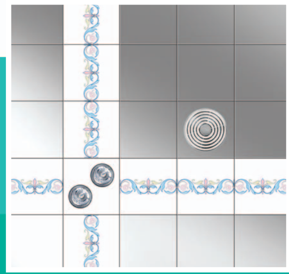
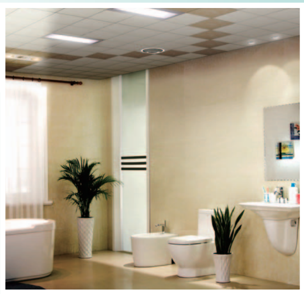
AUPU

AUPU GROUP HOLDING COMPANY LIMITED

(incorporated in the Cayman Islands as an exempted company with limited liability)
(Stock Code: 477)





Environmentalist

Humanity

Technology

2007 ANNUAL REPORT

CONTENT

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Fang James（方杰）
Fang Shengkang（方勝康）
Sun Lijun（孫立軍）(appointed on 7 January 2008)

Non-executive Directors

Lu Songkang（盧頌康）
Chai Junqi（柴俊麒）
Shi Minglei（石明磊）(appointed on 7 January 2008)

Independent non-executive Directors

Wu Tak Lung（吳德龍）
Shen Jianlin（沈建林）
Cheng Houbo（程厚博）

MEMBERS OF THE AUDIT COMMITTEE

Wu Tak Lung *(Chairman)*
Cheng Houbo
Shen Jianlin
Lu Songkang

MEMBERS OF THE REMUNERATION COMMITTEE

Fang Shengkang *(Chairman)*
Wu Tak Lung
Cheng Houbo
Shen Jianlin

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor
One Pacific Place
88 Queensway
Hong Kong

COMPANY SECRETARY

Leung Wah *(CPA, FCCA)*

QUALIFIED ACCOUNTANT

Leung Wah *(CPA, FCCA)*

AUTHORISED REPRESENTATIVES

Fang James
Fang Shengkang

STOCK CODE

0477

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 1418 Moganshan Road
Hangzhou City
Zhejiang Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

9/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

CORPORATE INFORMATION

PRINCIPAL BANKERS

China CITIC Bank
Hangzhou Tianshui Branch
345 Tiyuchang Road
Hangzhou City
Zhejiang Province
The PRC

China Everbright Bank
Hangzhou Branch
200 Qingchun Road
Hangzhou City
Zhejiang Province
The PRC

Agricultural Bank of China
Wensan Road Branch
121 Wensan Road
Hangzhou City
Zhejiang Province
The PRC

China Zheshang Bank Co., Ltd.
288 Qingchun Road
Hangzhou City
Zhejiang Province
The PRC

Industrial and Commercial Bank of China (Asia) Limited
34/F, ICBC Tower
3 Garden Road
Central
Hong Kong

Bank of Communications
Xiasha Hangzhou Branch
6, No. 6 Street,
Xiasha Economic & Technological Developmennt Zone
Hangzhou City
Zhejiang Province
The PRC

COMPLIANCE ADVISER
ICEA Capital Limited
26th Floor, ICBC Tower
3 Garden Road, Central
Hong Kong

COMPANY LAWYERS
As to Hong Kong Law
Huen Wong & Co.
in association with
Fried, Frank, Harris, Shriver
& Jacobson LLP
9th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong

As to Cayman Islands Law
Conyers Dill & Pearman
Cricket Square
Hutchins Drive, P. O. Box 2681
Grand Cayman KYI-1111
Cayman Islands

As to PRC Law
High Mark Law Firm
Room 703, North Building
Anno Domini Mansion
No. 8 Qiushi Road
Hangzhou City
Zhejiang Province
The PRC

WEBSITE
www.aupu.cn

CHAIRMAN'S STATEMENT

I hereby on behalf of the Board of Directors (the "Board" or "the "Directors") presented the report of AUPU Group Holding Company Limited and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2007.

Financial Review

The Group's results recorded significant growth for the last year. Turnover of the Group for the year ended 31 December 2007 was approximately RMB606,750,000, representing an increase of approximately 35.4% when compared with the corresponding period of the previous year. Profit attributable to equity holders was RMB103,554,000, representing an increase of approximately 23.8%.Basic earnings per share was approximately RMB0.15 which was about the same as the previous year.

The Board recommended to pay a final dividend of RMB0.06 per share for the year ended 31 December 2007, representing a payout ratio of approximately 40%.

Business Review

2007 was the first year since the Company has been listed. The Group was fully benefited from the funds raised, while we also experienced the pressure from our shareholders for earning. During the year, the Group fulfilled its commitment to the shareholders and achieved satisfactory progress in respect of market and distribution channel development, research and development, production and after-sale services.

As at 31 December 2007, the Group has 40 branches and distribution centers covering major cities and municipalities in the PRC. We established new shops for our strategic business the Bathroom Roof 1+N at a high speed to expand our share in the building materials market. To achieve such aim, we also actively sought business cooperation with property developers and decoration houses. We have so far established 574 sales points, of which 376 sell our products exclusively. Our sales surged 260% rendering us as the leader in the sector.

We have been emphasizing on product research and development as well as protecting our intelligent properties. We submit patent application to the China patent office before launching any product. The Group has 59 patents approved in 2007, of which 3 are invention patents, 13 are new product patents and 43 are appearance design patent. Our Olympic Series bathroom master received the appliances innovation prize of the year in 2007.

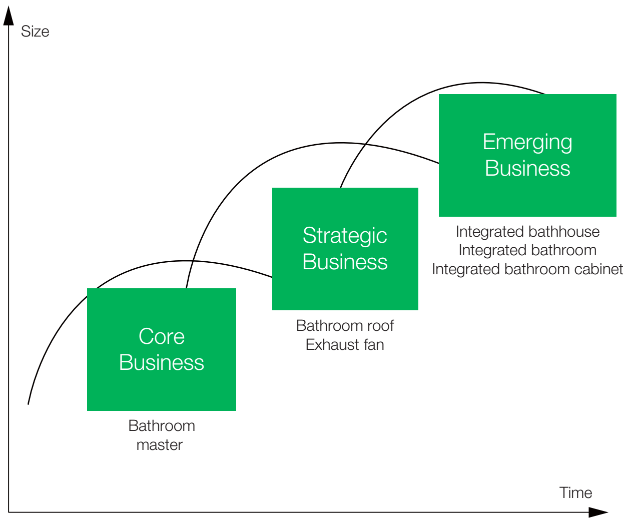
The Group manufactured approximately 2 million units in 2007 including products such as bathroom master, exhaust fan and bathroom roof. Our machinery and equipment utilization rate was 87.4% in 2007 which is 10% higher than 2006. In 2007, the passing rate of our product on first inspection and on random inspection was 98.9% and 100% respectively.

Along with our business development, especially in bathroom roof operation, AUPU has upgraded its services from only providing after-sale services to a comprehensive customer care free service, which includes measurement, design, installation and repair and maintenance. The Group has also completed the evaluation of solutions for CRM management system, laying the foundation for the implementation of chain stores management and standardized service management in 2008.

Prospects

The growth rate of China's economy will remain high with acceleration in urbanization, and a diversified residential property market in the cities will certainly be a powerful drive for the development of bathroom fixtures and services. As the disposable household income in China continues to increase, the demand for products providing more comfortable life style such as bathroom master and bathroom roof is likely to remain huge, especially for bathroom roofs. It is expected that the demand for bathroom roofs will experience a very high growth rate in the years to come. Since consumers' demand is shifting from just looking for single products towards demanding for products with unified style, optimised cost and convenience, a revolution in the sales channel and operation model for bathroom products and services is eminent.

Route of future growth for AUPU



In view of such trend, the Company has formulated a development model of taking service as the core of its operation with products as the foundation, and building our brand name while developing chain stores. AUPU will develop its strategic business portfolio gradually in three stages: firstly, we will strengthen our core business bathroom master; secondly, we will develop a preliminary integrated bathroom operation through the extension of bathroom component sets (bathroom roof is one example of such product), and such development will be conducted in trial at selected sales point first and then expanded on a regional basis; and finally, we will integrate all bathroom products and position ourselves as the leader in providing integrated bathroom product and services.

Appreciation

Finally, I would like to take this opportunity to thank the Group's shareholders and business partners for their support and encouragement for the Group during the past year. I would also like to thank our Directors and all staff for the hard work and contribution to the Group.

By order of the Board
Fang James
Chairman

Hong Kong, The PRC
1 April 2008

MANAGEMENT DISCUSSION AND ANALYSIS

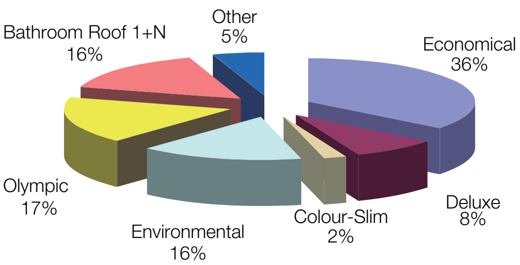
ANALYSIS OF OPERATING RESULT

	Quantity	Sales	% of Sales	Cost of Sales	Unit Price	Gross profit margin
	'000 set	RMB'000		RMB'000	RMB	%
Year 2007						
Economical Series	1,045	215,875	36	124,195	207	42.5
Deluxe Series	125	49,836	8	19,514	399	60.8
Olympic Series	156	106,051	17	35,086	680	66.9
Colour-Slim Series	38	14,889	2	6,360	392	57.3
Environmental Series	195	94,665	16	38,921	486	58.9
Sub-total of Bathroom Master	**1,559**	**481,316**	**79**	**224,076**	**309**	**53.5**
Bathroom Roof 1+N	N/A	94,949	16	55,144	N/A	41.9
Other	N/A	30,485	5	21,560	N/A	29.3
Total		**606,750**	**100**	**300,780**		**50.4**

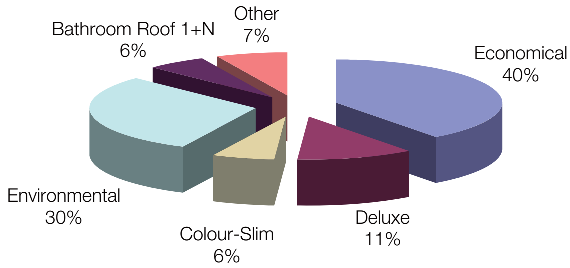
REVENUE

For the year ended 31 December 2007, the revenue of the Group amounted to approximately RMB606,750,000, representing an increase of approximately 35.4% as compared with the revenue which amounted to approximately RMB448,209,000 for the year ended 31 December 2006. The increase in revenue was mainly attributable to the increase in revenue of the Economical Series of ***AUPU*** Bathroom Master 3-in-1 and the strategic business of ***AUPU*** Bathroom Roof 1+N and the launch of Olympic Series. The revenue of ***AUPU*** Bathroom Master 3-in-1 increased from approximately RMB391,885,000 for the year ended 31 December 2006 to RMB481,316,000 for the year ended 31 December 2007, representing an increase of approximately RMB89,431,000 or approximately 22.8%. The revenue of ***AUPU*** Bathroom Master 3-in-1 accounted for approximately 87.4% and 79.3% of the Group's total revenue for the year ended 31 December 2006 and 2007 respectively.

Breakdown of 2007 Sales Revenue



Breakdown of 2006 Sales Revenue



In particular, the revenue of Economical Series increased from approximately RMB179 million for the year ended 31 December 2006 to approximately RMB216 million for the year ended 31 December 2007, representing an increase of approximately RMB37 million or approximately 21%. The revenue of Olympic Series which was launched in 2007 amounted to approximately RMB106 million. Due to changes in product mix, the revenue of Colour-slim Series decreased from approximately RMB28 million for the year ended 31 December 2006 to approximately RMB15 million for the year ended 31 December 2007 while the revenue of Environmental Series decreased from approximately RMB135 million to RMB95 million for the same period. The revenue of ***AUPU*** Bathroom Roof 1+N which was launched in April 2006 increased from approximately RMB24 million for the year ended 31 December 2006 to approximately RMB95 million for the year ended 31 December 2007.

COSTS OF SALES

For the year ended 31 December 2007, the costs of sales of the Group amounted to approximately RMB300,780,000, and the costs of parts and components, direct labour and overhead represented approximately 96.8% and 3.2% of the total costs of sales respectively. while for the year ended 31 December 2006, the total costs of sales amounted to approximately RMB216,519,000, and the costs of parts and components, direct labour and overhead represented approximately 96.4% and 3.6% of the total costs of sales respectively. The reason for the change was an increase in costs of parts and components.

GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit increased from approximately RMB231,690,000 for the year ended 31 December 2006 to approximately RMB305,970,000 for the year ended 31 December 2007, representing an approximately 32.1% increase. Overall gross profit margin decreased from approximately 51.7% for the year ended 31 December 2006 to approximately 50.4% for the year ended 31 December 2007 because of increase in sales of ***AUPU*** Bathroom Roof 1+N and Bathroom Master of Economical Series, and the profit margin slightly lowered.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER INCOME

Other income increased from approximately RMB8,241,000 for the year ended 31 December 2006 to approximately RMB14,951,000 for the year ended 31 December 2007 due to the significant increase in interest income of bank deposits.

SELLING AND DISTRIBUTION EXPENSES

The selling and distribution expenses amounted to approximately RMB141,705,000 for the year ended 31 December 2007. It mainly comprised advertising expenses of approximately RMB33,630,000, sales promotion expenses of approximately RMB29,529,000, salaries expenses of sales and marketing staff of approximately RMB34,248,000, after-sales services expenses of approximately RMB6,110,000 and transportation expenses of approximately RMB13,575,000. The selling and distribution expenses amounted to approximately RMB99,789,000 for the year ended 31 December 2006. It mainly comprised advertising expenses of approximately RMB28,679,000, sales promotion expenses of approximately RMB13,629,000, salaries expenses of sales and marketing staff of approximately RMB23,991,000, after-sales services expenses of approximately RMB5,191,000 and transportation expenses of approximately RMB10,663,000. The increase in selling and distribution expenses for the year ended 31 December 2007 compared with the year ended 31 December 2006 was mainly due to significant increase in salaries expenses of sales and marketing staff and increase in sales promotion expenses.

