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 2011

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 2011, together with the comparative figures for the corresponding year in 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	NOTES	**2011** *RMB'000*	2010 *RMB'000*
Turnover	3	**620,051**	525,975
Cost of goods sold and services provided		**(570,860)**	(424,505)
Gross profit		**49,191**	101,470
Other income		**670**	2,005
Other expenses, gains and losses	4	**23,093**	(24,385)
Impairment losses recognised in respect of	5		
– prepaid lease payments		**(14,052)**	(111,297)
– property, plant and equipment		**(105,776)**	(442,134)
Reversals of impairment losses	5		
– prepaid lease payments		**3,129**	–
– property, plant and equipment		**12,728**	–
Distribution and selling expenses		**(10,314)**	(6,293)
Administrative expenses		**(35,381)**	(32,176)
Finance costs	6	**(24,842)**	(16,003)
Loss before taxation	7	**(101,554)**	(528,813)
Taxation	8	**(3,976)**	(8,656)

* *For identification purposes only*

	NOTES	**2011**	2010
		RMB'000	*RMB'000*
Loss for the year attributable to owners of the Company		**(105,530)**	(537,469)
Other comprehensive income			
– exchange differences arising on translation		**2,207**	457
Total comprehensive expense for the year attributable to owners of the Company		**(103,323)**	(537,012)

	NOTES	**2011**	2010
		RMB cents	*RMB cents*
Loss per share	9		
– Basic		**(9.01)**	(46.81)
– Diluted		**(9.01)**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	**2011** ***RMB'000***	2010 *RMB'000*
Non-current assets			
Property, plant and equipment		**218,821**	334,813
Prepaid lease payments		**51,196**	63,277
Deposits made on acquisition of property, plant and equipment		**6,137**	7,746
		276,154	405,836
Current assets			
Inventories		**353,534**	332,412
Trade and other receivables	10	**159,372**	202,336
Prepaid lease payments		**1,159**	1,392
Pledged bank deposits		**48,020**	–
Bank balances and cash		**42,004**	38,260
		604,089	574,400
Current liabilities			
Trade and other payables	11	**141,316**	177,444
Amounts due to related parties		**12,966**	14,124
Derivative financial liabilities		**–**	12,527
Taxation		**4,356**	6,699
Mortgage loan		**536**	543
Short-term bank loans		**335,500**	320,700
		494,674	532,037
Net current assets		**109,415**	42,363
Total assets less current liabilities		**385,569**	448,199
Non-current liabilities			
Convertible bonds		**39,746**	–
Mortgage loan		**689**	1,271
Government grant		**1,120**	1,260
		41,555	2,531
Net assets		**344,014**	445,668
Capital and reserves			
Share capital		**117,055**	117,055
Reserves		**226,959**	328,613
Total equity		**344,014**	445,668

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 except for certain financial instruments that are measured at fair values 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 ("HKFRSs")

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

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related party disclosures
Amendments to HKAS 32	Classification of rights issues
Amendments to HK(IFRIC) – INT 14	Prepayments of a minimum funding requirement
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments

The application of the new and revised HKFRSs, amendments and interpretations in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these 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.

Amendments to HKFRS 7	Disclosures – Transfers of financial assets[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosure of interests in other entities[2]
HKFRS 13	Fair value measurement[2]
Amendments to HKAS 1	Presentation of items of other comprehensive income[5]
Amendments to HKAS 12	Deferred tax – Recovery of underlying assets[4]
HKAS 19 (as revised in 2011)	Employee benefits[2]
HKAS 27 (as revised in 2011)	Separate financial statements[2]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[2]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[6]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[2]

[1] Effective for annual periods beginning on or after 1st July, 2011.
[2] Effective for annual periods beginning on or after 1st January, 2013.
[3] Effective for annual periods beginning on or after 1st January, 2015.
[4] Effective for annual periods beginning on or after 1st January, 2012.
[5] Effective for annual periods beginning on or after 1st July, 2012.
[6] Effective for annual periods beginning on or after 1st January, 2014.

HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be subsequently measured at 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 reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. 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 recognition 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.

