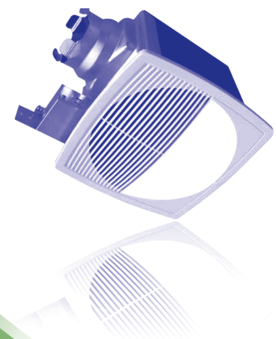
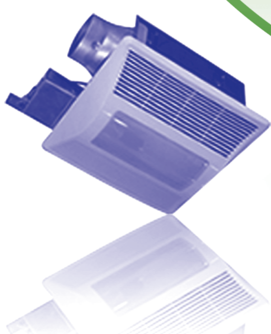
AUPU GROUP HOLDING COMPANY LIMITED

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

(Stock Code: 00477)





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Corporate Information

Board of Directors

Executive Directors

Fang James (方杰)
Fang Shengkang (方勝康)
Chai Junqi (柴俊麒)

Non-executive Directors

Lu Songkang (盧頌康)

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, ACA, FCCA)*

Authorised Representatives

Fang James
Fang Shengkang

Stock Code

00477

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Principal Place of Business in Hong Kong

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15 Queen's Road Central
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Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited
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Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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Principal Bankers

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345 Tiyuchang Road
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Zhejiang Province
The PRC

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Zhejiang Province
The PRC

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Financial Highlights

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 2010, with comparative figures for the same period last year as follows:

	2010 (RMB'000)	2009 (RMB'000)	Change
Revenue	**252,709**	221,154	+14.3%
Gross profit	**124,211**	107,472	+15.6%
Profit before tax	**46,399**	38,783	+19.6%
Profit for the period and total comprehensive income attributable to owners of the Company	**38,880**	30,297	+28.3%
Earnings per share — Basic (RMB)	**0.05**	0.04	+25%

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

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

		Six months ended 30 June	
	Notes	**2010 RMB'000 (unaudited)**	2009 RMB'000 (unaudited)
Revenue		**252,709**	221,154
Cost of sales		**(128,498)**	(113,682)
Gross profit		**124,211**	107,472
Other income		**7,542**	7,147
Selling and distribution expenses		**(63,138)**	(55,947)
Administrative expenses		**(17,417)**	(15,978)
Other expenses		**(4,213)**	(2,939)
Share of results of associates		**(586)**	—
Finance costs		**—**	(972)
Profit before tax	*4*	**46,399**	38,783
Income tax expenses	*5*	**(7,519)**	(8,486)
Profit for the period and total comprehensive income attributable to owners of the Company		**38,880**	30,297
		RMB	RMB
Earnings per share			
— Basic	*7*	**0.05**	0.04

Condensed Consolidated Statement of Financial Position

At 30 June 2010

	Notes	30 June 2010 RMB'000 (unaudited)	31 December 2009 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	*8*	168,822	173,540
Prepaid lease payments		16,611	16,877
Interests in associates	*9*	25,955	4,341
Deferred tax assets	*10*	15,135	12,961
		226,523	207,719
Current assets			
Prepaid lease payments		532	532
Inventories		45,768	32,940
Trade and other receivables	*11*	61,987	52,092
Amount due from an associate		15	—
Time deposits		120,000	216,000
Bank balances and cash		126,263	90,492
		354,565	392,056
Current liabilities			
Trade and other payables	*12*	127,753	134,361
Amount due to an associate		—	1,895
Income tax liabilities		15,794	17,158
Other tax liabilities		6,032	13,014
		149,579	166,428
Net current assets		204,986	225,628
Total assets less current liabilities		431,509	433,347
Capital and reserves			
Share capital	*13*	71,860	71,860
Reserves		350,373	352,829
Total equity attributable to owners of the Company		422,233	424,689
Non-current liability			
Deferred tax liability	*10*	9,276	8,658
		431,509	433,347

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	Share capital RMB'000	Reserves: Share premium RMB'000	Special reserve RMB'000 *(Note i)*	Statutory reserves RMB'000 *(Note ii)*	Share option reserve RMB'000 *(Note iii)*	Retained profits RMB'000	Sub-total RMB'000	Total RMB'000
At 1 January 2009 (audited)	71,860	271,002	(73,274)	41,144	11,683	77,581	328,136	399,996
Profit and total comprehensive income for the period	—	—	—	—	—	30,297	30,297	30,297
Dividends paid	—	—	—	—	—	(35,450)	(35,450)	(35,450)
Recognition of equity-settled share-based payment	—	—	—	—	2,048	—	2,048	2,048
At 30 June 2009 (unaudited)	71,860	271,002	(73,274)	41,144	13,731	72,428	325,031	396,891
At 1 January 2010 (audited)	**71,860**	**271,002**	**(73,274)**	**49,768**	**15,226**	**90,107**	**352,829**	**424,689**
Profit and total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**38,880**	**38,880**	**38,880**
Dividends paid	**—**	**—**	**—**	**—**	**—**	**(42,540)**	**(42,540)**	**(42,540)**
Recognition of equity-settled share-based payment	**—**	**—**	**—**	**—**	**1,204**	**—**	**1,204**	**1,204**
At 30 June 2010 (unaudited)	**71,860**	**271,002**	**(73,274)**	**49,768**	**16,430**	**86,447**	**350,373**	**422,233**

Notes:

(i) 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 reorganization.

(ii) As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC") and the Articles of Association of Hangzhou AUPU Electrical Appliances Co., Ltd. and Hangzhou AUPU Bathroom & Kitchen Technology Co., Ltd., 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. The reserve fund can be used to increase capital or to meet unexpected future losses.

No transfer has been made to the statutory reserves in respect of the net profit for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil). This transfer will be made at the year end date based on the annual profit and upon directors' approval.