Executive Director/President/
Chairman of the Remuneration Committee

ADMINISTRATIVE EXPENSES

The administrative expenses amounted to approximately RMB48,557,000 for the year ended 31 December 2007. It mainly comprised salaries expenses of general and administrative staff of approximately RMB23,087,000, depreciation of approximately RMB2,735,000, professional fees of approximately RMB8,615,000, office expenses of approximately RMB4,877,000 and option premium of approximately RMB4,930,000. The administrative expenses amounted to approximately RMB39,065,000 for the year ended 31 December 2006. It mainly comprised salaries expenses of general and administrative staff of approximately RMB12,359,000, depreciation of approximately RMB2,514,000, professional fees of approximately RMB14,532,000 and office expenses of approximately RMB4,110,000. The increase in administrative expenses for the year ended 31 December 2007 compared with the year ended 31 December 2006 was mainly due to significant increase in salaries expenses of general and administrative staff and the increase of option premium.

OTHER EXPENSES

Other expenses increased from approximately RMB3,473,000 for the year ended 31 December 2006 to approximately RMB10,894,000 for the year ended 31 December 2007 due to increase in cost of non-operating expenses. The increase was mainly attributable to the increase in foreign exchange losses, cost of components, contribution made and disposal of fixed assets.

PROFIT BEFORE TAX

Based on the above factors, the Group's profit before tax increased from approximately RMB97,604,000 for the year ended 31 December 2006 to approximately RMB119,765,000 for the year ended 31 December 2007, representing an increase of approximately 22.7%.

INCOME TAX EXPENSES

Leveraging on the well-known brand name, technology know-how and the well-established distribution network of ***AUPU***, AUPU Technology was able to generate a remarkable profit immediately following the commencement of its commercial production in 2006.

AUPU Technology is a foreign investment enterprise of a manufacturing nature established in national economic and technology development zone in the PRC. In accordance with the tax legislations, AUPU Technology is entitled to a preferential enterprise income tax rate of 16.5 per cent, inclusive of 1.5 per cent for local enterprise income tax. AUPU Technology has obtained approval from the relevant tax authority for an exemption from PRC enterprise income tax for two years starting from its first profit making year of operations, followed by a 50 per cent tax relief for the following three years. As the directors of the Company (the "Directors") consider that 2006 will be the first PRC enterprise income tax exemption year for AUPU Technology and therefore no provision for taxation has been made in respect of the estimated assessable profit of AUPU Technology for the years ended 31 December 2006 and 2007, the income tax expenses of the Group increased from approximately RMB13,954,000 for the year ended 31 December 2006 to approximately RMB16,211,000 for the year ended 31 December 2007 and the effective tax rate decreased from approximately 14.3% for the year ended 31 December 2006 to approximately 13.5% for the year ended 31 December 2007.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company increased from approximately RMB83,650,000 for the year ended 31 December 2006 to approximately RMB103,554,000 for the year ended 31 December 2007. The net profit margin (stated in its percentage of revenue) slightly decreased from approximately 18.7% for the year ended 31 December 2006 to approximately 17.1% for the year ended 31 December 2007.

ANALYSIS OF FINANCIAL POSITION

Inventory turnover

The following table sets out the summary of the Group's inventory turnover days during the two years ended 31 December 2006 and 2007:

	Year ended 31 December 2007	Year ended 31 December 2006
Inventory turnover days *(Note)*	**51**	59

Note:

The inventory turnover period is arrived at by dividing average inventories by cost of sales and then multiplying by 365 for the two years ended 31 December 2007. Average inventories is arrived at by dividing the sum of the inventories at the beginning of year and that at the end of the year by 2. Inventory primarily comprised parts and components and finished goods. For the year ended 31 December 2006, inventory turnover period was 59 days. For the year ended 31 December 2007, inventory turnover period decreased to 51 days due to the increase in sales of Bathroom Roof 1+N leading to the decrease of percentage of consignment sales in total sales.

According to the historical information, raw materials and finished goods with aging over one year but below two years has around 50% chance to be eventually consumed and sold respectively while raw materials and finished goods with aging over two years has low chance to be eventually consumed and sold respectively. In order to account for the risk of slow moving and obsolete inventories in the accounts, the Group provides general provision for inventories at the year end of each financial year end as follows:

– No provision is made for inventories (excluding those specific provision having been made for slow moving and obsolete inventories) with aging below one year

– Provision calculated at 50% of outstanding balance is made for inventories (excluding those specific provision having been made for slow moving and obsolete inventories) with aging over one year but below two years

– Full provision is made for inventories (excluding those specific provision having been made for slow moving and obsolete inventories) with aging over two years

Any over and under provision using the above formula is adjusted in the income statement.

TURNOVER DAYS OF TRADE RECEIVABLES

The following table set out the summary of the Group's turnover days of trade receivables during the two years ended 31 December 2006 and 2007:

	Year ended 31 December 2007	Year ended 31 December 2006
Turnover days of trade receivables *(Note)*	**27**	32

Note:

The turnover days of trade receivables is arrived at by dividing average trade receivables by revenue and then multiplying by 365 for the two years ended 31 December 2007. Average trade receivables is arrived at by dividing the sum of the trade receivables at the beginning of year and that at the end of the year by 2.

The turnover days of trade receivables decreased from 32 days for the year ended 31 December 2006 to 27 days for the year ended 31 December 2007 due to the increase in the sales of Bathroom Roof 1+N that most distributors must pay before delivery.

According to the historical information, trade debtor with aging over one year but below two years has around 50% chance to become bad debt while trade debtor with aging over two years has low chance to recover. In order to account for the risk of bad debt in the accounts, the Group provides general provision for trade debtors at the year end of each financial year end as follows:

- No provision is made for trade debtors (excluding those specific bad debt provision having been made) with aging below one year
- Provision calculated at 50% of outstanding balance is made for trade debtors (excluding those specific bad debt provision having been made) with aging over one year but below two years
- Full provision is made for trade debtors (excluding those specific bad debt provision having been made) with aging over two years

Any over and under provision using the above formula is adjusted in the income statement.

AGING ANALYSIS OF TRADE RECEIVABLES

The aging analysis of trade receivables of the Group during the two years ended 31 December 2006 and 2007 is as follows:

	Year ended 31 December 2007 RMB'000	Year ended 31 December 2006 RMB'000
Trade receivables analysed by age:		
Within 90 days	**69,340**	49,053
91 – 180 days	**1,928**	2,903
181 – 365 days	**72**	572
Over 365 days	**253**	73
Total receivables	**71,593**	52,601

Most of the authorised agents of the Group are required to place deposits or pay upon delivery of the Group's products. The balances of trade receivables are mainly related to retail chain stores which are usually granted credit terms ranging from 0 to 90 days, depending on several factors such as the length of relationship, financial strength and settlement history of each customer.

OTHER RECEIVABLES

The following table sets out the breakdown of other receivables of the Group during the two years ended 31 December 2006 and 2007:

	Year ended 31 December 2007 RMB'000	Year ended 31 December 2006 RMB'000
Interest receivable	**2,634**	–
Prepayments	**2,586**	132
Utilities and rental deposits	**610**	825
Staff advances	**310**	745
Others	**1,743**	1,310
Amounts due from ICEA Capital Limited in respect of listing expenses	**–**	3,955
Total other receivables	**7,883**	6,967

The balance of other receivables as at 31 December 2007 when comparing with 31 December 2006 increased.

TURNOVER DAYS OF TRADE PAYABLES

The following table sets out the summary of the Group's turnover days of trade payables during the two years ended 31 December 2006 and 2007:

	Year ended 31 December 2007	Year ended 31 December 2006
Turnover days of trade payables *(Note)*	**45**	41

Note:

The turnover days of trade payables is arrived at by dividing average trade payables by cost of sales and then multiplying by 365 for the two years ended 31 December 2007. Average trade payables is arrived at by dividing the sum of the trade payables at the beginning of year and that at the end of the year by 2. The turnover days of trade payables slightly increased from 41 days in 2006 to 45 days in 2007.

AGING ANALYSIS OF TRADE PAYABLES

The aging analysis of trade payables of the Group for the two years ended 31 December 2006 and 2007 is as follows:

	Year ended 31 December 2007 RMB'000	Year ended 31 December 2006 RMB'000
Trade payables analysed by age:		
Within 90 days	**45,879**	25,012
91 – 180 days	**823**	890
181 – 365 days	**410**	995
Over 365 days	**426**	276
Total trade payables	**47,538**	27,173

Trades payables are mainly related to purchases from suppliers. Invoices would generally be received from suppliers upon delivery of goods and the credit period taken for trade purchases is 0 to 90 days. Trade payables are generally settled by cheques, bank drafts and bank transfers. The Group continuously supervises the level of trade payable balances.

OTHER FINANCIAL LIABILITIES

Retention sum due to suppliers

To ensure the products quality of suppliers, the Group retains a deposit representing 7% to 12% of the annual purchases by the Group from the respective suppliers. The retention sum due to suppliers will be released to respective suppliers 30 days after receipt of the goods and completion of satisfactory quality check by the Group.

Advance from customers

The advances from customers mainly represents sales made to authorised agents and distributors who are required to pay in advance before the delivery of goods. As the Group has some new customers of ***AUPU*** Bathroom Roof 1+N in 2007 which are not required by the Group to pay in advance before the delivery of goods, the balance of advances from customers as at 31 December 2007 decreased comparing with 31 December 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER ACCRUALS

The following table sets out the breakdown of other accruals of the Group as at 31 December 2006 and 2007:

	Year ended 31 December 2007 RMB'000	Year ended 31 December 2006 RMB'000
Deposits received	**–**	679
Unpaid land premium cost	**1,832**	1,832
Payroll payables/Prepayments	**3,660**	536
Union and additional education fees	**1,055**	995
Advertising accruals	**4,714**	2,631
Welfare accruals	**5,127**	1,985
Accrued charges	**5,759**	2,469
Total	**22,147**	11,127

CURRENT RATIO, QUICK RATIO AND GEARING RATIO

The current ratio and gearing ratio of the Group for the two years ended 31 December 2006 and 2007 was as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Current ratio	**3.23**	4.88
Quick ratio	**2.94**	4.39
Gearing ratio	**Nil**	Nil

Note:

Current ratio is arrived at by dividing the current assets by current liabilities at the end of the corresponding year. Quick ratio is calculated as total current assets excluding inventories divided by total current liabilities at end of the year. Gearing ratio is arrived at by dividing the total external financing debt by total assets at the end of the corresponding year. The numbers in the above table are expressed in the form of ratio and not as a percentage.

With a lower base of current liabilities of the Group, the increase in purchase during the year caused an increase in current liabilities that resulted a current ratio slightly lower than the previous year. The quick ratio was lowered from 4.39 to 2.94 for the same reason.

The Group had a zero gearing ratio as at 31 December 2006 and 31 Decrease 2007 as the Group did not have external bank loans as at 31 December 2006 and 31 December 2007.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's principal sources of liquidity and capital resources have been, and are expected to continue to be internally generated cash flow. The Group's principal uses of cash have been, and are expected to continue to be, operational costs and the expansion of production and the Group's sales network.

CASH FLOW

The table below summarises the Group's cash flow during the two years ended 31 December 2006 and 31 December 2007:

	Year ended 31 December 2007 RMB'000	Year ended 31 December 2006 RMB'000
Net cash from operating activities	**128,998**	60,607
Net cash used in investing activities	**(13,910)**	(13,656)
Net cash (used in) from financing activities	**(56,848)**	184,601

The Group's working capital mainly comes from net cash from operating activities and financing activities. The Directors expect that the Group will rely on net cash from operating activities and the net proceeds from the share offer to meet its working capital and other capital expenditure requirements in the near future. In the long run, the Group will be funded by net cash from operating activities and if necessary, by additional equity financing or bank borrowings.

OPERATING ACTIVITIES

Cash inflow from operations is mainly derived from cash receipt from sales of the Group's products. Cash outflow from operations is principally generated for the purchase of parts and components, staff costs, selling and distribution expenses and administrative expenses. Net cash from operating activities was approximately RMB60,607,000 and RMB128,998,000 for the year ended 31 December 2006 and 31 December 2007 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

INVESTING ACTIVITIES

Cash inflow from investing activities was mainly derived from interest received. Cash outflow from investing activities was mainly applied to the purchase of property, plant and equipment. Net cash used in investing activities was approximately RMB13,910,000 for the year ended 31 December 2007 which was primarily attributable to purchases of property, plant and equipment. Net cash used in investing activities were approximately RMB13,656,000 for the year ended 31 December 2006 which was also primarily attributable to purchases of property, plant and equipment.

FINANCING ACTIVITIES

Cash outflow from financing activities was mainly attributable to the payment of dividends to shareholders in 2007 while there is no cash inflow from financing activity in 2007.

INDEBTEDNESS

Borrowings

As at the close of business on 31 December 2007, the Group did not have any outstanding borrowings.

Bank facilities

As at the close of business on 31 December 2007, the Group did not have any banking facilities.

Debt securities

As at the close of business on 31 December 2007, the Group did not have any debt securities.

Contingent liabilities

As at the close of business on 31 December 2007, the Group did not have any material contingent liabilities or guarantees.

Capital commitments and other commitments

As at 31 December 2007, the future aggregate minimum lease payments under non-cancellable operating lease in respect of rental properties amounted to approximately RMB4,240,000 and the Group had capital commitment amounted to approximately RMB59,597,000.

FINANCIAL RISKS

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash and trade and other payables. The risks associated with these financial instruments and 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.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial assets and financial liabilities are disclosed in note 3 of significant accounting policies.

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 cash and cash equivalents and equity attributable to equity holders of the Company, comprising issues share capital, reserves and retained profits.

The Group does not have any long and short-term borrowings, obligations under finance leases and convertible loan notes as at year end.

The directors of the Company review the capital structure on a regular basis. As part of the review, the directors consider the cost of capital and the risk associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issue.

Categories of financial instruments

	2007 **RMB'000**	2006 RMB'000
Financial assets		
Loan and receivables	**431,629**	353,535
Financial liabilities		
Liabilities measured at amortised costs	**84,062**	46,179

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign currency risk

A subsidiary of the Company has foreign currency bank balances and sales, which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets at the reporting date are as follows:

	2007 RMB'000	2006 RMB'000
Hong Kong Dollars (HKD)	**81,448**	**69,530**
United States Dollars (USD)	**1,361**	**1,521**

The Group currently does not use any derivative contracts to hedge against its exposure to currency risk. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate, and will consider hedging significant foreign currency exposure should the need arises.