Based on the Group's financial assets and liabilities as at 31st December, 2011, the directors of the Company anticipate that the application of the new standards is not expected to have material impact on the consolidated financial statements.

HKFRS 13 Fair value measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1st January, 2013, with earlier application permitted.

The directors of the Company anticipate that the application of the new standard will have no material impact on the consolidated financial statements.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for the Group for annual periods beginning on 1st January, 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

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:

	2011	2010
	RMB'000	*RMB'000*
Sales of goods from		
– sales of finished fabrics	**255,005**	248,825
– trading of goods	**14,138**	19,475
	269,143	268,300
Manufacture and sales of high density and high-end yarns	**208,104**	115,911
Subcontracting services	**142,804**	141,764
	620,051	525,975

Segment information

Information reported to the executive 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 and 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

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

	Turnover		Results	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Processing printing and sales of finished fabrics				
– external sales	**397,809**	390,589		
– inter-segment sales*	**3,130**	8,806		
	400,939	399,395	**(100,799)**	(125,288)
Manufacturing and sales of high density and high-end yarns	**208,104**	115,911	**8,394**	(360,255)
Trading of goods	**14,138**	19,475	**7,433**	(7,740)
	623,181	534,781	**(84,972)**	(493,283)
Elimination	**(3,130)**	(8,806)	**–**	–
	620,051	525,975	**(84,972)**	(493,283)
Interest income			**154**	796
Net exchange gain			**31**	1,187
Unallocated income (expenses)			**8,075**	(21,510)
Finance costs			**(24,842)**	(16,003)
Loss before taxation			**(101,554)**	(528,813)

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

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

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

	2011	2010
	RMB'000	*RMB'000*
Segment assets		
– processing, printing and sales of finished fabrics	**508,534**	622,115
– manufacture and sales of high density and high-end yarns	**268,253**	302,450
– trading of goods	**5,480**	9,266
	782,267	933,831
Unallocated assets	**97,976**	46,405
	880,243	980,236
Segment liabilities		
– processing, printing and sales of finished fabrics	**96,742**	73,326
– manufacture and sales of high density and high-end yarns	**34,585**	49,143
– trading of goods	**8,566**	11,032
	139,893	133,501
Taxation	**4,356**	6,699
Other unallocated liabilities	**391,980**	394,368
	536,229	534,568

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

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

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

(iii) Other segment information

	2011 *RMB'000*	2010 *RMB'000*
Amounts included in the measure of segment results or segment assets:		
Non-current assets additions		
– processing, printing and sales of finished fabrics	**3,652**	12,069
– manufacture and sales of high density and high-end yarns	**4,678**	55,110
– trading of goods	**56**	16
	8,386	67,195
Depreciation of property, plant and equipment		
– processing, printing and sales of finished fabrics	**27,383**	36,452
– manufacture and sales of high density and high-end yarns	**3,733**	7,408
– trading of goods	**28**	347
	31,144	44,207
– unallocated	**185**	185
	31,329	44,392
Allowances for bad and doubtful debts		
– trading of goods	**558**	6,842
Reversals of allowances for bad and doubtful debts		
– trading of goods	**(9,866)**	–
Allowances for inventories		
– processing, printing and sales of finished fabrics	**–**	6,332
Reversals of allowances for inventories		
– processing, printing and sales of finished fabrics	**(6,332)**	(9,844)

	2011	2010
	RMB'000	*RMB'000*
Impairment losses recognised in respect of property, plant and equipment		
– processing, printing and sales of finished fabrics	**105,776**	173,188
– manufacturing and sales of high density and high-end yarns	**–**	268,946
	105,776	442,134
Reversals of impairment losses recognized in respect of property, plant and equipment		
– processing, printing and sales of finished fabrics	**(1,152)**	–
– manufacturing and sales of high density and high-end yarns	**(11,576)**	–
	(12,728)	–
Impairment losses recognised in respect of prepaid lease payments		
– processing, printing and sales of finished fabrics	**14,052**	12,068
– manufacturing and sales of high density and high-end yarns	**–**	99,229
	14,052	111,297
Reversals of impairment losses recognized in respect of prepaid lease payments		
– manufacturing and sales of high density and high-end yarns	**(3,129)**	–
	(3,129)	–
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**	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC	**605,914**	508,169	**268,295**	397,824
Hong Kong and overseas	**14,137**	17,806	**7,859**	8,012
	620,051	525,975	**276,154**	405,836

