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

2012

Interim Report

* For identification purpose only

CONTENTS

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2012 (the "period"), the Group is principally engaged in the sale of finished fabrics and provision of fabrics processing subcontracting services ("fabrics business"), the trading of goods ("trading business") and the manufacture and sales of high density and high-end yarns ("yarn business") to customers.

Operational and Financial Review

The fragile global economy continued to overshadow the whole textile industry in the first half of 2012. The unsatisfactory business performance as a consequence of the challenging operating environment faced by the Group and the loss in fair value of warrants led to a consolidated net loss for the six months ended 30 June 2012 as compared to a consolidated net profit for the same period in 2011.

The Group's turnover decreased by 17.5% to RMB245.6 million (2011: RMB297.8 million). Sales from fabrics business, yarn business and trading business all declined during the period.

The Group registered a gross profit of around RMB22.0 million (2011: RMB47.2 million), representing a drop of around 53.3% as compared with the corresponding period last year. The gross profit margin from fabrics business, yarn business and trading business all fell but the three businesses managed to maintain positive gross profit margins in the first half of 2012.

Other income rose by 59.6% to approximately RMB0.5 million (2011: RMB0.3 million), which was principally composed of government grant, rewards and subsidies of RMB0.1 million and an interest income of RMB0.4 million. For other expenses, gains and losses, the net loss decreased slightly by 0.6% and amounted to around RMB5.2 million (2011: net loss of RMB5.2 million), which comprised research and development costs of RMB1.2 million, allowances for doubtful debts of RMB3.1 million and exchange loss of RMB0.9 million. A gain of RMB0.3 million (2011: 7.6 million) was recorded in respect of the fair value of derivative component of convertible bonds. During the period, in relation to warrants, a loss in fair value amounting to RMB8.6 million (2011: Nil) was registered.

As a result of stricter cost control, the distribution and selling expenses dropped by 22.5% to RMB3.5 million (2011: RMB4.5 million) and the administrative expenses recorded a decrease of 1.3% to RMB17.6 million (2011: RMB17.8 million). Finance costs increased by 25.6% to RMB14.4 million (2011: RMB11.5 million), mainly as a result of the higher average level of bank and other interest-bearing loans during the period.

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

Market Outlook and Future Prospects

Global economy will continue to face substantial downside risks in the second half of 2012. The exacerbation of the sovereign debt crisis in Europe, which can potentially result in sizable contractions in credit and economic output in both Europe and elsewhere, is worrisome. In addition, it seems that the economic conditions in the United States will remain subdued whereas China's economic growth will be expected to ebb. The Group is cautious about the rest of 2012.

In the face of such an unfavourable operating environment, the Group will continue to navigate its businesses and allocate its resources with great care. With its committed management and staff, the Group is well-placed to ride through the current acute economic times and to react promptly to any possible changes in the external environment. Looking forward, the Group will remain focused on restoring its profitability whilst maintain a healthy balance sheet and strengthen its overall financial position. In spite of the short-term adversities faced by the Group, the Board is fully confident and optimistic about the Group's future outlook.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2012, the Group had total assets of approximately RMB958.0 million (As at 31 December 2011: RMB880.3 million) which were financed by current liabilities of approximately RMB626.7 million (As at 31 December 2011: RMB494.7 million), non-current liabilities of approximately RMB13.8 million (As at 31 December 2011: RMB41.6 million) and shareholders' equity of approximately RMB317.5 million (As at 31 December 2011: RMB344.0 million).

As at 30 June 2012, the Group's cash and bank balances was approximately RMB116.5 million (As at 31 December 2011: RMB42.0 million), while pledged bank deposits amounted to approximately RMB47.5 million (As at 31 December 2011: RMB48.0 million). As at 30 June 2012, the loan due to a related party was fixed-rate loan and was denominated in Hong Kong dollars. The loan due to a third party was fixed-rate loan and was denominated in United States dollars. The mortgage loan was variable-rate loan and was denominated in Hong Kong dollars. The short-term bank loans were fixed-rate loans and were denominated in Renminbi. The liability component of convertible bonds was fixed-rate loan and was denominated in Hong Kong dollars. As at 30 June 2012, the Group's borrowings were secured by land use rights, certain of property, plant and equipment and certain bank deposits of the Group.

