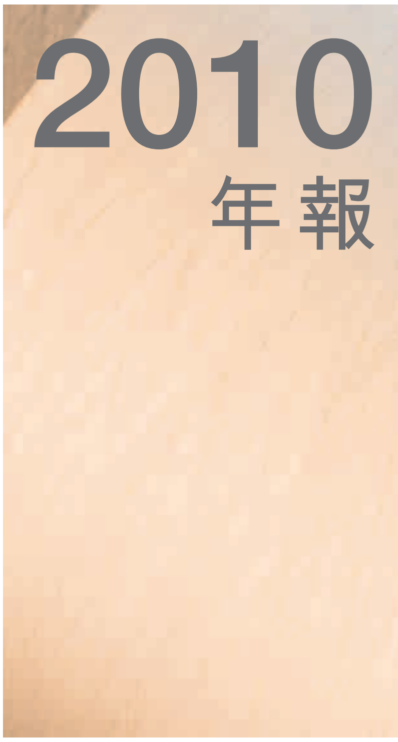
KINGDOM

ANNUAL REPORT



2010 年報

金達控股有限公司

（於開曼群島註冊成立的有限公司）

(股份代號 : 528)

KINGDOM HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock code : 528)

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BOARD OF DIRECTORS

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. Lau Ying Kit
Mr. Lo Kwong Shun Wilson

AUDIT COMMITTEE

Mr. Lau Ying Kit *(Chairman)*
Mr. Yang Donghui
Mr. Lo Kwong Shun Wilson

REMUNERATION COMMITTEE

Mr. Zhang Hong Wen *(Chairman)*
Mr. Yang Donghui
Mr. Lo Kwong Shun Wilson

COMPANY SECRETARY

Ms. Chan Ching Yi

REGISTERED OFFICE

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

PLACE OF BUSINESS IN HONG KONG

Level 28
Three Pacific Place
1 Queen's Road East
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Ren Wei Ming
Ms. Chan Ching Yi

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
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

528

COMPANY WEBSITE

http:www.kingdom-china.com

INVESTOR RELATION CONTACT

Email: kingdom@kingdom-china.com

I am pleased to present the audited annual report of Kingdom Holdings Limited ("Kingdom" or the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2010.

After getting through great challenges facing the PRC linen yarns manufacturing industry brought about by the global financial crisis in 2009, Kingdom has been quick to ride on the economic recovery in 2010 and recorded turnaround profit with strong performance for the year. For the year ended 31 December 2010, the Group's turnover increased by 28.0% to RMB628,718,000 (2009: RMB491,165,000); gross profit rose by 196.1% to RMB165,842,000 (2009: RMB56,017,000), with profit attributable to shareholders of RMB67,931,000 (2009: loss of RMB18,156,000).

The board of directors of the Company (the "Board") recommends the payment of a final dividend of HK5 cents per share.

Leveraging on the leading edge of Kingdom in the PRC market as well as its position as the largest linen yarn exporter in China, the Group has been quick to seize the market opportunities brought about by the economic turnaround. Meanwhile, the policy of boosting domestic demand adopted by the Chinese Government helped stimulate the demand for linen yarns, and by virtue of Kingdom's well-known, top quality brands such as Ziwei, Crape Myrtle and Kingdom, plus its sales and marketing network spanning all major cities, the Group's share in the domestic market was further consolidated. The global positioning strategy and expansion plan adopted by Kingdom has come to a great success. During the year ended 31 December 2010, sales in our overseas markets, including Italy, Turkey, South Korea, India and Japan saw robust growth, with growth in Italy and South Korea, the world's major apparel markets, the most encouraging. Globalization of our business has further promoted the Group's reputation worldwide, and laid a solid foundation for the Group to open up more new markets.

To maintain competitiveness and enhance profitability, the Group has been attaching great importance to research and development and production of high-end products, such as linen yarns of high count 50 or above. As such, high-end products as a percentage to our total sales gradually increased and accounted for approximately 33.6% in the year's total sales volume. During the year ended 31 December 2010, batch production of new high-end products, including stretch yarn, radiation-proof yarn and covered yarn has commenced. These products have initially received good market response and are currently entering into the subsequent test running. The Group believes that these products would be a key driver for future profit growth. In addition, the Group reaped a great harvest on its research and development efforts in 2010. We obtained 3 international accreditations and 9 patents, which further demonstrated the Group's competitive edge in the global market.

In 2010, the linen yarn plant in Jiangsu Province has gone into full production, where world-class advanced equipments have been installed, raising substantially the total production volume of linen yarns produced by the Group to 11,000 tonnes. Besides, product structure of the new plant has been further refined and product line expanded, thereby enabling the Group to supply a diversified portfolio of high count linen yarns ranging from count yarns of 3 to 70 to meet the specific requirements of different customers.

During the year ended 31 December 2010, production planning of the linen yarn raw material production base in Xinjiang has been optimized, which engaged in the professional growing and production of organic linen yarn raw materials, thus ensuring a stable supply of high-quality raw materials for the Group and helped alleviating the pressure of raw material price rise and thus achieving cost control. This vertical integration approach adopted by the Group serves as one of its major competitive advantages.

In line with the global focus on "Go Green, Eco-friendly, Low emissions", plus the fact that linen yarn is made of natural fiber which is characterized by air-flow, heat trapping and heat release capacity, it is expected that demand for linen yarns will continue to increase in the coming years. We will pay close attention to movements in raw material prices and the linen yarn market; optimize the quality of our management; enhance the production of raw materials; prudently implement our production expansion and overseas expansion plans; and carry out effective cost control measures in all aspects. We have great confidence in the future development of the Group.

On behalf of Kingdom, I would like to express my gratitude to all staff of the Group for their endeavours and contribution and my sincere appreciation to our customers, shareholders and suppliers for their support. We will continue to consolidate our leading position in the China market and strive to become one of the leading linen yarn manufacturers in the world.

Ren Wei Ming
Chairman

Haiyan County, PRC, 22 March 2011

INDUSTRY OVERVIEW

In 2010, the steady global economic recovery had driven up the demand for linen yarn products, while the pursuit of green consumption around the world as a result of growing public awareness on environment protection also created a favourable market environment for the linen yarn manufacturing industry.

Thanks to the acceleration in the pace of recovery in the European Union ("EU") market and the rising demand for linen yarn products in the emerging markets, the overseas linen yarn market had been picking up steadily in 2010. China's linen yarn exports during the year ended 31 December 2010 turned favourable. Meanwhile, in the domestic market, as China's economy continued to witness strong growth and its GDP continued to grow, the demand for linen yarns had increased.

By virtue of its leading position in the industry, its high quality brands, advanced technology, product differentiation strategy and scale of operation, and by focusing on its principal business of linen yarn manufacturing, the Group had been successful in seizing the opportunities offered by the global economic recovery in achieving robust growth in 2010.

BUSINESS REVIEW

Overall performance

In 2010, the Group made great accomplishments in continuing to expand its product portfolio and invest more resources in the development of high-end products. The Group endeavored to consolidate its domestic market while strategically developed other overseas and emerging markets to strengthen its client base, with the aim to gaining a foothold in the fast-growing emerging markets.

During the year ended 31 December 2010, the Group's total sales of linen yarns amounted to approximately RMB628,718,000, representing an increase of approximately 28.0% as compared with the corresponding period of last year, of which approximately RMB266,059,000 was derived from domestic sales, accounted for approximately 42.3% of the total sales and up approximately 7.2% year-on-year and RMB362,659,000 was generated by export sales accounted for approximately 57.7% of the total sales and up approximately 49.2% year-on-year. The Group's export value witnessed strong growth, which accounted for approximately 38.9% of China's total export value of linen yarns, up approximately 3.1% as compared to the previous year (2009: 35.8%), thereby sustaining the Group's position as the leading exporter of linen yarns in China. The increase in income was mainly due to limiting of production output and shrinking of stock holding level as a result of the financial crisis, making global inventory to low levels in 2009. As such, the low inventory level failed to meet the rising demand from both the domestic and international markets in 2010 when the global economy bounced back, resulting in the short supply of linen yarns during the year ended 31 December 2010.

For the year ended 31 December 2010, the Group's turnover rose significantly to approximately RMB628,718,000 as its products were highly sought after in the market. The Group's sales and marketing strategy with a focus on globalization strengthened its operations and ensured that its development will not be affected by the economic fluctuations in a single market. As a market-oriented company, the Group has been aggressive in the research and development of high-tech and high-end products in order to open up new markets and attract new customers. The Group has also been active in developing upstream raw material resources, which helped alleviate the pressure from linen yarn price hiked at the end of the year. During the year ended 31 December 2010, gross profit increased to approximately RMB165,842,000. Profit attributable to shareholders was approximately RMB67,931,000 and earnings per share was RMB0.11.

Development of the markets

The PRC market remains the Group's primary focus, and steady growth was achieved in 2010. The Group has been committing to expanding and optimizing its overseas markets and has achieved satisfactory result during the year ended 31 December 2010. Sales volume in the domestic and overseas markets increased to approximately 5,470 tonnes and 7,350 tonnes, respectively, mainly attributable to the addition of nine important clients secured by the Group. Owing to the rapid growth in sales in the PRC market, the EU market and the non-EU market, the sales volume in these markets accounted for approximately 42.3%, 31.6% and 26.1% of the total sales volume, respectively. Italy and Turkey registered the highest growth in the Group's export sales, with a year-on-year increase of approximately 80.5% and 70.9%, respectively. The Asian regions also saw robust growth in sales, of which South Korea, Japan and India recorded a year-on-year increase of approximately 59.9%, 48.4% and 40.6%, respectively. As for the emerging markets in South America, the Group achieved a growth of 2.5 times in sales volume in the Brazil market by riding the tide of this fast growing economy.

In view of the huge demand in the EU markets, the Group will further extend its presence in the Portugal and Spain markets in 2011, and will leverage on the geographical advantage of these markets countries to optimize its distribution network and increase sales outlets, while increased efforts will be made on brand promotion.

Awards and achievements in research and development

In order to meet its target of heightening the proportion of income from high-end product sale, the Group has been active in introducing advanced production facilities, adopting advanced textile technology to improve its operation efficiency, as well as stepping up its effort in research and development of high-end products. During the year ended 31 December 2010, two sets of thin yarn machine reconstructed by the Group have gone into batch production; to meet customers' requirements for high count products, technological modification has been made to 24 sets of new thin yarn machine, which have gone into test running and production; both the modification to weaving needles used in producing high count yarn and common count yarn and the technological modification to the spreading machines to optimize the space between needles progressed smoothly, which is expected to be completed and commence production in the second quarter of 2011. During the year under review, the Group has launched various kinds of new products, such as stretch yarns, radiation-proof linen yarns and linen covered yarns under batch production and are going through subsequent test running.

