CO-PROSPERITY HOLDINGS LIMITED
協盛協豐控股有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 707)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

The Board of Directors (the "Board") of Co-Prosperity Holdings Limited (the "Company") is pleased to present the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010, together with the comparative figures for the corresponding year in 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	NOTES	**2010** *RMB'000*	2009 *RMB'000*
Turnover	3	**525,975**	429,740
Cost of goods sold and services provided		**(424,505)**	(370,983)
Gross profit		**101,470**	58,757
Other income		**2,005**	3,409
Other expenses, gains and losses	4	**(24,385)**	(5,151)
Impairment losses recognised in respect of	5		
– prepaid lease payments		**(111,297)**	–
– property, plant and equipment		**(442,134)**	–
Distribution and selling expenses		**(6,293)**	(5,618)
Administrative expenses		**(32,176)**	(32,081)
Finance costs	6	**(16,003)**	(15,198)
(Loss) profit before taxation	7	**(528,813)**	4,118
Taxation	8	**(8,656)**	(4,495)
Loss for the year		**(537,469)**	(377)
Other comprehensive income			
– exchange differences arising on translation		**457**	74
Total comprehensive expense for the year		**(537,012)**	(303)
Loss per share	9		
– Basic		**(46.81) RMB cents**	(0.04) RMB cents

* *For identification purposes only*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	**2010** *RMB'000*	2009 *RMB'000*
Non-current assets			
Property, plant and equipment		**334,813**	754,183
Prepaid lease payments		**63,277**	174,875
Deposits made on acquisition of property, plant and equipment		**7,746**	27,433
		405,836	956,491
Current assets			
Inventories		**332,412**	205,112
Trade and other receivables	10	**202,336**	126,707
Prepaid lease payments		**1,392**	3,729
Pledged bank deposits		**–**	45,540
Bank balances and cash		**38,260**	58,995
		574,400	440,083
Current liabilities			
Trade and other payables	11	**177,444**	137,793
Amounts due to related parties		**14,124**	19,100
Derivative financial liabilities	12	**12,527**	–
Taxation		**6,699**	3,946
Mortgage loan		**543**	550
Current portion of long-term bank loans		**–**	98,221
Short-term bank loans		**320,700**	191,550
		532,037	451,160
Net current assets (liabilities)		**42,363**	(11,077)
Total assets less current liabilities		**448,199**	945,414
Non-current liabilities			
Mortgage loan		**1,271**	1,882
Government grant		**1,260**	–
		2,531	1,882
Net assets		**445,668**	943,532
Capital and reserves			
Share capital		**117,055**	107,364
Reserves		**328,613**	836,168
Total equity		**445,668**	943,532

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been prepared under the historical cost convention and in accordance with all applicable Hong Kong Financial Reporting Standards, which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS"s)

In the current year, the Group has applied the following new and revised Hong Kong Accounting Standards ("HKAS"s), amendments and interpretations ("INT"s) (hereinafter collectively referred to as "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009, except for amendment to HKAS 1, which has been early adopted in the last financial year
HKAS 27 (as revised in 2008)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Eligible hedged items
HKFRS 2 (Amendments)	Group cash-settled share based payments transactions
HKFRS 3 (as revised in 2008)	Business combinations
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners
HK – INT 5	Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause

The Group applies HKFRS 3 (Revised) "Business combinations" prospectively to business combinations for which the acquisition date is on or after 1st January, 2010. The requirements in HKAS 27 (Revised) "Consolidated and separate financial statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1st January, 2010.

As there was no transaction during the current year in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the consolidated financial information of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

Amendment to HKAS 17 "Leases"

As part of Improvements to HKFRSs issued in 2009, HKAS 17 has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as land use rights in the statement of financial position. The amendment to HKAS 17 has removed such a requirement. The amendment requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The application of the amendment HKAS 17 has had no effect on the financial statements of the Group for the current or prior accounting periods.

HK – INT 5 "Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause"

HK – INT 5 clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The application of HK – INT 5 has had no effect on the financial statements of the Group for the current or prior accounting period.