The Group maintained a healthy liquidity position. The current ratio, being a ratio of total current assets to total current liabilities, was approximately 1.1 (As at 31 December 2011: 1.2). The gearing ratio, being a ratio of borrowings (comprising loan due to a related party, loan due to a third party, liability component of convertible bonds, mortgage loan and short-term bank loans) to shareholders' equity, was approximately 151.5% (As at 31 December 2011: 108.9%). The Group has always been adopting a conservative approach in its financial management.

CAPITAL EXPENDITURES

As at 30 June 2012, the Group has capital commitments of approximately RMB0.02 million in respect of purchases of property, plant and equipment (As at 31 December 2011: RMB1.15 million).

CONTINGENT LIABILITIES AND EXCHANGE RISK EXPOSURE

As at 30 June 2012, the Group did not have any significant contingent liabilities (As at 31 December 2011: Nil). The Group's operations, sales and purchases were mainly denominated in Renminbi. The Group does not foresee significant risk in exchange rate fluctuations and no financial instrument has been used for hedging purposes. The Group will consider holding 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 period.

EMPLOYMENT

As at 30 June 2012, the Group had about 1,600 employees in Hong Kong and in the PRC (As at 31 December 2011: 1,700 employees). 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. Remuneration packages will be 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 contribution to the Group.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	NOTES	1.1.2012 to 30.6.2012 RMB'000 (unaudited)	1.1.2011 to 30.6.2011 RMB'000 (unaudited)
Turnover	3	245,587	297,763
Cost of goods sold and services provided		(223,538)	(250,550)
Gross profit		22,049	47,213
Other income		506	317
Other expenses, gains and losses		(5,206)	(5,237)
Gain in fair value of derivative financial liabilities		–	3,832
Gain in fair value of derivative component of convertible bonds	12	315	7,591
Loss in fair value of warrants	13	(8,603)	–
Distribution and selling expenses		(3,477)	(4,485)
Administrative expenses		(17,565)	(17,796)
Finance costs		(14,391)	(11,460)
(Loss) profit before taxation	4	(26,372)	19,975
Taxation	5	(1,436)	(2,678)
(Loss) profit for the period		(27,808)	17,297
Other comprehensive income			
– exchange differences arising on translation		1,305	1,886
Total comprehensive (expense) income for the period		(26,503)	19,183
(Loss) earnings per share	6		
– Basic		(2.4 RMB cents)	1.5 RMB cents
– Diluted		(2.5 RMB cents)	1.4 RMB cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 June 2012

	NOTES	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	7	211,472	218,821
Prepaid lease payments		50,616	51,196
Deposits made on acquisition of property, plant and equipment		4,987	6,137
		267,075	276,154
Current assets			
Inventories		399,557	353,534
Trade and other receivables	8	126,288	159,372
Prepaid lease payments		1,159	1,159
Pledged bank deposits		47,450	48,020
Bank balances and cash		116,501	42,004
		690,955	604,089
Current liabilities			
Trade and other payables	9	126,622	141,316
Loan and amounts due to a related party	10	30,979	12,966
Taxation		4,110	4,356
Loan due to a third party	11	23,852	–
Convertible bonds	12	41,061	–
Mortgage loan		540	536
Short-term bank loans		399,500	335,500
		626,664	494,674
Net current assets		64,291	109,415
Total assets less current liabilities		331,366	385,569

	NOTES	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
Non-current liabilities			
Convertible bonds	12	–	39,746
Warrants	13	12,392	–
Mortgage loan		413	689
Government grant		1,050	1,120
		13,855	41,555
Net assets		317,511	344,014
Capital and reserves			
Share capital	14	117,055	117,055
Reserves		200,456	226,959
Total equity		317,511	344,014