Sensitivity analysis

The sensitivity analysis details the Group's sensitivity to a 5% increase and decrease in RMB against HKD and USD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at year end for a 5% change in foreign currency rates. If RMB had strengthen/weakened 5% against HKD and USD, the Group's profit for the year ended 31 December 2007 would have been increased/decreased by RMB4,140,000 (2006: RMB3,553,000).

Interest rate risk management

The Group's cash flow interest rate risk relates primarily to floating-rate interest bearing pledged bank deposit and bank balances recognised in the balance sheet. The Group currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The fair value interest rate risk on pledged bank deposits is insignificant as the deposit is short-term.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments, comprising floating-rate bank balances at the balance sheet date. For floating-rate bank balances, the analysis is prepared assuming the balances outstanding at the balance sheet date were outstanding for the whole year. A 50 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.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would increase/decrease by RMB1,796,000 (2006: increase/decrease by RMB1,505,000). This is mainly attributable to the Group's exposure to interest rates on its floating-rate bank balances.

Credit risk management

The Group's principal financial assets are trade receivables and bank balances, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. In order to minimize the credit risk, the management of the Group has delegated a team to be responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability, specific allowance is only made for trade receivable that is unlikely to be collected. In this regards, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk in respect of trade receivables, with exposure spread over a large number of customers all across diverse geographical areas.

The credit risk on bank balances is limited because majority of the counterparties are banks with high credit ratings assigned by international credit-rating agencies or have good reputation.

Liquidity risk management

The Group manages liquidity risk by maintaining adequate level of cash and cash equivalents by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities.

	Less than 6 months *RMB'000*	**6 months to 1 year** *RMB'000*	**Total** *RMB'000*
Financial liabilities			
Non-interest bearing			
31 December 2006	44,908	1,271	46,179
31 December 2007	83,226	836	84,062

MANAGEMENT DISCUSSION AND ANALYSIS

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

HUMAN RESOURCES

The Group employed approximately 1,513 people on 31 December 2007 (about 1,016 people on 31 December 2006). The total personnel cost of the Group was RMB51 million for the year ended 31 December 2007 (2006: RMB43 million). Employees' remuneration packages are based on individual experience and work profile. The packages are reviewed annually by the management who takes into account the overall performance of the working staff and market conditions. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit scheme in the PRC.

On 16 November 2006, a share option scheme was approved by a resolution of the sole shareholder and the Board of Directors of the Company. The purpose of the share option scheme is to encourage the existing eligible employees for making further contributions to the future performance of the Group. Options entitling holders to subscribe for a total of 11,450,000 share have been granted under the share option scheme as at the end of 2007.

FUTURE PROSPECTS

The Directors consider that the demand for bathroom masters in the PRC will still continue to grow in the future. The increase in disposable income of consumers in the PRC has also contributed towards the demand for a more comfortable lifestyle and higher-end products. In addition, due to the fast development in towns and villages in the PRC, the traditional view is changed in that it was no longer a luxury item which could only be used for heating purposes at cold weather.

Apart from bathroom masters, the Directors are of the view that consumers are also looking for other quality household products including exhaust fans and other home appliances. Accordingly, the Group intends to leverage on the strength of its brand, ***AUPU***, to design, manufacture and distribute other quality bathroom, kitchen and home electrical appliances that will capture the emerging needs of consumers in the PRC. In addition, the Directors consider that with its leading position and well-recognised brand name in the PRC, the Group will be able to continue to developing overseas markets for its products.

Maintenance of brand name management

The Directors consider that brand name management is crucial to the success of the Group. Since the establishment of ***AUPU*** Electrical, the Group has successfully built a reputation for its ***AUPU*** Bathroom Master 3-in-1 as high quality, safe and reliable products. The Group attaches very great importance to marketing and promotion of the ***AUPU*** brand and corporate image of the Group, which provides the Group with an important competitive advantage and has helped the Group in building a leading market position in the bathroom master industry in the PRC.

The Group intends to develop its brand recognition across the PRC to (i) expand its position in markets in other regions of the PRC where the Directors foresee growth potential, including secondary cities and rural areas in the PRC, and (ii) promote the sale of ***AUPU*** Bathroom Roof 1+N which was launched in 2006. The Group will continue to leverage on its strength in providing high quality products and efficient customer services, and will continue to promote the ***AUPU*** brand, its corporate image and products through television advertisements and participation in trade fairs.

Establishment of a new production plant

The Directors are optimistic about the business prospects of the Group as the living standard of the people in the PRC is improving. The Group endeavours to increase its production capacity to meet the anticipated increase in demand for its products in the PRC market. The Group has commenced to set up a new production plant in Hangzhou Economic and Technological Development Area with a gross floor area of approximately 96,000 sq.m. for the production of ***AUPU*** Bathroom Roof 1+N, ***AUPU*** Bathroom Master 3-in-1 and other new products of the Group. The new production plant will include production workshop, showroom, research centre for development of other home electrical appliances, logistic centre and off ice building. The construction work of the new production plant is expected to be completed by the year-end of 2008 and the Group will move in the new production plant not later than the first quarter of 2009. The new production plant will eventually become the head off ice of the Group and the Directors believe that such expansion plan would enhance the Group's competitiveness in the PRC home electrical appliance industry.

Enhancement and expansion of the Group's sales and distribution network in the PRC

As at 31 December 2007, the Group had 10 branch offices and 39 sales and distribution centres in the PRC which cover major cities in approximately 22 provinces or autonomous regions and four centrally-administered cities. To further explore the PRC home electrical appliance market and to further increase the market share of the Group, the Group intends to enhance and further develop its sales and distribution network by (1) setting up its own stores; (2) establishing retail chain stores by franchise; and (3) increasing the number of points-of-sales, especially in secondary cities in the PRC.

The Directors consider that the living standard in the PRC is improving and, accordingly, the demand for bathroom accessories will also increase. As such, the Group is optimistic about the business prospects of chain stores of bathroom accessories in the PRC. Pursuant to Measures for the Administration of Foreign Investment in the PRC Commercial Sector and Administrative Measures on Commercial Franchising Operations, which were promulgated by the Ministry of Commerce of the PRC in April 2005 and December 2005 respectively, the Group obtained a new business licence recently, which allows ***AUPU*** Electrical to engage in the retail business, and the Group further intends to make an application for a licence to carry on franchise business in order to enable it to establish retail chain stores by franchise.

As at 31 December 2007, the Group has owned and operated two stores in Hangzhou, the PRC. The Group intends to set up a total of approximately 20 stores in the next five years to cover major cities in the PRC as part of its vertical expansion plan. Also, to reduce the Group's business risks and to speed up the establishment of the Group's chain stores, the Group will also establish retail chain stores by franchise. The Group intends to establish approximately 100 retail chain stores by franchise in the next five years to further cover other major cities in the PRC. As at 31 December 2007, the Group had not granted any franchise in relation to the sales of its products. The Directors' plan is that the chain stores owned or operated by franchise in the future will mainly focus on selling the Group's new products, such as ***AUPU*** Bathroom Roof 1+N (which provides customised services such as design and installation), whereas the distributors of the Group will be mainly responsible for the distribution of ***AUPU*** Bathroom Master 3-in-1. The Directors also intend to further establish approximately 500 new points-of-sales through its authorised agents and distributors in the next five years and to convert some of the existing points-of-sales into franchised stores of the Group.

Enhancement of product development capability

The Directors believe that strong product development capability is one of the key factors for success in the home electrical appliance industry and is important for maintaining the Group's position as the market leader in the PRC bathroom master industry and increasing its market share for other products distributed under its brand, ***AUPU***. In order to develop innovative home electrical appliances, the Group intends to strengthen its product development capability by setting up its own research and development centre and a rapid prototyping centre with computer-assisted technology and equipment to facilitate the designing and developing of new models of bathroom masters and exhaust fans. The Group also intends to recruit additional research and development professionals with relevant skills and expertise in years 2008 and 2009. The Group will also collaborate with or engage universities and professional organisations to develop new products or new technology which will be applied by the Group in product development. With its increased product development capability, the Group intends to further expand its products portfolio and enhance product quality and functionality.

Improvement and upgrade of information and management systems

In order to improve internal control of the Group, the Group has set up a new centralized information and management system (ERP system) at the beginning of year 2007, including production information, logistic information and information security.

EXECUTIVE DIRECTORS

Mr. Fang James (方杰), aged 44, is an executive Director and the chairman of the Company, AUPU Electrical and AUPU Technology. Mr. Fang directs the strategic growth and development of the Group, with responsibility for reviewing implementation of the Board's policies and decisions and representing the Group in communications with the media and external parties. Mr. Fang founded AUPU Electrical in 1993. Mr. Fang has been a Director of AUPU Electrical and AUPU Technology since 1993 and 2004 respectively. Mr. Fang holds a bachelor degree in History from Shanghai Normal University, the PRC and a Foreign Experts Certificate (外國專家證) (Foreign Experts Working in the Fields of Economics and Technology) issued by the State Administration of Foreign Experts Affairs, the PRC (國家外國專家局). He is also the president of the Hangzhou Overseas Chinese Chamber of Commerce (杭州市僑商協會). Mr. Fang was awarded a "Certificate of West Lake Friendship" (西湖友誼獎) by Zhejiang Provincial People's Government and "First Award for Outstanding Achievements of Overseas Chinese Professionals" (首屆華僑華人專業人士傑出創業獎) by Overseas Chinese Affairs Office of the State Council of the PRC (國務院僑務辦公室) in 2004 and 2005 respectively. Mr. Fang is a cousin of Mr. Fang Shengkang.

Mr. Fang is a director of SeeSi Universal Limited which has interests in the shares of the company which fall to be disclosed under the provision of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO").

Mr. Fang Shengkang (方勝康), aged 55, is an executive Director, chairman of the remuneration committee and the general manager of AUPU Electrical and AUPU Technology. Mr. Fang is responsible for overseeing the day-to-day operations of the Group and the implementation of the Board's policies and decisions, including execution of annual business plan and investment plan. Mr. Fang has been with the Group since its establishment in 1993 and has been a Director and general manager of AUPU Electrical and AUPU Technology since 1993 and 2004 respectively. In 2000, he received commendation from the Hangzhou City People's Government as a "Model Employee" and served as the Hangzhou Deputy to the 10th National People's Congress (杭州市第十屆人大代表). Mr. Fang is a cousin of Mr. Fang James. Mr. Fang is also a senior economist of the Zhejiang province.

Mr. Fang is a director of SeeSi Universal Limited which has interests in the shares of the company which fall to be disclosed under the provision of Divisions 2 and 3 of Part XV of the SFO.

Sun Lijun (孫立軍), aged 37, is the executive president (執行總裁) of Hangzhou Aupu Electrical Appliances Co., Ltd. ("AUPU Electrical"), a subsidiary of the Company, and is responsible for managing and co-ordinating the marketing activities of the Company and its subsidiaries (together, the "Group") and the management of the sales, after-sales, marketing, the branch offices and the sales and distribution centres of the Group. Mr. Sun joined AUPU Electrical in 1996 and was the manager of the Wuhan sales and distribution center from August 1996 to February 1998 and was the manager of the sales management department of AUPU Electrical from March 1998 to January 2001. He was the manager of the sales management department of AOPU Kitchen Appliances Co., Ltd. ("AOPU Kitchen") during the period from February 2001 to November 2003. Mr. Sun was promoted to be a manager of the Beijing Branch of AOPU Kitchen and promoted to be the deputy general manager of AUPU Electrical in June 2004. He has been the deputy general manager of Hangzhou Aupu Bathroom & Kitchen Technology Co., Ltd. ("AUPU Technology"), a subsidiary of the Company, from December 2005 to January 2007. Mr. Sun was appointed as the executive president of AUPU Electrical since January 2007. Mr. Sun graduated at the Zhejiang Economic School of Higher Learning in 1994 studying Investment and Economics. Mr. Sun was appointed as an executive director of the Company on 7 January 2008.

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Lu Songkang (盧頌康), aged 56, is a non-executive Director and is responsible for providing advice on financial matters of the Group. Mr. Lu is a member of the Remuneration Committee and the Audit Committee. He joined AUPU Electrical in August 1994 as an accountant of AUPU Electrical and was promoted to manager of the finance department and chief financial officer of AUPU Electrical in July 1999 and May 2001 respectively. Mr. Lu was a Director of AUPU Electrical from May 2000 to November 2004. Mr. Lu was responsible for overseeing and managing financial matters of AUPU Electrical until August 2004 when Mr. Lu resigned as the chief financial officer of AUPU Electrical. Mr. Lu became a consultant of AUPU Electrical in January 2005 and stayed in this position until July 2006 when he was appointed as a non-executive Director. Mr. Lu passed the Chinese Institute of Certified Public Accountants ("CICPA") National Uniform Examination of Certified Public Accountants in May 1995 and is a member of the CICPA.

Mr. Lu is a director of SeeSi Universal Limited which has interests in the shares of the company which fall to be disclosed under the provision of Divisions 2 and 3 of Part XV of the SFO.

Mr. Chai Junqi (柴俊麒), aged 57 is a non-executive Director and is responsible for providing advice on production and product development of the Group. Mr. Chai first joined the Group in 1994 and has been responsible for production and product development of the Group. He was an assistant general manager of AUPU Electrical in April 2000 and resigned in October 2000 based on personal grounds. Mr. Chai re-joined the Group in January 2003 and was a deputy general manager of AUPU Electrical from April 2003 to January 2006. Mr. Chai has been a Director of AUPU Electrical and AUPU Technology since November 2004 and September 2004 respectively. Mr. Chai holds a master degree in Technology from Zhejiang University, PRC.

Mr. Chai is a director of SeeSi Universal Limited which has interests in the shares of the company which fall to be disclosed under the provision of Divisions 2 and 3 of Part XV of the SFO.

