AUPU GROUP HOLDING COMPANY LIMITED

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

(Stock Code: 00477)

Annual Report 2010

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CORPORATE INFORMATION

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

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COMPANY SECRETARY

Leung Wah *(CPA, ACA, FCCA)*

AUTHORISED REPRESENTATIVES

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Fang Shengkang

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CHAIRMAN'S STATEMENT

I hereby on behalf of the Board of Directors (the "**Board**" or "the "**Directors**") presented the report of AUPU Group Holding Company Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") for the financial year ended 31 December 2010, and expressed my heartfelt gratitude on behalf of the Board to the shareholders and everyone that cares about the development of the Group.

FINANCIAL REVIEW

Turnover of the Group for the year ended 31 December 2010 was approximately RMB524,461,000, representing a decrease of 3.15% when compared with the corresponding period of the previous year. Profit attributable to equity holders was approximately RMB79,325,000, representing a decrease of 13.82% when compared with that of last year. Basic earnings per share were approximately RMB0.07. The Board recommended the payment of a final dividend of RMB0.04 per share for the year ended 31 December 2010. The Group's financial position remained healthy and stable, free from any enterprise and syndicated debts. As at 31 December 2010, the Group's cash and cash equivalents amounted to approximately RMB246,919,000. We have sufficient cash flow generated from our operation and enough cash for dividend distribution and investment. Inventory of the Group was still controlled at a reasonable level of RMB42,071,000, which was 27.72% higher when compared with RMB32,940,000 in 2009. Trade receivables amounted to approximately RMB62,403,000, accounting for only 11.90% of the total sales, and the turnover ratio was 29 days. Our financial quality has been maintained at a relatively high level standard.

BUSINESS REVIEW

In the second half of 2010, following the promulgation of a series of unprecedented regulatory measures relating to the real estate sector by the government of China, the entire real estate market had been under a major correction where consumers began to change their investment attitude from "wait-and-see" to "give up buying". The real estate and related industries were experiencing a downturn where the housing available for renovation and fitting continued to fall. The Group faced tremendous pressure and challenges as a result. Undoubtedly, the sales performance of the Group for 2010, particularly in the second half of the year, was not satisfactory and the results were below expectation. However, from an overall perspective, the operating and financial conditions of the Company were substantially the same as those in the previous years. We are also confident to turn this around and achieve sales breakthrough in the coming years.

As at 31 December 2010, the Group had six branches and 14 offices in China, covering the major cities and municipalities. Our strategic bathroom ceiling business performed well and actively cooperated with the real estate companies and household improvement companies. We operate more than 4,800 points of sale through the Company and distributors. In particular, we have 842 specialty stores and three Kitchen & Sanitary Lifestyle Stores (奧普廚衛生活館). The Company was again accredited as the No. 1 enterprises among the top 10 bathroom ceiling manufacturers awarded for the "Top 100 Kitchen & Sanitary Ware Enterprises in China" (中國廚衛百強吊頂企業十強).

It is undeniable that the falling sales and profitability of the Company for 2010 were closely related to factors such as the macro market conditions, limited channel breakthrough and regulations on the market pricing mechanism. In addition, certain integrated bathroom ceiling solution manufacturers misused the trademark of "AUPU" in their product packaging, advertisements or even their logos and publicity to a large extent. Such improper competition resulted in market confusion and affected the sales of the Group to a certain extent. At the beginning of 2011, the Administration for Industry and Commerce of Zhejiang Province took action to examine and punish such "fake brands" to safeguard the sales interests of the Group's "AUPU" brand.

In 2010, our bathroom master product was granted the "Originality Award of Small Home Appliance in China" and our brand new flat series was launched. Our AUPU brand new flat series adopts an innovative structural design and utilizes a unique technique of flat angle seaming and 180° infix. It is more environmentally friendly as it is equipped with the heat recovery energy-saving technology.

FUTURE PROSPECTS

In the near term, the real estate industry in China, is still beset with uncertainties. This is particularly so as the government steps up its regulatory measures. Market sentiments remain pessimistic, resulting in a decline in property investment in some medium and large cities in the short run. However, as the rigid demand for real estate remains strong, property purchases by home buyers will continue to grow for a fairly lengthy period of time in the days to come. 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 masters and ceiling solutions for a fairly long period of time in the future.

The Company's business will focus on development of energy-saving and intelligent products, so that the energy of the products can be recycled, improving the compatibility and integration of our products and our ceiling solutions, whilst bringing convenience to our product users.

Currently, the Group has identified that our single product operation and lack of new product support will become the bottleneck for future growth. In 2011, the Company has rolled out the concept of "AUPU Kitchen & Sanitary Lifestyle Stores" (奧普廚衛生活館) as product revamp, restructuring and upgrade initiatives, integrating sanitary & bathroom product mix and kitchen & electrical product mix into the concept of "AUPU Kitchen & Sanitary Lifestyle Stores" (奧普廚衛生活館), and included such ideas into our recent strategic development.

In 2011, the Group's sales proposals will focus on regulating the market pricing mechanism, strengthening channel breakthrough (especially KA, projects, e-commerce and new rural channels), enhancing AUPU's market share, and fostering sales of bathroom ceiling solutions and marketing of kitchen and sanitary lifestyle stores. Accordingly, more flexible measures will be adopted to control the gross profit margin. The Company predicts that the industry competition will focus on services. The demand for customized products will increase. Our comprehensive product solutions and customer interactions will be enhanced. We will improve AUPU's pre-sales and after-sales services to drive sales based on quality services.

