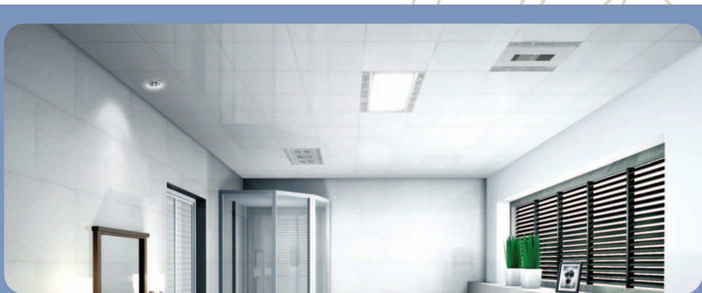
AUPU

AUPU GROUP HOLDING COMPANY LIMITED

(incorporated in the Cayman Islands as an exempted company with limited liability)

(Stock Code: 477)

2008 Interim Report



AUPU
Bathroom
Roof
1+N

AUPU
Bathroom
Roof
1+N

Retail
Store

AUPU
Bathroom
Master
3-in-1

CONTENTS

CORPORATE INFORMATION

BOARD OF 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

QUALIFIED ACCOUNTANT

Leung Wah

AUTHORISED REPRESENTATIVES

Fang James
Fang Shengkang

STOCK CODE

0477

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

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Tricor Investor Services Limited
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FINANCIAL HIGHLIGHTS

results for the six months ended 30 June 2008

The Board of Directors of AUPU Group Holding Company Limited (the ''Company'') announced the unaudited consolidated interim results and financial position of the Company and its subsidiaries (the ''Group'') for the six months ended 30 June 2008, with comparative figures for the same period last year as follows:

	2008 **RMB'000**	2007 RMB'000	Change
Turnover	**238,177**	227,058	+4.9%
Gross Profit	**134,245**	117,277	+14.5%
Profit Before Tax	**41,863**	41,004	+2.1%
Profit Attributable to Equity Holders of the Company	**37,420**	39,209	-4.6%
Basic Earnings per share (RMB)	**0.05**	0.06	-16.7%

These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months period ended 30 June 2008

	Notes	Six months ended 30 June 2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
Revenue		**238,177**	227,058
Cost of sales		**(103,932)**	(109,781)
Gross profit		**134,245**	117,277
Other income		**7,452**	4,412
Selling and distribution expenses		**(72,685)**	(56,624)
Administrative expenses		**(23,797)**	(18,656)
Other expenses		**(3,352)**	(5,405)
Profit before tax	*4*	**41,863**	41,004
Income tax expenses	*5*	**(4,443)**	(1,795)
Profit attributable to equity holders of the Company		**37,420**	39,209
Dividends paid	*6*	**42,636**	28,424
		RMB	RMB
Earnings per share	*7*		
– Basic		**0.05**	0.06

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 June 2008

	Notes	30 June 2008 RMB'000 (unaudited)	31 December 2007 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	*8*	**98,864**	67,118
Prepaid lease payments		**15,047**	15,363
Deferred tax assets	*9*	**15,759**	10,498
		129,670	92,979
Current assets			
Prepaid lease payments		**479**	498
Inventories		**68,921**	42,631
Trade and other receivables	*10*	**85,253**	79,476
Pledged bank deposits		**862**	862
Bank balances and cash		**262,334**	359,174
		417,849	482,641
Current liabilities			
Trade and other payables	*11*	**113,576**	120,369
Income tax liabilities		**4,004**	15,247
Other tax liabilities		**3,259**	13,800
		120,839	149,416
Net current assets		**297,010**	333,225
Total assets less current liabilities		**426,680**	426,204
Capital and reserves			
Share capital	*12*	**71,860**	72,023
Reserves		**351,562**	354,181
Total equity		**423,422**	426,204
Non-current liabilities			
Deferred tax liabilities	*9*	**3,258**	–
		3,258	–
		426,680	426,204

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months period ended 30 June 2008

		Reserves						
	Share capital RMB'000	**Share premium** RMB'000	**Special reserve** RMB'000 *(Note)*	**Statutory reserves** RMB'000	**Share options reserve** RMB'000 *(Note 13)*	**Retained earnings** RMB'000	**Sub-total** RMB'000	**Total** RMB'000
At 1 January 2007 (audited)	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	–	–	–	–	–	39,209	39,209	39,209
Dividends paid	–	–	–	–	–	(28,424)	(28,424)	(28,424)
Recognition of equity-settled share-based payment	–	–	–	–	1,154	–	1,154	1,154
At 30 June 2007 (unaudited)	72,023	272,627	(73,274)	13,864	1,154	100,108	314,479	386,502
At 1 January 2008 (audited)	**72,023**	**272,627**	**(73,274)**	**28,427**	**4,935**	**121,466**	**354,181**	**426,204**
Profit attributable to equity holders of the Company and total recognised income	**–**	**–**	**–**	**–**	**–**	**37,420**	**37,420**	**37,420**
Repurchase of own shares	**(163)**	**(1,625)**	**–**	**–**	**–**	**–**	**(1,625)**	**(1,788)**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(42,636)**	**(42,636)**	**(42,636)**
Recognition of equity-settled share-based payment	**–**	**–**	**–**	**–**	**4,222**	**–**	**4,222**	**4,222**
At 30 June 2008 (unaudited)	**71,860**	**271,002**	**(73,274)**	**28,427**	**9,157**	**116,250**	**351,562**	**423,422**

Note: 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.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months period ended 30 June 2008

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash (used in) from operating activities	**(19,293)**	43,949
Net cash used in investing activities:		
Interest received	**4,388**	2,164
Purchase of property, plant and equipment	**(34,752)**	(6,101)
Proceeds from disposal of property, plant and equipment	**720**	–
Other cash flows	**(163)**	42
	(29,807)	(3,895)
Net cash used in financing activities:		
Dividends paid	**(42,636)**	(28,424)
Repurchase of own shares	**(1,788)**	–
	(44,424)	(28,424)
Net (decrease) increase in cash and cash equivalents	**(93,524)**	11,630
Cash and cash equivalents at the beginning of the period	**359,174**	300,934
Effect of the foreign exchange rate movements	**(3,316)**	(2,020)
Cash and cash equivalents at the end of the period, represented by bank balances and cash	**262,334**	310,544

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with International Accounting Standard 34 ("IAS 34") "Interim Financial Reporting".

