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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2011

The Board of Directors (the "Board") of Co-Prosperity Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries for the six months ended 30 June, 2011. The interim results have been reviewed by the audit committee of the Company.

This announcement, which contains the full text of the 2011 Interim Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of interim results. The printed version of the Company's 2011 Interim Report will be despatched to the shareholders of the Company and available for viewing on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the designated website of the Company at www.capitalfp.com.hk/eng/index.jsp?co=707 in due course.

* For identification purpose only



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Interim Report **2011**

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MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2011 (the “period”), the Group is principally engaged in the sale of finished fabrics and provision of fabrics processing subcontracting services (“fabrics business”), the trading of goods (“trading business”) and the manufacture and sales of high density and high-end yarns (“yarn business”) to customers.

Operational and Financial Review

The first half of 2011 continued to see various uncertainties and volatilities in the global economy. Anxieties over the deepening of sovereign debt crisis in Europe, the potential debt problems and the risk of economy slowdown of the United States, the economic impact of the earthquakes and tsunamis in Japan and the rising inflationary pressures all plague the prevailing global economic conditions.

In spite of the these challenges, the Group’s overall profit and loss position successfully returned to positive territory in the period. Such an improvement in results performance arose because: (1) higher gross profit and a gain in the fair value in relation to convertible bonds (comprising a gain in fair value of derivative financial liabilities and a gain in fair value of derivative component of convertible bonds) were posted in the period and (2) impairment losses in respect of property, plant and equipment and prepaid lease payments and a provision in respect of onerous contracts for the acquisition of property, plant and equipment were recognised in the corresponding period in 2010 whereas neither such impairment losses nor such a provision was registered in the period.

In addition, with a view to widen its potential shareholder base over the long term, the Group completed the issue of convertible bonds in the aggregate principal amount of HK\$50,000,000 at its face value on 14 January 2011 to two investors. The bondholders’ investment in the Group’s convertible bonds fully demonstrated their confidence in the development potential of the Group.

The Group's turnover increased by 38.9% to RMB297.8 million (2010: RMB214.4 million). Sales from fabrics business and yarn business grew whereas that from trading business declined.

The Group registered a gross profit of around RMB47.2 million (2010: RMB24.0 million), representing an increase of around 96.7% as compared with the corresponding period last year. Fabrics business, trading business and yarn business all posted positive gross profit margins in the first half of 2011. During the period, whilst the gross profit margin from both fabrics business and trading business improved, the yarn business successfully made a turnaround to gross profit position from the gross loss position in the corresponding period last year.

Other income decreased by 78.9% to approximately RMB0.3 million (2010: RMB1.5 million), which was principally composed of government rewards and subsidies of RMB0.1 million, government grant of RMB0.1 million and an interest income of RMB0.1 million. Other expenses, gains and losses was further down by 42.4% to net loss of around RMB5.2 million (2010: net loss of RMB3.7 million), which comprised research and development costs of RMB1.5 million, allowances for doubtful debts of RMB3.0 million and exchange loss of RMB0.7 million. During the period, in relation to convertible bonds, a gain in fair value of derivative financial liabilities amounting to RMB3.8 million (2010: nil) and a gain in fair value of derivative component of convertible bonds amounting to RMB7.6 million (2010: nil) were posted. The increased marketing efforts throughout the period caused the distribution and selling expenses to rise by 58.4% to RMB4.5 million (2010: RMB2.8 million). Administrative expenses recorded an increase of 7.1% to RMB17.8 million (2010: RMB16.6 million). Finance costs increased by 45.7% to RMB11.5 million (2010: RMB7.9 million), mainly as a result of the higher level of PRC lending interest rate and the effects of imputed interest expenses of the liability component of convertible bonds during the period.

Market Outlook and Future Prospects

Currently, the visibility of the future directions of the global economy is still low. All in all, it is still hard to predict when the global economy will be out of the woods. Such an acute operating environment will continue to overcast the whole textile industry in the days ahead. The Group remains cautious about the second half of 2011.