APPRECIATION

Last but not least, on behalf of the Board, I would like to take this opportunity to express my gratitude to the management and the staff for their valuable contribution and dedication. I would also like to extend my deepest appreciation to the Group's shareholders and business partners for their unwavering support. We will endeavor to maintain business growth and adhere to the policy of distributing no less than 35% of the Company's net profit as dividends every year so as to generate attractive returns to our shareholders.

By order of the Board
Fang James
Chairman

Hong Kong, The PRC,
24 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCE REVIEW

Revenue

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance.

However, 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 People's Republic of China (the "PRC"). The Group's reportable segments under IFRS 8 are therefore as follows:

(a) Second Tier Cities

(b) Shanghai

(c) Jiangsu

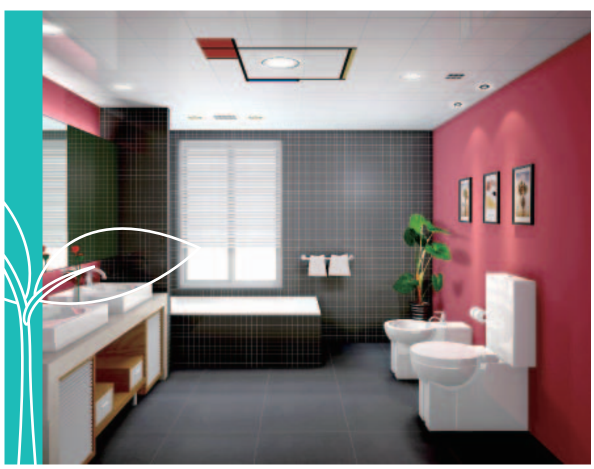
(d) Beijing

(e) Zhejiang

(f) Northeastern Region

(g) Sichuan

(h) Export



The revenue of the Group for the years ended 31 December 2009 and 2010 are analyzed as follows:

	Year ended 31December 2010		Year ended 31 December 2009	
	RMB'000 Revenue	RMB'000 Gross profit	RMB'000 Revenue	RMB'000 Gross profit
Second Tier Cities	184,016	80,558	191,678	86,074
Shanghai	69,031	41,295	74,447	45,561
Jiangsu	74,871	33,168	82,183	34,008
Beijing	57,780	35,841	61,964	39,644
Zhejiang	51,810	23,329	54,161	23,800
Northeastern Region	27,699	11,161	34,272	15,107
Sichuan	42,072	21,865	38,106	19,334
Export	17,182	6,239	4,694	1,609
Total	524,461	253,456	541,505	265,137

For the year ended 31 December 2010, the revenue of the Group amounted to approximately RMB524,461,000, representing a decrease of approximately 3.1% as compared with the revenue which amounted to approximately RMB541,505,000 for the year ended 31 December 2009. The decrease in revenue was mainly attributable to the decrease in revenue from some major cities. The revenue from bathroom masters slightly decreased from approximately RMB371,289,000 for the year ended 31 December 2009 to RMB325,287,000 for the year ended 31 December 2010, representing a decrease of approximately RMB46,002,000 or approximately 12.4%. The revenue of bathroom masters accounted for approximately 68.6% and 62.0% of the Group's total revenue for the year ended 31 December 2009 and 2010 respectively.

At the same time, the revenue of bathroom roofs increased from approximately RMB151,481,000 for the year ended 31 December 2009 to approximately RMB161,469,000 for the year ended 31 December 2010, accounting for approximately 30.8% of the Group's total revenue for the year ended 31 December 2010 and representing an increase of approximately 6.6% as compared with that of the year ended 31 December 2009.

Moreover, second tier cities were the major markets of the Group for the year ended 31 December 2010, accounting for 35.1% (Year 2009: 35.4%) of the Group's sales.

Costs of sales

For the year ended 31 December 2010, the costs of sales of the Group amounted to approximately RMB271,005,000, and the costs of parts and components, direct labour and overheads represented approximately 90.1% and 9.9% of the total costs of sales respectively while for the year ended 31 December 2009, the costs of sales of the Group amounted to approximately RMB276,368,000, and the costs of parts and components, direct labour and overheads represented approximately 90% and 10.0% of the total costs of sales respectively. The reason for the change was the increase in the costs of parts and components during the year ended 31 December 2010.

Gross profit and gross profit margin

Gross profit decreased from approximately RMB265,137,000 for the year ended 31 December 2009 to approximately RMB253,456,000 for the year ended 31 December 2010, representing a decrease of approximately 4.4%. Overall gross profit margin decreased from approximately 49.0% for the year ended 31 December 2009 to approximately 48.3% for the year ended 31 December 2010 because of an increase in the proportion of sales from second tier cities that in general had lower profit margin than that of sales from other cities.

Other income

Other income decreased from approximately RMB19,446,000 for the year ended 31 December 2009 to approximately RMB14,357,000 for the year ended 31 December 2010 mainly due to the decrease in interest income.

Selling and distribution expenses

The selling and distribution expenses amounted to approximately RMB122,982,000 for the year ended 31 December 2010. It mainly comprised advertising expenses of approximately RMB27,707,000, sales promotion expenses of approximately RMB18,334,000, salaries expenses of sales and marketing staff of approximately RMB32,136,000, after sales services expenses of approximately RMB4,048,000 and transportation expenses of approximately RMB14,880,000. The selling and distribution expenses amounted to approximately RMB122,340,000 for the year ended 31 December 2009. It mainly comprised advertising expenses of approximately RMB27,060,000, sales promotion expenses of approximately RMB19,338,000, salaries expenses of sales and marketing staff of approximately RMB29,959,000, after sales services expenses of approximately RMB6,529,000 and transportation expenses of approximately RMB15,947,000. The selling and distribution expenses for the year ended 31 December 2010 as compared with that of the year ended 31 December 2009 were kept stable.

