KINGDOM

INTERIM REPORT 2010

KINGDOM HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock code : 528)

Contents

Corporate Information

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yang Dong Hui
Mr. Lo Kwong Shun Wilson
Mr. Lau Ying Kit

COMPANY SECRETARY

Ms. Chan Ching Yi HKICPA

REGISTERED OFFICE

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P.O. Box 2681 GT
Grand Cayman KY1-1111
Cayman Islands

PLACE OF BUSINESS IN HONG KONG

Level 28
Three Pacific Place
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Hong Kong

AUDITORS

Ernst & Young

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
68 Fort Street
P.O. Box 705, George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor
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Wanchai
Hong Kong

STOCK CODE

528

Interim Condensed Consolidated Income Statement

For the six months ended 30 June 2010

	Notes	For the six months ended 30 June **2010** **RMB'000** **(Unaudited)**	 2009 RMB'000 (Unaudited)
REVENUE	4	**282,927**	151,455
Cost of sales		**(216,636)**	(160,078)
Gross profit/(loss)		**66,291**	(8,623)
Other income and gains	4	**2,628**	6,420
Selling and distribution costs		**(15,475)**	(5,818)
Administrative expenses		**(13,054)**	(15,877)
Other expenses		**(4,843)**	(3,355)
Finance costs	5	**(7,027)**	(10,797)
Share of losses of an associate		**(139)**	—
PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE	6	**28,381**	(38,050)
Income tax expense	7	**(10,180)**	6,388
PROFIT/(LOSS) FOR THE PERIOD		**18,201**	(31,662)
Attributable to:			
Owners of the parent		**18,201**	(31,662)
Basic and diluted earnings/(loss) per share attributable to the owners of the parent	9	**RMB0.03**	RMB(0.05)

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	**18,201**	(31,662)
Exchange differences on translation	**(214)**	(196)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**17,987**	(31,858)
Attributable to:		
Owners of the parent	**17,987**	(31,858)

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2010

	Notes	**30 June 2010 RMB'000 (Unaudited)**	31 December 2009 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**381,817**	393,298
Prepaid land lease payments		**35,351**	35,767
Interest in an associate		**5,261**	2,700
Deferred tax assets		**5,130**	5,827
Total non-current assets		**427,559**	437,592
CURRENT ASSETS			
Inventories	11	**230,916**	223,143
Biological assets		**591**	561
Tax recoverable		**—**	2,629
Trade and notes receivables	12	**202,929**	248,655
Prepayments, deposits and other receivables		**43,310**	28,421
Due from a related company		**—**	3,900
Pledged deposits		**60,945**	56,941
Cash and cash equivalents		**166,961**	95,517
Total current assets		**705,652**	659,767
CURRENT LIABILITIES			
Interest-bearing bank loans	13	**289,461**	308,977
Trade payables	14	**174,552**	140,442
Other payables and accruals		**28,097**	31,038
Tax payable		**4,845**	—
Total current liabilities		**496,955**	480,457
NET CURRENT ASSETS		**208,697**	179,310
TOTAL ASSETS LESS CURRENT LIABILITES		**636,256**	616,902

As at 30 June 2010

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**1,367**	—
Total non-current liabilities	**1,367**	—
Net assets	**634,889**	616,902
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**6,272**	6,272
Reserves	**628,617**	610,630
Total equity	**634,889**	616,902

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	Attributable to the owners of the parent						
	Issue Capital	**Share premium**	**Merger reserve**	**Statutory reserve**	**Exchange reserve**	**Retained earnings**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	6,272	268,001	196,816	35,172	(778)	111,419	616,902
Total comprehensive income for the period	—	—	—	—	(214)	18,201	17,987
At 30 June 2010 (Unaudited)	6,272	268,001	196,816	35,172	(992)	129,620	634,889
At 1 January 2009	6,272	268,001	196,816	35,172	(927)	129,575	634,909
Total comprehensive loss for the period	—	—	—	—	(196)	(31,662)	(31,858)
At 30 June 2009 (Unaudited)	6,272	268,001	196,816	35,172	(1,123)	97,913	603,051

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITIES	**107,120**	40,110
NET CASH OUTFLOW USED IN INVESTING ACTIVITIES	**(16,160)**	(82,055)
NET CASH OUTFLOW USED IN FINANCING ACTIVITIES	**(19,516)**	(13,227)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**71,444**	(55,172)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**95,517**	97,549
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**166,961**	42,377
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**227,906**	169,772
Less: Pledged deposits	**(60,945)**	(127,395)
Cash and cash equivalents	**166,961**	42,377

1. Corporate Information

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

The Group is principally engaged in the manufacture and sales of linen yarns.