The application of the other new and revised HKFRSs had no effect on the Group's accounting policies and the consolidated financial statements.

New and revised HKFRSs issued but not effective

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[7]
HKAS 24 (as revised in 2009)	Related party disclosures[4]
HKAS 32 (Amendments)	Classification of rights issues[2]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[5]
HKFRS 9	Financial instruments[6]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a minimum funding requirement[4]
HK(IFRIC) – Int 19	Extinguishing financial liabilities with equity instruments[3]

1 Effective for annual periods beginning on or after 1st July, 2010 and 1st January, 2011, as appropriate.
2 Effective for annual periods beginning on or after 1st February, 2010.
3 Effective for annual periods beginning on or after 1st July, 2010.
4 Effective for annual periods beginning on or after 1st January, 2011.
5 Effective for annual periods beginning on or after 1st July, 2011.
6 Effective for annual periods beginning on or after 1st January, 2013.
7 Effective for annual periods beginning on or after 1st January, 2012.

HKFRS 9 "Financial instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1st January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group’s consolidated financial statements for the annual period beginning 1st January 2013. Based on the Group’s financial assets and financial liabilities as at 31st December 2010, that the application of the new standard is not expected to have significant impact on amounts reported in respect of the Groups’ financial assets and financial liabilities.

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

3. TURNOVER AND SEGMENT INFORMATION

Turnover

Turnover represents the fair value of the consideration received or receivable from third parties and is summarised as follows:

	2010	2009
	RMB'000	*RMB'000*
Sales of goods from		
– sales of finished fabrics	**248,825**	269,753
– trading of goods	**19,475**	18,701
	268,300	288,454
Manufacture and sales of high density and high-end yarns	**115,911**	32,228
Subcontracting services	**141,764**	109,058
	525,975	429,740

Segment information

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. Specifically, the Group's reportable segments under HKFRS 8 are as follows:

– Processing, printing and sales of finished fabrics

– Manufacture and sales of high density and high-end yarns

– Trading of goods: Trading of fabrics and clothing

(i) The following is an analysis of the Group's turnover and results by operating segment:

	Turnover		Results	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Processing printing and sales of finished fabrics				
– external sales	**390,589**	378,811		
– inter-segment sales*	**8,806**	10,176		
	399,395	388,987	**(125,288)**	36,237
Manufacturing and sales of high density and high-end yarns	**115,911**	32,228	**(360,255)**	(5,465)
Trading of goods	**19,475**	18,701	**(7,740)**	(6,251)
	534,781	439,916	**(493,283)**	24,521
Elimination	**(8,806)**	(10,176)	**–**	–
	525,975	429,740	**(493,283)**	24,521
Interest income			**796**	1,244
Exchange gain			**1,187**	1,271
Unallocated expenses			**(21,510)**	(7,720)
Finance costs			**(16,003)**	(15,198)
Profit before taxation			**(528,813)**	4,118

* Inter-segment sales are charged at the prevailing market rates.

Segment results represent the result of each segment without allocation of interest income, exchange gain, unallocated expenses and finance costs. This is the measure reported to the chief operating decision maker, the Board of Directors, for the purposes of resources allocation and performance assessment.

(ii) Analysis of the Group's assets and liabilities by operating segment is as follows:

	2010	2009
	RMB'000	*RMB'000*
Segment assets		
– processing, printing and sales of finished fabrics	**622,115**	759,808
– manufacture and sales of high density and high-end yarns	**302,450**	511,256
– trading of goods	**9,266**	12,643
	933,831	1,283,707
Unallocated assets	**46,405**	112,867
	980,236	1,396,574
Segment liabilities		
– processing, printing and sales of finished fabrics	**73,326**	116,968
– manufacture and sales of high density and high-end yarns	**49,143**	17,166
– trading of goods	**11,032**	1,974
	133,501	136,108
Taxation	**6,699**	3,946
Unallocated liabilities	**394,368**	312,988
	534,568	453,042

For the purposes of monitoring segment performances and allocating resources between segments by the chief operating derision maker, the Board of Directors:

- all assets are allocated to operating segments other than land and buildings in Hong Kong, certain other receivables and bank balances and cash; and

- all liabilities are allocated to operating segments other than certain other payables, amounts due to related parties, mortgage loan, bank loans and derivative financial liabilities.

