Annual Report 2012

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

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors:

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

Independent Non-Executive Directors:

Professor Zeng Qingfu
Professor Zhao Bei
Mr. Lui Siu Keung

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

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

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

707

DESIGNATED WEBSITE FOR CORPORATE COMMUNICATIONS

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

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 2012 (the "year").

RESULTS HIGHLIGHTS

The Group's consolidated turnover for the year amounted to RMB515.8 million, representing a drop of approximately 16.8% as compared with that of last year. Gross profit for the year decreased by 21.6% to RMB38.5 million. The result was a consolidated net loss of RMB69.4 million attributable to owners of the Company, against the consolidated net loss of RMB105.5 million attributable to owners of the Company in 2011. Basic loss per share for 2012 amounted to RMB5.92 cents, compared with basic loss per share of RMB9.01 cents in 2011.

The Board does not recommend any payment of final dividend (2011: Nil) for the year.

BUSINESS REVIEW

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

In order to widen its potential shareholder base over the long term, on 29 February 2012, the Company entered into a warrant placing agreement with a placing agent pursuant to which the Company appointed the placing agent as a placing agent to procure not less than six independent placees to subscribe the warrants, on a best effort basis, at the issue price of HK$0.02 per warrant. Based on the subscription price of HK$0.14 per subscription share, a maximum of 234,000,000 subscription shares will be allotted and issued by the Company upon full exercise of the subscription rights attaching to the warrants. The Company completed the issue of 234,000,000 warrants on 30 March 2012. The success of the fund raising fully underscored the investors' confidence in the management and the long-term potential of the Group.

Chairman's Statement

FUTURE PROSPECTS

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

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

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

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

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

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our shareholders, investors and business partners for their support and to our staff for their contribution. We will continue to enhance our corporate transparency and reinforce our corporate governance and internal control. All in all, we will take every opportunity to optimize our business to enrich shareholders' value.

Sze Siu Hung
Chairman

Hong Kong, 27 March 2013

OPERATIONAL AND FINANCIAL REVIEW

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

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

CHARGES ON GROUP ASSETS

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

CAPITAL EXPENDITURES

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

CONTINGENT LIABILITIES AND EXCHANGE RISK EXPOSURE

As at 31 December 2012, the Group did not have any significant contingent liabilities (2011: Nil).

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

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 2012, the Group had about 1,500 employees (2011: 1,700 employees) in Hong Kong and in the PRC.

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

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

Directors' & Senior Management's Biographies

EXECUTIVE DIRECTORS

Mr. Sze Siu Hung（施少雄）, aged 48, 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 2012, 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 58, 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 23 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 45, 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 2012, 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 55, 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 22 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 50, 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.

Directors' & Senior Management's Biographies

Professor Zhao Bei（趙蓓教授）, aged 55, 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 41, 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 15 years' experience in corporate finance, auditing and accounting. He is now the Joint Managing Director, Chief Financial Officer and an executive Director of Zhongyu Gas Holdings Limited (stock code: 3633), a company listed on the Stock Exchange of Hong Kong Limited.

SENIOR MANAGEMENT

Mr. Sze Siu Bun（施少斌）, aged 45, 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 19 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 51, 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 25 years' experience in printing and dyeing industry.

Mr. Fu Jianhua（傅建華）, aged 54, 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 25 years' experience in printing and dyeing industry.

Mr. Cai Chaodun（蔡朝敦）, aged 41, 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 17 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 41, 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 17 years' experience in research and development in the printing and dyeing industry.

Mr. Huang Xinchun（黃新春）, aged 48, 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 27 years' experience in accounting and finance.

Ms. Zhengfang（鄭芳）, aged 56, 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 22 years' experience in fabrics quality control.

Mr. Zhang Bingcheng（張炳成）, aged 54, 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 30 years' experience in the printing and dyeing industry.

Mr. Chan Hon Hung（陳漢雄）, aged 43, 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 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 21 years' experience in accounting, financial management and auditing. Mr. Chan is a full time employee and the qualified accountant of the Group.

Report of the Directors

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 2012 (the "year").

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 36 to the consolidated 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 30.

No interim dividend (2011: Nil) was paid during the year and the directors do not recommend any payment of final dividend (2011: Nil) for the year.

TRADING RESULTS

The Group's consolidated loss for the year amounted to RMB69,354,000.

SHARE CAPITAL

Details of the movements in the issued share capital of the Company during the year are set out in note 31 to the consolidated 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 32 and 33.

At 31 December 2012, subject to the Companies Law and other applicable laws of the Cayman Islands, the company's reserve available for distribution to its shareholders amounted to approximately RMB449,248,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to RMB408,000.

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, Madam Cai Peilei, Mr. Sze Chin Pang and Professor Zeng Qingfu will retire and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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 2012, 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	Capacity in which the Interests are held	Nature of Interest	Total Interests held	Approximate percentage of the issued share capital of the Company as at 31 December 2012 (%)
Directors				
Mr. Sze Siu Hung	Corporate interest and founder of trust *(Note 1)*	Ordinary shares of HK$0.10 each	571,948,720 long position	48.82
	Corporate interest *(Note 2)*	Ordinary shares of HK$0.10 each	28,051,280 long position	2.40
	Beneficial interest *(Note 3)*	Ordinary shares of HK$0.10 each	2,000,000 long position	0.17
Madam Cai Peilei	Corporate interest and beneficiary of trust *(Note 1)*	Ordinary shares of HK$0.10 each	571,948,720 long position	48.82
	Corporate interest *(Note 2)*	Ordinary shares of HK$0.10 each	28,051,280 long position	2.40
	Family interest *(Note 3)*	Ordinary shares of HK$0.10 each	2,000,000 long position	0.17
Mr. Sze Chin Pang	Beneficial interest	Underlying shares of equity derivatives *(Note 4)*	1,200,000 long position	0.10
Mr. Lui Siu Keung	Beneficial interest	Underlying shares of equity derivatives *(Note 4)*	1,000,000 long position	0.09
Professor Zhao Bei	Beneficial interest	Underlying shares of equity derivatives *(Note 4)*	500,000 long position	0.04
Professor Zeng Qingfu	Beneficial interest	Underlying shares of equity derivatives *(Note 4)*	500,000 long position	0.04
Chief executive				
Mr. Sze Siu Bun	Beneficial interest	Underlying shares of equity derivatives *(Note 4)*	2,000,000 long position	0.17

Notes:

1. As at 31 December 2012, 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 2012, 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 2012, 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.

4. The interests in underlying shares of equity derivatives represented interests in share options granted under the share option scheme adopted by the Company on 15 March 2006, further details of which are set out in the section headed "Share Option Scheme" on pages 16 to 17 of the annual report.

Save as disclosed above, as at 31 December 2012, 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' AND CONTROLLING SHAREHOLDER'S INTEREST IN CONTRACTS OF SIGNIFICANCE

Except for the loan agreement and the supplemental agreement in respect of the unsecured loan of principal amount of HK$56.9 million from the Chairman, executive director and a controlling shareholder of the Company, Mr. Sze Siu Hung (the details of which are set out in note 29 to the consolidated financial statements), no contract of significance, to which the Company or any of its subsidiaries was a party and in which a director or a controlling shareholder 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, 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	**Capacity in which the Interests are held**	**Underlying Shares of Equity Derivatives** *(Note (a))*	**Approximate percentage of the issued share capital of the Company as at 31 December 2012** *(%)*
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 issued on 14 January 2011.

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 2012. The details of the Share Option Scheme have been disclosed in note 32 to the consolidated financial statements.

During the year ended 31 December 2012, the movement in the Company's share options were as follows:

Name or category of participant	At 1 January 2012	Granted during the year (Note)	Exercised during the year (Note)	Lapsed during the year (Note)	Cancelled during the year (Note)	At 31 December 2012	Date of grant	Vesting date	Exercise period	Exercise price per share HK$
	Number of share option									
(A) Directors										
Mr. Sze Chin Pang	1,200,000	–	–	–	–	1,200,000	27 July 2011	27 July 2011	27 July 2011 to 26 July 2021	0.227
Mr. Lui Siu Keung	1,000,000	–	–	–	–	1,000,000	27 July 2011	27 July 2011	27 July 2011 to 26 July 2021	0.227
Professor Zhao Bei	500,000	–	–	–	–	500,000	27 July 2011	27 July 2011	27 July 2011 to 26 July 2021	0.227
Professor Zeng Qingfu	500,000	–	–	–	–	500,000	27 July 2011	27 July 2011	27 July 2011 to 26 July 2021	0.227
(B) Chief Executive										
Mr. Sze Siu Bun	2,000,000	–	–	–	–	2,000,000	27 July 2011	27 July 2011	27 July 2011 to 26 July 2021	0.227
(C) Other employees in aggregate	14,800,000	–	–	–	–	14,800,000	27 July 2011	27 July 2011	27 July 2011 to 26 July 2021	0.227
Total	20,000,000	–	–	–	–	20,000,000				

Note: No share options was granted, exercised, cancelled or lapsed during the year.

