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

Annual Report 2009

* 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, ACA, FCCA, ACS, ACIS

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

707

On behalf of the board of directors (the "Board" or the "Directors") of Co-Prosperity Holdings Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2009 (the "year").

RESULTS HIGHLIGHTS

The Group's consolidated turnover for the year amounted to RMB429.7 million, representing an decrease of approximately 27.6% as compared with that of last year. Gross profit for the year dropped by 45.7% to RMB58.8 million. The result was a consolidated net loss of RMB0.4 million attributable to owners of the Company, against net profit of RMB46.1 million attributable to owners of the Company in 2008. Basic loss per share for 2009 amounted to RMB0.04 cent, compared with basic earnings per share of RMB4.78 cents in 2008.

The Board does not recommend any payment of final dividend (2008: Nil) for the year.

BUSINESS REVIEW

2009 turned out to be a very challenging year for the PRC textile industry. The effects of the global financial crisis continued to haunt the operating environment faced by the Group. Amidst the impaired market confidence and the contraction of the consumer market, the Group's sales performance for the year was hardly hit. The surge in raw material costs and production overheads in the second half of 2009 further eroded the Group's results.

The Group commenced its yarn production in March 2009 as scheduled. It marked an important strategic step for the Group to vertically integrate its operation and enter into the upstream yarn market.

To further strengthen the capital base of the Group for its existing businesses and future development, on 13 December 2009, arrangements were made that 96,500,000 ordinary shares of HK$0.10 each at a price of HK$0.402 per share were privately placed by Famepower Limited ("Famepower"), the controlling shareholder of the Company to investors whereas 96,500,000 ordinary shares of HK$0.10 each at a price of HK0.402 per share were subscribed by Famepower. In addition, on 9 March 2010, the Company tapped into the capital market by arranging another private placement to investors of 110,000,000 ordinary shares of HK$0.10 each at a price of HK$0.41 per share by Famepower and the subscription of 110,000,000 ordinary shares of HK$0.10 each at a price of HK$0.41 per share by Famepower. Both capital raising exercises fully demonstrated the investors' confidence in the long-term potential of the Group in spite of the current fragile and turbulent economic environment.

FUTURE PROSPECTS

Benefiting from the rollout of massive economic stimulus programmes and quantitative easing policies by governments in major economies, global economic performance in the first few months of the year of 2010 seems to show some signs of revival and market panic has eased. Nevertheless, it remains to be seen whether the encouraging development can persist throughout the rest of the year and lead to the broad-based recovery across all sectors. All in all, uncertainties still prevail and challenges remain in the market. Among others, the timing and extent of exit strategies by major countries, the latest development of debt woes faced by certain European economies, the possible change in the existing low interest rate environment and the stability of Renminbi exchange rate are areas to watch out in the days ahead.

Given such an unstable and bewildered economic environment, the Group will remain focused on its sustainable long-term growth and continue to maintain its vigilance on cost control measures and production efficiency whilst devote resources to broaden its customer base and enhance its products.

In order to diversify our business and strengthen our revenue base, the Board is exploring some suitable investment opportunities, including but not limited to new energy and carbon reducing related projects.

Looking forward, the Group will strictly adhere to its cautious and pragmatic operating philosophy. With its solid foundation and the concerted efforts of its entire staff team, the Group is well-placed to overcome the short-term difficulties in the operating environment and capture the opportunities ahead. The Board is fully confident and optimistic about the Group's future outlook.

APPRECIATION

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

Sze Siu Hung
Chairman

Hong Kong, 26 April 2010

OPERATIONAL AND FINANCIAL REVIEW

In 2009, the Group is principally engaged in the sale of finished fabrics ("fabrics sales business'), the provision of fabrics processing subcontracting services ("processing business"), the trading of goods ("trading business") and the manufacture and sale of high density and high-end yarns ("yarn business") to customers

The Group's total turnover declined by 27.6% to approximately RMB429.7 million for the year (2008: RMB593.7 million). Yarn business started to make its sales contribution in 2009. During the year, the revenue from processing business rose whereas those from fabrics sales business and trading business fell. Higher average unit selling price was achieved for both processing business and fabrics sales business.

The Group registered a gross profit of approximately RMB58.8 million for the year (2008: RMB108.1 million), representing a decline of approximately 45.7% as compared with last year. The Group's overall gross profit margin for the year was approximately 13.7% (2008: 18.2%), which was lower than that of last year. During the year, the gross profit margin from fabrics sales business fell whereas that from processing business and trading business rose. The relatively lower gross profit margin of yarn business in its first year of operation also dragged down the overall gross profit margin. For fabrics sales business, the rising material and manufacturing costs in the second half of 2009 ate into the margins, hence causing a drop in its gross profit margin. Thanks to the relatively advanced production technology of the Group, processing business achieved an increase in its gross profit margin. For trading business, the enhancement in sales mix with higher margins during the year led to the rise in gross profit margin.

Other income increased by 52.0% to approximately RMB3.4 million (2008: RMB2.2 million) which primarily comprised government rewards of RMB2.1 million for the Group's energy saving and technological advancement and product development and an interest income of RMB1.2 million. Other expenses, gains and losses decreased from net gain of RMB4.3 million in 2008 to net loss of RMB5.2 million in 2009. The drop was mainly due to the lower exchange gain recorded and the allowances for bad and doubtful debts provided for in 2009.

Distribution and selling expenses were down by 19.9% to approximately RMB5.6 million (2008: RMB7.0 million). Administrative expenses fell by 9.0% to approximately RMB32.1 million (2008: RMB35.3 million) as a result of strict cost control measures in place. The lower interest rate environment in 2009 caused finance costs for the year to drop by 20.6% to RMB15.2 million (2008: RMB19.1 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, the Group had total assets of approximately RMB1,396.6 million (2008: RMB1,356.6 million) which were financed by current liabilities of approximately RMB451.2 million (2008: RMB346.2 million), non-current liabilities of approximately RMB1.9 million (2008: RMB100.3 million) and shareholders' equity of approximately RMB943.5 million (2008: RMB910.1 million).

As at 31 December 2009, the Group's cash and bank balances was approximately RMB59.0 million (2008: RMB53.0 million), while pledged bank deposits amounted to approximately RMB45.5 million (2008: RMB53.0 million). As at 31 December 2009, the mortgage loan and the current portion of the long-term bank loans were variable-rate loans and were denominated in Hong Kong dollars whereas the short-term bank loans were fixed-rate loans and were denominated in Renminbi.

The Group maintained a healthy liquidity position. The current ratio, being a ratio of total current assets to total current liabilities, was approximately 1.0 (2008: 1.1). The gearing ratio, being a ratio of borrowings (comprising obligations under finance leases, mortgage loan and short-term and long-term bank loans) to shareholders' equity, decreased to approximately 31.0% (2008: 32.5%). The Group always adopted a conservative approach in its financial management.

CHARGES ON GROUP ASSETS

As at 31 December 2009, the Group's borrowings were secured by certain assets (certain land use rights, buildings, plant and machinery and bank deposits) of the Group with a total carrying value of approximately RMB175.8 million (2008: RMB187.9 million), corporate guarantees given by the Company and a subsidiary and charges over the equity of some of its subsidiaries.