The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681 GT, Grand Cayman KY1-1111, Cayman Islands; and principal place of business is located at Level 28, Three Pacific Place 1 Queen's Road East, Hong Kong.

2.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2009.

2.2 Summary of Significant Accounting Polices

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except in relation to the new and revised International Financial Reporting Standards ("IFRSs", which also include IASs and interpretations) as set out in notes 2.3 that are adopted for the first time for the current period's unaudited interim condensed consolidated financial statements, the adoption of these new and revised IFRSs has had no significant impact on the results and the financial position of the Group.

2.3 Adoption of New and Revised IFRSs

During the six months ended 30 June 2010, the following new standards and interpretations are adopted by the Group:

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*
IFRS 1 Amendments	Amendments to IFRS 1 *Additional Exemptions for First-time Adopters*
IFRS 2 Amendments	Amendments to IFRS 2 *Group Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combinations*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 39 Amendment	*Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
IFRIC-Int 17	*Distributions of Non-cash Assets to Owners*
Amendments to IFRS 5 included in Improvements to IFRSs issued in May 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary*
Annual Improvements	*Improvements to IFRSs 2009**

* Improvements to IFRSs 2009 contain amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16.

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

3. Segment Information

For management purposes, the Group is organised into one single business unit that includes primarily the manufacture and sales of linen yarns. Management reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group. Accordingly, no segmental analysis is presented.

Geographical information

An analysis of the Group's geographical information on revenue attributed to the region on the basis of the customer's location for the six months ended 30 June 2010 is set out in the following table:

	Revenue from External customers	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Mainland China	**106,390**	65,457
Italy	**83,025**	52,608
Other countries	**93,512**	33,390
Total	**282,927**	151,455

The principal non-current assets employed by the Group are located at the PRC.

Information about a major customer

No revenue amounting to 10 percent or more of the Group's revenue was derived from sales to a single customer for the six months ended 30 June 2010 (2009: Nil).

4. Revenue, Other Income and Gains

Revenue represents the sales value of linen yarns, net of sales tax and deduction of any sales discounts and returns.

An analysis of revenue and other income is as follows:

	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Sales of linen yarns	**282,927**	151,455
Other income and gains		
Bank interest income	**580**	905
Foreign exchange gains, net	**—**	2,305
Government grants	**1,732**	2,460
Gain from changes in fair value of biological assets	**30**	—
Others	**286**	750
	2,628	6,420

5. Finance Costs

	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank loans, overdrafts and other loans wholly repayable with five years	**7,027**	10,897
Less: interest capitalised	**—**	(100)
	7,027	10,797

6. Profit/(loss) Before Income Tax Expense

The Group's profit/(loss) before income tax expense is arrived at after charging/(crediting)

	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**216,636**	160,078
Depreciation	**21,638**	23,685
Amortisation of prepaid land lease payments	**425**	401
Minimum lease payments under operating lease:		
land and buildings	**547**	596
Employee benefits expense (including directors' remuneration):		
Wages, salaries and other benefits	**29,878**	22,761
Pension scheme contributions	**3,413**	2,908
	33,291	25,669
Foreign exchange difference, net	**2,674**	(2,305)
(Written back of provision)/provision against inventories	**(2,556)**	16,043
(Reversal of)/provision for doubtful debts	**(328)**	1,087
Interest expenses	**7,027**	10,797
Gross rentals from investment properties	**—**	(277)
Bank interest income	**580**	905

7. Income Tax Expense

Major components of the Group's income tax expense for the period are as follows:

	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current - PRC		
– Charge for the period	**8,116**	117
– Under-provision in respect of prior periods	**—**	151
Deferred	**2,064**	(6,656)
Total tax charge for the period	**10,180**	(6,388)

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

(ii) No provision has been made for Hong Kong profits tax during the six months ended 30 June 2010 (2009: Nil) as the Group did not earn any assessable income for Hong Kong profits tax purpose.