The condensed consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The principal accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007. In addition, the Group has applied the following accounting policy for repurchase of the Company's own equity instruments during the current interim period.

For the repurchase of the Company's own equity instruments, it is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the repurchase or cancellation of the Company's own equity instruments.

In the current interim period, the Group has applied, for the first time, the following new interpretations ("new Interpretations") issued by the International Accounting Standards Board ("IASB"), which are effective for the Group's accounting period beginning on 1 January 2008.

IFRIC 11	IFRS 2: Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new Interpretations has had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

IFRSs (Amendments)	Improvements to IFRSs[1]
IAS 1 (Revised)	Presentation of Financial Statements[2]
IAS 23 (Revised)	Borrowing Costs[2]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
IAS 32 & IAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
IAS 39 (Amendment)	Eligible Hedged Items[3]
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
IFRS 3 (Revised)	Business Combinations[3]
IFRS 8	Operating Segments[2]
IFRIC 13	Customer Loyalty Programmes[4]
IFRIC 15	Agreements for the Construction of Real Estate[2]
IFRIC 16	Hedges of a Net Investment in a Foreign Operation[5]

2. PRINCIPAL ACCOUNTING POLICIES - continued

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2009

[3] Effective for annual periods beginning on or after 1 July 2009

[4] Effective for annual periods beginning on or after 1 July 2008

[5] Effective for annual periods beginning on or after 1 October 2008

The adoption of IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

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

3. 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 had 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. The production facilities of such division are located in the Peoples' Republic of China (the "PRC") and the products are mainly sold to 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 period.

Accordingly, no segment information is presented.

4. PROFIT BEFORE TAX

Profit before tax has been arrived at:

	Six months period ended 30 June	
	2008	2007
	RMB'000	RMB'000
After charging:		
Staff costs, including directors' remuneration		
– salaries, wages and other benefits	**26,396**	15,435
– retirement benefit scheme contributions	**2,893**	2,768
– equity-settled share-based payments	**4,222**	1,154
Total staff costs	**33,511**	19,357
Research and development expenditure	**2,096**	2,624
Depreciation of property, plant and equipment	**2,479**	3,367
Release of prepaid lease payments	**256**	214
Loss on disposal of property, plant and equipment	**–**	513
Auditors' remuneration	**1,193**	990
Allowance for inventories obsolescence	**1,329**	378
Net foreign exchange loss	**3,552**	2,095
Cost of inventories recognised as an expense	**103,932**	109,403
After crediting:		
Gain on disposal of property, plant and equipment	**193**	–
Interest income	**4,388**	2,164
Government grants	**663**	190

5. INCOME TAX EXPENSES

	Six months period ended 30 June	
	2008	2007
	RMB'000	RMB'000
The charge (credit) comprises:		
Current tax	**6,446**	6,656
Deferred tax *(note 9)*	**(2,003)**	(4,861)
	4,443	1,795

PRC enterprise income tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

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 period.

Hangzhou Aupu Electrical Appliances Co., Ltd. ("AUPU Electrical") is applied enterprise income tax at 33% for the six months ended 30 June 2007.

5. INCOME TAX EXPENSES - continued

Hangzhou Aupu Bathroom & Kitchen Technology Co., Ltd. ("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 six months ended 30 June 2007.

On 16 March 2007, the National People's Congress approved and promulgated a new PRC Enterprise Income Tax Law (the "New Law"), is effective on 1 January 2008. Under the New Law, foreign investment enterprise 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 have changed the applicable tax rate for AUPU Technology 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 is 25% from 1 January 2008 onwards.

6. DIVIDENDS

On 30 May 2008, a dividend of RMB0.06 (2007: RMB0.04) per share was paid to shareholders whose names appeared on the register of Members of the Company on 9 May 2008, amounting to RMB42,636,000 as the final dividend for 2007.

On 3 September 2008, the directors declared a special interim dividend of RMB0.07 (2007: RMB0.04) to be paid to the shareholders whose names appear on the register of Members of the Company on 22 September 2008.

7. EARNINGS PER SHARE

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

	Six months period ended 30 June	
	2008	2007
	RMB'000	RMB'000
Earnings		
Earnings for the purpose of basic earnings per share (Profit attributable to equity holders of the Company)	**37,420**	39,209
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**710,477,348**	710,600,000

Diluted earnings per share has not been presented for each of the six-month periods ended 30 June 2007 and 2008 because the exercise price of the Company's options was higher than the average market price of the Company's shares during the period when they were outstanding.

for the six months period ended 30 June 2008

8. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB30.7 million (2007: RMB1.8 million) on the construction of its new manufacturing premises and RMB4.1 million (2007: RMB4.3 million) on additions to motor vehicles and fixtures and equipment in the PRC.

There was no significant disposal of property, plant and equipment for the Group in the current period.