(iii) Other segment information

	2010	2009
	RMB'000	*RMB'000*
Amounts included in the measure of segment results or segment assets:		
Non-current assets additions		
– processing, printing and sales of finished fabrics	**12,069**	5,090
– manufacture and sales of high density and high-end yarns	**55,110**	70,925
– trading of goods	**16**	–
	67,195	76,015
Depreciation of property, plant and equipment		
– processing, printing and sales of finished fabrics	**36,452**	42,923
– manufacture and sales of high density and high-end yarns	**7,408**	13,358
– trading of goods	**347**	508
	44,207	56,789
– unallocated	**185**	292
	44,392	57,081
Allowances for bad and doubtful debts		
– trading of goods	**6,842**	4,300
(Reverse of allowance) allowances for inventories		
– processing, printing and sales of finished fabrics	**(3,512)**	9,844

	2010	2009
	RMB'000	*RMB'000*
Impairment losses recognised in respect of property, plant and equipment		
– processing, printing and sales of finished fabrics	**173,188**	–
– manufacture and sales of high density and high-end yarns	**268,946**	–
	442,134	–
Impairment losses recognised in respect of prepaid lease payments		
– processing, printing and sales of finished fabrics	**12,068**	–
– manufacture and sales of high density and high-end yarns	**99,229**	–
	111,297	–
Obligations recognised under onerous contracts in respect of deposits made or acquisition of property, plant and equipment		
– manufacture and sales of high density and high-end yarns	**3,725**	–

(iv) Geographical information

The Group's operations are located in the PRC and overseas including Hong Kong.

The following table provides an analysis of the Group's turnover based on geographical location of customers and the Group's non-current assets by geographical location of the assets:

	Turnover		**Non-current assets**	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC	**508,169**	412,708	**397,824**	947,954
Hong Kong and overseas	**17,806**	17,032	**8,012**	8,537
	525,975	429,740	**405,836**	956,491

Information about major customers

There are no customers who individually contribute over 10% of the total sales of the Group.

4. OTHER EXPENSES, GAINS OR LOSSES

	2010	2009
	RMB'000	*RMB'000*
Allowances for bad and doubtful debts		
– trade receivables	**(3,142)**	(4,300)
– other receivables	**(3,700)**	–
	(6,842)	(4,300)
Exchange gain	**1,187**	1,271
loss in fair value change of derivative financial liabilities	**(2,242)**	–
Loss on entering an agreement of convertible bonds	**(10,285)**	–
Obligations under onerous contracts	**(3,725)**	–
Research and development costs	**(2,478)**	(2,122)
	(24,385)	(5,151)

5. IMPAIRMENT LOSSES

During the year, the Group's operating cash flows were deteriorating due to the market has not yet recovered comparing with what the directors expected. The directors of the Company considered this was an impairment indicator. Thus, the directors of the Company conducted a review of the Group's property, plant and equipment, prepaid lease payments, and deposits made on acquisition of property, plant and equipment and determined that they were impaired. Accordingly, with reference to the valuation reports (the "Valuation Reports") issued by an independent external valuer, American Appraisal China Limited, the directors have made impairment losses of RMB442,134,000, RMB111,297,000 and RMB3,725,000 in respect of property, plant and equipment, prepaid lease payments, and deposits made on acquisition of property, plant and equipment respectively. The impairment losses are recognised for the cash-generating units ("CGUs") for which the recoverable amounts are less than the carrying amounts. The recoverable amounts of the relevant assets are the higher of their fair value less costs to sell and their value in use. There are totally six CGUs under the impairment assessment. The impairment losses for one CGU are based on fair value less costs to sell, while the impairment losses for other five CGUs are based on value in use.