The interim financial information on pages 6 to 25 was approved and authorised for issue by the Board of Directors on 30 August 2012 and are signed on its behalf by:

MR. SZE SIU HUNG
CHAIRMAN

MR. SZE CHIN PANG
EXECUTIVE DIRECTOR

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Share capital	Share premium	Special reserve	Share option reserve	Translation reserve	Statutory surplus reserve fund	Retained (deficit)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2012	117,055	301,107	98,731	1,669	4,640	97,511	(276,699)	344,014
Loss for the period	–	–	–	–	–	–	(27,808)	(27,808)
Exchange differences arising on translation	–	–	–	–	1,305	–	–	1,305
Total comprehensive expense for the period	–	–	–	–	1,305	–	(27,808)	(26,503)
At 30 June 2012 (unaudited)	117,055	301,107	98,731	1,669	5,945	97,511	(304,507)	317,511
At 1 January 2011	117,055	301,107	98,731	–	2,433	95,297	(168,955)	445,668
Profit for the period	–	–	–	–	–	–	17,297	17,297
Exchange differences arising on translation	–	–	–	–	1,886	–	–	1,886
Total comprehensive income for the period	–	–	–	–	1,886	–	17,297	19,183
At 30 June 2011 (unaudited)	117,055	301,107	98,731	–	4,319	95,297	(151,658)	464,851

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	1.1.2012 to 30.6.2012 RMB'000 (unaudited)	1.1.2011 to 30.6.2011 RMB'000 (unaudited)
Net cash (used in) from operating activities	(21,085)	38,090
Investing activities		
Purchase of property, plant and equipment	(2,263)	(1,180)
Decrease (increase) in pledged bank deposits	570	(10,530)
Other investing cash flows	393	(466)
Net cash used in investing activities	(1,300)	(12,176)
Financing activities		
Interest paid	(12,533)	(9,854)
Proceeds from issue of warrants	3,824	–
Loan from a third party	23,852	–
Bank loans raised	243,500	162,450
Repayment of bank loans	(179,500)	(168,150)
Other financing cash flows	17,741	(3,275)
Net cash from (used in) financing activities	96,884	(18,829)
Net increase in cash and cash equivalents	74,499	7,085
Cash and cash equivalents at 1 January	42,004	38,260
Effect of foreign exchange rate changes	(2)	(11)
Cash and cash equivalents at 30 June	116,501	45,334
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	116,501	45,334

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2012

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability under the Companies Law of the Cayman Islands and acts as an investment holding company. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2011.

The condensed consolidated financial statements has been prepared under the historical cost convention. The principal accounting policies adopted in the condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2011, except for the adoption of: (1) the newly added accounting policies in respect of warrants described below:

Warrants

Warrants that will be settled other than by the exchange of a fixed amount of functional currency cash or another financial asset denominated in functional currency for a fixed number of the Company's own equity instruments are accounted as derivatives.

The warrants are initially recognised at fair value and are subsequently remeasured to their fair values respectively at the end of each reporting period. The resulting gain or loss is recognised in profit or loss.

and (2) the new or revised standards, amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA which are mandatory for annual periods beginning 1 January 2012 and relevant to the operations of the Group. The adoption of these new HKFRSs had no material effect to the Group's results and financial position for the current and prior accounting periods.

The Group has not early applied any new HKFRSs that have been issued but are not yet effective. The Group is in the process of assessing the impact of such new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results and financial position.

3. SEGMENT INFORMATION

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 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

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

	Turnover		Results	
	1.1.2012 to 30.6.2012 RMB'000 (unaudited)	1.1.2011 to 30.6.2011 RMB'000 (unaudited)	1.1.2012 to 30.6.2012 RMB'000 (unaudited)	1.1.2011 to 30.6.2011 RMB'000 (unaudited)
Processing, printing and sales of finished fabrics				
– external sales	171,674	187,228		
– inter-segment sales	343	309		
	172,017	187,537	(1,281)	15,376
Manufacture and sales of high density and high-end yarns	70,756	106,002	3,596	10,046
Trading of goods	3,157	4,533	(1,980)	(2,541)
	245,930	298,072	335	22,881
Elimination	(343)	(309)	–	–
	245,587	297,763	335	22,881
Interest income			383	91
Gain in fair value of derivative financial liabilities			–	3,832
Gain in fair value of derivative component of convertible bonds			315	7,591
Loss in fair value of warrants			(8,603)	–
Unallocated corporate expenses			(4,411)	(2,960)
Finance costs			(14,391)	(11,460)
(Loss) profit before taxation			(26,372)	19,975

