* For identification purpose only

Annual Report 2007

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 707)

CONTENTS

BOARD OF DIRECTORS

Executive Directors:

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

Independent Non-Executive Directors:

Professor Zeng Qingfu
Professor Zhao Bei
Mr. Lui Siu Keung

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

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

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathvale House
North Church Street, George Town
Grand Cayman, British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

707

On behalf of the board of directors (the "Board" or the "Directors") of Co-Prosperity Holdings Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2007 ("year").

RESULTS HIGHLIGHTS

The Group's consolidated turnover for the year amounted to RMB917.4 million, representing an increase of approximately 1.6% over that of last year. Gross profit for the year dropped 13.3% to RMB171.9 million as compared to the corresponding last year. Profit attributable to the shareholders for the year decreased by 32.8% to RMB91.1 million while basic earnings per share fell 41.8% to RMB10.29 cents.

The Board is pleased to recommend the payment of a final dividend of HK1 cent per share. This dividend, together with the interim dividend of HK1.5 cents per share already paid, will constitute a total dividend of HK2.5 cents per share for the year.

BUSINESS REVIEW

2007 proved to be a challenging year for the PRC textile industry. The lingering rise in manufacturing costs, the Mainland reducing the Value-Added-Tax rebate and the continual appreciation of Renminbi have adversely impacted the industry. Besides, the worries over a US economic downturn due to subprime crisis have also weakened consumer confidence. During the year, the Group managed to achieve a moderate increase in sales turnover. However, as a result of the surge in material costs and manufacturing overheads, the Group inevitably experienced margin pressures and reported a decrease in operating profit.

In view of the severe shortage of locally produced yarn in Shishi City, the Group established a wholly-owned subsidiary, 協盛協豐（泉州）紡織實業有限公司 in Shishi City, Fujian Province in March 2007 to produce high density and high-end yarns ("Quanzhou project"). The construction of the plant of Quanzhou project is currently in full gear. Phase I of the plant with an annual production capacity of 11,000 tonnes of yarn is expected to be completed and ready for production in the fourth quarter of 2008.

On 15 June 2007, arrangements were made for a private placement to professional and institutional investors of 120,000,000 ordinary shares of HK$0.10 each at a price of HK$1.32 per share by Famepower Limited ("Famepower"), the controlling shareholder of the Company. On the same date, the Company entered into a subscription agreement with Famepower for the subscription ("subscription")of 120,000,000 new ordinary shares of HK$0.10 each at a price of HK$1.32 per share. The subscription price is equivalent to the placing price mentioned above. Taking advantage of the foreseen low interest rate environment in Hong Kong, the Group secured a 3-year syndicated loan of HK$ 160 million ("loan facility") on 25 October 2007. The net proceeds from the subscription and the loan facility had been used for our capital expenditure and general working capital funding.

FUTURE PROSPECTS

The Group expects the tough environment of the industry and the market consolidation will persist for some time. The further consolidation of the industry will however enable established manufacturers to increase their market share. Besides, the robust economic growth and rising disposable income in the PRC will boost the steady growth in the domestic demand for high quality garment and fabrics. To capture the market, the Group will target its sales at higher value products while continue its customer-oriented approach to serve its customers with quality finished fabrics and related services at one stop. The Group will continue to devote considerable resources on new product research and enhancement of existing product series. Moreover, the Group will maintain its alertness on cost control measures and production efficiency.

Looking forward, the Group will maintain its pragmatic expansion approach and consider potential opportunities consistent with the Group's objectives at appropriate times. Quanzhou project marks the Group's first step towards full vertical integration and revenue diversification. It also enables it to tap into the vast market potential of locally produced yarn in Shishi City and ensure the stable and low-cost supply of raw materials for the Group's production purpose. It is anticipated that Quanzhou project will become one of the important profit drivers for the Group in the future.

Capitalizing on its established leading position in the industry and advanced technology, the Group is well-prepared for the challenges and opportunities ahead. The Board is optimistic about the Group's future outlook.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our shareholders, investors and business partners for their support and to our staff for their contribution. We will continue to enhance our corporate transparency and strengthen our corporate governance and internal control. We will keep a close eye on the ever changing business environment and will take every opportunity to optimize our business to enrich shareholders' value.

Sze Siu Hung
Chairman

Hong Kong, 10 April 2008

OPERATIONAL AND FINANCIAL REVIEW

In 2007, the Group is principally engaged in the sale of finished fabrics and provision of fabrics processing subcontracting services ("fabrics sales and processing business") and trading of goods ("trading business") to customers.

The Group's total turnover grew by 1.6% to approximately RMB917.4 million for the year (2006: RMB902.5 million). During the year, the revenue from the fabrics sales and processing business rose whereas that from trading business fell. The growth in fabrics sales and processing business was mainly the result of higher sales volume output offset by a slight drop in its average unit price.

The Group recorded a gross profit of approximately RMB171.9 million for the year (2006: RMB198.3 million), representing a decrease of approximately 13.3% as compared with last year. The Group's overall gross profit margin for the year was approximately 18.7% (2006: 22.0%), which was lower than that of last year. During the year, the gross profit margin from the fabrics sales and processing business declined whereas that from the trading business rose. For the fabrics sales and processing business, coupled with a mild fall in selling prices, the rising material and manufacturing costs further ate up the margins, hence causing a fall in both gross profit and gross profit margin. For the trading business, the successful enhancement in sales mix with higher margins led to the increase in both gross profit and gross profit margin.

Other income decreased by 34.4% to approximately RMB2.5 million which was primarily composed of an exchange gain of around RMB1.1 million (2006: RMB0.2 million) and interest income of RMB1.0 million (2006: RMB3.3 million) for the year.

Distribution and selling expenses increased by 1.1 times to approximately RMB9.8 million (2006: RMB4.7 million) as a result of increased marketing efforts throughout the year. Administrative expenses rose 37.0% to approximately RMB39.6 million (2006: RMB28.9 million), of which a one-off RMB8.0 million (2006: Nil) was expensed for equity-settled share-based payments arising from the grant of share options to employees during the year. Finance costs for the year were up by 36.6% to RMB12.2 million (2006: 8.9 million), mainly due to the rise in PRC lending interest rate and the increased bank borrowings of the Group over the year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group had current assets of approximately RMB512.3 million (2006: RMB387.9 million) and current liabilities of approximately RMB219.1 million (2006: RMB229.2 million). The Group's cash and bank balances as at 31 December 2007 was approximately RMB194.0 million (2006: RMB45.6 million) while pledged bank deposits amounted to approximately RMB14.4 million (2006: nil). During the year, the Group's short-term bank loans had decreased to approximately RMB128.2 million (2006: RMB151.7 million). The current ratio (a ratio of total current assets to total current liabilities) of the Group was approximately 2.3 (2006: 1.7). The Board believe that the Group has sufficient working capital for its operation and future expansion.

In 2007, the Group successfully secured a 3-year syndicated loan of HK$160 million ("loan facility"). The net proceeds of the loan facility have been used for our capital expenditure and general working capital funding.

As at 31 December 2007, total borrowings increased by around 78.1% to approximately RMB280.9 million (2006: RMB157.7 million). The gearing ratio (a ratio of total interest-bearing borrowings to shareholders' equity) was approximately 32.3% (2006: 25.2%). Apart from the aforesaid interest-bearing borrowings, the Group financed its operations by internally generated resources and always adopted a conservative approach in its financial operations.

CHARGES ON GROUP ASSETS

As at 31 December 2007, the Group's borrowings were secured by certain land use rights, buildings, plant and machinery, motor vehicles, bank deposits of the Group with a total carrying value of approximately RMB170.6 million (2006: RMB133.4 million), corporate guarantees given by the Company and a subsidiary and charges over the equity of some of its subsidiaries.

CAPITAL EXPENDITURES

As at 31 December 2007, the Group has capital commitments of approximately RMB121.2 million (2006: RMB13.4 million), of which the whole amount (2006: Nil) was incurred for Quanzhou Project. Capital commitments for both 2006 and 2007 were for the purchases of property, plant and equipment.

CONTINGENT LIABILITIES AND EXCHANGE RISK EXPOSURE

As at 31 December 2007, the Group did not have any significant contingent liabilities (2006: 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.

SIGNIFICANT INVESTMENT AND MATERIAL ACQUISITIONS AND DISPOSAL

The Group established a wholly-owned subsidiary, 協盛協豐（泉州）紡織實業有限公司 in Shishi City of Fujian Province in March 2007, in order to establish a textile production plant, for the purpose of producing high density and high-end yarn. Besides that, the Group has not been involved in any material acquisitions or disposals of subsidiaries and associated companies during the year.

During the course of reviewing the financial statements of the Group, the Directors discovered that there are several transactions made by the Group during the financial year ended 31 December 2007 which may constitute a notifiable transaction on the part of the Company under the Listing Rules. The Directors will liaise further with the Stock Exchange on such events and details of the aforementioned transactions, where necessary, will be disclosed by separate announcement in due course.

EMPLOYMENT

As at 31 December 2007, the Group had about 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.