(iii) The share option 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.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash from operating activities	**2,331**	81,174
Net cash from (used in) investing activities:		
Interest received	**2,616**	2,042
Investments in associates	**(22,200)**	—
Proceeds from disposal of property, plant and equipment	**—**	363
Additions of property, plant and equipment	**(436)**	(13,789)
Increase in time deposits	**(120,000)**	(186,800)
Proceeds on release of time deposits	**216,000**	184,464
Increase in pledged bank deposits	**—**	(147,138)
	75,980	(160,858)
Net cash (used in) from financing activities:		
Proceeds from short-term bank borrowings	**—**	148,000
Repayments of borrowings	**—**	(1,230)
Dividends paid	**(42,540)**	(35,450)
	(42,540)	111,320
Net increase in cash and cash equivalents	**35,771**	31,636
Cash and cash equivalents at the beginning of the period	**90,492**	24,649
Cash and cash equivalents at the end of the period, represented by bank balances and cash	**126,263**	56,285

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

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 accounting policies used 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 2009, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised IFRSs") which are effective for the Group's financial year beginning on 1 January 2010.

IFRSs (Amendments)	Amendment to IFRS 5 as part of Improvements to IFRSs 2008
IFRSs (Amendments)	Improvements to IFRSs 2009
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 39 (Amendment)	Eligible Hedged Items
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (Revised)	Business Combinations
IFRIC-Int 17	Distributions of Non-cash Assets to Owners

The Group applies IFRS 3 (Revised) Business Combinations prospectively to business combinations for with the acquisition date is on or after 1 January 2010. The requirement in IAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which IFRS 3 (Revised) and IAS 27 (Revised) are applicable, the application of IFRS 3 (Revised), and IAS 27 (Revised) has had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods. The application of consequential amendments to other IFRSs, particularly IAS 28 "Investments in associates" on the newly established associate in the current interim period (details are set out in note 9) has had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which IFRS 3 (Revised), IAS 27 (Revised) and the consequential amendments to the other IFRSs are applicable.

2. Principal Accounting Policies *(continued)*

In addition, as part of Improvements to IFRSs issued in 2009, IAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to IAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendment to IAS 17 has removed such a requirement. The amendment requires that the classification of leasehold land should be based on the general principles set out in IAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. In accordance with the transitional provisions set out in the amendment to IAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. The application of the amendments to IAS 17 has no impact on the Group's leasehold land.

The application of the other new and revised IFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

IFRSs (Amendments)	Improvements to IFRSs 2010[1]
IAS 24 (Revised)	Related Party Disclosures[4]
IAS 32 (Amendment)	Classification of Rights Issues[2]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[3]
IFRS 9	Financial Instruments[5]
IFRIC-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
IFRIC-Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

[1] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
[2] Effective for annual periods beginning on or after 1 February 2010
[3] Effective for annual periods beginning on or after 1 July 2010
[4] Effective for annual periods beginning on or after 1 January 2011
[5] Effective for annual periods beginning on or after 1 January 2013

IFRS 9 Financial Instruments introduces new requirements for the classification and measurements of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortized cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

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 the financial position of the Group.

3. Segment Information

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

For the six months ended 30 June 2010

	Second Tier Cities RMB'000	Shanghai RMB'000	Jiangsu RMB'000	Beijing RMB'000	Zhejiang RMB'000	Northeastern Region RMB'000	Sichuan RMB'000	Export RMB'000	Total RMB'000
Revenue									
External sales	87,482	37,939	38,076	26,462	25,226	14,084	16,470	6,970	252,709
Segment profit	38,808	23,027	16,574	16,860	11,667	6,057	8,547	2,671	124,211
Interest income									2,388
Other unallocated income									5,154
Unallocated expenses									(84,768)
Share of results of associates									(586)
Profit before tax									46,399

For the six months ended 30 June 2009

	Second Tier Cities RMB'000	Shanghai RMB'000	Jiangsu RMB'000	Beijing RMB'000	Zhejiang RMB'000	Northeastern Region RMB'000	Sichuan RMB'000	Export RMB'000	Total RMB'000
Revenue									
External sales	83,364	32,601	36,112	23,103	20,462	11,606	12,042	1,864	221,154
Segment profit	35,366	19,980	16,110	14,634	9,467	4,987	6,119	809	107,472
Interest income									4,077
Other unallocated income									3,070
Unallocated expenses									(74,864)
Share of results of associates									(972)
Profit before tax									38,783

Segment profit represents the gross profit earned by each segment without allocation of interest income, other income and expenses, selling and distribution expenses, administrative expenses, share of results of associates, finance costs and income tax. This is the measure reported to the board of directors for the purposes of resource allocation and performance assessment.

Assets and liabilities are not allocated to operating segments for the purpose of resource allocation and performance assessment.

4. Profit Before Tax

Profit before tax has been arrived at:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
After charging:		
Staff costs, including directors' remuneration		
— salaries, wages and other benefits	**20,842**	18,312
— retirement benefit scheme contributions	**1,747**	1,722
— equity-settled share-based payments	**1,204**	2,048
Total staff costs	**23,793**	22,082
Research and development expenditure	**2,483**	1,811
Depreciation of property, plant and equipment	**5,125**	3,789
Release of prepaid lease payments	**266**	263
Loss on disposal of property, plant and equipment	**29**	193
Auditor's remuneration	**725**	600
Net foreign exchange loss	**99**	33
Cost of inventories recognized as an expense *(note a)*	**128,498**	113,682
After crediting:		
Interest income	**2,388**	4,077
Government grants *(note b)*	**1,388**	818

Note a: Allowance for inventories obsolescence amounted to RMB1,268,000 (six months ended 30 June 2009: RMB1,074,000) has been recognized in the current period and included in the cost of inventories recognized as an expense.