CAPITAL EXPENDITURES

As at 31 December 2009, the Group has capital commitments of approximately RMB21.8 million (2008: RMB50.0 million) in respect of purchases of property, plant and equipment.

CONTINGENT LIABILITIES AND EXCHANGE RISK EXPOSURE

As at 31 December 2009, the Group did not have any significant contingent liabilities (2008: 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 2009, the Group had about 1,500 employees (2008: 1,600 employees) in Hong Kong and in the PRC.

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

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

EXECUTIVE DIRECTORS

Mr. Sze Siu Hung (施少雄), aged 45, 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 both 31 December 2009 and the date of this annual report, Mr. Sze had/has, in aggregate, deemed interests of 602,000,000 shares of the Company (representing respectively about 56.71% and about 51.39% of the entire issued share capital of the Company as at the aforesaid two dates), 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 55, 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 20 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 42, 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 both 31 December 2009 and the date of this annual report, Madam Cai had/has, in aggregate, deemed interests of 602,000,000 shares of the Company (representing about 56.71% and about 51.39% respectively of the entire issued share capital of the Company as at the aforesaid two dates), 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 52, 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 19 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 47, has been appointed as an independent non-executive Director since 2005. Professor Zeng obtained his Doctor's degree of Philosophy in the Leeds University, United Kingdom and his Master's degree of Engineering in Tianjin Textile Engineering Institute (天津紡織工學院). He obtained his professor qualification in dyeing engineering in 1997. He was awarded Young and Middle-aged Experts for his significant contribution to Hubei Province (湖北省有突出貢獻中青年專家) in 2002. Professor Zeng was nominated as "10 Outstanding Youth of Hubei Province" (湖北省十大傑出青年) in 2000. In addition, in 2003, Professor Zeng was awarded "10 Outstanding Patented Inventors in Wuhan region" (十大專利發明者). For recognising his contribution in natural science, the State Council of the PRC granted special government subsidies to Professor Zeng in 1997. Besides, Professor Zeng has obtained various science and technology awards including "Certificate of Sangma Trust Fund Textile Science and Technology Award" (桑麻基金會紡織科技獎證書) granted by the Sangma Trust Fund in 2004. Professor Zeng is also a director of Wuhan Fangyuan Environmental Technology Co., Ltd., a company established in Wuhan, the PRC, carrying on the business of investment holdings. Professor Zeng has been a director of the aforesaid company since 1998.

Professor Zhao Bei (趙蓓教授), aged 52, 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 38, 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 12 years' experience in corporate finance, auditing and accounting. He is now the Chief Financial Officer and an executive Director of Zhongyu Gas Holdings Limited (stock code: 8070), a company listed on the Growth Enterprise Market of the Stock Exchange.

SENIOR MANAGEMENT

Mr. Sze Siu Bun (施少斌), aged 42, 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 16 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 48, 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 22 years' experience in printing and dyeing industry.

Mr. Fu Jianhua (傅建華), aged 51, 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 22 years' experience in printing and dyeing industry.

Mr. Cai Chaodun (蔡朝敦), aged 38, 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 14 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 38, 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 14 years' experience in research and development in the printing and dyeing industry.

Mr. Huang Xinchun (黃新春), aged 45, 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 24 years' experience in accounting and finance.

Ms. Zhengfang (鄭芳), aged 53, is the manageress of the quality control department of the Group. Ms. Zheng is responsible for the quality control matters of the Group. She has joined the Group since 2000. She has about 19 years' experience in fabrics quality control.

Mr. Zhang Bingcheng (張炳成), aged 51, 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 27 years' experience in the printing and dyeing industry.

Mr. Chan Hon Hung (陳漢雄), aged 40, is the financial controller and company secretary of the Group. He is responsible for overseeing the Group's accounting and financial affairs. Mr. Chan holds a bachelor degree in Accountancy. Mr. Chan is also a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a Chartered Accountant of the Institute of Chartered Accountants in England and Wales, a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Chartered Secretaries and an associate member of the Institute of Chartered Secretaries and Administrators. Mr. Chan joined the Group in 2007. Mr. Chan has about 18 years' experience in accounting, financial management and auditing. Mr. Chan is a full time employee and the qualified accountant of the Group. He has also been a director of a subsidiary of the Group since 2010.

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 2009 (the "year").

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 32 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 26.

No interim dividend (2008: Nil) was paid during the year and the directors do not recommend any payment of final dividend (2008: Nil) for the year.

TRADING RESULTS

The Group's consolidated loss for the year amounted to RMB377,000.

SHARE CAPITAL

Details of the movements in the issued share capital of the Company during the year are set out in note 25 to the financial statements.

RESERVES

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

At 31 December 2009, the Company's reserve available for distribution to its shareholders comprising contributed surplus amounted to approximately RMB339,806,000.

PROPERTY, PLANT AND EQUIPMENT

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

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to RMB710,000.

MAJOR CUSTOMERS AND SUPPLIERS

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

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

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

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

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

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

Each of the executive directors entered into a service contract with the Company for a term of two years commencing on 1 January 2008. The service contracts were renewable automatically for successive terms of one year until terminated by not less than three months' prior notice in writing served by either party on the other. On 31 December 2009, each of the executive directors has entered into new service contract with the Company for a term of two years commencing on 1 January 2010 (the "New Contracts"). The New Contracts will be renewable automatically for successive terms of one year until terminated by not less than three months' prior notice in writing served by either party on the other.

Each of the independent non-executive directors was appointed by the Company by way of a letter of appointment for a term of two years commencing on 1 June 2007. The appointments were 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. On 31 December 2009, each of the independent non-executive directors has been re-appointed by the Company by way of new letter of appointment for a term of two years commencing on 1 January 2010 (the "New Appointments"). The New Appointments will be renewable automatically for successive terms of one year until terminated by either party giving not less than three months' prior notice in writing to the other.

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 7 to 10 of the annual report.

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

As at 31 December 2009, the interests and/or short positions of the Directors and their associates 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 contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), were as follows:

Name of Director	**Nature of Interest**	**Total number of Shares held**	**Approximate percentage of the issued share capital of the Company as at 31 December 2009** *(%)*
Mr. Sze Siu Hung	Corporate interest and founder of trust *(Note 1)*	571,948,720 long position	53.88
	Corporate interest *(Note 2)*	28,051,280 long position	2.64
	Beneficial interest *(Note 3)*	2,000,000 long position	0.19
Madam Cai Peilei	Corporate interest and beneficiary of trust *(Note 1)*	571,948,720 long position	53.88
	Corporate interest *(Note 2)*	28,051,280 long position	2.64
	Family interest *(Note 3)*	2,000,000 long position	0.19

Notes:

1. As at 31 December 2009, about 53.88% 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 2009, about 2.64% 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 2009, 2,000,000 shares, representing 0.19% 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.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

SUBSTANTIAL SHAREHOLDERS

To the best knowledge of the Company, as at 31 December 2009, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, apart from the interests disclosed in the section headed "Directors' interests and short positions in shares, underlying shares and debentures" above, the other substantial shareholder was as follows:

Name of the other substantial shareholder	**Nature of Interest**	**Total number of Shares held**	**Approximate percentage of the issued share capital of the Company as at 31 December 2009** *(%)*
Mr. Lee Yin Yee	Corporate interest *(Note (a))*	79,468,000 long position	7.49

Note (a):

As at 31 December 2009, 79,468,000 shares of the Company was held by Full Guang Holdings Limited, which is owned as to 33.98% by Mr. Lee Yin Yee.