Looking forward, the Group will continue to remain cool-headed and to steer its businesses in a prudent and pragmatic manner. With its dedicated management and staff, the Group is well-positioned to ride through the current uncertain economic times and to react proactively to future challenges. The Board believes the Group's solid foundation and the committed focus of its management team will underpin its performance in the long run and position it well to benefit from the ultimate recovery of the market. The Board is fully confident and optimistic about the Group's future outlook.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, the Group had total assets of approximately RMB959.3 million (As at 31 December 2010: RMB980.2 million) which were financed by current liabilities of approximately RMB448.2 million (As at 31 December 2010: RMB532.0 million), non-current liabilities of approximately RMB46.2 million (As at 31 December 2010: RMB2.5 million) and shareholders' equity of approximately RMB464.9 million (As at 31 December 2010: RMB445.7 million).

As at 30 June 2011, the Group's cash and bank balances was approximately RMB45.3 million (As at 31 December 2010: RMB38.3 million), while pledged bank deposits amounted to approximately RMB10.5 million (As at 31 December 2010: nil). As at 30 June 2011, the mortgage loan was variable-rate loan and was denominated in Hong Kong dollars. The short-term bank loans were fixed-rate loans and were denominated in Renminbi. The liability component of convertible bonds was fixed-rate loan and was denominated in Hong Kong dollars. As at 30 June 2011, the Group's borrowings were secured by land use rights, certain of property, plant and equipment and certain bank deposits of the Group.

The Group maintained a healthy liquidity position. The current ratio, being a ratio of total current assets to total current liabilities, was approximately 1.3 (As at 31 December 2010: 1.1). The gearing ratio, being a ratio of borrowings (comprising mortgage loan, short-term bank loans and liability component of convertible bonds) to shareholders' equity, increased to approximately 75.9% (As at 31 December 2010: 72.4%). The Group has always been adopting a conservative approach in its financial management.

CAPITAL EXPENDITURES

As at 30 June 2011, the Group has capital commitments of approximately RMB0.8 million in respect of purchases of property, plant and equipment (As at 31 December 2010: RMB0.5 million).

CONTINGENT LIABILITIES AND EXCHANGE RISK EXPOSURE

As at 30 June 2011, the Group did not have any significant contingent liabilities (As at 31 December 2010: 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 instrument has been used for hedging purposes. The Group will consider holding forward exchange contract for hedging purposes if and when appropriate.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS

The Group has no significant investment held and has not been involved in any material acquisitions or disposals of subsidiaries and associated companies during the period.

EMPLOYMENT

As at 30 June 2011, the Group had about 1,800 employees in Hong Kong and in the PRC (As at 31 December 2010: 2,000 employees). 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. Remuneration packages will be 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 contribution to the Group.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the six months ended 30 June 2011*

	NOTES	1.1.2011 to 30.6.2011 RMB'000 (unaudited)	1.1.2010 to 30.6.2010 RMB'000 (unaudited)
Turnover	3	297,763	214,352
Cost of goods sold and services provided		(250,550)	(190,345)
Gross profit		47,213	24,007
Other income		317	1,503
Other expenses, gains and losses		(5,237)	(3,677)
Gain in fair value of derivative financial liabilities	11	3,832	–
Gain in fair value of derivative component of convertible bonds	12	7,591	–
Provision recognised in respect of onerous contracts		–	(28,663)
Impairment losses recognised in respect of			
– property, plant and equipment		–	(417,196)
– prepaid lease payments		–	(111,297)
Distribution and selling expenses		(4,485)	(2,832)
Administrative expenses		(17,796)	(16,623)
Finance costs		(11,460)	(7,864)
Profit (loss) before taxation	4	19,975	(562,642)
Taxation	5	(2,678)	(4,077)
Profit (loss) for the period		17,297	(566,719)
Other comprehensive income			
– exchange differences arising on translation		1,886	117
Total comprehensive income (expense) for the period		19,183	(566,602)
Earnings (loss) per share	6		
– Basic		1.5 RMB cents	(50.4) RMB cents
– Diluted		1.4 RMB cents	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*AT 30 June 2011*

	NOTES	30.6.2011 RMB'000 (unaudited)	31.12.2010 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	7	322,850	334,813
Prepaid lease payments		62,581	63,277
Deposits made on acquisition of property, plant and equipment		5,421	7,746
		390,852	405,836
Current assets			
Inventories		353,590	332,412
Trade and other receivables	8	157,629	202,336
Prepaid lease payments		1,392	1,392
Pledged bank deposits		10,530	–
Bank balances and cash		45,334	38,260
		568,475	574,400
Current liabilities			
Trade and other payables	9	116,827	177,444
Amounts due to related parties	10	11,154	14,124
Derivative financial liabilities	11	–	12,527
Taxation		4,731	6,699
Mortgage loan		537	543
Short-term bank loans		315,000	320,700
		448,249	532,037
Net current assets		120,226	42,363
Total assets less current liabilities		511,078	448,199

