

Report of the Directors

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

PRINCIPAL ACTIVITIES

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

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

RESULTS

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

DIVIDENDS

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

RESERVES

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

DISTRIBUTABLE RESERVES

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

DONATIONS

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

SHARE CAPITAL

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

FINANCIAL HIGHLIGHTS

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

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FIXED ASSETS

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

DIRECTORS

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

Executive Directors

Mr. Rei Wei Ming (*Chairman*)

Mr. Shen Yueming

Mr. Zhang Hong Wen

Non-executive Directors

Mr. Ngan Kam Wai Albert

Mr. John Michael May

Independent Non-executive Directors

Mr. Yang Donghui

Mr. Yu Chongwen

Mr. Lau Ying Kit

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

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

DIRECTORS’ SERVICE CONTRACTS

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

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DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' REMUNERATION

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

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

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

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

Name of Director	Capacity	Number of Shares	Approximate percentage of issued share capital of the Company (%)
Mr. Ren Wei Ming	Interest in controlled corporation (<i>Note 1</i>)	273,600,000	43.95
Mr. Ngan Kam Wai Albert	Interest in controlled corporation (<i>Note 2</i>)	64,800,000	10.41

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Notes:

1. Mr. Ren Wei Ming holds approximately 76.38% of the issued share capital of Kingdom Investment (BVI) (as defined below). Mr. Ren therefore holds a controlling interest in Kingdom Investment (BVI) and is deemed under the SFO to be interested in the Shares held by Kingdom Investment (BVI).
2. Mr. Ngan Kam Wai Albert holds approximately 51% of the issued share capital of Millionfull (as defined below). Mr. Ngan therefore holds a controlling interest in Millionfull and is deemed under the SFO to be interested in the Shares held by Millionfull.

Share options

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

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

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

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INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

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

Long positions in Shares

Name of Director	Capacity	Number of Shares	Approximate percentage of issued share capital (%)
Kingdom Investment Holdings Limited ("Kingdom Investment (BVI)")	Beneficial owner	273,600,000	43.95
Millionfull International Co., Ltd. ("Millionfull")	Beneficial owner	64,800,000	10.41
Caledonia Investments plc	Beneficial owner	66,825,000	10.73
ABN AMRO Holding N.V.	Interest in controlled corporation (Note)	47,002,000	7.55

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

Short positions in Shares

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

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

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

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SHARE OPTION SCHEME

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

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

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

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

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

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

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

CONTROLLING SHAREHOLDERS’ INTERESTS IN CONTRACT OF SIGNIFICANCE

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

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

CONNECTED TRANSACTIONS

(A) Connected transaction

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

(B) Continuing connected transactions

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

Lease agreement

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

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

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

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

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

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- (ii) either on normal commercial terms or, on terms no less favourable to the Company than terms available to or from independent third parties; and
- (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

- (i) the transactions have been approved by the Directors;
- (ii) the transactions were entered into in accordance with the pricing policies of the Company;
- (iii) the transactions were entered into in accordance with the terms of the relevant agreements governing such transactions; and
- (iv) the transactions did not exceed the relevant annual limits as set out in the Prospectus.

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

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

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

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

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

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

CAPITAL RAISING THROUGH INITIAL PUBLIC OFFERING

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

Details of the above are set out in the Prospectus.

PRE-EMPTIVE RIGHTS

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

PENSION SCHEMES

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

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

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

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

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

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

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

VALUATION OF PROPERTY ASSETS OR OTHER TANGIBLE ASSETS

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

CORPORATE GOVERNANCE

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



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AUDITORS

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

On behalf of the Board

Ren Wei Ming

Chairman

Haiyan County, PRC, 19 April 2007

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