During the year ended 31 December 2010, thanks to the dedicated research and development team of the Group, the Group obtained nine patents, including two invention patents, one design patent and six utility patents. Furthermore, the Group obtained a number of accreditations and certifications, including the Oeko-Tex Standard 100 (Confidence in Textiles) and the GOTS (Global Organic Textile Standard). The organic linen fiber produced by Zhaosu Jindi（昭蘇金地）, a subsidiary of the Company, was accredited by the Institute for Marketecology (IMO). The Group's brand, Ziwei（紫薇）was honored and named the Leading Export Unit in Zhejiang（浙江出口名牌）by the Department of Commerce of Zhejiang Province（浙江省商務廳）and the Company was also named 2009-2010 Top 10 Competitive China Linen Knitting Enterprises (2009-2010年度中國麻紡行業競爭力10強企業) by the China National Textile and Apparel Council（中國紡織工業協會）. All these achievements reflect the market's recognition of the Group's competitive edge and leading position.

The awards received by the Group in 2010 are as follows:

- 2009-2010 Top 500 Competitive China Textile and Garment Enterprises (2009-2010年度中國紡織服裝企業競爭力500強) by the China National Textile and Apparel Council (中國紡織工業協會)

- 2009-2010 Top 10 Competitive China Linen Knitting Enterprises (2009-2010年度中國麻紡行業競爭力10強企業) by the China National Textile and Apparel Council

- 2010 China National Textile & Apparel Council Product Development Contribution Award (2010年度中國紡織工業協會產品開發貢獻獎) by the China National Textile and Apparel Council

- Ziwei (紫薇): Top Export Enterprise in Zhejiang (浙江出口名牌) by the Zhejiang Commercial Department(浙江省商務廳)

- Zhaosu Jindi Flax Co., Ltd. (昭蘇金地亞麻有限公司): High Quality Raw Material Plantation Base for Linen Yarn Textile Industry in Agriculture Industrialization (農業產業化優質亞麻紡織原料種植基地) by the China Bast and Leaf Fibers Textile Association (中國麻紡行業協會)

- Zhejiang Jinyuan Flax Co., Ltd. (浙江金元亞麻有限公司): Advanced Enterprise in Implementation of Performance Appraisal Mode in Textile Industry (紡織行業實施績效管理模式先進企業) by the China National Textile and Apparel Council

- Zhejiang Jinyuan Flax Co., Ltd. (浙江金元亞麻有限公司): Jaxing High and New Technology Enterprise (嘉興市高新技術企業)

- Zhaosu Jindi Flax Co., Ltd. (昭蘇金地亞麻有限公司): Key Leading Enterprise in Industrialization of Agriculture (第五批兵團級重點農業龍頭企業)

New plants and raw material base

With a view to meeting the sharply increased demand for linen yarns, the Group has been active in constructing new plants and raw material base in order to expand its production capacity to prepare for the new opportunities arising from economic recovery. The new linen yarn plant in Jiangsu has commenced production in 2010 which resulted in the total production capacity of Jiangsu Ziwei increased to approximately 707 tonnes. The linen yarn raw material production base in Xinjiang mainly produces organic linen, and the output for the year increased to approximately 927 tonnes, accounting for approximately 8.0% of the Group's total demand for raw materials.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2010, the Group's turnover rose sharply to approximately RMB628,718,000, representing an increase of approximately 28.0% year-on-year (31 December 2009: RMB491,165,000). The increase was mainly due to the increasing demand for linen yarn products as the economy steadily recovered, contributing to a growth in the number of orders received by the Group.

The breakdown of the Group's turnover by sales regions:

	For the year ended 31 December	
Sales regions:	**2010**	2009
	RMB'000	RMB'000
Mainland China	**266,059**	248,076
Italy	**176,247**	123,006
Other countries	**186,412**	120,083
Total	**628,718**	491,165

Gross Profit and Gross Profit Margin

During the year ended 31 December 2010, the average selling price of linen yarn products increased due to strong market demand, thus the Group's gross profit recorded a year-on-year increase of approximately 196.1% to approximately RMB165,842,000 (31 December 2009:RMB56,017,000). Gross profit margin rose to approximately 26.4% (31 December 2009:11.4%), as great efforts have been made by the Group in developing new markets and increasing the share of high-end products in its product portfolio during the year ended 31 December 2010.

With a view to maintaining its gross profit margin, the Group reinforced its cost control measures and ensured the stability of procurement prices by enhancing the management of suppliers and distributors as well as forming partnership with major suppliers. Internally, the Group strengthened cost auditing so as to ensure its cost competitiveness.

Other income and gains

For the year ended 31 December 2010, the Group recorded a gain on derivative financial instruments of approximately RMB7,531,000 (31 December 2009: Nil), through entering into certain foreign currency forward contracts in order to monitor foreign exchange exposure.

Selling and distribution costs

For the year ended 31 December 2010, the Group's selling and distribution costs amounted to approximately RMB32,125,000 (31 December 2009: RMB18,625,000), which accounted for approximately 5.1% of its total turnover for 2010 (31 December 2009: 3.8%). The increase was mainly due to the increase in transportation cost with growth in sales.

Administrative expenses

For the year ended 31 December 2010, the Group's administrative expenses amounted to approximately RMB31,914,000 (31 December 2009: RMB34,597,000), a decrease of approximately 7.8% as compared to the corresponding period of last year. Administrative expenses decreased mainly due to the streamlined management personnel and reduction of administrative expenses.

Finance costs

For the year ended 31 December 2010, finance costs were approximately RMB15,152,000 (31 December 2009: RMB19,325,000). The decrease was mainly due to the decrease in bank loans and lower interest rates.

Share of profits of an associate

For the year ended 31 December 2010, share of profits of an associate, namely Huening Flax Electronic Business (Zhejiang) Co. Ltd. (浙江華凝亞麻電子商務有限公司), which was established on 28 December 2009 in the PRC, the principal business of which is the sale of linen yarn products and provision of transaction services, was approximately RMB652,000 (31 December 2009: Nil).

Profit attributable to owners of the parent

For the year ended 31 December 2010, the Group recorded a profit as compared with a loss for the corresponding period of last year, with profit attributable to owners of the parent amounted to approximately RMB67,931,000 (loss attributable to owners of the parent in 31 December 2009: RMB18,156,000), primarily attributable to a significant increase in turnover from principal activities of the Group as a result of the improvement in market environment.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group had net current assets of approximately RMB261,101,000 (31 December 2009: RMB179,311,000). The Group finances its operations by using its internal resources and bank loans. As at 31 December 2010, the Group had cash and bank deposits of approximately RMB223,464,000 (31 December 2009: RMB95,517,000). The liquidity ratio of the Group as at 31 December 2010 was approximately 156.4% (31 December 2009: 137.3%).

Shareholders' fund of the Group as at 31 December 2010 was approximately RMB684,970,000 (31 December 2009: RMB616,902,000). As at 31 December 2010, the bank loans of the Group, repayable within 12 months from the financial position date, amounted to approximately RMB302,781,000 (31 December 2009: RMB308,977,000), while there was no long-term loans (31 December 2009: Nil), together giving a gross debt gearing (i.e. total loans/shareholders' funds) of approximately 44.2% (31 December 2009: 50.1%).

As at 31 December 2010, the Group had unutilised revolving banking facilities of approximately RMB256,362,000.

The Board believes that after taking into account the capital expenditure planned to be made within 2011, 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 2010 but not included in the consolidated financial statements were approximately RMB4,256,000 (31 December 2009: RMB2,428,000).

CONTINGENT LIABILITIES

As at 31 December 2010, the Group had no material contingent liabilities.

CHARGES ON GROUP ASSETS

As at 31 December 2010, the Group's deposits of approximately RMB62,057,000 were pledged to secure bank loans granted to the Group. The pledged deposits will be released upon the termination of relevant banking and loan facilities. In addition, certain property, plant and equipment and prepaid land lease payments of the Group, with a carrying amount of approximately RMB66,810,000 and RMB6,662,000, respectively, were also pledged to secure certain bank loans of the Group.

MATERIAL INVESTMENTS

There was no material acquisition or disposal of the Group's subsidiaries and associated companies during the year ended 31 December 2010.

FOREIGN CURRENCY RISK

The Group's transactions are mainly denominated in RMB, United States Dollars, Euro and Hong Kong Dollars. During the year ended 31 December 2010, the exchange rate changes of such currencies were monitored as appropriate. Currently, the Company also entered into certain foreign currency forward contracts by utilizing its credit line, which recorded a gain on derivative financial instruments of RMB7,531,000 for the Group for the year ended 31 December 2010.

REMUNERATION POLICY AND SHARE OPTION SCHEME

As at 31 December 2010, the Group had a total of 2,147 employees (31 December 2009: 1,959 employees). Total staff costs incurred for the year ended 31 December 2010 amounted to approximately RMB68,015,000 (31 December 2009: RMB55,090,000).

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.

The Group has also adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to the Directors, including independent non-executive Directors, and other employees of the Group who contribute to the success of the Group's operations.

During the year ended 31 December 2010, the Group had granted 9,100,000 share options under the Scheme. No share options were exercised during the year ended 31 December 2010. As at the date of this report, the Company had 9,100,000 share options outstanding under the Scheme, which represented approximately 1.46% of the Company's shares in issue.

PROSPECTS

2010 is a fruitful year for the linen yarns industry, with the gross value of domestic linen yarn production hit another record high. Looking forward to 2011, the linen yarns industry is expected to see stable growth as the global economy gradually recovers. Meanwhile, with changes in living standards and consumption behaviours, natural, green and environmental-friendly linen yarn products will be highly-sought after. To prepare for the huge market demand in 2011, the Group has made strategic adjustments with respect to clients and product portfolio in order to reinforce its brand image and optimize its sale network.

In the coming years, with respect to sales and marketing strategy, the Group will continue to put great emphasis on both of its domestic and overseas sales. In addition to consolidating the domestic market, the Group will focus on developing emerging markets overseas and will endeavor to form long-term strategic partnership with its major customers. In view of the great demand for linen yarn products in the EU markets by tradition, the Group will strive to expand into the Portuguese and Spanish markets in 2011, and will take advantage of the unique geographical advantages of the two countries to optimize its distribution network and increase its sales outlets so as to strengthen the competitiveness edge of its brands.