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 2009. The details of the Share Option Scheme have been disclosed in note 26 to the financial statements.

No share option was granted, exercised, cancelled or lapsed during the year. There was no outstanding share option at both 1 January 2009 and 31 December 2009.

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

DIRECTORS' REMUNERATION

Details of directors' emoluments on a named basis are set out in note 11 to the financial statements.

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

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

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

RETIREMENT BENEFITS SCHEME

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

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

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

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

On 13 December 2009, agreements (the "Agreements")were entered into for a private placing to 3 investors, namely, Full Guang Holdings Limited, Ms. Li Ya Shuang and Mr. Lau Sik Yuen of respectively 57,900,000, 26,100,000 and 12,500,000 ordinary shares of HK$0.10 each at a price of HK$0.402 per share by Famepower Limited ("Famepower"), the controlling shareholder of the Company. The price of HK$0.402 per share represents a discount of approximately 19.6% to the closing price of HK$0.5 per share as quoted on the Stock Exchange on 11 December 2009, being the last trading day before the date of entering into the Agreements. Under the Agreements, arrangements were made for the subscription of 96,500,000 new ordinary shares of HK$0.10 each by Famepower at a price of HK$0.402 per share. The subscription price is equivalent to the placing price mentioned above. After deducting all costs and expenses borne by the Company, the net proceeds from the subscription were approximately HK$38.3 million, which translated into net subscription price of approximately HK$0.40 per ordinary share. The placing mentioned above represented an opportunity to raise capital for the Group and the Company intended to use the net proceeds from the subscription towards future business development, investment opportunities in new energy industry and as general working capital of the Group.

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

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

RELATED PARTY TRANSACTIONS

Details of related party transactions are set out in notes 21 and 29 to the financial statements. None of the related party transactions constitutes connected or continuing connected transactions of the Company which are not exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

Reference is made to a HK$160 million 3-year syndicated loan agreement ("loan agreement") signed on 25 October 2007. There is a provision ("provision")in the loan agreement requiring the Company to ensure that Mr. Sze Siu Hung ("Mr. Sze"), an executive Director and chairman of the Company, to remain as the chairman and managing director of the Company and to maintain management control of the Company and that Mr. Sze and his family members shall jointly maintain, directly or indirectly, not less than 50% of the issued voting share capital of the Company. The provision has been duly complied with for the year ended 31 December 2009.

DIVIDEND

The Board does not recommend any payment of final dividend (2008: Nil) for the year.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 7 June 2010 to Friday, 11 June 2010 (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 4 June 2010. Tricor Investor Services Limited is located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

PRE-EMPTIVE RIGHTS

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

AUDITOR

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

On behalf of the Board

SZE SIU HUNG
Chairman

26 April 2010

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

The Company has adopted the code provisions set out in Appendix 14, Code on Corporate Governance Practices ("CG Code"), of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Directors are in the opinion that the Company has complied with the CG Code throughout the year ended 31 December 2009.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year and they all confirmed having fully complied with the required standard set out in the Model Code throughout the year ended 31 December 2009.

BOARD OF DIRECTORS

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

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

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

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

Mr. Sze Siu Hung is the spouse of Madam Cai Peilei, an executive Director, brother in law of Mr. Cai Chaodun, the deputy general manager of the Group and the elder brother of Mr. Sze Siu Bun, the chief executive officer of the Group. Save as disclosed herein, the Board members have no financial and/or other material/relevant relationships with each other. Such board composition is formed to ensure independence exists across the Board and to meet the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The biographical information of the Directors are set out on pages 7 to 10 under the section headed "Directors' & Senior Management's Biographies".

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Each of the independent non-executive directors was appointed by the Company by way of a letter of appointment for a term of two years commencing on 1 June 2007. The appointments were 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. On 31 December 2009, each of the independent non-executive directors has been re-appointed by the Company by way of new letter of appointment for a term of two years commencing on 1 January 2010 (the "New Appointments"). The New Appointments will be renewable automatically for successive terms of one year until terminated by either party giving not less than three months' prior notice in writing to the other.

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

BOARD MEETINGS

During the year ended 31 December 2009, the Board held thirteen Board meetings. The attendance of each member at the Board meetings are set out below:

Name of Directors	Number of meetings attended/Total
Executive Directors	
Mr. Sze Siu Hung *(Chairman)*	13/13
Mr. Qiu Fengshou	11/13
Madam Cai Peilei	11/13
Mr. Sze Chin Pang	13/13
Independent Non-Executive Directors	
Professor Zeng Qingfu	11/13
Professor Zhao Bei	11/13
Mr. Lui Siu Keung	11/13

AUDIT COMMITTEE

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

During the year ended 31 December 2009, the Audit Committee held two meetings to review the Group's interim results for the six months ended 30 June 2009 and final results for the year ended 31 December 2008, to review with the external auditors on the financial reporting of the Group and to review the effectiveness of internal control system of the Group. The attendance records of the Audit Committee are as below:

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

REMUNERATION COMMITTEE

The Board has established a Remuneration Committee with written terms of references in compliance with the CG Code of the Listing Rules. The primary duties of the Remuneration Committee are, among others, to review and determine the remuneration packages, bonuses and other compensation payable to the Directors and senior management. In fulfilling the functions, the Remuneration Committee will take into consideration factors such as salaries paid by comparable companies, respective time commitment and responsibilities of the Directors and senior management and whether the remuneration packages are competitively attractive to retain the Directors and senior management. The Remuneration Committee comprises three independent non-executive Directors, namely Professor Zeng Qingfu, Professor Zhao Bei and Mr. Lui Siu Keung. Mr. Lui Siu Keung is the chairman of the Remuneration Committee. The Remuneration Committee meets at any time when necessary and desirable to carry out the aforesaid duties and minutes of the meeting are kept by the Company Secretary at the Company's principal place of business in Hong Kong. During the year ended 31 December 2009, the Remuneration Committee held one meeting to review the remuneration of Directors and all the committee members attended the meeting.

