3,741**	2,963
Reversal of allowance for doubtful debts recovered	**(851)**	(413)
Uncollectible amounts written off	**(844)**	(646)
At 31 December	**5,222**	3,176

RMB4,961,000 (2008: RMB 2,817,000) of the Group's trade receivables were individually determined to be impaired as at 31 December 2009. The individually impaired receivables related to customers who have ceased trading with the Group and have indicated to the Group that they would have difficulties in settling the outstanding balances. Management consider that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB4,921,000 (2008: RMB2,817,000) were recognised against these individually impaired receivables as at 31 December 2009. The Group does not hold any collateral over these balances.

20 Trade receivables, prepayments and other receivables (continued)

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Neither past due nor impaired	**211,619**	165,933
Less than 1 month past due	**18,623**	9,478
More than 1 month but less than 3 months past due	**6,357**	3,943
More than 3 months but less than 12 months past due	**6,570**	5,717
More than 12 months past due	**—**	4,125
Total amount past due	**31,550**	23,263
	243,169	189,196

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record of settlement with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

21 Pledged bank deposits

The Group's bank deposits of RMB56,941,000 (2008: RMB47,352,000) are pledged to banks as security for the Group's banking and borrowing facilities (Note 24). The pledge over bank deposits is releasable upon the termination of related banking and borrowing facilities.

22 Fixed deposits with banks

Fixed deposits with banks on the consolidated balance sheet represent bank deposits that are over 3 months of maturity at acquisition.

23 Cash and cash equivalents

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits with banks within three months of maturity	**10,000**	7,228	**—**	—
Cash at bank and in hand	**85,517**	90,321	**1,638**	2,629
	95,517	97,549	**1,638**	2,629

24 Bank loans

		The Group	
		2009	2008
		RMB'000	RMB'000
Current			
Secured bank loans		**157,693**	162,839
Bank advances under discounted bills	(ii)	**10,554**	38,370
Unsecured bank loans		**110,730**	140,381
Current portion of non-current bank loans:			
– secured bank loans		**—**	15,000
– unsecured bank loans		**30,000**	30,000
		308,977	386,590
Non-current			
Secured bank loans		**—**	15,000
Unsecured bank loans		**30,000**	60,000
Less: current portion			
– secured bank loans		**—**	(15,000)
– unsecured bank loans		**(30,000)**	(30,000)
		—	30,000
Total		**308,977**	416,590

24 Bank loans (continued)

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

	The Group	
	2009	2008
	RMB'000	RMB'000
Within 1 year	**30,000**	45,000
Over 1 year but less than 2 years	**—**	30,000
	—	30,000
Total	**30,000**	75,000

(i) As at 31 December 2009, the banking facilities and bank loans of certain subsidiaries were secured by certain property, plant and equipment, land use rights, inventories and bank deposits of the Group with a carrying amount of RMB199,070,000 (2008: RMB139,250,000), RMB22,770,000 (2008: RMB32,208,000), RMB70,247,000 (2008: Nil), and RMB56,941,000 (2008: RMB47,352,000) respectively.

(ii) The Group's discounted bills with recourse have been accounted for as collateralised bank advances. The discounted bills receivable and the related proceeds of the same amount are included in the Group's "Trade debtors and bills receivable" and "Bank advances under discounted bills" at the balance sheet date.

(iii) As at 31 December 2009, total revolving banking and borrowing facilities available to the Group amounted to RMB544,040,000 (2008: RMB375,950,000) of which RMB239,788,000 (2008: RMB145,952,000) had been utilised.

(iv) The Group's banking facilities are subject to the fulfillment of covenants that are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the utilised facilities would become payable on demand. As at 31 December 2009, none of the covenants relating to the utilised facilities had been breached.

25 Trade and other payables

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and bills payable	**140,442**	85,487	**—**	—
Non-trade payables and accrued expenses	**31,038**	24,737	**—**	—
Amounts due to a subsidiary	**—**	—	**3,800**	2,000
	171,480	110,224	**3,800**	2,000

All trade and other payables are expected to be settled within one year.