Mr. Shi Minglei (石明磊), aged 32, has about 2 years experience in auditing and corporate consulting in China. Prior to joining the Company, Mr. Shi was with Ernst & Young, Shanghai during 1997 to December 1998 engaging in auditing activities. From March 1999 to July 1999, he was a senior consultant of Arthur Andersen (Shanghai) Business Consulting Co., Ltd. (安達信(上海)企業諮詢有限公司). From September 2000 to April 2004, he was the investment analyst and chief representative of Templeton China Research Ltd. (鄧普頓中國研究有限公司), Shanghai representative office. From May 2004 onward, Mr. Shi has been the executive director of Everest Capital Pte Ltd. (常豐資本有限公司), and a fellow company of which, the Everest Capital Limited, holds 60,254,000 shares of the Company, representing approximately 8.52% of the Company's issued capital. He is currently residing in Singapore. Mr. Shi received a master degree of accounting and finance from the London School of Economics in 2000. He is also a fellow member of the Association of Chartered Certified Accountants, a member of the Chinese Institute of Certified Public Accountants and a chartered financial analyst. Mr. Shi was appointed as an executive director of the Company on 7 January 2008.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wu Tak Lung (吳德龍), aged 42 is an independent non-executive Director. He is currently a Director of the investment banking department of Masterlink Securities (Hong Kong) Corporation Limited, a company licensed by SFC in Hong Kong. Mr. Wu is also an independent non-executive Director of China Water Industry Group Limited, Finet Group Limited, Neo-Neon Holdings Limited and iMerchants Limited, all of which are listed on the Stock Exchange and an independent Non-executive Director of Sinobest Technology Holdings Limited, a Singapore-listed company. Mr. Wu is a fellow member of the Association of Chartered Certified Accountants, Hong Kong Institute of Chartered Secretaries and the Taxation Institute of Hong Kong. He is also member of the Hong Kong Securities Institute and an associate member of the Hong Kong Institute of Certified Public Accountants. He was appointed as an independent non-executive Director on 16 November 2006.

Mr. Cheng Houbo (程厚博), aged 45, is an independent non-executive Director. He is currently a vice-president of Shenzhen Capital Group Co., Ltd. (深圳創新投資集團有限公司). Mr. Cheng is also a Director of Xi'an Jiefang Group Co., Ltd. (西安解放百貨股份有限公司), a listed company in the PRC. From February 2007, he became an independent Director of Hundsun Electronics CO., Ltd. He was also an independent Director of Leshan Electric Power Co., Ltd. (樂山電力股份有限公司) from June 2003 to August 2004 which is a company listed in the PRC. Mr. Cheng graduated from Zhejiang University with a bachelor degree in Optical Instrumentation and Engineering in 1982 and obtained a master degree in Engineering in 1989. Mr. Cheng has extensive experience in investment and corporate finance. Mr. Cheng is a committee member of Investment Information Committee of Investment Association of China (中國投資協會) and was ranked the first amongst the China Top 10 Venture Capital Investment Managers (中國十佳基金投資人第一名) in 2002. He was appointed as an independent non-executive Director on 16 November 2006.

Mr. Shen Jianlin (沈建林), aged 40, is an independent non-executive Director. He is also the responsible person of the Hangzhou branch of Shulun Pan Certified Public Accountants Co., Ltd. (上海立信長江會計師事務所有限公司杭州分所) and an independent director of two listed companies in the PRC, namely Zhejiang Int'l Group Co., Ltd. (浙江英特藥業集團股份有限公司) and Zhejiang China Light & Textile Industrial City Co., Ltd. (浙江中国輕纺城股份有限公司). Mr. Shen was an independent director of Jishan Holdings Limited (稽山控股有限公司), a company listed in Singapore, from March 2004 to May 2005. Mr. Shen graduated from the Institute of Hangzhou Electronic Industry (杭州電子工業學院) with a bachelor degree in Industrial Accounting. He has extensive experience in auditing and corporate finance. Mr. Shen is a member of the CICPA. He was appointed as an independent non-executive Director on 16 November 2006.

SENIOR MANAGEMENT

Leung Wah (梁華), aged 43, is the qualified accountant, company secretary and chief financial controller of the Company on a full-time basis. Mr. Leung joined the Group on 14 July 2006. He graduated with a degree of Bachelor of Science from the University of Hong Kong in 1987. Mr. Leung has experience in finance and accounting including working in international accounting firms. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

DIRECTORS AND SENIOR MANAGEMENT

Fan Yirun (范毅潤), aged 46, is the administrative general manager (行政管理總監) of AUPU Electrical and is responsible for administration, human resources, legal matters, Information Center and infrastructure work of the Group. Mr. Fan has extensive experience in office administration. Mr. Fan joined the Group in June 1999 as the manager of administration department and was the deputy general manager of AUPU Electrical from October 2005 to January 2007. Mr. Fan is qualified as an assistant statistician. Mr. Fan was also received commendation as a "Model Employee of Hangzhou" in 2007.

Li Ruishan (李瑞山), aged 38, is the R&D general manager (研發總監)of AUPU Electrical is responsible for the research and development and international business of the Group. Mr. Li has about 15 years' experience in management and has served as general manager of two other companies in the PRC. Mr. Li joined the Group in November 2005 as an assistant general manager of AUPU Electrical and was the deputy general manager of AUPU Electrical from January 2006 to January 2007. Mr. Li was a deputy general manager of AUPU Technology from January 2006 to January 2007. Mr. Li holds a bachelor degree in Industrial Electrical Automation from the Northeast China Institute of Heavy Machinery (東北重型機械學院).

Dai Changyin (**戴昌銀**), aged 43, is the finance general manager(財務總監) of AUPU Electrical and is responsible for overseeing the finance and audit of AUPU Electrical. Mr. Dai has experience in accounting and finance. Mr. Dai joined AUPU Electrical in January 2000 and was the deputy manager of the finance department of AUPU Electrical from September 2000 to May 2001. He was the manager of the finance department of AUPU Electrical from May 2001 to August 2004 and was the chief financial controller of AUPU Electrical from August 2004 to October 2005. Mr. Dai was a deputy general manager of the finance department of AUPU Electrical from October 2005 to January 2007. Mr. Dai completed the studies of Accountancy at the Zhejiang University of Finance and Economics in 2001 and has been registered with the Chinese Institute of Certified Public Accountants (CICPA) since June 2000.

Liu Naixin (柳耐辛), aged 53, the production center general manager of AUPU Electrical and is responsible for manufacturing, purchasing and quality control of the Group. Mr. Liu has extensive experience in the management of supply chain and manufacturing. He was the after-sale service department manager of AUPU Electrical from April 1995 to August 1998, and the purchasing department manager of AUPU Electrical from September 1998 to October 2000. From November 2000 to December 2006 was the production general manager of AUPU Electrical. Mr. Liu was promoted to the production center general manager of AUPU Electrical on 1 January 2007.

Fang Guoliang (方國樑), aged 49, the sales general manager of AUPU Electrical and is responsible for the sales, after-sale service and operation management of regional branches. Mr. Fang was the assistant to general manager of AUPU Electrical, Shanghai branch from August 2002 to December 2002; the sales general manager for the AUPU Electrical, Jiangsu branch from January 2003 to December 2004; the sales general manager for the eastern region of AUPU Electrical from January 2005 to December 2006; and the business general manager of AUPU Technology from January 2007 to December 2007. Mr. Fang obtained the professional certification of "Marketing director of the PRC (中國市場總監)" in 2003.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Leung Wah (梁華) is the qualified accountant, company secretary and chief financial controller of the Company. For details regarding Mr. Leung's experience please refer to the sub-section headed "Senior Management" above.

The Directors present the annual report for 2007 and the audited consolidated financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. The activities of its principal subsidiaries are set out in note 27 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 36. The Directors recommend the payment of a final dividend of RMB0.06 per share to the shareholders whose names appear on the Company's register of members on 9 May 2008.

TRADING RESULT

The Group's consolidated profit for the year amounted to approximately RMB103,554,000, which represents an increase of 23.8% over the consolidated profit of approximately RMB83,650,000 for the year 2006. The increase is principally attributable to the increase in our principal activities.

MAJOR CUSTOMERS AND SUPPLIERS

Details of the Group's transactions with its major suppliers and customers during the year are set out below:

In 2007, the Group's largest supplier accounted for 25.10% (2006: 20.0%) and the 5 largest suppliers combined accounted for 53.0% (2006: 46.0%) of the total purchase of the Group.

Aggregate sales attributable to the Group's five largest customers were less than 30% of the total turnover of the Group in both the years of 2006 and 2007.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

FIXED ASSETS

Details of movements of property, plant and equipment of the Group, during the year in the fixed assets are set out in note 12 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 19 to the consolidated financial statements.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company has a profit in the amount of RMB1,415,094 for the period ended 31 December 2007 and has an accumulated loss of RMB10,199,538 as at 31 December 2007 and no other reserves were available for distribution to shareholders as at 31 December 2007. In order to ensure that there will be sufficient distributable reserves for payment of the final dividends declared, the Company had requested its subsidiaries to make profit distribution before the month end of May 2008.

DIRECTORS' REPORT

DIRECTORS

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

Executive Directors

Mr. Fang James
Mr. Fang Shenkang
Mr. Sun Lijun (appointed on 7 January 2008)

Non-executive Directors

Mr. Lu Songkang
Mr. Chai Junqui
Mr. Shi Minglei (appointed on 7 January 2008)

Independent non-executive Directors

Mr. Wu Tak Lung
Mr. Cheng Houbo
Mr. Shen Jianlin

In accordance with the provisions of the Company's Articles of Association, Mr. Sun Lijun and Mr. Shi Minglei will have to retire and subject to re-election in the forthcoming annual general meeting of the Company, and Mr. Fang Shengkang will also retire by rotation and, all the three of them being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. A circular containing the biographical details of the director candidates and the notice of the annual general meeting will be sent to Shareholders of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company, and Mr. Fang James and Mr. Fang Shenkang are appointed for an initial term of three years commencing from 16 November 2006, while Mr. Sun Lijun is appointed for an initial term of three years commencing from 7 January 2008. Each of these service contracts may be terminated by either party thereto giving to the other not less than three months' prior notice in writing.

The non-executive Directors, Mr. Lu Songkang and Mr. Chai Junqui, are appointed for an initial term of three years commencing from 14 July 2006 and the non-executive Director, Mr. Shi Minglei, is appointed for an initial term of three years commencing from 7 January 2008.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than normal statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at 31 December 2007, the interests and short positions of the Directors and the chief executives in the shares, underlying shares and debentures of the Company or of any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

I. Interests in the Company and associated corporations

Name of director	Company/name of associated company	Capacity	Number of issued ordinary shares held (Note 1)	Approximate percentage of issued share capital of the Company/ associated company
Mr. Fang James (Note 2)	The Company	Interest in a controlled corporation (note 2)	476,000,000 (L)	66.99%
Mr. Fang James (Note 3)	SeeSi Universal Limited	Beneficial owner	33 shares of US$1.00 each (L)	46.48%
Mr. Fang Shenkang (Note 2)	The Company	Interest in a controlled corporation (note 2)	476,000,000 (L)	66.99%
Mr. Fang Shenkang (Note 3)	SeeSi Universal Limited	Beneficial owner	32 shares of US$1.00 each (L)	45.07%
Mr. Fang Shenkang (Note 4)	The Company	Beneficial owner	720,000,000	0.10%
Mr. Lu Songkang (Note 3)	SeeSi Universal Limited	Beneficial owner	5 shares of US$1.00 each (L)	7.04%
Mr. Chai Junqui (Note 3)	SeeSi Universal Limited	Beneficial owner	1 share of US$1.00 each (L)	1.41%

Notes:

1. The letter "L" represents the person's long position in such shares.

2. The entire issued share capital of SeeSi Universal Limited is owned as to 46.48%, 45.07%, 7.04% and 1.41% by Mr Fang James, Mr Fang Shengkang, Mr Lu Songkang and Mr Chai Junqi, respectively, who are also directors of the Company. As such, each of Mr Fang James and Mr Fang Shengkang is deemed to be interested in all the shares held by SeeSi Universal Limited in the Company.

3. SeeSi Universal Limited is the holding company of the Company and therefore is an associated corporation of the Company. As such, Mr Fang James, Mr Fang Shengkang, Mr Lu Songkang and Mr Chai Junqi, as directors of the Company, are required to disclose their interests in SeeSi Universal Limited.

4. Mr. Fang Shenkang purchased 720,000 shares of the Company in the open market at an average price of HK$1.35 per share on 22 October 2007.

II. Long position in underlying Shares of the Company

Name of director	Company/name of associated company	Capacity	Number of issued ordinary shares held (Note 1)	Approximate percentage of issued share capital of the Company/ Associated company
Mr. Wu Tak Lung	The Company	Beneficial owner	share options with rights to subscribe 150,000 shares at subscription price of HK$2.23 per share (L)	0.02%
Mr. Cheng Houbo	The Company	Beneficial owner	share options with rights to subscribe 75,000 shares at subscription price of HK$2.23 per share (L)	0.01%
Mr. Shen Jianlin	The Company	Beneficial owner	share options with rights to subscribe 75,000 shares at subscription price of HK$2.23 per share (L)	0.01%

Notes:

1. The letter "L" represents the person's long position in such shares.

Other than as disclosed above, none of the Director, chief executives had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2007.

SHARE OPTIONS SCHEME

The Company adopted a share option scheme on 16 November 2006 (the "Share Option Scheme"), a summary of the principal terms of which was set out below:–

(1) the purpose of the scheme:

The purposes of the Share Option Scheme are to attract and retain the best available personnel, to provide additional incentive to employees, directors, consultants and advisers of the Group and to promote the success of the business of the Group.

The Share Option Scheme provides that the Company may specify a minimum holding period and performance conditions which must be satisfied before options can be exercised by the option holders. In addition, the basis for the determination of the exercise price of the options has been set out in the Share Option Scheme. The Board considers that the aforesaid criteria and the terms of the Share Option Scheme will serve to encourage option holders to acquire proprietary interests in the Company.

(2) the participants of the scheme:

The Board may offer any employee (whether full-time or part-time), director, consultant or adviser of the Group (the "Eligible Person") options to subscribe for Shares at a price calculated in accordance with and subject to the terms of the Share Option Scheme.

(3) the total number of securities available for issue under the scheme together with the percentage of the issued share capital that it represents as at the date of the annual report:

The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company shall not exceed such number of Shares as shall represent 30% of the issued share capital of the Company from time to time. The total number of issued share in the capital of the Company was 710,600,000 shares as at the date of this Annual Report.

(4) the maximum entitlement of each participant under the scheme:–

(i) Any options granted to an Eligible Person who is a Director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company or any of their respective associates shall be approved by the independent non-executive Directors and in any event if the proposed grantee is an independent non-executive Director, the vote of such grantee shall not be counted for the purposes of approving such grant.