NOMINATION COMMITTEE

The Board has established a Nomination Committee with written terms of references in compliance with the CG Code of the Listing Rules. The primary duties of the Nomination Committee are, among others, to review the composition of the Board and make recommendations to the Board on the selection of individuals nominated for directorship. The Nomination Committee comprises three independent non-executive Directors, namely Professor Zeng Qingfu, Professor Zhao Bei and Mr. Lui Siu Keung. Mr. Lui Siu Keung is the chairman of the Nomination Committee. The Nomination Committee meets at any time when necessary and desirable to carry out the aforesaid duties and minutes of the meeting are kept by the Company Secretary at the principal place of business in Hong Kong. During the year ended 31 December 2009, the Nomination Committee held one meeting to make recommendations to the Board in respect of the re-election of directors at the annual general meeting in 2009 and all the committee members attended the meeting.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

AUDITOR'S REMUNERATION

During the financial year ended 31 December 2009, the Group was charged HK$1,900,000 for auditing services and a total of HK$435,000 for non-auditing services by the Company's auditor, Deloitte Touche Tohmatsu. Details of the non-auditing fees are as follows:

Review of interim results	HK$420,000
Review of annual preliminary announcement of results	HK$15,000

INTERNAL CONTROL

The Board reviews the effectiveness of the internal control system on an on-going basis and this includes identifying, evaluating and managing the significant risks faced by the Group and updating the internal control system when needed. The review covers all material controls, including financial, operational and compliance controls and risk management functions. The review also considers the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. The Board is of the view that the internal control system in place for the year under review and up to the date of the issuance of the annual report is sound and is sufficient to safeguard the interests of shareholders and the Group's assets.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

Deloitte.
德勤

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

We have audited the consolidated financial statements of Co-Prosperity Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 71, which comprise the consolidated statement of financial position as at 31st December, 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, 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 as to whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31st December, 2009 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

26th April, 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2009

	NOTES	2009 RMB'000	2008 RMB'000
Turnover	7	429,740	593,684
Cost of goods sold and services provided		(370,983)	(485,561)
Gross profit		58,757	108,123
Other income		3,409	2,243
Other expenses, gains and losses	8	(5,151)	4,333
Distribution and selling expenses		(5,618)	(7,015)
Administrative expenses		(32,081)	(35,270)
Finance costs	9	(15,198)	(19,145)
Profit before taxation	10	4,118	53,269
Taxation	12	(4,495)	(7,148)
(Loss) profit for the year		(377)	46,121
Other comprehensive income			
– exchange differences arising on translation		74	1,818
Total comprehensive (expense) income for the year		(303)	47,939
(Loss) earnings per share	14		
– Basic		(0.04) RMB cents	4.78 RMB cents

At 31st December, 2009

	NOTES	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	15	754,183	735,252
Prepaid lease payments	16	174,875	178,604
Deposits made on acquisition of property, plant and equipment		27,433	61,194
		956,491	975,050
Current assets			
Inventories	17	205,112	145,532
Trade and other receivables	18	126,707	126,306
Prepaid lease payments	16	3,729	3,729
Pledged bank deposits	19	45,540	53,000
Bank balances and cash	19	58,995	52,961
		440,083	381,528
Current liabilities			
Trade and other payables	20	137,793	145,460
Obligations under finance leases		–	281
Amounts due to related parties	21	19,100	–
Taxation		3,946	5,548
Mortgage loan	22	550	539
Current portion of long-term bank loans	23	98,221	42,456
Short-term bank loans	24	191,550	151,891
		451,160	346,175
Net current (liabilities) assets		(11,077)	35,353
Total assets less current liabilities		945,414	1,010,403
Non-current liabilities			
Mortgage loan	22	1,882	2,440
Long-term bank loans	23	–	97,896
		1,882	100,336
Net assets		943,532	910,067

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2009

	NOTE	2009 RMB'000	2008 RMB'000
Capital and reserves			
Share capital	25	107,364	98,855
Reserves		836,168	811,212
Total equity		943,532	910,067

The consolidated financial statements on pages 26 to 71 were approved and authorised for issue by the Board of Directors on 26th April, 2010 and are signed on its behalf by:

SZE SIU HUNG
CHAIRMAN

SZE CHIN PANG
EXECUTIVE DIRECTOR

For the year ended 31st December, 2009

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Translation reserve RMB'000	Statutory surplus reserve fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1st January, 2008	98,855	246,391	107,231	84	64,470	353,597	870,628
Profit for the year	–	–	–	–	–	46,121	46,121
Exchange differences arising on translation	–	–	–	1,818	–	–	1,818
Total comprehensive income for the year	–	–	–	1,818	–	46,121	47,939
Transfers	–	–	–	–	12,318	(12,318)	–
Distribution to shareholders	–	–	(8,500)	–	–	–	(8,500)
	–	–	(8,500)	–	12,318	(12,318)	(8,500)
At 31st December, 2008	98,855	246,391	98,731	1,902	76,788	387,400	910,067
Loss for the year	–	–	–	–	–	(377)	(377)
Exchange differences arising on translation	–	–	–	74	–	–	74
Total comprehensive expense for the year	–	–	–	74	–	(377)	(303)
Transfers	–	–	–	–	10,976	(10,976)	–
Issue of shares	8,509	25,698	–	–	–	–	34,207
Expenses incurred in connection with the issue of new shares	–	(439)	–	–	–	–	(439)
	8,509	25,259	–	–	10,976	(10,976)	33,768
At 31st December, 2009	107,364	271,650	98,731	1,976	87,764	376,047	943,532

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

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

For the year ended 31st December, 2009

	2009 RMB'000	2008 RMB'000
Operating activities		
Profit before taxation	4,118	53,269
Adjustments for:		
Interest income	(1,244)	(1,444)
Finance costs	15,198	19,145
Depreciation	57,081	39,563
Operating lease rentals in respect of prepaid lease payments	3,729	2,273
Allowances for inventories	9,844	–
Allowances for bad and doubtful debts	4,300	–
Operating cash flows before movements in working capital	93,026	112,806
(Increase) decrease in inventories	(69,424)	42,424
Increase in trade and other receivables	(4,701)	(10,694)
(Decrease) increase in trade and other payables	(21,767)	61,423
Effect of foreign exchange rate changes on inter-company balances	(298)	(6,333)
Cash (used in) from operations	(3,164)	199,626
Tax paid	(6,097)	(6,964)
Net cash (used in) from operating activities	(9,261)	192,662
Investing activities		
Interest received	1,244	1,444
Purchase of property, plant and equipment	(10,998)	(210,783)
Prepaid lease payments made	–	(24,295)
Deposits paid on acquisition of property, plant and equipment	(31,256)	(56,677)
Decrease (increase) in pledged bank deposits	7,460	(38,560)
Net cash used in investing activities	(33,550)	(328,871)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2009

	2009 RMB'000	2008 RMB'000
Financing activities		
Interest paid	(14,576)	(18,489)
Dividends paid	–	(8,500)
Proceeds from issue of shares	34,207	–
Expenses paid in connection with the issue of new shares	(439)	–
Borrowings from related parties	19,100	–
Borrowings from third parties	14,100	–
Repayment of obligations under finance leases	(281)	(580)
Bank loans raised	221,550	151,891
Repayment of bank loans	(224,266)	(128,200)
Repayment of mortgage loan	(547)	(700)
Net cash from (used in) financing activities	48,848	(4,578)
Net increase (decrease) in cash and cash equivalents	6,037	(140,787)
Cash and cash equivalents at 1st January	52,961	193,984
Effect of foreign exchange rate changes	(3)	(236)
Cash and cash equivalents at 31st December	58,995	52,961
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	58,995	52,961

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 32. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the net current liabilities of the Group amounting to approximately RMB11,077,000 as at 31st December, 2009.