Administrative expenses

The administrative expenses amounted to approximately RMB41,586,000 for the year ended 31 December 2010. It mainly comprised salaries expenses of general and administrative staff of approximately RMB16,971,000, depreciation of approximately RMB4,558,000, professional fees of approximately RMB8,434,000, office expenses of approximately RMB1,937,000 and option premium of approximately RMB1,939,000. The administrative expenses amounted to approximately RMB35,032,000 for the year ended 31 December 2009. It mainly comprised salaries expenses of general and administrative staff of approximately RMB13,243,000, depreciation of approximately RMB3,719,000, professional fees of approximately RMB4,830,000, office expenses of approximately RMB2,688,000 and option premium of approximately RMB3,543,000. The administrative expenses for the year ended 31 December 2010 has significantly increased by RMB6,554,000 as compared with that of the year ended 31 December 2009 mainly due to a significant increase in both the salaries expenses of general and administrative staff and professional fees.

Other expenses

Other expenses decreased from approximately RMB9,797,000 for the year ended 31 December 2009 to approximately RMB7,877,000 for the year ended 31 December 2010 due to a decrease in the cost of non-operating expenses.

Profit before tax

Based on the above factors, the Group's profit before tax significantly decreased from approximately RMB115,983,000 for the year ended 31 December 2009 to approximately RMB94,606,000 for the year ended 31 December 2010, representing a decrease of approximately 18.4%.

Income tax expenses

	2010 RMB'000	2009 RMB'000
The charge (credit) comprises:		
Current tax		
— PRC Enterprise Income Tax	14,249	21,068
— withholding tax paid	3,407	—
Deferred tax		
— current year	(2,375)	2,865
	15,281	23,933

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 both years.

PRC enterprise income tax is calculated at the prevailing tax rate on the taxable income of the group entities in the PRC at the rate of 25%.

Pursuant to the relevant laws and regulations in the PRC, one of the subsidiaries of the Company, Hangzhou Aupu Bathroom & Kitchen Technology Co., Ltd. ("AUPU Technology") is entitled to exemption from PRC income tax for two years starting from its first profit making year, followed by a 50% reduction for the next three years ("Tax Holidays") from 2006. The Tax Holidays expired in 2010.

The Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") provides a five year transition period from its effective date for those enterprises which were established before the promulgation date of the EIT Law and which were entitled to a preferential lower tax rate. The applicable tax rate for AUPU Technology is changed to 9%, 10%, 11%, for the years 2008, 2009 and 2010, respectively.

In accordance with PRC tax circular (Guoshuihan [2008] 112) effective from 1 January 2008, PRC withholding income tax at the rate of 10% is applicable to dividends to "non-resident" investors who do not have an establishment or place of business in the PRC. According to the "Arrangement between the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income" and Guoshuihan [2008] 112, where the Hong Kong resident company directly owns at least 25% of the capital of the PRC company, a 5% dividend withholding tax rate is applicable. A provision for such withholding income tax has been made on the profits arisen during both years from the PRC subsidiaries, which are available for distribution to Tricosco Limited, a Hong Kong subsidiary of the Company.

Due to the above situation, the income tax charge of the Group decreased from approximately RMB23,933,000 for the year ended 31 December 2009 to approximately RMB15,281,000 for the year ended 31 December 2010.

Profit for the year and total comprehensive income attributable to owners of the Company

Profit for the year and total comprehensive income attributable to owners of the Company decreased from approximately RMB92,050,000 for the year ended 31 December 2009 to approximately RMB79,325,000 for the year ended 31 December 2010. The net profit margin (stated in its percentage of revenue) decreased from approximately 17.0% for the year ended 31 December 2009 to approximately 15.1% for the year ended 31 December 2010.

ANALYSIS OF FINANCIAL POSITION

Inventory turnover

The following table sets out the summary of the Group's inventory turnover days during the two years ended 31 December 2009 and 2010:

	Year ended 31 December	
	2010	2009
Inventory turnover days *(Note)*	51	54

Note:

The inventory turnover period is arrived at by dividing average inventories by cost of sales and then multiplying by 365 for the two years ended 31 December 2010. Average inventories is arrived at by dividing the sum of the inventories at the beginning of year and that at the end of the year by 2. Inventory primarily comprised parts and components and finished goods. For the year ended 31 December 2009, inventory turnover period was 54 days. For the year ended 31 December 2010, inventory turnover period decreased to 51 days due to the slight improvement in inventory management in the year of 2010 over the same period last year.

Turnover days of trade receivables

The following table sets out the summary of the Group's turnover days of trade receivables during the two years ended 31 December 2009 and 2010:

	Year ended 31 December	
	2010	2009
Turnover days of trade receivables *(Note)*	29	30

Note:

The turnover days of trade receivables is arrived at by dividing average trade receivables by revenue and then multiplying by 365 for the two years ended 31 December 2010. Average trade receivables is arrived at by dividing the sum of the trade receivables at the beginning of the year and that at the end of the year by 2.

The turnover days of trade receivables only decreased from 30 days for the year ended 31 December 2009 to 29 days for the year ended 31 December 2010 as the management took more proactive actions to maintain the level of overdue debts at a reasonable level around the year end of 2010.