(ii) Any options granted to an Eligible Person who is a substantial Shareholder (as defined in the Listing Rules) or independent non-executive Director or their respective associates, which will result in the total number of Shares issued and to be issued upon exercise of all the options granted and to be granted (including options whether exercised, cancelled or still outstanding) to such person in the period of 12 months up to and including the date of such grant:

– representing in aggregate over 0.1% of the issued share capital of the Company; and

– having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5,000,000.00,

such further grant of options must be approved by the Shareholders in general meeting by poll convened and held in accordance with the Articles of Association of the Company and Rules 13.39(5), 13.40, 13.41 and 13.42 of the Listing Rules. All connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour at such general meeting. The aforementioned circular shall contain such information as required under rule 17.04 of the Listing Rules.

(5) the period within which the securities must be taken up under an option:–

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be notified by the Board to each option holder upon the grant of option, such period not to exceed 10 years from the Date of Grant of the relevant option (the "Exercise Period").

(6) the amount, if any, payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid:

The amount payable for the acceptance of an Option shall be the sum of HK$1.00 which shall be paid upon acceptance of the offer of such Option.

(7) the minimum period, if any, for which an option must be held before it can be exercised:–

the minimum period, if any, for which an option must be held before it can be exercised is subject to such other term as shall be determined by the Board soon such Options shall be offered to the Participants.

(8) the basis of determining the exercise price:–

the amount payable for each Share to be subscribed for under an option in the event of the option being exercised shall be determined by the Board and shall be not less than the greater of:

(i) the closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the date, which must be a Business Day, of the written notice from the Company granting the option (the "Date of Grant"); and

(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.

(9) the remaining life of the scheme:–

the Share Option Scheme has a scheme period not to exceed the period of 10 years for 16 November 2006.

As at 31 December 2006, no options have been granted under the Share Option Scheme.

On 16 March 2007, the Directors resolved to grant share options pursuant to the Share Option Scheme adopted by the Company on 16 November 2006. On the same day, the Company granted share options entitling the holders to subscribe for a total of 5,000,000 shares of the Company (representing approximately 0.7% of the total issued share capital of the Company as at the date of this Annual Report) to the three independent non-executive directors of the Company and certain senior management of the Group (collectively the "First Batch Grantees") as an incentive and reward to the First Batch Grantees for their contribution to the Group.

The share options were granted at an exercise price of HK$2.23 and the exercise period is such period not exceeding ten years from the date of the grant of the share options. The share options were granted to the First Batch Grantees on such terms that the First Batch Grantees may exercise the options on the first anniversary from the date of the grant and up to a cumulative maximum of 20%, 40%, 60%, 80% and 100% of the total options granted to him or her at the anniversary of the first, second, third, fourth and fifth year respectively from the date of the grant until the expiry of the exercise period.

On 8 June 2007, the directors resolved to grant share options entitling the holders to subscribe for a total of 6,450,000 shares of the Company (representing approximately 0.91% of the total issued share capital of the Company as at the date of this Annual Report) to middle and senior management of the Company (collectively referred as the "Second Batch of Grantees"). The share options were granted at an exercise price of HK$3.11 and the exercise period is such period not exceeding ten years from the date of the grant of the share options. The share options were granted to the Second Batch of Grantees on such terms that the Second Batch of Grantees may exercise the options on the first anniversary from the date of the grant and up to a cumulative maximum of 20%, 40%, 60%, 80% and 100% of the total options granted to him or her at the anniversary of the first, second, third, fourth and fifth year respectively from the date of the grant until the expiry of the exercise period.

As at 31 December 2007, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 11,450,000, representing 1.6% of the share of the Company in issue as at that date. The Company received a total consideration of HK$3 for the share option granted. Among the share options granted, Directors were granted options entitling them to subscribe for 300,000 Shares of the Company during the year. Details of the options granted to the Directors as at 31 December 2007 are set out in the section headed "Directors' and Chief Executives' interests and Short Positions".

During the twelve months period ended 31 December 2007, 11,450,000 share options were granted to eligible Directors and employees of the Group and details are as follows:

Name or category of participant	Exercise price (HK$)	Number of shares that may be subscribed under share options: Maximum granted from 1 January 2007 to 31 December 2007	Outstanding as at 31 December 2007	Percentage of total issued share capital	Vesting period	Notes
Directors						
Wu Tak Lung	2.23	150,000.00	150,000.00	0.02%	16/3/2008 – 15/3/2017	1,3,5,6
Shen Jianlin	2.23	75,000.00	75,000.00	0.01%	16/3/2008 – 15/3/2017	1,3,5,6
Cheng Houbo	2.23	75,000.00	75,000.00	0.01%	16/3/2008 – 15/3/2017	1,3,5,6
Other employees in aggregate	2.23	4,700,000.00	4,700,000.00	0.66%	16/3/2008 – 15/3/2017	1,3,5,6
	3.11	6,450,000.00	6,450,000.00	0.91%	8/6/2008 – 7/6/2017	2,4,5,6
Total		11,450,000.00	11,450,000.00	1.61%		

Notes:

1. On 16 March 2007, the directors resolved to grant share options pursuant to the Share Option Scheme adopted by the Company on 16 November 2006. On the same day, the Company granted share options entitling the holders to subscribe for a total of 5.0 million shares of the Company to the three independent non-executive directors of the Company and certain senior management of the Group (collectively referred as the "First Batch of Grantees") as an incentive and reward to the First Batch of Grantees for their contribution to the Group. The share options were granted at an exercise price of HK$2.23 and the exercise period is such period not exceeding ten years from the date of the grant of the share options. The closing price of the Company's shares was HK$2.23 on 15 March 2007. The share options were granted to the First Batch of Grantees on such terms that the First Batch of Grantees may exercise up to a cumulative maximum of 20%, 40%, 60%, 80% and 100% of the total options granted to him or her at the anniversary of the first, second, third, fourth and fifth year respectively from the date of the grant until the expiry of the exercise period.

2. On 8 June 2007, the directors resolved to grant share options pursuant to the Share Option Scheme adopted by the Company on 16 November 2006. On the same day, the Company granted share options entitling the holders to subscribe for a total of 6.45 million shares of the Company to certain senior and middle management of the Group (collectively referred as the "Second Batch of Grantees") as an incentive and reward to the Second Batch of Grantees for their contribution to the Group. The share options were granted at an exercise price of HK$3.11 and the exercise period is such period not exceeding ten years from the date of the grant of the share options. The closing price of the Company's shares was HK$3.02 on 7 June 2007. The share options were granted to the Second Batch of Grantees on such terms that the Second Batch of Grantees may exercise up to a cumulative maximum of 20%, 40%, 60%, 80% and 100% of the total options granted to him or her at the anniversary of the first, second, third, fourth and fifth year respectively from the date of the grant until the expiry of the exercise period.

3. Pursuant to the Share Option Scheme, these share options were granted on 16 March 2007 and are exercisable at HK$2.23 per Share from 16 March 2008 to 15 March 2017.

4. Pursuant to the Share Option Scheme, these share options were granted on 8 June 2007 and are exercisable at HK$3.11 per Share from 8 June 2008 to 7 June 2017.

5. These share options represent personal interest held by the relevant participants as beneficial owner.

6. Up to 31 December 2007, none of these share options were exercised, cancelled nor lapsed.

On 3 January 2008, the directors granted further share options entitling the holders to subscribe for a total of 8,100,000 shares of the Company (representing approximately 1.14% of the total issued share capital of the Company as at the date of this Annual Report) to the three independent non-executive directors and management of the Company (collectively the "Third Batch Grantees "). The share options were granted at an exercise price of HK$1.55 and the exercise period is such period not exceeding ten years from the date of the grant of the share options. The share options were granted to the Third Batch Grantees on such terms that the Third Batch Grantees may exercise the options on the first anniversary from the date of the grant and up to a cumulative maximum of 20%, 40%, 60%, 80% and 100% of the total options granted to him or her at the date of the grant, the anniversary of the first, second, third and fourth year respectively from the date of the grant until the expiry of the exercise period.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company, its controlling shareholder, fellow subsidiaries or subsidiaries was a party or 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.

MANAGEMENT CONTRACT

No management contracts in force during the year for the management and administration of the whole or any substantial part of the Group's business subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the interests or short positions of every person, other than a Director or chief executive of the Company in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

Name of shareholder	Capacity	Number of issued ordinary shares held Note	Approximate percentage of issued share capital of the Company
SeeSi Universal Limited (Note 1)	Beneficial owner	476,000,000 (L) (Note 2)	66.99%
Zhang Shuqing (Note 3)	Family interest	476,000,000 (L)	66.99%
Everest Capital Limited	Beneficial owner	60,524,000 (L)	8.52%

Notes:

(1) The entire issued share capital of SeeSi Universal Limited is owned as to 46.48%, 45.07%, 7.04% and 1.41% by Mr Fang James, Mr Fang Shengkang, Mr Lu Songkang and Mr Chai Junqi, respectively, who are also directors of the Company.

(2) The letter "L" represents the person's long position in such shares.

(3) Madam Zhang Shuqing is the spouse of Mr Fang Shengkang, a director of the Company, Madam Zhang Shuqing is therefore deemed to be interested in the interests of Mr Fang Shengkang.

All the interests stated above represent long positions. Save as disclosed above, as at 31 December 2007, none of the substantial shareholders, other than directors or chief executives, of the Company had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive Directors are independent.

CONNECTED TRANSACTIONS

The Group has not engaged in any connected transactions (as defined in the Listing Rules) during the year.

INTERESTS IN COMPETITORS

No Directors or chief executives of the Company holds any interest in entities which compete with the Group in any aspects of its business.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is formulated by the Remuneration Committee on the basis of their merit, qualifications and competence. The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in the Section headed "Share Option Scheme" in this report.

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") under rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All the employees of the Group in Hong Kong are required to join the MPF Scheme. Contributions are made based on a percentage of the employees' salaries and are charged to consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. No forfeited contribution is available to reduce the contribution payable in the future years as at 31 December 2007.

The Group's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in a state-managed retirement benefits scheme operated by the local government. The subsidiaries are required to contribute a specific percentage of their payroll costs to the retirement benefits schemes. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

During the year, the total amounts contributed by the Group to the schemes and cost charged to the consolidated income statement represents contribution payable to the schemes by the Group at rates specified in the rules of the schemes.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a prorata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within knowledge of its directors as at the latest practicable date prior to the issue of the annual report, the Company has maintained a sufficient public float throughout the period from 1 January 2007 to 31 December 2007.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 28 to the consolidated financial statements.

USE OF PROCEEDS FROM THE NEW SHARE ISSUE

As at 31 December 2007, the Group had utilised approximately of RMB68 million out of the proceeds from the new share issue for the construction of new production plants (including the acquisition of a piece of land for new production plant) in the amount of approximately RMB28 million, product research and development in the amount of approximately RMB8 million, advertising & promotion in the amount of approximately RMB28 and installation & implementation of the new ERP system in the amount of approximately RMB4 million. To the extent that the net proceeds from the Company's portion of new share issue are not immediately required for the purposes mentioned in the Company's Prospectus dated 27 November 2006, they were placed on short term interest-bearing deposits with licensed banks in Hong Kong or the PRC.

AUDITORS

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

By order of the Board of Directors

Fang James
Chairman

Hong Kong, the PRC
1 April 2008

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability. In accordance with the requirement of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Audit Committee has been established in compliance with the Code on Corporate Governance Practices set forth in Appendix 14 to the Listing Rules.

The Group has also appointed a qualified accountant to oversee the financial reporting procedures and internal controls of the Group so as to ensure compliance with the Listing Rules. In addition, the Group has engaged CCIF Corporate Consultancy Limited which has directly reported to the Board of Directors and the Audit Committee to perform an internal control review.

To further enhance the Group's corporate governance and its transparency, the Company has established the Remuneration Committee. The Group has also implemented a compliance manual which covers areas such as ongoing compliance obligations of the Company and the Directors, business operations of the Group, financial management systems, human resources management systems, internal control systems, quality assurance and property management systems.

THE BOARD

Board Functions

The Board is responsible for the promotion of the success of the Company by directing and guiding its affairs in an accountable and effective manner. Board members have a duty to act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. The types of decisions which are to be taken by the Board include:

1. Setting the Company's mission and values;
2. Formulating strategic directions of the Company;
3. Reviewing and guiding corporate strategy; setting performance objectives and monitoring implementation and corporate performance;
4. Monitoring and managing potential conflicts of interest of management and board members; and
5. Ensuring the integrity of the Company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of internal control are in place, in particular, systems for monitoring risk, financial control, and compliance with the law.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Group has complied with all the code provision set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules (the "CG Code") that has regulated the functions and responsibilities of shareholders, Directors, management and staff and has made arrangement for the convening of general meetings and its process, meetings of Board of Directors and meetings of the committees of the Board of Directors. It also provides for the remunerations of the Directors and Senior Management, internal controls, external auditors, financial reporting and financial management.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code requires that the roles of Chairman and Chief Executive Officer be separated and not performed by the same individual. During the year under review, Mr. Fang James, who takes a leading role in formulating the direction for the strategic growth and development of the Group, with responsibility for reviewing implementation of the Board's policies and decisions and representing the Group in communications with the media and external parties, was the Chairman of the Group while Mr. Fang Shengkang, who is responsible for overseeing the day-to-day operations of the Group and the implementation of the Board's policies and decisions, including execution of annual business plan and investment plan. The role of the chairman (Mr. Fang James) are separated from those of the President (Mr. Fang Shengkang) in order to reinforce their respective independence, accountability and responsibility, acted as the President of the Group whose role is similar to that of Chief Executive Officer.

NON-EXECUTIVE DIRECTORS

Each of the non-executive Directors is appointed for a fixed period of three years, of which the appointment of Mr. Lu Songkang and Mr. Chai Junqui commenced from 14 July 2006 with specific terms, and the appointment of Mr. Shi Minglei commenced from 7 January 2008 with specific terms. Each of the independent non-executive Directors is appointed for a fixed period of three years commencing from 16 November 2006 with specific terms.