During the year, for the five CGUs based on value in use, the Group performed impairment review for the CGUs based on cash flow forecast derived from the respective most recent financial budget approved by management and the projected periods ranged from 3.5 to 18.5 years for respective CGUs. The cash flow forecast is using a discount rate of 9.5% which reflects the return on assets and the risks specific to the CGUs. In light of the intensive competition and uncertain outlook for market, the growth rates remain flat and gross profit margins ranged from 8.3% to 25.6%. These growth rates and gross profit margins are based on the best estimates by the directors of the Company.

6. FINANCE COSTS

	2010 *RMB'000*	2009 *RMB'000*
Interest on bank borrowings wholly repayable within five years	**(15,403)**	(14,576)
Amortised transaction costs in relation to long-term bank loans	**(600)**	(622)
	(16,003)	(15,198)

7. (LOSS) PROFIT BEFORE TAXATION

	2010 *RMB'000*	2009 *RMB'000*
(Loss) profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	**44,392**	57,081
Less: Depreciation included in research and development costs	**(566)**	(478)
	43,826	56,603
Operating lease rentals in respect of		
– prepaid lease payments	**2,638**	3,729
– rented premises	**405**	101
and after crediting:		
Amortisation of government grant	**140**	–
Government rewards and subsidies*	**1,020**	2,053
Interest income	**796**	1,244

* The government rewards and subsidies provided by the PRC government to the Group were paid mainly as an incentive for energy saving and product development achievements made by the Group. There are no conditions and contingencies attached to the receipt of the government subsidies and they are non-recurring in nature.

8. TAXATION

The charge represents PRC income tax calculated at the rates prevailing in the PRC jurisdiction. No provision for Hong Kong Profits Tax has been made in the financial statements as the Group's operations in Hong Kong has no assessable profit for the year.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group are entitled to exemption from PRC income tax for the two years commencing from their first profit making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years. There are three PRC subsidiaries entitled to this exemption which commenced in 2008. For the subsidiaries under this exemption, such exemption is still applicable under the transitional arrangement of the Enterprise Income Tax ("EIT") Law.

At the end of the reporting period, the Group has deductible temporary differences of RMB619,489,000 (2009: RMB57,905,000). No deferred tax asset has been recognised in relating to deductible temporary difference because it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. Deferred taxation has not been provided for in the financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries amounting to RMB154,134,000 (2009: RMB116,469,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

9. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the consolidated loss for the year attributable to owners of the Company of RMB537,469,000 (2009: RMB377,000) and the weighted average number of 1,148,294,521 (2009: 967,115,068) ordinary shares in issue during the year.

No diluted loss per share is presented as there were no potential ordinary shares in issue during both years.

10. TRADE AND OTHER RECEIVABLES

	2010	2009
	RMB'000	*RMB'000*
Trade receivables	**30,040**	21,365
Deposits paid to suppliers	**108,097**	102,386
Advances to third parties*	**51,000**	–
Value-added tax recoverable	**11,291**	923
Other receivables and prepayments	**1,908**	2,033
	202,336	126,707

* The advances are unsecured, interest-free and are repayable on demand.

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable by 90 days of issuance.

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	2010	2009
	RMB'000	*RMB'000*
Age		
0 to 90 days	**25,865**	16,272
91 to 180 days	**2,551**	2,515
181 to 270 days	**1,584**	919
271 to 365 days	**40**	191
Over 365 days	**–**	1,468
	30,040	21,365

Management closely monitors the credit quality of trade and other receivables and considers trade and other receivables that are neither past due nor impaired to be of a good credit quality.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB4,175,000 (2009: RMB5,093,000) which are past due at the reporting date for which the Group has not provided for allowance. The Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables which are past due but not impaired:

	2010	2009
	RMB'000	*RMB'000*
Age		
91 to 180 days	**2,551**	2,515
181 to 270 days	**1,584**	919
271 to 365 days	**40**	191
Over 365 days	**–**	1,468
	4,175	5,093

The Group has provided for specific receivables over 365 days (2009: 365 days).