The Group will fully utilize the advanced facilities and enhanced production capacity of the new Jiangsu linen yarn plant. Meanwhile, it will enhance the operating efficiency of the new plant and increase the proportion of high-end products, with greater emphasis on high count linen yarns (50 NM and higher) and differentiated linen yarn products. The two sets of thin yarn machines reconstructed by the Group have gone into test running and production. Besides, technological modification of the spreading machines will commence in 2011 and is expected to be completed and commence production in the second quarter of 2011.

Looking forward, the Group will adopt the strategy of innovation through research and development to achieve sustainable development, while at the same time pursue resource integration and enforce the implementation of its measures on improving operating efficiency and cost management, with a view to maximizing the Group's value.

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 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.

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 2010 and up to the date of the Company's announcement of annual results for the year ended 31 December 2010.

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 the 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 the 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 ended 31 December 2010, 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	3/4		
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	4/4	1/1	2/2
Mr. Lau Ying Kit *(Chairman of the Audit Committee)*	3/4		2/2
Mr. Lo Kwong Shun Wilson *(appointed on 17 May 2010)*	3/4		1/2
Mr. Yu Chongwen *(retired on 17 May 2010 and not re-elected as an independent Non-executive Director)*	1/4	1/1	1/2

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 available for inspection by the 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.

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 Independent Auditors' Report on pages 38 to 39 which states the reporting responsibilities of the Group's auditors.

Annual Report and Accounts

The Directors acknowledge their responsibilities 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 disclosure requirements of 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 1 January 2011.

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 2010, 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. Lo Kwong Shun Wilson.

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.

One meeting was held during the year ended 31 December 2010 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.

AUDITORS' REMUNERATION

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

Services rendered	**Fee paid**
	RMB'000
Audit services	1,562

The responsibilities of the external auditors with respect to the 2010 financial statements are set out in the section headed "Independent auditors' report" on pages 38 to 39. Save as disclosed above and in the section headed "Independent Auditors' Report", the Company did not engage Ernst & Young for any non-audit services during the year under review.

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. Lo. Kwong Shun Wilson, 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 2010 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 2010 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 has conducted a review and assessment of the effectiveness of the Company's internal control systems including financial, operational and compliance controls and risk management during the year ended 31 December 2010. 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.

DIRECTORS

Executive Directors

Mr. Ren Wei Ming (任維明), aged 51, 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 49, is an executive Director. He is also a director and general manager of Zhejiang Jinyuan and a director and general manager of 江蘇金元亞麻有限公司 (Jiangsu Jinyuan Flax Co. Ltd.*) ("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 44, 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 61, 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 vice-chairman of Po Leung Kuk since April 2010. He has heen appointed as vice president of The Hong Kong General Chamber of Textiles Ltd. since September 2009 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 58, is a non-executive Director. Mr. Tse joined the Group in May 2009. He is currently an independent business consultant and investor. Mr. Tse was previously employed under various banking titles at The First National Bank of Chicago (now part of JP Morgan Chase, a company listed on the New York Stock Exchange) from 1975 to 1980, and subsequently as a director of Hill Samuel Merchant Bank (now part of Lloyds Bank plc, a company quoted on the London Stock Exchange) till 1987. He was appointed as the managing director of Tractebel Pacific Limited in 1987 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 17 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 senior advisor-China of Caledonia Investment plc, a company listed on the London Stock Exchange and a shareholder of the Company. He obtained bachelor and master degrees in Engineering from University of Cambridge and a master degree in Business Administration from University of Chicago. Mr. Tse has disclosable personal interests in the shares of the Company under the provisions of Division 3 of Part XV. For further details, please refer to page 29 of this annual report.

Independent Non-executive Directors

Mr. Yang Donghui (楊東輝), aged 65, is an independent non-executive Director. Mr. Yang 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 was a director of U-Right International Holdings Limited (Stock code: 627), a listed company in Hong Kong from 13 July 2005 to 6 October 2006. He joined the Group in November 2006. He graduated from 工程化學系 (Department of Chemical Engineering) of 清華大學 (Tsinghua University*) in 1970.

Mr. Lau Ying Kit (劉英傑), aged 38, 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 ("HKICPA") and obtained a Master of Finance degree from City University of Hong Kong. He has more than 13 years of experience in financial and accounting in China and Hong Kong. He joined the Group in November 2006.

Mr. Lo Kwong Shun Wilson (羅廣信)**,** aged 36, is an independent non-executive Director. He has more than 9 years of working experience in investment banking and advising on corporate finance. Mr. Lo is currently an executive director of Guotai Junan Capital Limited. Mr. Lo also had three years of experience in the field of auditing and accounting. Mr. Lo is a member of the American Institute of CPA and a member of the HKICPA. Mr. Lo obtained his bachelor degree in commerce from University of British Columbia in 1995. Mr. Lo joined the Group in May 2010.

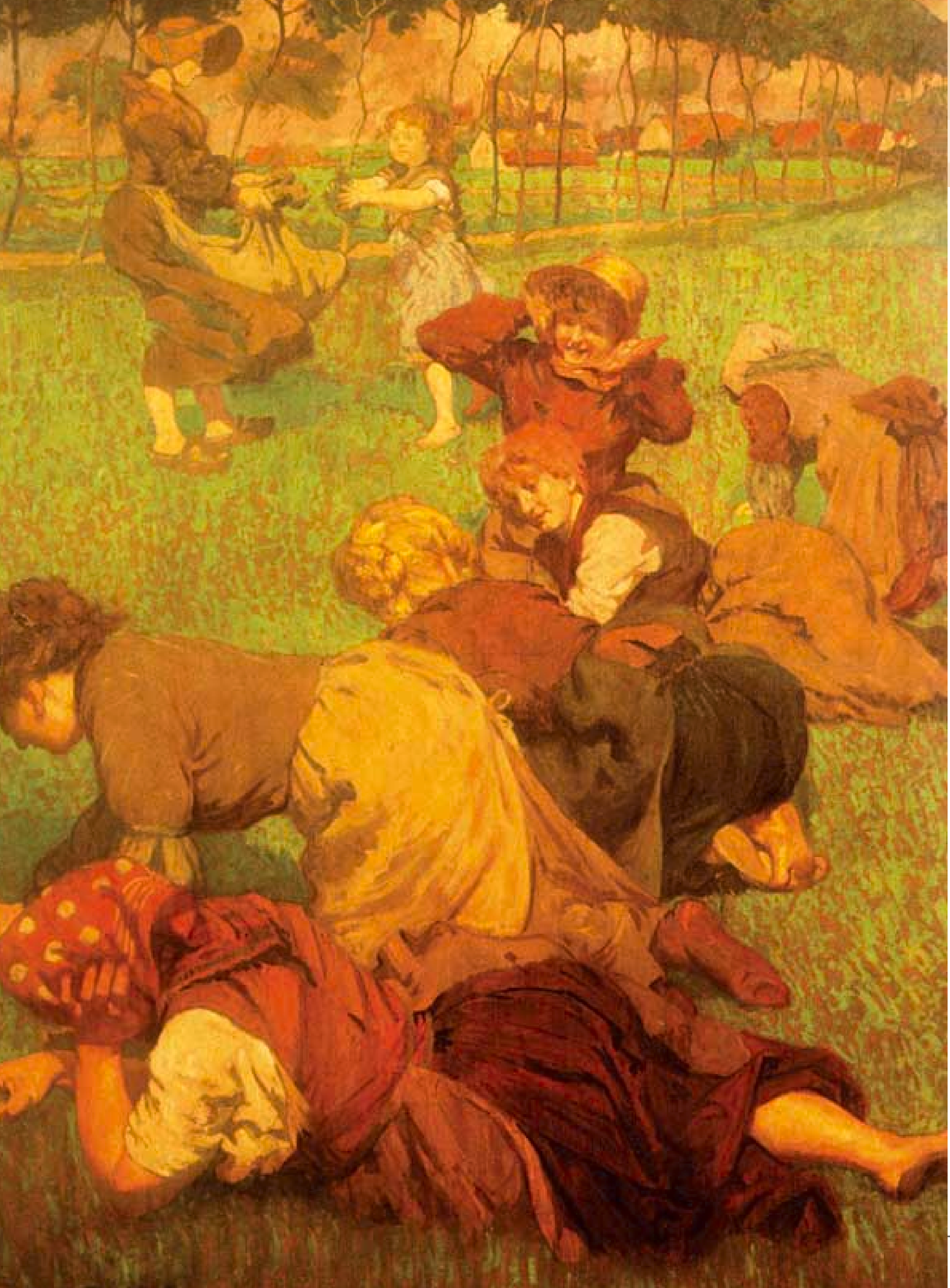
COMPANY SECRETARY

Ms. Chan Ching Yi (陳靜儀), aged 36, is the company secretary of the Company. She is a member of the HKICPA and a fellow member of the Association of Chartered Certified Accountants (ACCA). She has over 14 years of experience in auditing, accounting and finance in an international accounting firm and listed companies. She is currently the company secretary of Zheda Lande Scitech Limited (stock code: 8106), a company listed on the Growth Enterprise Market Board of the Stock Exchange and the company secretary of ShiFang Holding Limited (Stock Code: 1831), a company listed on the Main Board of the Stock Exchange. Ms. Chan joined the Group in August 2010.

SENIOR MANAGEMENT

Ms. Shen Hong (沈鴻), aged 45, is the internal audit controller of the Group. 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.

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.*



It is the Board's pleasure in presenting their annual report on the affairs of the Group together with the audited financial statements for the year ended 31 December 2010.

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 40.

DIVIDENDS

The Board has recommended the payment of a final dividend of HK5 cents per ordinary share of the Company for the year ended 31 December 2010. The proposed final dividend, if approved by the shareholders at the forthcoming annual general meeting, will be paid to the shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 18 May 2011.

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 2010, the Company's distributable reserves calculated under the Companies Law of the Cayman Islands amounted to RMB630,167,000 (31 December 2009: RMB632,548,000).

DONATIONS

Charitable and other donations made by the Group during the year ended 31 December 2010 amounted to approximately RMB628,000 (31 December 2009: RMB544,800).

SHARE CAPITAL

Details of the movements in the share capital of the Group are set out in note 30 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 114.

PROPERTY, PLANT AND EQUIPMENT

During the financial year ended 31 December 2010, the Group acquired property, plant and equipment of approximately RMB34,418,000. Details of the movements are set out in note 14 to the financial statements.