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

AT 30 June 2011

	NOTES	30.6.2011 RMB'000 (unaudited)	31.12.2010 RMB'000 (audited)
Non-current liabilities			
Government grant		1,190	1,260
Mortgage loan		972	1,271
Convertible bonds	12	43,873	–
Accruals		192	–
		46,227	2,531
Net assets		464,851	445,668
Capital and reserves			
Share capital		117,055	117,055
Reserves		347,796	328,613
Total equity		464,851	445,668

The interim financial information on pages 6 to 22 was approved and authorised for issue by the Board of Directors on 30 August 2011 and are signed on its behalf by:

MR. SZE SIU HUNG
CHAIRMAN

MR. SZE CHIN PANG
EXECUTIVE DIRECTOR

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 June 2011*

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Translation reserve RMB'000	Statutory surplus reserve fund RMB'000	Retained profits (deficit) RMB'000	Total RMB'000
At 1 January 2011	117,055	301,107	98,731	2,433	95,297	(168,955)	445,668
Profit for the period	-	-	-	-	-	17,297	17,297
Exchange differences arising on translation	-	-	-	1,886	-	-	1,886
Total comprehensive income for the period	-	-	-	1,886	-	17,297	19,183
At 30 June 2011 (unaudited)	<u>117,055</u>	<u>301,107</u>	<u>98,731</u>	<u>4,319</u>	<u>95,297</u>	<u>(151,658)</u>	<u>464,851</u>
At 1 January 2010	107,364	271,650	98,731	1,976	87,764	376,047	943,532
Loss for the period	-	-	-	-	-	(566,719)	(566,719)
Exchange differences arising on translation	-	-	-	117	-	-	117
Total comprehensive expense for the period	-	-	-	117	-	(566,719)	(566,602)
Issue of shares	9,691	30,042	-	-	-	-	39,733
Expenses incurred in connection with the issue of shares	-	(585)	-	-	-	-	(585)
	<u>9,691</u>	<u>29,457</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,148</u>
At 30 June 2010 (unaudited)	<u>117,055</u>	<u>301,107</u>	<u>98,731</u>	<u>2,093</u>	<u>87,764</u>	<u>(190,672)</u>	<u>416,078</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY **(Continued)**

The special reserve represents the differences between the nominal amount of the shares issued by the Company and the Group's former holding company and the aggregate amount of paid-up capital of the subsidiaries acquired pursuant to the group reorganisation in 2005 in preparation for the listing of the Company's shares, net of subsequent distribution to shareholders.

As stipulated by the relevant laws and regulations for foreign investment enterprises in Mainland China (the "PRC"), the Company's PRC subsidiaries are required to maintain a statutory surplus reserve fund which is non-distributable. Appropriation to such reserve is made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries while the amounts and allocation basis are decided by their board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of a capitalisation issue.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2011*

	1.1.2011 to 30.6.2011 RMB'000 (unaudited)	1.1.2010 to 30.6.2010 RMB'000 (unaudited)
Net cash from operating activities	38,090	(54,148)
Investing activities		
Purchase of property, plant and equipment	(1,180)	(24,764)
Decrease (increase) in pledged bank deposits	(10,530)	17,755
Other investing cash flows	(466)	(9,622)
Net cash used in investing activities	(12,176)	(16,631)
Financing activities		
Interest paid	(9,854)	(7,548)
Proceeds from issue of shares	–	39,733
Expenses paid in connection with the issue of new shares	–	(585)
Bank loans raised	162,450	188,650
Repayment of bank loans	(168,150)	(158,525)
Other financing cash flows	(3,275)	(6,391)
Net cash used in financing activities	(18,829)	55,334
Net increase (decrease) in cash and cash equivalents	7,085	(15,445)
Cash and cash equivalents at 1 January	38,260	58,995
Effect of foreign exchange rate changes	(11)	(3)
Cash and cash equivalents at 30 June	45,334	43,547
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	45,334	43,547

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2011

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability under the Companies Law of the Cayman Islands and acts as an investment holding company. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2010.

The condensed consolidated financial statements has been prepared under the historical cost convention. The principal accounting policies adopted in the condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2010, except for the adoption of the new or revised standards, amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA which are mandatory for annual periods beginning 1 January 2011 and relevant to the operations of the Group. The adoption of these new HKFRSs had no material effect to the Group's results and financial position for the current and prior accounting periods.

