

On behalf of the board of directors (the "Board") of Co-Prosperity Holdings Limited (the "Company"), I am pleased to present the first annual report of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2005.

LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG

The Company was incorporated with limited liability in the Cayman Islands on 26 January 2005 and was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 March 2006.

The Company has issued an aggregate of 140,000,000 new shares by way of placing and public offer at an offer price of HK\$1.16 per share and the net proceeds from such issue ("Net Proceeds") will be used in accordance with the section headed "Future plans and use of proceeds" set out in the prospectus of the Company dated 21 March 2006.

RESULTS

For the year ended 31 December 2005, the Group recorded turnover of approximately RMB 599.9 million, representing a turnover growth of approximately 32.5% as compared with last year. The Group's gross profit increased to approximately RMB150.2 million as compared with approximately RMB95.4 million in last year and profit attributable to the shareholders was approximately RMB 110.5 million as compared with approximately RMB74.2 million in last year.

Basic earnings per share for the year was RMB 16.74 cents on the assumption that 660,000,000 shares had been in issue throughout the year.

BUSINESS REVIEW

The Group is a fabrics processing group which is principally engaged in the sale of finished fabrics and the provision of fabrics processing subcontracting services to its customers.

During the year, the Group continued its business expansion in China. As at the year end of 2005, the Group had more than 600 customers comprising apparel retailers, garment manufacturers and fabrics suppliers. Most of the Group's sales were made in China, but we recognise that some of our customers utilise the Group's products for the manufacture of garment for export to overseas countries. For the year ended 31 December 2005, the Group's largest customer and five largest customers accounted for approximately 5.8% and 23.1% of the Group's turnover respectively.

The objective of the Group is to provide high quality finished fabrics at one stop to apparel retailers, garment manufacturers and fabrics suppliers. The Group adopts a quality driven marketing strategy as the Directors believe that high quality products and services are the most important factors for the success of the Group's business. The Group commits to stringent and comprehensive quality control procedures throughout the production process from purchase of raw materials to product packaging.

The Group has adopted a comprehensive set of fabrics processing techniques such as non-iron, tencellike, combined fabrics, static electricity resistance, fire resistance, net printing, polyurethane pasting, synthetic, colouring and pattern pressing. The Directors believe that such fabrics processing techniques have increased the value of the finished fabrics, which in turn improved the profitability of the Group.

The Group has gradually expanded its scale of operation from processing only knitted fabrics to processing woven fabrics and fabrics made of various materials since its establishment in 1996. During the year under review, the Group had successfully introduced and rendered more value added services, i.e., washing processing services and printing of more color patterns, for the sales of finished fabrics and provision of fabrics processing subcontracting services. The gross profit margins for both the sales of finished fabrics and provision of fabrics processing subcontracting services had improved from approximately 22.1% and 12.9% in the previous year to approximately 25.8% and 17.7% in the year.

OUTLOOK

Looking forward to the future, the Group has embarked on, and will go on with, the plans laid down at the time of listing and in accordance with the section headed "Future plans and use of proceeds" set out in the prospectus of the Company dated 21 March 2006.

The Group has drawn up ambitious development initiatives to take its business to new heights. To upgrade its products and ensure stable supply of raw materials, the Group is actively realizing upstream vertical integration. The Group is planning to acquire or build its own raw fabrics manufacturing plant to produce high grade raw fabrics, which will enable it to penetrate the high-end markets in the PRC and worldwide. To expand its production capacity and product portfolio, the Group intends to set up four more processing lines for knitted fabrics and five more processing lines for woven fabrics by the end of 2006 through acquisition of existing printing and dyeing plants and/or purchase of more advanced computerized printing and dyeing machinery and equipment.

To fully capitalize on the PRC gradually relaxing its export restrictions and both the domestic and overseas markets looking up, the Group is preparing to expand systematically. Plans are afoot to set up sales offices in different regions in the PRC. With its base in the PRC and eyes on the world, the Group will steadfastly pursue its future development goals. Leveraging its high quality products, unparalleled industry expertise and advanced technology, the Group is forging ahead towards becoming a dominant force in the global fabrics processing industry.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank the Company's shareholders, the Group's fellow business associates, customers and suppliers for their unwavering support, the management team and all employees for their hard work and dedication to the Group for the year.

By order of the Board

Sze Siu Hung
Chairman

27 April 2006