DIRECTORS

During the year ended 31 December 2010, the Directors 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. Lau Ying Kit
Mr. Lo Kwong Shun Wilson (appointed on 17 May 2010)
Mr. Yu Chongwen (retired on 17 May 2010 and not re-elected as an independent non-executive Director)

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. Zhang Hong Wen, Mr. Tse Chau Shing Mark and Mr. Yang Donghui shall retire from office by rotation at the forthcoming annual general meeting. Mr. Zhang Hong Wen, Mr. Tse Chau Shing Mark and Mr. Yang Donghui, the 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 ended 31 December 2010 except as disclosed under the section headed "Connected Transactions" below and note 35 to the financial statements.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent Non-executive Directors the confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Board considers the independent Non-executive Directors to be independent.

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 2010, the Directors 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 positions in shares of the Company (the "Shares")

	Ordinary shares of HK$ 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	3,756,000	279,200,000 (Note 2)	282,956,000	45.45
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 67.81% 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 and Ms. Ngan Chan Kattie Sau Kat, the spouse of Mr. Ngan, holds approximately 51% and 23% of the issued share capital of Millionfull International (as defined below), respectively. 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 2010, no share options were granted to the Directors or any of their associates.

Save as disclosed above, as at 31 December 2010, none of the Directors 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 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 positions in Shares

Name of Shareholder	Capacity	Number of Shares	Approximately percentage of issued share capital (%)
Kingdom Investment Holdings Limited ("Kingdom Investment (BVI)") (Note 1)	Beneficial owner	279,200,000	44.85
Millionfull International Co., Ltd. ("Millionfull International") (Note 2)	Beneficial owner	64,800,000	10.41
Caledonia Investments plc	Beneficial owner	66,825,000	10.73
Liu Yang	Interest in controlled corporation	40,000,000	6.43
Atlantis Investment Management (Hong Kong) Limited	Investment manager	40,000,000	6.43
Atlantis Investment Management Ltd	Investment manager	40,000,000	6.43

Notes:

1. Kingdom Investment (BVI) is owned as to 67.81% by Mr. Ren Wei Ming, an executive Director and substantial shareholder of the Company.

2. Millionfull International is owned as to 51% by Mr. Ngan Kam Wai Albert, a non-executive Director, and 23% by Ms. Ngan Chan Kattie Sau Kat, the spouse of Mr. Ngan.

Save as disclosed above, as at 31 December 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 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.

During the year ended 31 December 2010, the Company had granted 9,100,000 share options under the Scheme. No Share options were exercised during the year. As at the date of this report, the Company had 9,100,000 share options outstanding under the Scheme, which represented approximately 1.46% of the Company's Shares in issue.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACT OF SIGNIFICANCE

No contracts of significance have been entered into between the Company or any of its subsidiaries and any controlling shareholder or any of its subsidiaries during the year ended 31 December 2010.

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 ended 31 December 2010.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for approximately 21.89% of the Group's total sales for the year and sales to the Group's largest customer amounted to approximately 5.47%. Purchases from the Group's five largest suppliers accounted for approximately 52.52% of the total purchases for the year and purchase from the Group's largest supplier amounted to approximately 24.29%.

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

Continuing connected transactions

During the year ended 31 December 2010, 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 Kingdom Creative in respect of an office premises for a term commencing from 1 January 2009 to 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 commencing 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 35 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 2010.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2010 are set out in note 29 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 2010. 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 2010.

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 are set out in note 2.4 and note 7 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 2010.

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 2010, 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.

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 during the year ended 31 December 2010.

CORPORATE GOVERNANCE

The Group's principal corporate governance practices are set out on pages 16 to 21.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 May 2011 to 18 May 2011, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and 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 13 May 2011.

AUDITORS

The financial statements for the year have been audited by Ernst & Young who was appointed on 17 May 2010 in place of the retiring auditors of the company, KPMG. Ernst & Young will retire at the forthcoming annual general meeting and the Board will propose a resolution to re-appoint Ernst & Young as the auditors of the Company at the forthcoming annual general meeting for shareholders' approval.

On behalf of the Board

Ren Wei Ming
Chairman

Haiyan County, PRC, 22 March 2011

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 (together, "the Group") set out on pages 40 to 113, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 2010, and of the Group's profit 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.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

22 March 2011

Consolidated Income Statement

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	5	**628,718**	491,165
Cost of sales		**(462,876)**	(435,148)
Gross profit		**165,842**	56,017
Other income and gains	5	**13,806**	6,374
Selling and distribution costs		**(32,125)**	(18,625)
Administrative expenses		**(31,914)**	(34,597)
Other expenses		**(3,637)**	(6,163)
Finance costs	6	**(15,152)**	(19,325)
Share of profits of an associate	17	**652**	—
PROFIT/(LOSS) BEFORE TAX	**7**	**97,472**	(16,319)
Income tax expense	10	**(29,541)**	(1,837)
PROFIT/(LOSS) FOR THE YEAR		**67,931**	(18,156)
Attributable to:			
Owners of the parent	11	**67,931**	(18,156)
EARNINGS/(LOSSES) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	13	**RMB0.11**	RMB(0.03)
Diluted	13	**RMB0.11**	RMB(0.03)

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
PROFIT/(LOSS) FOR THE YEAR	**67,931**	(18,156)
Exchange differences on translation of foreign operations	**(377)**	149
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**67,554**	(18,007)
Attributable to:		
Owners of the parent	**67,554**	(18,007)

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	31 December 2010 RMB'000	31 December 2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**383,433**	393,298
Prepaid land lease payments	15	**34,965**	35,766
Investment in an associate	17	**6,052**	2,700
Deferred tax assets	18	**3,193**	5,827
Total non-current assets		**427,643**	437,591
CURRENT ASSETS			
Inventories	19	**279,434**	223,143
Biological assets	20	**—**	561
Tax recoverable		**—**	2,629
Trade and notes receivables	21	**120,434**	248,655
Prepayments, deposits and other receivables	22	**34,959**	28,422
Due from a related company	23	**52**	3,900
Derivative financial instruments	25	**3,713**	—
Pledged deposits	26	**62,057**	56,941
Cash and cash equivalents	26	**223,464**	95,517
Total current assets		**724,113**	659,768
CURRENT LIABILITIES			
Trade payables	27	**117,812**	140,442
Other payables and accruals	28	**27,592**	31,038
Interest-bearing bank loans	29	**302,781**	308,977
Tax payable		**14,827**	—
Total current liabilities		**463,012**	480,457
NET CURRENT ASSETS		**261,101**	179,311
TOTAL ASSETS LESS CURRENT LIABILITES		**688,744**	616,902

Continued /...

	Notes	31 December 2010 RMB'000	31 December 2009 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	18	**3,774**	—
Total non-current liabilities		**3,774**	—
Net assets		**684,970**	616,902
EQUITY			
Equity attributable to owners of the parent			
Issued capital	30	**6,272**	6,272
Reserves	32	**652,210**	610,630
Proposed final dividends	12	**26,488**	—
Total equity		**684,970**	616,902

Ren Wei Ming
Director

Shen Yueming
Director

Consolidated Statement of Changes in Equity

As at 31 December 2010

	Attributable to owners of the parent								
	Issued capital RMB'000 (note 30)	Share premium RMB'000 (note 32)	Merger reserve RMB'000 (note 32)	Statutory reserve RMB'000 (note 32)	Share option reserve RMB'000 (note 32)	Exchange reserve RMB'000 (note 32)	Proposed final dividend RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2009	6,272	268,001	196,816	35,172	—	(927)	—	129,575	634,909
Loss for the year	—	—	—	—	—	—	—	(18,156)	(18,156)
Exchange differences on translation of foreign operations	—	—	—	—	—	149	—	—	149
Total comprehensive income for the year	—	—	—	—	—	149	—	(18,156)	(18,007)
At 31 December 2009 and 1 January 2010	6,272	268,001*	196,816*	35,172*	—*	(778)*	—	111,419*	616,902
Profit for the year	—	—	—	—	—	—	—	67,931	67,931
Exchange differences on translation of foreign operations	—	—	—	—	—	(377)	—	—	(377)
Total comprehensive income for the year	—	—	—	—	—	(377)	—	67,931	67,554
Proposed final 2010 dividend	—	—	—	—	—	—	26,488	(26,488)	—
Transfer from retained profits	—	—	—	9,339	—	—	—	(9,339)	—
Equity-settled share option arrangement	—	—	—	—	514	—	—	—	514
At 31 December 2010	6,272	268,001*	196,816*	44,511*	514*	(1,155)*	26,488	143,523*	684,970

* These reserve accounts comprise the consolidated reserves of RMB652,210,000 (2009: RMB610,630,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	**97,472**	(16,319)
Adjustments for:		
–Share of profits of an associate	**(652)**	—
–Changes in fair value of biological assets	**—**	(563)
–Gain on derivative financial instruments, net-unrealised	**(3,713)**	—
–Equity-settled share option expense	**514**	—
–Depreciation	**43,639**	46,571
–Amortisation of prepaid land lease payments	**801**	801
–Provision against inventories	**2,372**	16,043
–Loss on disposal of items of property, plant and equipment	**—**	250
–(Reversal of)/provision of doubtful debts	**(2,181)**	2,890
–Finance costs	**15,152**	19,325
–Bank interest income	**(1,221)**	(2,320)
	152,183	66,678
–(Increase)/decrease in inventories	**(58,663)**	73,195
–Decrease in biological assets	**561**	2
–Decrease/(increase) in trade and notes receivables	**130,235**	(58,542)
–(Increase)/decrease in prepayments, deposits and other receivables	**(6,370)**	3,796
–(Decrease)/increase in trade payables	**(22,630)**	54,955
–(Decrease)/increase in other payables and accruals	**(3,446)**	12,547
–Increase/(decrease) in amount due from a related party	**3,848**	(2,331)
Cash generated from operations	**195,718**	150,300
Income tax (paid)/refund	**(5,677)**	592
Net cash flows from operating activities	**190,041**	150,892
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of items of property, plant and equipment	**(33,999)**	(26,072)
Proceeds from disposal of property, plant and equipment	**626**	100
Capital contribution in investment in an associate	**(2,700)**	(2,700)
Interest received	**1,221**	2,320
Change in fixed deposits with banks	**—**	10,350
Increase in pledged deposits	**(5,116)**	(9,589)
Net cash flows used in investing activities	**(39,968)**	(25,591)

continued/...