Note b: Government grants mainly represent unconditional and non-recurring subsidies received from local authorities in accordance with the relevant rules and regulations.

5. Income Tax Expenses

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
The charge (credit) comprises:		
Current tax	**9,075**	7,595
Deferred tax *(note 10)*	**(1,556)**	891
	7,519	8,486

The PRC enterprise income tax is recognized based on management's best estimate of annual income tax rate expected for the full financial year which is 25% for both periods except for a subsidiary described below.

5. Income Tax Expenses *(continued)*

Pursuant to the relevant laws and regulations in the PRC, a subsidiary of the Company is entitled to exemption from PRC income tax for two years starting from their first profit making year, followed by a 50% reduction for the next three years ("Tax Holidays") under a 5-year transitional provision starting from 1 January 2008. The Tax Holidays will expire in 2010. The effective tax rate for the subsidiary for the current period is 11% (2009: 10%).

No provision for income tax has been made for the Company and group entities established in the British Virgin Islands and Hong Kong as they have no assessable income during the interim periods.

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 subsidiaries generated from 2008 onwards. A provision for such withholding income tax has been fully provided on the profits arisen during both periods from the PRC subsidiaries, which are available for distribution to its immediate holding company incorporated in Hong Kong.

6. Dividends

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Final dividend paid for 2009 of RMB0.06 (2009: RMB0.05 for 2008) per share on 709,000,000 shares	**42,540**	35,450

In respect of the current interim period, the directors propose that an interim dividend of RMB0.05 (2009: RMB0.05) per share in total amounting to RMB35,450,000 will be paid to shareholders whose names appear in the register of members of the Company on Wednesday, 22 September 2010. This dividend was declared after the interim reporting date, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Earnings		
Earnings for the purpose of basic earnings per share (profit attributable to owners of the Company)	**38,880**	30,297
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	**709,000,000**	709,000,000

Diluted earnings per share has not been presented for each of the six month periods ended 30 June 2009 and 2010 because the exercise price of the Company's options was higher than the average market price of the Company's shares during the interim periods when they were outstanding.

8. Movement in Property, Plant and Equipment

During the period, the Group incurred RMB226,000 (RMB1.8 million for the six months ended 30 June 2009) on the construction of its new manufacturing premises and RMB210,000 (RMB2 million for the six months ended 30 June 2009) on additions to machinery, motor vehicles and fixtures and equipment in the PRC.

9. Interests in Associates

	30 June 2010 RMB'000	31 December 2009 RMB'000
Cost of unlisted investment in associates	**27,000**	4,800
Share of post-acquisition losses	**(1,045)**	(459)
	25,955	4,341

As at 30 June 2010 and 31 December 2009, the Group had interests in the following associates:

		Proportion of ownership interest			
Name	**Place and date of establishment**	**30 June 2010**	31 December 2009	**Registered capital** RMB	**Principal activity**
Hangzhou AUPU Broni Kitchen & Bath Co., Ltd 杭州奧普博朗尼廚衛科技有限公司	Hangzhou 2 November 2009	**40%**	40%	30,000,000	Manufacture and distribution of electrical kitchen appliances and equipment
Chengdu Qianyin Investment Company Limited 成都牽銀投資有限公司	Chengdu 9 June 2010	**30%**	—	50,000,000	Investment of real estate and development of automotive service

10. Deferred Taxation

The following are the major deferred tax liabilities and assets recognized and the movements thereon, during the interim periods:

	Unrealized profit on inventories RMB'000	Other deductible temporary differences RMB'000	Withholding tax on retained profits to be distributed RMB'000	Total RMB'000
At 1 January 2009	6,374	4,985	(4,191)	7,168
(Charge) credit to profit for the period *(note 5)*	(3,067)	4,150	(1,974)	(891)
At 30 June 2009	3,307	9,135	(6,165)	6,277
At 1 January 2010	**3,919**	**9,042**	**(8,658)**	**4,303**
(Charge) credit to profit for the period *(note 5)*	**497**	**1,677**	**(618)**	**1,556**
At 30 June 2010	**4,416**	**10,719**	**(9,276)**	**5,859**

The following is the analysis of the deferred tax balances for financial reporting purpose:

	30 June 2010 RMB'000	31 December 2009 RMB'000
Deferred tax assets	**15,135**	12,961
Deferred tax liability	**(9,276)**	(8,658)
	5,859	4,303

Unrealized profit on inventories mainly represents unrealized profit on inter-branches/companies sales. Other deductible temporary differences refer to temporary differences on certain accrued charges.

11. Trade and Other Receivables

The Group allows an average credit period ranging from 0 to 90 days to its trade customers.

The following is an analysis of trade receivables by age, presented based on the invoice date:

	30 June 2010 RMB'000	31 December 2009 RMB'000
Trade receivables analyzed by age:		
Within 90 days	**49,937**	42,686
91–180 days	**1,634**	2,619
181–365 days	**1,050**	1,159
Over 365 days	**648**	721
Total trade receivables	**53,269**	47,185
Other receivables, deposits and prepayments	**8,718**	4,907
	61,987	52,092

12. 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 2010 RMB'000	31 December 2009 RMB'000
Trade payable analyzed by age:		
Within 90 days	**40,494**	49,823
91–180 days	**1,890**	1,061
181–365 days	**550**	485
Over 365 days	**1,165**	1,454
Total trade payables	**44,099**	52,823
Retention sum due to suppliers	**12,136**	12,796
Advances from customers	**16,855**	12,020
Sales commission accruals	**15,976**	17,992
Other accruals	**38,687**	38,730
	127,753	134,361

13. Share Capital

	Number of shares	Amounts HK$'000
Ordinary shares of HK$0.10 each		
Authorized:		
At 1 January 2009, 30 June 2009, 31 December 2009 and 30 June 2010	5,000,000,000	500,000

	Number of shares	Amounts HK$'000
Issued and fully paid:		
At 1 January 2009, 30 June 2009, 31 December 2009 and 30 June 2010	709,000,000	70,900

	30 June 2010 RMB'000	31 December 2009 RMB'000
Presented as RMB		
Ordinary shares	**71,860**	71,860

14. Share-Based Payments

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

	Number of share options
Outstanding at 1 January 2009	16,850,000
Forfeited during the period	(2,500,000)
Outstanding at 30 June 2009	14,350,000
Outstanding at 1 January 2010	13,350,000
Forfeited during the period	(1,300,000)
Outstanding at 30 June 2010	12,050,000

Except for the share options forfeited as disclosed above, there were no share options granted, exercised or expired during the current period.