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

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"). The year of 2003, 2005 and 2008 are the first profit making year for Zhejiang Jinyuan, Jiangsu Jinyuan and Jiangsu Ziwei, respectively.

During the Fifth Session of the Tenth National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. According to the New Corporate Income 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 Corporate Income Tax Law, Jiangsu Ziwei will continue to enjoy 50% reduction on the applicable income tax rate under the New Corporate Income Tax Law in 2010 until the expiry of the Tax Holidays previously granted under the FEIT Law as at 31 December 2012, and thereafter they are subject to the unified rate of 25%.

7. Income Tax Expense *(Continued)*

(iv) No provision has been made for Italian income tax during the six months ended 30 June 2010 (2009: Nil) as the Group did not earn any taxable profit for Italian income tax purpose.

8. Dividends

The Board of Directors does not recommend the payment of interim dividend to the ordinary owners of the Company for the six months ended 30 June 2010 (2009: Nil).

9. Basic and Diluted Earnings/(loss) Per Share Attributable to the Owners of the Parent

The calculation of basic and diluted earnings/(loss) per share is based on the profit attributable to owners of the parent of approximately RMB18,201,000 (2009: loss of RMB31,662,000) and the weighted average number of 622,500,000 (2009: 622,500,000) ordinary shares in issue during the interim period.

No diluting potential ordinary shares were in issue as at 30 June 2010 (2009: Nil).

10. Property, Plant and Equipment

	Plant and buildings RMB'000	Machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
Balance at 1 January 2010	153,649	372,457	13,892	2,864	7,408	4,216	554,486
Additions	347	515	260	3,284	42	5,748	10,196
Transfer in	406	—	—	—	—	(406)	-
Disposals	—	—	—	(123)	—	—	(123)
Exchange realignment	—	(14)	(14)	—	(3)	—	(31)
Balance at 30 June 2010 (unaudited)	154,402	372,958	14,138	6,025	7,447	9,558	564,528
Accumulated depreciation:							
Balance at 1 January 2010	(26,146)	(126,513)	(6,553)	(1,343)	(633)	—	(161,188)
Charge for the period	(3,921)	(15,741)	(1,188)	(417)	(371)	—	(21,638)
Written back on disposals	—	—	—	110	—	—	110
Exchange realignment	—	2	2	—	1	—	5
Balance at 30 June 2010 (unaudited)	(30,067)	(142,252)	(7,739)	(1,650)	(1,003)	—	(182,711)
Carrying amounts:							
At 30 June 2010 (unaudited)	124,335	230,706	6,399	4,375	6,444	9,558	381,817
At 31 December 2009	127,503	245,944	7,339	1,521	6,775	4,216	393,298

11. Inventories

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Raw materials	**123,606**	65,303
Work in progress	**13,067**	19,840
Finished goods	**82,652**	77,173
Goods in transit	**1,591**	60,827
	230,916	223,143

12. Trade and Notes Receivables

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Trade receivables	**134,209**	175,316
Notes receivables	**73,614**	78,561
Allowance for trade and notes receivables	**(4,894)**	(5,222)
	202,929	248,655

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

12. Trade and Notes Receivables *(Continued)*

An aging analysis of the Group's trade and notes receivables (based on due date and net of provisions for bad and doubtful debts) is as follows:

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Neither past due nor impaired	**169,951**	211,619
Less than 1 month past due	**9,501**	20,744
1-3 months past due	**6,351**	8,897
Over 3 months but less than 12 months past due	**17,108**	7,395
Over 12 months past due	**18**	—
	202,929	248,655