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2010

	2010 **RMB'000**	2009 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	**273,499**	455,714
Repayment of bank loans	**(279,695)**	(563,327)
Interest paid	**(15,571)**	(19,808)
Net cash used in financing activities	**(21,767)**	(127,421)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**128,306**	(2,120)
Cash and cash equivalents at beginning of year	**95,517**	97,549
Effect of foreign exchange rates changes, net	**(359)**	88
CASH AND CASH EQUIVALENTS AT END OF YEAR	**223,464**	95,517
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**134,555**	85,517
Non-pledged time deposits with original maturity of less than three month when acquired	**88,909**	10,000
Cash and cash equivalents as stated in the statement of financial position	**223,464**	95,517

Statement of Financial Position

As at 31 December 2010

	Notes	31 December 2010 RMB'000	31 December 2009 RMB'000
NON-CURRENT ASSETS			
Investment in subsidiaries	16	**370,221**	370,221
Total non-current assets		**370,221**	370,221
CURRENT ASSETS			
Amount due from subsidiaries	24	**269,251**	270,761
Cash and cash equivalents	26	**1,688**	1,638
Total current assets		**270,939**	272,399
CURRENT LIABILITIES			
Other payables	28	**407**	—
Amount due to a subsidiary	24	**3,800**	3,800
Total current liabilities		**4,207**	3,800
NET CURRENT ASSETS		**266,732**	268,599
TOTAL ASSETS LESS CURRENT LIABILITIES		**636,953**	638,820
Net assets		**636,953**	638,820
EQUITY			
Share capital	30	**6,272**	6,272
Reserves	32	**604,193**	632,548
Proposed final dividends	12	**26,488**	—
Total equity		**636,953**	638,820

Ren Wei Ming
Director

Shen Yueming
Director

1. CORPORATE INFORMATION

Kingdom Holdings Limited was incorporated in the Cayman Islands as an exempted company with limited liability on 21 July 2006. 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

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000), except when otherwise indicated.

2.1 BASIS OF PREPARATION

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation.

- Losses incurred by the Group were attributed to the non-controlling interests until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interests and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date of control was lost. The carrying amount of such investment as at 1 January 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*
IFRS 1 Amendments	*Amendments to IFRS1 First-time Adoption of International Financial Reporting Standards - Additional Exemptions for First-time* Adopters
IFRS 2 Amendments	*Amendments to IFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combination*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 39 Amendment	*Amendment to IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
IFRIC 17	*Distributions of Non-cash Assets to Owners*
IFRS 5 Amendments included *in Improvements to IFRSs issued in October 2008*	*Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations - Plan to sell the controlling interest in a subsidiary*
Improvements to IFRSs 2009	*Amendments to a number of IFRSs issued in April 2009*

The adoption of the new and revised IFRSs has had no financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 1 Amendment	Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[2]
	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[4]
IFRS 7 Amendments	Amendments to IFRS 7 Financial Instruments: Disclosures - Transfers of Financial Assets[4]
IFRS 9	Financial Instruments[6]
IAS 12 Amendments	Amendments to IAS 12 Income Taxes - Deferred Tax: Recovery of Underlying Assets[5]
IAS 24 (Revised)	Related Party Disclosures[3]
IAS 32 Amendment	Amendment to IAS 32 Financial Instruments: Presentation - Classification of Rights Issues[1]
IFRIC 14 Amendments	Amendments to IFRIC-Int 14 Prepayments of a Amendments Minimum Funding Requirement[3]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[2]

Apart from the above, the IASB has issued Improvements to IFRSs 2010 which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010 while the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for the accounting periods beginning on or after 1January 2011 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

The directors of the Company anticipate that the application of the new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Joint venture

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associate

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of an associate is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associate are included in the Company's income statement to the extent of dividends received and receivable. The Company's investment in an associate is treated as non-current assets and is stated at cost less any impairment losses.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises *(only if there are revalued assets in the financial statements)*, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Plant and buildings	4.5%
Machinery	9.0%
Office equipment	18.0%
Motor vehicles	22.5%
Leasehold improvements	10.0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payment and finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentive received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurements

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss or loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and cash equivalents, pledged deposits, due from a related company, deposits and other receivables, trade and notes receivables and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in other income and gains or finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in the operating expenses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into pass-though arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is , or continues to be, recognised are not included in collective assessment of impairment.

If there is objective evidence that an impairment has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flow is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collected has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expense in income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include interest-bearing bank loans, trade payables and other payables.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction cost. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. These techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprising cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint entures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial tree model, further details of which are given in note 31 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where nonvesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits

Pursuant to the relevant regulations, the Group has participated in a local municipal government retirement benefit scheme (the "Scheme"), whereby the Group is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to profit or loss as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the end of reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

There is no significant effect on the amounts recognised in the financial statements arising from the judgements, apart from those involving estimations, made by management in the process of applying the Group's accounting policies.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Deferred tax assets

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period, and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Group's management determines the deferred tax assets based on the enacted or substantively enacted tax rates and laws and best knowledge of profit projections of the Group for coming years during which the deferred tax assets are expected to be utilised. Management will revise the assumptions and profit projections at the end of the reporting period.

(b) Impairment of trade and notes receivables and other receivables

Impairment of trade and notes receivables and other receivables is made based on assessment of the recoverability of trade and notes receivables and other receivables. The identification of bad and doubtful receivables requires management judgement and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or expectation in future is different from the original estimate, the differences will impact the carrying value of the receivables and related asset impairment charge or write-back in the period in which the estimate has been changed.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(c) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or management will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

(d) Share-based payment transactions

The cost of equity-settled share options granted with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial tree model. The pricing option model takes into account, as a minimum, the following factors in estimating the fair value of the cost of equity-settled transactions:

(i) the exercise price of the option;

(ii) Exercise multiple;

(iii) the current price of the underlying shares;

(iv) the dividends expected on the shares; and

(v) the risk-free rate for the life of the option.

The cost of the equity-settled share option scheme is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award. Should the estimates including other relevant parameters of the share option model be changed, there would be material changes in the amount of share option benefits recognised in the income statements and share option reserve. The share option expense recognised for the year amounted to HK$604,000, equivalent to RMB514,000 (2009: Nil).

4. 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 the performance of the Group. Accordingly, no segment analysis is presented.

Geographical information

(a) Revenue from external customers

An analysis of the Group's geographical information on revenue attributed to the region on the basis of the customer's location for the year ended 31 December 2010 is set out in the following table:

	Revenue from external customers	
	2010	2009
	RMB'000	RMB'000
Mainland China	**266,059**	248,076
Italy	**176,247**	123,006
Other countries	**186,412**	120,083
Total	**628,718**	491,165

(b) Non-current assets

Since the principal non-current assets, other than deferred tax assets, employed by the Group are located in the PRC, no geographical information for non-current assets is presented.

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 year ended 31 December 2010 (2009: Nil).

5. 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, other income and gains is as follows:

	2010	2009
	RMB'000	RMB'000
Revenue		
Sales of linen yarns	**628,718**	491,165
Other income		
Bank interest income	**1,221**	2,320
Government grants	**3,956**	2,460
Others	**1,098**	1,031
	6,275	5,811
Gains		
Gain from changes in fair value of biological assets	**—**	563
Gain on derivative financial instrument, net		
– realised	**3,818**	—
– unrealised	**3,713**	—
	7,531	563
	13,806	6,374

6. FINANCE COSTS

	2010	2009
	RMB'000	RMB'000
Interest on bank loans, wholly repayable with five years	**15,571**	19,808
Less: interest capitalised	**(419)**	(483)
	15,152	19,325

7. PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE

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

	2010 **RMB'000**	2009 RMB'000
Cost of inventories sold	**462,876**	435,148
Depreciation	**43,639**	46,175
Amortisation of prepaid land lease payments	**801**	801
Research and development expense	**1,881**	1,464
Minimum lease payments under operating lease:		
land and buildings	**1,096**	1,154
Auditors' remuneration	**1,562**	1,844
Gain on fair value adjustment of biological assets	**—**	563
Employee benefits expense (including directors' remuneration):		
Wages, salaries and other benefits	**63,239**	50,266
Pension scheme contributions	**4,262**	4,824
Equity settled share option expense	**514**	—
	68,015	55,090
Foreign exchange difference, net	**233**	1,013
Gain on derivative financial instruments, net	**(7,531)**	—
Loss on disposal of items of property, plant and equipment	**—**	250
Provision against inventories	**2,372**	16,043
(Reversal of)/provision for doubtful debts	**(2,181)**	2,890
Finance costs	**15,152**	19,325
Gross rentals from investment properties	**—**	(464)
Bank interest income	**(1,221)**	(2,320)

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2010	2009
	RMB'000	RMB'000
Fees	**516**	462
Other emoluments		
salaries, allowances and benefits in kind	**2,350**	2,050
pension scheme contributions	**63**	57
	2,929	2,569

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2010	2009
	RMB'000	RMB'000
Mr. Yang Donghui	**96**	96
Mr. Yu Chongwen*	**30**	72
Mr. Lau Ying Kit	**124**	127
Mr. Lo Kwong Shun Wilson*	**60**	—
	310	295

* Mr. Yu Chongwen retired and Mr. Lo Kwong Shun Wilson joined on 17 May 2010.

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2010				
Executive directors				
Mr. Ren Weiming	—	1,100	21	1,121
Mr. Shen Yueming	—	700	21	721
Mr. Zhang Hongwen	—	550	21	571
	—	2,350	63	2,413
Non-executive directors				
Mr. Ngan Kam Wai Albert	103	—	—	103
Mr. Tse Chau Shing Mark	103	—	—	103
	206	—	—	206
	206	2,350	63	2,619

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors (continued)

	Fees RMB'000	Salaries RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2009				
Executive directors				
Mr. Ren Weiming	—	1,000	19	1,019
Mr. Shen Yueming	—	650	19	669
Mr. Zhang Hongwen	—	400	19	419
	—	2,050	57	2,107
Non-executive directors				
Mr. Ngan Kam Wai Albert	105	—	—	105
Mr. Tse Chau Shing Mark	62	—	—	62
	167	—	—	167
	167	2,050	57	2,274

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2009: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2009: two) non-director, highest paid employee for the year are as follows:

	2010	2009
	RMB'000	RMB'000
Salary	**854**	724
Pension scheme contribution	**31**	14
Equity-settlement share option expense	**17**	—
	902	738

The number of non-director, highest paid employee whose remuneration fell within the following bands is as follows:

	Number of employees	
	2010	2009
RMB Nil to RMB 1,000,000	**2**	2

During the year ended 31 December 2010, no directors, or any of the non-directors, highest paid employees waived or agreed to waive any remuneration (2009: none). None of the directors, or any of the non-directors, highest paid employees was paid by the Group as an inducement to join or upon joining the Group or as compensation for loss of office (2009: none).

10. INCOME TAX EXPENSE

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

	2010	2009
	RMB'000	RMB'000
Current-PRC		
– Charge for the year	**22,747**	117
– Under-provision in respect of prior years	**100**	151
Current-Italy tax	**286**	—
Deferred	**6,408**	1,569
Total tax charge for the year	**29,541**	1,837

10. INCOME TAX EXPENSE (continued)

(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 year ended 31 December 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 years 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 will be subject to the unified rate of 25%.