15. Operating Lease Arrangements

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Minimum lease payments under operating leases recognized in the condensed consolidated statement of comprehensive income	**1,187**	1,969

At the end of the reporting period, the Group had outstanding commitments under operating leases, which fall due as follows:

	30 June 2010	31 December 2009
	RMB'000	RMB'000
Within one year	**1,164**	1,240
In the second to fifth year inclusive	**766**	914
	1,930	2,154

Operating lease payments represent rentals payable by the Group for certain branch offices and warehouses. Leases are negotiated for lease terms ranging from one to four years at inception with fixed rental.

16. Capital Commitments

Capital expenditure contracted for but not provided in the condensed consolidated financial statements:

	30 June 2010	31 December 2009
	RMB'000	RMB'000
Acquisition of property, plant and equipment	**4,863**	4,863

17. Related Party Transactions

(a) The following balance was outstanding at the end of the reporting period:

	30 June 2010 RMB'000	31 December 2009 RMB'000
Amount due from an associate	15	—
Amount due to an associate	—	1,895

The balances due from/to related party are unsecured, interest free and payable on demand.

(b) The remuneration of directors and other members of key management during the reporting period was as follows:

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Short-term employee benefits	625	481
Post-employment benefits	28	23
Share-based payments	187	152
	840	655

18. Subsequent Event

On 25 August 2010, the Board recommends the Company to issue bonus shares by way of capitalization of the Company's share premium account to the shareholders on the basis of one (1) share for every two (2) shares held by the shareholders whose names appear on the register of members on 24 September 2010. The bonus issue is subject to approval by the shareholders in the forthcoming Extraordinary General Meeting and the Listing Committee granting the listing of and permission to deal in the bonus shares to be issued.

Business and Finance Review

Revenue

Information reported to the chief operating decision maker for the purposes of resource allocation and performance assessment focuses more specifically on the geographical location of customers in the PRC. The Group's reportable segments under IFRS 8 are therefore as follows:

a. Second-Tier Cities
b. Shanghai
c. Jiangsu
d. Beijing
e. Zhejiang
f. Northeastern Region
g. Sichuan
h. Export

The revenue of the Group for the six months ended 30 June 2009 and 2010 are analysed as follows:

	Six months ended 30 June 2010		Six months ended 30 June 2009	
	RMB'000	**RMB'000**	RMB'000	RMB'000
	Revenue	**Gross profit**	Revenue	Gross profit
Second-Tier Cities	**87,482**	**38,808**	83,364	35,366
Shanghai	**37,939**	**23,027**	32,601	19,980
Jiangsu	**38,076**	**16,574**	36,112	16,110
Beijing	**26,462**	**16,860**	23,103	14,634
Zhejiang	**25,226**	**11,667**	20,462	9,467
Northeastern Region	**14,084**	**6,057**	11,606	4,987
Sichuan	**16,470**	**8,547**	12,042	6,119
Export	**6,970**	**2,671**	1,864	809
Total	**252,709**	**124,211**	221,154	107,472

For the six months ended 30 June 2010, the revenue of the Group amounted to approximately RMB252.7 million, representing an increase of approximately 14.3% as compared with the revenue which amounted to approximately RMB221.1 million for the six months ended 30 June 2009. The increase in revenue was mainly attributable to the increase in revenue of both AUPU Bathroom Master and Roof 1+N. The revenue of AUPU Bathroom Master 3-in-1 and exhaust fans accounted for approximately 72.6% and 67.8% of the Group's total revenue for the six months ended 30 June 2009 and 2010 respectively.

In particular, the revenue from Shanghai increased from approximately RMB32.6 million for the six months ended 30 June 2009 to approximately RMB37.9 million for the six months ended 30 June 2010, representing an increase of approximately RMB5.3 million or approximately 16.4%. For the six months ended 30 June 2010, the revenue from Beijing amounted to approximately RMB26.5 million, representing an increase of approximately 14.5% as compared with the revenue from Beijing which amounted to approximately RMB23.1 million for the six months ended 30 June 2009.

The revenue of AUPU Bathroom Roof 1+N amounted to approximately RMB74.5 million for the six months ended 30 June 2010, representing an increase of approximately 27.4% as compared with the revenue of AUPU Bathroom Roof 1+N which amounted to approximately RMB58.5 million for the six months ended 30 June 2009.

Costs of sales

For the six months ended 30 June 2010, the costs of sales of the Group amounted to approximately RMB128.5 million, representing an increase of approximately 13% as compared with the costs of sales which amounted to approximately RMB113.7 million for the six months ended 30 June 2009.

For the six months ended 30 June 2010, the costs of parts and components, direct labour and overhead represented approximately 90.6% and 9.4% of the total costs of sales respectively while the costs of parts and components, direct labour and overhead for the six months ended 30 June 2009 represented approximately 91.1% and 8.9% of the total costs of sales in the same period respectively.