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

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

RELATED PARTY TRANSACTIONS

Details of related party transactions are set out in notes 12, 22, 25 and 29 to the consolidated 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 (2011: Nil) for the year.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 27 May 2013 to Friday, 31 May 2013 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrar in Hong Kong, Tricor Investor Services Limited, not later than 4:30 p.m. on Friday, 24 May 2013. Tricor Investor Services Limited is located at 26th Floor, Tesbury Centre, 28 Queen's Road East,Wanchai, Hong Kong.

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 Messrs. 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

27 March 2013

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 "Shareholders").

The Company has complied with the applicable code provisions in the Code on Corporate Governance Practices (the "Former Code") (effective until 31 March 2012) and the Corporate Governance Code (the "New Code") (effective from 1 April 2012) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2012, except as stated below.

In respect of code provision A6.7 of the New Code, Professor Zeng Qingfu and Professor Zhao Bei, both being independent non-executive directors of the Company, were unable to attend the annual general meeting and the extraordinary general meeting held on 1 June 2012 due to other commitments.

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 Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (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 2012.

BOARD OF DIRECTORS

The 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. During the year ended 31 December 2012, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors (representing at least one-third of the Board), with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise. 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 has at least four meetings in a financial year and meets at any other times as and when required, among others, to review financial and internal control, risk management, corporate governance, company strategy and operating performance of the Group. Minutes of the Board meetings are kept by the company secretary of the Company (the "Company Secretary") for record and are available for inspection by the Directors and auditors of the Company.

BOARD MEETINGS AND GENERAL MEETINGS

The individual attendance record of each Director at the Board meetings and the general meetings during the year ended 31 December 2012 is set out below:

Name of Directors	**Attendance/Number of Board Meetings**	**Attendance/Number of General Meetings**
Executive Directors		
Mr. Sze Siu Hung *(Chairman)*	16/16	2/2
Mr. Qiu Fengshou	15/16	0/2
Madam Cai Peilei	15/16	0/2
Mr. Sze Chin Pang	15/16	2/2
Independent Non-Executive Directors		
Professor Zeng Qingfu	15/16	0/2
Professor Zhao Bei	15/16	0/2
Mr. Lui Siu Keung	15/16	2/2

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

During the year ended 31 December 2012, Mr. Sze Siu Hung, Mr. Qiu Fengshou, Madam Cai Peilei, Mr. Sze Chin Pang, Professor Zeng Qingfu and Professor Zhao Bei attended a seminar regarding the New Code and relevant updates of the Listing Rules provided by the legal adviser to the Company. Mr. Lui Siu Keung confirmed he had attended an in-house seminar in respect of training of directors. All Directors provided a record of relevant training they received for the year ended 31 December 2012 to the Company.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Details of Directors' and the chief executive officer's remuneration are set out in note 12 to the consolidated financial statements.

The remuneration of other members of senior management (other than the chief executive officer) by band for the year ended 31 December 2012 is set out below:

Remuneration bands	**Number of persons**
HK$nil to HK$1,000,000	7
HK$1,000,001 to HK$1,500,000	1

AUDIT COMMITTEE

The Board has established an Audit Committee with written terms of reference in compliance with, where applicable, the Former Code and the New 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 2012, the Audit Committee held three meetings and reviewed the interim results of the Group for the six months ended 30 June 2012, the final results of the Group for the year ended 31 December 2011, the reports prepared by the external auditors relating to accounting and major findings in the course of 2011 annual audit and the 2012 annual audit plan 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	3/3
Professor Zhao Bei	3/3
Mr. Lui Siu Keung *(Chairman)*	3/3

REMUNERATION COMMITTEE

The Board has established a Remuneration Committee with written terms of reference in compliance with, where applicable, the Former Code and the New Code of the Listing Rules. The primary duties of the Remuneration Committee are, among others, to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and to determine with delegated responsibility the remuneration packages of executive 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 but in any event at least once a year. Minutes of the meeting are kept by the Company Secretary at the Company's principal place of business in Hong Kong. During the year ended 31 December 2012, the Remuneration Committee held one meeting and determined the remuneration of executive Directors and senior management and recommended the remuneration of independent non-executive Directors. All the committee members, namely, Professor Zeng Qingfu, Professor Zhao Bei and Mr. Lui Siu Keung, attended the meeting.

NOMINATION COMMITTEE

The Board has established a Nomination Committee with written terms of reference in compliance with, where applicable, the Former Code and the New 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. In considering the suitability of a candidate for directorship, the Nomination Committee will take into account the candidate's qualification, expertise, knowledge and experience as well as the prevailing structure, size and composition of the Board and the requirements under the Listing Rules. 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 but in any event at least once a year. 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 2012, the Nomination Committee held one meeting and made recommendations to the Board in respect of the re-election of Directors at the annual general meeting in 2012 and all the committee members, namely, Professor Zeng Qingfu, Professor Zhao Bei and Mr. Lui Siu Keung, attended the meeting.

CORPORATE GOVERNANCE FUNCTIONS

The Company has not set up any corporate governance committee. The Board adopted with effect from 1 April 2012 the written terms of reference on Corporate Governance in compliance with the New Code of the Listing Rules and the Board is responsible for performing the corporate governance duties set out therein. During the year ended 31 December 2012, the Board met once to review the Company's corporate governance policies and practices, the training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the Company's code of conduct and the Company's compliance with the New Code and the disclosure in this Corporate Governance Report.

COMPANY SECRETARY

Mr. Chan Hon Hung ("Mr. Chan"), the Company Secretary of the Company is a full time employee of the Group. During the year ended 31 December 2012, Mr. Chan has duly complied with the relevant professional training requirements under Rule 3.29 of the Listing Rules. Mr. Chan's biographical details are set out on page 11 under the section headed "Directors' & Senior Management's Biographies".

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.

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 Company's Articles of Association (the "Articles").

SHAREHOLDERS' RIGHTS

Pursuant to article 58 of the Articles, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. The aforesaid written requisition must state the objects of the meeting and must be signed by the relevant shareholder(s) and deposited at the Company's head office in Hong Kong at 6th floor, Comweb Plaza, 12 Cheung Yue Street, Lai Chi Kok, Kowloon, Hong Kong.

The procedures for Shareholders to propose a person for election as a director of the Company are available on the Group's designated website for corporate communications (www.capitalfp.com.hk/eng/index.jsp?co=707).

Enquiries raised by any Shareholder can be mailed to the Board at the Company's head office in Hong Kong at 6th floor, Comweb Plaza, 12 Cheung Yue Street, Lai Chi Kok, Kowloon, Hong Kong or sent through email to ir@co-prosperity.com.

CONSTITUTIONAL DOCUMENTS

At the extraordinary general meeting (the "EGM") on 1 June 2012, shareholders at the EGM, by ordinary resolution, approved the increase of the authorised share capital of the Company from HK$200,000,000 divided into 2,000,000,000 ordinary shares of HK$0.10 each to HK$700,000,000 divided into 7,000,000,000 ordinary shares of HK$0.10 each. The aforesaid increase was consolidated in the memorandum of association of the Company on the same date.

AUDITOR'S REMUNERATION

During the year ended 31 December 2012, the Group was charged HK$2,300,000 for auditing services and a total of HK$765,000 for non-auditing services by the Company's auditor, Deloitte Touche Tohmatsu. Details of the non-auditing fees are as follows:

For the reporting work for open offer exercise	HK$400,000
For the reporting work for major transaction	HK$350,000
For the 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, Messrs. Deloitte Touche Tohmatsu, on its reporting responsibilities in respect of the consolidated financial statements of the Group is set out on pages 28 and 29. 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.