Movement in the allowances for bad and doubtful debts

	2010	2009
	RMB'000	*RMB'000*
At 1st January	**4,300**	–
Allowances made during the year		
– trade receivables	**3,142**	4,300
– other receivables	**3,700**	–
At 31st December	**11,142**	4,300

Included in the allowances for bad and doubtful debts are individually impaired trade and other receivables with an aggregate balance of RMB11,142,000 (2009: RMB4,300,000), which have been overdued for a long time and are impaired in current year. The Group does not hold any collateral over these balances.

11. TRADE AND OTHER PAYABLES

	2010	2009
	RMB'000	*RMB'000*
Trade payables	**38,133**	27,295
Bills payables		
– secured	**8,245**	45,540
– unsecured	**–**	17,160
	46,378	89,995
Customers' deposits	**77,151**	27,978
Payables for acquisition of property, plant and equipment	**1,783**	109
Obligations under onerous contracts for acquisition of property, plant and equipment	**3,725**	–
Advances from third parties*	**42,480**	14,100
Other payables and accruals	**5,927**	5,611
	177,444	137,793

* The advances are unsecured and interest-free. Other than the balance as at 31st December, 2009 which has been fully repaid during the year, the remaining balance as at 31st December, 2010 is due for repayment in September 2011 and was converted into convertible bonds in January 2011 (see note 13).

The credit period on purchase of goods are normally from 90 days to 180 days. The Group has financial risk management policies in place to monitor that all payables are within their credit timeframe.

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	2010	2009
	RMB'000	*RMB'000*
Age		
0 to 90 days	**25,878**	50,146
91 to 180 days	**11,656**	31,157
181 to 270 days	**4,094**	4,184
271 to 365 days	**2,628**	1,591
Over 365 days	**2,122**	2,917
	46,378	89,995

12. DERIVATIVE FINANCIAL LIABILITIES

On 20th December, 2010, the Company and two subscribers entered into a subscription agreement for the issue of convertible bonds (the "Subscription Agreement") in the aggregate principal amount of HK$50,000,000 at its face value. The convertible bonds are denominated in Hong Kong dollars and are unsecured. The convertible bonds entitle the holders to convert them into ordinary shares of the Company at any time between the date of issue of the bonds from 14th January, 2011, the date of issue, to their maturity date on 13th January, 2013 at an initial conversion price of HK$0.27 per ordinary share. If the convertible bonds have not been converted, they will be redeemed on 13th January, 2013 at par. Interest of 1% per annum will be paid once upon the maturity date.

On 20th December, 2010, there was a loss on entering the agreement of convertible bonds amounting RMB10,285,000. The loss is mainly attributable to the intrinsic value of the conversion option as at the date of the agreement being the difference between the conversion price of HK$0.27 per ordinary share and the market price of HK$0.32 per ordinary share on 20th December, 2010.

As at 31st December, 2010, the Subscription Agreement constitutes a forward contract within the scope of HKAS 39 financial instruments recognition and measurement. The forward contract is measured at fair value with changes in fair value recognised in profit or loss.

The movement of the derivative financial liabilities for the year is set out as below:

		Shown as
	HK$'000	*RMB'000*
Loss arising on change of fair value	2,639	2,242
Loss on entering an agreement of convertible bonds	12,105	10,285
Balance as at 31st December, 2010	14,744	12,527

The fair values of the forward contract at 20th December, 2010 and 31st December, 2010 was valued by American Apprisal China Limited, an independent qualified valuer not connected to the Group. The valuations of the conversion option were arrived at by the Binomial Model.

13. EVENT AFTER THE REPORTING PERIOD

On 14th January, 2011, the Company issued the convertible bonds (see note 12) to settle the advances from third parties. The convertible bonds contain two components, liability component and derivative component. The fair value of the convertible bonds is HK$60,183,000 (RMB51,131,000), and a gain in fair value of the derivative financial liabilities of HK$4,561,000 (RMB3,875,000) is recognised in profit or loss on 14th January, 2011. The fair values of the conversion option at 14th January, 2011 were valued by American Apprisal China Limited. The valuations were arrived at by the Binomial Model.