Gross profit and gross profit margin

Gross profit increased from approximately RMB107.5 million for the six months ended 30 June 2009 to approximately RMB124.2 million for the six months ended 30 June 2010, representing an increase of approximately 15.6%. Overall gross profit margin increased from approximately 48.6% for the six months ended 30 June 2009 to approximately 49.2% for the six months ended 30 June 2010. The increase in gross profit margin was due to the adjustment of the price that had been determined at the beginning of the year and the mix structure of products.

Other income

Other income increased from approximately RMB7.1 million for the six months ended 30 June 2009 to approximately RMB7.5 million for the six months ended 30 June 2010.

Selling and distribution expenses

The selling and distribution expenses amounted to approximately RMB63.1 million for the six months ended 30 June 2010. It mainly consisted of advertising expenses of approximately RMB16 million, sales promotion expenses of approximately RMB9.9 million, salary expenses of sales and marketing staff of approximately RMB16.2 million, after-sales services expenses of approximately RMB1.9 million and transportation expenses of approximately RMB7.2 million.

The selling and distribution expenses amounted to approximately RMB55.9 million for the six months ended 30 June 2009. It mainly consisted of advertising expenses of approximately RMB12.9 million, sales promotion expenses of approximately RMB8.9 million, salary expenses of sales and marketing staff of approximately RMB15.5 million, after-sales services expenses of approximately RMB2.9 million and transportation expenses of approximately RMB6.0 million.

The increase in selling and distribution expenses for the six months ended 30 June 2010 as compared with the six months ended 30 June 2009 was mainly due to the increase in advertising expenses, salary expenses of sales and marketing staff and sales promotion expenses.

Administrative expenses

The administrative expenses amounted to approximately RMB17.4 million for the six months ended 30 June 2010. It mainly comprised of salary expenses of general and administrative staff of approximately RMB7.2 million, depreciation of approximately RMB2 million, professional fees and related disbursements of approximately RMB2.8 million and office expenses of approximately RMB1.4 million and the amortisation of share option cost about RMB1.2 million.

The administrative expenses amounted to approximately RMB16.0 million for the six months ended 30 June 2009. It mainly consisted of salary expenses of general and administrative staff of approximately RMB5.8 million, depreciation of approximately RMB1.9 million, professional fees and related disbursements of approximately RMB2.4 million, office expenses of approximately RMB1.1 million and the amortisation of share options costing about RMB2.0 million.

The increase in administrative expenses for the six months ended 30 June 2010 as compared with the six months ended 30 June 2009 was mainly due to the increase in the salary expenses of general and administrative staff.

Other expenses

Other expenses increased from approximately RMB2.9 million for the six months ended 30 June 2009 to approximately RMB4.2 million for the six months ended 30 June 2010 due to the growth in the sales in spare parts.

Profit before tax

Based on the above factors, the Group's profit before tax increased from approximately RMB38.8 million for the six months ended 30 June 2009 to approximately RMB46.4 million for the six months ended 30 June 2010, representing an increase of approximately 19.6%.

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 the national economic and technology development zone in the PRC. In accordance with the PRC 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 is entitled to obtain approval from the relevant tax authority for an exemption from the 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. As 2006 was the first taxable profit-making year for AUPU Technology, no provision for taxation has been made in respect of the estimated assessable profit of AUPU Technology for both the six months ended 30 June 2006 and 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 took effect beginning 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 for 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 from the existing preferential enterprise income tax rate to 9%, 10%, 11%, 24% and 25% for the years ended 2008 and 2009, and for the years ending 2010, 2011 and 2012, respectively, while the applicable income tax rate of AUPU Electrical is 25% from 2008 onwards.

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

Therefore, the income tax expenses of the Group decreased from approximately RMB8.5 million for the six months ended 30 June 2009 to approximately RMB7.5 million for the six months ended 30 June 2010 and the effective tax rate decreased from approximately 21.9% for the six months ended 30 June 2009 to approximately 16.2% for the six months ended 30 June 2010.

Profit and total comprehensive income attributable to owners of the Company

Profit and total comprehensive income attributable to owners of the Company increased from approximately RMB30.3 million for the six months ended 30 June 2009 to approximately RMB38.9 million for the six months ended 30 June 2010.

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 2010 and the year ended 31 December 2009:

	Six months ended 30 June 2010	Year ended 31 December 2009
Inventory turnover days *(Note)*	**56**	54

Note: The inventory turnover days for the year ended 31 December 2009 is arrived at by dividing the average inventories by cost of sales and then multiplying by 365 while the inventory turnover days for the six months ended 30 June 2010 is arrived at by dividing the average inventories by cost of sales and then multiplying by 182. 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. The turnover days of inventory increased from 54 days for the year ended 31 December 2009 to 56 days for the six months ended 30 June 2010. The figures for both of the two periods are considered to be at a reasonable level.

Turnover days of trade receivables

The following table sets out the summary of the Group's turnover days of trade receivables for the six months ended 30 June 2010 and the year ended 31 December 2009:

	Six months ended 30 June 2010	Year ended 31 December 2009
Turnover days of trade receivables *(Note)*	**27**	30

Note: The turnover days of trade receivables for the year ended 31 December 2009 is arrived at by dividing the average trade receivables by revenue and then multiplying by 365 while the turnover days of trade receivables for the six months ended 30 June 2010 is arrived at by dividing the average trade receivables by revenue and then multiplying by 182. 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. Trade receivables are arrived at by deducting the bill receivables at the end of the period. The turnover days of trade receivables decreased from 30 days for the year ended 31 December 2009 to 27 days for the six months ended 30 June 2010. The figures for both of the two periods are considered to be at a reasonable level.

Aging analysis of trade receivables

The aging analysis of trade receivables of the Group as at 30 June 2010 and 31 December 2009 is as follows:

Trade receivables analysed by age:

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Within 90 days	**49,937**	42,686
91–180 days	**1,634**	2,619
181–365 days	**1,050**	1,159
Over 365 days	**648**	721
Total trade receivables	**53,269**	47,185

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. No material long outstanding trade receivables were identified at the end of the current period.