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

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

	The Group	
	2009	2008
	RMB'000	RMB'000
Due within 1 month or on demand	**43,899**	31,382
Due after 1 month but within 3 months	**56,926**	45,732
Due after 3 months but within 6 months	**39,617**	7,740
Due after 6 months but within 12 months	**—**	633
	140,442	85,487

26 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 1 January 2008	6,272	268,001	370,213	(1,076)	643,410
Total comprehensive income	—	—	—	15,085	15,085
Dividends approved and paid during the year	—	—	—	(15,563)	(15,563)
As at 31 December 2008	6,272	268,001	370,213	(1,554)	642,932
As at 1 January 2009	**6,272**	**268,001**	**370,213**	**(1,554)**	**642,932**
Total comprehensive income	**—**	**—**	**—**	**(4,112)**	**(4,112)**
As at 31 December 2009	**6,272**	**268,001**	**370,213**	**(5,666)**	**638,820**

(b) Dividends

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

The board of directors do not recommend the payment of a final dividend for the year ended 31 December 2009 (2008: Nil).

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

	2009 RMB'000	2008 RMB'000
Final dividends in respect of the previous financial year, approved and paid during the year of RMB Nil per share (2008: RMB0.025)	**—**	15,563
	—	15,563

26 Capital, reserves and dividends (continued)

(c) Share capital

	The Group and the Company			
	2009		2008	
Authorised:	**Number of shares**	**Amount HK$'000**	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each	**3,000,000,000**	**30,000**	3,000,000,000	30,000

Issued and fully paid:

	2009			2008		
	Number of shares	**Amount HK$'000**	**RMB'000 equivalent**	Number of shares	Amount HK$'000	RMB'000 equivalent
At 1 January and 31 December	**622,500,000**	**6,225**	**6,272**	622,500,000	6,225	6,272

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 meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

26 Capital, reserves and dividends (continued)

(d) Reserves

The Group

(i) Merger reserve

Merger reserve represents 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 as at the date of a reorganisation (the "Reorganisation") of the Group to rationalise the group structure in preparation for the listing of the Company's shares on the Stock Exchange. Details of the Reorganisation are set out in the Prospectus of the Company dated 30 November 2006.

(ii) PRC statutory reserve

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.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of overseas subsidiaries. The reserve is dealt with in accordance with the accounting polices set out in Note 1(e).

26 Capital, reserves and dividends (continued)

(d) Reserves (continued)

The Company

(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 risk management and fair value

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

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade receivables, prepayments and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

In respect of trade receivables, prepayments and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and may take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the balance sheet date, 6% (2008: 7%) and 15% (2008: 22%) of the total trade receivables, prepayments and other receivables was due from the largest customer and five largest customers respectively within the Group's business segment.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of trade receivables, prepayments and other receivables in the balance sheet after deducting any impairment allowance. The Group does not provide any other guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables, prepayments and other receivables are set out in Note 20.

27 Financial risk management and fair value (continued)

(b) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group adopts a policy of ensuring that over 50% of its interest-bearing borrowings are effectively on a fixed rate basis through the contractual terms of the interest-bearing borrowings. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's interest-bearing borrowings at the balance sheet date:

	The Group			
	2009		2008	
	Effective interest rate	**Carrying value RMB'000**	Effective interest rate	Carrying value RMB'000
Fixed rate borrowings:				
Bank loans	**1.41%~8.00%**	**278,977**	3.768%-8.385%	341,590
		278,977		341,590
Variable rate borrowings:				
Bank loans	**5.76%**	**30,000**	5.94%-7.74%	75,000
		30,000		75,000
Total net borrowings		**308,977**		416,590
Net fixed rate borrowings as a percentage of total net borrowings		**90%**		82%

27 Financial risk management and fair value (continued)

(b) Interest rate risk (continued)

(ii) Sensitivity analysis

As at the balance sheet date, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's net loss after tax and decrease/increase consolidated equity by approximately RMB300,000 (2008: RMB731,000).