EXECUTIVE DIRECTORS

Mr. Sze Siu Hung (施少雄), aged 43, is an executive Director and the Chairman of the Group. He is in charge of the overall operation and development of the Group. Mr. Sze has joined the Group since August 1996.

Mr. Sze Siu Hung is the vice-chairman of the Textile Association of the Fujian Province, vice chairman of the Entrepreneur Association of Quanzhou City, member of the Chinese People's Political Consultative Conference of Shishi City, honorary chairman of the Business Association of Shishi City, and chairman of Shishi Printing and Dyeing Association. Mr. Sze has over 20 years' experience in the textile industry. Mr. Sze Siu Hung is the spouse of Madam Cai Peilei, an executive Director, brother in law of Mr. Cai Chaodun, the deputy general manager of the Group and the elder brother of Mr. Sze Siu Bun, the chief executive officer of the Group. Save as disclosed herein and save for (i) Mr. Sze beneficially owning 0.20% of the issued share capital of the Company; (ii) Mr. Sze owning 50% beneficial interest in Peilei Charitable Limited which holds approximately 2.91% of the issued share capital of the Company; and (iii) Mr. Sze being the sole director of Famepower Limited which holds approximately 59.27% of the issued share capital of the Company and is wholly owned by Federal Trust Company, a trust company, in its capacity as the trustee of The Sze Trust, a discretionary trust established on 31 May 2005 with the founder and discretionary objects of which being respectively Mr. Sze and direct family members of Mr. Sze (excluding Mr. Sze himself), Mr. Sze Siu Hung has no relationship with other Directors, senior management, substantial or controlling shareholders of the Company. Mr. Sze presently holds directorships in some of the subsidiaries of the Group.

Mr. Qiu Fengshou (邱豐收), aged 53, is an executive Director and the vice-chairman of the Group. Mr. Qiu is responsible for overall production management of the Group. Mr. Qiu has joined the Group since August 1996. Mr. Qiu has about 18 years' experience in printing and dyeing industry. Mr. Qiu also holds directorships in some of the subsidiaries of the Group.

Madam Cai Peilei (蔡蓓蕾), aged 40, is an executive Director. Madam Cai is responsible for the financial management of the Group. Before joining the Group in February 1999, Madam Cai had worked in China Agriculture Bank, Shishi branch for about five years. Madam Cai is also a director of a subsidiary of the Group.

Madam Cai is the spouse of Mr. Sze Siu Hung, an executive Director and the Chairman of the Group, sister in law of Mr. Sze Siu Bun, the chief executive officer of the Group and the elder sister of Mr. Cai Chaodun, the deputy general manager of the Group. Save as disclosed herein and save for Madam Cai owning the remaining 50% beneficial interest in Peilei Charitable Limited and being a discretionary object to The Sze Trust, Madam Cai has no relationship with other Directors, senior management, substantial or controlling shareholders of the Company.

Mr. Sze Chin Pang (施展鵬), aged 50, is an executive Director. Mr. Sze Chin Pang is in charge of the Group's operation in Hong Kong. Before joining the Group in April 2004, he had been a sales and administration manager of a private company in Hong Kong since January 1991 and has about 17 years' experience in fabrics trading. Mr. Sze is also a director of a subsidiary of the Group. Mr. Sze Chin Pang has no relationship with Mr. Sze Siu Hung.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Zeng Qingfu (曾慶福教授), aged 45, was appointed as an independent non-executive Director in June 2005. Professor Zeng obtained his Doctor's degree of Philosophy in the Leeds University, United Kingdom and his Master's degree of Engineering in Tianjin Textile Engineering Institute (天津紡織工學院). He obtained his professor qualification in dyeing engineering in 1997. He was awarded Young and Middle-aged Experts for his significant contribution to Hubei Province (湖北省有突出貢獻中青年專家) in 2002. Professor Zeng was nominated as "10 Outstanding Youth of Hubei Province" (湖北省十大傑出青年) in 2000. In addition, in April 2003, Professor Zeng was awarded "10 Outstanding Patented Inventors in Wuhan region" (十大專利發明者). For recognising his contribution in natural science, the State Council of the PRC granted special government subsidies to Professor Zeng on 30 March 1997. Besides, Professor Zeng has obtained various science and technology awards including "Certificate of Sangma Trust Fund Textile Science and Technology Award" (桑麻基金會紡織科技獎證書) granted by the Sangma Trust Fund in 2004.

Professor Zeng is also a director of Wuhan Fangyuan Environmental Technology Co., Ltd., a company established in Wuhan, the PRC, carrying on the business of investment holdings. Professor Zeng has been a director of the aforesaid company since 23 October 1998.

Professor Zhao Bei (趙蓓教授), aged 50, was appointed as an independent non-executive Director in June 2005. Professor Zhao graduated from the Department of International Trade, School of Economics of Xiamen University in 1982 and was awarded a Bachelor's degree of Economics. She obtained her Doctor's degree of Philosophy in the University of Hong Kong in 2003. Professor Zhao was appointed as an assistant professor in the Department of Business Administration of a university in Canada from 1990 to 1994. She specialises in the research of corporate strategy planning, marketing and corporate finance management and has published several research papers in those areas. She was granted research funds and awards by universities in Canada and Hong Kong.

Mr. Lui Siu Keung (呂小強), aged 36, was appointed as an independent non-executive Director in June 2005. Mr. Lui graduated from the Hong Kong Polytechnic University with a Bachelor's degree in accountancy. He is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Lui has approximately ten years' experience in corporate finance, auditing and accounting. He is now the Chief Financial Officer and an executive Director of Zhongyu Gas Holdings Limited (stock code: 8070), a company listed on the Growth Enterprise Market of the Stock Exchange.

SENIOR MANAGEMENT

Mr. Sze Siu Bun (施少斌), aged 40, is the chief executive officer of the Group. He is responsible for assisting the Directors in the overall management of the Group and overseeing daily management of the Hong Kong office. He has joined the Group since July 2005. He has about 14 years' experience in printing and dyeing industry. He is also a director of a subsidiary of the Group. Mr. Sze Siu Bun is the younger brother of Mr. Sze Siu Hung, an executive Director and the Chairman of the Group.

Mr. Ji Congming (季從明), aged 46, is the general manager of the Group. Mr. Ji is responsible for assisting the Directors in the overall management and overseeing daily operation of the Group. Mr. Ji graduated from Xiamen University (廈門大學) with a diploma in statistics. He has joined the Group since February 1999. Mr. Ji has over 20 years' experience in printing and dyeing industry.

Mr. Fu Jianhua (傅建華), aged 49, is the deputy general manager of the Group. Mr. Fu is responsible for the production planning and operation of the Group. Mr. Fu graduated from China Textile Politics Open College (中國紡織政治函授學院) with a diploma in management. He has joined the Group since June 2001. Mr. Fu has over 20 years' experience in printing and dyeing industry.

Mr. Cai Chaodun (蔡朝敦), aged 36, is the deputy general manager of the Group. Mr. Cai is responsible for the marketing affairs of the Group. He has joined the Group since February 1999. Mr. Cai has about 12 years' experience in marketing. He is the younger brother of Madam Cai Peilei, an executive Director of the Group.

Mr. Xu Yunchang (徐運昌), aged 36, is the manager of the research and development department of the Group. Mr. Xu is responsible for research and development activities of the Group. Mr. Xu graduated from Wuhan Textile Engineering Institute (武漢紡織工學院) with a Bachelor's degree in dyeing engineering. He is a registered engineer in the PRC. Mr. Xu has joined the Group since June 2001. He has about 12 years' experience in research and development in the printing and dyeing industry.

Mr. Huang Xinchun (黃新春), aged 43, is the finance manager of the Group. He is responsible for the accounting and financial affairs of the Group. Mr. Huang graduated from Fujian Televisions University (福建廣播電視大學) with a diploma in accounting. He is a registered accountant in the PRC. Mr. Huang has joined the Group since April 2002. Mr. Huang has about 22 years' experience in accounting and finance.

Ms. Zhengfang (鄭芳), aged 51, is the manageress of the quality control department of the Group. Ms. Zheng is responsible for the quality control matters of the Group. She has joined the Group since January 2000. She has about 17 years' experience in fabrics quality control.

Mr. Zhang Bingcheng (張炳成), aged 49, is the procurement manager of the Group. Mr. Zhang is responsible for daily procurement activities of the Group. He has joined the Group since February 2002. Mr. Zhang has over 25 years' experience in the printing and dyeing industry.

Mr. Chan Hon Hung (陳漢雄), aged 38, is the financial controller and company secretary of the Group. He is responsible for overseeing the Group's accounting and financial affairs. Mr. Chan holds a bachelor degree in Accountancy. Mr. Chan is also a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a Chartered Accountant of the Institute of Chartered Accountants in England and Wales, a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Chartered Secretaries and an associate member of the Institute of Chartered Secretaries and Administrators. Mr. Chan joined the Group in July 2007. Mr. Chan has about 16 years' experience in accounting, financial management and auditing. Mr. Chan is a full time employee and the qualified accountant of the Group.