10. INCOME TAX EXPENSE (continued)

(iv) Pursuant to the rules and regulations of Italy, the Group is subject to an income tax rate at 31.4%, which comprise of the Italian Corporate Income Tax at 27.5% and Italian Regional Income Tax at 3.9%.

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2010	2009
	RMB'000	RMB'000
Profit/(loss) before tax	**97,472**	(16,319)
Tax at an applicable tax rate of 25%	**24,368**	(4,080)
Effect of different tax rates	**285**	1,427
Underprovision in respect of prior years	**100**	151
Share of profits of an associate	**(163)**	—
Expenses not deductible for tax	**1,835**	662
Tax losses utilised from prior years	**(2,714)**	—
Tax effect of unused tax losses and deductible temporary differences not recognised	**2,056**	3,677
Deferred tax liability on withholding tax	**3,774**	—
Total charge for the year	**29,541**	1,837

11. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit/(loss) attributable to owners of the parent for the year ended 31 December 2010 includes a loss of RMB2,381,000 (2009 loss: RMB4,112,000) which has been dealt with in the financial statements of the Company (note 32(b)).

12. DIVIDENDS

	2010 **RMB'000**	2009 RMB'000
Proposed final - HK5 cents (2009: Nil) per ordinary share	**26,488**	—
	26,488	—

On 22 March 2011, the board of directors of the Company proposed a final dividend of HK5 cents per ordinary share totalling approximately RMB26,488,000 for the year ended 31 December 2010, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit/loss for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 622,500,000 (2009: 622,500,000) in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2010 is the same as the calculation of basic earnings per share for the year.

The share option scheme (see note 31) does not give rise to any dilution effect on the Company's earnings per share and there were no other dilutive potential ordinary shares existence during the year ended 31 December 2010.

No options were exercised during the year ended 31 December 2010.

13. BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

The calculations of basic and diluted earnings per share are based on:

	2010	2009
	RMB'000	RMB'000
Earnings		
Profit/(loss) attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	**67,931**	(18,156)

	Number of shares	
	2010	2009
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculations	**622,500**	622,500
Effect of dilution - weighted average number of ordinary shares:		
Share options	**—**	—
	622,500	622,500

14. 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
31 December 2010							
As 31 December 2009 and at 1 January 2010:							
Cost	153,649	372,457	13,892	2,864	7,408	4,216	554,486
Accumulated depreciation	(26,146)	(126,513)	(6,553)	(1,343)	(633)	—	(161,188)
Net carrying amount (restated)	127,503	245,944	7,339	1,521	6,775	4,216	393,298
At 1 January 2010, net of accumulated depreciation	127,503	245,944	7,339	1,521	6,775	4,216	393,298
Additions	2,132	1,589	262	3,358	42	27,035	34,418
Depreciation provided during the year	(8,073)	(31,784)	(2,263)	(772)	(747)	—	(43,639)
Transfers	600	7,937	—	—	—	(8,537)	—
Disposals	—	(583)	(32)	(11)	—	—	(626)
Exchange realignment	—	(8)	(8)	—	(2)	—	(18)
At 31 December 2010, net of accumulated depreciation	122,162	223,095	5,298	4,096	6,068	22,714	383,433
At 31 December 2010:							
Cost	156,381	379,816	13,826	6,099	7,448	22,714	586,284
Accumulated depreciation	(34,219)	(156,721)	(8,528)	(2,003)	(1,380)	—	(202,851)
Net carrying amount	122,162	223,095	5,298	4,096	6,068	22,714	383,433

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	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
31 December 2009 (restated)							
As 1 January 2009:							
Cost	126,752	367,619	11,125	3,290	21	13,974	522,781
Accumulated depreciation	(17,841)	(91,845)	(2,687)	(903)	(3)	—	(113,279)
Net carrying amount (restated)	108,911	275,774	8,438	2,387	18	13,974	409,502
At 1 January 2009, net of accumulated depreciation	108,911	275,774	8,438	2,387	18	13,974	409,502
Additions	6,349	1,220	1,408	46	—	11,422	20,445
Disposals	—	—	—	(350)	—	—	(350)
Depreciation provided during the year	(6,450)	(34,668)	(3,865)	(562)	(630)	—	(46,175)
Transfers	8,817	3,618	1,358	—	7,387	(21,180)	—
Transfer from investment properties	9,876	—	—	—	—	—	9,876
At 31 December 2009, net of accumulated depreciation	127,503	245,944	7,339	1,521	6,775	4,216	393,298
At 31 December 2009:							
Cost	153,649	372,457	13,892	2,864	7,408	4,216	554,486
Accumulated depreciation	(26,146)	(126,513)	(6,553)	(1,343)	(633)	—	(161,188)
Net carrying amount	127,503	245,944	7,339	1,521	6,775	4,216	393,298

As at 31 December 2010, the Group's property, plant and equipment with net carrying amount of approximately RMB66,810,000 (2009: RMB199,070,000) were pledged to secure bank loans granted to the Group as set out in note 29(i).

15. PREPAID LAND LEASE PAYMENTS

	31 December 2010 RMB'000	31 December 2009 RMB'000
Cost:		
At beginning and end of year	**40,408**	40,408
Accumulated amortisation:		
At beginning of year	**(3,841)**	(3,040)
Charge for the year	**(801)**	(801)
At end of year	**(4,642)**	(3,841)
Carrying amount at end of year	**35,766**	36,567
Current portion included in prepayments, deposits and other receivables	**(801)**	(801)
Non-current portion	**34,965**	35,766

As at 31 December 2010, the Group's prepaid land lease payments with a net carrying amount of approximately RMB6,662,000 (2009: RMB22,770,000) were pledged to secure bank loans granted to the Group as set out in note 29(i).

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

16. INVESTMENT IN SUBSIDIARIES

Company

	31 December 2010 RMB'000	31 December 2009 RMB'000
Unlisted shares, at cost	**370,221**	370,221

16. INVESTMENT IN SUBSIDIARIES (continued)

Particulars of subsidiaries as at 31 December 2010 are as follows:

Name of company	Registered Place and date of incorporation/ establishment	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Overseas Kingdom Limited	British Virgin Islands ("BVI") 26 July 2006	HK$0.01/ HK$500	100%	—	Investment holding
Kingdom Group Holdings Limited ("Hong Kong Kingdom")	Hong Kong China 10 September 2004	HK$1,250,000	—	100%	Investment holding
Asia Harvest Enterprises Limited	Hong Kong China 10 November 2005	HK$1/ HK$10,000	—	100%	Trading
Zhejiang Jinyuan Flax Co., Ltd.	Mainland China 18 March 2003	US$36,320,000	—	100%	Manufacture and sale of linen yarns
Jiangsu Jinyuan Flax Co., Ltd.	Mainland China 17 October 2003	US$11,500,000	—	100%	Manufacture and sale of linen yarns
Jiangsu Ziwei Flax Co., Ltd.	Mainland China 26 October 2006	US$10,000,000	—	100%	Manufacture and sale of linen yarns
Zhaosu Jindi Flax Co., Ltd.	Mainland China 23 May 2007	RMB30,000,000	—	100%	Manufacture and sale of linen yarns
Kingdom Europe S.R.L.	Italy 7 September 2007	EUR502,646	—	100%	Trading

17. INVESTMENT IN AN ASSOCIATE

	31 December 2010 RMB'000	31 December 2009 RMB'000
Share of net assets	**6,052**	2,700

The Group holds an 18% equity interests in an associate, namely Huaning Flax Electronic Business (Zhejiang) Co., Ltd., which was established on 28 December 2009 in the PRC with a registered capital of RMB30,000,000. The principal business of the associate is the sales of linen yarn products and provision of transaction services. Although the Group holds less than 20% of the voting power of the associate, the Group exercises significant influence as a member of its board of directors.

Particulars of an associate are as follows:

Name	**Particulars of issued shares held**	**Place of incorporation/ registration**	**Percentage of ownership interest attributable to the Group**	**Principal activities**
Huaning Flax Electronic Business (Zhejiang) Co., Ltd.	RMB30,000,000	Mainland China	18%	Consulting in purchase and sales of linen yarn in the net -work, market management, goods import and export

The financial statements of this company for the year ended 31December 2010 was not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

17. INVESTMENT IN AN ASSOCIATE (continued)

The following table illustrates the summarised financial information of the Group's associate extracted from its financial statements:

	2010	2009
	RMB'000	RMB'000
Assets	**45,497**	15,000
Liabilities	**11,877**	—
Revenue	**56,425**	—
Profit	**3,622**	—

18. DEFERRED TAX

The movements in deferred tax assets and liabilities of the Group during the year are as follows:

Deferred tax assets:

	Loss available for offsetting against future taxable profit RMB'000	Accruals RMB'000	Allowance for doubtful debts RMB'000	Provision for inventories RMB'000	Elimination of unrealised profits RMB'000	Depreciation in excess of related depreciation allowance RMB'000	Total RMB'000
At 1 January 2009	2,752	438	715	2,378	1,012	101	7,396
Deferred tax credited/(charged) to the income statement during the year	432	(35)	259	(1,652)	(677)	104	(1,569)
As at 31 December 2009 and 1 January 2010	3,184	403	974	726	335	205	5,827
Deferred tax credited/(charged) to the income statement during the year	(2,746)	1,483	(946)	(358)	691	170	(1,706)
As at 31 December 2010	438	1,886	28	368	1,026	375	4,121

18. DEFERRED TAX (continued)

Deferred tax liabilities:

	Withholding tax on undistributed profits of the PRC subsidiaries RMB'000	Fair value gain on derivative financial instruments RMB'000	Total RMB'000
At 31 December 2009 and 1 January 2010	—	—	—
Deferred tax charged to the income statements during the year (note 10)	3,774	928	4,702
At 31 December 2010	3,774	928	4,702

Pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings generated after 31 December 2007.