Independent Auditor's Report

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 30 to 97, which comprise the consolidated statement of financial position as at 31st December, 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 affairs of the Group as at 31st December, 2012, 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

27th March, 2013

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2012

	NOTES	2012 RMB'000	2011 RMB'000
Turnover	7	515,786	620,051
Cost of goods sold and services provided		(477,242)	(570,860)
Gross profit		38,544	49,191
Other income		932	670
Other expenses, gains and losses	8	(4,490)	23,093
Impairment losses recognised in respect of prepaid lease payments and property, plant and equipment	9	(28,476)	(119,828)
Reversals of impairment losses in respect of prepaid lease payments and property, plant and equipment	9	1,842	15,857
Distribution and selling expenses		(8,940)	(10,314)
Administrative expenses		(33,228)	(35,381)
Finance costs	10	(33,009)	(24,842)
Loss before taxation	11	(66,825)	(101,554)
Taxation	14	(2,529)	(3,976)
Loss for the year attributable to owners of the Company		(69,354)	(105,530)
Other comprehensive income			
– exchange differences arising on translation		1,308	2,207
Total comprehensive expense for the year attributable to owners of the Company		(68,046)	(103,323)
		2012 RMB cents	2011 RMB cents
Loss per share	15		
– Basic		(5.92)	(9.01)
– Diluted		(5.92)	(9.01)

Consolidated Statement of Financial Position

At 31st December, 2012

	NOTES	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	16	177,014	218,821
Prepaid lease payments	17	124,960	51,196
Deposits made for acquisition of property, plant and equipment		1,108	6,137
		303,082	276,154
Current assets			
Inventories	18	413,192	353,534
Trade and other receivables	19	215,076	159,372
Prepaid lease payments	17	2,681	1,159
Pledged bank deposits	20	53,446	48,020
Bank balances and cash	20	21,324	42,004
		705,719	604,089
Current liabilities			
Trade and other payables	21	194,996	141,316
Amount due to a related party	22	15,087	12,966
Convertible bonds	27	41,431	–
Taxation payables		3,985	4,356
Mortgage loan	24	547	536
Short-term bank loans	25	385,500	335,500
		641,546	494,674
Net current assets		64,173	109,415
Total assets less current liabilities		367,255	385,569
Non-current liabilities			
Warrants	26	9,916	–
Convertible bonds	27	–	39,746
Mortgage loan	24	139	689
Government grant	28	980	1,120
Loan from a related party	29	47,494	–
Other unsecured loan	30	32,758	–
		91,287	41,555
Net assets		275,968	344,014
Capital and reserves			
Share capital	31	117,055	117,055
Reserves		158,913	226,959
Total equity		275,968	344,014

The consolidated financial statements on pages 30 to 97 were approved and authorised for issue by the Board of Directors on 27th March, 2013 and are signed on its behalf by:

SZE SIU HUNG	**SZE CHIN PANG**
CHAIRMAN	*EXECUTIVE DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2012

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Share option reserve RMB'000	Translation reserve RMB'000	Statutory surplus reserve fund RMB'000	Accumulated deficit RMB'000	Total RMB'000
At 1st January, 2011	117,055	301,107	98,731	–	2,433	95,297	(168,955)	445,668
Loss for the year	–	–	–	–	–	–	(105,530)	(105,530)
Exchange differences arising on translation	–	–	–	–	2,207	–	–	2,207
Total comprehensive expense for the year	–	–	–	–	2,207	–	(105,530)	(103,323)
Recognition of equity-settled share-based payments	–	–	–	1,669	–	–	–	1,669
Transfers	–	–	–	–	–	2,214	(2,214)	–
	–	–	–	1,669	–	2,214	(2,214)	1,669
At 31st December, 2011	117,055	301,107	98,731	1,669	4,640	97,511	(276,699)	344,014
Loss for the year	–	–	–	–	–	–	(69,354)	(69,354)
Exchange differences arising on translation	–	–	–	–	1,308	–	–	1,308
Total comprehensive expense for the year	–	–	–	–	1,308	–	(69,354)	(68,046)
Transfers	–	–	–	–	–	526	(526)	–
At 31st December, 2012	117,055	301,107	98,731	1,669	5,948	98,037	(346,579)	275,968

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

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

Consolidated Statement of Cash Flows

For the year ended 31st December, 2012

	2012 RMB'000	2011 RMB'000
Operating activities		
Loss before taxation	(66,825)	(101,554)
Adjustments for:		
Interest income	(465)	(154)
Interest expenses	33,009	24,842
Depreciation of property, plant and equipment	23,458	31,329
Amortisation of government grant	(140)	(140)
Amortisation of prepaid lease payments	1,922	1,391
Allowances for inventories	3,424	–
Reversals of allowances for inventories	–	(6,332)
Reversal of provision of onerous contracts for acquisition of property, plant and equipment	(2,789)	–
Allowances for bad and doubtful debts	2,848	558
Reversals of allowances for bad and doubtful debts	(3)	(9,866)
Gain on fair value change of derivative financial liabilities	–	(3,806)
Gain on fair value change of derivative component of convertible bonds	(1,812)	(13,082)
Loss on fair value of warrants	6,118	–
Gain on disposal of property, plant and equipment	(3,149)	–
Equity-settled share-based payments	–	1,669
Impairment losses in respect of prepaid lease payments and property, plant and equipment	28,476	119,828
Reversals of impairment losses in respect of prepaid lease payments and property, plant and equipment	(1,842)	(15,857)
Operating cash flows before movements in working capital	22,230	28,826
Increase in inventories	(63,082)	(14,790)
Decrease in trade and other receivables	35,120	1,453
Increase (decrease) in trade and other payables	67,827	(11,031)
Cash generated from operations	62,095	4,458
Taxation paid	(2,900)	(6,319)
Net cash from (used in) operating activities	59,195	(1,861)
Investing activities		
Interest received	465	154
Purchase of property, plant and equipment	(7,245)	(5,905)
Payment of land use rights	(78,272)	–
Refund of deposits paid for acquisition of property, plant and equipment	3,903	–
Proceeds from disposals of property, plant and equipment	4,312	–
Deposits paid on acquisition of property, plant and equipment	(14)	(872)
Placement of pledged bank deposits	(20,796)	(48,020)
Withdrawal of pledged bank deposits	15,370	–
(Advances made to) repayment from third parties	(92,860)	51,000
Net cash used in investing activities	(175,137)	(3,643)

Consolidated Statement of Cash Flows

For the year ended 31st December, 2012

	2012 RMB'000	2011 RMB'000
Financing activities		
Interest paid	(27,184)	(21,499)
Proceeds from issue of warrants	3,824	–
Borrowings from third parties	6,400	17,700
Borrowings from a related party	48,626	11,842
Repayment to a related party	–	(13,000)
Repayment to a third party	(17,700)	–
Other unsecured loans raised	31,867	–
Bank loans raised	308,000	345,500
Repayment of bank loans	(258,000)	(330,700)
Repayment of mortgage loan	(539)	(589)
Net cash from financing activities	95,294	9,254
Net (decrease) increase in cash and cash equivalents	(20,648)	3,750
Cash and cash equivalents at 1st January	42,004	38,260
Effect of foreign exchange rate changes	(32)	(6)
Cash and cash equivalents at 31st December	21,324	42,004
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	21,324	42,004

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

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 36. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate controlling shareholder is Mr. Sze Siu Hung.

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 ("HKFRSs")

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

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

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

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

New and revised HKFRSs issued but not yet effective

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

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

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

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

HKFRS 9 Financial instruments

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

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities that are designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to change in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

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

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

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

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

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

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

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

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

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

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

The directors anticipate that the application of these three standards will not have an impact on amounts reported in the consolidated financial statements.

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

HKFRS 13 Fair value measurement

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

HKFRS 13 is effective for the Group for annual period beginning on 1st January, 2013, with earlier application permitted. The directors anticipate that the application of the new standard will have no material impact on amounts reported but will result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 "Presentation of items of other comprehensive income" introduce new terminology for statement of comprehensive income. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income'. The amendments to HKAS 1 also require items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by The Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

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

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time 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.

Service income is recognised when the services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income 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 leasehold land and buildings (classified as finance lease) held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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 categories 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.

Leasing

Leases are classified as finance leases when 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 lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Leasing – 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 lease 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 consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

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 the 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. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

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 debt instrument 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 and 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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest 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 and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of loans and receivables below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be 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 of the loan and receivables have been affected.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of loans and receivables – continued

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as 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 loans and receivables, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, 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.