Segment results represent the result of each segment without allocation of interest income, gain in fair value of derivative component of convertible bonds, loss in fair value of warrants, unallocated corporate expenses and finance costs. This is the measure reported to the chief operating decision maker, the executive directors of the Company, for the purposes of resource allocation and performance assessment.

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

	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
Segment assets		
– processing, printing and sales of finished fabrics	495,218	508,534
– manufacture and sales of high density and high-end yarns	275,528	268,253
– trading of goods	15,614	5,480
	786,360	782,267
Unallocated assets	171,670	97,976
	958,030	880,243

For the purposes of monitoring segment performances and allocating resources between segments by the chief operating decision maker, the executive directors of the Company, all assets are allocated to operating segments other than leasehold land and buildings in Hong Kong, certain other receivables, bank balances and cash and pledged bank deposits.

4. (LOSS) PROFIT BEFORE TAXATION

	1.1.2012 to 30.6.2012 RMB'000 (unaudited)	1.1.2011 to 30.6.2011 RMB'000 (unaudited)
(Loss) profit before taxation has been arrived at after charging:		
Depreciation on property, plant and equipment		
– owned by the Group	10,621	15,866
Less: Depreciation included in research and development costs	(359)	(380)
	10,262	15,486
Operating lease rentals in respect of prepaid lease payments	580	696
Imputed interest expenses of the liability component of convertible bonds	1,858	1,606
Allowances for doubtful debts		
– trade receivables	1,598	1,034
– other receivables	1,500	2,000

5. TAXATION

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

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 (collectively referred to as "exemption"). There are three PRC subsidiaries entitled to the exemption which commenced in 2008. For the subsidiaries under the exemption, such exemption is still applicable under the transitional arrangement of the PRC Law on Enterprise Income Tax.

At the end of the period, the Group has deductible temporary differences of RMB704,239,000 (31 December 2011: RMB723,460,000). No deferred tax asset has been recognised in relating to deductible temporary difference because it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries amounting to RMB137,800,000 (31 December 2011: RMB148,336,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

6. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to ordinary equity shareholders of the Company is based on the following data:

	1.1.2012 to 30.6.2012 RMB'000 (unaudited)	1.1.2011 to 30.6.2011 RMB'000 (unaudited)
(Loss) earnings		
(Loss) earnings for the purpose of basic (loss) earnings per share	(27,808)	17,297
Effect of dilutive potential ordinary shares arising from:		
– gains in relation to warrants	(1,577)	–
– currency realignment of warrants	(26)	–
– interest on convertible bonds	–	1,205
– other net gains in relation to convertible bonds	–	659
– currency realignment of convertible bonds	–	(382)
(Loss) earnings for the purpose of diluted (loss) earnings per share	(29,411)	18,779

	1.1.2012 to 30.6.2012 (unaudited)	1.1.2011 to 30.6.2011 (unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	1,171,500,000	1,171,500,000
Effect of dilutive potential ordinary shares arising from:		
– warrants	25,526,485	–
– convertible bonds	–	170,861,468
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	1,197,026,485	1,342,361,468

The computation of diluted loss per share for the period (the "computation") does not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price of shares during the period. The computation does not assume the conversion of the Company's outstanding convertible bonds which would reduce the loss per share for the period.

7. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred RMB3,272,000 (2011: RMB4,062,000) on additions to property, plant and equipment.