Taking into account the Group has available unutilised bank credit facilities of RMB9,434,000 (2008: RMB34,305,000) as at 31st December, 2009 and the net proceeds of HK$44,400,000 (equivalent to approximately RMB39,147,000) from the issue of new shares on 19th March, 2010, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future and accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants.

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – INT 13	Customer loyalty programmes

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

HK(IFRIC) – INT 15	Agreements for the construction of real estate
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation
HK(IFRIC) – INT 18	Transfers of assets from customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1st July, 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of financial statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

The restatement (see note 31) represents reclassification of certain items of the consolidated statement of comprehensive income for the year ended 31st December, 2008 for comparative purpose and have no impact on the financial position as at 31st December, 2008 and as at 1st January, 2008. Accordingly, the consolidated statement of financial position as at 1st January, 2008 is not presented.

HKFRS 8 Operating segments

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's operating segments (see note 7) nor changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related party disclosure[5]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 32 (Amendment)	Classification of right issues[4]
HKAS 39 (Amendment)	Eligible hedged items[1]

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

HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[3]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[6]
HKFRS 2 (Amendments)	Group cash-settled share-based payments transactions[3]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 9	Financial instruments[7]
HK(IFRIC*) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[5]
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners[1]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instrument[6]

* IFRIC represents the International Financial Reporting Interpretations Committee.

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

2 Effective for annual periods beginning on or after 1st July, 2009 and 1st January, 2010, as appropriate.

3 Effective for annual periods beginning on or after 1st January, 2010.

4 Effective for annual periods beginning on or after 1st February, 2010.

5 Effective for annual periods beginning on or after 1st January, 2011.

6 Effective for annual periods beginning on or after 1st July, 2010.

7 Effective for annual periods beginning on or after 1st January, 2013.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after 1st January, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

4. 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 and sales tax.

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

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

Property, plant and equipment

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

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

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

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight line basis.

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

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment – continued

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

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

Borrowing costs

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

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

Prepaid lease payments

Payment for obtaining land use right is considered as operating lease payment and charged to profit or loss over the period of the right using the straight line method except for the lease payments that cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment.

Inventories

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

Financial instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets

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

Effective interest method

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

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

Loans and receivables

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

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been impacted.

The objective evidence of impairment could include:

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

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of loans and receivables – continued

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Equity instruments

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

Financial liabilities

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

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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

Impairment of tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

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

Taxation

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

Research and development costs

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Research and development costs – continued

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

Government grants

Government grants are 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. Government grants not related to depreciable assets are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

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

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

Foreign currencies

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies – continued

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

Leases

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Retirement benefits costs

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

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 debt, which includes mortgage loan, long-term bank loans and short-term bank loans disclosed in notes 22, 23, and 24 respectively, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

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

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2009 RMB'000	2008 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	125,900	142,479
Financial liabilities		
Amortised costs	415,507	403,728

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, amounts due to related parties, obligations under finance leases, mortgage loan and bank loans. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate bank deposits and borrowings and cash flow interest rate risk in relation to variable rate bank deposits, mortgage loan and bank loans (see notes 19, 22, 23 and 24). 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 Interbank Offer Rate arising from the Group's borrowings which are denominated in Hong Kong dollar ("HKD").

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to variable-rate bank borrowings, 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 is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Market risk – continued

Sensitivity analysis – continued

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, 2009 would increase/decrease by RMB1,007,000 (profit for the year ended 31st December, 2008: decrease/increase by RMB1,863,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

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 long-term bank loans denominated in HKD are the major monetary liabilities which expose the Group to currency risk.

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

The carrying amounts of the long-term bank loans denominated in HKD at the end of the reporting period are as follows:

	2009 RMB'000	2008 RMB'00
Long-term bank loans	98,221	140,352

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

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Currency risk – continued

If RMB strengthens against HKD by 5%:

	HKD impact	
	2009 RMB'000	2008 RMB'000
Decrease in loss/increase in profit	3,626	7,076

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, 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statement of financial position.

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

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

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

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Based on the good working relationship with its banks and to optimise the use of the Group's liquid funds, the Group will consider to renew the bank loans upon their maturities. The management monitors the utilisation of bank loans and ensures compliance with loan covenants. The directors of the Company closely monitor the cash flow of the Group and, upon maturity, would arrange the renewal and refinancing of the bank loans, where necessary, to enable the Group to carry on its operations in the foreseeable future.

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Liquidity risk – continued

As set out in note 2, the directors of the Company have given careful consideration to the future liquidity of the Group in light of its liquidity risk. Taking into account the Group has available unutilised bank credit facilities of RMB9,434,000 (2008: RMB34,305,000) as at 31st December, 2009, and the net proceeds of HK$44,400,000 (equivalent to approximately RMB39,147,000) from issue of new shares on 19th March, 2010, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

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 31.12.2009 RMB'000
2009						
Non-derivative financial liabilities						
Trade and other payables*	–	67,054	37,150	–	104,204	104,204
Amounts due to related parties	–	19,100	–	–	19,100	19,100
Mortgage loan	2.52	138	420	1,929	2,487	2,432
Bank loans						
– fixed rate	5.68	34,483	164,261	–	198,744	191,550
– variable rate**	2.32	–	99,928	–	99,928	98,221
		120,775	301,759	1,929	424,463	415,507

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity and interest risk tables – continued

	Weighted average effective interest rate	Less than 3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2008
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2008						
Non-derivative financial liabilities						
Trade and other payables*	–	55,160	53,065	–	108,225	108,225
Obligations under finance leases	6.00	149	137	–	286	281
Mortgage loan	2.93	135	414	2,512	3,061	2,979
Bank loans						
– fixed rate	8.07	44,012	115,336	–	159,348	151,891
– variable rate**	4.01	14,294	29,155	101,822	145,271	140,352
		113,750	198,107	104,334	416,191	403,728

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

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

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

c. Fair value

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

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

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:

	2009 RMB'000	2008 RMB'000
Sales of goods from		
– sales of finished fabrics	269,753	457,165
– trading of goods	18,701	30,555
	288,454	487,720
Manufacture and sales of high density and high-end yarns	32,228	–
Subcontracting services	109,058	105,964
	429,740	593,684

Segment information

The Group has adopted HKFRS 8 "Operating segments" with effect from 1st January, 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. In contrast, the predecessor Standard (HKAS 14, "Segment reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's operating segments nor changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

The Group is organised into three operating divisions, namely processing, printing and sales of finished fabrics, manufacture and sales of high density and high-end yarns (as of 31st December, 2008, the segment has not commenced to operate yet) and trading of goods. The aforesaid three divisions are the basis on which the Group reports its segment information.

