2010 ANNUAL REPORT

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

* For identification purpose only

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BOARD OF DIRECTORS

Executive Directors:

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

Independent Non-Executive Directors:

Professor Zeng Qingfu
Professor Zhao Bei
Mr. Lui Siu Keung

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

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

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

707

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 2010 (the "year").

RESULTS HIGHLIGHTS

The Group's consolidated turnover for the year amounted to RMB526.0 million, representing an increase of approximately 22.4% as compared with that of last year. Gross profit for the year gained by 72.7% to RMB101.5 million. The result was a consolidated net loss of RMB537.5 million attributable to owners of the Company, against the consolidated net loss of RMB0.4 million attributable to owners of the Company in 2009. Basic loss per share for 2010 amounted to RMB46.81 cents, compared with basic loss per share of RMB0.04 cent in 2009.

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

BUSINESS REVIEW

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

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

FUTURE PROSPECTS

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

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

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

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 all 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, 29 March 2011

OPERATIONAL AND FINANCIAL REVIEW

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

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

CHARGES ON GROUP ASSETS

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

CAPITAL EXPENDITURES

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

CONTINGENT LIABILITIES AND EXCHANGE RISK EXPOSURE

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

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

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS

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

EMPLOYMENT

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

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

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

EXECUTIVE DIRECTORS

Mr. Sze Siu Hung (施少雄), aged 46, 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 1996 and has over 20 years' experience in the textile industry. Mr. Sze 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 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. As at 31 December 2010, Mr. Sze had, in aggregate, deemed interests of 602,000,000 shares of the Company (representing about 51.39% of the entire issued share capital of the Company), of which (i) 571,948,720 shares are owned by Famepower Limited (whose sole director is Mr. Sze), which is wholly owned by Federal Trust Company Limited, a trust company, in its capacity as the trustee of The Sze Trust, a discretionary trust established on 31 May 2005, the founder of which is Mr. Sze and the discretionary objects of which are direct family members of Mr. Sze (excluding Mr. Sze himself); (ii) 28,051,280 shares are owned by Peilei Charitable Limited and the entire issued share capital of which is owned as to 50% by Mr. Sze and as to 50% by his spouse, Madam Cai Peilei; and (iii) 2,000,000 shares are beneficially owned by Mr. Sze. Save as disclosed above, Mr. Sze has no relationship with other Directors, senior management, substantial or controlling shareholders of the Company. Mr. Sze also holds directorships in some of the subsidiaries of the Group.

Mr. Qiu Fengshou (邱豐收), aged 56, 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 1996. Mr. Qiu has about 21 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 43, is an executive Director. Madam Cai is responsible for the financial management of the Group. Before joining the Group in 1999, Madam Cai had worked in China Agriculture Bank, Shishi branch for about 5 years. 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. As at 31 December 2010, Madam Cai had, in aggregate, deemed interests of 602,000,000 shares of the Company (representing about 51.39% of the entire issued share capital of the Company), of which (i) 571,948,720 shares are owned by Famepower Limited (whose sole director is Mr. Sze Siu Hung, Madam Cai's spouse), which is wholly owned by Federal Trust Company Limited, a trust company, in its capacity as the trustee of The Sze Trust, a discretionary trust established on 31 May 2005, the founder of which is Mr. Sze Siu Hung, Madam Cai's spouse and the discretionary objects of which are direct family members of Mr. Sze Siu Hung (excluding Mr. Sze Siu Hung himself); (ii) 28,051,280 shares are owned by Peilei Charitable Limited and the entire issued share capital of which is owned as to 50% by Madam Cai and as to 50% by Mr. Sze Siu Hung, the spouse of Madam Cai; and (iii) 2,000,000 shares are beneficially owned by Mr. Sze Siu Hung, the spouse of Madam Cai. Save as disclosed above, Madam Cai has no relationship with other Directors, senior management, substantial or controlling shareholders of the Company. Madam Cai is also a director of a subsidiary of the Group.

Mr. Sze Chin Pang (施展鵬), aged 53, is an executive Director. Mr. Sze Chin Pang is in charge of the Group's operation in Hong Kong. Before joining the Group in 2004, he had been a sales and administration manager of a private company in Hong Kong since 1991 and has about 20 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 48, has been appointed as an independent non-executive Director since 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 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 in 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 1998.

Professor Zhao Bei (趙蓓教授), aged 53, has been appointed as an independent non-executive Director since 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 39, has been appointed as an independent non-executive Director since 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 13 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 43, 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 2005. He has about 17 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 49, 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 1999. Mr. Ji has over 23 years' experience in printing and dyeing industry.

Mr. Fu Jianhua (傅建華), aged 52, 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 2001. Mr. Fu has over 23 years' experience in printing and dyeing industry.

Mr. Cai Chaodun (蔡朝敦), aged 39, 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 1999. Mr. Cai has about 15 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 39, 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 2001. He has about 15 years' experience in research and development in the printing and dyeing industry.

Mr. Huang Xinchun (黃新春), aged 46, 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 2002. Mr. Huang has about 25 years' experience in accounting and finance.

Ms. Zhengfang (鄭芳), aged 54, is the manageress of the quality control department of the Group. Mr. Zheng is responsible for the quality control matters of the Group. She has joined the Group since 2000. She has about 20 years' experience in fabrics quality control.

Mr. Zhang Bingcheng (張炳成), aged 52, is the procurement manager of the Group. Mr. Zhang is responsible for daily procurement activities of the Group. He has joined the Group since 2002. Mr. Zhang has over 28 years' experience in the printing and dyeing industry.