8. TRADE AND OTHER RECEIVABLES

	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
Trade receivables	22,917	23,057
Deposit paid to suppliers	68,426	128,588
Advances to third parties*	29,260	–
Value-added tax recoverable	2,715	5,835
Other receivables and prepayments	2,970	1,892
	126,288	159,372

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

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

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

	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
Age		
0 to 90 days	20,690	15,352
91 to 180 days	1,547	3,409
181 to 270 days	652	714
271 to 365 days	28	3,582
	22,917	23,057

9. TRADE AND OTHER PAYABLES

	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
Trade payables	42,502	38,847
Bills payables – secured	8,470	11,350
	50,972	50,197
Customers' deposits	63,792	63,116
Payables for acquisition of property, plant and equipment	1,392	1,578
Obligations under onerous contracts for acquisition of property, plant and equipment	3,566	3,566
Advances from third parties	–	17,700
Other payables and accruals	6,900	5,159
	126,622	141,316

The normal credit periods on purchases of goods are from 90 days to 180 days.

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

	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
Age		
0 to 90 days	29,289	29,761
91 to 180 days	7,793	5,160
181 to 270 days	5,019	5,038
271 to 365 days	3,881	6,136
Over 365 days	4,990	4,102
	50,972	50,197

10. LOAN AND AMOUNTS DUE TO A RELATED PARTY

	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
Loan due to Mr. Sze Siu Hung [(1) (2)]	17,272	–
Other amounts due to Mr. Sze Siu Hung [(1) (3)]	13,707	12,966
	30,979	12,966

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

(2) The amounts were part of an unsecured loan of HK$60M borrowed from Mr. Sze for a term of 12 months with interest at the rate of 4.8% per annum pursuant to a loan agreement signed by the Company and Mr. Sze on 1 June 2012 (Note: only part of the loan has been drawn up to 30 June 2012). A supplemental agreement was signed between the 2 parties in July 2012 to extend the term of the loan to 24 months (see note 17(1)).

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

11. LOAN DUE TO A THIRD PARTY

The amounts were part of an unsecured loan of US$5 million borrowed from an independent third party lender (the "lender") for a term of 12 months with interest at the rate of 6% per annum pursuant to a loan agreement signed by the Company and the lender on 1 June 2012 (Note: only part of the loan has been drawn up to 30 June 2012). A supplemental agreement was signed between the 2 parties in July 2012 to extend the term of the loan to 24 months (see note 17(2)).

12. CONVERTIBLE BONDS

The Company issued convertible bonds in the aggregate principal amount of HK$50,000,000 at its face value to the two investors on 14 January 2011. The convertible bonds are denominated in Hong Kong dollars and unsecured. The convertible bonds entitled the bondholders to convert them into ordinary shares of the Company at any time between 14 January 2011 to 13 January 2013 ("the maturity date") at an initial conversion price of HK$0.27 per ordinary share, subject to adjustment for, among other matters, subdivision or consolidation of shares and other dilutive events (which are the standard antidilution adjustment). Based on the initial conversion price of HK$0.27 per ordinary share, a maximum number of 185,185,184 ordinary shares will be allotted and issued upon exercise of the conversion rights attached to the convertible bonds in full. If the convertible bonds have not been converted on or before the maturity date, they will be redeemed at par upon the maturity date. Besides, the Company is entitled, at its sole discretion, to redeem any amount of the outstanding convertible bonds before the maturity date at par inclusive of interest accrued. On the other hand, the bondholders are not entitled to request early redemption. The convertible bonds carry an interest of 1% per annum and the interest is payable once upon their maturity date.