The sensitivity analysis above indicates the instantaneous change in the Group's loss after tax and consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those floating rate non-derivative instruments held by the Group which expose the Group to cash flow interest rate risk at the balance sheet date. The impact on the Group's loss after tax and consolidated equity is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis is performed on the same basis for 2008.

(c) Currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to the receivables, payables, loans and bank balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States Dollars, Hong Kong Dollars and Euros.

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China.

In respect of trade receivables, prepayments and other receivables, trade and other payables and bank loans denominated in foreign currencies, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rate where necessary to address short-term imbalances.

27 Financial risk management and fair value (continued)

(c) Currency risk (continued)

(i) Exposure to currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of overseas subsidiaries into the Group's presentation currency are excluded.

The Group

	As at 31 December 2009		
	United States Dollars RMB'000	**Hong Kong Dollars RMB'000**	**Euros RMB'000**
Trade receivables, prepayments and other receivables	**47,498**	**—**	**36,972**
Cash and cash equivalents	**16,006**	**2,131**	**4,609**
Trade and other payables	**(34,473)**	**—**	**(4,930)**
Bank loans	**(33,925)**	**—**	**—**
Overall net exposure	**(4,894)**	**2,131**	**36,651**

	As at 31 December 2008		
	United States Dollars RMB'000	Hong Kong Dollars RMB'000	Euros RMB'000
Trade receivables, prepayments and other receivables	29,393	—	15,778
Cash and cash equivalents	5,413	3,392	1,398
Trade and other payables	(23,605)	(13,034)	(8,047)
Bank loans	(47,024)	—	—
Overall net exposure	(35,823)	(9,642)	9,129

27 Financial risk management and fair value (continued)

(c) Currency risk (continued)

(i) Exposure to currency risk (continued)

The Company

	2009 Hong Kong Dollars RMB'000	2008 Hong Kong Dollars RMB'000
Cash and cash equivalents	**1,638**	2,629
Overall net exposure	**1,638**	2,629

(ii) Sensitivity analysis

The following table indicates the instantaneous increase/(decrease) in the Group's results and consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

	2009		2008	
	Increase/ (decrease) in the Group's loss after tax RMB'000	**Increase/ (decrease) in consolidated equity RMB'000**	Increase/ (decrease) in the Group's loss after tax RMB'000	Increase/ (decrease) in consolidated equity RMB'000
United States Dollars				
– 5% strengthening of RMB	(230)	230	(1,383)	1,383
– 5% weakening of RMB	230	(230)	1,383	(1,383)
Hong Kong Dollars				
– 5% strengthening of RMB	106	(106)	(359)	359
– 5% weakening of RMB	(106)	106	359	(359)
Euros				
– 5% strengthening of RMB	1,266	(1,266)	453	(453)
– 5% weakening of RMB	(1,266)	1,266	(453)	453

27 Financial risk management and fair value (continued)

(c) Currency risk (continued)

(ii) Sensitivity analysis (continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of overseas subsidiaries into the Group's presentation currency. The analysis is performed on the same basis for 2008.

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. As at 31 December 2009, the Group had cash and bank deposits totaling RMB152,458,000 (2008: RMB155,251,000) of which RMB56,941,000 (2008: RMB47,352,000) had been pledged to banks to secure banking facilities granted, the majority of which are revolving in nature. As at 31 December 2009, the Group had revolving banking facilities of RMB544,040,000 (2008: RMB375,950,000) of which RMB239,788,000 (2008: RMB145,952,000) had been drawn down. All of these revolving banking facilities were granted by stated-owned banks in the PRC including Bank of China, Agricultural Bank of China and China Construction Bank. Amongst these revolving banking facilities as at 31 December 2009, RMB333,500,000 expire in 2010 while RMB210,540,000 do not expire until after 2010. The directors believe that the Group will be able to obtain continued borrowing facilities from these banks so that when required by the Group, the bank loans due for repayment within the next 12 months can be successfully replaced with new loans drawn down from existing revolving banking facilities or new borrowing facilities. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

27 Financial risk management and fair value (continued)

(d) Liquidity risk (continued)

The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay. At the balance sheet date, the Group did not have any derivative financial liabilities.