9. DEFERRED TAX ASSETS AND LIABILITIES

The following are the major deferred tax liabilities and assets recognised and the movements thereon, during the current and prior period:

	Unrealised profit on inventory RMB'000	Other deductible temporary differences RMB'000	Withholding tax on retained profits to be distributed RMB'000	Total RMB'000
At 1 January 2007	2,922	1,526	–	4,448
Credit (charge) to profit for the period *(note 5)*	4,945	(84)	–	4,861
At 30 June 2007	7,867	1,442	–	9,309
At 1 January 2008	**6,456**	**4,042**	**–**	**10,498**
Credit (charge) to profit for the period *(note 5)*	**4,642**	**619**	**(3,258)**	**2,003**
At 30 June 2008	**11,098**	**4,661**	**(3,258)**	**12,501**

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose:

	30 June 2008 RMB'000	31 December 2007 RMB'000
Deferred tax assets	**15,759**	10,498
Deferred tax liabilities	**(3,258)**	–
	12,501	10,498

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.

Under the New PRC Tax Law, a 5% of withholding tax is to be levied on the dividend to be payable based on the profit of the PRC operating subsidiary generated from 2008 onwards.

10. TRADE AND OTHER RECEIVABLES

	30 June 2008 RMB'000	31 December 2007 RMB'000
Trade receivables analysed by age:		
Within 90 days	**71,370**	69,340
91 – 180 days	**2,229**	1,928
181 – 365 days	**828**	72
Over 365 days	**804**	253
Total trade receivables	**75,231**	71,593
Other receivables and prepayments	**10,022**	7,883
	85,253	79,476

The average credit period allowed on sales of goods ranges from 0 to 90 days.

11. TRADE AND OTHER PAYABLES

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.

	30 June 2008 RMB'000	31 December 2007 RMB'000
Trade payable analysed by age:		
Within 90 days	**32,970**	45,879
91 – 180 days	**1,468**	823
181 – 365 days	**82**	410
Over 365 days	**561**	426
Total trade payables	**35,081**	47,538
Retention sum due to suppliers	**11,030**	13,915
Advances from customers	**34,013**	9,995
Payable for the acquisition of property, plant and equipment	**6,108**	15,016
Sales commission accruals	**7,876**	11,758
Others	**19,468**	22,147
	113,576	120,369

12. SHARE CAPITAL

	Number of shares	Amounts HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 31 December 2007 and 30 June 2008	5,000,000,000	500,000

	Number of shares	Amounts RMB'000
Issued and fully paid:		
At 1 January 2007 and 30 June 2007	710,600,000	72,023
At 31 December 2007	710,600,000	72,023
Repurchase of own shares	(1,600,000)	(163)
At 30 June 2008	709,000,000	71,860

During the period, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited at HK$1.1 each for 1,600,000 shares. The shares were cancelled upon repurchase.

13. 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.

14. SHARE-BASED PAYMENTS

Certain share options were granted on 3 January 2008. The fair value of such share options determined at the date of grant using the Binomial model was approximately RMB4,771,000.

No share options granted under the Company's share option scheme were exercised during the period.

15. OPERATING LEASE ARRANGEMENTS

	Six months period ended 30 June	
	2008	2007
	RMB'000	RMB'000
Minimum lease payments under operating leases recognised in the condensed consolidated income statement for the period	**2,963**	2,477

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

	30 June 2008	31 December 2007
	RMB'000	RMB'000
Within one year	**4,127**	3,254
In the second to fifth year inclusive	**2,241**	986
	6,368	4,240

Operating lease payments represent rentals payable by the Group for certain branch offices and warehouses. Leases are negotiated for lease terms ranging from 1 to 4 years at inception.

16. COMMITMENTS FOR EXPENDITURE

	30 June 2008	31 December 2007
	RMB'000	RMB'000
Commitments for operating expenditure	**9,350**	–

17. CAPITAL COMMITMENTS

	30 June 2008	31 December 2007
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**29,170**	59,597

18. RELATED PARTY TRANSACTIONS

The remuneration of directors and other members of key management for the six-month periods ended 30 June 2008 was RMB1,009,000 (2007: RMB997,000).

BUSINESS AND FINANCE REVIEW

Revenue

The revenue of the Group for the six months ended 30 June 2007 and 2008 are analyzed as follows:

	Six months ended 30 June 2008		Six months ended 30 June 2007	
	Set'000	**RMB'000**	Set'000	RMB'000
Bathroom Master				
– Environmental Series	**69**	**34,654**	95	47,106
– Economical Series	**275**	**64,754**	357	75,203
– Colour-Slim Series	**18**	**7,769**	16	6,236
– Deluxe Series	**64**	**27,647**	52	20,335
– Olympic Series	**63**	**44,162**	47	30,559
– Shi-Shang Series	**13**	**2,145**	–	–
Total for Bathroom Master	**502**	**181,131**	567	179,439
Bathroom Roof 1+N	**N/A**	**50,494**	N/A	30,601
Others	**N/A**	**6,552**	N/A	17,018
Total		**238,177**		227,058

For the six months ended 30 June 2008, the revenue of the Group amounted to approximately RMB238.2 million, representing an increase of approximately 4.9% as compared with the revenue which amounted to approximately RMB227.1 million for the six months ended 30 June 2007. The net increase in revenue was mainly attributable to the increase in revenue of AUPU Bathroom Roof 1+N and Olympic Series. The revenue of AUPU Bathroom Master 3-in-1 accounted for approximately 79.0% and 76.1% of the Group's total revenue for the six months ended 30 June 2007 and 2008 respectively.