The convertible bonds comprise two components: the liability component and the derivative component. Upon the issue of convertible bonds, the fair value of the liability component was valued by American Appraisal China Limited ("AACL"), an independent valuer not connected to the Group, with the use of the Binomial Model and represented the present value of the interest payments and the principal amount. The liability component of convertible bonds was then carried at amortised cost using the effective interest method and amounted to HK$48,569,000 (RMB39,568,000) as at 30 June 2012 (31 December 2011: HK$46,295,000 (RMB37,929,000)). The derivative component represents the conversion option and the early redemption option embedded in the convertible bonds. The conversion option gives the bondholders the right to convert the convertible bonds into ordinary shares of the Company and will be settled other than by the exchange of a fixed amount of functional currency cash or another financial asset denominated in functional currency for a fixed number of the Company's own equity instruments. The early redemption option gives the Company the right to redeem the convertible bonds at par any time before maturity. The derivative component is measured at fair value with changes in fair value recognised in profit or loss. Valued by AACL by the Binomial Model, the fair value of the derivative component amounted to HK$1,832,000 (RMB1,493,000) as at 30 June 2012 (31 December 2011: HK$2,218,000 (RMB1,817,000)) and a gain in fair value amounting to HK$386,000 (RMB315,000) was recognised in profit or loss.

13. WARRANTS

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

As the proceeds from subscription of warrants were denominated in Hong Kong dollars and the functional currency of the Company is in Renminbi, the subscription of warrants was settled by the exchange of a variable amount of functional currency cash for a fixed number of shares of the Company. Accordingly, the warrants were accounted for as derivative instruments, initially recognised at fair value and are subsequently remeasured to their fair values respectively at the end of each reporting period. The resulting gain or loss will be recognized in profit or loss. At 30 June 2012, the fair value of the outstanding warrants valued by AACL using Binomial Model amounted to HK$15,210,000 (RMB12,392,000). A loss in fair value in relation to warrants, amounting to HK$10,530,000 (RMB8,603,000), was recognized in profit or loss for the period.

14. SHARE CAPITAL

Upon approval by shareholders by ordinary resolution at the extraordinary general meeting on 1 June 2012, the authorised share capital of the Company was increased from HK$200,000,000 divided into 2,000,000,000 ordinary shares of HK$0.10 each to HK$700,000,000 divided into 7,000,000,000 ordinary shares of HK$0.10 each.

15. CAPITAL COMMITMENTS

	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment	20	1,150

16. RELATED PARTY TRANSACTIONS

The directors of the Company represented key management of the Group. During the period, directors' remuneration of RMB657,000 (2011: RMB675,000) was charged to the profit or loss.

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

	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
Mr. Sze Siu Hung	24,000	–
Mr. Cai Chaodun[1]	30,000	30,000
Joint guarantee[2]	30,000	28,700
Joint guarantee[3]	9,000	27,000
Joint guarantee[4]	21,000	–
	114,000	85,700

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

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

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

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

17. EVENTS AFTER THE REPORTING PERIOD

(1) On 1 June 2012, the Company has entered into a loan agreement with Mr. Sze Siu Hung ("Mr. Sze"), pursuant to which Mr. Sze has agreed to advance to the Company an unsecured loan of HK$60 million for a term of 12 months with interest at the rate of 4.8% per annum. A supplemental agreement was signed in July 2012 between the 2 parties to extend the term of the loan to 24 months.

(2) On 1 June 2012, the Company has entered into a loan agreement with an independent third party lender (the "lender"), pursuant to which the lender has agreed to advance to the Company an unsecured loan of US$5 million for a term of 12 months with interest at the rate of 6% per annum. A supplemental agreement was signed in July 2012 between the 2 parties to extend the term of the loan to 24 months.

(3) In July 2012, Shasing-Shapheng (Quanzhou) Textile Industrial Co., Ltd. (協盛協豐(泉州)紡織實業有限公司) ("Shasing-Shapheng Quanzhou"), a wholly-owned subsidiary of the Company completed the acquisition of the land use right in respect of a land in Shishi City, Fujian Province, the PRC. The consideration for the acquisition amounted to RMB68,983,824. On top of that, Shasing-Shapheng Quanzhou also borne the agricultural land tax, the property deed tax and stamp duty in the aggregate sum of RMB9,282,717.

DISCLOSURE OF ADDITIONAL INFORMATION

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 June 2012 (For the six months ended 30 June 2011: Nil).