The Directors are pleased to present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 28 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 26. An interim dividend of HK1.5 cent (2006: HK1 cent) per share amounting to HK$14,475,000 (2006: HK$8,000,000) was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK1 cent (2006: HK3 cents) per share to the shareholders whose name appeared on the register of members on 22 May 2008 amounting to HK$9,650,000 (2006: HK$24,240,000).

TRADING RESULTS

The Group's consolidated profit for the year amounted to RMB91,137,000.

SHARE CAPITAL

Details of the movements in the issued share capital of the Company during the year are set out in note 24 to the financial statements.

RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 29 and 30.

At 31 December 2007, the Company's reserve available for distribution to its shareholders comprising contributed surplus amounted to approximately RMB379,001,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total turnover.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers taken together accounted for 23.4% and 34.5% respectively of the Group's total purchases for the year.

None of the Directors, their respective associates or, so far as the Directors are aware, any Shareholder who owns more than 5% of the issued share capital of the Company has any interest in any of the top five suppliers of the Group for the year.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:
Mr. Sze Siu Hung *(Chairman and Managing Director)*
Mr. Qiu Fengshou *(Vice-Chairman)*
Madam Cai Peilei
Mr. Sze Chin Pang

Independent non-executive directors:
Professor Zeng Qingfu
Professor Zhao Bei
Mr. Lui Siu Keung

Each of the executive directors entered into a service contract with the Company for a term of two years commencing on 1 June 2005 (the "Previous Contracts"). The Previous Contracts would continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. In 2008, each of the executive directors has renewed the service contract with the Company for a term of two years commencing on 1 January 2008 (the "New Contracts"). The New Contracts will be renewable automatically for successive terms of one year until terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive directors was appointed by way of a letter of appointment for a term of two years commencing on 1 June 2005 (the "Previous Appointments"). After expiry of the term under the Previous Appointments, each of the independent non-executive directors has been re-appointed by the Company by way of a letter of appointment for a term of two years commencing 1 June 2007 (the "New Appointments"). The New Appointments will be renewable automatically for successive terms of one year until terminated by either party giving not less than three months' prior notice in writing to the other.

All directors are subject to retirement by rotation in accordance with the Company's Articles of Association.

None of the directors has entered or has proposed to enter into any service contract with the Company or any of its subsidiaries which is not expiring or determinable by the employing company within one year without payment of compensation other than statutory compensation.

In accordance with the Company's Articles of Association, Mr. Sze Siu Hung, Mr. Qiu Fengshou and Mr. Lui Siu Keung will retire and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received confirmation of independence from each of the independent non-executive director and the Company considered all independent non-executive directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 8 to 11 of the annual report.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, the interests and/or short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they have taken, or deemed to have taken under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), were as follows:

The Company – Long Position:

Name of Director	**Name of Corporation**	**Nature of Interest**	**Number of shares**	**Percentage of the Company's issued share capital** (%)
Mr. Sze Siu Hung	The Company	Interest in controlled company and founder of trust *(Notes 1 and 2)*	600,000,000 long position	62.18%
	The Company	Beneficial interest *(Note 3)*	2,000,000 long position	0.20%
	Famepower	Interest in controlled company and founder of trust *(Notes 1 and 2)*	*Note 1*	*Note 1*
Madam Cai Peilei	The Company	Family interest *(Note 4)*	600,000,000 long position	62.18%
	Famepower	Family interest *(Note 4)*	*Note 1*	*Note 1*
	The Company	Family interest *(Note 3)*	2,000,000 long position	0.20%

Notes:

1. As at 31 December 2007, about 59.27% of shareholding of the Company is owned by Famepower, which is owned as to 100% by Federal Trust Company Limited, a trust company in its capacity as the trustee of The Sze Trust which was a discretionary trust, the founder (as defined in the SFO) of which is Mr. Sze Siu Hung ("Mr. Sze") and the discretionary objects of which are family members of Mr. Sze (excluding Mr. Sze himself). Accordingly, Mr. Sze is deemed to be interested in the relevant Shares under the SFO.

2. As at 31 December 2007, about 2.91% of shareholding of the Company is owned by Peilei Charitable Limited ("PCL"), a company incorporated in the British Virgin Islands and the entire issued share capital of which is owned as to 50% by Mr. Sze and as to 50% by Madam Cai Peilei. Mr. Sze and Madam Cai Peilei intend to use the Shares held by PCL for charitable purpose.

3. As at 31 December 2007, 2,000,000 Shares, representing 0.20% of shareholding of the Company, are beneficially owned by Mr. Sze Siu Hung, Madam Cai Peilei is the spouse of Mr. Sze and is deemed to be interested in 2,000,000 Shares.

4. Madam Cai Peilei is the spouse of Mr. Sze and is deemed to be interested in 600,000,000 Shares.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors have an interest in any business constituting a competing business to the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' interests and short positions in shares, underlying shares and debentures" above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2007.

SHARE OPTION SCHEME

A Share Option Scheme (the "Share Option Scheme") was adopted by the shareholders' written resolution of the Company dated 15 March 2006. The purpose of the Share Option Scheme is to enable the Company to grant options to directors, eligible employees and other outside third parties under the Share Option Scheme, in the sole discretion of the directors of the Company, who have contributed or will contribute to the growth and development of the Group. The Share Option Scheme shall continue in force for the period commencing from the adoption date of the Share Option Scheme and expiring at the close of business on the tenth anniversary thereof, after such period no further options will be granted. There was no change in any terms of the Share Option Scheme during the year ended 31 December 2007. The details of the terms of the Share Option Scheme have been disclosed in note 25 to the financial statements.

As at 31 December 2007, details of share options granted to eligible employees under the Share Option Scheme of the Company were as follows:

	Number of share option								
Name or category of participant	**At 1 January 2007**	**Granted during the period** *(Notes 1 & 2)*	**Exercised during the period** *(Note 3)*	**Lapsed during the period**	**Cancelled during the period**	**At 31 December 2007**	**Date of grant** *(Note 4)*	**Exercise period**	**Exercise price** HK$
Eligible employees of the Company and/or its subsidiaries in aggregate	–	45,000,000	45,000,000	–	–	–	17 January 2007	17 January 2007 to 16 January 2010	0.75

Notes:

1. No eligible employees of the Company had been granted options conferring rights to subscribe for more than 1% of the issued share capital of the Company at the time of grant.

2. The share options vested with the eligible employees upon their acceptance.

3. The weighted average closing price of the share immediately before the date on which the options were exercised was HK$1.24.

4. The closing price of the share on 16 January 2007, being the date immediately before the date of grant of such options, was HK$0.70.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of acquisitions of shares in, or debentures of the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company, or any had exercised any such right.

DIRECTORS' REMUNERATION

Details of directors' emoluments on a named basis are set out in note 9 to the financial statements.

There were no compensation paid during the financial year or receivable by directors or past directors for the loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group distinguishing between contractual and other payments.

RETIREMENT BENEFITS SCHEME

The Group's qualifying employees in Hong Kong participate the Mandatory Provident Fund (the "MPF") in Hong Kong.

The assets of the MPF are held separately from those of the Group in funds under the control of trustee. The Group and each of the employees make monthly mandatory contributions to the MPF schemes.

The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, to the best knowledge of the directors and based on the information publicly available to the Company, there is a sufficient public float as required by the Listing Rules.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

On 15 June, 2007, arrangements were made for a private placement to professional and institutional investors of 120,000,000 ordinary shares of HK$0.10 each at a price of HK$1.32 per share by Famepower Limited ("Famepower"), the controlling shareholder of the Company. The price of HK$1.32 per share represents a discount of approximately 9.6% to the closing market price of the Company's shares of HK$1.46 per share as quoted on the Stock Exchange on 14 June 2007, the last trading date prior to the placing. On the same date, the Company entered into a subscription agreement with Famepower for the subscription of 120,000,000 new ordinary shares of HK$0.10 each at a price of HK$1.32 per share. The subscription price is equivalent to the placing price mentioned above. The net proceeds of the subscription were used for funding the development and operation of Quanzhou Project and general working capital and project development requirements of the Group.

Besides, during the year, 45,000,000 share options were exercised at a subscription price of HK$0.75 per share, resulting in the issue of 45,000,000 ordinary shares of HK$0.10 each in the Company

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

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

Reference is made to a HK$160 million 3-year syndicated loan agreement ("loan agreement") signed on 25 October 2007. There is a provision ("provision")in the loan agreement requiring the Company to ensure that Mr. Sze Siu Hung ("Mr. Sze"), an executive Director and chairman of the Company, to remain as the chairman and managing director of the Company and to maintain management control of the Company and that Mr. Sze and his family members shall jointly maintain, directly or indirectly, not less than 50% of the issued voting share capital of the Company. The provision has been duly complied with for the year ended 31 December 2007.

DIVIDEND

The Board has proposed to pay a final dividend of HK1 cent (2006: HK3 cents) per share for the year ended 31 December 2007 but is subject to approval by the shareholders in the forthcoming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 19 May 2008 to Thursday, 22 May 2008 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the final dividend, 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 4:00 p.m. on 16 May 2008. Tricor Investor Services Limited is located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under company laws in the Cayman Islands.