13. Interest-bearing Bank Loans

	Notes	**30 June 2010 RMB'000 (Unaudited)**	31 December 2009 RMB'000 (Audited)
Current			
Secured bank loans	(i)	**117,461**	157,693
Bank advances under discounted bills		**—**	10,554
Unsecured bank loans		**142,000**	110,730
Current portion of non-current bank loans:			
– Secured bank loans		**30,000**	30,000
		289,461	308,977
Non-current			
Secured bank loans	(i)	**30,000**	30,000
Less: current portion			
– Secured bank loans		**(30,000)**	(30,000)
		—	—
Total		**289,461**	308,977

13. Interest-bearing Bank Loans *(Continued)*

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

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Within 1 year	**30,000**	30,000

(i) As at 30 June 2010, the interest-bearing bank loans were secured by certain property, plant and equipment, prepaid land lease payments, inventories and pledged deposits of the Group with a carrying amount of RMB128,032,000 (31 December 2009: RMB272,761,000), RMB21,052,000 (31 December 2009: RMB22,770,000), RMB110,635,000 (31 December 2009: RMB70,247,000), and RMB60,945,000 (31 December 2009: RMB56,941,000), respectively.

(ii) As at 30 June 2010, the Group had total banking facilities of RMB 650,275,000 (31 December 2009: RMB 544,040,000) of which RMB 289,461,000 (31 December 2009: RMB 239,788,000) had been drawn down.

(iii) The bank loans bear interest at rates ranging from 1.12% to 5.31% per annum (31 December 2009: 0.6% to 8.22% per annum)

The carrying amount of the interest-bearing bank loans of the Group approximated to their fair values.

14. Trade Payables

An ageing analysis of the trade payables as at 30 June 2010, based on the payment due date, is as follows:

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Due within 1 month or on demand	**82,290**	43,899
Due after 1 month but with 3 months	**61,080**	56,926
Due after 3 months but with 6 months	**25,018**	39,617
Due after 6 months but with 12 months	**6,164**	—
	174,552	140,442

15. Operating Leases Commitments

Non-cancellable operating lease rentals were payable as follows:

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Less than one year	**1,093**	1,233
Between one and five years	**2,257**	3,127
	3,350	4,360

The Group leases certain properties located in the PRC and Italy as the Group's offices. The leases run for an initial period of 3-6 years, with an option to renew the leases after due date.

16. Capital Commitments

Capital commitments in respect of purchase of property, plant and equipment outstanding at 30 June 2010 and 31 December 2009 but not provided for in the interim financial report was as follows:

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Contracted for	**—**	2,428
Authorised but not contracted for	**—**	—
	—	2,428

17. Related Party Transactions

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

(i) During the six months ended 30 June 2010, the Group leased an office located in the PRC from Zhejiang Kingdom Creative Co., Ltd. ("Kingdom Creative") and incurred operating lease charges of RMB100,000 (2009: RMB100,000). Mr. Ren We Ming, who ultimately controls the Group, also has a controlling equity interests over Kingdom Creative.

(ii) During the six months ended 30 June 2010, the Group sold products totaling RMB52,000 to Millionfull Company Limited ("Millionfull") (2009: Nil), a related company controlled by one of the Company's directors.

(b) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	**1,340**	1,392
Post-employment benefits	**51**	55
	1,391	1,447

18. Comparative Figures

Certain comparative figures have been reclassified and restated to conform to the current period's presentation.

19. Approval of the Interim Condensed Consolidated Financial Statements

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 27 August 2010.

Industry overview

As China's economy stabilised and rebounded in 2010, the overall market continued to improve. China's linen yarn manufacturing industry showed signs of recovery in 2010 with improving industry conditions. Demand in both domestic and international markets saw significant growth over the corresponding period of last year. Due to decrease in production of linen yarns by domestic linen yarn manufacturers in the first half of 2010 in response to last year's global financial crisis, there was only limited inventory of linen available, resulting in shortage of linen yarns in the first half of 2010. However, with economic recovery picking up swiftly, coupled with higher demand for linen yarn products from the emerging markets, optimism returned to the industry. As a market leader in China's linen yarn manufacturing industry, the Group successfully seized the opportunities thrown up by the market recovery and recorded a strong rebound of growth.