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

Deferred tax of the Groups as at 31 December 2010 and 2009 relates to the following:

	31 December 2010 RMB'000	31 December 2009 RMB'000
Deferred tax assets arising from:		
– Allowance for doubtful debts	**28**	974
– Provision for inventories	**368**	726
– Elimination of unrealised profits	**1,026**	335
– Loss available for offsetting against future taxable profit	**438**	3,184
– Accruals	**1,886**	403
– Depreciation in excess of related depreciation allowance	**375**	205
	4,121	5,827

18. DEFERRED TAX (continued)

	31 December 2010 RMB'000	31 December 2009 RMB'000
Deferred tax liabilities arising from:		
– Withholding tax on undistributed profits of the PRC subsidiaries	**(3,774)**	—
– Fair value gain on derivative financial instruments	**(928)**	—
	(4,702)	—
Deferred tax, net	**(581)**	5,827
Reflected in the consolidated statements of financial position:		
– Deferred tax assets	**3,193**	5,827
– Deferred tax liabilities	**(3,774)**	—

Deferred tax assets have not been recognised in respect of the following items:

	31 December 2010 RMB'000	31 December 2009 RMB'000
Unused tax losses	**595**	5,276
Deductible temporary differences	**2,765**	1,500
	3,360	6,776

The above tax losses are subject to an expiry period of five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

At 31 December 2010, other than the amount recognized in the consolidated financial statements, deferred tax has not been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such remaining earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized totalled approximately RMB35,133,000 at 31 December 2010 (2009: nil).

18. DEFERRED TAX (continued)

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

19. INVENTORIES

	31 December 2010 RMB'000	31 December 2009 RMB'000
Raw materials	**151,111**	87,911
Work in progress	**15,681**	17,082
Finished goods	**40,315**	84,530
Goods in transit	**72,327**	33,620
	279,434	223,143

As at 31 December 2010, inventories with a carrying amount of RMB Nil (2009: RMB70,247,000) were pledged to secure bank loans granted to the Group as set out in note 29(i).

20. BIOLOGICAL ASSETS

The Group usually sourced its raw materials, flax fibres, from external suppliers for the manufacture of linen yarn. During the year ended 31 December 2009, the Group farmed flax on leased agricultural land to meet a portion of its flax fibres demand. The Group ceased the farming and leasing activity in 2010.

	31 December 2010 RMB'000	31 December 2009 RMB'000
Balance at beginning of year	**561**	—
Increase due to cultivation	**—**	1,697
Gain from changes in fair value less estimated point-of-sale costs	**—**	563
Harvested flax transferred to inventories	**—**	(1,699)
Disposal	**(561)**	—
	—	561

21. TRADE AND NOTES RECEIVABLES

	31 December 2010 RMB'000	31 December 2009 RMB'000
Trade receivables	**101,586**	175,316
Notes receivable	**20,145**	78,561
Impairment	**(1,297)**	(5,222)
	120,434	248,655

Customers are normally granted credit terms ranging from 30 days to 150 days depending on the credit worthiness of the individual customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

The Group's notes receivable were all aged within six months and neither past due nor impaired.

An aged analysis of the Group's trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	31 December 2010 RMB'000	31 December 2009 RMB'000
Within 1 month	**52,716**	84,010
1 to 2 months	**25,353**	38,017
2 to 3 months	**15,369**	19,647
Over 3 months	**6,851**	28,420
	100,289	170,094

21. TRADE AND NOTES RECEIVABLES (continued)

The movements in the provision for impairment of trade receivables are as follows:

	31 December 2010 RMB'000	31 December 2009 RMB'000
At 1 January	**5,222**	3,176
Impairment losses recognised	**268**	3,741
Amount written off as uncollectible	**(1,911)**	(844)
Impairment losses reversed	**(2,282)**	(851)
	1,297	5,222

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB1,297,000 (2009: RMB4,921,000) with carrying amount before provision of RMB3,171,000 (2009: RMB4,961,000).

The impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	31 December 2010 RMB'000	31 December 2009 RMB'000
Neither past due nor impaired	**92,894**	133,058
Less than 1 month past due	**2,517**	18,623
1 to 3 months past due	**2,873**	6,357
Over 3 months past due	**131**	6,570
	98,415	164,608

21. TRADE AND NOTES RECEIVABLES (continued)

Receivables that were neither past due nor impaired relate to a large number of diversified 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 with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The carrying amount of the trade and notes receivables approximates to their fair value due to their short term maturity.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2010 RMB'000	31 December 2009 RMB'000
Prepayments	**16,291**	14,267
Prepaid land lease payment due within one year	**801**	801
Deposits and other receivables	**17,867**	13,354
	34,959	28,422

The above balances are unsecured and non-interest-bearing and have no fixed terms of repayment.

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

The carrying amount of deposits and other receivables approximates to their fair value due to their short term maturity.

23. DUE FROM A RELATED COMPANY

	31 December 2010 RMB'000	31 December 2009 RMB'000
Millionfull Company Limited ("Millionfull")	**52**	3,900

Millionfull is a related company controlled by one of the Company's directors. The balances with Millionfull as at each year end are trade in nature, unsecured, repayable on demand and interest free, and the carrying amount approximates to its fair value.

24. AMOUNT DUE FROM / (TO) SUBSIDIARIES

The balances with subsidiaries as at each year end are non-trade in nature, unsecured, repayable on demand and interest free, and the carrying amount approximate its fair value.

25. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2010 RMB'000	31 December 2009 RMB'000
Assets:		
Foreign exchange forward contracts - current	**3,713**	—

The Group uses forward currency contracts to manage some of its transaction exposures. These currency forward contracts are not designated as cash flow, fair value or net investment hedges and are entered into for periods consistent with currency transaction exposures, generally from one to twelve months. These contracts will mature within 2011.

The derivatives are measured at fair value as at 31 December 2010.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		**Company**	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Cash and bank balances	**134,555**	85,517	**1,688**	1,638
Time deposit	**150,966**	66,941	**—**	—
	285,521	152,458	**1,688**	1,638
Less: Pledged deposits for bank loans	**(62,057)**	(56,941)	**—**	—
Cash and cash equivalents	**223,464**	95,517	**1,688**	1,638

At 31 December 2010, the Group's pledged deposits with a net carrying amount of approximately RMB62,057,000 (2009: RMB56,941,000) were pledged to secure bank loans granted to the Group as set out in note 29(i).

27. TRADE PAYABLES

An aged analysis of the trade payables as at 31 December 2010, based on the payment due date, is as follows:

	31 December 2010 RMB'000	31 December 2009 RMB'000
Due within 1 month or on demand	**24,461**	43,899
Due after 1 month but within 3 months	**58,359**	56,926
Due after 3 months but within 6 months	**34,992**	39,617
	117,812	140,442

The above balances are unsecured and non-interest-bearing. The carrying amount of trade payables at each of the reporting period end approximates to their fair values due to their short-term maturity.

28. OTHER PAYABLES AND ACCRUALS

	Group	
	31 December 2010 RMB'000	31 December 2009 RMB'000
Advances from customers	**2,170**	6,203
Accruals	**5,208**	5,402
Other payables	**20,214**	19,433
	27,592	31,038

	Company	
	31 December 2010 RMB'000	31 December 2009 RMB'000
Other payables	**407**	—

The above balances are unsecured and non-interest-bearing. The carrying amounts of other payables and accruals at each of the reporting period end approximates to their fair values due to short-term maturity.

29. INTEREST-BEARING BANK LOANS

	Note	**31 December 2010 RMB'000**	31 December 2009 RMB'000
Current			
Secured bank loans	(i)	**157,781**	157,693
Bank advances under discounted bills		**20,000**	10,554
Unsecured bank loans		**125,000**	110,730
Current portion of non-current bank loans:			
– Secured bank loans	(i)	**—**	30,000
		302,781	308,977
Non-current			
Secured bank loans	(i)	**—**	30,000
Less: current portion			
– Secured bank loans		**—**	(30,000)
		—	—
Total		**302,781**	308,977

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

	31 December 2010 RMB'000	31 December 2009 RMB'000
Within 1 year	**—**	30,000

(i) As at 31 December 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 RMB66,810,000 (2009: RMB199,070,000), RMB6,662,000 (2009: RMB22,770,000), RMBNil (2009: RMB70,247,000) and RMB62,057,000 (2009: RMB56,941,000), respectively.

(ii) The bank loans bear interest at rates ranging from 1.12% to 5.56% per annum (2009: 0.6% to 8.22% per annum)

The carrying amount of the interest-bearing bank loans of the Group approximate to their fair values due to their short term maturity.

30. ISSUED CAPITAL

Group and Company

	The Group and the Company			
	2010		2009	
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:

	2010			2009		
	Number	**Amount**		Number	Amount	
	of shares	**HK$'000**	**RMB'000 equivalent**	of shares	HK$'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 shareholders meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

31. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, and other employees of the Group in the Company's subsidiaries. The Scheme became effective on 15 November 2006 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

31. SHARE OPTION SCHEME (continued)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$0.01 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to three years and ends on a date which is not later than five years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	Weighted average exercise price HK$ per share	**Number of options '000**
At 1 January 2010	—	—
Granted during the year	0.400	9,100
At 31 December 2010	0.400	9,100

31. SHARE OPTION SCHEME (continued)

No share options were exercised during the year. The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

Number of options '000	Exercise price HK$ per share	Exercise period
3,640	0.400	9 July 2012 to 8 July 2015
5,460	0.400	9 July 2013 to 8 July 2015
9,100		

The fair value of the share options granted during the year was HK$2,939,000, equivalent to approximately RMB2,501,000 (2009: Nil) of which the Group recognised a share option expense of HK$604,000, equivalent to RMB514,000 (2009: Nil) during the year ended 31 December 2010.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial tree model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	Share options granted on 17 August 2010
Dividend yield (%)	2.1
Spot stock price (HK$ per share)	0.57
Historical volatility (%)	69.32
Risk free interest rate (%)	1.01
Exercise multiple	2.5
Weighted average share price (HK$ per share)	0.400

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

31. SHARE OPTION SCHEME (continued)

At the end of the reporting period, the Company had 9,100,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 9,100,000 additional ordinary shares of the Company and additional share capital of HK$91,000, equivalent to RMB77,000, and share premium of HK$3,549,000, equivalent to RMB2,994,000, (before issue expenses).

At the date of approval of these financial statements, the Company had 9,100,000 share options outstanding under the Scheme, which represented approximately 1.46% of the Company's shares in issue as at that date.

32. RESERVES

(a) Group

The changes in the reserve of the Group during the year have been disclosed in the consolidated statement of changes in equity of the Group.

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.

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.

32. RESERVES (continued)

(a) Group (continued)

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.

Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of overseas subsidiaries.

Share option reserve

Details of the Company's share option scheme and the share options issued under the scheme are included in note 31 to the financial statements.

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.