AUDITOR

A resolution to re-appoint Deloitte Touche Tohmatsu as auditor of the Company will be submitted at the forthcoming annual general meeting of the Company.

On behalf of the Board

SZE SIU HUNG
Chairman

10 April 2008

The Company is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in the interest of its shareholders. The corporate governance principles of the Company emphasize a quality board, transparency and accountability to all shareholders of the Company.

The Company has adopted the code provisions set out in Appendix 14, Code on Corporate Governance Practices ("CG Code"), of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Directors are in the opinion that the Company has complied with the CG Code throughout the year ended 31 December 2007.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("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 and they all confirmed having fully complied with the required standard set out in the Model Code throughout the year ended 31 December 2007.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The management are delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report.

The Board currently consists of seven members including four executive Directors and three independent non-executive Directors:

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

Independent Non-Executive Directors
Professor Zeng Qingfu
Professor Zhao Bei
Mr. Lui Siu Keung

Mr. Sze Siu Hung is the spouse of Madam Cai Peilei, an executive Director, brother in law of Mr. Cai Chaodun, the deputy general manager of the Group and the elder brother of Mr. Sze Siu Bun, the chief executive officer of the Group. Save as disclosed herein, the Board members have no financial and/or other material/relevant relationships with each other. Such board composition is formed to ensure independence exists across the Board and to meet the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The biographical information of the Directors are set out on pages 8 to 11 under the section headed "Directors' & Senior Management's Biographies".

The Board is principally responsible for formulating business strategies, and monitoring the performance of the business of the Group. The Board decides on corporate strategies, approves overall business plans, evaluates the Group's financial performance and management and reviews the financial and internal control system. Other than the daily operational decisions which are delegated to the management of the Group, most of the decisions are taken by the Board. Specific tasks that the Board delegates to the Group's management include the implementation of strategies approved by the Board, the monitoring of operating budgets, the implementation of internal controls procedures and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

The Board have at least four meetings in a financial year and to discuss at other times as and when required to review financial and internal control, risk management, company strategy and operating performance of the Group. Minutes of the Board meetings are kept by the Company Secretary for record and are available for inspection by the Directors and auditors of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all the independent non-executive directors are independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules.

Each of the independent non-executive directors was appointed by way of a letter of appointment for a term of two years commencing on 1 June 2005 (the "Previous Appointments"). After expiry of the term under the Previous Appointments, each of the independent non-executive directors has been re-appointed by the Company by way of a letter of appointment for a term of two years commencing 1 June 2007 (the "New Appointments"). The New Appointments will be renewable automatically for successive terms of one year until terminated by either party giving not less than three months' prior notice in writing to the other.

All independent non-executive directors are subject to retirement by rotation in accordance with the Articles of Association of the Company.

Board Meetings

During the year ended 31 December 2007, the Board held twelve Board meetings. The attendance of each member at the Board meetings are set out below:

Name of Directors	Number of meetings attended/Total
Executive Directors	
Mr. Sze Siu Hung *(Chairman)*	12/12
Mr. Qiu Fengshou	11/12
Madam Cai Peilei	11/12
Mr. Sze Chin Pang	12/12
Independent Non-Executive Directors	
Professor Zeng Qingfu	11/12
Professor Zhao Bei	11/12
Mr. Lui Siu Keung	11/12

AUDIT COMMITTEE

The Board established an Audit Committee on 7 June 2005 with written terms of reference in compliance with the CG Code of the Listing Rules. The primary duties of the Audit Committee are to review the financial reporting system and internal control procedures of the Group, to make recommendations to the Board on the appointment, reappointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, and reviewing the annual and interim financial statements and accounting policies of the Group. The Audit Committee comprises three independent non-executive Directors, namely Professor Zeng Qingfu, Professor Zhao Bei and Mr. Lui Siu Keung. Mr. Lui Siu Keung, who possesses a professional accounting and relevant accounting experience, is the chairman of the Audit Committee. The Audit Committee meets at least twice a year to carry out the aforesaid primary duties and minutes of the meeting are kept by the Company Secretary at the principal place of business of the Company in Hong Kong.

During the year ended 31 December 2007, the Audit Committee held two meetings to review the Group's interim results for the six months ended 30 June 2007 and final results for the year ended 31 December 2006, to review with the external auditors on the financial reporting of the Group and to review the effectiveness of internal control system of the Group. The attendance records of the Audit Committee are as below:

Member of Audit Committee	Number of meetings attended/Total
Professor Zeng Qingfu	2/2
Professor Zhao Bei	2/2
Mr. Lui Siu Keung (Chairman)	2/2

REMUNERATION COMMITTEE

The Board established a Remuneration Committee on 7 June 2005 with written terms of references in compliance with the CG Code of the Listing Rules. The primary duties of the Remuneration Committee are to review and determine the remuneration packages, bonuses and other compensation payable to the Directors and senior management. In fulfilling the functions, the Remuneration Committee will take into consideration factors such as salaries paid by comparable companies, respective time commitment and responsibilities of the Directors and senior management and whether the remuneration packages are competitively attractive to retain the Directors and senior management. The Remuneration Committee comprises three independent non-executive Directors, namely Professor Zeng Qingfu, Professor Zhao Bei and Mr. Lui Siu Keung. Mr. Lui Siu Keung is the chairman of the Remuneration Committee. The Remuneration Committee meets at any time when necessary and desirable to carry out the aforesaid duties and minutes of the meeting are kept by the Company Secretary at the Company's principal place of business in Hong Kong. There is no meeting held for the year ended 31 December 2007.

NOMINATION COMMITTEE

The Board established a Nomination Committee on 7 June 2005 with written terms of references in compliance with the CG Code of the Listing Rules. The primary duties of the Nomination Committee are to review the composition of the Board and make recommendations to the Board on the selection of individuals nominated for directorship. The Nomination Committee comprises three independent non-executive Directors, namely Professor Zeng Qingfu, Professor Zhao Bei and Mr. Lui Siu Keung. Mr. Lui Siu Keung is the chairman of the Nomination Committee. The Nomination Committee meets at any time when necessary and desirable to carry out the aforesaid duties and minutes of the meeting are kept by the Company Secretary at the principal place of business in Hong Kong. During the year ended 31 December 2007, the Nomination Committee held one meeting ("meeting") to make recommendations to the Board in respect of the re-election of directors at the annual general meeting held in 2007. All the committee members attended the meeting.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The posts of the Chairman and the Chief Executive Officer (the "CEO") of the Group are separately held by Mr. Sze Siu Hung and Mr. Sze Siu Bun respectively for the year to ensure a clear distinction between the Chairman's responsibility to lead the Board and the CEO's responsibility to manage the Company's business affairs. The Company intends to continue having the role of the Chairman and CEO assumed by different individuals.

AUDITOR'S REMUNERATION

During the financial year ended 31 December 2007, the Group was charged HK$1,750,000 for auditing services and a total of HK$410,000 for non-auditing services by the Company's auditor, Deloitte Touche Tohmatsu. Details of the non-auditing fees are as follows:

Review of interim results	HK$370,000
Review of annual preliminary announcement of results	HK$15,000
Taxation services	HK$25,000

INTERNAL CONTROL

The Board reviews the effectiveness of the internal control system on an on-going basis and this includes identifying, evaluating and managing the significant risks faced by the Group and updates the internal control system when needed. The Board is of the view that the internal control system in place for the year under review and up to the date of the issuance of the annual report is sound and is sufficient to safeguard the interests of shareholders and the Group's assets.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensuring that the financial statements are prepared in accordance with the statutory requirements and applicable accounting standards. It is also the responsibility of the Directors to ensure the timely publication of the financial statements of the Group.

The statement of the external auditor of the Company, Deloitte Touche Tohmatsu, on its reporting responsibilities in respect of the financial statements of the Group is set out on pages 24 and 25. The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Deloitte.
德勤

TO THE SHAREHOLDERS OF CO-PROSPERITY HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Co-Prosperity Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 67, which comprise the consolidated balance sheet as at 31st December, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31st December, 2007 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

10th April, 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2007

	NOTES	2007 RMB'000	2006 RMB'000
Turnover	6	917,394	902,508
Cost of goods sold		(745,488)	(704,242)
Gross profit		171,906	198,266
Other income		2,480	3,781
Distribution and selling expenses		(9,804)	(4,740)
Administrative expenses		(39,582)	(28,896)
Finance costs	7	(12,164)	(8,902)
Profit before taxation	8	112,836	159,509
Taxation	10	(21,699)	(23,929)
Profit for the year		91,137	135,580
Dividends			
– interim dividends of 1.5 Hong Kong cents, equivalent to 1.44 RMB cents (2006: 1 Hong Kong cent, equivalent to 1 RMB cent) per share paid		13,920	8,000
– final dividends of 1 Hong Kong cent, equivalent to 0.94 RMB cent (2006: 3 Hong Kong cents, equivalent to 3 RMB cents) per share proposed	11	9,047	24,240
Earnings per share	12		
– Basic		10.29 RMB cents	17.69 RMB cents
– Diluted		10.21 RMB cents	N/A