In particular, the revenue of Economical Series decreased from approximately RMB75.2 million for the six months ended 30 June 2007 to approximately RMB64.8 million for the six months ended 30 June 2008, representing a decrease of approximately RMB10.4 million or approximately 13.9%. For the six months ended 30 June 2008, the revenue of Environmental Series amounted to approximately RMB34.7 million, representing a decrease of approximately 26.4% as compared with the revenue of Environment Series which amounted to approximately RMB47.1 million for the six months ended 30 June 2007.

Due to changes in product mix and upward adjustment of selling price, the revenue of Deluxe Series increased from approximately RMB20.3 million for the six months ended 30 June 2007 to approximately RMB27.6 million for the six months ended 30 June 2008 while the revenue of Colour-Slim Series increased from approximately RMB6.2 million to RMB7.8 million for the same period.

The revenue of AUPU Bathroom Roof 1+N amounted to approximately RMB50.5 million for the six months ended 30 June 2008, representing an increase of approximately 65.0% as compared with the revenue of AUPU Bathroom Roof 1+N which amounted to approximately RMB30.6 million for the six months ended 30 June 2007.

Also, the revenue of Olympic Series increased from approximately RMB30.6 million for the six months ended 30 June 2007 to approximately RMB44.2 million for the six months ended 30 June 2008, representing an increase of approximately RMB13.6 million or approximately 44.5%.

Costs of sales

For the six months ended 30 June 2007 and 2008, the costs of sales of the Group amounted to approximately RMB103.9 million, representing a decrease of approximately 5.3% as compared with the costs of sales which amounted to approximately RMB109.8 million for the six months ended 30 June 2007.

Both for the six months ended 30 June 2007 and 2008, the costs of parts and components, direct labour and overhead represented approximately 98.5%, and 1.5% of the total costs of sales respectively.

Gross profit and gross profit margin

Gross profit increased from approximately RMB117.3 million for the six months ended 30 June 2007 to approximately RMB134.2 million for the six months ended 30 June 2008, representing an increase of approximately 14.5%. Overall gross profit margin increased from approximately 51.7% for the six months ended 30 June 2007 to approximately 56.4% for the six months ended 30 June 2008. The policy of raising price about 5%-7% at the beginning of the year, increased in revenue from Olympic Series which provide higher gross profit margin and the engagement of an OEM manufacturer to produce a certain specification of AUPU Bathroom Master 3-in-1 contributed to the increase in overall gross profit margin.

Other income

Other income increased from approximately RMB4.4 million for the six months ended 30 June 2007 to approximately RMB7.5 million for the six months ended 30 June 2008 due to the significant increase in interest income of bank deposits and subsidy income.

Selling and distribution expenses

The selling and distribution expenses amounted to approximately RMB72.7 million for the six months ended 30 June 2008. It mainly comprised of advertising expenses of approximately RMB14.6 million, sales promotion expenses of approximately RMB16 million, salary expenses of sales and marketing staff of approximately RMB19.9 million, after-sales services expenses of approximately RMB2.8 million and transportation expenses of approximately RMB6.7 million.

The selling and distribution expenses amounted to approximately RMB56.6 million for the six months ended 30 June 2007. It mainly comprised of advertising expenses of approximately RMB9.2 million, sales promotion expenses of approximately RMB13.1 million, salary expenses of sales and marketing staff of approximately RMB15.9 million, after-sales services expenses of approximately RMB2.3 million and transportation expenses of approximately RMB6 million.

The increase in selling and distribution expenses for the six months ended 30 June 2008 compared with the six months ended 30 June 2007 was mainly due to increase in advertising expenses, salary expenses of sales and marketing staff and sales promotion expenses.

Administrative expenses

The administrative expenses amounted to approximately RMB23.8 million for the six months ended 30 June 2008. It mainly comprised of salary expenses of general and administrative staff of approximately RMB10.1 million, depreciation of approximately RMB1.4 million, professional fees and related disbursements of approximately RMB3.1 million, office expenses of approximately RMB1.9 million and the amortization of share option cost about RMB4.22 million. The administrative expenses amounted to approximately RMB18.7 million for the six months ended 30 June 2007. It mainly comprised of salary expenses of general and administrative staff of approximately RMB8.8 million, depreciation of approximately RMB1.3 million, professional fees and related disbursements of approximately RMB2.5 million and office expenses of approximately RMB2.2 million and the amortization of share option cost about RMB1.15 million.

The increase in administrative expenses for the six months ended 30 June 2008 compared with the six months ended 30 June 2007 was mainly due to significant increase in salary expenses of general and administrative staff and the amortization of share option costs.

Other expenses

Other expenses decreased from approximately RMB5.4 million for the six months ended 30 June 2007 to approximately RMB3.4 million for the six months ended 30 June 2008 mainly due to decrease in cost of spare parts and non-operating expenses.

Profit before tax

Based on the above factors, the Group's profit before tax increased from approximately RMB41.0 million for the six months ended 30 June 2007 to approximately RMB41.9 million for the six months ended 30 June 2008, representing an increase of approximately 2.1%.

Income tax expenses

Leveraging on the well-known brand name, technology know-how and the well-established distribution network of AUPU, Hangzhou AUPU Bathroom & Kitchen Technology Co., Ltd. ("AUPU Technology") was able to generate a remarkable profit immediately following the commencement of its commercial production since 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 2006 was the first taxable profit making year for AUPU Technology and, therefore, no provision of taxation has been made in respect of the estimated assessable profit of AUPU Technology for the six-month periods ended 30 June 2007.

On 16 March 2007, the National People's Congress approved and promulgated a new PRC Enterprise Income Tax Law (the "New Law"), which is effective on 1 January 2008. Under the New Law, foreign investment enterprise 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 have changed the applicable tax rate for AUPU Technology 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 is 25% from 1 January 2008 onwards.