Aging analysis of trade receivables

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

	At 31 December	
	2010	2009
	RMB'000	RMB'000
Trade receivables analysed by age:		
Within 90 days	56,959	42,686
91–180 days	3,773	2,619
181–365 days	763	1,159
Over 365 days	908	721
Total trade receivables	62,403	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.

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

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB5,444,000 (2009: RMB4,499,000) which are past due as at the end of the reporting period for which the Group has not provided impairment loss, as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience. The Group does not hold any collateral over these balances.

For the remaining trade receivables which are neither past due nor impaired, the management considers that no allowance for doubtful debts were necessary based on the good payment history of the related debtors from historical experience. No allowance has been made for each of the years ended 31 December 2010 and 2009.

Other receivables

The following table sets out the breakdown of other receivables of the Group at 31 December 2009 and 2010:

	At 31 December	
	2010	2009
	RMB'000	RMB'000
Interest receivables	**834**	987
Prepayments	**500**	2,253
Utilities and rental deposits	**1,846**	112
Staff advances	**836**	421
Others	**1,987**	1,134
Total other receivables	**6,003**	4,907

The increase in the balance of other receivables as at 31 December 2010 when compared with that as at 31 December 2009 was mainly attributable to an increase in utilities and rental deposits.

Turnover days of trade payables

The following table sets out the summary of the Group's turnover days of trade payables during the two years ended 31 December 2009 and 2010:

	Year ended 31 December	
	2010	2009
Turnover days of trade payables *(Note)*	**73**	44

Note:

The turnover days of trade payables are arrived at by dividing average trade payables by cost of sales and then multiplying by 365 for the two years ended 31 December 2010. Average trade payables are arrived at by dividing the sum of the trade payables at the beginning of year and that at the end of the year by 2. The turnover days of trade payables substantially increased from 44 days for the year ended 31 December 2009 to 73 days for the year ended 31 December 2010 as the Group is granted a longer credit term.

Aging analysis of trade payables

The aging analysis of trade payables of the Group for the two years ended 31 December 2009 and 2010 is as follows:

	At 31 December	
	2010	2009
	RMB'000	RMB'000
Trade payables analysed by age:		
Within 90 days	53,132	49,823
91–180 days	1,825	1,061
181–365 days	48	485
Over 365 days	217	1,454
Total trade payables	55,222	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 monitors the level of trade payable balances.

Other financial liabilities

Other financial liabilities mainly include retention sum due to suppliers, advances from customers, payable for the acquisition of property, plant and equipment, sales commission accruals and other accruals.

Retention sum due to suppliers

To ensure the products quality of suppliers, the Group retains a deposit representing 1% 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.

Advances from customers

The advances from customers mainly represent sales made to authorised agents and distributors who are required to pay in advance before the delivery of goods.

Other accruals

Other accruals mainly included advertising fee, payroll payables, and other accruals.

Overall, the balance of other payables as at 31 December 2010 when compared with that as at 31 December 2009 remains stable.

Current ratio, quick ratio and gearing ratio

The current ratio and gearing ratio of the Group for the two years ended 31 December 2010 and 2009 were as follows:

	Year ended 31 December	
	2010	2009
Current ratio	2.35	2.36
Quick ratio	2.08	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. Quick ratio is calculated as total current assets excluding inventories divided by total current liabilities at the end of the year. Gearing ratio is arrived at by dividing the total external financing debt by total assets at the end of the corresponding year. The numbers in the above table are expressed in the form of ratio and not as a percentage.

The current ratio and quick ratio are both kept stable as at 31 December 2010 at a healthy position as compared with those as at 31 December 2009.

The Group had a zero gearing ratio as at both 31 December 2009 and 2010 as the Group did not have external bank loans or borrowings as at both 31 December 2009 and 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 during the two years ended 31 December 2009 and 31 December 2010:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Net cash from operating activities	52,519	177,592
Net cash used in investing activities	(18,326)	(40,542)
Net cash used in financing activities	(77,766)	(71,207)

The Group's working capital mainly comes from net cash from operating activities during the year ended 31 December 2010. 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 if necessary, by additional equity financing or bank borrowings.

Operating activities

Cash inflow from operations is mainly derived from cash receipt from sales of the Group's products. Cash outflow from operations is principally generated for the purchase of parts and components, staff costs, selling and distribution expenses and administrative expenses. Net cash from operating activities was approximately RMB177,592,000 and RMB52,519,000 for the year ended 31 December 2009 and 31 December 2010.

Net cash from operating activities for the year ended 31 December 2010 was approximately RMB52,519,000, while profit before tax was approximately RMB94,606,000 for the same period. The difference of approximately RMB42,087,000 was mainly caused by the adjustment of approximately RMB10,257,000 made on the depreciation of property, plant and equipment, equity-settled share-based payments expenses in the amount of approximately RMB1,939,000, interest income of approximately RMB4,461,000 and movements in working capital in the amount of approximately RMB49,822,000.

Net cash from operating activities for the year ended 31 December 2009 was approximately RMB177,592,000, while profit before tax was approximately RMB115,983,000 for the same year. The difference of approximately RMB61,609,000 was mainly caused by the adjustment of approximately RMB9,059,000 made on the depreciation of property, plant and equipment, equity-settled share-based payments expenses in the amount of approximately RMB3,543,000, interest income approximately totaling RMB6,575,000 and movements in working capital in the amount of approximately RMB55,582,000.

Investing activities

Net cash used in investing activities was approximately RMB18,326,000 for the year ended 31 December 2010 which was primarily attributable to investments in associates in the amount of approximately RMB22,200,000 while net cash used in investing activities were approximately RMB40,542,000 for the year ended 31 December 2009 which was primarily attributable to purchases of property, plant and equipment in the amount of approximately RMB26,242,000.