Mr. Chan Hon Hung (陳漢雄), aged 41, 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 2007. Mr. Chan has about 19 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 2010 (the "year").

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 31 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 27.

No interim dividend (2009: Nil) was paid during the year and the directors do not recommend any payment of final dividend (2009: Nil) for the year.

TRADING RESULTS

The Group's consolidated loss for the year amounted to RMB537,469,000.

SHARE CAPITAL

Details of the movements in the issued share capital of the Company during the year are set out in note 26 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 30 and 31.

At 31 December 2010, the Company's reserve available for distribution to its shareholders comprising contributed surplus amounted to approximately RMB337,744,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to RMB320,000.

MAJOR CUSTOMERS AND SUPPLIERS

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

Aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases.

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

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

In accordance with the Company's Articles of Association, Mr. Qiu Fengshou, Madam Cai Peilei and Professor Zeng Qingfu will retire and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Each of the executive directors has entered into a service contract with the Company for a term of two years commencing on 1 January 2010. The service contracts will be renewable automatically for successive terms of one year until terminated by not less than three months' prior notice in writing served by either party on the other.

Each of the independent non-executive directors has been appointed by the Company by way of a letter of appointment for a term of two years commencing on 1 January 2010. The 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.

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 determinable by the employing company within one year without payment of compensation other than statutory compensation.

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

As at 31 December 2010, the interests and/or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), were as follows:

Name of Director	**Nature of Interest**	**Total number of Shares held**	**Approximate percentage of the issued share capital of the Company as at 31 December 2010** *(%)*
Mr. Sze Siu Hung	Corporate interest and founder of trust *(Note 1)*	571,948,720 long position	48.82
	Corporate interest *(Note 2)*	28,051,280 long position	2.40
	Beneficial interest *(Note 3)*	2,000,000 long position	0.17
Madam Cai Peilei	Corporate interest and beneficiary of trust *(Note 1)*	571,948,720 long position	48.82
	Corporate interest *(Note 2)*	28,051,280 long position	2.40
	Family interest *(Note 3)*	2,000,000 long position	0.17

Notes:

1. As at 31 December 2010, about 48.82% of shareholding of the Company is owned by Famepower Limited, which is owned as to 100% by Federal Trust Company Limited, a trust company in its capacity as the trustee of The Sze Trust which was a discretionary trust, the founder (as defined in the SFO) of which is Mr. Sze Siu Hung ("Mr. Sze") and the discretionary objects of which are family members of Mr. Sze (including Madam Cai Peilei and excluding Mr. Sze himself). Accordingly, Mr. Sze and Madam Cai Peilei are both deemed to be interested in the relevant shares under the SFO.

2. As at 31 December 2010, about 2.40% of shareholding of the Company is owned by Peilei Charitable Limited ("PCL"), a company incorporated in the British Virgin Islands and the entire issued share capital of which is owned as to 50% by Mr. Sze and as to 50% by Madam Cai Peilei. Mr. Sze and Madam Cai Peilei intend to use the shares held by PCL for charitable purpose.

3. As at 31 December 2010, 2,000,000 shares, representing 0.17% of shareholding of the Company, are beneficially owned by Mr. Sze. Madam Cai Peilei is the spouse of Mr. Sze and is deemed to be interested in 2,000,000 shares.

Save as disclosed above, as at 31 December 2010, none of the directors or chief executive had any interests and/or short positions in any shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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 2010, to the best knowledge of the Company, the following persons (other than a director or chief executive of the Company) had, or were deemed or taken to have interests and/or short positions in the shares or underlying shares of the Company, which would fall to be disclosed to the Company and the Stock Exchange pursuant to Part XV of the SFO:

Name of substantial shareholder	Nature of Interest	Equity Derivatives	Approximate percentage of the issued share capital of the Company as at 31 December 2010 *(%)*
Mr. Ma Ki Hung	Beneficial interest *(Note (a))*	92,592,592 long position	7.90
Mr. Choi Kam Long	Beneficial interest *(Note (a))*	92,592,592 long position	7.90

Note (a):

All interest in underlying shares of equity derivatives of the Company are interests in convertible bonds subscribed on 20 December 2010.

SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was adopted on 15 March 2006 (the "Adoption Date"). 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 10 years from the Adoption Date, 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 2010. The details of the Share Option Scheme have been disclosed in note 27 to the financial statements.

No share option was granted, exercised, cancelled or lapsed during the year. There was no outstanding share option at both 1 January 2010 and 31 December 2010.

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 12 to the financial statements.

Remuneration for each of the directors are determined based on, among others, emoluments paid by comparable companies, his/her time of commitment and responsibilities towards the Company and whether the remuneration package is competitively attractive to retain him/her as director.

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

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

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

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

RELATED PARTY TRANSACTIONS

Details of related party transactions are set out in note 21 to the financial statements. None of the related party transactions constitutes connected or continuing connected transactions of the Company which are not exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

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

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

29 March 2011

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 2010.

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 2010.

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 has been appointed by the Company by way of a letter of appointment for a term of two years commencing on 1 January 2010. The 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 2010, the Board held seventeen 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)*	17/17
Mr. Qiu Fengshou	16/17
Madam Cai Peilei	17/17
Mr. Sze Chin Pang	16/17
Independent Non-Executive Directors	
Professor Zeng Qingfu	16/17
Professor Zhao Bei	16/17
Mr. Lui Siu Keung	13/17

AUDIT COMMITTEE

The Board has established an Audit Committee with written terms of reference in compliance with the CG Code of the Listing Rules. The primary duties of the Audit Committee are, among others, to review the financial reporting system and internal control 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 to review 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 meetings are kept by the Company Secretary at the principal place of business of the Company in Hong Kong.