Also, under the New PRC Tax Law, a 5% of withholding tax is to be levied on the dividend to be payable based on the profit of the PRC operating subsidiary generated from 1 January 2008 onwards.

Therefore, the income tax expenses of the Group increased from approximately RMB1.8 million for the six months ended 30 June 2007 to approximately RMB4.4 million for the six months ended 30 June 2008 and the effective tax rate increased from approximately 4.4% for the six months ended 30 June 2007 to approximately 10.6% for the six months ended 30 June 2008.

Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company decreased from approximately RMB39.2 million for the six months ended 30 June 2007 to approximately RMB37.4 million for the six months ended 30 June 2008. Due to the 5% of withholding tax on the profit of the PRC operating subsidiary generated from 2008 onwards as mentioned above, the net profit margin (stated in its percentage of revenue) decreased from approximately 17.3% for the six month ended 30 June 2007 to approximately 15.7% for the six months ended 30 June 2008.

ANALYSIS OF FINANCIAL POSITION

Inventory turnover

The following table sets out the summary of the Group's inventory turnover days for the six months ended 30 June 2008 and the year ended 31 December 2007:

	At 30 June 2008	At 31 December 2007
Inventory turnover days *(Note)*	**108**	51

Note:

The inventory turnover days is arrived at by dividing average inventories by cost of sales and then multiplying by 365 for the year ended 31 December 2007 when the inventory turnover days is arrived at by dividing average inventories by cost of sales and then multiplying by 182 for the six months ended 30 June 2008. Average inventories is arrived at by dividing the sum of the inventories at the beginning of year/period and that at the end of the year/period by 2. Inventory primarily comprised parts and components and finished goods. For the six months ended 30 June 2008, inventory turnover days increased to 108 due to the slow down of businesses from May 2008.

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/period end of each financial year/period 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 for the six months ended 30 June 2008 and the year ended 31 December 2007:

	At 30 June 2008	At 31 December 2007
Turnover days of trade receivables *(Note)*	**36**	27

Note:

The turnover days of trade receivables is arrived at by dividing average trade receivables by revenue and then multiplying by 365 for the year ended 31 December 2007 when the turnover days of trade receivables is arrived at by dividing average trade receivables by revenue and then multiplying by 182 for the six months ended 30 June 2008. Average trade receivables is arrived at by dividing the sum of the trade receivables at the beginning of year/period and that at the end of the year/period by 2. The turnover days of trade receivables increased from 27 days for the year ended 31 December 2007 to 36 days for the six months ended 30 June 2008.

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/period end of each financial year/period 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 as at 30 June 2008 and 31 December 2007 is as follows:

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
Trade receivables analysed by age:		
Within 90 days	**71,370**	69,340
91 – 180 days	**2,229**	1,928
181 – 365 days	**828**	72
Over 365 days	**804**	253
Total trade receivables	**75,231**	71,593

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.

Turnover days of trade payables

The following table set out the summary of the Group's turnover days of trade payables for the six months ended 30 June 2008 and the year ended 31 December 2007:

	At 30 June 2008	At 31 December 2007
Turnover days of trade payables *(Note)*	**72**	45

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 year ended 31 December 2007 when the turnover days of trade payables is arrived at by dividing average trade payables by cost of sales and then multiplying by 182 for the six months ended 30 June 2008. Average trade payables is arrived at by dividing the sum of the trade payables at the beginning of year/period and that at the end of the year/period by 2. The turnover days of trade payables increased from 45 days for the year ended 31 December 2007 to 72 days for the six months ended 30 June 2008.

Aging analysis of trade payables

The aging analysis of trade payables of the Group as at 30 June 2008 and 31 December 2007 is as follows:

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
Trade payables analysed by age:		
Within 90 days	**32,970**	45,879
91 – 180 days	**1,468**	823
181 – 365 days	**82**	410
Over 365 days	**561**	426
Total trade payables	**35,081**	47,538

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 in 2008 which are required by the Group to pay in advance before the delivery of goods, the balance of advances from customers as at 30 June 2008 increased comparing with 31 December 2007.

Current ratio, quick ratio and gearing ratio

The current ratio, quick ratio and gearing ratio of the Group as at 30 June 2008 and 31 December 2007 was as follows:

	As at 30 June 2008	As at 31 December 2007
Current ratio	**3.46**	3.23
Quick ratio	**2.89**	2.94
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/period. Quick ratio is calculated as total current assets excluding inventories divided by total current liabilities at end of the year/period. Gearing ratio is arrived at by dividing the total external financing debt by total assets at the end of the corresponding year/period. The numbers in the above table are expressed in the form of ratio and not as a percentage.

With a lower base of liabilities of the Group, the current ratio increased from approximately 3.23 times as at 31 December 2007 to 3.46 times as at 30 June 2008. The quick ratio decreased from approximately 2.94 times as at 31 December 2007 to 2.89 times as at 30 June 2008 due to increase of inventories. The Group had a zero gearing ratio as at 30 June 2008 and 31 December 2007 as the Group did not have external bank loans as at 30 June 2008 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 for the six months ended 30 June 2007 and 2008:

	Six months ended 30 June 2008 RMB'000	Six months ended 30 June 2007 RMB'000
Net (used in) cash from operating activities	**(19,293)**	43,949
Net cash used in investing activities	**(29,807)**	(3,895)
Net cash used in financing activities	**(44,424)**	(28,424)

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 completed in December 2006 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.