The amount of the impairment loss recognised is 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 is reduced by the impairment loss directly for all loans and receivables with the exception of trade and other 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 and other 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 instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity instruments – continued

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 (including all fees and 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

The Group's financial liabilities are classified as fair value through profit or loss ("FVTPL") and other financial liabilities. Financial liabilities classified as FVTPL including derivative component of convertible bonds and warrants are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the, period in which they arise. The net gain or loss is included in the 'other expenses, gains and losses'. Other financial liabilities including trade and other payables, amounts due to related parties, mortgage loan, bank loans and debt component of convertible bonds are subsequently measured at amortised cost, using the effective interest method.

Convertible bonds

Convertible bonds issued by the Group that contain debt component, conversion option and redemption option (collectively the "derivative component") 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 debt and derivative components are recognised at fair value.

In subsequent periods, the debt component of the convertible bonds is carried at amortised cost using the effective interest method. The derivative component 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 debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative component are charged to profit or loss immediately. Transaction costs relating to the debt 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity instruments – continued

Warrants

Warrants 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 instrument are accounted as derivatives. The warrants are initially recognised at fair value 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.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when 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.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, 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.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to directors and 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 option reserve).

When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) 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 (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 before tax' as reported in the consolidated statement of comprehensive income 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 consolidated 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.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

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.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for business combination.

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 activities (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.

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 recognised 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 consolidated statement of financial position presented as government grant and transferred to profit or loss on a systematic and rational basis 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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) 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 exchanges 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 recognised in other comprehensive income and accumulated in equity under the heading of translation reserve. Such translation differences are reclassified to profit or loss from equity in the period in which the foreign operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies – continued

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Retirement benefits costs

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

4. 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 judgements, 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 on-going 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.

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Estimated impairment of property, plant and equipment and prepaid lease payments

When there is indication that property, plant and equipment, prepaid lease payments or a cash-generating unit ("CGU") may be impaired, the Group estimates the recoverable amount of the relevant asset or the relevant CGU in which the relevant property, plant and equipment and prepaid lease payments are attached to. The amount of the impairment loss is measured as the difference between the carrying amount of the relevant asset or the CGU and the recoverable amount. The recoverable amount is higher of value in use and fair value less costs to sell. Value in use is the estimated future cash flows discounted to their present value using an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the relevant asset or the CGU. Where the actual future cash flows or fair value less costs to sell are less or more than expected, or changes in facts and circumstances which result in revisions of the estimated future cash flows for the purpose of determining the value in use, further impairment loss or reversal of impairment loss may arise. As at 31st December, 2012, the carrying amount of property, plant and equipment and prepaid lease payments are RMB177,014,000 and RMB127,641,000 respectively (2011: RMB218,821,000 and RMB52,355,000 respectively). Details about impairment losses provided and reversed during the period are set out in note 9.

Fair value of warrants and derivative component of convertible bonds

The directors of the Company use their judgement in selecting an appropriate valuation technique to determine fair value of the warrants and derivative component of convertible bonds which are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The fair values of these warrants and derivative component of convertible bonds are determined at the end of the reporting period with movement in fair value recognised in profit or loss. In estimating the fair value of these warrants and derivative component of convertible bonds, the Group uses independent valuation which is based on various inputs and estimates (see notes 26 and 27). If the inputs and estimates applied in the model are different, the carrying amount of these warrants and derivative component of convertible bonds will change. The carrying value of the warrants and derivative component of convertible bonds at 31st December, 2012 was RMB9,916,000 (2011:nil) and RMB41,431,000 (2011: RMB39,746,000) 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 accumulated deficit as disclosed in the consolidated 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, raising of bank loans or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2012 RMB'000	2011 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	197,092	113,081
Financial liabilities		
Amortised costs	627,841	457,095
Fair value through profit or loss		
– derivative components of components of convertible bonds	–	1,817
– warrants	9,916	–

b. Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, amount due to a related party, mortgage loan, short-term bank loans, derivative financial liabilities, convertible bonds, warrants, loan from a related party and other unsecured loan. 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, loan to a related party, other unsecured loan and convertible bonds and cash flow interest rate risk in relation to variable rate bank deposits and mortgage loan. 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

Interest rate 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 31st December, 2012 would increase/decrease by RMB7,000 (2011: increase/decrease by RMB12,000). This is mainly attributable to the Group's exposure to interest rates on its mortgage loan.

Price risk

The Group's derivative component of convertible bonds and warrants exposed the Group to equity price risk. Details of the derivative component of convertible bonds and warrants are set out in notes 27 and 26 respectively. Management closely monitors the relevant risk.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.

(i) Conversion option of derivative component of convertible bonds

Since the maturity date of the convertible bonds is close to year end date, at 31st December, 2012 the fluctuation is considered immaterial to the Group. No sensitivity analysis is presented for the year ended 31st December, 2012.

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 31st December, 2011 would increase/decrease by RMB316,000/RMB355,000 as a result of the changes in fair value of the derivatives.

If the market volatility of the underlying stock price had been 10% higher/lower and other inputs were held constant, loss for the year ended 31st December, 2011 would increase/decrease by RMB775,000/RMB854,000 as a result of the changes in fair value of the derivatives.

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Market risk – continued

Price risk – continued

Sensitivity analysis – continued

(ii) Warrants

The sensitivity analysis includes the outstanding number of warrants as at the end of the reporting period and adjusts as at the year end for a higher/lower in share price, holding other variables constant.

At 31 December 2012, if the input of share price to the valuation model of the warrants had been 5% higher/lower while all other variables were held constant, loss for the year would increase/decrease by RMB1,170,000/RMB1,170,000 as a result of the changes in fair value of the warrants.

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 derivatives are interdependent.

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 debt component of the convertible bonds and loan from a related party denominated in HKD and other unsecured loan denominated in United States dollars ("USD") 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 Group's foreign currency denominated monetary liabilities at the end of the reporting period are as follows:

	2012 RMB'000	2011 RMB'000
HKD	88,925	37,929
USD	32,758	–
	121,683	37,929

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Market risk – continued

Currency risk – continued

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2011: 5%) increase in RMB, the functional currency of the group entity, against HKD and USD. 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% (2011: 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% (2011: 5%) against the HKD. For 5% (2011: 5%) weakening of the functional currency of the group entity against HKD, this would be an equal and opposite impact on the loss/profit.

If RMB strengthens against HKD and USD by 5% (2011: 5%):

	HKD impact		USD impact	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Decrease in loss	4,446	1,896	655	–

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 31st December, 2012, 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 consolidated 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.

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Credit risk – continued

As at 31 December, 2012, the Group has also concentration of credit risk with other receivables due from three parties (2011: nil).

Other receivables due from third parties are advances to suppliers of the Group, approval from the Chairman of the Company is necessary prior to providing these advances. The management of the Group closely monitors the follow-up action taken to recover any other receivables to determine the recoverability of the other receivables. In addition, the Group all other receivables are received subsequent to the reporting date. In this regard, the Directors consider that the Group's credit risk on the other receivables is significantly reduced.

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 directors of the Company are of the opinion that the existing banking facilities could be successfully renewed upon maturity based on the past history and good relationships of the Group with the banks. 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. In addition, the Group's ultimate controlling shareholder has agreed to arrange to provide adequate funds to enable the Group to meet in full their financial obligations as when they fall due for the foreseeable future. In this regard, the directors of the Company consider that the Group's liquidity risk is significantly reduced and are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going-concern basis.

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.

For warrants, undiscounted gross inflows are not presented since the Group is unable to estimate the ultimate timing and amount of subscription money of the warrants. There are no cash outflows for the warrants.

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 RMB'000	3 months to 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31.12.2012 RMB'000
2012						
Non-derivative financial liabilities						
Trade and other payables*	–	104,885	–	–	104,885	104,885
Amounts due to related parties	–	15,087	–	–	15,087	15,087
Mortgage loan – variable rate	2.46	136	419	142	697	686
Bank loans – fixed rate	7.11	121,115	280,711	–	401,826	385,500
Convertible bonds						
– debt component	9.82	41,564	–	–	41,564	41,431
Loan from a related party	4.80	–	–	49,773	49,773	47,494
Other unsecured loan	6.00	–	–	34,724	34,724	32,758
		282,787	281,130	84,639	648,556	627,841

	Weighted average effective interest rate %	Less than 3 months RMB'000	3 months to 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31.12.2011 RMB'000
2011						
Non-derivative financial liabilities						
Trade and other payables*	–	69,475	–	–	69,475	69,475
Amounts due to related parties	–	12,966	–	–	12,966	12,966
Mortgage loan – variable rate	2.43	134	406	705	1,245	1,225
Bank loans – fixed rate	7.08	108,894	240,633	–	349,527	335,500
Convertible bonds						
– debt component	9.82	–	–	41,788	41,788	37,929
		191,469	241,039	42,493	475,001	457,095

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

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.

