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 2012

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 2012, together with the comparative figures for the corresponding year in 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	NOTES	**2012** *RMB'000*	2011 *RMB'000*
Turnover	3	**515,786**	620,051
Cost of goods sold and services provided		**(477,242)**	(570,860)
Gross profit		**38,544**	49,191
Other income		**932**	670
Other expenses, gains and losses	4	**(4,490)**	23,093
Impairment losses recognised in respect of prepaid lease payments and property, plant and equipment	5	**(28,476)**	(119,828)
Reversals of impairment losses in respect of prepaid lease payments and property, plant and equipment	5	**1,842**	15,857
Distribution and selling expenses		**(8,940)**	(10,314)
Administrative expenses		**(33,228)**	(35,381)
Finance costs	6	**(33,009)**	(24,842)
Loss before taxation	7	**(66,825)**	(101,554)
Taxation	8	**(2,529)**	(3,976)

* *For identification purposes only*

	NOTE	2012 RMB'000	2011 RMB'000
Loss for the year attributable to owners of the Company		**(69,354)**	(105,530)
Other comprehensive income – exchange differences arising on translation		**1,308**	2,207
Total comprehensive expense for the year attributable to owners of the Company		**(68,046)**	(103,323)

	NOTE	2012 RMB cents	2011 RMB cents
Loss per share	9		
– Basic		**(5.92)**	(9.01)
– Diluted		**(5.92)**	(9.01)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	**2012** **RMB'000**	2011 RMB'000
Non-current assets			
Property, plant and equipment		**177,014**	218,821
Prepaid lease payments		**124,960**	51,196
Deposits made for acquisition of property, plant and equipment		**1,108**	6,137
		303,082	276,154
Current assets			
Inventories		**413,192**	353,534
Trade and other receivables	10	**215,076**	159,372
Prepaid lease payments		**2,681**	1,159
Pledged bank deposits		**53,446**	48,020
Bank balances and cash		**21,324**	42,004
		705,719	604,089
Current liabilities			
Trade and other payables	11	**194,996**	141,316
Amount due to a related party		**15,087**	12,966
Convertible bonds		**41,431**	–
Taxation payables		**3,985**	4,356
Mortgage loan		**547**	536
Short-term bank loans		**385,500**	335,500
		641,546	494,674
Net current assets		**64,173**	109,415
Total assets less current liabilities		**367,255**	385,569
Non-current liabilities			
Warrants		**9,916**	–
Convertible bonds		**–**	39,746
Mortgage loan		**139**	689
Government grant		**980**	1,120
Loan from a related party		**47,494**	–
Other unsecured loan		**32,758**	–
		91,287	41,555
Net assets		**275,968**	344,014
Capital and reserves			
Share capital		**117,055**	117,055
Reserves		**158,913**	226,959
Total equity		**275,968**	344,014

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

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

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred tax: Recovery of underlying asset
Amendments to HKFRS 7	Financial instruments: Disclosures – Transfers of financial assets

The application of the above amendments to HKFRSs in the current year has had no material effect on the consolidated financial statements.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 – 2011 cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[2]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosure of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
HKAS 19 (as revised in 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to HKAS 1	Presentation of items of other comprehensive income[4]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[2]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[1]

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

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:

- All recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are 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.

- With regard to the measurement of financial liabilities that are designated as at fair value through profit or loss, HKFRS 9 requires that 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 of financial liabilities attributable to change in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for the Group for annual period beginning on 1st January, 2015, with earlier application permitted.

Based on the Group's financial assets and financial liabilities as at 31st December, 2012, the directors of the Company anticipate that the application of this standard is not expected to have material impact on the consolidated financial statements.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of three standards on consolidation and disclosures was issued, including HKFRS 10, HKFRS 12 and HKAS 27 (as revised in 2011).

Key requirements of HKFRS 10 and HKFRS 12 are described below:

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements and HK(SIC) – INT 12 "Consolidation – Special purpose entities" will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these three HKFRSs for the first time.

These standards, together with the amendments relating to the transitional guidance, are effective for the Group for annual period beginning on 1st January, 2013 with earlier application permitted provided that all of these three standards are applied at the same time.