	Contractual undiscounted cash outflow				Balance sheet carrying amount
	Within 1 year or on demand	1-2 years	>2 years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2009					
Trade and other payables	**171,480**	**—**	**—**	**171,480**	**171,480**
Bank loans	**316,794**	**—**	**—**	**316,794**	**308,977**
	488,274	**—**	**—**	**488,274**	**480,457**
2008					
Trade and other payables	110,224	—	—	110,224	110,224
Bank loans	398,088	31,782	—	429,870	416,590
	508,312	31,782	—	540,094	526,814

(e) Fair value

All financial instruments are measured at amounts not materially different from their fair value as at 31 December 2009 and 2008 due to either the short maturities of these financial instruments or variable market interest rate for long-term bank borrowings.

28 Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure and liquidity position (Note 27 (d)) to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of debt-to-equity ratio. For this purpose the Group defines debt and equity as total liabilities and total equity respectively.

During 2009, the Group's strategy, which was unchanged from 2008, was to maintain the debt-to-equity ratio at a level considered reasonable by the Group's management from time to time with reference to the prevailing market conditions. In order to maintain or adjust the ratios, the Group may adjust the amount of dividends paid to shareholders, issue new shares and raise new debt financing.

The debt-to-equity ratio at 31 December 2009 and 2008 was as follows:

		The Group		**The Company**	
	Note	**2009**	2008	**2009**	2008
		RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans	24	**308,977**	416,590	**—**	—
Trade and other payables	25	**171,480**	110,224	**3,800**	2,000
Total liabilities		**480,457**	526,814	**3,800**	2,000
Total equity		**616,902**	634,909	**638,820**	642,932
Debt-to-equity ratio		**78%**	83%	**0.6%**	0.3%

29 Operating leases commitments

Non-cancellable operating lease rentals were payable as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Less than one year	**1,233**	1,241
Between one and five years	**3,127**	4,305
	4,360	5,546

The Group leases certain properties located in the PRC and Italy as the Group's offices. The leases run for an initial period of 1-6 years, with an option to renew the leases after that date.

30 Capital commitments

Capital commitments in respect of purchase of property, plant and equipment outstanding at 31 December 2009 and 2008 but not provided for in the consolidated financial statements were as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Contracted for	**2,428**	5,294
Authorised but not contracted for	**—**	—
	2,428	5,294

31 Related party transactions

Transactions with the following entities are considered as related party transactions for the years ended 31 December 2009 and 2008:

Name of party	**Relationship**
Zhejiang Kingdom Creative Co., Ltd. ("Kingdom Creative")	Controlled by the controlling shareholder of the Company's ultimate holding company
Millionfull Company Limited ("Millionfull")	Controlled by one of the Company's directors

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:

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

(i) During the year ended 31 December 2009, the Group leased an office located in the PRC from Kingdom Creative and paid operating lease charges of RMB 200,000 (2008: RMB 200,000) to Kingdom Creative.

(ii) During the year ended 31 December 2009, the Group sold products totaling RMB 4,196,000 to Millionfull (2008: RMB 1,499,000) and paid expenses of RMB 668,000 (2008: RMB 195,000) on behalf of Millionfull.

(b) Balance with related parties

	2009 RMB'000	2008 RMB'000
Amounts due from:		
Millionfull	**3,900**	1,569
	3,900	1,569

31 Related party transactions (continued)

(c) Key management personnel remuneration

	2009	2008
	RMB'000	RMB'000
Short-term employee benefits	**2,998**	3,039
Post-employment benefits	**90**	104
	3,088	3,143

Total remuneration is included in "personnel expenses" (Note 5).

