

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 2006 (the "Year"). It is truly my pleasure to share our achievements and prospects with shareholders.

## RESULTS HIGHLIGHTS

The financial results for 2006 were promising and encouraging. Turnover for the Year amounted to RMB902.5 million, representing an increase of approximately 51% over that of last year. Gross profit for the Year amounted to RMB198.3 million, representing an increase of approximately 32% over that of last year. Profit attributable to the shareholders for the Year amounted to RMB135.6 million, representing an increase of approximately 23% over that of last year. Basic earnings per share for the Year were RMB17.69 cents.

The Board is also pleased to share the profit growth with shareholders by recommending a payment of a final dividend of HK 3 cents per share. This dividend, together with the interim dividend of HK 1 cent per share already paid, will constitute a total dividend of HK 4 cents per share for the Year.

## BUSINESS REVIEW

### 1. Production capacity expansion

During the Year, the annual production capacity of woven fabrics, in which the Group specializes, increased approximately 56% from 43.6 million meters to 68.2 million meters. To date, the annual production capacity of knitted fabrics has increased approximately 18% from 21,200 tons to 25,000 tons, and the annual production capacity of woven fabrics has further increased approximately 25% from 68.2 million meters to 85.0 million meters.

### 2. New product development

Through sponsoring a variety of external Research and Development ("R&D") projects, the Group's internal R&D pipeline was further complemented by strategic collaboration with various leading textile institutions in the PRC, which provides an avenue to continually enhance the Group's capabilities in new product development.

### 3. Favorable market condition

Benefiting from robust economic growth and rising disposable income in the PRC, the consumption of high quality garments is on the rise, hence resulting in a rising demand for high quality fabrics nationwide. In addition, more and more globally-renowned branded garment manufacturers have switched their manufacturing base to the PRC, and the majority of garments manufactured are subsequently for exports. This favorable trend also provides the Group with an excellent opportunity to leverage its high quality products for further development.

#### **4. Successful marketing strategy**

In addition to its commitment to servicing garment manufacturers as end-customers, the Group has strategically embarked on the provision of new fabrics to a number of branded garment manufacturers on an exclusive basis, which was proved to be uniquely effective.

#### **5. Strategic acquisition and restructuring**

During the Year, the Group strategically acquired 100% of Xiamen Tophot Trade Co., Ltd. in order to exploit international trading opportunities of fabrics and clothing. With a niche focus on the Group's import/export operations, this trading business will phase out other agency services and will primarily serve as a complement to the Group's full vertical integration.

### **FUTURE PROSPECTS**

#### **1. Steps towards full vertical integration**

Approved by the Shishi Economy Bureau, the Group will first establish a new spinning plant in Shishi City in order to maintain a stable supply of raw materials and minimize the risks of raw materials shortage or inventory surplus. By then, the Group will timely install new weaving equipment within the site of the spinning plant in order to increase the bargaining power against suppliers and protect the confidentiality of R&D.

#### **2. Upstream spinning**

In Shishi City, there are over 300 weaving plants but only one spinning plant. Due to severe shortage of locally produced yarn, the majority of yarn must be procured from other provinces in the PRC. The Group will establish a new spinning plant in Shishi City, with a total production capacity of 55,000 tons of yarn a year. The Group will commence the construction of the phase one of the spinning plant with an expected annual production capacity of 9,000 tons of yarn in the second quarter of 2007, and the Group will strive to commence production in the first quarter of 2008. The majority of the products will target those weaving plants in Shishi City and the rest will be for internal weaving use.

#### **3. Midstream weaving**

The Group plans to install new weaving equipment within the site of the spinning plant in 2009, enabling the Group to produce 10 to 15 million meters of raw fabrics a year. The facility will utilize the speciality yarn produced by the Group's spinning plant, and the raw fabrics produced will solely supply to its printing, dyeing and processing operations.

#### **4. Downstream printing, dyeing and processing**

The Group will continue to raise the production capacity by approximately 20% each year through the installation of new printing and dyeing equipment at its existing plants.

**5. Synergy of full vertical integration**

Upon the completion of the upstream to downstream fully integrated operations, the Group will further enhance its R&D capability, particularly in high-specialty fabrics, whilst maximizing profit margins and achieving sustainable competitive advantages.

**APPRECIATION**

On behalf of the Board, I would like to take this opportunity to express my gratitude to our shareholders for their support and manifest my gratefulness to our employees for their dedication. Looking forward, we will further enhance corporate transparency by strengthening both corporate governance and internal control, and also we will make every effort to seize favorable business opportunities arose from listing, hence enriching shareholders' value.

**Sze Siu Hung**

*Chairman*

Hong Kong, 28 March 2007