The directors anticipate that the application of these three standards will not have an impact on amounts reported in 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 the Group for annual period beginning on 1st January, 2013, with earlier application permitted. The directors anticipate that the application of the new standard will have no material impact on amounts reported but will result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 "Presentation of items of other comprehensive income" introduce new terminology for statement of comprehensive income. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income'. The amendments to HKAS 1 also require 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 do not change the option to present items of other comprehensive income either before tax or net of tax.

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

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the financial performance and financial position of the Group.

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:

	2012	2011
	RMB'000	*RMB'000*
Sales of goods from		
– sales of finished fabrics	**226,639**	255,005
– trading of goods	**9,246**	14,138
	235,885	269,143
Manufacture and sales of high density and high-end yarns	**141,845**	208,104
Subcontracting services	**138,056**	142,804
	515,786	620,051

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; and
- 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	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Processing, printing and sales of finished fabrics				
– external sales	**364,695**	397,809		
– inter-segment sales*	**867**	3,130		
	365,562	400,939	**(285)**	(100,799)
Manufacturing and sales of high density and high-end yarns	**141,845**	208,104	**(16,577)**	8,394
Trading of goods	**9,246**	14,138	**(4,050)**	7,433
	516,653	623,181	**(20,912)**	(84,972)
Elimination	**(867)**	(3,130)	**–**	–
	515,786	620,051	**(20,912)**	(84,972)
Interest income			**465**	154
Net exchange (loss) gain			**(806)**	31
Loss on fair value of warrants			**(6,118)**	–
Gain on fair value change of derivative financial liabilities and derivative component of convertible bonds			**1,812**	16,888
Unallocated (expenses) income			**(8,257)**	(8,813)
Finance costs			**(33,009)**	(24,842)
Loss before taxation			**(66,825)**	(101,554)

* *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 (loss) gain, loss on fair value of warrants, gain on fair value change of derivative financial liabilities and derivative component of convertible bonds, unallocated (expenses) income 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:

	2012	2011
	RMB'000	*RMB'000*
Segment assets		
– processing, printing and sales of finished fabrics	**501,366**	508,534
– manufacture and sales of high density and high-end yarns	**410,571**	268,253
– trading of goods	**14,327**	5,480
	926,264	782,267
Unallocated assets	**82,537**	97,976
	1,008,801	880,243
Segment liabilities		
– processing, printing and sales of finished fabrics	**111,173**	96,742
– manufacture and sales of high density and high-end yarns	**71,365**	34,585
– trading of goods	**10,736**	8,566
	193,274	139,893
Taxation payables	**3,985**	4,356
Other unallocated liabilities	**535,574**	391,980
	732,833	536,229

For the purposes of monitoring segment performances and allocating resources between segments by the chief operating decision 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 other payables, amount due to a related party, taxation payables, mortgage loan, bank loans, convertible bonds, loan from a related party, other unsecured loan and warrants.

(iii) Other segment information

	2012	2011
	RMB'000	*RMB'000*
Amounts included in the measure of segment results or segment assets:		
Non-current assets additions		
– processing, printing and sales of finished fabrics	**6,605**	3,652
– manufacture and sales of high density and high-end yarns	**1,748**	4,678
– trading of goods	**32**	56
	8,385	8,386
Depreciation of property, plant and equipment		
– processing, printing and sales of finished fabrics	**18,067**	27,383
– manufacture and sales of high density and high-end yarns	**5,183**	3,733
– trading of goods	**24**	28
	23,274	31,144
– unallocated	**184**	185
	23,458	31,329
Amortisation of prepaid lease payments		
– processing, printing and sales of finished fabrics	**227**	546
– manufacture and sales of high density and high-end yarns	**1,695**	845
	1,922	1,391
Allowances for bad and doubtful debts		
– processing, printing and sales of finished fabrics	**393**	–
– trading of goods	**2,455**	558
	2,848	558