Turnover days of trade payables

The following table sets out the summary of the Group's turnover days of trade payables for the six months ended 30 June 2010 and the year ended 31 December 2009:

	Six months ended 30 June 2010	Year ended 31 December 2009
Turnover days of trade payables *(Note)*	**69**	44

Note: The turnover days of the trade payables for the year ended 31 December 2009 is arrived at by dividing average trade payables by cost of sales and then multiplying by 365 while the turnover days of the trade payables for the six months ended 30 June 2010 is arrived at by dividing average trade payables by cost of sales and then multiplying by 182. 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 44 days for the year ended 31 December 2009 to 69 days for the six months ended 30 June 2010. The figures for both of the two periods are considered to be at a reasonable level.

Aging analysis of trade payables

The aging analysis of trade payables of the Group as at 30 June 2010 and 31 December 2009 is as follows:

Trade payables analysed by age:

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Within 90 days	**40,494**	49,823
91–180 days	**1,890**	1,061
181–365 days	**550**	485
Over 365 days	**1,165**	1,454
Total trade payables	**44,099**	52,823

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.

Current ratio, quick ratio and gearing ratio

The current ratio, quick ratio and gearing ratio of the Group as at 30 June 2010 and 31 December 2009 were as follows:

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Current ratio	**2.37**	2.36
Quick ratio	**2.06**	2.16
Gearing ratio	**0.00**	0.00

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 2.36 times as at 31 December 2009 to 2.37 times as at 30 June 2010. The quick ratio decreased from approximately 2.16 times as at 31 December 2009 to 2.06 times as at 30 June 2010 due to a decrease in time deposits. The Group had a gearing ratio of zero as at 31 December 2009 and zero as at 30 June 2010.

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 2009 and 2010:

	Six months ended 30 June 2010 RMB'000	Six months ended 30 June 2009 RMB'000
Net cash generated from operating activities	**2,331**	81,174
Net cash generated from (used in) investing activities	**75,980**	(160,858)
Net cash (used in) generated from financing activities	**(42,540)**	111,320

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 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 bank borrowings.

Operating activities

Cash inflow from operations is mainly derived from cash receipts 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 generated from operating activities was approximately RMB2.3 million for the six months ended 30 June 2010 while there was a net cash inflow in the amount of approximately RMB81.2 million for the six months ended 30 June 2009.

Investing activities

Net cash generated from investing activities was approximately RMB76 million for the six months ended 30 June 2010 which was primarily attributable to a net increase in time deposit of approximately RMB96 million and external investments of approximately RMB22 million. Net cash used in investing activities was approximately RMB160.9 million for the six months ended 30 June 2009 which was primarily attributable to an increase in the pledged bank deposits of approximately RMB147 million.

Financing activities

Net cash used in financing activities was approximately RMB42.5 million for the six months ended 30 June 2010 while net cash generated from financing activities was approximately RMB111.3 million for the six months ended 30 June 2009. Such a decrease was attributable to proceeds from short-term bank loans.

Indebtedness

Borrowings

As at the close of business on 30 June 2010, the Group had no bank borrowings.

Bank facilities

As at the close of business on 30 June 2010, the Group did not have any banking facilities.

Debt securities

As at the close of business on 30 June 2010, the Group did not have any debt securities.

Contingent liabilities

As at the close of business on 30 June 2010, the Group did not have any material contingent liabilities or guarantees.

Pledge of Assets

As at the close of business on 30 June 2010, the Group did not have any pledge of assets.

Capital Commitments and Other Commitments

As at 30 June 2010, the capital expenditure contracted for but not provided in respect of acquisition of property, plant and equipment amounted to approximately RMB4,863,000 and the Group had no other significant capital commitment other than those mentioned above.

Human Resources

The Group employed approximately 1,379 people on 30 June 2010 (about 1,206 people on 31 December 2009). The total personnel cost of the Group was RMB23.8 million for the six months ended 30 June 2010 (six months ended 30 June 2009: RMB22.1 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. The Group had implemented share option schemes three times from 2007 to 2008 in order to attract and retain senior employees.

Future Prospects

In the first half of 2010, the world economy was running steadily, as the economy continued to pick up and China's domestic market saw a revitalized growing trend. During the first six months, a series of regulatory policies targeting at the real estate industry introduced by the Chinese government had resulted in a short-term decrease in real estate investment in some medium and large cities. However, the Directors believe that there remains a strong and obvious demand for real estate and therefore, investment in consumer property will continue to grow. The government's further initiatives on large scale affordable housing construction will provide more room for development in the markets for bathroom fitting consumer products such as bathroom master and ceiling solutions for a fairly long period of time in the future.

The Directors believe that with the rapid improvement in the living standards in China's small to medium cites, rural areas and towns, as well as the huge demand for bathroom fitting consumer products as a result of rural consumers' increased disposable income, the market capacity in small to medium cites and towns is expected to expand further. The Company is now actively exploring this type of markets.

Driven by the domestic demand in the overall household consumption market and coupled with the solid support from the gradually recovering real estate market, consumption activities and the development trend looked rather promising. Diversified urban housing development would foster the rapid development of bathroom fitting products and services. In particular, the launch of the "奥芯" series, AUPU's new generation integrated ceiling solutions, has led to the enhancement of the Group's technical edge and fostered the development of technical standards applicable to ceiling solutions industry. This provided a new opportunity for the Group to focus on creating a new generation of brand featuring comfortable, highly efficient, safe, energy conserved and compatible bathroom consumer products in the second half of the year.