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

As at 30 June 2012, the interests and/or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), were as follows:

Name	Capacity in which the Interests are held	Nature of Interest	Total Interests held	Approximate percentage of the issued share capital of the Company as at 30 June 2012 (%)
Directors				
Mr. Sze Siu Hung	Corporate interest and founder of trust *(Note 1)*	Ordinary shares of HK$0.10 each	571,948,720 long position	48.82
	Corporate interest *(Note 2)*	Ordinary shares of HK$0.10 each	28,051,280 long position	2.40
	Beneficial interest *(Note 3)*	Ordinary shares of HK$0.10 each	2,000,000 long position	0.17

Name	Capacity in which the Interests are held	Nature of Interest	Total Interests held	Approximate percentage of the issued share capital of the Company as at 30 June 2012 (%)
Directors (continued)				
Madam Cai Peilei	Corporate interest and beneficiary of trust *(Note 1)*	Ordinary shares of HK$0.10 each	571,948,720 long position	48.82
	Corporate interest *(Note 2)*	Ordinary shares of HK$0.10 each	28,051,280 long position	2.40
	Family interest *(Note 3)*	Ordinary shares of HK$0.10 each	2,000,000 long position	0.17
Mr. Sze Chin Pang	Beneficial interest	Underlying shares of equity derivatives *(Note 4)*	1,200,000 long position	0.10
Mr. Lui Siu Keung	Beneficial interest	Underlying shares of equity derivatives *(Note 4)*	1,000,000 long position	0.09
Professor Zhao Bei	Beneficial interest	Underlying shares of equity derivatives *(Note 4)*	500,000 long position	0.04
Professor Zeng Qingfu	Beneficial interest	Underlying shares of equity derivatives *(Note 4)*	500,000 long position	0.04
Chief executive				
Mr. Sze Siu Bun	Beneficial interest	Underlying shares of equity derivatives *(Note 4)*	2,000,000 long position	0.17

Notes:

1. As at 30 June 2012, about 48.82% of shareholding of the Company is owned by Famepower Limited, which is owned as to 100% by Federal Trust Company Limited, a trust company in its capacity as the trustee of The Sze Trust which was a discretionary trust, the founder (as defined in the SFO) of which is Mr. Sze Siu Hung ("Mr. Sze") and the discretionary objects of which are family members of Mr. Sze (including Madam Cai Peilei and excluding Mr. Sze himself). Accordingly, Mr. Sze and Madam Cai Peilei are both deemed to be interested in the relevant shares under the SFO.

2. As at 30 June 2012, about 2.40% of shareholding of the Company is owned by Peilei Charitable Limited ("PCL"), a company incorporated in the British Virgin Islands and the entire issued share capital of which is owned as to 50% by Mr. Sze and as to 50% by Madam Cai Peilei. Mr. Sze and Madam Cai Peilei intend to use the shares held by PCL for charitable purpose.

3. As at 30 June 2012, 2,000,000 shares, representing 0.17% of shareholding of the Company, are beneficially owned by Mr. Sze. Madam Cai Peilei is the spouse of Mr. Sze and is deemed to be interested in 2,000,000 shares.

4. The interests in underlying shares of equity derivatives represented interests in share options granted under the share option scheme adopted by the Company on 15 March 2006, further details of which are set out in the section headed "Share Option Scheme" on pages 29 to 30 of this interim report.

Save as disclosed above, as at 30 June 2012, none of the directors or chief executive had any interests and/or short positions in any shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, to the best knowledge of the Company, the following persons (other than a director or chief executive of the Company) had, or were deemed or taken to have interests and/or short positions in the shares or underlying shares of the Company, which would fall to be disclosed to the Company and the Stock Exchange pursuant to Part XV of the SFO:

Name of substantial shareholder	Nature of Interest	Underlying Shares of Equity Derivatives	Approximate percentage of the issued share capital of the Company as at 30 June 2012 (%)
Mr. Ma Ki Hung	Beneficial interest *(Note (a))*	92,592,592 long position	7.90
Mr. Choi Kam Long	Beneficial interest *(Note (a))*	92,592,592 long position	7.90

Note (a):

All interest in underlying shares of equity derivatives of the Company are interests in convertible bonds issued on 14 January 2011.