6. FINANCIAL INSTRUMENTS – continued

c. Fair value

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

The fair value of financial assets and financial liabilities (excluding derivative component of convertible bonds and warrants) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The fair value of warrants and conversion option of derivative component of convertible bonds is calculated using Binomial Model.

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

Fair value measurements recognised in the consolidated statement of financial position

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).

	Level 3	
	2012	2011
	RMB'000	RMB'000
Financial liabilities at FVTPL		
Derivative component of convertible bonds	–	1,817
Warrants	9,916	–

6. FINANCIAL INSTRUMENTS – continued

c. Fair value – continued

Fair value measurements recognised in the consolidated statement of financial position – continued

Reconciliation of Level 3 fair value measurements of derivative component of convertible bonds and warrants.

	Derivative component of convertible bonds RMB'000
At 1st January, 2011	–
On issue of convertible bonds	14,934
Gain on fair value changes	(13,082)
Currency realignment	(35)
At 31st December, 2011	1,817
Gain on fair value changes	(1,812)
Currency realignment	(5)
At 31st December, 2012	–

	Warrants RMB'000
At 1st January, 2011 and 31st December, 2011	–
On issue of warrants	3,824
Loss on fair value changes	6,118
Currency realignment	(26)
At 31st December, 2012	9,916

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:

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

Segment information

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

– Processing, printing and sales of finished fabrics;

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

– Trading of goods: Trading of fabrics and clothing.

7. TURNOVER AND SEGMENT INFORMATION – continued

Segment information – continued

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

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

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

Segment results represent the result of each segment without allocation of interest income, net exchange (loss) gain, loss on fair value of warrants, gain on fair value change of derivative financial liabilities and derivative component of convertible bonds, unallocated expenses and finance costs. This is the measure reported to the chief operating decision maker, the executive directors, for the purposes of resources allocation and performance assessment.

7. TURNOVER AND SEGMENT INFORMATION – continued

Segment information – continued

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

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

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

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

- all liabilities are allocated to operating segments other than other payables, amount due to a related party, taxation payables, mortgage loan, bank loans, convertible bonds, loan from a related party, other unsecured loan and warrants.

7. TURNOVER AND SEGMENT INFORMATION – continued

Segment information – continued

(iii) Other segment information

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

7. TURNOVER AND SEGMENT INFORMATION – continued

Segment information – continued

(iii) Other segment information – continued

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

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

Information about major customers

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

8. OTHER EXPENSES, GAINS AND LOSSES

	2012 RMB'000	2011 RMB'000
Allowances for bad and doubtful debts		
– trade receivables	(848)	(558)
– other receivables	(2,000)	–
	(2,848)	(558)
Reversals of allowances for bad and doubtful debts		
– trade receivables	3	6,166
– other receivables	–	3,700
	3	9,866
Reversal of provision upon cancellation of onerous contracts for acquisition of property, plant and equipment	2,789	–
Net exchange (loss) gain	(806)	31
Gain in fair value change of derivative financial liabilities *(note 23)*	–	3,806
Gain on change of fair value of derivative component of convertible bonds *(note 27)*	1,812	13,082
Gain on disposals of property, plant and equipment	3,149	–
Loss on fair value of warrants *(note 26)*	(6,118)	–
Research and development costs	(2,471)	(3,134)
	(1,645)	13,785
	(4,490)	23,093

9. (IMPAIRMENT LOSSES) REVERSALS OF IMPAIRMENT LOSSES

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

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

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

CGU1

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

For the year ended 31st December, 2012, the directors of the Company reassessed the recoverable amounts of the CGU with reference to the valuation report issued by an independent external valuer, American Appraisal China Limited ("2012 Valuation Report"), and a reversal of impairment losses of RMB1,842,000 was made in respect of property, plant and equipment. The recoverable amount is the higher of fair value less costs to sell and the value in use. The reversal of impairment losses is recognised for CGU1 for which the recoverable amounts, which are based on fair value less costs to sell, are higher than the carrying amount. The estimation of fair value less costs to sell is based on the market prices for similar assets.

9. (IMPAIRMENT LOSSES) REVERSALS OF IMPAIRMENT LOSSES – continued

CGU2

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

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

CGU3

For the year ended 31st December, 2011, the directors of the Company reassessed the recoverable amounts of the CGU with reference to the 2011 Valuation Report, and further impairment losses of RMB79,136,000 and RMB14,052,000 were made in respect of property, plant and equipment and prepaid lease payments respectively as at 31 December, 2011. The recoverable amount is the higher of fair value less costs to sell and the value in use. The impairment losses were recognised for CGU3 for which the recoverable amounts, which were based on fair value less costs to sell, were less than the carrying amounts. The estimation of fair value less costs to sell was based on the market prices for similar assets.

9. (IMPAIRMENT LOSSES) REVERSALS OF IMPAIRMENT LOSSES – continued

CGU3 – continued

For the year ended 31st December, 2012, the directors of the Company reassessed the recoverable amounts of the CGU with reference to the 2012 Valuation Report, and further impairment losses of RMB2,379,000 and RMB276,000 are made in respect of property, plant and equipment and prepaid lease payments respectively as at 31 December, 2012. The recoverable amount is the higher of fair value less costs to sell and the value in use. The impairment losses are recognised for CGU3 for which the recoverable amounts, which are based on fair value less costs to sell, are less than the carrying amounts. The estimation of fair value less costs to sell is based on the market prices for similar assets.

CGU4

For the year ended 31st December, 2012 and 31st December, 2011, as the market in which CGU4 is engaged had not yet recovered comparing with what the directors expected, the directors of the Company considered this was an impairment indicator. Thus, the directors of the Company conducted an impairment assessment on the CGU's property, plant and equipment and prepaid lease payments. The recoverable amount is the higher of fair value less costs to sell and the value in use. With reference to the 2012 Valuation Report and 2011 Valuation Report, the directors had made no impairment losses for CGU4 since its value in use was higher than its carrying amount as at 31st December, 2012 and 31st December, 2011. The value in use calculation used cash flow forecast derived from the most recent financial budget approved by management based on its best estimates. Projected period was 3 years. The growth rate used in the forecast was zero. The cash flow forecast was using a discount rate of 9.5% which reflected the return on assets and the risks specific to CGU4.

CGU5

For the year ended 31st December, 2011, as the markets in which CGU5 was engaged had not yet recovered comparing with what the directors expected, the directors of the Company considered this was an impairment indicator. Thus, the directors of the Company conducted an impairment assessment on the CGU's property, plant and equipment. The recoverable amount is the higher of fair value less costs to sell and the value in use. With reference to the 2011 Valuation Report, the directors had made no impairment losses for CGU5 since its value in use was higher than its carrying amount as at 31st December, 2011. The value in use calculation used cash flow forecast derived from the most recent financial budget approved by management based on their best estimates. Projected period was 3 years. The growth rate used in the forecast was zero. The cash flow forecast was using a discount rate of 9.5% which reflected the return on assets and the risks specific to CGU5.

9. (IMPAIRMENT LOSSES) REVERSALS OF IMPAIRMENT LOSSES – continued

CGU5 – continued

For the year ended 31st December, 2012, as the markets in which CGU5 is engaged have not yet recovered comparing with what the directors expected, the directors of the Company considered this is an impairment indicator. Thus, the directors of the Company conducted an impairment assessment on the CGU's property, plant and equipment and prepaid lease payments. The recoverable amount is the higher of fair value less costs to sell and the value in use. With reference to the 2012 Valuation Report, the directors have made impairment losses of RMB4,013,000 in respect of property, plant and equipment for CGU5. The impairment losses are recognised for CGU5 for which the recoverable amounts, which are based on fair value less costs to sell, are less than the carrying amounts. The estimation of fair value less costs to sell is based on the market prices for similar assets. The value in use dropped since 2011 and is lower than fair value less costs to sell as at 31st December 2012. This was mainly due to the increase in prices of raw materials which caused the reduction in gross margin.