Business Review

Overall performance

During the period under review, the Group actively developed a greater variety of high-end linen yarn products and aptly adjusted its marketing efforts in response to the changing domestic and overseas markets. Consequently, the Group successfully further explored the domestic market and its development strategies specifically for non-European and emerging markets also attained satisfactory results.

During the period under review, the Group recorded total linen yarns sales of RMB282,927,000, representing a significant increase of 86.81% over the corresponding period of last year, of which domestic sales amounted to RMB106,390,000, accounted for 37.60% of the Group's total sales and represented an increase of 62.53% over the corresponding period of last year, while export sales amounted to RMB176,537,000, represented an increase of 105.28% over the corresponding period of last year and accounted for 62.40% of the Group's total sales. The Group's export sales saw a solid growth and accounted for approximately 41.79% of the Group's total export sales amount of linen yarns of the PRC (first six months of 2009: 41.76%). As a result, the Group maintains its leading position in linen yarns export among PRC players.

As for costs of raw materials, the favourable harvest of linen raw materials in Europe contributed to the further drop in price in the first half of 2010. Accordingly, the Group enjoyed a lower cost of sales during the period under review with a significant growth in gross margin over the corresponding period of last year. 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 achieve profitability for the six months ended 30 June 2010.

For the six months ended 30 June 2010, the Group recorded a turnover of RMB282,927,000. Due to lower price of raw materials, the Group had a gross profit of RMB66,291,000. The profit attributable to shareholders for the period under review amounted to approximately RMB18,201,000 and the basic profit per share was RMB0.03.

Market exploration strategies

During the period under review, the Group continued its strategy of equal emphasis on domestic sales and exports. Given the fact that the Yangtze River Delta region is the hub of domestic textile industry, the Group strategically expanded its marketing efforts to strengthen the markets of its target customers in the region. In the first half of 2010, the market share of the Group's domestic sales remained stable. During the period under review, the Group's edge in the European market was fully demonstrated with significant growth in sales amount, in particular in the countries of Spain and Portugal . The Group focused on exploring the markets and sales networks in those countries in earlier years and the work has now paid off and its market network in the East European market has further expanded. Marketing in non-European Union markets progressed well and the Company is pleased to see significant growth in sales, especially in Korea and India. According to the latest adjustments to the Group's corporate sales strategy, the market share in low-end markets will be kept in a lower level in order to maintain the Group's economic efficiency.

Achievements in research and development and awards

The Group maintained its objective of developing high value-added products and high-efficiency spinning technologies in the first half of 2010. During the period under review, the Group succeeded in developing some new high value-added products such as anti-radiation yarns and elastane yarns. Also, the Group completed the technological improvement and calibration of yarn machines and it is expected that such facilities will commence full operation in September 2010. Upon technological improvements by technical experts, the thin yarn machines have now commenced batch production. All technological improvement and optimization of spreading machines are estimated to be completed in October 2010. In addition, the Group's applications to the State Intellectual Property Office of the PRC for the registration of 9 technological patents were successfully obtained during the period under review, helping to lay a more solid foundation for its efforts in enhancing production efficiency and lowering production costs.

New factory and raw material production facility

During the first half of 2010 when global economic recovery was seen, the utilisation rate of the Group's production facilities reached 90%, primarily attributable to the Group's effective sales strategies and rational resource management. The new linen yarn production facility in Jiangsu has commenced operation and its efficiency and production capacity will be utilised in the second half of 2010. By then, the new production base will enhance the Group's capabilities in production of a wide range of products and the Group's economies of scale, which will in turn consolidate its competitiveness in meeting the expected increased demand for linen yarns in the second half of 2010. The Jiangsu Ziwei production facility has commenced batch production and differential yarns are gradually being accepted by the major markets such as Europe. The linen yarn raw material production facility in Xinjiang primarily manufactures organic linens and its production amounted to 438 tonnes during the period under review. It is expected that the Group's production in the full year of 2010 will increase to 900 tonnes.

Financial review

Turnover

For the six months ended 30 June 2010, the Group's turnover amounted to RMB282,927,000 (six months ended 30 June 2009: RMB151,455,000). Leveraging on its quality brand name, flexible marketing strategies and leading position in the industry, the Group successfully seized the business opportunities brought about by the global economic recovery and achieved higher turnover.