Investing activities

Cash inflow from investing activities was mainly derived from interest received and repayment of advances from related parties. Cash outflow from investing activities was mainly applied to the purchase of property, plant and equipment and advances to related parties. Net cash used in investing activities was approximately RMB29.8 million for the six months ended 30 June 2008 which was primarily attributable to purchases of property, plant and equipment. Net cash used in investing activities were approximately RMB3.9 million for the six months ended 30 June 2007 which was primarily attributable to purchases of property, plant and equipment.

Financing activities

Cash inflow from financing activities was mainly derived from net proceeds from share offer and capital contribution by shareholders. Cash outflow from financing activities was mainly attributable to the payment of dividends to shareholders. Net cash used in financing activities was approximately RMB44.4 million for the six months ended 30 June 2008 while net cash used in financing activities was approximately RMB28.4 million for the six months ended 30 June 2007. Such decrease was mainly attributable to dividends paid.

Capital expenditures

Capital expenditure was used for construction in progress, purchases of land use rights, property, plant and equipment. For the six months ended 30 June 2008, the Group's capital expenditure were approximately RMB34.8 million. The significant capital expenditures during the six months ended 30 June 2008 were mainly for buildings, properties under construction and motor vehicles.

INDEBTEDNESS

Borrowings

As at the close of business on 30 June 2008, the Group did not have any outstanding borrowings.

Bank facilities

As at the close of business on 30 June 2008, the Group did not have any banking facilities.

Debt securities

As at the close of business on 30 June 2008, the Group did not have any debt securities.

Contingent liabilities

As at the close of business on 30 June 2008, the Group did not have any material contingent liabilities or guarantees.

PLEDGE OF ASSETS

As at the close of business on 30 June 2008, the Group did not have any pledge of assets.

CAPITAL COMMITMENTS AND OTHER COMMITMENTS

As at 30 June 2008, the future aggregate minimum lease payments under non-cancellable operating lease in respect of rental properties amounted to approximately RMB6.4 million and the Group has capital expenditure contracted for but not provided of approximately RMB29.2 million.

HUMAN RESOURCES

The Group employed approximately 1,716 people on 30 June 2008 (about 1,513 people on 31 December 2007). The total personnel cost of the Group was RMB 33.5 million for the six months period ended 30 June 2008 (six months period ended 30 June 2007: RMB19.4 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 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, and fourth year respectively from the date of the grant until the expiry of the exercise period.

FUTURE PROSPECTS

The Directors consider that in the second half of 2008, the sub-prime mortgage crisis in the US will continue to deepen and the economy will continue to slow down. Meanwhile the trend of global inflation will gradually become apparent. Renminbi continues its appreciation and the Chinese government continues to adopt tight monetary policies. Cost of raw materials and labour continue to rise. Looking ahead in the second half of 2008, our management considers that the Group will face greater challenge and more opportunities in its operation.

The Directors consider that factors such as the significant increase in China's CPI and the postponement of consumption time in the real estate refurbishment market will have negative impact towards the operation of the Group. However, looking at mid-and-long term, a diversified residential property market in the cities will certainly be a powerful drive for the development of bathroom fixtures and services. Consumers' demand for products providing more comfortable life style such as bathroom master and bathroom roof is likely to remain huge. Since consumers' demand for bathroom products is shifting from just looking for single products towards demanding for products with unified style, optimised cost and convenience, management of the Company has focused on adjusting other sales channels of bathroom products which include the building materials market and e-commerce.

The Directors consider that the Group should strengthen our core business bathroom master, develop the strategic increase of bathroom roof and integrate all bathroom products and position as the visions of the Company and continue to optimise management and increase its corporate value and competitiveness.

Maintenance of brand name management

The Directors consider that brand name management and operation are crucial to the success of the Group. Since the establishment of Hangzhou Aupu Electrical Appliances Co., Ltd. ("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 has successfully positioned itself as a brand name manager, providing high quality and efficient services in the AUPU brand. The Group was recently nominated as an iconic brand of industry in China. The nomination was also reviewed by the Chinese brand name research organisation which decides a one and only brand name in each industry in China as the iconic brand of the industry and is currently the most authoritative industry brand name nomination in China. The Group was also ranked No. 372 of "Top 500 Most Valuable Brands in China" by the World Brand Lab with brand value of RMB1.623 billion.

Construction progress of the new production plant

The Group commenced to construct a new production plant in Hangzhou Economic and Technological Development Area on 16 September 2007 with a gross floor area of approximately 96,000 sq.m. for the production and development 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 office building. The Group has signed documents with the local government authorities in the PRC in December 2006, regarding the acquisition of a piece of land with a total site area of approximately 38,686 sq.m in Hangzhou Economic and Technological Development Area. The unit purchase costs of the land is approximately RMB250 per sq.m. and the acquisition costs have been paid from the net proceeds received by the Company from the new issue of shares in December 2006. As at 20 May 2008, construction of the production building was completed in stages while the integrated office building and the inspection building were completed at the end of July 2008. The construction work of the new production plant is expected to be completed at the end of 2008.

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

The Group has added 259 new AUPU Bathroom Roof 1+N special sales stores in the first half of 2008 and had 4,500 point-of-sale outlets in the PRC including AUPU Bathroom master 3-in-1 and AUPU Bathroom Roof 1+N, covering most major cities. To further explore the PRC home refurbishment electrical appliance market and to further increase the market share of the Group, the Group intends to enhance and further stabilise its sales and distribution network by (1) setting up its own stores; (2) establishing retail chain stores by franchise; (3) increasing the number of points-of-sales, especially in secondary cities in the PRC; (4) establishing a assembly department to be independently responsible for the sales work in new building projects in different areas of China; and (5) constructing a e-commerce network.