CGU6

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

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

10. FINANCE COSTS

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

11. LOSS BEFORE TAXATION

	2012 RMB'000	2011 RMB'000
Loss before taxation has been arrived at after charging:		
Directors' remuneration *(note 12)*	1,412	1,705
Other staff's retirement benefits scheme contributions	751	674
Other staff's equity-settled share-based payments	–	1,402
Other staff costs	45,407	43,108
	47,570	46,889
Less: Staff costs included in research and development costs	(487)	(632)
	47,083	46,257
Depreciation of property, plant and equipment	23,458	31,329
Less: Depreciation included in research and development costs	(740)	(786)
	22,718	30,543
Auditor's remuneration	1,879	1,919
Cost of inventories recognised as expenses (including allowance for inventories amounting to RMB3,424,000 (2011: reversal of allowance for inventories amounting to RMB6,332,000))	477,242	570,860
Operating lease rentals in respect of		
– prepaid lease payments	1,922	1,391
– rented premises	445	457
and after crediting:		
Amortisation of government grant	140	140
Government rewards and subsidies (including in other income)*	239	320
Interest income	465	154

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

12. DIRECTORS', CHIEF EXECUTIVE OFFICER'S AND EMPLOYEES' EMOLUMENTS

Details of emoluments paid by the Group to the directors and chief executive officer are as follows:

	2012					2011				
	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
Executive directors										
– Mr. Sze Siu Hung	–	531	11	–	542	–	542	10	–	552
– Mr. Qiu Fengshou	–	128	4	–	132	–	130	3	–	133
– Madam Cai Peilei	–	106	–	–	106	–	109	–	–	109
– Mr. Sze Chin Pang	–	425	11	–	436	–	434	10	100	544
Independent non-executive directors										
– Professor Zeng Qingfu	49	–	–	–	49	50	–	–	42	92
– Professor Zhao Bei	49	–	–	–	49	50	–	–	42	92
– Mr. Lui Siu Keung	98	–	–	–	98	100	–	–	83	183
	196	1,190	26	–	1,412	200	1,215	23	267	1,705
Chief executive officer										
– Mr. Sze Siu Bun	–	425	11	–	436	–	434	10	167	611
	196	1,615	37	–	1,848	200	1,649	33	434	2,316

During the year, the five highest paid individuals included two (2011: one) director(s) of the Company, details of whose emoluments are set out above. The emoluments of the remaining three (2011: four) highest paid employees are as follows:

	2012 RMB'000	2011 RMB'000
Employees		
– basic salaries and allowances	1,395	1,354
– retirement benefits scheme contributions	30	27
– equity-settled share-based payments	–	1,402
	1,425	2,783

Their emoluments were within the following bands:

	2012 No. of employees	2011 No. of employees
HK$ nil to HK$1,000,000	2	3
HK$1,000,001 to HK$1,500,000	1	1

12. DIRECTORS', CHIEF EXECUTIVE OFFICER'S AND EMPLOYEES' EMOLUMENTS – continued

During both years, 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 both years.

13. DIVIDENDS

No dividend was paid or proposed during 2012, nor has any dividend been proposed since the end of the reporting period (2011: Nil).

14. TAXATION

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

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group are entitled to exemption from PRC income tax for the two years commencing from their first profit making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years. For the subsidiaries under this exemption, such exemption is still applicable under the transitional arrangement of the Enterprise Income Tax ("EIT") Law. There are three PRC subsidiaries entitled to this exemption which commenced in 2008 and expired in December 2012.

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

	2012 RMB'000	2011 RMB'000
Loss before taxation	(66,825)	(101,554)
Tax at PRC EIT rate of 25%	16,706	25,389
Tax effect of income not taxable for tax purposes	453	4,222
Tax effect of expenses not deductible for tax purposes	(12,549)	(5,985)
Tax effect of deductible temporary differences not recognised	(7,515)	(25,993)
Tax effect of tax losses not recognised	–	(3,229)
Effect of tax exemption granted to certain PRC subsidiaries	376	1,582
Others	–	38
Tax charge for the year	(2,529)	(3,976)

14. TAXATION – continued

At the end of the reporting period, the Group has deductible temporary differences of RMB753,520,000 (2011: RMB723,460,000). No deferred tax asset has been recognised in relation to deductible temporary difference because it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. Deferred taxation has not been provided for in the financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries amounting to RMB134,789,000 (2011: RMB148,336,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

15. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the consolidated loss for the year attributable to owners of the Company of RMB69,354,000 (2011: RMB105,530,000) and the weighted average number of 1,171,500,000 (2011: 1,171,500,000) ordinary shares in issue during the year.

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

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1st January, 2011	495,191	11,460	4,495	502,344	41,226	1,054,716
Currency realignment	–	(36)	(57)	–	–	(93)
Additions	–	966	400	4,248	2,772	8,386
Transfers	–	–	–	4,755	(4,755)	–
At 31st December, 2011	495,191	12,390	4,838	511,347	39,243	1,063,009
Currency realignment	–	(5)	(8)	–	–	(13)
Additions	–	253	59	7,193	880	8,385
Disposals	–	–	–	(21,513)	–	(21,513)
Transfers	–	81	–	2,607	(2,688)	–
At 31st December, 2012	495,191	12,719	4,889	499,634	37,435	1,049,868
DEPRECIATION AND IMPAIRMENT						
At 1st January, 2011	334,594	4,828	2,883	377,598	–	719,903
Currency realignment	–	(35)	(57)	–	–	(92)
Provided for the year	6,572	1,226	533	22,998	–	31,329
Impairment losses recognised in profit or loss	60,071	–	–	45,705	–	105,776
Reversals of impairment losses	(10,044)	–	–	(2,684)	–	(12,728)
At 31st December, 2011	391,193	6,019	3,359	443,617	–	844,188
Currency realignment	–	(4)	(8)	–	–	(12)
Provided for the year	5,045	1,133	643	16,637	–	23,458
Eliminated on disposals	–	–	–	(20,350)	–	(20,350)
Impairment losses recognised in profit or loss	17,398	–	–	10,014	–	27,412
Reversals of impairment losses	(1,502)	–	–	(340)	–	(1,842)
At 31st December, 2012	412,134	7,148	3,994	449,578	–	872,854
CARRYING VALUES						
At 31st December, 2012	83,057	5,571	895	50,056	37,435	177,014
At 31st December, 2011	103,998	6,371	1,479	67,730	39,243	218,821

16. PROPERTY, PLANT AND EQUIPMENT – continued

For the leasehold land and buildings in Hong Kong, the cost of leasehold land and buildings is depreciated over 50 years on a straight-line basis.

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

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

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

	2012 RMB'000	2011 RMB'000
Leasehold land and buildings in Hong Kong	7,620	7,805
Leasehold buildings in the PRC	75,437	96,193
	83,057	103,998

The Group has pledged certain of its leasehold land and buildings and plant and machinery with an aggregate carrying value of RMB58,099,000 (2011: RMB61,160,000) to certain banks to secure the credit facilities granted to the Group.

17. PREPAID LEASE PAYMENTS

	2012 RMB'000	2011 RMB'000
CARRYING VALUE		
At 1st January	52,355	64,669
Additions during the year	78,272	–
Released to profit or loss for the year	(1,922)	(1,391)
Impairment losses recognised in profit or loss	(1,064)	(14,052)
Reversals of impairment losses	–	3,129
At 31st December	127,641	52,355
Analysed as:		
Non-current assets	124,960	51,196
Current assets	2,681	1,159
At 31st December	127,641	52,355

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 certain of its land use rights with an aggregate carrying value of RMB50,151,000 (2011: RMB52,355,000) to certain banks to secure the credit facilities granted to the Group.

18. INVENTORIES

	2012 RMB'000	2011 RMB'000
Raw materials	65,554	139,367
Finished goods	347,638	214,167
	413,192	353,534

At 31st December, 2012, certain finished goods with original cost amounting to RMB44,682,000 are stated at net realisable value of RMB41,258,000.

Movement in the allowances for inventories

	2012 RMB'000	2011 RMB'000
At 1st January	–	6,332
Allowances made during the year	3,424	–
Reversal of allowances during the year*	–	(6,332)
At 31st December	3,424	–

* The reversal of allowance was because the relevant inventories were sold out during the year ended 31st December, 2011.

19. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

19. TRADE AND OTHER RECEIVABLES – continued

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

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB7,381,000 (2011: RMB7,705,000) which are past due at the reporting date for which the Group has not provided allowance because those debtors have good credit records. The Group does not hold any collateral over these balances.

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

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

The Group has provided allowances for certain trade and other receivables, as the directors of the Company consider the recoverability of these debts are low based on historical experience.

Movement in the allowances for bad and doubtful debts

	Trade receivables		Other receivables	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
At 1st January	1,834	7,442	–	3,700
Allowances made during the year	848	558	2,000	–
Reversals of allowances during the year	(3)	(6,166)	–	(3,700)
At 31st December	2,679	1,834	2,000	–

The allowances amounted to RMB3,000 (2011: RMB9,866,000) are reversed because the related debts are settled during the year. The Group does not hold any collateral over these balances.

20. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances carry interest at market rates ranging from 0.01% to 0.4% (2011: 0.01% to 0.5%) per annum. The pledged bank deposits carry fixed interest rate ranged from 0.5% to 3.5% per annum. Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Pledged bank deposits of RMB41,000,000 (2011: RMB41,000,000) will be released upon the settlement of relevant bank borrowings and the remaining amount of RMB12,446,000 (2011: RMB7,020,000) have been pledged to secure bills payables. All pledged bank deposits are therefore classified as current assets.

21. TRADE AND OTHER PAYABLES

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

(a) The obligations under onerous contracts for acquisition of property, plant and equipment amounting to RMB3,725,000 were recognised in 2010 in relation to the impairment losses in respect of capital commitments for acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements (note 9). During the year ended 31st December, 2011, an amount of RMB159,000 was released and adjusted to the cost of the property, plant and equipment upon completion of the acquisition. In 2012, the Group negotiated with a supplier and was able to cancel the relevant contact. As a result, the Group has received a refund of deposit for acquisition of property, plant and equipment of RMB3,903,000 and the reversal of obligation under onerous contracts of RMB2,789,000 upon cancellation of contract with the supplier is charged to profit or loss.

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

21. TRADE AND OTHER PAYABLES – continued

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

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

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

22. AMOUNT DUE TO A RELATED PARTY

	2012 RMB'000	2011 RMB'000
Name of related party		
Mr. Sze Siu Hung [1]	15,087	12,966

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

The amount is unsecured, interest-free and is repayable on demand.

23. DERIVATIVE FINANCIAL LIABILITIES

On 20th December, 2010, for settlement of advances from two independent parties, the Company and these two independent parties entered into a subscription agreement for the issue of convertible bonds (the "Subscription Agreement") in the aggregate principal amount of HK$50,000,000 (equivalent to RMB42,480,000). The Subscription Agreement of the convertible bonds 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 subsequently.

On 14th January, 2011, the Company issued the convertible bonds (see note 27). A gain in fair value of the forward contract of HK$4,561,000 (equivalent to RMB3,806,000) is recognised in profit or loss for the period from 1st January, 2011 to 14th January, 2011. The fair value of the forward contract of HK$10,183,000 (equivalent to RMB8,498,000) was derecognised upon issuance of the convertible bonds.

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

		Shown as
	HK$'000	RMB'000
Balance as at 31st December, 2010	14,744	12,527
Gain arising on change of fair value on 14th January, 2011	(4,561)	(3,806)
Derecognised on issuance of convertible bonds *(note 27)*	(10,183)	(8,498)
Currency realignment	–	(223)
Balance as at 31st December, 2011	–	–

The fair values of the forward contract at 14th January, 2011 were valued by American Appraisal China Limited. The valuations were arrived at using the Binomial Model.

The inputs into the model were as follows:

Valuation date	**14th 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+

24. MORTGAGE LOAN

	2012 RMB'000	2011 RMB'000
The mortgage loan is secured and repayable as follows:		
Within one year	547	536
Between one to two years	139	596
Between two to five years	–	93
	686	1,225
Less: Amount due within one year shown under current liabilities	547	536
Amount due after one year	139	689

The mortgage loan carries interest at a variable rate of 2.4% per annum (2011: 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. The mortgage loan is secured by the leasehold land and buildings in Hong Kong with carrying value RMB7,620,000 (2011: RMB7,805,000).

25. SHORT-TERM BANK LOANS

	2012 RMB'000	2011 RMB'000
Short-term bank loans		
– secured	246,000	295,000
– unsecured	139,500	40,500
	385,500	335,500

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 secured by the property, plant and equipment, prepaid lease payments and pledged bank deposits with carrying value of RMB50,479,000 (2011: RMB53,355,000), RMB50,151,000 (2011: RMB52,355,000) and RMB41,000,000 (2011: RMB41,000,000) respectively.

The short-term bank loans are fixed-rate bank loans which carry interest at the range of 5.90% to 8.52% (2011: 5.81% to 7.87%) per annum.

25. 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:

	2012 RMB'000	2011 RMB'000
Mr. Sze Siu Hung	24,000	–
Mr. Cai Chaodun[(1)]	30,000	30,000
Joint guarantee[(2)]	30,000	28,700
Joint guarantee[(3)]	–	27,000
Joint guarantee[(4)]	30,000	–
Joint guarantee[(5)]	45,000	–
Joint guarantee[(6)]	20,000	–
	179,000	85,700

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

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

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

(4) The credit facility was jointly guaranteed by Mr. Cai Chaodun, Mr. Qiu Fengshou and Mr. Ji Congming. Mr. Ji Congming is the general manager of the Group.

(5) The credit facility was jointly guaranteed by Mr. Cai Chaodun and his wife, Ms. Wang Yuee.

(6) The credit facility was jointly guaranteed by Mr. Qiu Fengshou and his wife, Ms. Ding Honggan.

26. WARRANTS

On 29th February, 2012, the Company entered into a warrant placing agreement with a placing agent pursuant to which the Company appointed the placing agent to procure not less than six independent placees to subscribe the warrants, on a best effort basis, at the issue price of HK$0.02 per warrant. Based on the subscription price of HK$0.14 per subscription share, a maximum of 234,000,000 subscription shares will be allotted and issued by the Company upon full exercise of the subscription rights attaching to the warrants. The subscription rights attaching to the warrants can be exercised at any time during a period of 24 months commencing from the date of issue of the warrants. Any subscription rights attaching to the warrants which have not been exercised upon the expiration of the 24-month subscription period shall lapse. The Company issued 234,000,000 warrants on 30 March 2012.

As the proceeds from subscription of warrants were denominated in Hong Kong dollars and the functional currency of the Company is in Renminbi, the subscription of warrants was settled by the exchange of a variable amount of functional currency cash for a fixed number of shares of the Company. Accordingly, the warrants were accounted for as derivative instruments, initially recognised at fair value and are subsequently remeasured to their fair values respectively at the end of each reporting period. The resulting gain or loss will be recognised in profit or loss. At 31st December, 2012, the fair value of the outstanding warrants valued by independent valuer, American Appraisal China Limited using Binomial Model amounted to HK$12,168,000 (RMB9,916,000). A loss in fair value in relation to warrants amounting to HK$7,488,000 (RMB6,118,000), was recognised in profit or loss for the year (see note 8).

26. WARRANTS – continued

The fair value of the outstanding warrants was determined using the Binomial Model and the inputs into the model were as follows:

	31.12.2012	30.3.2012
Exercise price	HK$0.14	HK$0.14
Share price	HK$0.15	HK$0.18
Expected volatility#	74%	67%
Remaining life	15 months	24 months
Risk free rate	0.06%	0.23%
Dividend yield	0%	0%

The expected volatility is determined based on the historical price volatility of the Company's shares.

27. CONVERTIBLE BONDS

	2012 RMB'000	2011 RMB'000
Debt component	41,431	37,929
Derivative component	–	1,817
	41,431	39,746

As disclosed in note 23, the Company issued the convertible bonds on 14th January, 2011. On initial recognition, the fair value of the convertible bonds is HK$60,183,000 (equivalent to RMB50,223,000) which is made up of the aggregate principal amount of the convertible bonds amounting HK$50,000,000 (equivalent to RMB41,725,000) and the fair value of forward contract amounting HK$10,183,000 (equivalent to RMB8,498,000). 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 14th January, 2011 to their maturity date on 13th 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 13th January, 2013 at par. Interest of 1% per annum will be paid once upon the maturity date.