(d) Contribution to defined contribution retirement plans

Details of post-employment benefit plans for the Group's employees are disclosed in Note 5.

As at 31 December 2009 and 31 December 2008, there was no material outstanding contribution to post-employment benefit plans.

32 Comparative figures

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

33 Accounting estimates and judgements

Key sources of estimation uncertainty are as follow:

(i) Impairment losses on trade receivables, prepayments and other receivables

Impairment losses for trade receivables, prepayments and other receivables are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

(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) Valuation of inventories

As disclosed in Note 1(h), inventories are measured at the lower of cost and net realisable value. Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amounts the inventories are expected to realise. These estimates take into consideration fluctuations of selling price or costs relating to events occurring after the year end to the extent that such events confirm conditions existing at the balance sheet date. As the Group's products are not a traded commodity with quoted and observable market prices, the directors have to exercise a considerable level of judgement in assessing the net realisable value of inventory and the extent to which the recent decrease in selling prices has confirmed the conditions existing at the balance sheet date and whether further selling price reductions for the products will be necessary in order for the Group to sell the inventories held at the balance sheet date. In this regard, the directors have estimated the net realisable value of the Group's inventories as at the balance sheet date with reference to the latest selling price according to received firm sales orders and the estimated selling price based on the prevailing market condition to realise the inventories in excess of the firm sales orders. The carrying value of inventories at the balance sheet date might therefore increase/decrease if the directors' estimates of the net realisable value were lower/higher than the actual results. The directors reassess the estimations at each balance sheet date.

33 Accounting estimates and judgements (continued)

(iv) Fair value of biological assets and agricultural produce

All flax biological assets had been harvested before the balance sheet date. The biological assets as at balance sheet date represent flax seeds. The Group measured the fair value of flax seeds based on market prices as at the year end.

The Group's agricultural produce, mature flax, are measured at fair value less estimated point-of-sale costs at the point of harvest. The fair value is determined based on the most recent market transaction price as at or close to the harvest dates.

34 Parent and ultimate holding company

At 31 December 2009, 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.

35 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2009

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 2009 and which have not been adopted in these financial statements.

	Effective for accounting period beginning on or after unless specified
IFRSs (Amendments), Improvements to IFRSs 2009	1 July 2009 or 1 January 2010
IAS 24 (Revised), Related party disclosures	1 January 2011
IAS 27 (Revised), Consolidated and separate financial statements	1 July 2009
IAS 32 (Amendment), Financial instruments: presentation – classification of rights issues	1 February 2010
IFRS 9, Financial instruments	1 January 2013

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. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

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") for each of the five years ended 31 December 2009 is extracted from the audited financial statements of the Group's annual reports for the years ended 31 December 2009, 31 December 2008, 31 December 2007 and 31 December 2006, and the accountants' reports of the Group included in the prospectus of the Company dated 30 November 2006.

RESULTS

	The Group				
	Year ended 31 December 2009 RMB'000	Year ended 31 December 2008 RMB'000	Year ended 31 December 2007 RMB'000	Year ended 31 December 2006 RMB'000	Year ended 31 December 2005 RMB'000
Turnover	**491,165**	448,231	537,206	537,364	452,349
Cost of sales	**(435,148)**	(393,916)	(428,555)	(390,689)	(318,288)
Gross profit	**56,017**	54,315	108,651	146,675	134,061
Other operating income	**4,054**	3,184	1,584	6,308	2,587
Distribution expenses	**(18,625)**	(17,700)	(15,945)	(16,701)	(14,802)
Administrative expenses	**(34,597)**	(38,292)	(29,571)	(22,118)	(14,753)
Other operating expenses	**(3,091)**	(2,749)	(1,901)	(902)	(626)
Profit/(loss) from operations	**3,758**	(1,242)	62,818	113,262	106,467
Net finance costs	**(20,077)**	(23,361)	(15,090)	(17,649)	(11,940)
(Loss)/profit before taxation	**(16,319)**	(24,603)	47,728	95,613	94,527
Taxation	**(1,837)**	1,776	(2,696)	(5,247)	—
(Loss)/profit for the year	**(18,156)**	(22,827)	45,032	90,366	94,527