	2012	2011
	RMB'000	*RMB'000*
Reversals of allowances for bad and doubtful debts		
– trading of goods	**(3)**	(9,866)
Allowances for inventories		
– processing, printing and sales of finished fabrics	**3,424**	–
Reversals of allowances for inventories		
– processing, printing and sales of finished fabrics	**–**	(6,332)
Impairment losses recognised in respect of property, plant and equipment		
– processing, printing and sales of finished fabrics	**7,265**	105,776
– manufacturing and sales of high density and high-end yarns	**20,147**	–
	27,412	105,776
Reversals of impairment losses recognised in respect of property, plant and equipment		
– processing, printing and sales of finished fabrics	**(1,842)**	(1,152)
– manufacturing and sales of high density and high-end yarns	**–**	(11,576)
	(1,842)	(12,728)
Impairment losses recognised in respect of prepaid lease payments		
– processing, printing and sales of finished fabrics	**276**	14,052
– manufacturing and sales of high density and high-end yarns	**788**	–
	1,064	14,052
Reversals of impairment losses recognised in respect of prepaid lease payments		
– manufacturing and sales of high density and high-end yarns	**–**	(3,129)

(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	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC	**506,540**	605,913	**295,397**	268,295
Hong Kong and overseas	**9,246**	14,138	**7,685**	7,859
	515,786	620,051	**303,082**	276,154

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

	2012	2011
	RMB'000	*RMB'000*
Allowances for bad and doubtful debts		
– trade receivables	**(848)**	(558)
– other receivables	**(2,000)**	–
	(2,848)	(558)
Reversals of allowances for bad and doubtful debts		
– trade receivables	**3**	6,166
– other receivables	**–**	3,700
	3	9,866
Reversal of provision upon cancellation of onerous contracts for acquisition of property, plant and equipment	**2,789**	–
Net exchange (loss) gain	**(806)**	31
Gain in fair value change of derivative financial liabilities	**–**	3,806
Gain on change of fair value of derivative component of convertible bonds	**1,812**	13,082
Gain on disposals of property, plant and equipment	**3,149**	–
Loss on fair value of warrants	**(6,118)**	–
Research and development costs	**(2,471)**	(3,134)
	(1,645)	13,785
	(4,490)	23,093

5. (IMPAIRMENT LOSSES) REVERSALS OF IMPAIRMENT LOSSES

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

	2012		2011	
	Impairment loss	**Reversal of impairment**	Impairment loss	Reversal of impairment
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
CGU1	**–**	**1,842**	–	1,152
CGU2	**(873)**	**–**	(26,640)	–
CGU3	**(2,655)**	**–**	(93,188)	–
CGU4	**–**	**–**	–	–
CGU5	**(4,013)**	**–**	–	–
CGU6	**(20,935)**	**–**	–	14,705
Total	**(28,476)**	**1,842**	(119,828)	15,857

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

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 recoverable amount is the higher of fair value less costs to sell and the value in use. The reversal of impairment losses is recognised for CGU1 for which the recoverable amounts, which were based on fair value less costs to sell, are higher than the carrying amount. The estimation of fair value less costs to sell was based on the market prices for similar assets.

For the year ended 31st December, 2012, 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 ("2012 Valuation Report"), and a reversal of impairment losses of RMB1,842,000 was made in respect of property, plant and equipment. The recoverable amount is the higher of fair value less costs to sell and the value in use. 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

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 recoverable amount is the higher of fair value less costs to sell and the value in use. The impairment loss is 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 most recent financial budget approved by management based on their best estimates. The projected period was 6 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. The reason for the further impairment loss was mainly due to the decrease in gross profit margin of the CGU's products during the year 2011. This was mainly because prices of raw materials increased and the Group had 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 had been revised downward, and resulted in further decrease in the value in use relative to the estimation as at 31st December, 2010.

For the year ended 31st December, 2012, the directors of the Company reassessed the recoverable amounts of the CGU with reference to the 2012 Valuation Report, and a further impairment loss of RMB873,000 was made in respect of property, plant and equipment as at 31st December, 2012. The recoverable amount is the higher of fair value less costs to sell and the value in use. The impairment loss is recognised for CGU2 for which the recoverable amount, which is based on fair value less costs to sell, are lower than the carrying amount. The estimation of fair value less costs to sell is based on the market prices for similar assets. The value in use dropped since 2011 and is lower than fair value less costs to sell. This was mainly due to the fluctuation of prices of raw materials which caused the drop in gross margin of goods sold.