The following table summarises the turnover of the Group by main product categories and selling areas during the relevant periods:

	Six months ended 30 June	
	2010	2009
	RMB	RMB
Selling areas:		
Mainland China	**106,390,000**	65,457,000
Italy	**83,025,000**	52,608,000
Other countries	**93,512,000**	33,390,000
Total	**282,927,000**	151,455,000

Gross profit

For the six months ended 30 June 2010, the price drop in line yarn raw materials helped to lower the Group's cost of sales and the Group recorded gross profit of RMB66,291,000 (six months ended 30 June 2009: gross loss of RMB8,623,000), and the gross profit margin was approximately 23.43%.

Expenses

The Group's selling and distribution costs for the six months ended 30 June 2010 amounted to RMB15,475,000 (six months ended 30 June 2009: RMB5,818,000), accounted for approximately 5.47% of the Group's turnover for the six months ended 30 June 2010 (six months ended 30 June 2009: 3.84%). The increase in selling cost was mainly attributable to increase in proportion of export sales and significant rise in overseas transportation costs.

For the six months ended 30 June 2010, the Group's administrative expenses amounted to RMB13,054,000 (six months ended 30 June 2009: RMB15,877,000). Administrative expenses of the Group decreased by approximately 17.78% over 2009, which was mainly due to realignment of administrative personnel as well as reduction of administrative expenses.

Net finance costs for the six month ended 30 June 2010 amounted to approximately RMB7,027,000 (six months ended 30 June 2009: RMB10,797,000), the lower finance costs was mainly due to the decline in bank borrowings and lower interest rates of loans.

Profit/loss attributable to shareholders

For the six months ended 30 June 2010, the Group's profit attributable to shareholders amounted to RMB18,201,000 (loss attributable to shareholders for the six months ended 30 June 2009: RMB31,662,000).

Liquidity and financial resources

As at 30 June 2010, the Group had net current assets of RMB208,697,000 (31 December 2009: RMB179,310,000). During the six months ended 30 June 2010, the Group had financed its operations by internal generated resources and bank borrowings. As at 30 June 2010, the Group had cash and bank deposits of RMB227,906,000 (31 December 2009: RMB152,458,000). The current ratio of the Group was about 142.00% as at 30 June 2010 (31 December 2009: 137.32%).

Shareholders' equity of the Group as at 30 June 2010 was approximately RMB634,889,000 (31 December 2009: RMB616,902,000). As at 30 June 2010, the bank borrowings of the Group, repayable within 12 months from the balance sheet date, amounted to RMB289,461,000 (31 December 2009: RMB308,977,000), while there were no long-term borrowings (31 December 2009: nil), together aggregating a gross debt gearing (i.e. total borrowings/shareholders' equity) of about 45.59% (31 December 2009: 50.09%).

As at 30 June 2010, the Group had unutilised revolving credit facilities in the amount of RMB360,814,000.

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 requirements.

Capital commitments

The Group did not have any capital commitments in respect of contractual purchases of property, plant and equipment outstanding as at 30 June 2010 but not provided for in the interim report (31 December 2009: RMB2,428,000).

Contingent liabilities

As at 30 June 2010, the Group had no contingent liabilities.

Foreign exchange risk

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

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

Charges on assets

As at 30 June 2010, the Group's bank deposits of RMB60,945,000 had been pledged to banks as security for the Group's bank loans and other banking facilities. Such pledged bank deposits will be released upon full repayment of the bank loans. In addition, certain properties and plants, certain land use rights and inventories with carrying amounts of RMB128,032,000, RMB21,052,000 and RMB110,635,000, respectively, were pledged as security for the Group's bank loans.

Material investments

For the six months ended 30 June 2010, the Company's subsidiaries and associate had no material acquisitions or disposals.

Staff policy

As at 30 June 2010, the Group had a total of 2,241 employees. Staff costs incurred during the six months ended 30 June 2010 amounted to RMB33,291,000. The Group offers comprehensive and competitive remuneration, retirement scheme and benefit packages to its employees. The Group is required to make contributions to a social insurance scheme in the PRC. Moreover, the Group and its employees in the PRC are each required to make contributions to fund the endowment insurance and unemployment insurance at the rates specified in the relevant PRC laws and regulations.