ASSETS AND LIABILITIES

	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007	As at 31 December 2006	As at 31 December 2005
Total assets	**1,097,359**	1,161,723	1,153,108	1,082,220	670,161
Total liabilities	**(480,457)**	(526,814)	(478,882)	(429,682)	(380,725)
Net assets	**616,902**	634,909	674,226	652,538	289,436

索比亚迪是意大利一家超过130年历史的纺织公司，生产顶级面料包括纯亚麻面料。
引用Lavaza先生的一句话：“金达品牌是我们采购亚麻纱时的第一选择。”
Solbiati italy is a renowned textile company of history over 130 years, producing top quality of fabrics including linen fabrics.
Quoted the remarks from Mr. Lavaza, "kingdom brand linen yarn is our first and exclusive choice."


July
七月 / 亚麻散发着成熟的金色光芒
Golden maturity

亚麻围巾不仅继承了围巾的温柔飘逸，更具有亚麻的柔韧和健康，相比羊毛、棉布等织物，它不惧怕洗涤，也不会褪色，更具亲和力。

Besides the same characteristics as ordinary scarf such as wool, cotton, Linen scarf is more convenient on washing and with better fastness. Of course, linen is also more welcome.

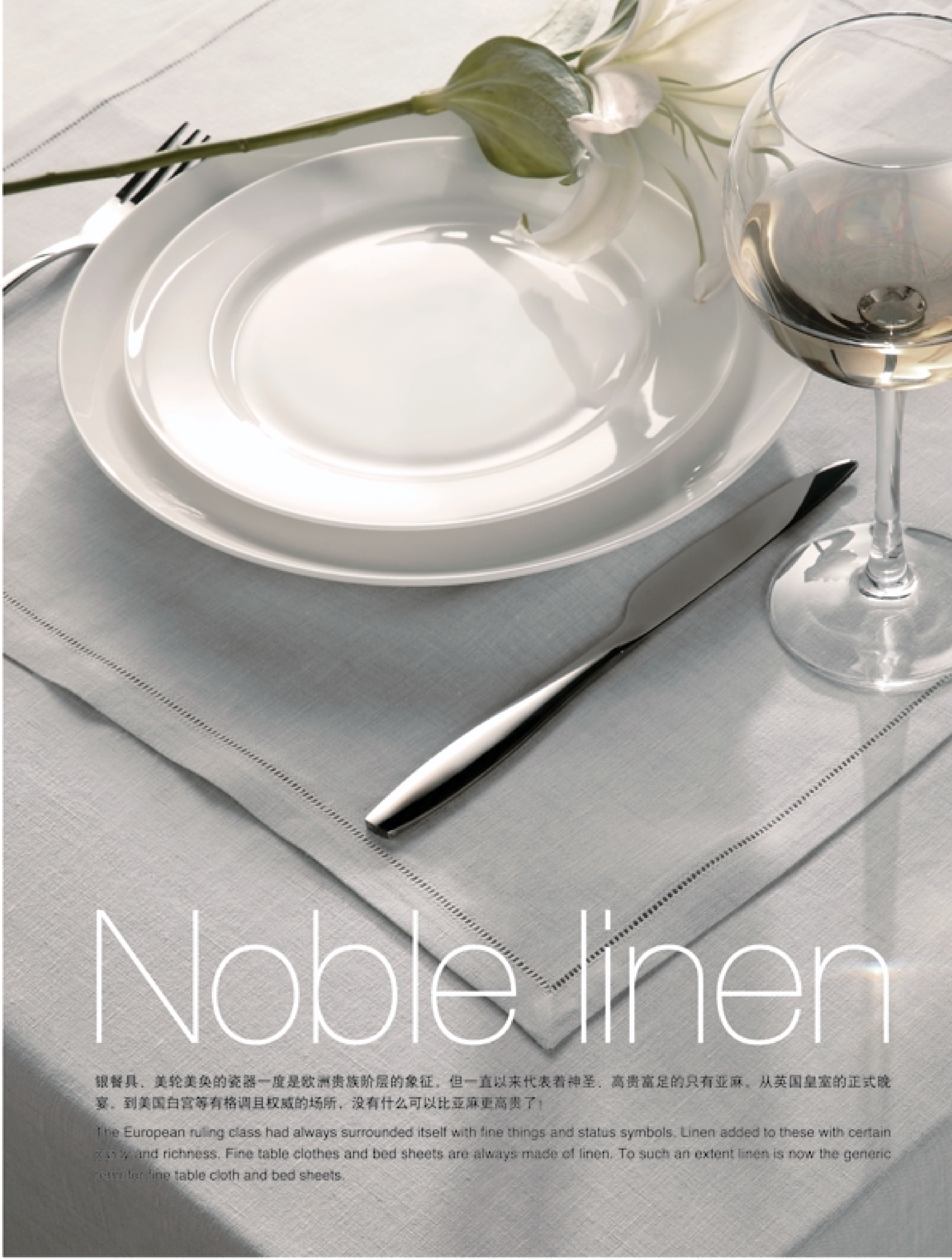
When touching linen, you will find the difference by Kingdom!