CGU3

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 were made in respect of property, plant and equipment and prepaid lease payments respectively as at 31 December, 2011. The recoverable amount is the higher of fair value less costs to sell and the value in use. The impairment losses were recognised for CGU3 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, 2012, the directors of the Company reassessed the recoverable amounts of the CGU with reference to the 2012 Valuation Report, and further impairment losses of RMB2,379,000 and RMB276,000 are made in respect of property, plant and equipment and prepaid lease payments respectively as at 31 December, 2012. The recoverable amount is the higher of fair value less costs to sell and the value in use. 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.

CGU4

For the year ended 31st December, 2012 and 31st December, 2011, as the market in which CGU4 is engaged had 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. The recoverable amount is the higher of fair value less costs to sell and the value in use. With reference to the 2012 Valuation Report and 2011 Valuation Report, the directors had made no impairment losses for CGU4 since its value in use was higher than its carrying amount as at 31st December, 2012 and 31st December, 2011. The value in use calculation used cash flow forecast derived from the most recent financial budget approved by management based on its best estimates. Projected period was 3 years. The growth rate used in the forecast was zero. The cash flow forecast was using a discount rate of 9.5% which reflected the return on assets and the risks specific to CGU4.

CGU5

For the year ended 31st December, 2011, as the markets in which CGU5 was engaged had 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. The recoverable amount is the higher of fair value less costs to sell and the value in use. With reference to the 2011 Valuation Report, the directors had made no impairment losses for CGU5 since its value in use was higher than its carrying amount as at 31st December, 2011. 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 period was 3 years. The growth rate used in the forecast was zero. The cash flow forecast was using a discount rate of 9.5% which reflected the return on assets and the risks specific to CGU5.

For the year ended 31st December, 2012, as the markets in which CGU5 is engaged have not yet recovered comparing with what the directors expected, the directors of the Company considered this is 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. The recoverable amount is the higher of fair value less costs to sell and the value in use. With reference to the 2012 Valuation Report, the directors have made impairment losses of RMB4,013,000 in respect of property, plant and equipment for CGU5. The impairment losses are recognised for CGU5 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 value in use dropped since 2011 and is lower than fair value less costs to sell. This was mainly due to the fluctuation of prices of raw materials which caused the drop in gross margin of goods sold.

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 Report 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 recoverable amount is the higher of fair value less costs to sell and the value in use. The reversals of impairment losses were recognised for CGU6 for which the recoverable amounts, which were based on fair value less costs to sell, were higher 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, 2012, the directors of the Company reassessed the recoverable amounts of the CGU with reference to the 2012 Valuation Report and impairment losses of RMB20,147,000 and RMB788,000 are made in respect of property, plant and equipment and prepaid lease payments respectively as at 31st December, 2012. The impairment losses are recognised for CGU6 for which the recoverable amount, 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, which has dropped due to general decrease in market price of relevant machinery and drop in rental yield of the relevant land in the PRC.

6. FINANCE COSTS

	2012	2011
	RMB'000	*RMB'000*
Interest on bank borrowings wholly repayable within five years		
– bank borrowings	**(27,184)**	(21,499)
– loan from a related party	**(1,129)**	–
– other unsecured loan	**(980)**	–
	(29,293)	(21,499)
Effective interest expense on convertible bonds	**(3,716)**	(3,343)
	(33,009)	(24,842)

7. LOSS BEFORE TAXATION

	2012	2011
	RMB'000	*RMB'000*
Loss before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	**23,458**	31,329
Less: Depreciation included in research and development costs	**(740)**	(786)
	22,718	30,543
Cost of inventories recognised as expenses (including allowance for inventories amounting to RMB3,424,000 (2011: reversal of allowance for inventories amounting to RMB6,332,000))	**477,242**	570,860
Operating lease rentals in respect of		
– prepaid lease payments	**1,922**	1,391
– rented premises	**445**	457
and after crediting:		
Amortisation of government grant	**140**	140
Government rewards and subsidies (including in other income)*	**239**	320
Interest income	**465**	154

* 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 both years.

