1 Reorganisation

Kingdom Holdings Limited ("the Company") was incorporated in the Cayman Islands as an exempted company with limited liability on 21 July 2006 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganisation (the "Reorganisation") of the Company and its subsidiaries (collectively referred to as the "Group") to rationalise the group structure in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries now comprising the Group on 23 November 2006. This was accomplished by the Company acquiring the entire equity interests of Kingdom Group Holdings Limited, the then holding company of subsidiaries, except for Overseas Kingdom Limited, as set out in Note 18. Details of the Reorganisation are set out in the Prospectus of the Company dated 30 November 2006. The Company's shares were listed on the Stock Exchange on 12 December 2006.

2 Basis of preparation

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

(a) Statement of compliance

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

(b) Basis of measurement

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

2 Basis of preparation (continued)

(c) Functional and presentation currency

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

(d) Accounting estimates and judgments

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

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

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

3 Significant accounting policies

(a) Basis of consolidation

(i) Subsidiaries

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

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

3 Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Acquisitions from entities under common control

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

(iii) Transactions eliminated on consolidation

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

(iv) Minority interests

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

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

3 Significant accounting policies (continued)

(b) Foreign currency transactions

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

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

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

Cash and cash equivalents comprise cash balances and call deposits.

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

(ii) Share capital

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

3 Significant accounting policies (continued)

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

3 Significant accounting policies (continued)

(e) Inventories

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

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

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

(f) Impairment

(i) Financial assets

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

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

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

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

(ii) Non-financial assets

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

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

3 Significant accounting policies (continued)

(f) Impairment (continued)

(ii) Non-financial assets (continued)

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

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

(g) Employee benefits

(i) Short-term employee benefits

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

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

(ii) Defined contribution retirement plan

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

3 Significant accounting policies (continued)

(h) Provisions and contingent liabilities

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

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

(i) Revenue

(i) Sales of goods

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

(ii) Government Grants

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

(j) Lease payments

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

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

3 Significant accounting policies (continued)

(k) Net finance costs

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

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

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

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

(l) Income tax expense

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

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

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

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

3 Significant accounting policies (continued)

(m) Dividends

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

(n) Earnings per share

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

(o) Segment reporting

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

(p) Related parties

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

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

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

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

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

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

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

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

3 Significant accounting policies (continued)

(q) New standards and interpretations not yet adopted

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

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

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

4 Turnover

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

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

5 Segment reporting

The Group's turnover and operating results are almost entirely generated from the manufacture and sales of linen yarns. Accordingly, no business segment analysis is provided. In presenting the information on basis of geographical segment, segment turnover is based on the geographical location of customers. The Group's assets and liabilities are almost entirely situated in the PRC and accordingly, no analysis of segment assets, liabilities and capital expenditure is provided.

The analysis of the geographical location of the operations of the Group during the year is set out below:

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

6 Acquisition of minority interests

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

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

7 Other operating income

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

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

8 Personnel expenses

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

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

9 Profit before taxation:

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

(a) Net finance costs

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

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

(b) Other items

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

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

10 Income tax expense

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

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

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

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

(iii) The provision for PRC income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC. The applicable tax rate of the Group's operating subsidiaries in the PRC ranged from 24% to 33%.

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

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

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

10 Income tax expense (continued)

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

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

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

(c) Deferred taxation

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

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

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

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

11 Directors' remuneration

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

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

11 Directors' remuneration (continued)

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

12 Individuals with highest emoluments

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

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

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

12 Individuals with highest emoluments (continued)

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

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

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

13 Profit attributable to equity holders of the Company

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

14 Dividends

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

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

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

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

15 Basic and diluted earnings per share

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

Weighted average number of ordinary shares

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

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

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

16 Property, plant and equipment

The Group

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

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

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

17 Lease prepayments

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

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

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

18 Investments in subsidiaries

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

18 Investments in subsidiaries (continued)

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

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

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

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

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

19 Inventories

Inventories in the balance sheet comprise:

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

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

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

20 Trade and other receivables

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

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

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

20 Trade and other receivables (continued)

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

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

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

21 Pledged deposits

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

22 Cash and cash equivalents

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

22 Cash and cash equivalents (continued)

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

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

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

23 Bank loans

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

23 Bank loans (continued)

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

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

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

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

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

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

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

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

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

24 Trade and other payables

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

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

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

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

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

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

25 Share capital

Authorised:

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

Ordinary shares issued and fully paid:

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

25 Share capital (continued)

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

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

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

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

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

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

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

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

26 Reserves

(a) The Group

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

26 Reserves (continued)

Nature and purpose of the Group's reserves

(i) Share premium

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

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

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

(ii) Capital reserve

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

(iii) Merger reserve

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

26 Reserves (continued)

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

(iv) PRC statutory reserve

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

General reserve fund

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

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

Enterprise expansion fund

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

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

26 Reserves (continued)

(b) The Company

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

(i) Share premium

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

(ii) Contributed surplus

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

27 Financial instruments

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

(a) Credit risk

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

(b) Interest rate risk

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

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

(c) Foreign currency risk

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

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

27 Financial instruments (continued)

(d) Fair value

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

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

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

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

(ii) Bank loans

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

28 Operating leases commitments

Non-cancellable operating lease rentals are payable as follows:

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

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

29 Capital commitments

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

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

30 Contingent liabilities

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

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

31 Related party transactions

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

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

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

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

31 Related party transactions (continued)

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

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

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

31 Related party transactions (continued)

(b) Balances with related parties

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

(c) Transactions with key management personnel

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

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

(d) Contribution to defined contribution retirement plans

The Group participates in a defined contribution pension plan managed by PRC local government authorities for its employees employed in the PRC. The Group's contribution to these post-employment benefit plans amounted to RMB1,957,000 for the year ended 31 December 2006 (2005: RMB937,000). As at 31 December 2006 and 2005, there was no material outstanding contribution to post-employment benefit plans.

32 Accounting estimates and judgments

Key sources of estimation uncertainty are as follow:

(i) Impairment losses on trade and other receivables

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

(ii) Depreciation

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

(iii) Net realizable value of inventories

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

33 Parent and ultimate holding company

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

34 Subsequent events

(i) Dividend

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

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

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