During the year ended 31 December 2010, the Audit Committee held two meetings to review the Group's interim results for the six months ended 30 June 2010 and final results for the year ended 31 December 2009, 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 has established a Remuneration Committee with written terms of references in compliance with the CG Code of the Listing Rules. The primary duties of the Remuneration Committee are, among others, 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 was no meeting held for the year ended 31 December 2010.

NOMINATION COMMITTEE

The Board has established a Nomination Committee with written terms of references in compliance with the CG Code of the Listing Rules. The primary duties of the Nomination Committee are, among others, 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 2010, the Nomination Committee held one meeting to make recommendations to the Board in respect of the re-election of directors at the annual general meeting in 2010 and 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 2010, the Group was charged HK$2,000,000 for auditing services and a total of HK$695,000 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$680,000
Agreed upon procedures on annual preliminary announcement of results	HK$15,000

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 updating the internal control system when needed. The review covers all material controls, including financial, operational and compliance controls and risk management functions. The review also considers the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. 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 ensure 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 25 and 26. 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 27 to 83, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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, in accordance with our agreed terms of engagement, 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 about 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 of the consolidated financial statements that give a true and fair view 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 31 December 2010 and of its loss 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

29 March 2011

For the year ended 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
Turnover	7	525,975	429,740
Cost of goods sold and services provided		(424,505)	(370,983)
Gross profit		101,470	58,757
Other income		2,005	3,409
Other expenses, gains and losses	8	(24,385)	(5,151)
Impairment losses recognised in respect of	9		
– prepaid lease payments		(111,297)	–
– property, plant and equipment		(442,134)	–
Distribution and selling expenses		(6,293)	(5,618)
Administrative expenses		(32,176)	(32,081)
Finance costs	10	(16,003)	(15,198)
(Loss) profit before taxation	11	(528,813)	4,118
Taxation	13	(8,656)	(4,495)
Loss for the year		(537,469)	(377)
Other comprehensive income			
– exchange differences arising on translation		457	74
Total comprehensive expense for the year		(537,012)	(303)
Loss per share	14		
– Basic		(46.81) RMB cents	(0.04) RMB cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	15	334,813	754,183
Prepaid lease payments	16	63,277	174,875
Deposits made on acquisition of property, plant and equipment		7,746	27,433
		405,836	956,491
Current assets			
Inventories	17	332,412	205,112
Trade and other receivables	18	202,336	126,707
Prepaid lease payments	16	1,392	3,729
Pledged bank deposits		–	45,540
Bank balances and cash	19	38,260	58,995
		574,400	440,083
Current liabilities			
Trade and other payables	20	177,444	137,793
Amounts due to related parties	21	14,124	19,100
Derivative financial liabilities	22	12,527	–
Taxation		6,699	3,946
Mortgage loan	23	543	550
Current portion of long-term bank loans		–	98,221
Short-term bank loans	24	320,700	191,550
		532,037	451,160
Net current assets (liabilities)		42,363	(11,077)
Total assets less current liabilities		448,199	945,414
Non-current liabilities			
Mortgage loan	23	1,271	1,882
Government grant	25	1,260	–
		2,531	1,882
Net assets		445,668	943,532

At 31 December 2010

	NOTE	2010 RMB'000	2009 RMB'000
Capital and reserves			
Share capital	26	117,055	107,364
Reserves		328,613	836,168
Total equity		445,668	943,532

The consolidated financial statements on pages 27 to 83 were approved and authorised for issue by the Board of Directors on 29 March 2011 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 31 December 2010

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Translation reserve RMB'000	Statutory surplus reserve fund RMB'000	Retained profits (deficit) RMB'000	Total RMB'000
At 1 January 2009	98,855	246,391	98,731	1,902	76,788	387,400	910,067
Loss for the year	–	–	–	–	–	(377)	(377)
Exchange differences arising on translation	–	–	–	74	–	–	74
Total comprehensive expense for the year	–	–	–	74	–	(377)	(303)
Transfers	–	–	–	–	10,976	(10,976)	–
Issue of shares	8,509	25,698	–	–	–	–	34,207
Expenses incurred in connection with the issue of shares	–	(439)	–	–	–	–	(439)
	8,509	25,259	–	–	10,976	(10,976)	33,768
At 31 December 2009	107,364	271,650	98,731	1,976	87,764	376,047	943,532
Loss for the year	–	–	–	–	–	(537,469)	(537,469)
Exchange differences arising on translation	–	–	–	457	–	–	457
Total comprehensive expense for the year	–	–	–	457	–	(537,469)	(537,012)
Transfers	–	–	–	–	7,533	(7,533)	–
Issue of shares	9,691	30,042	–	–	–	–	39,733
Expenses incurred in connection with the issue of shares	–	(585)	–	–	–	–	(585)
	9,691	29,457	–	–	7,533	(7,533)	39,148
At 31 December 2010	117,055	301,107	98,731	2,433	95,297	(168,955)	445,668