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. For the subsidiaries under this exemption, such exemption is still applicable under the transitional arrangement of the Enterprise Income Tax ("EIT") Law. There are three PRC subsidiaries entitled to this exemption which commenced in 2008 and were expired in December 2012.

At the end of the reporting period, the Group has deductible temporary differences of RMB753,520,000 (2011: RMB723,460,000). 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 RMB134,789,000 (2011: RMB148,336,000) 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 RMB69,354,000 (2011: RMB105,530,000) and the weighted average number of 1,171,500,000 (2011: 1,171,500,000) ordinary shares in issue during the year.

The calculation of diluted loss per share for the year ended 31st December, 2012 and 2011 does not assumed the conversion of the Company's outstanding convertible bonds, warrants and the exercise of share options which would reduce the loss per share.

10. TRADE AND OTHER RECEIVABLES

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**32,141**	24,891
Less: Allowances for bad and doubtful debts	**(2,679)**	(1,834)
	29,462	23,057
Deposit paid to suppliers	**92,947**	128,588
Less: Allowances for bad and doubtful debts	**(2,000)**	–
	90,947	128,588
Other receivables*	**92,860**	–
Value-added tax recoverable	**87**	5,835
Other debtors and prepayments	**1,720**	1,892
	215,076	159,372

* Other receivables are unsecured, interest-free and repayable on demand. All are received subsequent to the reporting date.

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:

	2012	2011
	RMB'000	*RMB'000*
0 to 90 days	**22,081**	15,352
91 to 180 days	**2,275**	3,409
181 to 270 days	**1,225**	714
271 to 365 days	**3,881**	3,582
	29,462	23,057

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 RMB7,381,000 (2011: RMB7,705,000) 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:

	2012	2011
	RMB'000	*RMB'000*
91 to 180 days	**2,275**	3,409
181 to 270 days	**1,225**	714
271 to 365 days	**3,881**	3,582
	7,381	7,705

The Group has provided allowances for certain trade and other receivables, 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**	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1st January	**1,834**	7,442	**–**	3,700
Allowances made during the year	**848**	558	**2,000**	–
Reversals of allowances during the year	**(3)**	(6,166)	**–**	(3,700)
At 31st December	**2,679**	1,834	**2,000**	–

The allowances amounted to RMB3,000 (2011: 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

	2012	2011
	RMB'000	*RMB'000*
Trade payables	**49,411**	38,847
Bills payables – secured	**47,762**	11,350
	97,173	50,197
Customers' deposits	**83,225**	63,116
Payables for acquisition of property, plant and equipment	**1,480**	1,578
Obligations under onerous contracts for acquisition of property, plant and equipment [(a)]	**777**	3,566
Advances from third parties [(b)]	**6,400**	17,700
Other payables and accruals	**5,941**	5,159
	194,996	141,316

(a) 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. In 2012, the Group has received a refund of deposit for acquisition of property, plant and equipment of RMB3,903,000 and the reversal of obligation under onerous contracts of RMB2,789,000 upon cancellation of contract with the supplier is charged to profit or loss.

(b) Advances from third parties are unsecured, interest-free and are repayable on demand.

The credit period on purchase of goods is 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:

	2012	2011
	RMB'000	*RMB'000*
0 to 90 days	**71,502**	29,761
91 to 180 days	**8,739**	5,160
181 to 270 days	**6,697**	5,038
271 to 365 days	**5,715**	6,136
Over 365 days	**4,520**	4,102
	97,173	50,197

BUSINESS REVIEW

In 2012, the persistent sovereign debt problems in Europe, the lukewarm economic recovery of the United States and the slower economic growth in China all dampened market confidence and prompted consumers to continue to tighten their spending. Such a challenging operating environment adversely affected the sales performance and the overall results of the Group. As a result, the Group posted a loss for its operations for 2012.

In order to widen its potential shareholder base over the long term, on 29 February 2012, Co-Prosperity Holdings Limited entered into a warrant placing agreement with a placing agent pursuant to which the Company appointed the placing agent as a 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. The Company completed the issue of 234,000,000 warrants on 30 March 2012. The success of the fund raising fully underscored the investors' confidence in the management and the long-term potential of the Group.