CONSOLIDATED BALANCE SHEET

At 31st December, 2007

	NOTES	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	13	539,181	429,128
Land use rights	14	160,311	18,150
Deposits made on acquisition of property, plant and equipment		29,439	271
Deposits made on acquisition of land use rights		–	20,634
Deferred tax assets	15	–	2,558
		728,931	470,741
Current assets			
Inventories	16	187,956	174,089
Trade and other receivables	17	115,943	168,254
Pledged bank deposits	18	14,440	–
Bank balances and cash	18	193,984	45,577
		512,323	387,920
Current liabilities			
Trade and other payables	19	84,370	66,268
Obligations under finance leases due within one year	20	597	600
Taxation		5,364	10,117
Mortgage loan due within one year	21	527	524
Short-term bank loans	22	128,200	151,700
		219,058	229,209
Net current assets		293,265	158,711
Total assets less current liabilities		1,022,196	629,452

CONSOLIDATED BALANCE SHEET

At 31st December, 2007

	NOTES	2007 RMB'000	2006 RMB'000
Non-current liabilities			
Obligations under finance leases due after one year	20	298	955
Mortgage loan due after one year	21	3,182	3,958
Long-term bank loans	23	148,088	–
Deferred tax liabilities	15	–	343
		151,568	5,256
Net assets		870,628	624,196
Capital and reserves			
Share capital	24	98,855	82,760
Reserves		771,773	541,436
Total equity		870,628	624,196

The consolidated financial statements on pages 26 to 67 were approved and authorised for issue by the Board of Directors on 10th April, 2007 and are signed on its behalf by:

SZE SIU HUNG
Chairman

SZE CHIN PANG
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2007

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Share options reserve RMB'000	Translation reserve RMB'000	Statutory surplus reserve fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1st January, 2006	3	–	152,901	–	1,159	25,121	166,229	345,413
Exchange differences arising on translation of foreign operations and net loss recognised directly in equity	–	–	–	–	(1,859)	–	–	(1,859)
Profit for the year	–	–	–	–	–	–	135,580	135,580
Total recognised income and expense for the year	–	–	–	–	(1,859)	–	135,580	133,721
Capitalisation issue	68,274	(68,274)	–	–	–	–	–	–
Issue of shares by placing and public offer	14,483	153,520	–	–	–	–	–	168,003
Expenses incurred in connection with the issue of shares	–	(14,941)	–	–	–	–	–	(14,941)
Transfers	–	–	–	–	–	21,526	(21,526)	–
Distribution to shareholders	–	–	(8,000)	–	–	–	–	(8,000)
	82,757	70,305	(8,000)	–	–	21,526	(21,526)	145,062
At 31st December, 2006	82,760	70,305	144,901	–	(700)	46,647	280,283	624,196
Exchange differences arising on translation of foreign operations and net income recognised directly in equity	–	–	–	–	784	–	–	784
Profit for the year	–	–	–	–	–	–	91,137	91,137
Total recognised income and expense for the year	–	–	–	–	784	–	91,137	91,921

For the year ended 31st December, 2007

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Share options reserve RMB'000	Translation reserve RMB'000	Statutory surplus reserve fund RMB'000	Retained profits RMB'000	Total RMB'000
Issue of shares upon subscription	11,728	143,077	–	–	–	–	–	154,805
Issue of shares upon exercise of share options	4,367	36,374	–	(7,986)	–	–	–	32,755
Expenses incurred in connection with the issue of shares	–	(3,365)	–	–	–	–	–	(3,365)
Recognition of equity-settled share-based payments	–	–	–	7,986	–	–	–	7,986
Transfers	–	–	–	–	–	17,823	(17,823)	–
Distribution to shareholders	–	–	(37,670)	–	–	–	–	(37,670)
	16,095	176,086	(37,670)	–	–	17,823	(17,823)	154,511
At 31st December, 2007	98,855	246,391	107,231	–	84	64,470	353,597	870,628

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

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2007

	2007	2006
	RMB'000	RMB'000
Operating activities		
Profit before taxation	112,836	159,509
Adjustments for:		
Interest income	(1,024)	(3,305)
Finance costs	12,164	8,902
Depreciation	36,823	29,253
Loss on disposal of property, plant and machinery	36	–
Share-based payments	7,986	–
Operating lease rentals in respect of land use rights	801	473
Operating cash flows before movements in working capital	169,622	194,832
Increase in inventories	(13,867)	(22,853)
Decrease (increase) in trade and other receivables	51,474	(29,006)
Increase (decrease) in trade and other payables	21,926	(22,651)
Effect of foreign exchange rate changes	3,023	(1,758)
Cash from operations	232,178	118,564
Tax paid	(24,224)	(17,352)
Net cash from operating activities	207,954	101,212
Investing activities		
Interest received	1,024	3,305
Purchase of property, plant and equipment	(150,580)	(197,779)
Proceeds from disposal of property, plant and equipment	369	–
Purchase of land use rights	(122,328)	(9,304)
Deposits paid on acquisition of property, plant and equipment	(29,439)	(271)
Deposit paid on acquisition of land use rights	–	(20,634)
(Increase) decrease in pledged bank deposits	(14,440)	2,824
Net cash used in investing activities	(315,394)	(221,859)

For the year ended 31st December, 2007

	2007 RMB'000	2006 RMB'000
Financing activities		
Interest paid	(12,048)	(8,902)
Dividends paid	(37,670)	(8,000)
Proceeds from issue of shares	187,560	168,003
Expenses paid in connection with the issue of new shares	(3,365)	(14,941)
Repayment of obligations under finance leases	(563)	(325)
Repayment of other short-term loans	–	(17,720)
Bank loans raised	313,300	34,600
Expenses paid in connection with bank loans raised	(2,092)	–
Repayment of bank loans	(186,800)	(6,185)
Repayment of mortgage loan	(493)	(494)
Net cash from financing activities	257,829	146,036
Increase in cash and cash equivalents	150,389	25,389
Cash and cash equivalents at 1st January	45,577	20,252
Effect of foreign exchange rate changes	(1,982)	(64)
Cash and cash equivalents at 31st December	193,984	45,577
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	193,984	45,577

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability under the Companies Law of the Cayman Islands and acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 28. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" of the annual report. Its ultimate holding company is Federal Trust Company Limited, a company which is incorporated in the British Virgin Islands, while its immediate holding company is Famepower Limited, a company which is incorporated in the British Virgin Islands.

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

In the current year, the Company and its subsidiaries (hereinafter collectively referred to as the "Group") has applied, for the first time, the following new Standard, Amendment and Interpretations ("INTs") ("new HKFRS"s) issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the Group's financial year beginning 1st January, 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of embedded derivatives
HK(IFRIC) – INT 10	Interim financial reporting and impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

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

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

HKAS 1 (Revised)	Presentation of financial statements [1]
HKAS 23 (Revised)	Borrowing costs [1]
HKAS 27 (Revised)	Consolidated and separate financial statements [2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [1]
HKFRS 3 (Revised)	Business combinations [2]
HKFRS 8	Operating segments [1]
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions [2]
HK(IFRIC) – INT 12	Service concession arrangements [3]
HK(IFRIC) – INT 13	Customer loyalty programmes [4]
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction [3]

[1] Effective for annual periods beginning on or after 1st January, 2009.

[2] Effective for annual periods beginning on or after 1st July, 2009.

[3] Effective for annual periods beginning on or after 1st March, 2007.

[4] Effective for annual periods beginning on or after 1st January, 2008.

[5] Effective for annual periods beginning on or after 1st July, 2008.

The directors of the Company anticipate that the application of these Standards or INTs will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention and in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All inter-group transactions, balances, income and expenses are eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts.

Sales of goods is recognised when goods are delivered and title has passed while service revenue is recognised when the services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

For the leasehold land and buildings in Hong Kong where the cost of leasehold land cannot be reliably separated from the cost of leasehold land and buildings, the cost of leasehold land and buildings is depreciated over the shorter of the lease term and their estimated useful lives of 50 years on a straight line basis.

The cost of buildings in Mainland China (the "PRC") is depreciated over their estimated useful lives of 30 years using the straight line method.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Furniture, fixtures and equipment	10% to 25%
Motor vehicles	20%
Plant and machinery	10%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Land use rights

Payment for obtaining land use right is considered as operating lease payment and charged to income statement over the period of the right using the straight line method.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in first-out method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets are classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost (other than trade receivables), an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of trade receivables is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are classified as other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Equity instruments

Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities including trade and other payables, obligations under finance leases, mortgage loan and bank loans are subsequently measured at amortised cost, using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Research and development costs

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit and loss in the period in which it is incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Renminbi ("RMB"), which is the presentation currency for the consolidated financial statements.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currency) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. "RMB") using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium.

4. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the obligations under finance leases, mortgage loan, short-term bank loans and long-term bank loans disclosed in notes 20, 21, 22 and 23 respectively, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with the capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and raising of bank loans.

5. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2007 RMB'000	2006 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	245,599	121,258
Financial liabilities		
Amortised costs	330,671	188,790

b. Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, obligations under finance leases, mortgage loan and bank loans. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate bank deposits and borrowings and cash flow interest rate risk in relation to variable rate bank deposits and bank borrowings (see notes 22 and 23). The management of the Group monitors the related interest rate risk exposure closely to minimise these interest rate risks.

The interest rate risk on bank deposits is limited because of the short maturity.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offer Rate and People's Bank of China lending rate arising from the Group's borrowings which are denominated in Hong Kong dollar ("HKD") and Renminbi ("RMB") respectively.

5. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2007 would decrease/increase by RMB735,000 (2006: decrease/increase by RMB1,106,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

(ii) Currency risk

The currency risk of the Group is limited as most of the financial assets and financial liabilities are denominated in functional currencies of the relevant group entities.

Credit risk

As at 31st December, 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the balance sheet.

In order to minimise the credit risk, the Group has policies in place for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies and PRC stated-owned banks with good reputation.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

5. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank loans and ensures compliance with loan covenants.

As at 31st December, 2007, the Group has available unutilised bank loan facilities of approximately RMB53,900,000 (2006: RMB36,870,000).

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	Weighted average effective interest rate	Less than 3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2007
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2007						
Non-derivative financial liabilities						
Trade and other payables	–	43,951	5,828	–	49,779	49,779
Obligations under finance lease	6.15	148	472	317	937	895
Mortgage loan	5.10	131	413	3,344	3,888	3,709
Bank loans						
fixed rate	7.19	41,736	36,675	–	78,411	75,800
variable rate*	6.89	15,157	39,439	158,296	212,892	200,488
		101,123	82,827	161,957	345,907	330,671

5. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest risk tables (Continued)

	Weighted average effective interest rate	Less than 3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2006
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2006						
Non-derivative financial liabilities						
Trade and other payables	–	31,053	–	–	31,053	31,053
Obligations under finance lease	6.15	149	474	1,014	1,637	1,555
Mortgage loan	5.20	131	410	4,163	4,704	4,482
Bank loans						
fixed rate	6.06	21,318	80,497	–	101,815	98,000
variable rate*	6.48	8,333	47,711	–	56,044	53,700
		60,984	129,092	5,177	195,253	188,790

* The interest rates applied to project undiscounted cash flows of variable rate bank loans are the interest rates at the balance sheet date.

c. Fair value

The fair value of financial assets and financial liabilities are determined based on discounted cash flow analysis using prices or rates from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

6. TURNOVER AND SEGMENT INFORMATION

Turnover

Turnover represents the net amounts received or receivable from third parties and is summarised as follows:

	2007 RMB'000	2006 RMB'000
Sales of goods from		
– sales of finished fabrics	781,233	756,237
– trading of goods	69,197	92,659
	850,430	848,896
Subcontracting services	66,964	53,612
	917,394	902,508

Business segments

The Group is organised into three operating divisions, namely processing, printing and sales of finished fabrics, manufacture and sales of high density and high-end yarns and trading of goods. The operation of the manufacture and sales of high density and high-end yarns segment has not commenced and the factory under that segment is still under construction. The aforesaid three divisions are the basis on which the Group reports its primary segment information.

Principal activities 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, metallic products and other products

6. TURNOVER AND SEGMENT INFORMATION (Continued)

Business segments (Continued)

(i) An analysis of the Group's turnover and results by business segments is as follows:

	Turnover		Results	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Processing, printing and sales of finished fabrics				
– external sales	781,701	765,165		
– inter-segment sales	66,496	44,684		
	848,197	809,849	140,200	172,053
Trading of goods	135,693	137,343	1,327	2,777
	983,890	947,192	141,527	174,830
Elimination	(66,496)	(44,684)	–	–
	917,394	902,508	141,527	174,830
Interest income			1,024	3,305
Unallocated corporate expenses			(17,551)	(9,724)
Finance costs			(12,164)	(8,902)
Profit before taxation			112,836	159,509
Taxation			(21,699)	(23,929)
Profit for the year			91,137	135,580

6. TURNOVER AND SEGMENT INFORMATION (Continued)

Business segments (Continued)

(ii) Other information

	2007 RMB'000	2006 RMB'000
Capital additions		
– processing, printing and sales of finished fabrics	131,211	229,289
– manufacture and sales of high density and high-end yarns	159,579	–
– trading of goods	85	1,967
	290,875	231,256
Depreciation		
– processing, printing and sales of finished fabrics	35,960	28,735
– trading of goods	694	340
– corporate level	169	178
	36,823	29,253

(iii) Analysis of the Group's balance sheet by business segments is as follows:

	2007 RMB'000	2006 RMB'000
ASSETS		
Segment assets		
– processing, printing and sales of finished fabrics	820,668	768,519
– manufacture and sales of high density and high-end yarns	187,285	–
– trading of goods	17,312	33,580
	1,025,265	802,099
Deferred tax assets	–	2,558
Unallocated corporate assets	215,989	54,004
	1,241,254	858,661
LIABILITIES		
Segment liabilities		
– processing, printing and sales of finished fabrics	73,353	47,581
– manufacture and sales of high density and high-end yarns	14	–
– trading of goods	7,793	17,065
	81,160	64,646
Taxation	5,364	10,117
Deferred tax liabilities	–	343
Unallocated corporate liabilities	284,102	159,359
	370,626	234,465

6. TURNOVER AND SEGMENT INFORMATION (Continued)

Geographical segments

The Group's turnover is derived from customers located in the PRC and overseas including Hong Kong.

The following table provides an analysis of the Group's sales based on geographical location of customers:

	Turnover	
	2007	2006
	RMB'000	RMB'000
The PRC	781,950	766,665
Hong Kong and overseas	135,444	135,843
	917,394	902,508

The following is an analysis of the carrying amount of segment assets, and capital additions, analysed by the geographical areas in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
The PRC	1,017,641	786,607	290,807	231,235
Hong Kong and overseas	7,624	15,492	68	21
	1,025,265	802,099	290,875	231,256

7. FINANCE COSTS

	2007	2006
	RMB'000	RMB'000
Interest on bank loans		
– wholly repayable within five years	(11,840)	(8,646)
– not wholly repayable within five years	(208)	(256)
	(12,048)	(8,902)
Amortised transaction costs in relation to long-term bank loans	(116)	–
	(12,164)	(8,902)

8. PROFIT BEFORE TAXATION

	2007 RMB'000	2006 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 9)*	1,175	1,090
Other staff's retirement benefits scheme contributions	891	1,255
Other staff's share-based payments	7,986	–
Other staff costs	30,520	22,914
	40,572	25,259
Less: Staff costs included in research and development costs	(919)	(756)
	39,653	24,503
Depreciation on property, plant and equipment		
– owned by the Group	36,364	29,142
– held under finance leases	459	111
	36,823	29,253
Less: Depreciation included in research and development costs	(1,037)	(1,080)
	35,786	28,173
Auditor's remuneration	1,695	1,530
Loss on disposal of property, plant and equipment	36	–
Operating lease rentals in respect of land use rights	801	473
Research and development costs	4,180	4,235
and after crediting:		
Exchange gain	1,112	216
Interest income	1,024	3,305

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Details of emoluments paid by the Group to the directors are as follows:

	2007				2006			
	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors								
Mr. Sze Siu Hung	–	168	12	180	–	133	12	145
Mr. Qiu Fengshou	–	189	–	189	–	199	–	199
Madam Cai Peilei	–	126	–	126	–	132	–	132
Mr. Sze Chin Pang	–	436	12	448	–	398	12	410
Independent non-executive directors								
Professor Zeng Qingfu	58	–	–	58	51	–	–	51
Professor Zhao Bei	58	–	–	58	51	–	–	51
Mr. Lui Siu Keung	116	–	–	116	102	–	–	102
	232	919	24	1,175	204	862	24	1,090

In 2007, all the five highest paid individuals were employees. In 2006, the five highest paid individuals included two directors, details of whose emoluments are set out above. The emoluments of the employees included in the five highest paid individuals are as follows:

	2007 RMB'000	2006 RMB'000
Employees		
– basic salaries and allowances	258	1,126
– share-based payments	7,099	–
– retirement benefits scheme contributions	10	33
	7,367	1,159

The emoluments of the employees were within the following bands.

	Number of employees 2007	2006
Up to HK$1,000,000	–	3
HK$1,500,001 – HK$2,000,000	5	–

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

10. TAXATION

	2007 RMB'000	2006 RMB'000
The charge comprises:		
PRC income tax	(19,473)	(23,536)
Hong Kong Profits Tax	–	(43)
	(19,473)	(23,579)
Deferred taxation	(2,226)	(350)
	(21,699)	(23,929)

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.

On 16th March, 2007, the People's Republic of China promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate to 25% for the Company's certain PRC subsidiaries since 1st January, 2008.

Taxation in the PRC is calculated at the rates prevailing in the PRC jurisdiction. No provision for Hong Kong Profits Tax has been made in the financial statements in 2007 as the Group's operations in Hong Kong had no assessable profit for the year.

In 2006, Hong Kong Profits Tax was calculated at 17.5% on the assessable profit for that year.