Financing activities

Net cash from financing activities was approximately RMB77,766,000 for the year ended 31 December 2010, mainly including approximately RMB77,990,000 for dividends paid during the year ended 31 December 2010. Net cash used in financing activities was approximately RMB71,207,000 for the year ended 31 December 2009, also mainly due to approximately RMB70,900,000 for dividends paid during the year ended 31 December 2009.

INDEBTEDNESS

Borrowings

As at the close of business on 31 December 2010, the Group had no outstanding borrowings.

Bank facilities

As at the close of business on 31 December 2010, the Group did not have any banking facilities.

Debt securities

As at the close of business on 31 December 2010, the Group did not have any debt securities.

Contingent liabilities

As at the close of business on 31 December 2010, the Group did not have any material contingent liabilities or guarantees.

Capital commitments and other commitments

As at 31 December 2010, the future aggregate minimum lease payments under non-cancellable operating lease in respect of rental properties amounted to approximately RMB1,929,000 and the Group had capital commitment amounted to approximately RMB5,328,000 in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statement.

HUMAN RESOURCES

The Group employed approximately 1,222 people as at 31 December 2010 (about 1,206 people as at 31 December 2009). The total personnel cost of the Group was RMB49,228,000 for the year ended 31 December 2010 (2009: RMB45,924,000). Employees' remuneration packages are based on individual experience and job duties. The packages are reviewed annually by the management who takes into account the overall performance of the 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.

FUTURE PROSPECTS

Market Prospects

In the near term, the real estate market in China is still beset with uncertainties. This is particularly so as the government steps up its regulatory measures. Market sentiments remain pessimistic, resulting in a decline in property investment in some medium and large cities in the short run. However, as the rigid demand for real estate remains strong, property purchases by home buyers will continue to grow for a fairly lengthy period of time in the days to come. 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 masters and bathroom ceiling solutions for a fairly long period of time in the future.

Products and Research & Development

The Directors consider that the Company's business will focus on the development of energy-saving and intelligent products so that the energy of the products can be recycled, improving the compatibility and integration of our products and our ceiling solutions, whilst bringing convenience to our product users.

Currently, the Directors have identified that our single product operation and lack of new product support will become the bottleneck for future growth. In 2011, the Company has rolled out the concept of "AUPU Kitchen & Sanitary Lifestyle Stores" (奧普廚衛生活館) as product revamp, restructuring and upgrade initiatives, integrating sanitary & bathroom product mix (including bathroom masters, bathroom ceilings and exhaust fans) and kitchen & electrical product mix (including environmentally friendly stoves and open kitchen cabinets) into the concept of "AUPU Kitchen & Sanitary Lifestyle Stores" (奧普廚衛生活館), and included such ideas into our recent strategic development.

In February 2010, Hangzhou Aupu Bathroom & Kitchen Technology Co., Ltd., a subsidiary of the Group, was accredited by the state as a high-tech enterprise and is expected to be benefited from the relevant preferential tax policies. The Directors believe that strong product development capability is a key to success in the household electrical appliance industry and that it plays a very important role in enabling the Group to maintain its leading market position in China's bathroom master industry and in boosting the market share of other products sold under AUPU brand name. At present, the Group has obtained 190 approved and authorized technical patents. Of which, three were invention patents and 40 were utility new model patents and 147 were design patents. The approved and authorized high-tech patents protected the sophistication of our product and effectively set market entry barriers for peers.

Sales and Marketing Network in China

The Directors consider that, the Group's sales proposals will focus on regulating the market pricing mechanism, strengthening channel breakthrough (especially KA, projects, e-commerce and new rural channels), enhancing AUPU's market share, and fostering sales of bathroom ceiling solutions and enhancing the promotion of our kitchen and sanitary lifestyle stores. As at 31 December 2010, the Group had more than 4,800 points of sale, 842 specialty stores and three Kitchen & Sanitary Lifestyle Stores (奧普廚衛生活館), six branches and 14 offices, as well as 475 franchise agents covering the major cities and municipalities in 28 provinces and autonomous regions in China. The Directors believe that in 2011, in anticipation of the progress in the development of our project channels and e-commerce channels, coupled with the sourcing of agents through the new rural market channel as well as the upgrade and integration with existing agents, AUPU's sales channels in China are expected to further diversify.

INVESTMENT DECISIONS

In 2010, our associate, Hangzhou AUPU Broni Kitchen & Bath Co., Ltd ("Hangzhou Broni") completed the research and development, production and market launch of downdraft environmental-friendly stoves, open kitchen cabinets, small-size kitchen electrical appliances. A considerable amount of sales of such products was recorded in 2010. Since the second half of 2010, Hangzhou Broni basically achieved breakeven. The Directors consider that the sales of environmental-friendly stoves will give opportunities for the Group to tap into the kitchen electrical appliance market.

In 2010, the Company also invested RMB15 million in the establishment of an associate, Chengdu Qianyin Investment Company Limited, which the Group held 30% equity interest. The Company is actively applying to the local government for a piece of land for the operation of industrial creative design business so as to extend the associate's business from automobile services at its conceptual stage to industrial creative design business.

At the beginning of 2011, the Company decided to invest RMB15 million in Zhejiang Haibang Human Resources Venture Partnership (浙江海邦人才創業投資合夥企業) ("Zhejiang Haibang"). Zhejiang Haibang focuses on returnees' high-tech venture projects that are strongly supported by the government and which are in line with the emerging strategic industries and which aim at achieving capital appreciation by way of public listing of the target company on local or overseas stock exchanges or share transfer. The Directors consider that our indirect investment in the returnees' high-tech venture projects will provide the Group with a platform for high-tech projects or application technologies.

PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of RMB0.04 per share for the year ended 31 December 2010 to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 12 May 2011. The proposed dividend is subject to the approval of the shareholders at the forthcoming annual general meeting to be held on Thursday, 12 May 2011 and will be payable on or before 1 June 2011.

REVIEW BY THE AUDIT COMMITTEE

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, 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 financial results for the year ended 31 December 2010 have been reviewed by the audit committee of the Company (the "**Audit Committee**"). On the date of this report, the audit committee consists of three independent non-executive directors, including Mr. Wu Tak Lung (Chairman), Mr. Cheng Houbo and Mr. Shen Jianlin and one non-executive director, Mr. Lu Songkang.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Fang James (**方杰**) ("Mr. Fang"), aged 47, is an executive Director and the chairman of the Company, and two wholly-owned subsidiaries of the Company, namely, AUPU Electrical and AUPU Technology. Mr. Fang directs the strategic growth and development of the Group, with responsibility for reviewing implementation of the Board's policies and decisions and representing the Group in communications with the media and external parties. Mr. Fang founded AUPU Electrical in 1993. Mr. Fang has been a director of AUPU Electrical and AUPU Technology since 1993 and 2004 respectively. Mr. Fang holds a bachelor degree in History from Shanghai Normal University, the PRC and a Foreign Experts Certificate (外國專家證) (Foreign Experts Working in the Fields of Economics and Technology) issued by the State Administration of Foreign Experts Affairs, the PRC (國家外國專家局). He is also the president of the Hangzhou Overseas Chinese Chamber of Commerce (杭州市僑商協會). Mr. Fang was awarded a "Certificate of West Lake Friendship" (西湖友誼獎) by Zhejiang Provincial People's Government and "First Award for Outstanding Achievements of Overseas Chinese Professionals" (首屆華僑華人專業人士傑出創業獎) by Overseas Chinese Affairs Office of the State Council of the PRC (國務院僑務辦公室) in 2004 and 2005 respectively. Mr. Fang is a cousin of Mr. Fang Shengkang, a director and substantial shareholder of the Company.

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

Mr. Fang Shengkang (**方勝康**) ("Mr. Fang"), aged 58, is an executive Director, President of the Company, chairman of the remuneration committee and the general manager of AUPU Electrical and AUPU Technology. Mr. Fang is responsible for overseeing the day-to-day operations of the Group and the implementation of the Board's policies and decisions, including execution of annual business plan and investment plan. Mr. Fang has been with the Group since its establishment in 1993 and has been a director and general manager of AUPU Electrical and AUPU Technology since 1993 and 2004 respectively. In 2000, he received commendation from the Hangzhou City People's Government as a "Model Employee" and served as the Hangzhou Deputy to the 10th National People's Congress (杭州市第十屆人大代表). Mr. Fang is a cousin of Mr. Fang James. Mr. Fang is also a senior economist of the Zhejiang province.

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

Mr. Chai Junqi (**柴俊麒**) ("Mr. Chai"), aged 60, is an executive Director and is responsible for research and development. He is also responsible for managing and co-ordinating the marketing activities of the Company and its subsidiaries (together the "Group"), and the management of the sales, after-sales, marketing, the branch offices and the sales and distribution centres of the Group. Mr. Chai first joined the Group in 1994 and was responsible for production and product development of the Group. He was an assistant general manager of AUPU Electrical in April 2000 and resigned in October 2000 based on personal grounds. Mr. Chai re-joined the Group in January 2003 and was a deputy general manager of AUPU Electrical from April 2003 to January 2006. Mr. Chai has been a director of AUPU Electrical and AUPU Technology since November 2004 and September 2004 respectively. Mr. Chai was appointed as the executive president of Hangzhou Aupu Electrical Appliances Co., Ltd. in February 2009 and was re-designated from a non-executive Director to an executive Director with effect from 5 February 2009. Mr. Chai holds a master's degree in Technology from Zhejiang University, the PRC.

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

NON-EXECUTIVE DIRECTORS

Mr. Lu Songkang (**盧頌康**) ("Mr. Lu"), aged 59, is a non-executive Director and is responsible for providing advice on financial matters of the Group. Mr. Lu is a member of the Audit Committee. He joined AUPU Electrical in August 1994 as an accountant of AUPU Electrical and was promoted to manager of the finance department and chief financial officer of AUPU Electrical in July 1999 and May 2001 respectively. Mr. Lu was a director of AUPU Electrical from May 2000 to November 2004. Mr. Lu was responsible for overseeing and managing financial matters of AUPU Electrical until August 2004 when Mr. Lu resigned as the chief financial officer of AUPU Electrical. Mr. Lu became a consultant of AUPU Electrical in January 2005 and stayed in this position until July 2006 when he was appointed as a non-executive Director. Mr. Lu passed the Chinese Institute of Certified Public Accountants ("CICPA") National Uniform Examination of Certified Public Accountants in May 1995 and is a member of the CICPA.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wu Tak Lung (**吳德龍**) ("Mr. Wu"), aged 45, is an independent non-executive Director. He is currently a director and head of listing sponsor department of Ample Capital Limited. Mr. Wu is also an independent non-executive director of China Water Industry Group Limited, Neo-Neon Holdings Limited, iMerchants Limited, and AKM Industrial Company Limited, all of which are listed on the Stock Exchange of Hong Kong Limited. Mr. Wu had served as independent non-executive director of Finet Group Limited and Apollo Solar Energy Technology and leaved in 2010. Mr. Wu has worked in an international audit firm, Deloitte Touche Tohmatsu, for five years, and then served several listed companies in Hong Kong and had served as head of corporate finance, chief financial officer and executive director. Mr. Wu obtained a master's degree in Business Administration jointly awarded by the University of Manchester and the University of Wales in 2001. Mr. Wu is a fellow member of the Association of Chartered Certified Accountants, Hong Kong Institute of Chartered Secretaries and the Taxation Institute of Hong Kong. He is also a member of the Hong Kong Securities Institute and an associate member of the Hong Kong Institute of Certified Public Accountants. He was appointed as an independent non-executive Director on 16 November 2006.