The Group's 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

– Trading of goods: Trading of fabrics and clothing

7. TURNOVER AND SEGMENT INFORMATION – continued

Segment information – continued

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

	Turnover		Results	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Processing, printing and sales of finished fabrics	378,811	563,129	36,237	78,020
Manufacture and sales of high density and high-end yarns	32,228	–	(5,465)	–
Trading of goods	18,701	30,555	(6,251)	(1,680)
Segment revenue/segment results	429,740	593,684	24,521	76,340
Interest income			1,244	1,444
Exchange gain			1,271	7,238
Unallocated expenses			(7,720)	(12,608)
Finance costs			(15,198)	(19,145)
Profit before taxation			4,118	53,269

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

7. TURNOVER AND SEGMENT INFORMATION – continued

Segment information – continued

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

	2009 RMB'000	2008 RMB'000
Segment assets		
– processing, printing and sales of finished fabrics	759,808	770,675
– manufacture and sales of high density and high-end yarns	511,256	454,162
– trading of goods	12,643	18,226
	1,283,707	1,243,063
Unallocated assets	112,867	113,515
	1,396,574	1,356,578
Segment liabilities		
– processing, printing and sales of finished fabrics	116,968	128,793
– manufacture and sales of high density and high-end yarns	17,166	7,575
– trading of goods	1,974	7,314
	136,108	143,682
Taxation	3,946	5,548
Unallocated liabilities	312,988	297,281
	453,042	446,511

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

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

7. TURNOVER AND SEGMENT INFORMATION – continued

Segment information – continued

(iii) Other segment information

	2009 RMB'000	2008 RMB'000
Amounts included in the measure of segment results or segment assets:		
Capital additions		
– processing, printing and sales of finished fabrics	5,090	22,145
– manufacture and sales of high density and high-end yarns	70,925	237,843
– trading of goods	–	12
	76,015	260,000
Depreciation		
– processing, printing and sales of finished fabrics	42,923	38,657
– manufacture and sales of high density and high-end yarns	13,358	–
– trading of goods	508	631
	56,789	39,288
– unallocated	292	275
	57,081	39,563
Allowances for bad and doubtful debts		
– trading of goods	4,300	–
Allowances for inventories		
– processing, printing and sales of finished fabrics	9,844	–

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	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
The PRC	412,708	565,884	947,954	966,789
Hong Kong and overseas	17,032	27,800	8,537	8,261
	429,740	593,684	956,491	975,050

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

	2009 RMB'000	2008 RMB'000
Allowances for bad and doubtful debts	(4,300)	–
Exchange gain	1,271	7,238
Research and development costs	(2,122)	(2,905)
	(5,151)	4,333

9. FINANCE COSTS

	2009 RMB'000	2008 RMB'000
Interest on bank loans		
– wholly repayable within five years	(14,576)	(18,367)
– not wholly repayable within five years	–	(122)
	(14,576)	(18,489)
Amortised transaction costs in relation to long-term bank loans	(622)	(656)
	(15,198)	(19,145)

10. PROFIT BEFORE TAXATION

	2009 RMB'000	2008 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 11)*		
– current year	3,642	3,757
– waived during the year	(1,218)	–
	2,424	3,757
Other staff's retirement benefits scheme contributions	395	552
Other staff costs	18,576	24,832
	21,395	29,141
Less: Staff costs included in research and development costs	(375)	(595)
	21,020	28,546
Depreciation on property, plant and equipment		
– owned by the Group	57,081	39,132
– held under finance leases	–	431
	57,081	39,563
Less: Depreciation included in research and development costs	(478)	(724)
	56,603	38,839
Cost of inventories recognised as expenses (including allowances for inventories amounting to RMB9,844,000 (2008: Nil))	370,983	485,561
Auditor's remuneration	1,678	1,685
Operating lease rentals in respect of		
– prepaid lease payments	3,729	2,273
– rented premises	101	140
and after crediting:		
Government rewards and subsidies*	2,053	500
Interest income	1,244	1,444

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

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2009				2008			
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors								
– Mr. Sze Siu Hung	–	1,305	11	1,316	–	2,332	11	2,343
– Mr. Qiu Fengshou	–	219	–	219	–	355	–	355
– Madam Cai Peilei	–	207	–	207	–	355	–	355
– Mr. Sze Chin Pang	–	459	11	470	–	474	11	485
Independent non-executive directors								
– Professor Zeng Qingfu	53	–	–	53	55	–	–	55
– Professor Zhao Bei	53	–	–	53	55	–	–	55
– Mr. Lui Siu Keung	106	–	–	106	109	–	–	109
	212	2,190	22	2,424	219	3,516	22	3,757

During the year, the five highest paid individuals included three (2008: three) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining two (2008: two) highest paid employees are as follows:

	2009	2008
	RMB'000	RMB'000
Employees		
– basic salaries and allowances	1,205	1,243
– retirement benefits scheme contributions	21	22
	1,226	1,265

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

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. Mr. Sze Siu Hung, Mr. Qiu Fengshou and Madam Cai Peilei have waived part of their emoluments for 2009 amounting to RMB956,000, RMB125,000 and RMB137,000 respectively in relation to their services. No other directors waived any emoluments during the year. No directors waived any emoluments in 2008.

12. TAXATION

	2009 RMB'000	2008 RMB'000
The charge comprises:		
PRC income tax	(4,495)	(7,186)
Overprovision of Hong Kong Profits Tax	–	38
	(4,495)	(7,148)

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1st January, 2008 onwards.

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

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

12. TAXATION – continued

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

	2009		2008	
	RMB'000	%	RMB'000	%
Profit before taxation	4,118		53,269	
Tax at the applicable income tax rate	(1,030)	(25.0)	(13,317)	(25.0)
Tax effect of income not taxable for tax purposes	529	12.8	1,772	3.3
Tax effect of expenses not deductible for tax purposes	(3,370)	(81.8)	(3,619)	(6.8)
Tax effect of deductible temporary differences not recognised	(5,943)	(144.3)	(2,342)	(4.4)
Tax effect of tax losses not recognised	(4,415)	(107.2)	(1,269)	(2.3)
Effect of tax exemption granted to certain PRC subsidiaries	9,720	236.0	11,502	21.6
Overprovision of taxation	–	–	38	0.1
Others	14	0.3	87	0.1
Tax charge and effective tax rate for the year	(4,495)	(109.2)	(7,148)	(13.4)

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 RMB116,469,000 (2008: RMB62,673,000) 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.

13. DIVIDENDS

	2009	2008
	RMB'000	RMB'000
Dividends recognised as distribution		
– final dividends of 1 Hong Kong cent, equivalent to 0.88 RMB cent per share paid	–	8,500

14. (LOSS) EARNINGS 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 RMB377,000 (2008: profit of RMB46,121,000) and the weighted average number of 967,115,068 (2008: 965,000,000) ordinary shares.