In February 2001, the Group was selected as a State-supported high-tech enterprise and benefited from the preferential tax rate policy. The Directors believe that in the second half of 2010, the Group should make use of streamlined channels to strengthen the core business of bathroom master and increase the strategic growth of the high-tech series of integrated ceiling solutions. With the layout of diversified channels and united strength, the Group should continue with the implementation of optimized integrated management so as to enhance our corporate value and competitiveness.

Brand Name Management

The Directors consider that brand name management is critical to the success of the Group. The Group put strong emphasis on AUPU's branding and promotion of the Group's corporate image and publicity which has become our important competitive advantage to help the Group to establish a leading position in the bath master industry. AUPU debuted on the list of "China's 500 Most Influential Brands" in 2007, ranking No. 376 according to the World Brand Laboratory, representing a brand value of RMB1.623 billion. AUPU not only remained on the list in 2008 and 2009 consecutively, but also rose up steadily on the list's rankings. Being an iconic brand in the bathroom master industry, AUPU was named in July 2008 as one of the iconic brands in China. In 2009, the Group was ranked top ten in the kitchen and bathroom ceiling solutions industry under the Top 100 Kitchen and Bathroom Product Manufacturers List. In June 2010, the Group participated in the Global Manufacturer Certificate ("GMC") global tour, as part of the 2010 Shanghai Expo, to promote the AUPU brand. At present, the Group has successfully positioned itself as a brand name operator, providing quality and highly efficient services through the AUPU brand.

Management of Sales and Distribution Channels

The Directors believe that the sales network is the lifeline of the Group. In the first half of 2010, the Group had six branches, 14 representative offices and 4,800 points of sale across major cities and autonomous regions in China. Currently, the Group's sales network has been streamlined from the traditional linear channel. The Group's channel chain used to comprise of individual agents, first tier dealers, second tier dealers and end stores, which was likely to result in higher prices of end products and destroy the sales pricing system. Presently, the Group has consciously reduced the number of middle-man and shortened the supply chain. The Group has begun to reform some large regional agents by reducing their responsible areas. Furthermore, the Group can explore the potential of the markets to the largest extent by building diversified channels. In addition to the channel of household electrical appliances mega store (KA), AUPU closely monitors the development trend of building materials, construction, home fitting, new rural areas and electronic commerce channels. We focus on the emergence and development of new sales models and would not neglect any beneficial sales channels. Due to the launch of more consumer oriented products, our expansion in the new rural markets and electronic commerce has generated results and experienced growth gradually. Diversified sales channels also help diversify the Group's operational risks.

In the future, the Group will consciously reform the sales terminals so as to strengthen our competitiveness by enhancing the image and sales experience, as well as the design and services.

Product Development Capability

The Directors believe that a strong product development capacity is critical for success in the household electrical appliances industry. This is also instrumental for the Group to maintain our market leader position in China's bathroom master market, and increase the market share of other products sold under the AUPU brand.

The Group is planning our core product direction in 2010. In the future, AUPU products will be developed on the basis of three dimensions: bathroom master (point), ceiling solutions (surface), and integration between bathroom and kitchen (space). With the provision of more services such as design and installations, the added value of our future products will be even higher.

As of 30 June 2010, among the 144 patents obtained by the Group, four were invention patents, 33 were utility new model patents and 107 were appearance design patents. The approved and authorized high-tech patents protected our product edge, and set market access barriers for rivals effectively.

In the second half of 2010, the focus of AUPU's research and development ("R&D") will be energy-saving, flat and intelligent products. This will allow the recycled use of product heat, enhance the coordination and integration between products and ceilings, and improve quality and functions.

Joint Venture Companies

Established in November 2009, the joint venture company Hangzhou AUPU Bathroom & Kitchen Technology Co. Ltd. (AUPU Technology) mainly focuses on R&D, manufacture and sales of kitchen electrical appliances and cabinets. At present, AUPU Technology has completed its R&D, manufacture and market launch of environmental friendly stoves and also generated sales. Recently, the company has achieved a balanced financial performance on a monthly basis. The Directors believe that the sales of environmental friendly stoves will provide opportunity for the Group to explore the kitchen electrical appliances market.

In June 2010, the Group established a joint venture company in Chengdu with a registered capital of RMB50 million, and which was owned as to 30% by the Group. The Directors consider the Chengdu project an investment for increasing and maintaining the book value of cash by leveraging on the Company's reputation. However, the investment amount should be controlled and the investment shall not affect the development of the Company's core businesses, nor the profit sharing ratio assured by the Company. The Directors believe that the amount of capital announced in June 2010 is sufficient for the normal operation of the Chengdu project.

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 condensed 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 as summarized below.

Foreign currency risk

The Group's exposure to foreign currency risk arises mainly from: (1) the exchange rate movements of Hong Kong Dollars as most of the Group's bank deposits are 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 the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are 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 be received.

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

Other Information

Purchase, Sale or Redemption of Securities

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 (the "Board") hereby confirms that the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the period for the six months ended 30 June 2010.

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 to 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 consist of 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 which was established in compliance with Rule 3.21 of the Listing Rules and the relevant code provisions of the Code on Corporate Governance Practices. On the date of this announcement, the Audit Committee consists of three independent non-executive directors, namely, 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 2010, the Group had totally utilised approximately of RMB231.8 million out of the proceeds from the new share issue mainly for the construction of new production plants (including the acquisition of a piece of land for a new production plant).

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 2010.