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 30 June 2008, the Group owned and operated 3 stores. The Group intends to set up a total of approximately 20 stores in the next 3 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 30 June 2008, 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.

Continuous 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 bathroom roofs. The Group has invited well known design companies in China and abroad for systematic and brand new design for bathroom roofs in the first half of 2008 and has carried out major breakthrough in class of product, technical quality, cultural position, function and craftsmanship etc. It strived to be launched at the beginning of 2009 to lead the trend of integrated roof in design. With its increased product development capability, the Group intends to further expand its bathroom products portfolio and enhance product quality and functionality to realise the strategic vision of integrating all bathroom products and position in China.

The Group also intends to recruit totally approximately 60 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.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bank balances, trade and other receivables and payables. Details of these financial instruments are disclosed in the Consolidated Financial Statements. It is, and has been throughout the period, the Group's policy not to enter into trading of financial instruments. The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, interest rate risk and liquidity risk. The directors review and monitor policies implemented for managing each of these risks are summarized below.

Foreign currency risk

The Group's exposure to foreign currency risk is arising mainly from: (1) the exchange rate movements of Hong Kong Dollars as the Group has bank deposits denominated in this currency; and (2) subsidiaries of the Company also have foreign currency sales and trade receivables denominated in currencies other than the functional currency of the relevant subsidiaries, which expose the Group to foreign currency risk.

The Group currently does not have a foreign currency hedging policy. In order to mitigate the foreign currency risk, the management closely monitors such risks and will consider hedging significant foreign currency exposure should the need arises.

Credit risk

The Group's financial assets are bank balances and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets. In order to minimise the credit risk in relation to trade receivables, the management has delegated a team 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 addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced. The amounts presented in the balance sheet are net of allowances for doubtful receivables, if any, estimated by the management based on prior experience, their assessment of the current economic environment and future discounted cash flow to receive.

The Group has no significant concentration of credit risk for its trade receivables which are spread over a large number of counterparties and customers. The credit risk on liquid funds is limited because majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate for bank deposits which are all short-term in nature. Therefore, any future variations in interest rates will not have a significant impact on the results of the Group.

Liquidity risk

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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period, the Company repurchased its own shares through the Stock Exchange of Hong Kong Limited at HK$1.1 each for 1.6 million shares. The shares were cancelled upon repurchase.

Save as the aforesaid, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period under review.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors hereby confirms that the Company has complied with the Code on Corporate Governance Practices (the "CG Code") specified in Appendix 14 to the Listing Rules throughout the period for the six months ended 30 June 2008.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the period under review, the Company 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 as its own Code for Securities Transactions by the Officers (the "Code"). All directors of the Company have confirmed their compliance during the period under review with the required standards set out in the Model Code and the Code.

AUDIT COMMITTEE

The Listing Rules require every listed issuer to establish an Audit Committee comprising non-executive directors only. The Audit Committee must comprise a minimum of three members and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Audit Committee is accountable to the Board and the primary duties of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

The interim results have been reviewed by the Audit Committee established in compliance with Rule 3.21 of the Listing Rules and the relevant code provisions of the CG Code. On the date of this announcement, the audit committee consists of three independent non-executive directors, including Mr. Wu Tak Lung (Chairman), Mr. Cheng Houbo and Mr. Shen Jianlin and a non-executive director, Mr. Lu Songkang.

USE OF PROCEEDS FROM THE NEW SHARE ISSUE

As at 30 June 2008, the Group had totally utilised approximately of RMB122.9 million out of the proceeds from the new share issue for the construction of new product plants (including the acquisition of a piece of land for new production plant) in the amount of approximately RMB67.6 million, product research and development in the amount of approximately RMB11.0 million, advertising & promotion in the amount of approximately RMB 39.7 million and installation & implementation of the new ERP System in the amount of RMB 4.6 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is available to the Company and within the knowledge of its directors, the Company has maintained a sufficient public float as required under the Listing Rules throughout the six months period ended 30 June 2008.

PRE-EMPTIVE RIGHTS

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES

As at 30 June 2008, 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:

(1) Long positions in Shares of the Company and an associated corporation

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/and an associated corporation
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 Shengkang *(Note 2)*	The Company	Interest in a controlled corporation *(note 2)*	476,000,000 (L)	66.99%
Mr. Fang Shengkang *(Note 3)*	SeeSi Universal Limited	Beneficial owner	32 shares of US$1.00 each (L)	45.07%
Mr. Fang Shengkang *(Note 4)*	The Company	Beneficial owner	720,000 shares	0.10%
Mr. Lu Songkang *(Note 3)*	SeeSi Universal Limited	Beneficial owner	5 shares of US$1.00 each (L)	7.04%
Mr. Chai Junqi *(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. On 22 October 2007, Mr. Fang Shengkang purchased 720,000 shares of the Company from the open market at an average price of HK$1.35 per share.

(2) 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. Sun Lijun	The Company	Beneficial owner	a. share options with rights to subscribe 700,000 shares at subscription price of HK$2.23 per share (L)	0.10%
			b. share options with rights to subscribe 700,000 shares at subscription price of HK$1.55 per share (L)	0.10%
Mr. Wu Tak Lung	The Company	Beneficial owner	a. share options with rights to subscribe 150,000 shares at subscription price of HK$2.23 per share (L)	0.02%
			b. share options with rights to subscribe 100,000 shares at subscription price of HK$1.55 per share (L)	0.01%
Mr. Cheng Houbo	The Company	Beneficial owner	a. share options with rights to subscribe 75,000 shares at subscription price of HK$2.23 per share (L)	0.01%
			b. share options with rights to subscribe 50,000 shares at subscription price of HK$1.55 per share (L)	0.01%
Mr. Shen Jianlin	The Company	Beneficial owner	a. share options with rights to subscribe 75,000 shares at subscription price of HK$2.23 per share (L)	0.01%
			b. share options with rights to subscribe 50,000 shares at subscription price of HK$1.55 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 30 June 2008.