32. RESERVES (continued)

(b) Company

	Share premium RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2009	268,001	370,213	—	(1,554)	636,660
Loss for the year	—	—	—	(4,112)	(4,112)
At 31 December 2009 and 1 January 2010	268,001	370,213	—	(5,666)	632,548
Loss for the year	—	—	—	(2,381)	(2,381)
Equity-settled share option arrangements	—	—	514	—	514
Proposed final 2010 dividend	—	—	—	(26,488)	(26,488)
At 31 December 2010	**268,001**	**370,213**	**514**	**(34,535)**	**604,193**

(c) Company

Contributed surplus

Contributed surplus represents the excess of the fair value of the shares of Kingdom Group Holdings Limited at the date of the Reorganisation over the nominal value of the shares issued by the Company in exchange thereof.

33. OPERATING LEASES COMMITMENTS

Non-cancellable operating lease rentals were payable as follows:

	31 December 2010 RMB'000	31 December 2009 RMB'000
Less than one year	**1,150**	1,233
Between one and five years	**1,822**	3,127
	2,972	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 three to six years.

34. CAPITAL COMMITMENTS

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

	31 December 2010 RMB'000	31 December 2009 RMB'000
Contracted for	**4,256**	2,428
Authorised but not contracted for	**—**	—
	4,256	2,428

35. 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 year ended 31 December 2010, the Group leased an office located in the PRC from Zhejiang Kingdom Creative Co., Ltd. ("Kingdom Creative") and incurred operating lease charges of RMB200,000 (2009: RMB200,000). Mr. Ren We Ming, who ultimately controls the Group, also has a controlling equity interests over Kingdom Creative.

(ii) During the year ended 31 December 2010, the Group sold products totalling RMB731,000 to Millionfull (2009: RMB4,196,000), a related Company controlled by one of the Company's directors.

The lease and sales were made according to published prices and conditions offered by the lessor or to the major customers of the Group.

(b) Compensation of key management personnel of the Group

	2010 RMB'000	2009 RMB'000
Short-term employee benefits	**3,011**	2,998
Post-employment benefits	**101**	90
Equity settled share option expense	**62**	—
	3,174	3,088

Further details of directors' emoluments are included in note 8 to the financial statements.

The related party transactions in respect of note (a) above also constitutes connected transactions as defined in Chapter 14A of the Listing Rules.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2010

Financial assets	Group		
	Loans and receivables RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
Trade and notes receivables	120,434	—	120,434
Financial assets included in prepayments, deposits and other receivables	17,867	—	17,867
Cash and cash equivalents	223,464	—	223,464
Pledged deposits	62,057	—	62,057
Due from a related company	52	—	52
Financial assets at fair value through profit or loss	—	3,713	3,713
	423,874	3,713	427,587

Financial liabilities	Group
	Financial liabilities at amortised cost RMB'000
Interest-bearing bank loans	302,781
Trade payables	117,812
Financial liabilities included in other payables and accruals	20,214
	440,807

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2009

Financial assets	Group
	Loans and receivables RMB'000
Trade and notes receivables	248,655
Financial assets included in prepayments, deposits and other receivables	13,354
Cash and cash equivalents	95,517
Pledged deposits	56,941
Due from a related company	3,900
	418,367

Financial liabilities	Group
	Financial liabilities at amortised cost RMB'000
Interest-bearing bank loans	308,977
Trade payables	140,442
Financial liabilities included in other payables and accruals	19,433
	468,852

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2010

Financial assets	Company Loans and receivables RMB'000
Amount due from subsidiaries	269,251
Cash and cash equivalents	1,688
	270,939

Financial liabilities	Company Financial liabilities at amortised cost RMB'000
Other payables	407
Amount due to a subsidiary	3,800
	4,207

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2009

Financial assets	Company
	Loans and receivables RMB'000
Amount due from subsidiaries	270,761
Cash and cash equivalents	1,638
	272,399

Financial liabilities	Company
	Financial liabilities at amortised cost RMB'000
Amount due to a subsidiary	3,800

37. FAIR VALUE AND FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

Assets measured at fair value:

Group

	31 Dec 2010 RMB'000	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**
Financial assets at fair value through profit or loss – foreign exchange forward contracts	**3,713**	**—**	**3,713**	**—**

	31 Dec 2009 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Financial assets at fair value through profit or loss – foreign exchange forward contracts	—	—	—	—

During the year ended 31 December 2010, there were no transfers between level 1and level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities other than derivatives comprise interest-bearing bank loans, trade payables and other payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade and notes receivables, deposit and other receivables, due from a related company, pledged deposits and cash and cash equivalents that arrive directly from its operations.

The Group also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks which are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest bearing bank loans with floating interest rates. The Group does not use derivative financial instruments to hedge its interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit for the year (through the impact on the floating rate borrowings). The change in interest rates has no impact on the equity excluding retained earnings.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit for the year RMB'000
2010		
RMB	**(100)**	**193**
	100	**(193)**
2009		
RMB	(100)	731
	100	(731)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has foreign currency sales and purchases and certain trade receivables, payables and bank balances are that denominated in United States dollars ("US$), Euros and Hong Kong Dollars (HK$) other than the functional currency of the Group, which expose the Group to foreign currency risk.

The Group manages its foreign currency risk by entering foreign currency forward contracts to hedge its exposure to fluctuations on the translation into RMB of its foreign operations of sales in US$ and Euros, as described in note 25. It is the Group's policy to ensure that the net exposure is kept to an acceptable level by buying or selling foreign currencies at a fixed rate where necessary to address short term imbalances. The management will continue to monitor foreign exchange exposure and will continue to consider hedging significant foreign currency exposure by using financial instruments such as foreign currency forward contracts.

The following table demonstrates the sensitivity to a reasonably possible change in the US$, Euros and HK$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities including foreign currency derivatives). The change in foreign currency exchange rate has no impact on the equity excluding retained earnings.

	Increase/ (decrease) in foreign currency rate %	**Increase/ (decrease) in profit for the year RMB'000**
Year ended 31 December 2010		
If RMB weakens against US$	**5**	**(2,868)**
If RMB strengthens against US$	**(5)**	**2,868**

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit for the year RMB'000
Year ended 31 December 2009		
If RMB weakens against US$	5	230
If RMB strengthens against US$	(5)	(230)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in foreign currency rate %	**Increase/ (decrease) in profit for the year RMB'000**
Year ended 31 December 2010		
If RMB weakens against EUR	**5**	**2,049**
If RMB strengthens against EUR	**(5)**	**(2,049)**

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit for the year RMB'000
Year ended 31 December 2009		
If RMB weakens against EUR	5	(1,266)
If RMB strengthens against EUR	(5)	1,266

	Increase/ (decrease) in foreign currency rate %	**Increase/ (decrease) in profit for the year RMB'000**
Year ended 31 December 2010		
If RMB weakens against HK$	**5**	**(115)**
If RMB strengthens against HK$	**(5)**	**115**

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit before tax RMB'000
Year ended 31 December 2009		
If RMB weakens against HK$	5	(106)
If RMB strengthens against HK$	(5)	106

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group's credit risk is primarily attributable to trade and notes receivables and deposits and other receivables. Management has a credit policy in place and the exposures to credit risks are monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed through credit verification procedures.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits, due from a related company with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables are disclosed in note 21 to the financial statements.

Liquidity risk

The maturity profile of the Group's financial liabilities as at the reporting period, based on contracted undiscounted payments, was as follows:

Group

	As at 31 December 2010					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
	RM000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank loans	—	76,346	233,241	—	—	309,587
Trade payables	24,461	58,359	34,992	—	—	117,812
Other payables	20,214	—	—	—	—	20,214
	44,675	134,705	268,233	—	—	447,613

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Group

	As at 31 December 2009					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
	RM000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank loans	—	112,298	204,496	—	—	316,794
Trade payables	43,899	56,926	39,617	—	—	140,442
Other payables	19,433	—	—	—	—	19,433
	63,332	169,224	244,113	—	—	476,669

Company

	As at 31 December 2010					
	On demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**>5 years**	**Total**
	RM000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Other payables	**407**	**—**	**—**	**—**	**—**	**407**
Amount due to a subsidiary	**3,800**	**—**	**—**	**—**	**—**	**3,800**
	4,207	**—**	**—**	**—**	**—**	**4,207**

Company

	As at 31 December 2009					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
	RM000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amount due to a subsidiary	3,800	—	—	—	—	3,800

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the Group's objectives, policies or processes for managing capital during the years ended 31 December 2010 and 31 December 2009.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank loans, trade payables and other payables and accruals less cash and cash equivalents. Capital includes equity attributable to the owners of the parent. The gearing ratio as at the end of the reporting periods was as follows:

	31 December 2010 RMB'000	31 December 2009 RMB'000
Interest-bearing bank loans	**302,781**	308,977
Trade payables	**117,812**	140,442
Other payables and accruals	**27,592**	31,038
Less: Cash and cash equivalents	**(223,464)**	(95,517)
Net debt	**224,721**	384,940
Total equity	**684,970**	616,902
Capital and net debt	**909,691**	1,001,842
Gearing ratio	**25%**	38%

39. EVENTS AFTER THE REPORTING PERIOD

On 22 March 2011, the board of directors of the Company proposed a final dividend of HK5 cents per ordinary share totalling approximately RMB26,488,000 for the year ended 31 December 2010, which is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting (note 12).

40. COMPARATIVE FIGURES

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

41. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 22 March 2011.

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**628,718**	491,165	448,231	537,206	537,364
Cost of sales	**(462,876)**	(435,148)	(393,916)	(428,555)	(390,689)
Gross profit	**165,842**	56,017	54,315	108,651	146,675
Other income and gains	**13,806**	6,374	9,380	3,915	7,776
Selling and distribution costs	**(32,125)**	(18,625)	(17,700)	(15,945)	(16,701)
Administrative expenses	**(31,914)**	(34,597)	(38,292)	(29,571)	(22,118)
Other expenses	**(3,637)**	(6,163)	(4,874)	(6,686)	(2,955)
Finance costs	**(15,152)**	(19,325)	(27,432)	(12,636)	(17,064)
Share of profits of an associate	**652**	—	—	—	—
PROFIT/(LOSS) BEFORE TAX	**97,472**	(16,319)	(24,603)	47,728	95,613
Income tax expense	**(29,541)**	(1,837)	1,776	(2,696)	(5,247)
PROFIT/(LOSS) FOR THE YEAR	**67,931**	(18,156)	(22,827)	45,032	90,366
Attributable to:					
Owners of the parent	**67,931**	(18,156)	(22,827)	45,032	90,366

ASSETS AND LIABILITIES

	As at 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**1,151,756**	1,097,359	1,161,723	1,153,108	1,082,220
TOTAL LIABILITIES	**(466,786)**	(480,457)	(526,814)	(478,882)	(429,682)
NET ASSETS	**684,970**	616,902	634,909	674,226	652,538

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