BOARD COMPOSITION

The Company is committed to the view that the Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board which can effectively exercise independent judgement. The Company is also committed to the view that the independent non-executive Directors should be of sufficient calibre and number for their views to carry weight. The independent non-executive Directors, biographical details of whom are set out in the Section headed "Biographical Details of Directors and Senior Management" in this annual report, are free from any business or other relationship which could interfere in any material manner with the exercise of their independent judgement.

The Board supervises the management of the business and affairs of the Company. The Board's primary duty is to ensure the viability of the Company and to ensure that it is managed in the best interests of the shareholders as a whole while taking into account the interests of other stakeholders.

The Board has established specific committees with written terms of reference to assist it in the efficient implementation of its functions, namely, the Executive Committee, Audit Committee, and Remuneration Committee. Specific responsibilities have been delegated to the above committees.

The Board delegates specific tasks to the Group's management including the implementation of strategies and decisions approved by the Board and the preparation of accounts for approval by the Board before public reporting.

The chairman is responsible for developing strategic direction and development of the Group and the President (performing the role of chief executive officer), working with and supported by the non-executive Directors, is responsible for managing the Group's business affairs, including the implementation of strategies adopted by the Board and attending to the formulation and successful implementation of Group's policies and assuming full accountability to the Board for all Group's operations.

The independent non-executive Directors contribute to the Company with diversified industry expertise, advise the management on strategy development and ensure that the Board maintains high standards of financial and other mandatory reporting as well as provide adequate checks and balances to safeguard the interests of shareholders and the Company as a whole.

Each of independent non-executive Directors has given a written confirmation to the Company confirming that he has met the criteria set out in Rule 3.13 of the Listing Rules regarding the guidelines for the assessment of independence of directors.

Mr. James Fang is the cousin of Mr. Fang Shengkang. Save as disclosed above and in the "Biographical Details of Directors and Senior Management" Section of this report, none of the directors of the Company has any financial, business, family or other material/relevant relationships with one another.

THE ATTENDANCE OF MEETINGS OF BOARD OF DIRECTORS

Six meetings of Board of Directors were held on 16 March 2007, 18 April 2007, 8 June 2007, 12 September 2007, 3 January 2008 and 1 April 2008 during the period from 1 January 2007 to 1 April 2008. The attendance of each Director is as follows:

Names of Director	**Full Meeting of the Board of Directors**	**Remuneration Committee of the Board of Directors**	**Audit Committee of the Board of Directors**
	No. of on-site Attendance/ No. of Meetings	**No. of on-site Attendance/ No. of Meetings**	**No. of on-site Attendance/ No. of Meetings**
Fang James *(chairman and executive Director)*	6/6	N/A	N/A
Fang Shengkang *(president and executive Director)*	6/6	1/1	N/A
Lu Songkang *(non-executive Director)*	6/6	1/1	3/3
Chai Junqi *(non-executive Director)*	6/6	N/A	N/A
Wu Tak Lung *(independent non-executive Director)*	4/6	2/2	3/3
Cheng Houbo *(independent non-executive Director)*	3/6	1/2	2/3
Shen Jianlin *(independent non-executive Director)*	3/6	1/2	1/3
Sun Lijun (appointed as executive Director from 7 January 2008)	1/1	N/A	N/A
Shi Minglei *(appointed as non-executive Director from 7 January 2008)*	1/1	N/A	N/A

Note: For the Board meetings convened on 8 June 2007, 3 January 2008 and 1 April 2008, some of the Directors did not attend the meeting on-site, but the Company arranged teleconference for their communication with Directors attended on-site.

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

The Company has not established any Nomination Committee. It is the responsibility of the Board of Directors to identify suitable candidates to be appointed to the Board of Directors whenever there is any vacancy of Directors or when it is considered appropriate. Generally speaking, the chairman of the Board of Directors will recommend suitable candidates to the Board of Directors. The Board of Directors will then review the qualifications of the candidate and determine whether he/she is suitable to the Group based on his/her qualifications, experience and background. The Board of Directors will submit the proposal of appointing of suitable candidates to the shareholders for their approval at the general meeting of the Company.

AUDIT COMMITTEE

The Company established the Audit Committee on 16 November 2006 with written terms of reference in compliance with the Code on Corporate Governance Practices set forth in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee include the review and supervision of the financial reporting processes and internal control systems of the Group. Messrs Wu Tak Lung, Shen Jianlin and Cheng Houbo, all being independent non-executive Directors, and Mr. Lu Songkang, a non-executive Director, are members of the Audit Committee with Mr. Wu Tak Lung being the chairman. Two meetings of Audit Committee were held on 17 April 2007 and 12 September 2007. The major issues of the meetings were to review the internal control review report from CCIF Corporate Consultancy Limited and the interim and annual reports of the Group before forwarding the same to the Board of Directors for approval.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 16 November 2006 with written terms of reference. The primary duties of the Remuneration Committee include reviewing the terms of remuneration packages, determining the award of bonuses and considering the grant of options under the Share Option Scheme. Messrs. Wu Tak Lung, Shen Jianlin, Cheng Houbo, all being independent non-executive Directors, and Mr. Fang Shengkang (the original member was Mr. Lu Songkang who proposed retirement on 18 April 2007 and replacement by Mr. Fang Shengkang), an executive Director, are members of the Remuneration Committee with Mr. Fang Shengkang as the chairman. The Remuneration Committee held one meeting on 18 April 2007 during the reporting period and reviewed the remuneration of 2006 and planned the remuneration policy of 2007.

SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, and after having made specific enquiry with regard to securities transactions after listing by the Directors, all Directors have confirmed their compliance with the required standards set out in the Model Code regarding securities by the Directors.

Mr. Fang Shenkang purchased 720,000 shares of the Company in the open market at an average price of HK$1.35 per share on 22 October 2007, and Mr. Fang informed the Board before he purchased the shares in compliance with the model code.

INDEPENDENT AUDITOR'S REMUNERATION

The independent auditors of the Company, Deloitte Touche Tohmatsu, only received audit fees amounting to approximately HK$1,800,000 for the year under review.

FINANCIAL REPORTING

The Directors are responsible for the preparation of the financial statements which give a true and fair view of the state of affairs of the Company and its subsidiaries, in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Company Ordinance.

The statement by the independent auditors of the Company about their responsibilities for the financial statements is set out in the report of the independent auditors contained in this Annual Report.

INTERNAL CONTROL

During the year, the Board has engaged CCIF Corporate Consultancy Limited to perform internal audit functions and to assist Board in reviewing the effectiveness of the internal control system of the Group. The periodic review will cover all material controls, including financial, operational and compliance controls and risk management functions of the Group.

The internal audit division of the Group has been established under our subsidiary Hangzhou Aupu Electrical Appliances Co., Ltd. The main functions of the internal audit division are to audit the operating efficiencies of each of the operating units, to carry out audit upon resignation of any key management personnel and to review internal controls of business processes and project based auditing (such as auditing of trade receivables and issuance of commodities auditing report).

The Group intended to place the division under the audit committee of the Board as a permanent division of the audit committee to enhance its independence in internal auditing.

INVESTOR RELATIONSHIPS AND SHAREHOLDERS' COMMUNICATION

The Group maintains the investor relationships and shareholders' communication through the following methods:

To disclose information on a timely basis: The Company will use various channels like financial report, announcement and website of the Company to disclose relevant public information to the public and the shareholders.

To communicate with shareholders and investors: The Company maintains effective communications with shareholders and investors through annual general meeting, presentation conference of company results, company visit and visiting institutional investors.

Web-based reporting: The website of the Company will open an Investor Relationships Forum which would contain, among others, the following contents

a. relevant systems of the Company, such as manual of corporate governance practices, system of disclosure of price sensitive information and articles of association;

b. information on the annual general meeting of the Company;

c. the annual report and interim report of the Company;

d. the biographical details of the Directors and senior management of the Company;

e. the details of the shareholders of the Company holding 5% or more of its issued share capital.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AUPU GROUP HOLDING COMPANY LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Aupu Group Holding Company Limited (the "Company") and its subsidiaries (collectively referred as the "Group") set out on pages 44 to 77, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement 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 International Financial Reporting Standards 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, 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 the 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 affairs of the Group as at 31 December 2007, and of the Group's profit and cash flows for the year then ended in accordance with International 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

1 April 2008

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
Revenue	5	**606,750**	448,209
Cost of sales		**(300,780)**	(216,519)
Gross profit		**305,970**	231,690
Other income		**14,951**	8,241
Selling and distribution expenses		**(141,705)**	(99,789)
Administrative expenses		**(48,557)**	(39,065)
Other expenses		**(10,894)**	(3,473)
Profit before tax	7	**119,765**	97,604
Income tax expenses	8	**(16,211)**	(13,954)
Profit attributable to equity holders of the Company		**103,554**	83,650
Dividends paid	9	**56,848**	54,000
		RMB	RMB
Earnings per share – basic	10	**0.15**	0.16

CONSOLIDATED BALANCE SHEET

at 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	12	**67,118**	35,118
Prepaid lease payments	13	**15,363**	15,747
Deferred tax assets	14	**10,498**	4,448
		92,979	55,313
Current assets			
Prepaid lease payments	13	**498**	271
Inventories	15	**42,631**	40,731
Trade and other receivables	16	**79,476**	59,568
Pledged bank deposits	16	**862**	–
Bank balances and cash	16	**359,174**	300,934
		482,641	401,504
Current liabilities			
Trade and other payables	17	**120,369**	67,807
Income tax liabilities		**15,247**	5,822
Other tax liabilities	18	**13,800**	8,625
		149,416	82,254
Net current assets		**333,225**	319,250
Total assets less current liabilities		**426,204**	374,563
Capital and reserves			
Share capital	19	**72,023**	72,023
Reserves		**354,181**	302,540
Total equity		**426,204**	374,563

The consolidated financial statements on pages 44 to 77 were approved and authorised for issue by the board of directors on 1 April 2008 and are signed on its behalf by:

Fang James
Director

Fang Shengkang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2007

		Reserves						
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note 20)	Statutory reserves RMB'000 (Note 20)	Share options reserve RMB'000 (Note 20)	Retained earnings RMB'000	Sub-total RMB'000	Total RMB'000
At 1 January 2006	32,775	–	–	13,864	–	59,673	73,537	106,312
Profit attributable to equity holders of the Company and total recognised income	–	–	–	–	–	83,650	83,650	83,650
Dividends paid	–	–	–	–	–	(54,000)	(54,000)	(54,000)
Effect of the Group Reorganisation	(32,775)	–	32,775	–	–	–	32,775	–
Issued shares upon the Group Reorganisation	20,466	85,583	(106,049)	–	–	–	(20,466)	–
Capitalisation issue	31,345	(31,345)	–	–	–	–	(31,345)	–
Issue of new shares	20,212	228,401	–	–	–	–	228,401	248,613
Share issue expenses	–	(10,012)	–	–	–	–	(10,012)	(10,012)
At 31 December 2006	72,023	272,627	(73,274)	13,864	–	89,323	302,540	374,563
Profit attributable to equity holders of the Company and total recognised income	–	–	–	–	–	103,554	103,554	103,554
Transfer	–	–	–	14,563	–	(14,563)	–	–
Dividends paid	–	–	–	–	–	(56,848)	(56,848)	(56,848)
Recognition of equity-settled share-based payments	–	–	–	–	4,935	–	4,935	4,935
At 31 December 2007	**72,023**	**272,627**	**(73,274)**	**28,427**	**4,935**	**121,466**	**354,181**	**426,204**

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
Operating activities		
Profit before tax	119,765	97,604
Adjustments for:		
Allowance for inventories obsolescence	918	851
Depreciation of property, plant and equipment	5,513	4,619
Loss on disposal of property, plant and equipment	346	43
Release of prepaid lease payments	550	271
Interest income	(10,188)	(2,375)
Equity-settled share-based payments expenses	4,935	–
Operating cash flows before movements in working capital	121,839	101,013
Increase in inventories	(2,818)	(12,370)
Increase in trade and other receivables	(19,908)	(29,408)
Increase in trade and other payables	37,546	15,295
Increase in other tax liabilities	5,175	3,175
Cash generated from operations	141,834	77,705
Income taxes paid	(12,836)	(17,098)
Net cash from operating activities	128,998	60,607
Investing activities		
Interest received	10,188	2,375
Proceeds from disposal of property, plant and equipment	572	26
Purchases of property, plant and equipment	(23,415)	(6,374)
Prepaid lease payments made	(393)	(9,683)
Increase in pledged bank deposits	(862)	–
Net cash used in investing activities	(13,910)	(13,656)
Financing activities		
Proceeds from issue of new shares	–	248,613
Expenses incurred in connection with the issue of shares	–	(10,012)
Dividends paid	(56,848)	(54,000)
Net cash (used in) from financing activities	(56,848)	184,601
Net increase in cash and cash equivalents	58,240	231,552
Cash and cash equivalents at beginning of year	300,934	69,382
Cash and cash equivalents at end of year		
Bank balances and cash	359,174	300,934

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the years ended 31 December 2007

1. GENERAL

The Company was incorporated and registered in the Cayman Islands on 14 July 2006 as an exempted company with limited liability under The Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 8 December 2006. The Company's holding company is SeeSi Universal Limited ("SeeSi"), a company incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the introduction section to the annual report.

In preparation for the listing of the Company's shares on the Stock Exchange, the Company has undergone a group reorganisation (the "Group Reorganisation") on 1 September 2006 pursuant to which the Company became the holding company of the subsidiaries (collectively referred to as the "Group"). The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group for the year ended 31 December 2006 have been prepared using the principles of merger accounting as if the current group structure had been in existence throughout that year. Details of the Group Reorganisation are set out in the prospectus dated 27 November 2006 issued by the Company.

The Company is an investment holding company. The activities of its subsidiaries are disclosed in Note 27.

The consolidated financial statements are presented in Renminbi ("RMB"), the functional currency of the Company, which is also the currency in which the majority of the Group's transactions are denominated.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSS")

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new IFRSs") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB, which are effective for the Group's financial year beginning on 1 January 2007.

IAS 1 (Amendment)	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSS") – continued

The adoption of the new IFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under IAS 1 (Amendment) and IFRS 7 retrospectively. Certain information presented in prior year under the requirements of IAS 32 has been removed and the relevant comparative information based on the requirements of IAS 1 (Amendment) and IFRS 7 has been presented for the first time in current year.