BUSINESS REVIEW

The tough operating environment continued to affect the business performance of the Group for 2010 as a whole. The overall results of the Group sank into the red, which was mainly caused by the provision recognised in respect of obligations under onerous contracts for the acquisition of property, plant and equipment and the impairment losses recognised in respect of prepaid lease payments and property, plant and equipment of certain of the Group's business units in line with relevant accounting regulations. Nevertheless, all such impairments are non-cash in nature and will not have any impact on the overall cash flow position of the Group.

In order to strengthen the capital base of the Group, on 9 March 2010, arrangements were made that 110,000,000 ordinary shares of HK$0.10 each at a price of HK$0.41 per share were placed by Famepower Limited ("Famepower"), the controlling shareholder of the Company to investors whereas 110,000,000 ordinary shares of HK$0.10 each at a price of HK$0.41 per share were subscribed by Famepower. In addition, on 20 December 2010, the Company and two subscribers entered into subscription agreements in respect of the issue of the convertible bonds in the aggregate principal amount of HK$50,000,000 at its face value. The convertible bonds are denominated in Hong Kong dollars and unsecured. The convertible bonds entitle the bondholders to convert them into ordinary shares of the Company at any time between 14 January 2011 ("the issue date") to 13 January 2013 ("the maturity date") at an initial conversion price of HK$0.27 per ordinary share, subject to adjustment for, among other matters, subdivision or consolidation of shares and other dilutive events (which are the standard anti-dilution adjustment). If the convertible bonds have not been converted on or before the maturity date, they will be redeemed at par upon the maturity date. Besides, the Company is entitled, at its sole discretion, to redeem any amount of the outstanding convertible bonds before the maturity date at par inclusive of interest accrued. On the other hand, the bondholders are not entitled to request early redemption. The convertible bonds carry an interest of 1% per annum and the interest is payable once upon the maturity date. The success of both fund raisings wholly underscored the investors' and subscribers' confidence in the development potential of the Group.

OPERATIONAL AND FINANCIAL REVIEW

In 2010, the Group is principally engaged in the sale of finished fabrics ("fabrics sales business'), the provision of fabrics processing subcontracting services ("processing business"), the trading of goods ("trading business") and the manufacture and sale of high density and high-end yarns ("yarn business") to customers.

The Group's total turnover increased by 22.4% to approximately RMB526.0 million for the year (2009: RMB429.7 million). During the year, the revenue from processing business and trading business rose whereas those from fabrics sales business fell. Yarn business commenced its operation in March 2009 and made its first full-year sales contribution in 2010. Higher average unit selling price was achieved for both yarn business and fabrics sales business. Lower average unit selling price was registered for processing business.

The Group registered a gross profit of approximately RMB101.5 million for the year (2009: RMB58.8 million), representing a surge of approximately 72.7% as compared with last year. The Group's overall gross profit margin for the year was approximately 19.3% (2009: 13.7%). During the year, the gross profit margin from yarn business, fabrics sales business and trading business rose whereas that from processing business fell. Much sophisticated mastery of its technology and being more recognized in the market in its second year of operation led to the higher gross profit margin of yarn business in 2010. The enhancement in sales mix with higher margins during the year resulted in the rise in gross profit margin for both fabrics sales business and trading business. For processing business, the soaring manufacturing costs erode the margins and caused the decline in its gross profit margin.

Other income decreased by 41.2% to approximately RMB2.0 million (2009: RMB3.4 million) which primarily comprised government grant and rewards of RMB1.2 million and an interest income of RMB 0.8 million. Other expenses, gains and losses was further down by 3.73 times to net loss of RMB24.4 million (2009: net loss of RMB5.2 million), which was the net aggregate of allowances for bad and doubtful debts of RMB6.8 million, exchange gain of RMB1.2 million, loss in fair value change of derivative financial liabilities of RMB2.3 million, loss on entering an agreement of convertible bonds of RMB10.3 million, obligations under onerous contracts of RMB3.7 million and research and development costs of RMB2.5 million. During the year, impairment losses of RMB111.3 million (2009: nil) in respect of prepaid lease payments and RMB442.1 million (2009: nil) in respect of property, plant and equipment were respectively recognized.