The convertible bonds contain the debt component, conversion option derivative and redemption option derivative (collectively the "derivative component"). The redemption option entitled the Company, at its sole discretion, to redeem any amount of the outstanding convertible bonds before the maturity date by giving a three business days prior notice to the bondholders at its principal amount with interest accrued. The effective interest rate of the debt component is 9.82%. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

27. CONVERTIBLE BONDS – continued

The movement of the debt component and derivative component of the convertible bonds for the year is set out as below:

	Debt component		Derivative component	
		Shown as		Shown as
	HK$'000	RMB'000	HK$'000	RMB'000
At 1st January, 2011	–	–	–	–
Fair value of the convertible bonds at initial recognition	42,288	35,289	17,895	14,934
Imputed interest	4,007	3,343	–	–
Gain on change of fair value	–	–	(15,677)	(13,082)
Currency realignment	–	(703)	–	(35)
At 31st December, 2011	46,295	37,929	2,218	1,817
Imputed interest	4,548	3,716	–	–
Gain on change of fair value	–	–	(2,218)	(1,812)
Currency realignment	–	(214)	–	(5)
At 31st December, 2012	50,843	41,431	–	–

The valuations of the derivative component were valued by independent valuer, American Appraisal China Limited using the Binomial Model.

The inputs into the model were as follow:

Valuation date	31st December, 2012	31st December, 2011	14th January, 2011
Stock price	HK$0.15	HK$0.13	HK$0.32
Exercise price	HK$0.27	HK$0.27	HK$0.27
Expected life of option	13 days	1.04 year	2 year
Expected volatility of the underlying stock	41%	74%	41%
Risk-free interest rate	0%	0.23%	0.23%
Dividend yield	0%	0%	0%
Estimated credit rating	B-	B+	B+

27. CONVERTIBLE BONDS – continued

On the maturity of convertible bonds dated 13th January, 2013, the conversion right attached to the Convertible Bonds has been lapsed. The outstanding principal amount of the convertible bonds is HK$50,000,000, which is equally held by two individual independent bondholders (the "Bondholders") of HK$25,000,000 each. After the discussion and negotiation between the Bondholders and the Company, by the letter dated 14th January, 2013 given by each Bondholder to the Company, each Bondholder has agreed to extend the loan under the convertible bonds from 13th January, 2013 to 30th April, 2013.

During the period from the 13th January, 2013 to 30th April, 2013, each Bondholder has agreed not to exercise his rights under the deed poll constituting the Convertible Bonds send a notice to the Company declaring the convertible bonds are immediately due and demand for repayment. The conversion option lapsed upon maturity of the convertible bonds on 13th January, 2013. It is further agreed that from the next date following the 13th January, 2013 and up to the 30th April, 2013, the outstanding debt with principal of HK$50,000,000 shall continue to bear an interest at the rate of 1% per annum and such interest accrued thereon shall be paid on the 30th April, 2013.

28. GOVERNMENT GRANT

The Group received a government grant of RMB1,400,000 in 2010 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 31st December, 2012, the total amount of RMB980,000 (2011: RMB1,120,000) remains unamortised.

29. LOANS FROM A RELATED PARTY

Pursuant to the loan agreement dated 1st June 2012 and the supplemental agreement dated 11th July 2012, the Group borrowed an unsecured loan of principal amount of HK$56.9 million (equivalent to approximately of RMB46,493,000) from the Chairman, executive director and ultimate controlling shareholder of the Company, Mr. Sze Siu Hung for terms of 24 months with interest rate of 4.8% per annum. As at 31 December 2012, the aggregate amount of principal and accrued interest amounted to RMB47,494,000.

30. OTHER UNSECURED LOAN

Pursuant to the loan agreement dated 1st June 2012 and the supplemental agreement dated 13th July 2012, the Group borrowed an unsecured loan of principal amount of US$5 million (equivalent to approximately of RMB31,867,000) from an independent third party for terms of 24 months with interest rate of 6% per annum. As at 31 December 2012, the aggregate amount of principal and accrued interest amounted to RMB32,758,000.

31. 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 1st January, 2011				
31st December, 2011				
and 31st December, 2012	2,000,000	200,000	1,171,500	117,150

	RMB'000
Shown in the consolidated statement of financial position at	
– 31st December, 2011	
and 31st December, 2012	117,055

32. SHARE-BASED PAYMENT TRANSACTIONS

A share option scheme (the "Share Option Scheme") was adopted on 15th 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 23rd 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 were 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.

32. SHARE-BASED PAYMENT TRANSACTIONS – continued

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

Details of the movements of share options are as follows:

Type of participants	Date of grant	Vesting date	Exercisable period	Exercise price per share HK$	Number of share options Outstanding at 31.12.2011 and 31.12.2012
Executive directors	27.7.2011	27.7.2011	27.7.2011 - 26.7.2021	0.227	1,200,000
Independent non-executive directors	27.7.2011	27.7.2011	27.7.2011 - 26.7.2021	0.227	2,000,000
Employee - chief executive	27.7.2011	27.7.2011	27.7.2011 - 26.7.2021	0.227	2,000,000
Other employees	27.7.2011	27.7.2011	27.7.2011 - 26.7.2021	0.227	14,800,000
					20,000,000

32. SHARE-BASED PAYMENT TRANSACTIONS – continued

During the year ended 31st December, 2011, share options were granted on 27th July, 2011. The estimated fair value of the options granted on 27th July, 2011 is HK$2,000,000 (equivalent to RMB1,669,000). During the year ended 31st December, 2012 and 2011, no share option granted is exercised, cancelled or lapsed.

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

Weighted average share price	HK$0.227
Exercise price	HK$0.227
Expected volatility	66.521%
Expected life	10 years
Risk-free rate	2.257%
Expected dividend yield	0%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 6 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

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

The Group recognised the total expense of HK$2,000,000 (equivalent to RMB1,669,000) for the year ended 31st December, 2011, (2012: nil) in relation to share options granted by the Company.

At both dates of the end of the reporting period and the annual report, the maximum number of shares issuable pursuant to the grant of share options are 86,150,000 (2011: 86,150,000) shares which represented 7.35% (2011: 7.35%) of the shares of the Company in issue on respective dates.

33. CAPITAL COMMITMENTS

	2012 RMB'000	2011 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment	–	1,150

34. 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.

35. RELATED PARTY TRANSACTIONS

The related party transaction and balance for the year is set out in notes 22, 25 and 29.

The details of remuneration of key management personnel represents emoluments of the directors and chief executive officer of the Company are set out in note 12.

36. 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 are as follows:

Name of subsidiary	Place of incorporation/ establishment/operations	Nominal value of issued and fully paid share capital/ registered capital 2012	2011	Principal activity
Co-Prosperity (Hong Kong) Limited	Hong Kong	Ordinary shares – HK$2	Ordinary shares – HK$2	Trading of fabrics
福建協盛協豐印染有限公司 (Shasing Shapheng Dyeing Co., Ltd.)	PRC for a term of 50 years commencing 20th June, 2003 as a wholly foreign owned enterprise ("WFOE")	Registered capital – HK$100,000,000	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 13th March, 2007 as a WFOE	Registered capital – HK$330,600,000	Registered capital – HK$235,000,000	Manufacture and sales of high density and high-end yarns

36. PRINCIPAL SUBSIDIARIES – continued

Name of subsidiary	Place of incorporation/ establishment/operations	Nominal value of issued and fully paid share capital/ registered capital 2012	2011	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 26th May, 1999 as a WFOE	Registered capital – US$10,000,000	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 16th September, 1993 as a WFOE	Registered capital – US$5,000,000	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 24th May, 2006 as a WFOE	Registered capital – HK$10,000,000	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 15th December, 2006 as a WFOE	Registered capital – HK$15,000,000	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.

Financial Summary

	Year ended 31st December,				
	2008	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Turnover	593,684	429,740	525,975	620,051	515,786
Profit (loss) before taxation	53,269	4,118	(528,813)	(101,554)	(66,825)
Taxation	(7,148)	(4,495)	(8,656)	(3,976)	(2,529)
Profit (loss) for the year	46,121	(377)	(537,469)	(105,530)	(69,354)

	As at 31st December,				
	2008	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	1,356,578	1,396,574	980,236	880,243	1,008,801
Total liabilities	(446,511)	(453,042)	(534,568)	(536,229)	(732,833)
Net assets	910,067	943,532	445,668	344,014	275,968