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

IAS 1 (Revised)	Presentation of Financial Statements[1]
IAS 23 (Revised)	Borrowing Costs[1]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
IFRS 3 (Revised)	Business Combination[2]
IFRS 8	Operating Segments[1]
IFRIC 11	IFRS 2: Group and Treasury Share Transactions[3]
IFRIC 12	Service Concession Arrangements[4]
IFRIC 13	Customer Loyalty Programmes[5]
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the adoption of these standards or interpretations will have no material impact on the results and financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out below. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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

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

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

Business combinations under common control

The consolidated financial statements incorporate the financial statement items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Revenue recognition

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

Revenue from sales of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset excluding financial assets at fair value through profit or loss 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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Government grants

Government grants are recognised as income on a systematic and rational basis over the periods necessary to match them with the related costs. Unconditional grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as 'other income'.

Research and development expenditures

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 expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

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. 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.

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

Leasing

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

Rentals payable under operating leases are charged to profit or loss 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.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies

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

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.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

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 consolidated income statement 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 balance sheet date.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production of goods, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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.

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 consolidated income statement in the year in which the item is derecognised.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average basis.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments

Financial assets and financial liabilities are recognized on the balance sheet 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.

Loans and receivables

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

Effective interest method

The effective interest method is a method of calculating the amortized 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.

Income is recognized on an effective interest basis for debt instruments, of which interest income is included in net gains or losses.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been impacted.

The objective evidence of impairment could include:

(i) significant financial difficulty of the issuer or counterparty; or

(ii) default or delinquency in interest or principal payments; or

(iii) it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss where 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Impairment of financial assets – continued
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 recognized 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.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognised.

Financial liability and equity
Financial liabilities and equity instruments 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 generally classified into other financial liabilities.

Effective interest method
The effective interest method is a method of calculating the amortized 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 recognized on an effective interest basis, of which interest expense is included in net gains or losses.

Other financial liabilities
Other financial liabilities (including trade and other payables and amounts due to related parties) are subsequently measured at amortized cost, using the effective interest method.

Equity instruments
Equity instruments issued by the Group are recorded at the proceeds received, net of direct issued costs.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Derecognition

Financial assets are derecognized 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 and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

Equity-settled share-based payment transactions

Share options granted to employees

For grants of share options which are conditional upon satisfying specified vesting conditions, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

For share options which are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation

The Group carrying value of property, plant and equipment as at 31 December 2007 was RMB67,118,000. The Group depreciates the property, plant and equipment over their estimated useful lives, using the straight-line method commencing from the date the property, plant and equipment is available for use. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technology changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Allowance for doubtful receivables

Allowance for trade receivable is made based on the evaluation of collectability and ageing analysis of accounts and on directors' judgment by reference to the estimation of the future cash flow discounted at an effective interest rate to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

5. REVENUE

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts received and receivable for goods sold to outside customers during the year, less returns and discount, if any, and net of value-added tax.

6. SEGMENT INFORMATION

The Group's principal activities are manufacturing and distribution of bathroom masters, exhaust fans and electrical appliances used in bathroom and kitchen. The Group is currently organised into one operating division which is bathroom masters, exhaust fans and electrical appliances used in bathroom and kitchen. This division is the basis on which the Group reports its primary segment information internally. The production facilities of such division are located in the Peoples' Republic of China (the "PRC") while the products are mainly sold to the markets in the PRC.

In addition, more than 90% of the Group's assets and liabilities are located in the PRC and more than 90% of the sales were made in the PRC during the year.

Accordingly, no segment information is presented.

7. PROFIT BEFORE TAX

Profit before tax has been arrived at:

	2007 RMB'000	2006 RMB'000
After charging:		
Staff cost, including directors' remuneration (note 11)		
– salaries, wages and other benefits	**42,100**	38,243
– retirement benefit scheme contributions (note 24)	**3,985**	4,555
– equity-settled share-based payments	**4,935**	–
Total staff cost	**51,020**	42,798
Research and development expenditure	**2,142**	1,957
Depreciation of property, plant and equipment	**5,513**	4,619
Release of prepaid lease payments	**550**	271
Loss on disposal of property, plant and equipment	**346**	43
Auditors' remuneration	**1,969**	1,256
Allowance for inventories obsolescence	**918**	851
Net foreign exchange loss	**6,036**	634
Listing expenses	**–**	11,863
Cost of inventories recognised as an expense	**300,780**	216,519
After crediting:		
Interest income	**10,188**	2,375
Government grants (note)	**2,682**	4,314

Note: Government grants are unconditional which are received from the local government to recognise the eminence of certain design, research and development of new products of the Group which contributes positively to the local industry environment.

8. INCOME TAX EXPENSES

	2007 **RMB'000**	2006 RMB'000
The charge (credit) comprises:		
Current tax	**22,261**	15,204
Deferred tax (note 14)		
– current year	**(6,601)**	(1,250)
– attributable to a change in tax rate	**551**	–
	16,211	13,954

PRC enterprise income tax is calculated at the prevailing tax rate on the taxable income of the group entities in the PRC.

No provision for income tax has been made for the Company and group entities established in the British Virgin Islands (the "BVI") and Hong Kong as they have no assessable income during the year.

AUPU Electrical is a foreign investment enterprise of a manufacturing nature established in coastal economic open zone in the PRC. In accordance with the tax legislations in the PRC applicable to foreign investment enterprises involved in manufacturing, AUPU Electrical was entitled to a preferential enterprise income tax rate of 26.4%, inclusive of 2.4% for local enterprise income tax, and the preferential income tax rate has been applied up to 31 December 2006. During the year ended 31 December 2007, AUPU Electrical no longer meets the manufacturing criteria, and the applicable enterprise income tax rate is 33% for the current year.

AUPU Technology is a foreign investment enterprise of a manufacturing nature established in the national economic and technology development zone in the PRC. In accordance with the tax legislations, AUPU Technology is entitled to a preferential enterprise income tax rate of 16.5%, inclusive of 1.5% for local enterprise income tax. AUPU Technology has obtained approval from the relevant tax authority for an exemption from PRC enterprise income tax for two years starting from its first profit making year of operations, followed by a 50% tax relief for the following three years. 2006 was the first tax exemption year for AUPU Technology. Therefore, no provision for taxation has been made on the estimated assessable profit of AUPU Technology for the years ended 31 December 2007 and 2006.

On 16 March 2007, the National People's Congress approved and promulgated a new PRC Enterprise Income Tax Law (the "New Law"), which took effect beginning 1 January 2008. Under the New Law, foreign investment enterprises and domestic companies are subject to a uniform tax rate of 25%. The New Law provides a five-year transition period from its effective date for those enterprises which were established before the promulgation date of the New Law and which were entitled to a preferential lower tax rate under the then effective tax laws or regulations. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the applicable tax rate for AUPU Technology from the existing preferential enterprise income tax rate to 9%, 10%, 11%, 24% and 25% for the years ending from 2008 to 2012, respectively, while the applicable income tax rate of AUPU Electrical will be 25% from 2008 onwards.

8. INCOME TAX EXPENSES – continued

The income tax charge for both years can be reconciled to the profit before tax per the consolidated income statements as follows:

	2007		2006	
	RMB'000	%	RMB'000	%
Profit before tax	**119,765**		97,604	
Tax at the domestic rates applicable to profit in the jurisdiction concerned	**39,552**	**33.00**	25,767	26.40
Tax effect of expenses that are not deductible in determining taxable profit	**7,795**	**6.51**	3,317	3.40
Tax exemption of a subsidiary	**(31,657)**	**(26.43)**	(15,130)	(15.50)
Effect on deferred tax balances due to the change in income tax rate	**551**	**0.46**	–	–
Tax expense and effective tax rate for the year	**16,211**	**13.54**	13,954	14.30

9. DIVIDENDS

The dividend of a subsidiary of RMB54,000,000 was paid in 2006 to its owner prior to the completion of the Group Reorganisation.

On 29 June 2007, a dividend of RMB0.04 (2006: Nil) per share was paid to shareholders whose name appeared on the register of members of the Company on 25 May 2007, amounting to RMB29,278,000 as the final dividend for 2006.

On 12 September 2007, a special interim dividend of RMB0.04 (2006: Nil) per share was paid to the shareholders whose name appears on the register of members of the Company on 27 September 2007, amounting to RMB27,570,000.

Subsequent to the balance sheet date, the final dividend of RMB0.06 (2006: RMB0.04) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming Annual General Meeting.

10. EARNINGS PER SHARE

Basic earnings per share

The calculation of the basic earnings per share attributable to the equity holders of the Company is based on the following data:

	2007 **RMB'000**	2006 RMB'000
Earnings for the purpose of basic earnings per share (profit attributable to equity holders of the Company)	**103,554**	83,650

	Number of ordinary shares **2007**	2006
Weighted average number of ordinary shares for the purpose of basic earnings per share	**710,600,000**	523,190,000

Diluted earnings per share

Diluted earnings per share has not been presented for both 2006 and 2007 because no share options were granted in 2006 and the exercise price of the Company's options was higher than the average market price for shares during the period when they were outstanding.

11. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The emoluments of directors are analysed as follows:

Year ended 31 December 2007

	Basic salaries, bonus and allowances RMB'000	Retirement benefit contributions RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
Executive directors:				
Fang James	2,150	–	–	2,150
Fang Shengkang	2,150	13	–	2,163
	4,300	13	–	4,313
Non-executive directors:				
Chai Junqi	80	–	–	80
Lu Songkang	80	13	–	93
	160	13	–	173
Independent non-executive directors:				
Cheng Houbo	38	–	32	70
Shen Jianlin	38	–	32	70
Wu Tak Lung	94	–	65	159
	170	–	129	299
	4,630	26	129	4,785

11. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS – continued

The emoluments of directors are analysed as follows:– continued

Year ended 31 December 2006

	Basic salaries and allowances RMB'000	Retirement benefit contributions RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
Executive directors:				
Fang James	144	–	–	144
Fang Shengkang	144	12	–	156
	288	12	–	300
Non-executive directors:				
Chai Junqi	137	–	–	137
Lu Songkang	137	12	–	149
	274	12	–	286
Independent non-executive directors:				
Cheng Houbo	3	–	–	3
Shen Jianlin	3	–	–	3
Wu Tak Lung	13	–	–	13
	19	–	–	19
	581	24	–	605

The emoluments of the five highest paid individuals were as follows:

	2007 RMB'000	2006 RMB'000
Basic salaries and allowances	**1,727**	774
Directors' bonus (note)	**3,600**	–
Retirement benefit contributions	**63**	48
Equity-settled share-based payments	**862**	–
	6,252	822
Included in above are number of:		
– Directors	**2**	3
– Employees	**3**	2
	5	5

Note: The bonus is determined by the Board of Directors based on the financial performance of the Group.

The emoluments of each of the five highest paid individuals, other than the directors of the Company, for the year were less than RMB1,000,000.

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. None of the directors has waived any emoluments during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the years ended 31 December 2007

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Fixtures and equipment RMB'000	Properties under construction RMB'000	Total RMB'000
COST						
At 1 January 2006	25,319	3,823	10,390	9,663	117	49,312
Additions	625	741	1,919	3,083	6	6,374
Disposals	–	–	–	(182)	–	(182)
At 31 December 2006	25,944	4,564	12,309	12,564	123	55,504
ACCUMULATED DEPRECIATION						
At 1 January 2006	4,222	1,557	5,035	5,066	–	15,880
Charge for the year	1,642	218	1,645	1,114	–	4,619
Eliminated on disposals	–	–	–	(113)	–	(113)
At 31 December 2006	5,864	1,775	6,680	6,067	–	20,386
CARRYING AMOUNT						
At 31 December 2006	20,080	2,789	5,629	6,497	123	35,118
COST						
At 1 January 2007	**25,944**	**4,564**	**12,309**	**12,564**	**123**	**55,504**
Additions	**–**	**1,068**	**300**	**3,930**	**33,133**	**38,431**
Disposals	**–**	**(714)**	**(1,345)**	**(2,565)**	**–**	**(4,624)**
At 31 December 2007	**25,944**	**4,918**	**11,264**	**13,929**	**33,256**	**89,311**
ACCUMULATED DEPRECIATION						
At 1 January 2007	**5,864**	**1,775**	**6,680**	**6,067**	**–**	**20,386**
Charge for the year	**1,935**	**316**	**1,277**	**1,985**	**–**	**5,513**
Eliminated on disposals	**–**	**(493)**	**(1,215)**	**(1,998)**	**–**	**(3,706)**
At 31 December 2007	**7,799**	**1,598**	**6,742**	**6,054**	**–**	**22,193**
CARRYING AMOUNT						
At 31 December 2007	**18,145**	**3,320**	**4,522**	**7,875**	**33,256**	**67,118**

12. PROPERTY, PLANT AND EQUIPMENT – continued

The depreciation is charged using straight-line method on the following bases:

Buildings	20 years
Machinery	10 years
Motor vehicles	5 years
Fixtures and equipment	5 years

13. PREPAID LEASE PAYMENTS

	2007 **RMB'000**	2006 RMB'000
Including:		
Non-current portion	**15,363**	15,747
Current portion	**498**	271
	15,861	16,018

The amount represents the prepaid rentals for three land use rights situated in the PRC for a period ranging from 20 to 50 years.

14. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised by the Group, and the movements thereon, during the year.

	Unrealised profit on inventory **RMB'000**	**Other deductible temporary differences** **RMB'000**	**Total** **RMB'000**
At 1 January 2006	2,789	409	3,198
Credit to profit for the year (note 8)	133	1,117	1,250
At 31 December 2006	2,922	1,526	4,448
Credit to profit for the year (note 8)	3,890	2,711	6,601
Effect of change in tax rate (note 8)	(356)	(195)	(551)
At 31 December 2007	**6,456**	**4,042**	**10,498**

14. DEFERRED TAX ASSETS – continued

Unrealised profit on inventory mainly represents unrealised profit on inter-branches/companies sales while other deductible temporary differences refer to temporary difference on certain accrued charges in accordance with their respective enacted tax rates.

There were no significant recognised/unrecognised deferred tax liabilities during the year or at each of the respective balance sheet dates.