Information about major customers

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

4. OTHER EXPENSES, GAINS AND LOSSES

	2011	2010
	RMB'000	*RMB'000*
Allowances for bad and doubtful debts		
– trade receivables	**(558)**	(3,142)
– other receivables	**–**	(3,700)
	(558)	(6,842)
Reversals of allowances for bad and doubtful debts		
– trade receivables	**6,166**	–
– other receivables	**3,700**	–
	9,866	–
Net exchange gain	**31**	1,187
Gain (loss) in fair value change of derivative financial liabilities	**3,806**	(2,242)
Loss on entering an agreement of convertible bonds	**–**	(10,285)
Gain on change of fair value of derivative component of convertible bonds	**13,082**	–
Loss on obligations under onerous contracts	**–**	(3,725)
Research and development costs	**(3,134)**	(2,478)
	13,785	(17,543)
	23,093	(24,385)

5. (IMPAIRMENT LOSSES) REVERSALS OF IMPAIRMENT LOSSES

The (impairment losses) reversals of impairment losses by cash-generating units ("CGUs") are as follows:

	2011		2010
	Impairment loss *RMB'000*	**Reversal of impairment** *RMB'000*	Impairment loss *RMB'000*
CGU1	**–**	**1,152**	(69,555)
CGU2	**(26,640)**	**–**	(29,906)
CGU3	**(93,188)**	**–**	(85,795)
CGU4	**–**	**–**	–
CGU5	**–**	**–**	–
CGU6	**–**	**14,705**	(371,900)
Total	**(119,828)**	**15,857**	(557,156)

CGU1, CGU2, CGU3, CGU4 and CGU5 belong to the Group's reportable segment of processing, printing and sales of finished fabrics, while CGU6 belongs to the Group's reportable segment of manufacturing and sales of high density and high-end yarns.

CGU1

During the year ended 31st December, 2010, as the market in which CGU1 was engaged 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 an impairment assessment on the CGU's property, plant and equipment and prepaid lease payments. With reference to the valuation report issued by an independent external valuer, American Appraisal China Limited (" 2010 Valuation Report"), the directors have made impairment losses of RMB68,509,000 and RMB1,046,000 in respect of property, plant and equipment and prepaid lease payments respectively as at 31st December, 2010. The impairment losses were recognised for CGU1 for which the recoverable amounts, which were based on fair value less costs to sell, were less than the carrying amounts. The estimation of fair value less costs to sell was based on the market prices for similar assets.

For the year ended 31st December, 2011, the directors of the Company reassessed the recoverable amounts of the CGU with reference to the valuation report issued by an independent external valuer, American Appraisal China Limited, (" 2011 Valuation Report") and a reversal of impairment losses of RMB1,152,000 was made in respect of property, plant and equipment. The reversal of impairment losses is recognised for CGU1 for which the recoverable amounts, which are based on fair value less costs to sell, are higher than the carrying amount. The estimation of fair value less costs to sell is based on the market prices for similar assets.

CGU2

During the year ended 31st December, 2010, as the market in which CGU2 was engaged 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 an impairment assessment on the CGU's property, plant and equipment. With reference to the 2010 Valuation Report, the directors have made impairment loss of RMB29,906,000 in respect of property, plant and equipment as at 31st December, 2010. The impairment loss was recognised for CGU2 for which the recoverable amount, which was based on value in use, was less than the carrying amount. The value in use calculation used cash flow forecast derived from the respective most recent financial budget approved by management based on their best estimates. The projected period was 7 years and the growth rate used in the forecast was zero for CGU2. The cash flow forecast was using a discount rate of 9.5% which reflected the return on assets and the risks specific to CGU2. Some of the key assumptions for the value in use calculations related to the estimation of budgeted sales and gross margin, such estimation was based on the CGU's past performance and the expectation for the market development.