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

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1st January, 2008	215,431	4,176	2,993	353,041	100,690	676,331
Currency realignment	–	(60)	(100)	–	–	(160)
Additions	–	3,054	170	7,945	224,536	235,705
Transfers	–	–	–	12,550	(12,550)	–
At 31st December, 2008	215,431	7,170	3,063	373,536	312,676	911,876
Currency realignment	–	(8)	(5)	–	–	(13)
Additions	3,618	892	–	12,999	58,506	76,015
Transfers	209,797	1,328	–	40,297	(251,422)	–
At 31st December, 2009	428,846	9,382	3,058	426,832	119,760	987,878
DEPRECIATION						
At 1st January, 2008	21,175	1,723	1,202	113,050	–	137,150
Currency realignment	–	(48)	(41)	–	–	(89)
Provided for the year	7,075	806	626	31,056	–	39,563
At 31st December, 2008	28,250	2,481	1,787	144,106	–	176,624
Currency realignment	–	(7)	(3)	–	–	(10)
Provided for the year	16,054	1,156	621	39,250	–	57,081
At 31st December, 2009	44,304	3,630	2,405	183,356	–	233,695
NET BOOK VALUES						
At 31st December, 2009	384,542	5,752	653	243,476	119,760	754,183
At 31st December, 2008	187,181	4,689	1,276	229,430	312,676	735,252

15. PROPERTY, PLANT AND EQUIPMENT – *continued*

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

	2009 RMB'000	2008 RMB'000
Land and buildings in Hong Kong	8,175	7,397
Buildings in the PRC	376,367	179,784
	384,542	187,181

As at 31st December, 2009, there is no motor vehicle held under finance lease. As at 31st December, 2008, the net book value of motor vehicles included an amount of RMB742,000 in respect of assets held under finance leases.

The Group has pledged certain of its buildings and plant and machinery with an aggregate net book value of RMB92,877,000 (2008: RMB95,999,000) to certain banks to secure the credit facilities granted to the Group.

16. PREPAID LEASE PAYMENTS

	2009 RMB'000	2008 RMB'000
CARRYING VALUE		
At 1st January	182,333	160,311
Additions during the year	–	24,295
Released to profit or loss for the year	(3,729)	(2,273)
At 31st December	178,604	182,333
Analysed as:		
Non-current assets	174,875	178,604
Current assets	3,729	3,729
At 31st December	178,604	182,333

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 RMB37,350,000 (2008: RMB38,136,000) to certain banks to secure the credit facilities granted to the Group.

17. INVENTORIES

	2009 RMB'000	2008 RMB'000
Raw materials	67,737	37,447
Finished goods	137,375	108,085
	205,112	145,532

At 31st December, 2009, certain finished goods with original cost amounting to RMB13,025,000 are stated at net realisable value of RMB3,181,000, thus allowances for inventories amounting to RMB9,844,000 are recognised during the year (2008: Nil). All inventories were stated at cost as at 31st December, 2008.

18. TRADE AND OTHER RECEIVABLES

	2009 RMB'000	2008 RMB'000
Trade receivables		
– a related company	–	1,383
– others	21,365	35,135
	21,365	36,518
Deposits paid to suppliers	102,386	87,357
Other receivables and prepayments	2,956	2,431
	126,707	126,306

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:

	2009 RMB'000	2008 RMB'000
Age		
0 to 90 days	16,272	24,126
91 to 180 days	2,515	5,390
181 to 270 days	919	1,444
271 to 365 days	191	4,448
Over 365 days	1,468	1,110
	21,365	36,518

18. 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 RMB5,093,000 (2008: RMB12,392,000) which are past due at the reporting date for which the Group has not provided for allowance. The Group does not hold any collateral over these balances.

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

	2009 RMB'000	2008 RMB'000
Age		
91 to 180 days	2,515	5,390
181 to 270 days	919	1,444
271 to 365 days	191	4,448
Over 365 days	1,468	1,110
	5,093	12,392

The Group has provided for specific receivables over 365 days (2008: Nil).

Movement in the allowances for bad and doubtful debts

	RMB'000
At 1st January, 2009	–
Allowances made during the year	4,300
At 31st December, 2009	4,300

Included in the allowances for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of RMB4,300,000 (2008: Nil), which have been overdued for a long time and are impaired in current year. The Group does not hold any collateral over these balances.

19. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits represent deposits pledged to banks to secure bills payables utilised by the Group and are classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bills payables. The pledged deposits carry fixed interest rate at 0.36% (2008: 0.36% to 3.78%) per annum.

Bank balances carry interest at market rates ranging from 0.01% to 0.36% (2008: 0.01% to 4.37%) per annum.

20. TRADE AND OTHER PAYABLES

	2009 RMB'000	2008 RMB'000
Trade payables	27,295	3,350
Bills payables		
– secured	45,540	53,000
– unsecured	17,160	36,940
	89,995	93,290
Customers' deposits	27,978	28,093
Payables for acquisition of property, plant and equipment	109	14,935
Advances from third parties*	14,100	–
Other payables and accruals	5,611	9,142
	137,793	145,460

* The amounts are unsecured, interest-free and are repayable on demand. At the date of this report, approximately RMB8,100,000 were subsequently settled, and no further advances were made from these third parties since 31st December, 2009.

20. TRADE AND OTHER PAYABLES – continued

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

	2009 RMB'000	2008 RMB'000
Age		
0 to 90 days	50,146	53,897
91 to 180 days	31,157	38,114
181 to 270 days	4,184	254
271 to 365 days	1,591	431
Over 365 days	2,917	594
	89,995	93,290

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

21. AMOUNTS DUE TO RELATED PARTIES

	2009 RMB'000	2008 RMB'000
Name of related party		
Mr. Sze Siu Hung [(1)]	4,000	–
Mr. Cai Chaodun [(2)]	2,100	–
漳州泰景房地產開發有限公司(Zhang Zhou Tai Jing Real Estate Development Company Limited) ("ZZTJ") [(3)]	13,000	–
	19,100	–

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

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

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

The amounts are unsecured, interest-free and are repayable on demand. At the date of this report, sums of RMB4,000,000 and RMB100,000 were repaid to Mr. Sze Siu Hung and Mr. Cai Chaodun respectively subsequent to 31st December, 2009 while a further advance of RMB6,000,000 was borrowed from ZZTJ.

22. MORTGAGE LOAN

	2009 RMB'000	2008 RMB'000
The mortgage loan is secured and repayable as follows:		
Within one year	550	539
Between one to two years	564	552
Between two to five years	1,318	1,738
After five years	–	150
	2,432	2,979
Less: Amount due within one year shown under current liabilities	550	539
Amount due after one year	1,882	2,440

The mortgage loan carries interest at a variable rate of 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.

23. LONG-TERM BANK LOANS

	2009 RMB'000	2008 RMB'000
The long-term bank loans are secured and repayable as follows:		
Within one year	98,855	42,456
Between one to two years	–	99,152
	98,855	141,608
Less: Unamortised transaction costs	634	1,256
	98,221	140,352
Less: Amount due within one year shown under current liabilities	98,221	42,456
Amount due after one year	–	97,896

The long-term bank loans are variable-rate bank loans which carry interest at Hong Kong Inter-Bank Offered Rate plus 1.25% per annum and is denominated in Hong Kong dollars while the functional currency of the relevant group entity is RMB.

At the end of the reporting period, the bank loans are secured by charges over all the shares of a direct wholly-owned subsidiary of the Company, Widerlink Group Limited, and certain of its PRC subsidiaries.

24. SHORT-TERM BANK LOANS

	2009 RMB'000	2008 RMB'000
Short-term bank loans		
– secured	80,750	104,391
– unsecured	110,800	47,500
	191,550	151,891

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

The short-term bank loans are fixed-rate bank loans which carry interest at the range of 5.58% to 5.84% (2008: 4.74% to 9.71%) per annum.