当您使用亚麻产品时，您会发现，金达亚麻纱是那么与众不同

曾有著名设计师感叹到："夜晚，滑进床单与盖被之间时，麻布有一种独特舒适的重量感，好像麻布和肌肤之间有一股温暖的空气包围过来。晨光中，便看见层层波浪的白色亚麻海。"这个设计师是热爱和了解亚麻布的，因为他说出了亚麻布最吸引人的地方。

You will say it's different of the first moment you touch Kingdom linen! Even successful designers have praised linen furnishings for the sake of creatures comfort. "At night, linen bedding presents a sensational comfort, as if warm air surrounding; at dawn, linen sheet greets the brand-new day with tranquility".


To be
natural is
a fashion
亚麻服饰以其舒服，自然的特性日渐受到那些追求着装品位的都市贵族们的青睐。
The more youngsters love nature, the more they choose linen


Noble linen
银餐具、美轮美奂的瓷器一度是欧洲贵族阶层的象征，但一直以来代表着神圣、高贵富足的只有亚麻，从英国皇室的正式晚宴，到美国白宫等有格调且权威的场所，没有什么可以比亚麻更高贵了！
The European ruling class had always surrounded itself with fine things and status symbols. Linen added to these with certain purity and richness. Fine table clothes and bed sheets are always made of linen. To such an extent linen is now the generic term for fine table cloth and bed sheets.

人生三分之一的时间在床上，亚麻家纺让我们把这三分之一的时间过的舒适而自然又充满眷恋。

亚麻制品的强度非常大，如果变得潮湿以后，这种强度还会提高。亚麻纤维还可以吸收达到自身20%的水分，这就是为什么高质量的家纺要用亚麻制作的原因。亚麻家纺不仅有良好的吸水性，而且还不会起皱，因而亚麻家纺非常结实耐用，而且印花使亚麻家纺丰富多样。有些亚麻家纺还有精致的抽纱花边，并经过了特殊的处理，在优雅中体现了不同寻常的奢侈气息。

Remember we spend one-third of our life in bed! Linen beddings ensure our comfort.

The strength of linen fibre increases with moisture. Most linen fabrics can absorb up to 20% of its own weight in moisture. High quality home furnishings are made mostly in linen. Linen home furnishings can be very durable and reliable, with rich color prints.


Linen
is beloved all
the time
Nowadays in favor of healthy life,
flax with its purity of nature adds new vitality to industry for a new future.
亚麻从远古到现在一直深受人们的喜爱

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