For the year ended 31st December, 2011, the directors of the Company reassessed the recoverable amounts of the CGU with reference to the 2011 Valuation Report, and a further impairment loss of RMB26,640,000 was made in respect of property, plant and equipment as at 31st December, 2011. The impairment loss is recognised for CGU2 for which the recoverable amount, which is based on value in use, is less than the carrying amount. The value in use calculation uses cash flow forecast derived from the most recent financial budget approved by management based on their best estimates. The projected period is 6 years and the growth rate used in the forecast is zero for CGU2. The cash flow forecast is using a discount rate of 9.5% which reflects the return on assets and the risks specific to CGU2. The reason for the further impairment loss is mainly due to the decrease in gross profit margin of the CGU's products during the year 2011. This is mainly because prices of raw materials increased and the Company has not been able to increase the selling prices of the products sufficient to compensate the increase due to keen competition. Accordingly the projected cash inflows of the CGU have been revised downward, and resulted in further decrease in the value in use relative to the estimation as at 31st December, 2010.

CGU3

During the year ended 31st December, 2010, as the market in which CGU3 was engaged 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 an impairment assessment on the CGU's property, plant and equipment and prepaid lease payments. With reference to the 2010 Valuation Report, the directors have made impairment losses of RMB74,773,000 and RMB11,022,000 in respect of property, plant and equipment and prepaid lease payments respectively as at 31st December, 2010. The impairment losses were recognised for CGU3 for which the recoverable amount, which was based on value in use, were less than the carrying amounts. The value in use calculation uses cash flow forecast derived from the respective most recent financial budget approved by management based on their best estimates. The projected period was 15 years and the growth rate used in the forecast was zero for CGU3. The cash flow forecast was using a discount rate of 9.5% which reflects the return on assets and the risks specific to CGU3. Some of the key assumptions for the value in use calculations related to the estimation of budgeted sales and gross margin, such estimation was based on the CGU's past performance and the expectation for the market development.

For the year ended 31st December, 2011, the directors of the Company reassessed the recoverable amounts of the CGU with reference to the 2011 Valuation Report, and further impairment losses of RMB79,136,000 and RMB14,052,000 are made in respect of property, plant and equipment and prepaid lease payments respectively as at 31 December, 2011. The impairment losses are recognised for CGU3 for which the recoverable amounts, which are based on fair value less costs to sell, are less than the carrying amounts. The estimation of fair value less costs to sell is based on the market prices for similar assets. The reason for the further impairment loss is mainly due to the decrease in gross profit margin of the CGU's products during the year 2011. This is mainly because prices of raw materials increased and the Company has not been able to increase the selling prices of the products sufficient to compensate the increase due to keen competition. Accordingly the projected cash inflows of the CGU have been revised downward and resulted in significant decrease in the value in use relative to the estimation as at 31st December, 2010.

CGU4 and CGU5

For the year ended 31st December, 2011 and the year ended 31st December, 2010, as the markets in which CGU4 and CGU5 are engaged have 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 an impairment assessment on the CGU's property, plant and equipment and prepaid lease payments. With reference to the 2011 Valuation Report and 2010 Valuation Report, the directors have made no impairment losses for CGU4 and CGU5 since their value in use is both higher than their carrying amount as at 31st December, 2011 and 31st December, 2010 respectively. The value in use calculation used cash flow forecast derived from the most recent financial budget approved by management based on their best estimates. Projected periods are 3 to 4 years (2010: 4 to 5 years). The growth rate used in the forecast is zero (2010: zero). The cash flow forecast is using a discount rate of 9.5% (2010: 9.5%) which reflects the return on assets and the risks specific to CGU4 and CGU5.

CGU6

During the year ended 31st December, 2010, as the market in which CGU6 was engaged 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 an impairment assessment on the CGU's property, plant and equipment, prepaid lease payments and deposits made on acquisition of property, plant and equipment. With reference to the 2010 Valuation Reports, the directors have made impairment losses of RMB268,946,000, RMB99,229,000 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 as at 31st December, 2010. The impairment losses were recognised for CGU6 for which the recoverable amount, which were based on value in use, were less than the carrying amount. The value in use calculation used cash flow forecast derived from the respective most recent financial budget approved by management based on their best estimates. The projected period was 18 years and the growth rate used in the forecast was zero for CGU6. The cash flow forecast was using a discount rate of 9.5% which reflects the return on assets and the risks specific to CGU6.