The Group has not early applied any new HKFRSs that have been issued but are not yet effective. The Group is in the process of assessing the impact of such new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results and financial position.

3. SEGMENT INFORMATION

The Group is organised into three operating divisions, namely processing, printing and sales of finished fabrics, manufacture and sales of high density and high-end yarns and trading of goods. The aforesaid three divisions are the basis on which the Group reports its segment information.

The Group's operating 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

The following is an analysis of the Group's turnover and results by operating segment for the period under review:

Information regarding these segments is presented below.

	Turnover		Results	
	1.1.2011 to 30.6.2011 RMB'000 (unaudited)	1.1.2010 to 30.6.2010 RMB'000 (unaudited)	1.1.2011 to 30.6.2011 RMB'000 (unaudited)	1.1.2010 to 30.6.2010 RMB'000 (unaudited)
Processing, printing and sales of finished fabrics				
– external sales	187,228	172,716		
– inter-segment sales	309	1,726		
	<u>187,537</u>	<u>174,442</u>	15,376	(165,863)
Manufacture and sales of high density and high-end yarns	106,002	35,606	10,046	(382,583)
Trading of goods	4,533	6,030	(2,541)	(3,621)
	<u>298,072</u>	<u>216,078</u>	<u>22,881</u>	<u>(552,067)</u>
Elimination	(309)	(1,726)	–	–
	<u>297,763</u>	<u>214,352</u>	22,881	(552,067)
Interest income			91	466
Gain in fair value of derivative financial liabilities			3,832	–
Gain in fair value of derivative component of convertible bonds			7,591	–
Unallocated corporate expenses			(2,960)	(3,177)
Finance costs			(11,460)	(7,864)
			<u>19,975</u>	<u>(562,642)</u>
Profit (loss) before taxation				

Segment results represent the result of each segment without allocation of interest income, gain in fair value of derivative financial liabilities, gain in fair value of derivative component of convertible bonds, unallocated corporate expenses and finance costs. This is the measure reported to the chief operating decision maker, the Board of Directors, for the purposes of resource allocation and performance assessment.

4. PROFIT (LOSS) BEFORE TAXATION

	1.1.2011 to 30.6.2011 RMB'000 (unaudited)	1.1.2010 to 30.6.2010 RMB'000 (unaudited)
Profit (loss) before taxation has been arrived at after charging:		
Depreciation on property, plant and equipment – owned by the Group	15,866	33,501
Less: Depreciation included in research and development costs	(380)	(258)
	<u>15,486</u>	<u>33,243</u>
Operating lease rentals in respect of prepaid lease payments	696	1,864
Imputed interest expenses of the liability component of convertible bonds	1,606	–
Cost of inventories recognised as expenses (including net allowances for inventories amounting to RMB3,038,000 (2010: RMB7,300,000))	250,550	190,345
Allowance for doubtful debts – trade receivables	1,034	2,895
– other receivables	2,000	–
	<u><u>255,476</u></u>	<u><u>228,343</u></u>

5. TAXATION

The charge represents Mainland China (the “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 had no assessable profit for the period.

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 (collectively referred to as “exemption”). There are three PRC subsidiaries entitled to the exemption which commenced in 2008. For the subsidiaries under the exemption, such exemption is still applicable under the transitional arrangement of the PRC Law on Enterprise Income Tax.

At the end of the period, the Group has deductible temporary differences of RMB610,142,000 (31 December 2010: RMB619,489,000). 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 1 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 RMB 166,063,000 (31 December 2010: RMB154,134,000) 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.

6. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to ordinary equity shareholders of the Company is based on the following data:

	1.1.2011 to 30.6.2011 RMB'000 (unaudited)	1.1.2010 to 30.6.2010 RMB'000 (unaudited)
<u>Earnings (loss)</u>		
Earnings (loss) for the purpose of basic earnings (loss) per share	17,297	(566,719)
Effect of dilutive potential ordinary shares arising from:		
– Interest on convertible bonds	1,205	–
– Other net gains in relation to convertible bonds	659	–
– currency realignment of convertible bonds	(382)	–
Earnings (loss) for the purpose of diluted earnings (loss) per share	<u>18,779</u>	<u>(566,719)</u>
	1.1.2011 to 30.6.2011 (unaudited)	1.1.2010 to 30.6.2010 (unaudited)
<u>Number of shares</u>		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	1,171,500,000	1,124,704,420
Effect of dilutive potential ordinary shares arising from:		
– convertible bonds	170,861,468	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	<u>1,342,361,468</u>	<u>1,124,704,420</u>

7. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred RMB4,062,000 (2010: RMB48,513,000) on additions to property, plant and equipment.