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

	2009 RMB'000	2008 RMB'000
Mr. Sze Siu Hung	28,000	–
Mr. Cai Chaodun	30,000	30,000
Mr. Qiu Fengshou(1)	80,000	50,000
Joint guarantee*	28,700	28,700
	166,700	108,700

* The credit facility was jointly guaranteed by Mr. Cai Chaodun, Mr. Qiu Fengshou and Mr. Fu Jianhua(2).

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

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

25. 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				
– balance at 1st January, 2008 and and 31st December, 2008	2,000,000	200,000	965,000	96,500
– issue of shares	–	–	96,500	9,650
– balance at 31st December, 2009	2,000,000	200,000	1,061,500	106,150

	RMB'000
Shown in the consolidated statement of financial position at	
– 31st December, 2009 as	107,364
– 31st December, 2008 as	98,855

On 13th December, 2009, agreements (the "Agreements") were entered into for a private placement to investors of 96,500,000 ordinary shares of HK$0.10 each at a price of HK$0.402 (equivalent to RMB0.354) per share by Famepower, the controlling shareholder of the Company. Under the Agreements, arrangements were made for the subscription of 96,500,000 new ordinary shares of HK$0.10 each by Famepower at a price of HK$0.402 per share. The subscription price is equivalent to the placing price mentioned above. The new shares were issued on 24th December, 2009 under the general mandate granted to the board of directors on 5th June, 2009. The subscription shares represent 10% of the existing issued share capital of the Company as at the date of the Agreements; and approximately 9.09% of the issued share capital of the Company immediately after completion of the Agreements. The net proceeds from the subscription were approximately HK$38,295,000 (equivalent to approximately RMB33,768,000). The Company intended to use the net proceeds from the subscription towards future business development, investment opportunities in new energy industry and as general working capital of the Group.

26. 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 are equivalent to 10% of the shares of the Company in issue as at the date of the EGM.

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

There is no general requirement that an option must be held for any minimum period before it can be exercised but the directors of the Company is empowered to impose its discretion on 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 twenty one 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 twenty one days from the date of grant or within such other period of time as may be determined by the board of directors pursuant to the Listing Rules.

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

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

At the end of the reporting period, the maximum number of shares issuable pursuant to the grant of further share options are 35,000,000 (2008: 35,000,000) shares which represented 3.30% (2008: 3.63%) of the shares of the Company in issue at that date.

At the date of the annual report, the maximum number of shares issuable pursuant to the grant of further share options are 106,150,000 (2008: 35,000,000) shares which represented 9.06% (2008: 3.63%) of the shares of the Company in issue on that date.

27. CAPITAL COMMITMENTS

	2009 RMB'000	2008 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	21,831	49,960

28. 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.

29. RELATED PARTY TRANSACTIONS

During the year, the Group sold fabrics and provided fabrics processing services (together, the "Transactions") for an aggregate consideration amounting to RMB453,000 (2008: RMB2,524,000) to 協盈（福建）服飾有限公司(Xueying (Fujian) Dress Co., Ltd.), a company legally and beneficially owned by Mr. Sze Siu Bun.

The Company's directors represented the Group's key management and their emoluments for the year are set out in note 11.

30. EVENT AFTER THE REPORTING PERIOD

(a) On 6th January, 2010, a joint venture agreement was entered into between a wholly-owned subsidiary of the Company (the "Subsidiary") and 蕪湖經濟技術開發區建設投資公司(Wuhu Economic Development Zone Construction and Investment Company), pursuant to which 中徽能源(蕪湖)有限公司(Zhong Hui Energy (Wuhu) Co., Ltd.) was established in Wuhu City. Zhong Hui Energy (Wuhu) Co., Ltd. is owned as to 80% by the Subsidiary. Pursuant to the terms of the joint venture agreement, the registered capital of Zhong Hui Energy (Wuhu) Co., Ltd. will be US$5,000,000 (equivalent to approximately RMB34,166,000). The total investment of Zhong Hui Energy (Wuhu) Co., Ltd. is US$10,000,000 (equivalent to approximately RMB68,332,000). The Subsidiary was Faithful Technology Limited, which was incorporated in Hong Kong in 2009 and acts as an investment holding company for this project.

(b) On 9th March, 2010, a placing arrangement was entered into, under which 110,000,000 ordinary shares of HK$0.10 each at a price of HK$0.41 (equivalent to RMB0.361) per share were privately placed to investors by Famepower, the controlling shareholder of the Company, through a placing agent. The price of HK$0.41 per share represents a discount of approximately 7.87% to the closing market price of the Company's shares of HK$0.445 per share as quoted on the Stock Exchange on 8th March, 2010, the last trading date prior to the entering into the placing agreement. On the same date, the Company entered into a subscription agreement with Famepower for the subscription of 110,000,000 new ordinary shares of HK$0.10 each at a price of HK$0.41 per share. The subscription price is equivalent to the placing price mentioned above. The new shares were issued on 19th March, 2010 under the general mandate granted to the board of directors on 23rd February, 2010. The Company intends to apply the net proceeds of HK$44,400,000 for the repayment of bank loans of the Group and investment opportunities in new energy industry. On 19th March, 2010, the allotment and issue of subscription shares have been completed.

31. COMPARATIVE FIGURES

Certain comparative figures for the consolidated statement of comprehensive income have been reclassified to conform with the current year's presentation. Details are set out as follows:

	As previously report	**Reclassification**	**As restated**
	RMB'000	RMB'000	RMB'000
Cost of goods sold and services provided[(1)]	(488,466)	2,905	(485,561)
Other income[(2)]	9,481	(7,238)	2,243
Other expenses, gains and losses[(1)(2)]	–	4,333	4,333

[(1)] The restatement represents reclassification of research and development costs including staff cost, depreciation charge and others from cost of goods sold and services provided to other expenses, gains and losses.

[(2)] The restatement represents reclassification of exchange gain from other income to other expenses, gains and losses.

32. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are indirectly wholly-owned by the Company, at 31st December, 2009 and 2008 are as follows:

Name of subsidiary	Place of incorporation/ establishment/operations	Nominal value of issued and fully paid share capital/ registered capital	Principal activity
Co-Prosperity (Hong Kong) Limited	Hong Kong	Ordinary shares – HK$2	Trading of fabrics
福建協盛協豐印染實業有限公司 (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	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$235,000,000 (2008: HK$225,000,000)	Manufacture and sales of high density and high-end yarns
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	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	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	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	Processing, printing and sales of finished fabrics

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

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

	Year ended 31st December,				
	2005	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Turnover	599,916	902,508	917,394	593,684	429,740
Profit before taxation	114,503	159,509	112,836	53,269	4,118
Taxation	(3,990)	(23,929)	(21,699)	(7,148)	(4,495)
Profit (loss) for the year	110,513	135,580	91,137	46,121	(377)

	As at 31st December,				
	2005	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	579,237	858,661	1,241,254	1,356,578	1,396,574
Total liabilities	(233,824)	(234,465)	(370,626)	(446,511)	(453,042)
Net assets	345,413	624,196	870,628	910,067	943,532

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