For the year ended 31st December, 2011, the directors of the Company reassessed the recoverable amounts of the CGU with reference to the 2011 Valuation Reports, and reversals of impairment losses of RMB11,576,000 and RMB3,129,000 were made in respect of property, plant and equipment and prepaid lease payments respectively. The reversals of impairment losses are recognised for CGU6 for which the recoverable amounts, which are based on fair value less costs to sell, are higher than the carrying amounts. The estimation of fair value less costs to sell is based on the market prices for similar assets.

6. FINANCE COSTS

	2011 *RMB'000*	2010 *RMB'000*
Interest on bank borrowings wholly repayable within five years	**(21,499)**	(15,403)
Amortised transaction costs in relation to long-term bank loans	**–**	(600)
Effective interest expense on convertible bonds	**(3,343)**	–
	(24,842)	(16,003)

7. LOSS BEFORE TAXATION

	2011 *RMB'000*	2010 *RMB'000*
Loss before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	**31,329**	44,392
Less: Depreciation included in research and development costs	**(786)**	(566)
	30,543	43,826
Operating lease rentals in respect of		
– prepaid lease payments	**1,391**	2,638
– rented premises	**457**	405
and after crediting:		
Amortisation of government grant	**140**	140
Government rewards and subsidies*	**320**	1,020
Interest income	**154**	796

* The government rewards and subsidies provided by the PRC government to the Group were paid mainly as an incentive for energy saving and organisational development of 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 RMB723,460,000 (2010: RMB619,489,000). No deferred tax asset has been recognised in relation 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 RMB148,336,000 (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.

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 RMB105,530,000 (2010: RMB537,469,000) and the weighted average number of 1,171,500,000 (2010: 1,148,294,521) ordinary shares in issue during the year.

The calculation of diluted loss per share for the year ended 31st December, 2011 has not assumed the conversion of the Company's outstanding convertible bonds and the exercise of share options which would reduce the loss per share.

No diluted loss per share is presented in 2010 as there were no potential ordinary shares in issue during that year.

10. TRADE AND OTHER RECEIVABLES

	2011	2010
	RMB'000	*RMB'000*
Trade receivables	**24,891**	37,482
Less: Allowances for bad and doubtful debts	**(1,834)**	(7,442)
	23,057	30,040
Deposit paid to suppliers	**128,588**	111,797
Less: Allowances for bad and doubtful debts	**–**	(3,700)
	128,588	108,097
Advances to third parties*	**–**	51,000
Value-added tax recoverable	**5,835**	11,291
Other receivables and prepayments	**1,892**	1,908
	159,372	202,336

* The advances are unsecured, interest-free and are repayable on demand which have been fully repaid during the year.

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:

	2011	2010
	RMB'000	*RMB'000*
0 to 90 days	**15,352**	25,865
91 to 180 days	**3,409**	2,551
181 to 270 days	**714**	1,584
271 to 365 days	**3,582**	40
	23,057	30,040

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 RMB7,705,000 (2010: RMB4,175,000) which are past due at the reporting date for which the Group has not provided allowance because those debtors have good credit records. 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:

	2011	2010
	RMB'000	*RMB'000*
91 to 180 days	**3,409**	2,551
181 to 270 days	**714**	1,584
271 to 365 days	**3,582**	40
	7,705	4,175

The Group has provided allowances for specific receivables over 365 days (2010: 365 days), as the directors of the Company consider the recoverability of these debts are low based on historical experience.

Movement in the allowances for bad and doubtful debts

	Trade receivables		Other receivables	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1st January	**7,442**	4,300	**3,700**	–
Allowances made during the year	**558**	3,142	**–**	3,700
Reversals of allowances during the year	**(6,166)**	–	**(3,700)**	–
At 31st December	**1,834**	7,442	**–**	3,700

Included in the allowances for bad and doubtful debts are individually impaired trade and other receivables with an aggregate balance of RMB1,834,000 (2010: RMB11,142,000), which have been overdue for a long time and are impaired. The allowances amounted to RMB9,866,000 are reversed because the related debts are settled during the year. The Group does not hold any collateral over these balances.