15. INVENTORIES

	2007 RMB'000	2006 RMB'000
Raw materials	3,637	7,947
Finished goods	38,994	32,784
	42,631	40,731

16. OTHER FINANCIAL ASSETS

Trade and other receivables

	2007 RMB'000	2006 RMB'000
Trade receivables analysed by age:		
Within 90 days	69,340	49,053
91 – 180 days	1,928	2,903
181 – 365 days	72	572
Over 365 days	253	73
Total trade receivables	71,593	52,601
Other receivables, deposits and prepayments	7,883	6,967
	79,476	59,568

The average credit period granted on sales of goods ranges from 0 to 90 days. No interest is charged on the overdue trade receivables. The Group provides allowance for doubtful debts on a case-by-case basis, if any. In determining the recoverability of a trade receivable, the Group considers any changes in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

Included in the Group's trade receivable balance are debtors with a carrying amount of RMB2,253,000 (2006: RMB3,548,000) which are past due for which the Group has not provided impairment loss, as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience. The Group does not hold any collateral over these balances.

16. OTHER FINANCIAL ASSETS – continued

For the remaining trade receivables which are neither past due nor impaired, the management considers that no bad and doubtful debts were necessary based on the historical experience and good credit rating of those debts. No allowance has been made for each of the years ended 31 December 2007 and 2006, nor outstanding as at 31 December 2007 and 2006.

Pledged bank deposits

Pledged bank deposit amounting to RMB862,000 represents deposit pledged to bank for the acquisition of property, plant and equipment which carry interest rate at 0.72% (2006: Nil).

Bank balances and cash

Bank balances and cash comprise cash and short-term deposits with an original maturity of three months or less which are held with financial institutions and carry interest ranges from 0.72% to 3.06%. The carrying amount of these assets approximates to their fair value.

Bank balances amounting to RMB81,448,000 and RMB568,000 (2006: RMB69,530,000 and RMB778,000) was denominated in foreign currency Hong Kong Dollars and United States Dollars, respectively (see note 25).

Certain bank balances and cash of RMB277,158,000 (2006: RMB230,626,000) was denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

17. OTHER FINANCIAL LIABILITIES

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 90 days.

	2007	2006
	RMB'000	RMB'000
Trade payable analysed by age:		
Within 90 days	**45,879**	25,012
91 – 180 days	**823**	890
181 – 365 days	**410**	995
Over 365 days	**426**	276
Total trade payables	**47,538**	27,173
Retention sum due to suppliers	**13,915**	12,592
Advances from customers	**9,995**	12,538
Payable for the acquisition of property, plant and equipment	**15,016**	–
Sales commission accruals	**11,758**	4,377
Other accruals	**22,147**	11,127
	120,369	67,807

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

18. OTHER TAX LIABILITIES

	2007 RMB'000	2006 RMB'000
Value added tax	**13,706**	8,555
Others	**94**	70
	13,800	8,625

19. SHARE CAPITAL

	Number of shares	Amounts HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 31 December 2007 and 2006	5,000,000,000	500,000

	Number of shares	Amounts RMB'000
Issued and fully paid:		
Issued share at nil paid on the date of incorporation (note a)	1	–
Issued shares upon the Group Reorganisation (note b)	199,999,999	20,466
Issued shares on capitalisation of share premium account (note c)	310,000,000	31,345
Issued shares by public offering (note d)	200,600,000	20,212
At 31 December 2007 and 2006	710,600,000	72,023

Notes:

(a) The Company was incorporated on 14 July 2006 with an authorised capital of HK$500,000,000 dividend into 5,000,000,000 shares of HK$0.1 each. On the date of incorporation, 1 share was issued at nil paid.

(b) On 1 September 2006, the Company issued 199,999,999 shares pursuant to the Group Reorganisation.

(c) On 16 November 2006, 310,000,000 shares were allotted and issued as fully paid to the holders of shares whose name appear on the register of members of the Company at that date, by the capitalisation of share premium account of the Company.

(d) On 8 December 2006, the Company issued 200,600,000 shares upon listing of the shares on the Stock Exchange at the price of HK$1.23 per share.

20. RESERVES

Special reserve

The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the amount of the paid-in capital of the subsidiaries acquired pursuant to the Group Reorganisation.

Statutory reserves

Pursuant to relevant laws and regulations in the PRC and the Articles of Association of AUPU Electrical and AUPU Technology, both are required to make appropriation from profit after taxation as reported in the PRC statutory financial statements to reserve fund at rates not less than 10% until the reserve fund balance reaches 50% of its registered capital.

No contributions to the reserve fund were made by AUPU Electrical because it had reached the maximum level of 50% of its registered capital.

AUPU Technology has adopted the rate at 10% for the contributions to the reserve fund based on the PRC net profit for the year ended 31 December 2007 and 2006.

The reserve fund may also be used to increase capital or to meet unexpected or future losses.

Share options reserve

The share options reserve of the Group represents the recognition of the fair value of share options of the Company determined at the date of grant of the share options over the vesting period.

21. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme"), was approved and adopted pursuant to a resolution passed on 16 November 2006 and will expire on 15 November 2016. The Scheme has been granted to recognise the contributions of directors and employees of the Company and its subsidiaries to the growth of the Group and to incentivise them going forward.

At 31 December 2007, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 11,450,000, representing approximately 1.6% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the issued share capital of the Company at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options may be granted and may be granted to any individual in any one year is not permitted to exceed 0.1% of the issued share capital of the Company at any point in time, or having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HKD5 million, without prior approval from the Company's shareholders.

The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

21. SHARE-BASED PAYMENT TRANSACTIONS – continued

Details of the options are as follows:

Date of grant	Number of shares	Exercise period	Exercise price	Fair value at grant date
16/3/2007	5,000,000	16/3/2008 to 15/3/2017	HK$2.23	HK$1.14 to HK$1.61
8/6/2007	6,450,000	8/6/2008 to 7/6/2017	HK$3.11	HK$1.41 to HK$2.01

Share options granted are exercisable until the tenth anniversary from the date of grant. The vesting period of the options is as follows:

20%	1st anniversary of the date of grant
20%	2nd anniversary of the date of grant
20%	3rd anniversary of the date of grant
20%	4th anniversary of the date of grant
20%	5th anniversary of the date of grant

The fair value of the share options granted during the financial year is RMB7,017,059 and RMB11,243,835, respectively. Options were priced using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioral considerations.

Inputs into the model are as follows:

	8 June 2007	16 March 2007
Grant date share price	HK$2.95	HK$2.10
Exercise price	HK$3.11	HK$2.23
Expected volatility	82.63%	104.33%
Contractual option life	10 years	10 years
Dividend yield	1.6%	2.2%
Risk-free interest rate	4.88%	4.18%

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

No share options granted under the Scheme were exercised during the year.

The Group recognised an expense of RMB4,935,000 for the year ended 31 December 2007 in relation to the share options granted.

22. OPERATING LEASE COMMITMENTS

	2007 **RMB'000**	2006 RMB'000
Minimum lease payments under operating leases recognised in the income statement for the year	**4,898**	3,089

At the balance sheet date, the Group had outstanding commitments under operating leases, which fall due as follows:

	2007 **RMB'000**	2006 RMB'000
Within one year	**3,254**	2,141
In the second to fifth year inclusive	**986**	1,137
More than five years	**–**	12
	4,240	3,290

Operating lease payments represent rentals payable by the Group for certain branch offices and warehouses. Leases are negotiated for lease term ranging from 1 to 5 years at inception.

23. CAPITAL COMMITMENT

	2007 **RMB'000**	2006 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statement in respect of acquisition of property, plant and equipment	**59,597**	–

24. RETIREMENT BENEFIT PLAN

	2007 RMB'000	2006 RMB'000
Retirement benefit contribution	**3,985**	4,555

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

The Group also participates in a Mandatory Provident Fund Scheme (the MPF Scheme) established under the Mandatory Provident Fund Ordinance in 2007 for the Group's Hong Kong employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

Employees who were members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employee.

As at 31 December 2006 and 31 December 2007, contributions of approximately RMB6,000 and RMB12,000, respectively, due in respect of the corresponding reporting year had not been paid over to the schemes.

25. FINANCIAL INSTRUMENTS

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and 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.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial assets and financial liabilities are disclosed in note 3.

25. FINANCIAL INSTRUMENTS – continued

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 cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves including retained profits.

The Group does not have any long and short-term borrowings, obligations under finance leases and convertible loan notes as at year end.

The directors of the Company review the capital structure on a regular basis. As part of the review, the directors consider the cost of capital and the risk associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issue.

Categories of financial instruments

	2007	2006
	RMB'000	RMB'000
Financial assets		
Loan and receivables	**431,629**	353,535
Financial liabilities		
Liabilities measured at amortised costs	**84,062**	46,179

Foreign currency risk

A subsidiary of the Company has foreign currency bank balances and sales, which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets at the reporting date are as follows:

	2007	2006
	RMB'000	RMB'000
Hong Kong Dollars (HKD)	**81,448**	69,530
United States Dollars (USD)	**1,361**	1,521

The Group currently does not use any derivative contracts to hedge against its exposure to currency risk. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate, and will consider hedging significant foreign currency exposure should the need arises.

25. FINANCIAL INSTRUMENTS – continued

Foreign currency risk – continued

Sensitivity analysis

The sensitivity analysis details the Group's sensitivity to a 5% increase and decrease in RMB against HKD and USD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at year end for a 5% change in foreign currency rates. If RMB had strengthen/weakened 5% against HKD and USD, the Group's profit for the year ended 31 December 2007 would have been increased/decreased by RMB4,140,000 (2006: RMB3,553,000).

Interest rate risk management

The Group's cash flow interest rate risk relates primarily to floating-rate interest bearing pledged bank deposit and bank balances recognised in the balance sheet. The Group currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The fair value interest rate risk on pledged bank deposits is insignificant as the deposit is short-term.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments, comprising floating-rate bank balances at the balance sheet date. For floating-rate bank balances, the analysis is prepared assuming the balances outstanding at the balance sheet date were outstanding for the whole year. A 50 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.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would increase/decrease by RMB1,796,000 (2006: increase/decrease by RMB1,505,000). This is mainly attributable to the Group's exposure to interest rates on its floating-rate bank balances.

25. FINANCIAL INSTRUMENTS – continued

Credit risk management

The Group's principal financial assets are trade receivables and bank balances, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. In order to minimize the credit risk, the management of the Group has delegated a team to be responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability, specific allowance is only made for trade receivable that is unlikely to be collected. In this regards, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk in respect of trade receivables, with exposure spread over a large number of customers all across diverse geographical areas.

The credit risk on bank balances is limited because majority of the counterparties are banks with high credit ratings assigned by international credit-rating agencies or have good reputation.

Liquidity risk management

The Group manages liquidity risk by maintaining adequate level of cash and cash equivalents by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities.

	Less than 6 months RMB'000	6 months to 1 year RMB'000	Total RMB'000
Financial liabilities			
Non-interest bearing			
31 December 2006	44,908	1,271	46,179
31 December 2007	83,226	836	84,062

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

26. RELATED PARTY TRANSACTIONS

(a) Names and relationships with related parties are as follows:

Name	Relationship
Fang James	Director
Fang Shengkang	Director
Chai Junqi	Director
Lu Songkang	Director
SeeSi Universal Limited ("SeeSi")	Holding company

(b) At the balance sheet date, included in the other receivables was the following amount due from SeeSi which are unsecured, interest-free, repayable on demand and aged more than 365 days:

	2007 **RMB'000**	2006 RMB'000
Amount due from SeeSi	**76**	81

(c) The remuneration of directors and other members of key management during the year was as follows:

	2007 **RMB'000**	2006 RMB'000
Short-term employee benefits	**5,390**	822
Share-based payments	**862**	–
	6,252	822

27. SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2007 are as follow:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of share capital/ registered capital held by the Company		Principal activities
			Direct	Indirect	
Ableby Worldwide Limited 藝寶環球有限公司	The British Virgin Islands 18 May 2006	Ordinary shares US$1	100%	–	Investment holding
Tricosco Limited	Hong Kong 20 June 2006	Ordinary shares HK$1	–	100%	Investment holding
Hangzhou Aupu Bathroom & Kitchen Technology Co., Ltd. 杭州奧普衛廚科技有限公司 ("AUPU Technology")	The PRC 9 September 2004	Registered and contributed capital US$20,000,000	–	100%	Manufacture and distribution of bathroom masters, exhaust fans and other home appliances
Hangzhou Aupu Electrical Appliances Co., Ltd. 杭州奧普電器有限公司 ("AUPU Electrical")	The PRC 29 July 1993	Registered and contributed capital US$3,350,000	–	100%	Manufacture and distribution of bathroom masters, exhaust fans and other home appliances

28. POST BALANCE SHEET EVENTS

On 3 January 2008, the Company granted share options entitling the holders to subscribe for a total of 8,100,000 shares of the Company to the three independent non-executive directors of the Company and certain senior management of the Group (collectively referred as the "Grantees") as an incentive and reward to the Grantees for their contribution to the Group.

The share options were granted at an exercise price of HK$1.55 and the exercise period is such period not exceeding ten years from the date of the grant of the share options. The share options were granted to the Grantees on such terms that the Grantees may exercise up to a cumulative maximum of 20%, 40%, 60%, 80% and 100% of the total options granted to him or her at the date of the grant, and at the anniversary of the first, second, third, fourth and fifth year respectively from the date of the grant until the expiry of the exercise period.

The Group is still assessing the financial impact of the above transactions at the date of this report.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets and liabilities of the Group for the last five financial years is as follows:

	For the year ended 31 December				
	2003	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Results					
Revenue	213,654	267,010	336,513	448,209	**606,750**
Income tax expenses	(10,627)	(16,703)	(21,691)	(13,954)	**(16,211)**
Profit attributable to equity holders of the Company	27,368	45,090	55,287	83,650	**103,554**
Dividends and distribution paid	34,200	53,545	16,456	54,000	**56,848**

	As at 31 December				
	2003	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets and Liabilities					
Total assets	118,952	127,778	171,990	456,817	**575,620**
Total liabilities	(48,061)	(60,297)	(65,678)	(82,254)	**(149,416)**
Shareholders' funds	70,891	67,481	106,312	374,563	**426,204**

Note: The Company was incorporated and registered in the Cayman Islands on 14 July 2006 and became the holding company of the subsidiaries (collectively referred to as the "Group") pursuant to a group reorganisation (the "Group Reorganisation") on 1 September 2006. The results, assets and liabilities for 2003, 2004, 2005 and 2006 have been prepared on a combined basis as if the current group structure had been in existence throughout those years.