8. TRADE AND OTHER RECEIVABLES

	30.6.2011 RMB'000 (unaudited)	31.12.2010 RMB'000 (audited)
Trade receivables	25,720	30,040
Deposits paid to suppliers	114,275	108,097
Advances to third parties*	7,500	51,000
Value-added tax recoverable	7,902	11,291
Other receivables and prepayments	2,232	1,908
	<u>157,629</u>	<u>202,336</u>

* 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 within 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:

	30.6.2011 RMB'000 (unaudited)	31.12.2010 RMB'000 (audited)
Age		
0 to 90 days	19,149	25,865
91 to 180 days	3,158	2,551
181 to 270 days	2,072	1,584
271 to 365 days	1,341	40
	<u>25,720</u>	<u>30,040</u>

9. TRADE AND OTHER PAYABLES

	30.6.2011 RMB'000 (unaudited)	31.12.2010 RMB'000 (audited)
Trade payables	31,830	38,133
Bill payables – secured	473	8,245
	32,303	46,378
Customers' deposits	66,554	77,151
Payables for acquisition of property, plant and equipment	1,558	1,783
Obligations under onerous contracts for acquisition of property, plant and equipment	3,567	3,725
Advances from third parties*	5,200	42,480
Other payables and accruals	7,645	5,927
	116,827	177,444

* The amount is unsecured, interest-free and are repayable on demand. At the date of this report, the whole amount has been fully repaid and no further advances has been made from this third party since 30 June 2011.

The normal credit periods on purchases of goods are from 90 days to 180 days.

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

	30.6.2011 RMB'000 (unaudited)	31.12.2010 RMB'000 (audited)
Age		
0 to 90 days	14,981	25,878
91 to 180 days	4,167	11,656
181 to 270 days	5,327	4,094
271 to 365 days	3,757	2,628
Over 365 days	4,071	2,122
	32,303	46,378

10. AMOUNTS DUE TO RELATED PARTIES

	30.6.2011 RMB'000 (unaudited)	31.12.2010 RMB'000 (audited)
Name of related party:		
Mr. Sze Siu Hung*	11,154	1,124
漳州泰景房地產開發有限公司 (Zhang Zhou Tai Jing Real Estate Development Company Limited)	—	13,000
	<u>11,154</u>	<u>14,124</u>

* Mr. Sze Siu Hung is the Chairman and executive director of the Company.

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

11. DERIVATIVE FINANCIAL LIABILITIES

On 20 December 2010, the Company and two investors entered into subscription agreements for the issue of convertible bonds (the "Subscription Agreements") in the aggregate principal amount of HK\$50,000,000 at its face value. As at 31 December 2010, the Subscription Agreements constitute forward contracts within the scope of "HKAS 39 financial instruments: recognition and measurement". The forward contracts are measured at fair value with changes in fair value recognised in profit or loss. On 14 January 2011 (the date of issue of convertible bonds), the forward contracts were completed and a resultant gain in fair value was recognised in the period.

12. CONVERTIBLE BONDS

Pursuant to the subscription agreements entered into between the Company and two investors on 20 December 2010 (see note 11), the Company issued convertible bonds in the aggregate principal amount of HK\$50,000,000 at its face value to the two investors on 14 January 2011. 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 antidilution adjustment). 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.

The convertible bonds comprise two components: the liability component and the derivative component. Upon the issue of convertible bonds, the fair value of the liability component was valued by American Appraisal China Limited ("AACL"), an independent valuer not connected to the Group, with the use of the Binomial Model and represented the present value of the interest payments and the principal amount. The liability component of convertible bonds was then carried at amortised cost using the effective interest method and amounted to HK\$43,969,000 (RMB36,516,000) as at 30 June 2011. The derivative component represents the conversion option and the early redemption option embedded in the convertible bonds. The conversion option gives the bondholders the right to convert the convertible bonds into ordinary shares of the Company and will be settled other than by the exchange of a fixed amount of functional currency cash or another financial asset denominated in functional currency for a fixed number of the Company's own equity instruments. The early redemption option gives the Company the right to redeem the convertible bonds at par any time before maturity. The derivative component is measured at fair value with changes in fair value recognised in profit or loss. The fair value of the derivative component at the issue date and 30 June 2011 respectively were valued by AACL by the Binomial Model. The fair value of the derivative component was HK\$8,859,000 (RMB7,357,000) as at 30 June 2011 and a gain in fair value amounting to HK\$9,036,000 (RMB7,591,000) was recognised in profit or loss on the same date.