10. TAXATION (Continued)

The charge for the year is reconciled to profit before taxation as follows:

	2007		2006	
	RMB'000	%	RMB'000	%
Profit before taxation	112,836		159,509	
Tax at the applicable income tax rate	(37,236)	(33.0)	(52,638)	(33.0)
Tax effect of expenses not deductible for tax purposes	(8,574)	(7.6)	(3,064)	(1.9)
Effect of tax exemption granted to PRC subsidiaries	27,049	24.0	31,414	19.7
Effect of different tax rates of subsidiaries operating in other jurisdictions	446	0.4	27	0.1
Tax effect of tax loss not recognised	(504)	(0.5)	–	–
Tax effect of tax loss utilised	–	–	695	0.3
Others	(2,880)	(2.5)	(363)	(0.2)
Tax charge and effective tax rate for the year	(21,699)	(19.2)	(23,929)	(15.0)

11. DIVIDENDS

The final dividend proposed for the year ended 31st December, 2007 is calculated on the basis of 965,000,000 shares in issue as at the date of this report.

12. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	2007 RMB'000	2006 RMB'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	91,137	135,580
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	885,487,671	766,246,575
Effect of dilutive potential ordinary shares – share options	7,033,120	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	892,520,791	

No diluted earnings per share was presented in 2006 as there was no potential dilutive shares during that year.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1st January, 2006	133,298	2,216	588	174,213	–	310,315
Currency realignment	(349)	(40)	–	–	–	(389)
Additions	62,498	1,970	2,018	103,522	51,944	221,952
Acquisition of a subsidiary	–	14	–	–	–	14
Transfers	695	–	–	778	(1,473)	–
At 31st December, 2006	196,142	4,160	2,606	278,513	50,471	531,892
Currency realignment	(549)	(69)	(118)	–	–	(736)
Additions	–	85	505	2,705	144,618	147,913
Disposals	–	–	–	(2,738)	–	(2,738)
Transfers	19,838	–	–	74,561	(94,399)	–
At 31st December, 2007	215,431	4,176	2,993	353,041	100,690	676,331
DEPRECIATION						
At 1st January, 2006	9,369	708	421	63,049	–	73,547
Currency realignment	(15)	(20)	(1)	–	–	(36)
Provided for the year	5,323	540	252	23,138	–	29,253
At 31st December, 2006	14,677	1,228	672	86,187	–	102,764
Currency realignment	(36)	(46)	(22)	–	–	(104)
Provided for the year	6,534	541	552	29,196	–	36,823
Eliminated on disposals	–	–	–	(2,333)	–	(2,333)
At 31st December, 2007	21,175	1,723	1,202	113,050	–	137,150
NET BOOK VALUES						
At 31st December, 2007	194,256	2,453	1,791	239,991	100,690	539,181
At 31st December, 2006	181,465	2,932	1,934	192,326	50,471	429,128

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The net book value of the Group's properties which are situated on land under medium-term leases is analysed as follows:

	2007 RMB'000	2006 RMB'000
Land and buildings in Hong Kong	7,557	8,235
Buildings in the PRC	186,699	173,230
	194,256	181,465

The net book value of motor vehicles includes an amount of RMB1,230,000 (2006: RMB1,785,000) in respect of assets held under finance leases.

The Group has pledged its buildings, plant and machinery with an aggregate net book value of RMB115,971,000 (2006: RMB124,025,000) to certain banks to secure the credit facilities granted to the Group.

14. LAND USE RIGHTS

	2007 RMB'000	2006 RMB'000
Carrying value		
At 1st January	18,150	9,319
Additions during the year	142,962	9,304
Charged to income statement for the year	(801)	(473)
At 31st December	160,311	18,150

The amount represents the prepayment of rentals for land use rights situated in the PRC for a period of 50 years.

At 31st December, 2007, the Group is in the process of applying for the relevant land use right ownership certificate with respect to certain land use rights with an aggregate carrying value of RMB147,169,000 (2006: RMB9,210,000).

The Group has pledged its land use rights with an aggregate carrying value of RMB38,984,000 (2006: RMB7,569,000) to certain banks to secure the credit facilities granted to the Group.

15. DEFERRED TAXATION

The following is the deferred tax asset, net of deferred tax liabilities, recognised by the Group and movements thereon during the year:

	Difference in depreciation
	RMB'000
At 1st January, 2006	2,558
Currency realignment	7
Charged to income statement for the year	(350)
At 31st December, 2006	2,215
Currency realignment	11
Charged to income statement for the year	(2,226)
At 31st December, 2007	–

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2007	2006
	RMB'000	RMB'000
Deferred tax assets	–	2,558
Deferred tax liabilities	–	(343)
	–	2,215

At 31st December, 2007, the Group has unutilised tax losses of RMB3,962,000 (2006: RMB2,482,000) available to offset against future profits. The balance may be carried forward indefinitely. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

16. INVENTORIES

	2007	2006
	RMB'000	RMB'000
Raw materials	117,177	119,271
Finished goods	70,779	54,818
	187,956	174,089

17. TRADE AND OTHER RECEIVABLES

	2007 RMB'000	2006 RMB'000
Trade receivables	35,719	69,490
Bills receivables	1,456	–
	37,175	69,490
Deposits paid to suppliers	73,467	80,214
Other receivables	5,301	18,550
	115,943	168,254

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 and bills receivables at the balance sheet date:

	2007 RMB'000	2006 RMB'000
Age		
0 to 90 days	31,313	44,837
91 to 180 days	5,289	6,642
181 to 270 days	573	7,810
271 to 365 days	–	9,059
Over 365 days	–	1,142
	37,175	69,490

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 RMB5,862,000 (2006: RMB24,653,000) which are past due at the reporting date for which the Group has not provided for allowance. The Group does not hold any collateral over these balances.

17. TRADE AND OTHER RECEIVABLES (Continued)

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

	2007 RMB'000	2006 RMB'000
Age		
91 – 180 days	5,289	6,642
181 to 270 days	573	7,810
271 to 365 days	–	9,059
Over 365 days	–	1,142
	5,862	24,653

Based on the historical experience of the Group, trade receivables that are past due are generally recoverable and as a result, no allowance was made for trade receivables at the balance sheet date.

18. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits represent deposits pledged to banks to secure bills payables utilised by the Group and are classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bills payables. The pledged deposits carry fixed interest rates ranging from 2.88% to 3.42% (2006: Nil).

Bank balances carry interest at market rates ranging from 0.72% to 5.08% (2006: 0.72% to 4.72%).

19. TRADE AND OTHER PAYABLES

	2007 RMB'000	2006 RMB'000
Trade payables	7,340	22,374
Bills payables		
– secured	14,440	–
– unsecured	25,388	3,130
	47,168	25,504
Customers' deposits	24,630	27,225
Payables for acquisition of property, plant and equipment	2,611	5,549
Other payables and accruals	9,961	7,990
	84,370	66,268

19. TRADE AND OTHER PAYABLES (Continued)

The following is an aged analysis of trade and bills payables at the balance sheet date:

	2007 RMB'000	2006 RMB'000
Age		
0 to 90 days	43,954	18,752
91 to 180 days	3,049	1,239
181 to 270 days	72	1,060
271 to 365 days	4	136
Over 365 days	89	4,317
	47,168	25,504

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

20. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 3 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 2.5% to 2.75% per annum. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Amounts payable under finance leases:				
Within one year	633	675	597	600
Between one to two years	305	675	298	637
Between two to five years	–	325	–	318
	938	1,675	895	1,555
Less: Future finance charges	43	120		
Present value of lease obligations	895	1,555		
Less: Amount due within one year shown under current liabilities			597	600
Amount due after one year			298	955

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

21. MORTGAGE LOAN

	2007 RMB'000	2006 RMB'000
The mortgage loan is secured and repayable as follows:		
Within one year	527	524
Between one to two years	550	551
Between two to five years	1,806	1,835
After five years	826	1,572
	3,709	4,482
Less: Amount due within one year shown under current liabilities	527	524
Amount due after one year	3,182	3,958

The mortgage loan carries interest at a fixed rate of 4.40% (2006: 5.15%) per annum and is denominated in Hong Kong dollars which is the functional currency of the relevant group entity.

22. SHORT-TERM BANK LOANS

	2007 RMB'000	2006 RMB'000
Short-term bank loans		
– secured	101,900	73,200
– unsecured	26,300	78,500
	128,200	151,700

The carrying amounts of the Group's short-term bank loans are denominated in RMB which is the functional currency of the relevant group entities.

Included in short-term bank loans, amounts of RMB75,800,000 (2006: RMB98,000,000) are fixed-rate bank loans which carry interest at the range of 6.42% to 7.65% (2006: 4.65% to 5.58%) per annum. The remaining bank loans carry variable interest rates at 115% to 130% of the rate offered by the Peoples' Bank of China ("PBOC") (2006: 115% to 130% of the rate offered by PBOC).

23. LONG-TERM BANK LOANS

	2007 RMB'000	2006 RMB'000
The long-term bank loans are secured and repayable as follows:		
Between one to two years	45,000	–
Between two to five years	105,000	–
Amount due after one year	150,000	–
Less: Unamortised transaction costs	(1,912)	–
	148,088	–

The long-term bank loans are variable-rate bank loans which carry interest at Hong Kong Interbank Offer Rate plus 1.25% (2006: Nil) per annum and is denominated in Hong Kong dollars which is the functional currency of the relevant group entity.