The special reserve represents the aggregate of the differences between the nominal amount of the shares issued by the 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 STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Operating activities		
(Loss) profit before taxation	(528,813)	4,118
Adjustments for:		
Interest income	(796)	(1,244)
Finance costs	16,003	15,198
Depreciation of property, plant and equipment	44,392	57,081
Amortisation of government grant	(140)	–
Operating lease rentals in respect of prepaid lease payments	2,638	3,729
(Reversal of allowances) allowances for inventories	(3,512)	9,844
Allowances for bad and doubtful debts	6,842	4,300
Loss in fair value change of derivative financial liabilities	2,242	–
Loss on entering an agreement of convertible bonds	10,285	–
Loss on disposal of property, plant and equipment	26	–
Obligations under onerous contracts	3,725	–
Impairment losses in respect of prepaid lease payments	111,297	–
Impairment losses in respect of property, plant and equipment	442,134	–
Operating cash flows before movements in working capital	106,323	93,026
Increase in inventories	(123,788)	(69,424)
Increase in trade and other receivables	(82,471)	(4,701)
Decrease in trade and other payables	(6,554)	(21,767)
Effect of foreign exchange rate changes on inter-company balances	492	(298)
Cash used in operations	(105,998)	(3,164)
Taxation paid	(5,903)	(6,097)
Net cash used in operating activities	(111,901)	(9,261)
Investing activities		
Interest received	796	1,244
Purchase of property, plant and equipment	(13,856)	(10,998)
Deposits paid on acquisition of property, plant and equipment	(33,652)	(31,256)
Government grant received	1,400	–
Decrease in pledged bank deposits	45,540	7,460
Net cash from (used in) investing activities	228	(33,550)

For the year ended 31 December 2010

	2010	2009
	RMB'000	RMB'000
Financing activities		
Interest paid	(15,403)	(14,576)
Proceeds from issue of shares	39,733	34,207
Expenses paid in connection with the issue of shares	(585)	(439)
(Repayment to) borrowings from related parties	(4,976)	19,100
Advances raised from third parties	42,480	14,100
Repayment of obligations under finance leases	–	(281)
Bank loans raised	333,700	221,550
Repayment of bank loans	(303,371)	(224,266)
Repayment of mortgage loan	(618)	(547)
Net cash from financing activities	90,960	48,848
Net (decrease) increase in cash and cash equivalents	(20,713)	6,037
Cash and cash equivalents at 1 January	58,995	52,961
Effect of foreign exchange rate changes	(22)	(3)
Cash and cash equivalents at 31 December	38,260	58,995
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	38,260	58,995

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 31. 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.

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

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

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

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

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

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

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

Amendment to HKAS 17 "Leases"

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

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

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

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

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

New and revised HKFRSs issued but not effective

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

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

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

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

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

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

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

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

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

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

3. 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 (the "Listing Rules") 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.

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 and sales tax.

Revenue from the sales of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 profit or loss in the period in which the item is derecognised.

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.

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% – 25%
Motor vehicles	20%
Plant and machinery	10%

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Inventories

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

Onerous contracts

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. When the Group has a contract that is onerous, the unavoidable costs under the contract is recognised and measured as a provision.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position 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 to the net carrying amount on initial recognition.

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. 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 of loans and receivables below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows 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 certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of loans and receivables – continued

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 the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount 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 a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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 into financial liabilities at fair value through profit or loss ("FVTPL") and 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, amounts due to related parties, mortgage loan and bank loans are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity – continued

Convertible bonds

Convertible bonds issued by the Group that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

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 is recognised in profit or loss.

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.

Impairment of tangible assets

At the end of the reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

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.

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 profit or loss 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 end of the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those 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 associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Research and development costs

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Research and development costs – continued

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position presented as government grant and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that 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 at the end of the reporting period. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during the year, 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 reclassified to profit or loss from equity in the period in which the foreign operation is disposed of.

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.

The Group as lessee

Operating lease payments are recognised as an expense 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Retirement benefits costs

Payments to retirement benefits schemes and the Mandatory Provident Fund Scheme (the "MPF") are charged as an expense when employees have rendered service entitling them to the contributions.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

(i) *Fair value of derivatives financial instruments*

As described in note 22, the directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. The carrying amount of the derivative financial liability is RMB12,527,000 (2009: Nil). Details of the assumptions used are disclosed in note 22. The directors believe that the chosen valuation techniques and assumptions are appropriate in determining the fair value of financial instruments.

(ii) *Estimated impairment of property, plant and equipment and prepaid lease payments*

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at rate which reflects the return on assets and the risks specific to the cash generating units. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2010, the carrying amount of property, plant and equipment and prepaid lease payments are RMB334,813,000 and RMB64,669,000 respectively (2009: RMB754,183,000 and RMB178,604,000 respectively).

5. 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 shareholders 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 mortgage loan, short-term bank loans, convertible bonds, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits (deficit) as disclosed in the financial statements.

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 new share issues, issue of convertible bonds and raising of bank loans.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2010 RMB'000	2009 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	119,300	125,900
Financial liabilities		
Amortised costs	427,279	415,507
Derivative financial liabilities	12,527	–

b. Financial risk management objectives and policies

The Group's financial instruments include trade receivables, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to related parties, mortgage loan, bank loans and derivative financial liabilities. 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

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate borrowings and cash flow interest rate risk in relation to variable rate bank deposits, mortgage loan and bank loans. 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 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 Prime Lending Rate arising from the Group's mortgage loan which are denominated in Hong Kong dollar ("HKD" or "HK$").

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Market risk – continued

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to mortgage loan, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. The directors consider that the exposure to interest rate risk on bank deposits is insignificant. A 100 basis point increase or decrease 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 loss for the year ended 31 December 2010 would increase/decrease by RMB18,000 (2009: increase/decrease by RMB1,007,000). This is mainly attributable to the Group's exposure to interest rates on its mortgage loan.

Other price risk

The Group's derivative financial instruments exposed the Group to other price risks. Details of the derivative financial instruments are set out in note 22. Management has closely monitor the other price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to other price risks at the end of the reporting period. 5% increase or decrease represents management's assessment of the reasonably possible change in price.