Mr. Cheng Houbo (**程厚博**) ("Mr. Cheng"), aged 48, is an independent non-executive Director. He is currently the president of Shenzhen OFC Investment Management Ltd. (深圳東方富海投資管理有限公司). Mr. Cheng graduated from Zhejiang University with a bachelor degree in Optical Instrumentation and Engineering in 1982 and obtained a master's degree in Engineering in 1989. Mr. Cheng has extensive experience in investment and corporate finance. Mr. Cheng is the vice chairman of Shenzhen Venture Capital Association (深圳創業投資同業公會副會長), vice chairman of Shenzhen Promotion Association of Small &Medium Enterprise (深圳中小企業促進會副會長), vice chairman of Shenzhen Financial Consultant Association (深圳金融顧問協會副會長) and was ranked first amongst the China Top 10 Venture Capital Investment Managers (中國十佳基金投資人第一名) in 2002. He was appointed as an independent non-executive Director on 16 November 2006.

Mr. Shen Jianlin (**沈建林**) ("Mr. Shen"), aged 43, is an independent non-executive Director. He is also the director and senior partner of Shulun Pan Certified Public Accountants Co., Ltd. (立信長江會計師事務所有限公司). Mr. Shen was also an independent director of Jishan Holdings Limited (稽山控股有限公司), a company listed in Singapore, from March 2004 to May 2005. Mr. Shen graduated from the Institute of Hangzhou Electronic Industry (杭州電子工業學院) with a bachelor degree in Industrial Accounting. He has extensive experience in auditing and corporate finance. Mr. Shen is a member of the CICPA. He was appointed as an independent non-executive Director on 16 November 2006.

SENIOR MANAGEMENT

Mr. Leung Wah (**梁華**) ("Mr. Leung"), aged 46, is the company secretary and chief financial officer of the Company. Mr. Leung joined the Group on 14 July 2006. He graduated with a degree of Bachelor of Science from the University of Hong Kong in 1987. Mr. Leung has experience in finance and accounting including working experience in international accounting firms. He is a member of the Hong Kong Institute of Certified Public Accountants, a member of Institute of Chartered Accountants in England and Wales and a fellow member of the Association of Chartered Certified Accountants.

Mr. Fan Yirun (**范毅潤**) ("Mr. Fan"), aged 49, is the administrative general manager (行政管理總監) of AUPU Electrical and is responsible for administration, human resources, legal matters, Information Center and infrastructure work of the Group. Mr. Fan has extensive experience in office administration. Mr. Fan joined the Group in June 1999 as the manager of administration department and was the deputy general manager of AUPU Electrical from October 2005 to January 2007. Mr. Fan is qualified as an assistant statistician. Mr. Fan was also received commendation as a "Model Employee of Hangzhou" in 2007.

Mr. Dai Changyin (**戴昌銀**) ("Mr. Dai"), aged 46, is the assistant to executive president of AUPU Electrical. Mr. Dai has experience in accounting and finance. Mr. Dai joined AUPU Electrical in January 2000 and was the deputy manager of the finance department of AUPU Electrical from September 2000 to May 2001. He was the manager of the finance department of AUPU Electrical from May 2001 to August 2004 and was the chief financial controller of AUPU Electrical from August 2004 to October 2005. Mr. Dai was a deputy general manager of the finance department of AUPU Electrical from October 2005 to January 2007. Mr. Dai completed the studies of Accountancy at the Zhejiang University of Finance and Economics in 2001 and has been registered with the Chinese Institute of Certified Public Accountants (CICPA) since June 2000.

COMPANY SECRETARY

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

DIRECTORS' REPORT

The Directors present the annual report for 2010 and the audited consolidated financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. The activities of its principal subsidiaries are set out in note 29 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 45. The Directors recommend the payment of a final dividend of RMB0.04 per share to the shareholders whose names appear on the Company's register of members on 12 May 2011.

OPERATING RESULT

The profit and total comprehensive income for the current year attributable to owners of the Company amounted to approximately RMB79,325,000, which represents an decrease of 13.82% over that of approximately RMB92,050,000 for the year 2009.

MAJOR CUSTOMERS AND SUPPLIERS

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

In 2010, the Group's largest supplier accounted for 27.09% (2009: 33.45%) and the 5 largest suppliers combined accounted for 55.80% (2009: 57.09%) of the total purchase of the Group.

Aggregate sales attributable to the Group's five largest customers were less than 30% of the total turnover of the Group in both the years of 2010 and 2009.

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements of property, plant and equipment of the Group during the year are set out in note 11 to the consolidated financial statements.

SHARE CAPITAL

Neither of the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year. Details of movements of share capital of the Company during the year are set out in note 20 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company had a profit in the amount of RMB27,585,484 for the year ended 31 December 2010 and has an accumulated losses of RMB88,780,979 as at 31 December 2010 and no other reserves were available for distribution to shareholders as at 31 December 2010. In order to ensure that there will be sufficient distributable reserves for payment of the final dividends declared, the Company requested its subsidiaries to make profit distribution before 31 May 2011.