SHARE OPTION SCHEME

A Share Option Scheme (the "Share Option Scheme") was adopted on 15 March 2006.

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

There was no change in any terms of the Share Option Scheme during the six months ended 30 June 2012. The details of the terms of the Share Option Scheme have been disclosed in the 2011 annual report.

As at 30 June 2012, details of share options granted under the Share Option Scheme of the Company were as follows:

Name or category of participant	Number of share option						Date of grant	Vesting date	Exercise period	Exercise price per share
	At 1 January 2012	Granted during the period *(Note)*	Exercised during the period *(Note)*	Cancelled during the period *(Note)*	Lapsed during the period *(Note)*	At 30 June 2012				*HK$*
(A) Directors										
Mr. Sze Chin Pang	1,200,000	–	–	–	–	1,200,000	27 July 2011	27 July 2011	27 July 2011 to 26 July 2021	0.227
Mr. Lui Siu Keung	1,000,000	–	–	–	–	1,000,000	27 July 2011	27 July 2011	27 July 2011 to 26 July 2021	0.227
Professor Zhao Bei	500,000	–	–	–	–	500,000	27 July 2011	27 July 2011	27 July 2011 to 26 July 2021	0.227
Professor Zeng Qingfu	500,000	–	–	–	–	500,000	27 July 2011	27 July 2011	27 July 2011 to 26 July 2021	0.227
(B) Chief Executive										
Mr. Sze Siu Bun	2,000,000	–	–	–	–	2,000,000	27 July 2011	27 July 2011	27 July 2011 to 26 July 2021	0.227
(C) Other employees in aggregate	14,800,000	–	–	–	–	14,800,000	27 July 2011	27 July 2011	27 July 2011 to 26 July 2021	0.227
Total	20,000,000	–	–	–	–	20,000,000				

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

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

PURCHASE, SALE OR REDEMPTION OF LISTING SECURITIES OF THE COMPANY

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

Save as disclosed above, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2012.

CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

Pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rules, changes in directors' biographical details since the date of the 2011 Annual Report of the Company are set out below:

Mr. Lui Siu Keung (呂小強) ("Mr. Lui"), independent non-executive director of the Company

Zhongyu Gas Holdings Limited ("Zhongyu Gas") (previous stock code: 8070), the company in which Mr. Lui assumes the position of Chief Financial Officer and executive director, has transferred its listing from the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to the Main Board of the Stock Exchange under the new stock code "3633" on 11 July 2012. With effect from the same date, Mr. Lui has also been designated as Joint Managing Director of Zhongyu Gas whilst continues to be the Chief Financial Officer and executive director of Zhongyu Gas.

Other than those disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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 or at any time during the period.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) as set out in Appendix 14 of the Listing Rules during the period, except as stated below. In respect of code provision A6.7 of the Corporate Governance Code, Professor Zeng Qingfu and Professor Zhao Bei, both being independent non-executive directors of the Company, were unable to attend the annual general meeting and the extraordinary general meeting held on 1 June 2012 due to other commitments.

DIRECTORS' COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the period and they all confirmed having fully complied with the required standard set out in the Model Code.

AUDIT COMMITTEE REVIEW

The Group's audit committee comprises three members, namely Professor Zeng Qingfu, Professor Zhao Bei and Mr. Lui Siu Keung, who are independent non-executive Directors of the Company. The Chairman of the Audit Committee is Mr. Lui Siu Keung. The primary duties of the Audit Committee are, among others, to review the financial reporting system and internal control procedures of the Group, to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, to approve the remuneration and terms of engagement of the external auditor, to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, and to review the financial information and accounting policies of the Group. This unaudited interim results including the accounting principles and practices adopted by the Group have been reviewed and approved by the Audit Committee.

On behalf of the Board
Sze Siu Hung
Chairman

Hong Kong, 30 August 2012

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

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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

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