13. CAPITAL COMMITMENTS

	30.6.2011 RMB'000 (unaudited)	31.12.2010 RMB'000 (audited)
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	843	488

14. RELATED PARTY TRANSACTIONS

The directors of the Company represented key management of the Group. During the period, directors' remuneration of RMB675,000 (2010: RMB706,000) was charged to the profit or loss.

At the end of the period, certain of the short-term bank loans are guaranteed by the following related parties for maximum guarantees:

	30.6.2011 RMB'000 (unaudited)	31.12.2010 RMB'000 (audited)
Mr. Sze Siu Hung	24,000	24,000
Mr. Cai Chaodun ⁽¹⁾	30,000	30,000
Mr. Qiu Fengshou ⁽²⁾	50,000	80,000
Joint guarantee ⁽³⁾	28,700	28,700
Joint guarantee ⁽⁴⁾	27,000	—
	<u>159,700</u>	<u>162,700</u>

⁽¹⁾ Mr. Cai Chaodun is the deputy general manager of the Group and a brother-in-law of Mr. Sze Siu Hung.

⁽²⁾ Mr. Qiu Fengshou is the Vice Chairman and executive director of the Company.

⁽³⁾ The credit facility was jointly guaranteed by Mr. Cai Chaodun, Mr. Qiu Fengshou and Mr. Fu Jianhua. Mr. Fu Jianhua is the deputy general manager of the Group.

⁽⁴⁾ The credit facility was jointly guaranteed by Mr. Sze Siu Hung and Mr. Qiu Fengshou.

15. EVENT AFTER THE REPORTING PERIOD

On 27 July 2011, the Company resolved to grant 20,000,000 share options under the share option scheme adopted by the Company on 15 March 2006 with the scheme mandate limit refreshed on 23 February 2010 to certain eligible persons (including certain directors and the chief executive of the Company) to subscribe, in aggregate, for up to 20,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company.

DISCLOSURE OF ADDITIONAL INFORMATION

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 June 2011 (For the six months ended 30 June 2010: Nil).

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

As at 30 June 2011, the interests and/or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), were as follows:

Name of Director	Nature of Interest	Total number of Shares held	Approximate percentage of the issued share capital of the Company as at 30 June 2011
			(%)
Mr. Sze Siu Hung	Corporate interest and founder of trust (Note 1)	571,948,720 long position	48.82
	Corporate interest (Note 2)	28,051,280 long position	2.40
	Beneficial interest (Note 3)	2,000,000 long position	0.17
Madam Cai Peilei	Corporate interest and beneficiary of trust (Note 1)	571,948,720 long position	48.82
	Corporate interest (Note 2)	28,051,280 long position	2.40
	Family interest (Note 3)	2,000,000 long position	0.17

Notes:

1. As at 30 June 2011, about 48.82% of shareholding of the Company is owned by Famepower Limited, which is owned as to 100% by Federal Trust Company Limited, a trust company in its capacity as the trustee of The Sze Trust which was a discretionary trust, the founder (as defined in the SFO) of which is Mr. Sze Siu Hung ("Mr. Sze") and the discretionary objects of which are family members of Mr. Sze (including Madam Cai Peilei and excluding Mr. Sze himself). Accordingly, Mr. Sze and Madam Cai Peilei are both deemed to be interested in the relevant Shares under the SFO.
2. As at 30 June 2011, about 2.40% of shareholding of the Company is owned by Peilei Charitable Limited ("PCL"), a company incorporated in the British Virgin Islands and the entire issued share capital of which is owned as to 50% by Mr. Sze and as to 50% by Madam Cai Peilei. Mr. Sze and Madam Cai Peilei intend to use the Shares held by PCL for charitable purpose.
3. As at 30 June 2011, 2,000,000 Shares, representing 0.17% of shareholding of the Company, are beneficially owned by Mr. Sze. Madam Cai Peilei is the spouse of Mr. Sze and is deemed to be interested in 2,000,000 Shares.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2011, to the best knowledge of the Company, the following persons (other than a director or chief executive of the Company) had, or were deemed or taken to have interests and/or short positions in the shares or underlying shares of the Company, which would fall to be disclosed to the Company and the Stock Exchange pursuant to Part XV of the SFO:

Name of substantial shareholder	Nature of Interest	Equity Derivatives	Approximate percentage of the issued share capital of the Company as at 30 June 2011
			(%)
Mr. Ma Ki Hung	Beneficial interest (Note (a))	92,592,592 long position	7.90
Mr. Choi Kam Long	Beneficial interest (Note (a))	92,592,592 long position	7.90

Note (a):

All interest in underlying shares of equity derivatives of the Company are interests in convertible bonds subscribed on 20 December 2010. The convertible bonds were subsequently issued on 14 January 2011.

SHARE OPTION SCHEME

A Share Option Scheme (the "Share Option Scheme") was adopted on 15 March 2006.

Upon approval by shareholders by ordinary resolution at the extraordinary general meeting (the "EGM") on 23 February 2010, the total number of shares in respect of which options may be granted under the Share Option Scheme was refreshed and increased to 106,150,000 shares which are equivalent to 10% of the shares of the Company in issue as at the date of the EGM.

There was no change in any terms of the Share Option Scheme during the six months ended 30 June 2011. The details of the terms of the Share Option Scheme have been disclosed in the 2010 annual report.

No share options were granted, exercised, cancelled or lapsed during the period. There were no outstanding share options as at 30 June 2011.

On 27 July 2011, the Company resolved to grant 20,000,000 share options to certain eligible persons (including certain directors and the chief executive of the Company) under the Share Option Scheme.

PURCHASE, SALE OR REDEMPTION OF LISTING SECURITIES OF THE COMPANY

Pursuant to the subscription agreements entered into between the Company and two subscribers, namely Mr. Ma Ki Hung and Mr. Choi Kam Long on 20 December 2010, the Company issued convertible bonds in the aggregate principal amount of HK\$50,000,000 at its face value to the two subscribers on 14 January 2011. 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 antidilution 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 of convertible bonds (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, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2011.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the period.

DIRECTORS' COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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 Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the period.

AUDIT COMMITTEE REVIEW

The Group's audit committee comprises three members, namely Professor Zeng Qingfu, Professor Zhao Bei and Mr. Lui Siu Keung, who are independent non-executive Directors of the Company. The Chairman of the Audit Committee is Mr. Lui Siu Keung. The primary duties of the Audit Committee are to review the financial reporting system and internal control procedures of the Group, to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, to approve the remuneration and terms of engagement of the external auditor, to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, and to review the financial information and accounting policies of the Group. This unaudited interim results including the accounting principles and practices adopted by the Group have been reviewed and approved by the Audit Committee.

On behalf of the Board

Sze Siu Hung

Chairman

Hong Kong, 30 August 2011

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Sze Siu Hung (*Chairman*)
Mr. Qiu Fengshou
Madam Cai Peilei
Mr. Sze Chin Pang

Independent Non-Executive Directors

Professor Zeng Qingfu
Professor Zhao Bei
Mr. Lui Siu Keung

AUDIT COMMITTEE

Mr. Lui Siu Keung (*Chairman of committee*)
Professor Zeng Qingfu
Professor Zhao Bei

REMUNERATION COMMITTEE

Mr. Lui Siu Keung (*Chairman of committee*)
Professor Zeng Qingfu
Professor Zhao Bei

NOMINATION COMMITTEE

Mr. Lui Siu Keung (*Chairman of committee*)
Professor Zeng Qingfu
Professor Zhao Bei

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Chan Hon Hung
BA (Hons.), CPA, ACA, FCCA, ACS, ACIS

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

6th Floor, Comweb Plaza
12 Cheung Yue Street
Lai Chi Kok
Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

HSBC Trustee (Cayman) Limited
P.O. Box 484
HSBC House
68 West Bay Road
Grand Cayman, KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

707

DESIGNATED WEBSITE FOR CORPORATE COMMUNICATIONS

www.capitalfp.com.hk/eng/index.jsp?co=707

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our sincere gratitude to our shareholders, investors and business partners for their support and to all our staff for their contribution.

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

Hong Kong, 30 August 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.