Arrangement to enable directors to acquire shares or debentures

Apart from the share options granted to the three independent non-executive directors and one executive director on 3 January 2008 under the share option scheme that was adopted on 16 November 2006 (the “Share Option Scheme”), at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable any director or the chief executive of the Company to acquire benefits, by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors, the chief executive of the Company nor any of their spouses or children under the age of 18 had any interests in, or had been granted, any rights to subscribe for shares in or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights during the period.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 16 November 2006, 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 interim 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 709,000,000 shares at the date of this interim 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 from 16 November 2006.

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 (representing approximately 0.71% of the total issued share capital of the Company as at the date of this Interim Report) to the three independent non-executive directors of the Company and certain senior management of the Group (collectively 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 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.

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 (representing approximately 0.91% of the total issued share capital of the Company as at the date of this Interim Report) 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 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.

On 3 January 2008, the Board granted additional share options entitling the holders to subscribe for a total of 8.1 million shares of the Company (representing approximately 1.14 % of the total issued share capital of the Company as at the date of this Interim Report) to the three independent non-executive directors and the management of the Company (collectively the "Third Batch of 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 of Grantees on such terms that the Third 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.

During the six months period ended 30 June 2008, 19,550,000 share options were granted to eligible Directors and employees of the Group and details are as follows:

		Maximum number of shares that may be subscribed under share options				
Name or category of participant	**Exercise price**	**Outstanding as at 1 January 2008**	**Outstanding as at 30 June 2008**	**Percentage of total issued share capital**	**Vesting period**	**Notes**
Directors						
Sun Lijun	2.23	700,000.00	700,000.00	0.10%	16/3/2008 – 15/3/2017	1,4,7,8
	1.55	700,000.00	700,000.00	0.10%	3/1/2008 – 2/1/2017	3,6,7,8
Wu Tak Lung	2.23	150,000.00	150,000.00	0.02%	16/3/2008 – 15/3/2017	1,4,7,8
	1.55	100,000.00	100,000.00	0.01%	3/1/2008 – 2/1/2017	3,6,7,8
Shen Jianlin	2.23	75,000.00	75,000.00	0.01%	16/3/2008 – 15/3/2017	1,4,7,8
	1.55	50,000.00	50,000.00	0.01%	3/1/2008 – 2/1/2017	3,6,7,8
Cheng Houbo	2.23	75,000.00	75,000.00	0.01%	16/3/2008 – 15/3/2017	1,4,7,8
	1.55	50,000.00	50,000.00	0.01%	3/1/2008 – 2/1/2017	3,6,7,8
Other employees in aggregate for first Batch Share Options	2.23	4,000,000.00	4,000,000.00	0.56%	16/3/2008 – 15/3/2017	1,4,7,8
Other employees in aggregate for Second Batch Share Options	3.11	6,450,000.00	6,450,000.00	0.91%	8/6/2008 – 7/6/2017	2,5,7,8
Other employees in aggregate for Third Batch Share Options	1.55	7,200,000.00	7,200,000.00	1.02%	3/1/2008 – 2/1/2017	3,6,7,8
Total		19,550,000.00	19,550,000.00	2.76%		

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 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 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. On 3 January 2008, the Board granted additional share options entitling the holders to subscribe for a total of 8.1 million shares of the Company (representing approximately 1.14 % of the total issued share capital of the Company as at the date of this Interim Report) to the three independent non-executive directors and the management of the Company (collectively the "Third Batch of 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 of Grantees on such terms that the Third 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.

4. 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. Closing price of the Share immediately before the date on which the option was granted was HK$2.18.

5. 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. Closing price of the Share immediately before the date on which the option was granted was HK$3.02.

6. Pursuant to the Share Option Scheme, these share options were granted on 3 January 2008 and are exercisable at HK$1.55 per Share from 3 January 2008 to 2 January 2017. Closing price of the Share immediately before the date on which the option was granted was HK$1.55.

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

8. Up to 30 June 2008, an aggregate of 1.2 million share options (representing 6.14% of the total share options granted), of which 0.6 million share options belong to First Batch and another 0.6 million share options belong to Third Batch, lapsed pursuant to the Share Option Scheme.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, 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	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 30 June 2008, none of the substantial shareholders, other than directors or chief executive, 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.

SPECIAL INTERIM DIVIDEND

The Board is pleased to declare a special interim dividend of RMB0.07 (of which RMB 0.04 is the interim dividend for the six months ended 30 June 2008 and additional RMB0.03 is the special dividend to thank for the support of shareholders) per share to the shareholders whose names appear on the register of members of the Company (the "Register of Members") on Monday, 22 September 2008. The interim dividend will be paid in Hong Kong dollars. The conversion of RMB into Hong Kong dollars will be made at the official exchange rate of RMB against Hong Kong dollars as quoted by Bank of China on 22 September 2008. The special interim dividend will be paid on or before 8 October 2008.

CLOSURE OF THE REGISTER OF MEMBERS

The Company's Register of Members will be closed from Monday, 22 September 2008 to Wednesday, 24 September 2008, both days inclusive, during which period no share transfer will be effected. In order to qualify for the special interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration, not later than 4:30 p.m. on Friday, 19 September, 2008.

PUBLICATION OF INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim report is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.aupu.cn).

By Order of the Board of
AUPU Group Holding Company Limited
James Fang
Chairman

Hong Kong, 3 September 2008