Distribution and selling expenses rose by 12.0% to approximately RMB6.3 million (2009: RMB5.6 million). Administrative expenses were up by 0.3% to approximately RMB32.2 million (2009: RMB32.1 million). Finance costs for the year increased by 5.3% to RMB16.0 million (2009: RMB15.2 million).

FUTURE PROSPECTS

Large-scale fiscal and monetary policies rolled out by governments in major economies have favoured the gradual recovery of worldwide economy and the return of consumer confidence. However, the prevailing global economic condition has remained complicated and is indeed full of uncertainties. Among others, the volatility of global commodity prices, the development of Euro zone sovereign debt crisis, the possible adverse change in the current low interest rate environment and the stability of Renminbi exchange rate are areas to look out in the coming days.

In the face of the current challenging economic environment, the Group will continue to adhere to its proactive yet prudent operating strategy. It will remain committed on its sustainable long-term growth and continue to allocate its resources with great caution. Besides, it will maintain its vigilance on cost control measures and production efficiency whilst strive to broaden its customer base and enhance its products.

Looking into the rest of 2011, the Group see opportunities as well as challenges in the market. The Group will endeavour to solidify its revenue base and beef up its profitability. With its solid foundation and the dedicated efforts of its entire staff team, the Group is well-positioned to tackle the upcoming challenges and seize the opportunities ahead. The Board is fully confident and optimistic about the Group's future growth and outlook.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group had total assets of approximately RMB980.2 million (2009: RMB1,396.6 million) which were financed by current liabilities of approximately RMB532.0 million (2009: RMB451.2 million), non-current liabilities of approximately RMB2.5 million (2009: RMB1.9 million) and shareholders' equity of approximately RMB445.7 million (2009: RMB943.5 million).

As at 31 December 2010, the Group's cash and bank balances was approximately RMB38.3 million (2009: RMB59.0 million), while pledged bank deposits amounted to nil (2009: RMB45.5 million). As at 31 December 2010, the mortgage loan was variable-rate loans and was denominated in Hong Kong dollars whereas the short-term bank loans were fixed-rate loans and were denominated in Renminbi.

The Group maintained a healthy liquidity position. The current ratio, being a ratio of total current assets to total current liabilities, was approximately 1.1 (2009: 1.0). The gearing ratio, being a ratio of borrowings (comprising mortgage loan and short-term and long-term bank loans) to shareholders' equity, was 72.4% (2009: 31.0%). The Group always adopted a conservative approach in its financial management.

CHARGES ON GROUP ASSETS

As at 31 December 2010, the Group's borrowings were secured by assets with a total carrying value of approximately RMB187.5 million (2009: RMB175.8 million).

CAPITAL EXPENDITURES

As at 31 December 2010, the Group has capital commitments of approximately RMB0.5 million (2009: RMB21.8 million) in respect of purchases of property, plant and equipment.

CONTINGENT LIABILITIES AND EXCHANGE RISK EXPOSURE

As at 31 December 2010, the Group did not have any significant contingent liabilities (2009: Nil).

The Group's operations, sales and purchases were mainly denominated in Renminbi. The Group does not foresee significant risk in exchange rate fluctuations and no financial instruments have been used for hedging purposes. The Group will consider to have forward exchange contract for hedging purposes if and when appropriate.

EMPLOYMENT

As at 31 December 2010, the Group had about 2,000 employees (2009: 1,500 employees) in Hong Kong and in the PRC.

Remuneration packages for the employees are maintained at a competitive level of the jurisdiction within which the employees are employed to attract, retain and motivate the employees and are reviewed periodically.