11. TRADE AND OTHER PAYABLES

	2011	2010
	RMB'000	*RMB'000*
Trade payables	**38,847**	38,133
Bills payables – secured	**11,350**	8,245
	50,197	46,378
Customers' deposits	**63,116**	77,151
Payables for acquisition of property, plant and equipment	**1,578**	1,783
Obligations under onerous contracts for acquisition of property, plant and equipment*	**3,566**	3,725
Advances from third parties**	**17,700**	42,480
Other payables and accruals	**5,159**	5,927
	141,316	177,444

* The obligations under onerous contracts for acquisition of property, plant and equipment amounting to RMB3,725,000 were recognised in 2010 in relation to the impairment losses in respect of capital commitments for acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements. During the year ended 31st December, 2011, an amount of RMB159,000 was released and adjusted to the cost of the property, plant and equipment upon completion of the acquisition.

** The advances as at 31st December, 2011 are unsecured, interest-free and are repayable on demand. The advances as at 31st December, 2010 were from two independent third parties who had subscribed for the convertible bonds issued in January 2011.

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:

	2011	2010
	RMB'000	*RMB'000*
0 to 90 days	**29,761**	25,878
91 to 180 days	**5,160**	11,656
181 to 270 days	**5,038**	4,094
271 to 365 days	**6,136**	2,628
Over 365 days	**4,102**	2,122
	50,197	46,378

12. EVENT AFTER THE REPORTING PERIOD

On 29th February, 2012, the Company entered into a warrant placing agreement with a placing agent pursuant to which the Company appointed the placing agent as placing agent to procure not less than six independent placees to subscribe the warrants, on a best effort basis, at the issue price of HK$0.02 per warrant. Based on the subscription price of HK$0.14 per subscription share, a maximum of 234,000,000 subscription shares will be allotted and issued by the Company upon full exercise of the subscription rights attaching to the warrants.

Assuming that all of the 234,000,000 warrants are placed out with the placees, the gross proceeds and net proceeds derived from the issue of the warrants, which are estimated to be approximately HK$4,680,000 (RMB3,834,000) and approximately HK$4,380,000 (RMB3,589,000) respectively.

The Company will receive additional gross proceeds and net proceeds of approximately HK$32.76 million and approximately HK$32.66 million respectively upon exercise in full of the subscription rights attaching to the warrants (assuming that 234,000,000 warrants have been allotted and issued by the Company). The Company intends to use such proceeds as general working capital of the Group.

BUSINESS REVIEW

2011 was still full of various challenges and volatilities. The tough operating environment continued to overshadow and hit the business performance of the Group as a whole. Among others, the fluctuation of raw material prices and the rise of other direct manufacturing costs such as wages and energy due to global inflation all added to the pressures to the operations of the Group.

The overall results of the Group went into the red for 2011, which was mainly caused by 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. However, 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 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.

OPERATIONAL AND FINANCIAL REVIEW

In 2011, 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 17.9% to approximately RMB620.1 million for the year (2010: RMB526.0 million). During the year, the revenue from fabrics sales business, processing business and yarn business rose whereas that from trading business fell. 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 RMB49.2 million for the year (2010: RMB101.5 million), representing a drop of approximately 51.5% as compared with last year. The Group's overall gross profit margin for the year was approximately 7.9% (2010: 19.3%). During the year, the gross profit margin from trading business rose whereas those from fabrics sales business, processing business and yarn business fell. The enhancement in sales mix with higher margins during the year resulted in the increase in gross profit margin for trading business. For fabrics sales business, processing business and yarn business, the soaring production costs ate into the margins and caused the decline in their gross profit margins.