OPERATIONAL AND FINANCIAL REVIEW

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 adopts multipronged strategies to solidify its operations and enhance its strengths for the long-term development of its businesses. It remains committed to stringent and comprehensive quality control procedures throughout all its production and service processes and continue its customer-oriented approach to strive to serve all its customers with quality products and services at one stop. The Group always targets its sales at higher value products and endeavour to broaden its customer base and widen its overall profit margin. In order to fortify its competitiveness and to respond to the market trend and needs in a timely manner, the Group devotes considerable resources to its strong research and development team for product innovation. In addition, to strictly adhere to its conservative and pragmatic operating philosophy, the Group always insists its vigilance on cost control measures and production and operating efficiency. The Group strongly believes all the aforesaid measures facilitate its sustainable development and contribute to generate value for shareholders over the long term.

In 2012, the Group's total turnover decreased by 16.8% to approximately RMB515.8 million for the year (2011: RMB620.1 million). During the year, the revenue from fabrics sales business, processing business, trading business and yarn business all fell. Lower average unit selling price was recorded for all fabrics sales business, processing business and yarn business.

The Group registered a gross profit of approximately RMB38.5 million for the year (2011: RMB49.2 million), representing a drop of approximately 21.6% as compared with last year. The Group's overall gross profit margin for the year was approximately 7.5% (2011: 7.9%). During the year, the gross profit margin from yarn business rose whereas those from fabrics sales business, processing business and trading business fell. The decline in the purchase cost of cotton during the year resulted in the increase in gross profit margin of yarn business. The persistent depressed market and the lower average unit selling prices dragged down the gross profit margins of fabrics sales business and processing business.

Other income increased by 39.1% to approximately RMB0.9 million (2011: RMB0.7 million) which primarily included amortised government grant of RMB0.1 million, government rewards and subsidies of RMB0.2 million and an interest income of RMB0.5 million. Other expenses, gains and losses turned from a net gain of RMB23.1 million in 2011 to a net loss of RMB4.5 million in 2012, which was mainly the net aggregate of allowances for bad and doubtful debts of RMB2.8 million, reversal of provision upon cancellation of onerous contracts for acquisition of property, plant and equipment of RMB2.8 million, net exchange loss of RMB0.8 million, gain on change of fair value of derivative component of convertible bonds of RMB1.8 million, gain on disposals of property, plant and equipment of RMB3.1 million, loss on fair value of warrants of RMB6.1 million and research and development costs of RMB2.5 million. During the year, impairment losses of RMB28.5 million (2011: RMB119.8 million) in respect of prepaid lease payments and property, plant and equipment were recognised. On the other hand, reversals of impairment losses of RMB1.8 million (2011: RMB15.9 million) in respect of prepaid lease payments and property, plant and equipment were recognised.

As a result of more stringent cost control, distribution and selling expenses dropped by 13.3% to approximately RMB8.9 million (2011: RMB10.3 million) and the administrative expenses were down by 6.1% to approximately RMB33.2 million (2011: RMB35.4 million). Finance costs for the year increased by 32.9% to RMB33.0 million (2011: RMB24.8 million), which was mainly caused by the higher average bank and other interest-bearing borrowings during the year.

FUTURE PROSPECTS

The Group remains cautious about the global economy for the rest of 2013. Nevertheless, it is fully confident and optimistic about the Group's future growth and outlook.

Undoubtedly, looking ahead, the remaining 2013 is expected to be full of challenges and volatilities. The various uncertainties over the global economy still prevail. Among others, the possible fluctuation of raw material prices, the timing and scale of possible exit from quantitative easing by the United States, the latest development of debt woes faced by certain European countries, the possible change in the current low interest rate environment and the potential rising China and global inflationary pressures all impacted the business landscape faced by the Group.

The competition among peers in the market will remain fierce and the market consolidation will persist. However, such a consolidation will enable established manufacturers to benefit in the long run. In addition, the steady economic growth and rising disposable income in China will boost the steady growth in the domestic demand for high quality fabrics and textile products.