In addition, the Group maintains a share option scheme for the purpose of providing incentives and rewards to the eligible participants for their contributions to the Group.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

On 9 March 2010, a placing agreement was entered into, under which 110,000,000 ordinary shares of HK$0.10 each at a price of HK$0.41 per share were privately placed to investors by Famepower Limited ("Famepower"), the controlling shareholder of the Company, through a placing agent. The price of HK$0.41 per share represents a discount of approximately 7.87% to the closing price of HK$0.445 per share as quoted on the Stock Exchange on 8 March 2010, being the last trading date prior to the entering into the placing agreement. On the same date, the Company entered into a subscription agreement with Famepower for the subscription of 110,000,000 new ordinary shares of HK$0.10 each at a price of HK$0.41 per share. The subscription price is equivalent to the aforesaid placing price. After deducting all costs and expenses borne by the Company, the net proceeds from the subscription were approximately HK$44.4 million, which translated into net subscription price of approximately HK$0.40 per ordinary share. The aforesaid placing represented an opportunity to raise capital for the Group and the Company applied the net proceeds from the subscription for the repayment of bank loans of the Group and for general working capital purpose.

On 20 December 2010, the Company and two subscribers, namely Mr. Ma Ki Hung and Mr. Choi Kam Long, entered into subscription agreements in respect of the issue of the convertible bonds in the aggregate principal amount of HK$50,000,000 at its face value. The convertible bonds are denominated in Hong Kong dollars and unsecured. The convertible bonds entitled the bondholders to convert them into ordinary shares of the Company at any time between 14 January 2011 ("the issue date") to 13 January 2013 ("the maturity date") at an initial conversion price of HK$0.27 per ordinary share, subject to adjustment for, among other matters, subdivision or consolidation of shares and other dilutive events (which are the standard anti-dilution adjustment). The initial conversion price of HK$0.27 per ordinary share represented a discount of approximately 15.63% to the closing price of HK$0.32 per ordinary share as quoted on the Stock Exchange on 20 December 2010, being the date of entering into the subscription agreements. Based on the initial conversion price of HK$0.27 per ordinary share, a maximum number of 185,185,184 ordinary shares will be allotted and issued upon exercise of the conversion rights attached to the convertible bonds in full. If the convertible bonds have not been converted on or before the maturity date, they will be redeemed at par upon the maturity date. Besides, the Company is entitled, at its sole discretion, to redeem any amount of the outstanding convertible bonds before the maturity date at par inclusive of interest accrued. On the other hand, the bondholders are not entitled to request early redemption. The convertible bonds carry an interest of 1% per annum and the interest is payable once upon their maturity date. After deducting the expenses relating to the subscription, the net proceeds from the subscription were approximately HK$49.8 million, which translated into net conversion price of approximately HK$0.269 per ordinary share. The issue of the convertible bonds represented an opportunity for the Company to strengthen its capital base and the net proceeds from the subscription had been earlier received from the subscribers in the form of loan and had been used for the repayment of bank loans of the Group.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year.

DIVIDEND

The Board does not recommend any payment of final dividend (2009: Nil) for the year.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 23 May 2011 to Friday, 27 May 2011 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrar in Hong Kong, Tricor Investor Services Limited, not later than 4:30 p.m. on Friday, 20 May 2011. Tricor Investor Services Limited is located at 26th Floor, Tesbury Centre, 28 Queen's Road East,Wanchai, Hong Kong.

DIRECTORS' COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the period and they all confirmed having fully complied with the required standard set out in the Model Code.

CORPORATE GOVERNANCE

The Directors are in the opinion that the Company has complied with the Code on Corporate Governance Practices as set out in appendix 14 of the Listing Rules throughout the year ended 31 December 2010.

REVIEW OF ACCOUNTS

This financial results including the accounting principles and practices adopted by the Group have been reviewed and approved by the Audit Committee.

By order of the Board
Co-Prosperity Holdings Limited
Sze Siu Hung
Chairman

Hong Kong, 29 March 2011

As at the date of this announcement, Mr. Sze Siu Hung, Mr. Qiu Fengshou, Madam Cai Peilei and Mr. Sze Chin Pang are the executive Directors; and Professor Zeng Qingfu, Professor Zhao Bei and Mr. Lui Siu Keung are the independent non-executive Directors.