If the market price of the underlying stock price had been 5% higher/lower and other inputs were held constant, loss for the year ended 31 December 2010 would increase/decrease by RMB2,395,000/RMB2,366,000 (2009: Nil) as a result of the changes in fair value of the derivatives.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent market risk as the multiple variables involved in the valuation model used in the fair value valuation of the convertible bonds are interdependent.

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Currency risk

The functional currency of the group entities is mainly RMB in which most of the transactions are denominated. The directors consider that the advances from third parties in 2010 and the long-term bank loans in 2009 denominated in HKD are the major monetary liabilities which expose the Group to currency risk.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the advances from third parties in 2010 and the long-term bank loans in 2009 denominated in HKD at the end of the reporting period are as follows:

	2010 RMB'000	2009 RMB'00
Advances from third parties	42,480	–
Long-term bank loans	–	98,221
	42,480	98,221

The following table details the Group's sensitivity to a 5% increase in RMB, the functional currency of the group entity, against HKD. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A positive number below indicated a decrease in loss and increase in profit where the functional currency of the group entity strengthens 5% against the HKD. For 5% weakening of the functional currency of the group entity against HKD, this would be an equal and opposite impact on the loss/profit.

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Currency risk – continued

If RMB strengthens against HKD by 5%:

	HKD impact	
	2010	2009
	RMB'000	RMB'00
Decrease in loss	2,295	3,626

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Credit risk

As at 31 December 2010, 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 statement of financial position.

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 end of the reporting period 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.

6. 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. Based on the good working relationship with its banks and to optimise the use of the Group's liquid funds, the Group will consider to renew the bank loans upon their maturities. The management monitors the utilisation of bank loans and ensures compliance with loan covenants. The directors of the Company closely monitor the cash flow of the Group and, upon maturity, would arrange the renewal and refinancing of the bank loans, where necessary, to enable the Group to carry on its operations in the foreseeable future.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of non-derivative 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. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

As disclosed in note 22, for derivative financial liabilities with carrying amount of RMB12,527,000 (2009: Nil) as at 31 December 2010, the issuance of convertible bonds will result in cash inflow of HK$50,000,000 (RMB42,480,000).

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Liquidity risk – continued

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 31.12.2010
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2010						
Non-derivative financial liabilities						
Trade and other payables*	–	48,161	42,480	–	90,641	90,641
Amounts due to related parties	–	14,124	–	–	14,124	14,124
Mortgage loan	2.42	137	415	1,301	1,853	1,814
Bank loans						
– fixed rate	5.19	50,142	281,756	–	331,898	320,700
		112,564	324,651	1,301	438,516	427,279

	Weighted average effective interest rate	Less than 3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2009
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2009						
Non-derivative financial liabilities						
Trade and other payables*	–	67,054	37,150	–	104,204	104,204
Amounts due to related parties	–	19,100	–	–	19,100	19,100
Mortgage loan	2.52	138	420	1,929	2,487	2,432
Bank loans						
– fixed rate	5.68	34,483	164,261	–	198,744	191,550
– variable rate**	2.32	–	99,928	–	99,928	98,221
		120,775	301,759	1,929	424,463	415,507

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity and interest risk tables – continued

* The amount includes trade payables, bills payables, payables for acquisition of property, plant and equipment and advances from third parties.

** The interest rates applied to projection on undiscounted cash flows of variable rate bank loans are the interest rates at the end of the reporting period.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

c. Fair value

The fair value of financial assets and financial liabilities are determined based on discounted cash flow analysis.

The fair value of derivative financial liabilities are measured at fair value by reference to the valuation provided by counterparty financial institutions for these instruments.

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.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

6. FINANCIAL INSTRUMENTS – continued

c. Fair value – continued

	Level 3	
	2010	2009
	RMB'000	RMB'000
Financial liabilities at FVTPL		
Derivative financial liabilities	12,527	–

Reconciliation of Level 3 fair value measurements of derivative financial liabilities

	Derivative financial liabilities
	RMB'000
At 1 January 2010	–
Total gain or loss in profit or loss	12,527
At 31 December 2010	12,527

Of the total gains or losses for the year included in "Other expenses, gains and losses", RMB10,285,000 relates to the loss on entering an agreement of convertible bonds at the end of the reporting period (2009: Nil) while loss on fair value of derivative financial liabilities amounted RMB2,242,000.

7. TURNOVER AND SEGMENT INFORMATION

Turnover

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

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

Segment information

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

– Processing, printing and sales of finished fabrics

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

– Trading of goods: Trading of fabrics and clothing

7. TURNOVER AND SEGMENT INFORMATION – continued

Segment information – continued

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

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

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

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

7. TURNOVER AND SEGMENT INFORMATION – continued

Segment information – continued

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

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

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

- all assets are allocated to operating segments other than land and buildings in Hong Kong, certain other receivables and bank balances and cash; and
- all liabilities are allocated to operating segments other than certain other payables, amounts due to related parties, mortgage loan, bank loans and derivative financial liabilities.