Directors' and Chief Executive's Interests and Short Positions in Shares

As at 30 June 2010, the interests and short positions of the Directors and the chief executive 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. *Long position 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/ Associated Company
Mr. Fang James *(Note 2)*	The Company	Interest in controlled corporation *(Note 2)*	476,000,000 (L)	67.14%
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 controlled corporation *(Note 2)*	476,000,000 (L)	67.14%
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	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 (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	a. share options with rights to subscribe 150,000 shares at a subscription price of HK$2.23 per share (L)	0.02%
			b. share options with rights to subscribe 100,000 shares at a 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 a subscription price of HK$2.23 per share (L)	0.01%
			b. share options with rights to subscribe 50,000 shares at a 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 a subscription price of HK$2.23 per share (L)	0.01%
			b. share options with rights to subscribe 50,000 shares at a subscription price of HK$1.55 per share (L)	0.01%

Note:

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

Other than as disclosed above, none of the Directors or 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 2010.

Share Option 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) Purposes 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) 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) 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 representing 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 as at the date of this Interim Report.

(4) 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 remained 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 shall not exceed 10 years from the Date of Grant of the relevant option (the "Exercise Period").

(6) 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:

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) 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 terms as shall be determined by the Board when such Options shall be offered to the Participants.

(8) 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");

(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) 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 5,000,000 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 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 a 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 Company's total issued share capital as at the date of this Interim Report) to middle and senior management of the Company (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 a 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.

On 3 January 2008, the Board granted additional 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 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 a 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.

As at 30 June 2010, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 12,050,000, representing 1.70% of the share of the Company in issue as at that date. Among the share options granted, Directors were granted options entitling them 1,900,000 shares of the Company but 1,400,000 of which were lapsed as at 30 June 2010. Details of the options granted to the Directors as at 30 June 2010 are set out in the section headed "Directors' and Chief Executives' interests and Short Positions".

As at 30 June 2010, 12,050,000 outstanding 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** *(HK$)*	**Number of options originally granted**	**Exercised**	**Cancelled or lapsed**	**Outstanding as at 30 June 2010**	**Percentage of total issued share capital**	**Vesting period**	**Notes**
Directors								
Sun Lijun	2.23	700,000	0	700,000	0	0%	16/3/2008–15/3/2017	1,4,7,8
	1.55	700,000	0	700,000	0	0%	3/1/2008–2/1/2017	3,6,7,8
Wu Tak Lung	2.23	150,000	0	0	150,000	0.02%	16/3/2008–15/3/2017	1,4,7,8
	1.55	100,000	0	0	100,000	0.01%	3/1/2008–2/1/2017	3,6,7,8
Shen Jianlin	2.23	75,000	0	0	75,000	0.01%	16/3/2008–15/3/2017	1,4,7,8
	1.55	50,000	0	0	50,000	0.01%	3/1/2008–2/1/2017	3,6,7,8
Cheng Houbo	2.23	75,000	0	0	75,000	0.01%	16/3/2008–15/3/2017	1,4,7,8
	1.55	50,000	0	0	50,000	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	0	1,800,000	2,200,000	0.31%	8/6/2008–15/3/2017	1,4,7,8
Other employees in aggregate for Second Batch Share Options	3.11	6,450,000	0	1,600,000	4,850,000	0.68%	16/3/2008–7/6/2017	2,5,7,8
Other employees in aggregate for Third Batch Share Options	1.55	7,200,000	0	2,700,000	4,500,000	0.63%	3/1/2008–2/1/2017	3,6,7,8
Total		19,550,000	0	7,500,000	12,050,000	1.70%		

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 a 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$2.18 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 a 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. 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 a 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. The closing price per share immediately before the date on which the options were 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. The closing price per share immediately before the date on which the options were 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. The closing price per share immediately before the date on which the options were granted was HK$1.55.

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

8. Up to 30 June 2010, none of these share options were exercised or cancelled. An aggregate 7.5 million share options were lapsed due to the resignation of the relevant staff.

Substantial Shareholders

As at 30 June 2010, 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)*	67.14%
Zhang Shuqing *(Note 3)*	Family interest	476,000,000 (L)	67.14%

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 2010, 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.

Pre-Emptive Rights

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

Interim Dividend

The Board is pleased to declare that an interim dividend of RMB0.05 per share for the six months ended 30 June 2010 will be payable in cash on or before Friday, 8 October 2010 to the shareholders whose names appear on the register of members of the Company (the "Register of Members") on Wednesday, 22 September 2010. The interim dividend in cash 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 Wednesday, 22 September 2010.

Bonus Issue

The Board is also pleased to recommend a proposed bonus issue of new shares of the Company (the "Bonus Shares") to the shareholders of the Company (the "Shareholders") on the basis of one (1) share for every two (2) shares of the Company held by the shareholders whose names appear on the Register of Members on Friday, 24 September 2010. The Bonus Shares will be credited as fully paid at par and will rank *pari passu* with the existing issued ordinary shares of the Company in all respects from the date of issue. The bonus issue is conditional, inter alia, upon:

(1) the approval of the bonus issue by the Shareholders at the Extraordinary General Meeting ("EGM") scheduled for Monday, 27 September 2010; and

(2) the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing and permission to deal in the Bonus Shares to be issued pursuant to the bonus issue.

Application will be made to the Listing Committee of The Stock Exchange of Hong Kong Limited for the listing of, and permission to deal in, the Bonus Shares to be issued pursuant to the bonus issue.

Further announcement will be made by the Company setting out further details of the bonus issue.

Subject to fulfillment of the above conditions, certificates for the Bonus Shares are expected to be despatched to the Shareholders on or before Friday, 8 October 2010. A circular containing details of the bonus issue for approval by the Shareholders at the EGM to be held on Monday, 27 September 2010 will be despatched to Shareholders as soon as practicable.

Closure of the Register of Members

The Register of Members will be closed from Tuesday, 21 September 2010 to Friday, 24 September 2010, both days inclusive, during which period no share transfer will be effected. In order to qualify for the 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 Monday, 20 September 2010.

Publication of Detailed Interim Results 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
Mr. James Fang
Chairman

Hong Kong, 25 August 2010