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

Outlook

As the global economy continued to recover, sales of linen yarns had a higher growth in the first half of 2010. It is expected that the buoyancy in the market will continue through the second half of 2010 while both domestic sales and exports will remain optimistic. With better facilities, higher quality and cost advantage, the PRC will continue to be one of the major linen yarn manufacturing countries in the world. When the global sales peak approaches in the second half of 2010, demand from the domestic market will further increase, thus guaranteeing good prices for good quality.

The Group has focused on the production of high-end products to enhance its market competitiveness and its ability to resist risks. During the period under review, the sales of high count and patterned linen yarns exceeded 2,500 tonnes, which accounted for over 40% of the Group's total sales for the period between January and June 2010 and reflected the production direction of the Group. Looking forward, the Group will continue to invest in the development of high-end products. Currently, the Group has a significantly larger number of orders on hand. The Group will increase its capacity to satisfy the growth of demand in the future and the Group expects that both the production and sales will continue to grow in the second half of 2010.

For its marketing strategy, the Group will continue to place great emphasis on both domestic sales and exports in the second half of 2010. Following the appointment of sales agencies for Korean and Indian markets in the first half of 2010, the Group will be committed to increasing the market share of non-European Union markets and further exploring the Eastern European and South African markets in the second half of 2010. The Group plans to set up sales agencies in other countries when conditions are mature. According to the latest adjustments to the Group's corporate sales strategy, the market share in low-end markets will be kept in a lower level in order to maintain its economic efficiency. As for exploration of the domestic market, during the period under review, the Group took measures to improve its marketing network and enhanced its service for its key customers with a view to obtaining more orders from them.

For procurement of raw materials, the Group will continue to focus on imported materials. The Group will gradually establish relationship with its major raw material suppliers to ensure its leading position in material supply and strive to become one of the major manufacturers and suppliers of organic linen raw materials and yarns in the PRC.

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

As at 30 June 2010, save as disclosed below, none of the directors and chief executives of the Company had any interests or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers:

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

Name of Director	Directly beneficially owned	Through controlled corporation	Total number of Shares interested	Approximate percentage of issued share capital of the Company (%)
Mr. Ren Wei Ming	3,756,000	279,200,000 *(Note 1)*	282,956,000	45.45
Mr. Ngan Kam Wai Albert	—	64,800,000 *(Note 2)*	64,800,000	10.41
Mr. Tse Chau Shing	675,000	22,500,000 *(Note 3)*	23,175,000	3.72

Notes:

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

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

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

Interests and short positions of substantial shareholders

So far as is known to any Director, as at 30 June 2010, the following persons, other than a Director or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which were recorded or required to be recorded in the register required to be kept under Section 336 of the SFO:

Long position in Shares

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

As disclosed above, as at 30 June 2010, 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 be kept by the Company under section 336 of the SFO.

Share options

Since the adoption of the Company's share option scheme and up to 30 June 2010, no share options had been granted. Other than the said share option scheme, the Company and its subsidiaries have not adopted any share option scheme.

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

During the six months ended 30 June 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Interim Dividend

The Directors have resolved not to declare any interim dividend for the six months ended 30 June 2010.

Audit Committee

The Audit Committee of the Company comprises three independent non-executive Directors.

The duties of the Audit Committee of the Company primarily include the review and supervision of the financial reporting procedures and internal control system of the Group, as well as advising the Board.

The interim results of the Company for the six months ended 30 June 2010 are unaudited but have been reviewed by the Audit Committee of the Company.

Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code and the Company´s code of conduct regarding directors' securities transactions during the six months ended 30 June 2010.

Compliance with the Code on Corporate Governance Practices of the Listing Rules

The Company is committed to the establishment of good corporate governance practices and procedures with a view to maintaining its position as a transparent and responsible organization which is open and accountable to the Company's shareholders. The Directors believe that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. In the opinion of the Directors, save as disclosed below, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2010.

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.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2010.

Appreciation

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