Other income decreased by 66.6% to approximately RMB0.7 million (2010: RMB2.0 million) which primarily comprised amortised government grant of RMB0.1 million, government rewards and subsidies of RMB0.3 million and an interest income of RMB 0.2 million. Other expenses, gains and losses turned from a net loss of RMB24.4 million in 2010 to a net gain of RMB23.1 million in 2011, which was mainly the net aggregate of allowances for bad and doubtful debts of RMB0.6 million, reversal of allowances for bad and doubtful debts of RMB9.9 million, gain in fair value change of derivative financial liabilities of RMB3.8 million, gain on change of fair value of derivative component of convertible bonds of RMB13.1 million and research and development costs of RMB3.1 million. During the year, impairment losses of RMB14.1 million (2010: RMB111.3 million) in respect of prepaid lease payments and RMB105.8 million (2010: RMB442.1 million) in respect of property, plant and equipment were respectively recognized. On the other hand, reversals of impairment losses of RMB3.1 million (2010: nil) in respect of prepaid lease payments and RMB12.7 million (2010: nil) in respect of property, plant and equipment were respectively registered.

Distribution and selling expenses rose by 63.9% to approximately RMB10.3 million (2010: RMB6.3 million) as a result of the increased marketing efforts. Administrative expenses were up by 10.0% to approximately RMB35.4 million (2010: RMB32.2 million). Finance costs for the year increased by 55.2% to RMB24.8 million (2010: RMB16.0 million), which was mainly caused by the higher level of PRC lending interest rate, higher bank borrowing level and the effects of effective interest expense on convertible bonds during the year.

FUTURE PROSPECTS

The lingering sovereign debt problems in Europe, the slow economic recovery of the United States and the expected slowdown of economic growth of China will continue to pose challenges throughout the remaining 2012. All in all, the current global economic condition has remained complicated and is indeed full of uncertainties down the road.

Amidst the prevailing difficult economic environment, the Group will continue to adopt its proactive yet prudent operating strategy. It will remain focused on its sustainable long-term growth and continue to allocate its resources with great care. In addition, it will maintain its vigilance on cost control measures and production efficiency.

The Group remains cautious about the global economic outlook for the rest of 2012. Yet it always believe opportunities do exist along with the challenges in the market. The Group will endeavour to widen its customer base and solidify its revenue base whilst work hard to enhance its products and beef up their margins. Looking forward, the Group will strive to restore its profitability, maintain a healthy balance sheet and strengthen its overall financial position.

With its solid foundation and the concerted efforts of its entire staff team, the Group is well-placed to overcome the upcoming challenges in the operating environment and capture 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 2011, the Group had total assets of approximately RMB880.3 million (2010: RMB980.2 million) which were financed by current liabilities of approximately RMB494.7 million (2010: RMB532.0 million), non-current liabilities of approximately RMB41.6 million (2010: RMB2.5 million) and shareholders' equity of approximately RMB344.0 million (2010: RMB445.7 million).

As at 31 December 2011, the Group's cash and bank balances was approximately RMB42.0 million (2010: RMB38.3 million), while pledged bank deposits amounted to RMB48.0 million (2010: nil). As at 31 December 2011, the mortgage loan was variable-rate loans 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.

The Group maintained a healthy liquidity position. The current ratio, being a ratio of total current assets to total current liabilities, was approximately 1.2 (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, was 108.8% (2010: 72.4%). The Group always adopted a conservative approach in its financial management.

CHARGES ON GROUP ASSETS

As at 31 December 2011, the Group's borrowings were secured by assets with a total carrying value of approximately RMB178.7 million (2010: RMB187.5 million).

CAPITAL EXPENDITURES

As at 31 December 2011, the Group has capital commitments of approximately RMB1.2 million (2010: RMB0.5 million) in respect of purchases of property, plant and equipment.

CONTINGENT LIABILITIES AND EXCHANGE RISK EXPOSURE

As at 31 December 2011, the Group did not have any significant contingent liabilities (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 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 2011, the Group had about 1,700 employees (2010: 2,000 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

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, redeemed or sold any of the Company's listed securities during the year.

DIVIDEND

The Board does not recommend any payment of final dividend (2010: Nil) for the year.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 28 May 2012 to Friday, 1 June 2012 (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, 25 May 2012. 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 year ended 31 December 2011 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 2011.

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 2012

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.