7. TURNOVER AND SEGMENT INFORMATION – continued

Segment information – continued

(iii) Other segment information

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

7. TURNOVER AND SEGMENT INFORMATION – continued

Segment information – continued

(iii) Other segment information – continued

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

7. TURNOVER AND SEGMENT INFORMATION – continued

Segment information – continued

(iv) Geographical information

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

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

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

Information about major customers

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

8. OTHER EXPENSES, GAINS OR LOSSES

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

9. IMPAIRMENT LOSSES

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

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

10. FINANCE COSTS

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

11. (LOSS) PROFIT BEFORE TAXATION

	2010 RMB'000	2009 RMB'000
(Loss) profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 12)*		
– current year	1,489	3,642
– waived during the year	–	(1,218)
	1,489	2,424
Other staff's retirement benefits scheme contributions	442	395
Other staff costs	21,715	18,576
	23,646	21,395
Less: Staff costs included in research and development costs	(440)	(375)
	23,206	21,020
Depreciation of property, plant and equipment	44,392	57,081
Less: Depreciation included in research and development costs	(566)	(478)
	43,826	56,603
Auditor's remuneration	1,731	1,678
Cost of inventories recognised as expenses including reversal of allowances for inventories amounting to RMB3,512,000 (2009: allowance for inventories amounting to RMB9,844,000)	424,505	370,983
Loss on disposal of property, plant and equipment	26	–
Operating lease rentals in respect of		
– prepaid lease payments	2,638	3,729
– rented premises	405	101
and after crediting:		
Amortisation of government grant (see note 25)	140	–
Government rewards and subsidies*	1,020	2,053
Interest income	796	1,244

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

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2010				2009			
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors								
– Mr. Sze Siu Hung	–	563	10	573	–	1,305	11	1,316
– Mr. Qiu Fengshou	–	135	–	135	–	219	–	219
– Madam Cai Peilei	–	113	–	113	–	207	–	207
– Mr. Sze Chin Pang	–	450	10	460	–	459	11	470
Independent non-executive directors								
– Professor Zeng Qingfu	52	–	–	52	53	–	–	53
– Professor Zhao Bei	52	–	–	52	53	–	–	53
– Mr. Lui Siu Keung	104	–	–	104	106	–	–	106
	208	1,261	20	1,489	212	2,190	22	2,424

During the year, the five highest paid individuals included two (2009: three) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining three (2009: two) highest paid employees are as follows:

	2010	2009
	RMB'000	RMB'000
Employees		
– basic salaries and allowances	1,446	1,205
– retirement benefits scheme contributions	27	21
	1,473	1,226

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

The emoluments of the highest paid employees were within the HK$1 million band.

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. In 2009, Mr. Sze Siu Hung, Mr. Qiu Fengshou and Madam Cai Peilei have waived part of their emoluments for 2009 amounting to RMB956,000, RMB125,000 and RMB137,000 respectively in relation to their services.

13. TAXATION

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

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

13. TAXATION – continued

Tax charge for the year is reconciled to (loss) profit before taxation as follows:

	2010		2009	
	RMB'000	%	RMB'000	%
(Loss) profit before taxation	(528,813)		4,118	
Tax at the applicable income tax rate	132,203	25.0	(1,030)	(25.0)
Tax effect of income not taxable for tax purposes	249	0.1	529	12.8
Tax effect of expenses not deductible for tax purposes	(2,943)	(0.6)	(3,370)	(81.8)
Tax effect of deductible temporary differences not recognised	(140,396)	(26.8)	(5,943)	(144.3)
Tax effect of tax losses not recognised	(1,824)	(0.3)	(4,415)	(107.2)
Effect of tax exemption granted to certain PRC subsidiaries	4,029	0.8	9,720	236.0
Others	26	0.1	14	0.3
Tax charge and effective tax rate for the year	(8,656)	(1.7)	(4,495)	(109.2)

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

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

14. LOSS PER SHARE

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

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

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2009	215,431	7,170	3,063	373,536	312,676	911,876
Currency realignment	–	(8)	(5)	–	–	(13)
Additions	3,618	892	–	12,999	58,506	76,015
Transfers	209,797	1,328	–	40,297	(251,422)	–
At 31 December 2009	428,846	9,382	3,058	426,832	119,760	987,878
Currency realignment	–	(37)	(60)	–	–	(97)
Additions	239	2,083	1,497	10,133	53,243	67,195
Disposals	–	(260)	–	–	–	(260)
Transfers	66,106	292	–	65,379	(131,777)	–
At 31 December 2010	495,191	11,460	4,495	502,344	41,226	1,054,716
DEPRECIATION AND IMPAIRMENT						
At 1 January 2009	28,250	2,481	1,787	144,106	–	176,624
Currency realignment	–	(7)	(3)	–	–	(10)
Provided for the year	16,054	1,156	621	39,250	–	57,081
At 31 December 2009	44,304	3,630	2,405	183,356	–	233,695
Currency realignment	–	(35)	(49)	–	–	(84)
Provided for the year	9,325	1,467	527	33,073	–	44,392
Eliminated on disposals	–	(234)	–	–	–	(234)
Impairment loss recognised in profit or loss	280,965	–	–	161,169	–	442,134
At 31 December 2010	334,594	4,828	2,883	377,598	–	719,903
CARRYING VALUES						
At 31 December 2010	160,597	6,632	1,612	124,746	41,226	334,813
At 31 December 2009	384,542	5,752	653	243,476	119,760	754,183

15. PROPERTY, PLANT AND EQUIPMENT – continued

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

	2010 RMB'000	2009 RMB'000
Land and buildings in Hong Kong	7,990	8,175
Buildings in the PRC	152,607	376,367
	160,597	384,542

The Group has pledged certain of its buildings and plant and machinery with an aggregate carrying value of RMB122,833,000 (2009: RMB92,877,000) to certain banks to secure the credit facilities granted to the Group.

16. PREPAID LEASE PAYMENTS

	2010 RMB'000	2009 RMB'000
CARRYING VALUE		
At 1 January	178,604	182,333
Released to profit or loss for the year	(2,638)	(3,729)
Impairment loss recognised in profit or loss	(111,297)	–
At 31 December	64,669	178,604
Analysed as:		
Non-current assets	63,277	174,875
Current assets	1,392	3,729
At 31 December	64,669	178,604

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

The Group has pledged its land use rights with an aggregate carrying value of RMB64,669,000 (2009: RMB37,350,000) to certain banks to secure the credit facilities granted to the Group.

17. INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials	154,986	67,737
Finished goods	177,426	137,375
	332,412	205,112

At 31 December 2010, certain finished goods with original cost amounting to RMB8,678,000 (2009: RMB13,025,000) are stated at net realisable value of RMB2,346,000 (2009: RMB3,181,000).

Movement in the allowances for inventories

	2010 RMB'000	2009 RMB'000
At 1 January	9,844	–
Allowances made during the year	6,332	9,844
Reversal of allowances during the year*	(9,844)	–
At 31 December	6,332	9,844

* The reversal of allowance is because the relevant inventories were sold out during the year.

18. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

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

18. TRADE AND OTHER RECEIVABLES – continued

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

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

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

Movement in the allowances for bad and doubtful debts

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

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

19. BANK BALANCES AND CASH

Bank balances carry interest at market rates ranging from 0.01% to 0.36% (2009: 0.01% to 0.36%) per annum.

20. TRADE AND OTHER PAYABLES

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

* The advances are unsecured and interest-free. Other than the balance as at 31 December 2009 which has been fully repaid during the year, the remaining balance as at 31 December 2010 is due for repayment in September 2011 and was converted into convertible bonds in January 2011 (see note 30).

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

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

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

21. AMOUNTS DUE TO RELATED PARTIES

	2010 RMB'000	2009 RMB'000
Name of related party		
Mr. Sze Siu Hung [(1)]	1,124	4,000
Mr. Cai Chaodun [(2)]	–	2,100
漳州泰景房地產開發有限公司(Zhang Zhou Tai Jing Real Estate Development Company Limited) ("ZZTJ") [(3)]	13,000	13,000
	14,124	19,100

(1) Mr. Sze Siu Hung is the Chairman and executive director of the Company.

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

(3) ZZTJ is owned as to 40% by Mr. Sze Siu Bun, the Chief Executive Officer of the Company and the younger brother of Mr. Sze Siu Hung.

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

22. DERIVATIVE FINANCIAL LIABILITIES

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

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

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

22. DERIVATIVE FINANCIAL LIABILITIES – continued

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

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

The fair values of the Subscription Agreement at 20 December 2010 and 31 December 2010 was valued by American Apprisal China Limited. The address of American Apprisal China Limited is 1506 Dah Sing Financial Centre, 108 Gluocester Road, Wanchai, Hong Kong. It is an independent qualified valuer not connected to the Group. The valuations of the conversion option were arrived at by the Binomial Model.

The inputs into the model were as follow:

Valuation date	**20 December 2010**	**31 December 2010**
Stock price	HK$0.32	HK$0.34
Exercise price	HK$0.27	HK$0.27
Expected life of option	2.07 years	2.04 year
Expected volatility of the underlying stock	47%	47%
Risk-free interest rate	0.69%	0.64%
Dividend yield	0%	0%
Estimated credit rating	B+	B+
One year forward rate-year 0	9.29%	9.24%
One year forward rate-year 1	Up: 12.89%	Up: 13.10%
	Down: 8.3%	Down: 8.43%

23. MORTGAGE LOAN

	2010 RMB'000	2009 RMB'000
The mortgage loan is secured and repayable as follows:		
Within one year	543	550
Between one to two years	556	564
Between two to five years	715	1,318
	1,814	2,432
Less: Amount due within one year shown under current liabilities	543	550
Amount due after one year	1,271	1,882

The mortgage loan carries interest at a variable rate of 2.4% per annum (2009: 2.4% per annum) which is at 2.6% below the Hong Kong Dollar Prime Lending Rate from time to time quoted by Hang Seng Bank Limited. It is denominated in Hong Kong dollars which is the functional currency of the relevant group entity.

24. SHORT-TERM BANK LOANS

	2010 RMB'000	2009 RMB'000
Short-term bank loans		
– secured	222,500	80,750
– unsecured	98,200	110,800
	320,700	191,550

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.

The short-term bank loans are fixed-rate bank loans which carry interest at the range of 4.78% to 6.39% (2009: 5.58% to 5.84%) per annum.

24. SHORT-TERM BANK LOANS – continued

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

	2010 RMB'000	2009 RMB'000
Mr. Sze Siu Hung	24,000	28,000
Mr. Cai Chaodun	30,000	30,000
Mr. Qiu Fengshou[1]	80,000	80,000
Joint guarantee*	28,700	28,700
	162,700	166,700

* The credit facility was jointly guaranteed by Messrs. Cai Chaodun, Qiu Fengshou and Fu Jianhua[2].

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

(2) Mr. Fu Jianghua is the deputy general manager of the Group.

25. GOVERNMENT GRANT

During the year, the Group received a government grant of RMB1,400,000 from the PRC Financial Bureau of Shishi city for the encouragement of the investment in manufacturing of high density and high-end yarns business. Government grant related to depreciable assets will be transferred to profit or loss over the useful lives of the related assets. As at 31 December 2010, the total amount of RMB1,260,000 (2009: Nil) remains unamortised.

26. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	Amount	Number of shares	Amount
	'000	HK$'000	'000	HK$'000
Ordinary shares of HK$0.10 each				
– at 1 January 2009	2,000,000	200,000	965,000	96,500
– issue of shares	–	–	96,500	9,650
– at 31 December 2009	2,000,000	200,000	1,061,500	106,150
– issue of shares	–	–	110,000	11,000
– at 31 December 2010	2,000,000	200,000	1,171,500	117,150

	RMB'000
Shown in the consolidated statement of financial position at	
– 31 December 2010 as	117,055
– 31 December 2009 as	107,364

On 9 March 2010, a placing arrangement was entered into, under which 110,000,000 ordinary shares of HK$0.10 each at a price of HK$0.41 (equivalent to RMB0.361) per share were privately placed to investors by Famepower Limited ("Famepower"), the controlling shareholder of the Company, through a placing agent. The price of HK$0.41 per share represents a discount of approximately 7.87% to the closing market price of the Company's shares of HK$0.445 per share as quoted on the Stock Exchange on 8 March 2010, the last trading date prior to the entering into the placing agreement. On the same date, the Company entered into a subscription agreement with Famepower for the subscription of 110,000,000 new ordinary shares of HK$0.10 each at a price of HK$0.41 per share. The subscription price is equivalent to the placing price mentioned above. The new shares were issued on 19 March 2010 under the general mandate granted to the Board of Directors on 23 February 2010. The Company applied the net proceeds of HK$44,400,000 (equivalent to RMB39,148,000) for the repayment of bank loans of the Group and for working capital purpose.

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

27. SHARE-BASED PAYMENT TRANSACTIONS

A share option scheme (the "Share Option Scheme") was adopted on 15 March 2006 and will remain in force for 10 years from that date. 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.

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

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.

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 within 21 days after the date of grant. The amount payable on acceptance of the grant is HK$1, which must be received by the Company within 21 days from the date of grant or within such other period of time as may be determined by the board of directors pursuant to the Listing Rules.

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.

There was no share option granted, exercised, cancelled or lapsed during the year. Also, there was no outstanding share option as at both the beginning and the end of the reporting period.

At the end of the reporting period, the maximum number of shares issuable pursuant to the grant of further share options are 106,150,000 (2009: 35,000,000) shares which represented 9.06% (2009: 3.30%) of the shares of the Company in issue at that date.

At the date of the annual report, the maximum number of shares issuable pursuant to the grant of further share options are 106,150,000 (2009: 106,150,000) shares which represented 9.06% (2009: 9.06%) of the shares of the Company in issue on that date.

28. CAPITAL COMMITMENTS

	2010 RMB'000	2009 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	488	21,831

29. RETIREMENT BENEFITS SCHEME

The Group's qualifying employees in Hong Kong participate 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.

30. EVENT AFTER THE REPORTING PERIOD

On 14 January 2011, the Company issued the convertible bonds (see note 22) to settle the advances from third parties. The convertible bonds contain two components, liability component and derivative component. The fair value of the convertible bonds on the date of issuance is HK$60,183,000 (RMB51,131,000), and a gain in fair value of the derivative financial liabilities (as disclosed in note 22) of HK$4,561,000 (RMB3,875,000) is recognised in profit or loss on 14 January 2011. The fair values of the conversion option at 14 January 2011 were valued by American Apprisal China Limited. The valuations were arrived at by the Binomial Model.

30. EVENT AFTER THE REPORTING PERIOD – continued

The inputs into the model were as follow:

Valuation date	**14 January 2011**
Stock price	HK$0.32
Exercise price	HK$0.27
Expected life of option	2 year
Expected volatility of the underlying stock	41%
Risk-free interest rate	0.59%
Dividend yield	0%
Estimated credit rating	B+
One year forward rate-year 0	9.08%
One year forward rate-year 1	Up: 13.02% Down: 8.22%

31. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are indirectly wholly-owned by the Company, at the end of the reporting period of 2010 and 2009 are as follows:

Name of subsidiary	Place of incorporation/ establishment/operations	Nominal value of issued and fully paid share capital/ registered capital	Principal activity
Co-Prosperity (Hong Kong) Limited	Hong Kong	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 20 June 2003 as a wholly foreign owned enterprise ("WFOE")	Registered capital – HK$100,000,000	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 13 March 2007 as a WFOE	Registered capital – HK$235,000,000	Manufacture and sales of high density and high-end yarns

31. PRINCIPAL SUBSIDIARIES – continued

Name of subsidiary	Place of incorporation/ establishment/operations	Nominal value of issued and fully paid share capital/ registered capital	Principal activity
協豐(福建)印染有限公司 (Xiefeng (Fujian) Printing & Dyeing Co., Ltd.)	PRC for a term of 50 years commencing 26 May 1999 as a WFOE	Registered capital – US$10,000,000	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 16 September 1993 as a WFOE	Registered capital – US$5,000,000	Processing, printing and sales of finished fabrics
新協豐(福建)印染實業有限公司 (Xiefeng (Fujian) Printing & Dyeing Industrial Co., Ltd.)	PRC for a term of 30 years commencing 24 May 2006 as a WFOE	Registered capital – HK$10,000,000	Processing, printing and sales of finished fabrics
新協盛(石獅市)染織實業有限公司 (Xuesheng (Shishi) Printing & Knitting Industrial Co., Ltd.)	PRC for a term of 30 years commencing 15 December 2006 as a WFOE	Registered capital – HK$15,000,000	Processing, printing and sales of finished fabrics

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 31 December				
	2006	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Turnover	902,508	917,394	593,684	429,740	525,975
Profit (loss) before taxation	159,509	112,836	53,269	4,118	(528,813)
Taxation	(23,929)	(21,699)	(7,148)	(4,495)	(8,656)
Profit (loss) for the year	135,580	91,137	46,121	(377)	(537,469)

	As at 31 December				
	2006	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	858,661	1,241,254	1,356,578	1,396,574	980,236
Total liabilities	(234,465)	(370,626)	(446,511)	(453,042)	(534,568)
Net assets	624,196	870,628	910,067	943,532	445,668