Against such a backdrop, the Group will continue to steer its business in a prudent yet pragmatic manner. It will maintain its alertness to its changing operating environment and adjust its business strategies when necessary. In the near term, the Group will work hard to restore its profitability and strengthen its balance sheet and its overall financial position.

With its quality products, established foundation and advanced technology, the Group is well-prepared for the challenges and opportunities in the coming future.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, the Group had total assets of approximately RMB1,008.8 million (2011: RMB880.3 million) which were financed by current liabilities of approximately RMB641.5 million (2011: RMB494.7 million), non-current liabilities of approximately RMB91.3 million (2011: RMB41.6 million) and shareholders' equity of approximately RMB276.0 million (2011: RMB344.0 million).

As at 31 December 2012, the Group's cash and bank balances was approximately RMB21.3 million (2011: RMB42.0 million), while pledged bank deposits amounted to RMB53.4 million (2011: RMB48.0 million). As at 31 December 2012, 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 debt component of convertible bonds was fixed-rate loan and was denominated in Hong Kong dollars. The loan from a related party was fixed-rate loan and was denominated in Hong Kong dollars. Other unsecured loan was fixed-rate loan and was denominated in the United States dollars.

The Group maintained a healthy liquidity position. The current ratio, being a ratio of total current assets to total current liabilities, was approximately 1.1 (2011: 1.2). The gearing ratio, being a ratio of borrowings (comprising mortgage loan, short-term bank loans, debt component of convertible bonds, loan from a related party and other unsecured loan) to shareholders' equity, was 184.0% (2011: 108.9%). The Group always adopted a conservative approach in its financial management.

CHARGES ON GROUP ASSETS

As at 31 December 2012, the Group's borrowings were secured by assets with a total carrying value of approximately RMB161.7 million (2011: RMB161.5 million).

CAPITAL EXPENDITURES

As at 31 December 2012, the Group did not have any capital commitments (2011: RMB1.2 million) in respect of purchases of property, plant and equipment.

CONTINGENT LIABILITIES AND EXCHANGE RISK EXPOSURE

As at 31 December 2012, the Group did not have any significant contingent liabilities (2011: 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 2012, the Group had about 1,500 employees (2011: 1,700 employees) in Hong Kong and in the PRC.

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

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

On 29 February 2012, the Company entered into a warrant placing agreement (the Warrant Placing Agreement") with a placing agent pursuant to which the Company appointed the placing agent as a 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. The subscription rights attaching to the warrants can be exercised at any time during a period of 24 months commencing from the date of issue of the warrants. Any subscription rights attaching to the warrants which have not been exercised upon the expiration of 24-month subscription period shall lapse. The aggregate of the issue price of HK$0.02 per warrant and the subscription price of HK$0.14 per subscription share is HK$0.16 and represented a premium of approximately 1.27% over the closing price of HK$0.158 per share as quoted on the Stock Exchange on 29 February 2012, being the last trading day immediately preceding the date of the Warrant Placing Agreement. The Company completed the issue of 234,000,000 warrants on 30 March 2012 and the proceeds from the issue were used as general working capital of the Group. The net price of each share to be issued upon exercise of the warrants, taking into account of the issue price of HK$0.02 per warrant after deducting the relevant expenses and based on the full exercise of the warrants, will be approximately HK$0.158. The directors consider the aforesaid warrant placing is an appropriate means of raising additional working capital for the Company because it is not interest bearing and it will not have an immediate dilutive effect on the shareholding of the existing shareholders. In addition, apart from the net proceeds raised immediately upon completion of the warrant placing, the Company will be provided with additional working capital upon exercise of the subscription rights attaching to the warrants.

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 (2011: Nil) for the year.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 27 May 2013 to Friday, 31 May 2013 (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, 24 May 2013. 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 2012 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 applicable code provisions in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) as set out in Appendix 14 of the Listing Rules during the year ended 31 December 2012, except as stated below. In respect of code provision A6.7 of the Corporate Governance Code, Professor Zeng Qingfu and Professor Zhao Bei, both being independent non-executive directors of the Company, were unable to attend the annual general meeting and the extraordinary general meeting held on 1 June 2012 due to other commitments.

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, 27 March 2013

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.