At 31st December, 2007, the bank loans are secured by charges over all the shares of a direct wholly-owned subsidiary of the Company, Widerlink Group Limited, and certain interests of its PRC subsidiaries.

24. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares '000	**Amount** HK$'000	**Number of shares** '000	**Amount** HK$'000
Ordinary shares of HK$0.10 each				
– balance at 1st January, 2006	1,000,000	100,000	30	3
– issue of shares on capitalisation issue	–	–	659,970	65,997
– issue of shares by placing and public offer	–	–	140,000	14,000
– balance at 31st December, 2006	1,000,000	100,000	800,000	80,000
– increase in authorised share capital	1,000,000	100,000	–	–
– subscription of shares	–	–	120,000	12,000
– exercise of share options	–	–	45,000	4,500
– balance at 31st December, 2007	2,000,000	200,000	965,000	96,500

	RMB'000
Shown in the consolidated balance sheet at	
– 31st December, 2007 as	98,855
– 31st December, 2006 as	82,760

24. SHARE CAPITAL (Continued)

Pursuant to the ordinary resolution passed by the Company's shareholders in the annual general meeting on 30th May, 2007, the authorised share capital of the Company was increased from HK$100,000,000 to HK$200,000,000 by the creation of an additional 1,000,000,000 ordinary shares of HK$0.10 each.

On 15th June, 2007, arrangements were made for a private placement to professional and institutional investors of 120,000,000 ordinary shares of HK$0.10 each at a price of HK$1.32 (equivalent to RMB1.29) per share by Famepower Limited ("Famepower"), the controlling shareholder of the Company. The price of HK$1.32 per share represents a discount of approximately 9.6% to the closing market price of the Company's shares of HK$1.46 per share as quoted on the Stock Exchange on 14th June, 2007, the last trading date prior to the placing. On the same date, the Company entered into a subscription agreement with Famepower for the subscription of 120,000,000 new ordinary shares of HK$0.10 each at a price of HK$1.32 per share. The subscription price is equivalent to the placing price mentioned above. The net proceeds from the subscription were used to finance its up-stream vertical integration by establishing or acquiring its own fabrics manufacturing plant for production of high quality raw fabrics for its own use to ensure production quality and timely products. The new shares were issued on 27th June, 2007 under the general mandate granted to the board of directors on 30th May, 2007.

During the year, 45,000,000 share options were exercised at a subscription price of HK$0.75 per share, resulting in the issue of 45,000,000 ordinary shares of HK$0.10 each in the Company.

All the shares issued during the year rank pari passu with the then existing shares in all respects.

25. SHARE-BASED PAYMENT TRANSACTIONS

A share option scheme (the "Share Option Scheme") was adopted by the shareholders' written resolution of the Company dated 15th March, 2006. The purpose of the Share Option Scheme is to enable the Company to grant options to directors, eligible employees and other outside third parties under the Share Option Scheme, in the sole discretion of the directors of the Company, who have contributed or will contribute to the growth and development of the Group.

Unless refreshed and approved by shareholders, the total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 80,000,000 shares which are equivalent to 10% of the shares of the Company in issue upon its listing on the Stock Exchange in 2006.

The total number of shares issued and to be issued upon exercise of options granted and to be granted to each grantee under the Share Option Scheme in any 12-month period shall not exceed 1% of the issued share capital of the Company from time to time.

25. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

There is no general requirement that an option must be held for any minimum period before it can be exercised but the directors of the Company is empowered to impose its discretion any such minimum period at the time of grant of any particular option. The period during which the options may be exercised will be notified by the board of directors to each grantee upon grant of each option, provided that it shall commence on a date not earlier than the date of the grant of an option and not be more than ten years from the date of grant of the option. An offer of grant of an option must be accepted being a date not more than twenty one days after the date of grant. The amount payable on acceptance of an option is HK$1.

The subscription price for the shares under the Share Option Scheme shall be a price determined by the board of directors at its absolute discretion and shall not be less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

Details of specific category of share options outstanding during the year are as follows:

				Number of share options			
Type of participants	Date of grant	Exercisable period	Exercise price	Outstanding at 1.1.2007	Granted during the year	Exercised during the year	Outstanding at 31.12.2007
			HK$			*(Note)*	
Employees	17.1.2007	17.1.2007 – 16.1.2010	0.75	–	45,000,000	(45,000,000)	–

Note: In respect of the share options granted during the year, the weighted average closing price at the date of exercise is HK$1.25.

There were no options granted to directors, eligible employees and other outside parties under the Share Option Scheme up to 31st December, 2006.

In 2007, 45,000,000 share options were granted and exercised. Under the existing Share Option Scheme as at 31st December, 2007, the maximum number of shares issuable pursuant to the grant of further share options are 35,000,000 shares which represented 3.63% of the shares of the Company in issue at the date of the report.

The closing price of the Company's shares immediately before 17th January, 2007, the date when the share options were granted was HK$0.70 per share. On 17th January, 2007, share options were granted with an estimated fair value of RMB7,986,000.

25. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following assumptions were used to calculate the fair value of share options:

Grant date share price per share	HK$0.75
Exercise price per share	HK$0.75
Expected life	1.5 years
Expected volatility	56.36%
Dividend yield	4.3%
Risk-free interest rate	3.78%

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

During the year the Group recognised the total expense of RMB7,986,000 (2006: Nil) in relation to share options granted by the Company.

26. CAPITAL COMMITMENTS

	2007 RMB'000	2006 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	121,241	13,382

27. RETIREMENT BENEFITS SCHEME

The Group's qualifying employees in Hong Kong participate the Mandatory Provident Fund (the "MPF") in Hong Kong. The assets of the MPF are held separately from those of the Group in funds under the control of trustee. The Group and each of the employees make monthly mandatory contributions to the MPF schemes.

The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

28. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are indirectly wholly-owned by the Company, at 31st December, 2007 are as follows:

Name of subsidiary	Place of incorporation/ establishment/operations	Nominal value of issued and fully paid share capital/registered capital 2007	2006	Principal activity
Co-Prosperity (Hong Kong) Limited	Hong Kong	Ordinary shares – HK$2	Ordinary shares – HK$2	Trading of fabrics
福建協盛協豐印染有限公司 (Shasing Shapheng Dyeing Co., Ltd.)	PRC for a term of 50 years commencing 20th June, 2003 as a wholly-owned foreign investment enterprise	Registered and paid-up capital – HK$100,000,000	Registered and paid-up capital – HK$50,000,000	Processing, printing and sales of finished fabrics
協盛協豐(泉州)紡織實業有限公司 (Shasing Shapheng (Quanzhou) Textile Industrial Co., Ltd.)	PRC for a term of 30 years commencing 13th March, 2007 as a wholly-owned foreign investment enterprise	Registered capital/ Paid-up capital – HK$300,000,000/ – HK$225,000,000	–	Factory under construction for manufacture of high density and high-end yarns
協豐(福建)印染實業有限公司 (Xiefeng (Fujian) Printing & Dyeing Co., Ltd.)	PRC for a term of 50 years commencing 26th May, 1999 as a wholly-owned foreign investment enterprise	Registered and paid-up capital – US$10,000,000	Registered and paid-up capital – US$3,000,000	Processing, printing and sales of finished fabrics
協盛(石獅市)染織實業有限公司 (Xuesheng (Shishi) Printing & Knitting Industry Co., Ltd.)	PRC for a term of 50 years commencing 16th September, 1993 as a wholly-owned foreign investment enterprise	Registered capital – US$5,000,000	Registered capital – US$5,000,000	Processing, printing and sales of finished fabrics

28. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment/operations	Nominal value of issued and fully paid share capital/registered capital 2007	2006	Principal activity
廈門拓浩貿易有限公司 (Xiamen Tophot Trade Co., Ltd.)	PRC For a term of 30 years commencing 13th June, 2006 as a wholly-owned foreign investment enterprise	Registered capital – RMB8,000,000	Registered capital – RMB8,000,000	Import and export trading

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

	Year ended 31st December,				
	2003	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Turnover	182,256	452,865	599,916	902,508	917,394
Profit before taxation	29,740	76,789	114,503	159,509	112,836
Taxation	(4,206)	(2,599)	(3,990)	(23,929)	(21,699)
Profit for the year	25,534	74,190	110,513	135,580	91,137

	As at 31st December,				
	2003	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	228,476	414,544	579,237	858,661	1,241,254
Total liabilities	(138,925)	(250,803)	(233,824)	(234,465)	(370,626)
Net assets	89,551	163,741	345,413	624,196	870,628

The results and summary of assets and liabilities for each of the three years ended 31st December, 2005 which were extracted from the Company's prospectus dated 21st March, 2006, have been prepared on a combined basis to indicate the results of the Group as if the group structure, at the time when the Company's shares were listed on The Stock Exchange of Hong Kong Limited, had been in existence throughout those years.