DIRECTORS

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

Executive Directors

Mr. Fang James
Mr. Fang Shenkang
Mr. Chai Junqui

Non-executive Directors

Mr. Lu Songkang

Independent non-executive Directors

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

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

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a new service contract with the Company, and Mr. Fang James and Mr. Fang Shenkang are appointed for an initial term of three years commencing from 16 November 2009, while Mr. Chai Junqui, executive Director, is appointed for an initial term of three years commencing from 5 February 2009. Each of these service contracts may be terminated by either party thereto giving to the other not less than three months' prior notice in writing.

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at 31 December 2010, the interests and short positions of the Directors and the chief executives in the shares, underlying shares and debentures of the Company or of any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

I. Interests in the Company and associated corporations

Name of director	Company/name of associated company	Capacity	Number of issued ordinary shares of the Company/associated company 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)*	676,000,000 (L)	63.42%
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)*	676,000,000 (L)	63.42%
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	1,080,000	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. *On 27 September 2010, the bonus shares issue on the basis of 1 bonus share for every two shares issued was approved at the general meeting of the Company. The number of shares held in the Company by SeeSi Universal Limited was changed to 714,000,000 shares. On 10 December 2010, SeeSi Universal Limited disposed of 38,000,000 shares at HK$1.18 per share.*
3. *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.*
4. *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.*
5. *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. Upon the approval at the general meeting of the Company held on 27 September 2010 of the bonus shares issue on the basis of one bonus share for every two shares held by shareholders whose names appear on the register of members of the Company on 24 September 2010, the number of shares which Mr. Fang Shekang held was changed to 1,080,000 shares.*

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 *(Note 2)*	The Company	Beneficial owner	a. share options with rights to subscribe 225,000 shares at a subscription price of HK$1.49 per share (L)	0.02%
			b. share options with rights to subscribe 60,000 shares at a subscription price of HK$1.03 per share (L)	0.01%
Mr. Cheng Houbo	The Company	Beneficial owner	a. share options with rights to subscribe 112,500 shares at a subscription price of HK$1.49 per share (L)	0.01%
			b. share options with rights to subscribe 75,000 shares at a subscription price of HK$1.03 per share (L)	0.01%
Mr. Shen Jianlin	The Company	Beneficial owner	a. share options with rights to subscribe 112,500 shares at a subscription price of HK$1.49 per share (L)	0.01%
			b. share options with rights to subscribe 75,000 shares at a subscription price of HK$1.03 per share (L)	0.01%

Notes:

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

2. *Mr. Wu Tak Lung exercised 90,000 subscription rights at the price of HK$1.03 per share in November 2010.*

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 31 December 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) 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) 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 1,065,900,000 shares as at the date of 31 December 2010.

(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 soon 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 Annual Report) to the three independent non-executive Directors of the Company and certain senior management of the Group (collectively the "First Batch Grantees") as an incentive and reward to the First Batch Grantees for their contribution to the Group.

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

On 8 June 2007, the Directors resolved to grant share options entitling the holders to subscribe for a total of 6,450,000 shares of the Company (representing approximately 0.91% of the total issued share capital of the Company as at the date of this Annual Report) to middle and senior management of the Company (collectively referred as the "Second Batch of Grantees") 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 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 Annual 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.

On 27 September 2010, the bonus shares issue on the basis of one bonus share for every two shares held to shareholders whose names appeared on the register of members on 24 September 2010 was approved at the general meeting, pursuant to which the number of options and exercise price were adjusted accordingly as follows:

Before bonus share issue:

Option Type	Date of Grant	Number of Shares	Exercise Period	Exercise Price	Fair Value at Grant Date
First Phase	16/03/2007	5,000,000	16/3/2008 to 15/3/2017	HK$2.23	HK$1.41 to HK$1.61
Second Phase	8/6/2007	6,450,000	8/6/2008 to 7/6/2017	HK$3.11	HK$1.41 to HK$2.01
Third Phase	3/1/2008	8,100,000	3/1/2008 to 2/1/2017	HK$1.55	HK$0.58 to HK$0.66

After bonus share issue:

Option Type	Date of Grant	Adjusted Number of Shares	Exercise Period	Adjusted Exercise Price
First Phase	16/03/2007	7,500,000	16/3/2008 to 15/3/2017	HK$1.49
Second Phase	8/6/2007	9,675,000	8/6/2008 to 7/6/2017	HK$2.07
Third Pase	3/1/2008	12,150,000	3/1/2008 to 2/1/2017	HK$1.03

As at 31 December 2010, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 15,675,000, representing 1.47% of the share of the Company in issue as at that date. Among the share options granted, Directors were granted options entitling them 2,850,000 shares of the Company, 2,100,000 of which have lapsed. Details of the options granted to the Directors as at 31 December 2010, are set out in the section headed "Directors' and Chief Executives' interests and Short Positions".

As at 31 December 2010, 15,675,000 (2009: 20,025,000) share options granted to eligible Directors and employees of the Group were still outstanding and details are as follows:

Name or category of participant	Exercise price (HK$)	Maximum number of shares that may be subscribed under share options: Outstanding as at 1 January 2010	Exercised in 2010	Cancelled or lapsed in 2010	Outstanding as at 31 December 2010	Percentage of total issued share capital	Vesting period	*Notes*
Directors								
Wu Tak Lung	1.49	225,000	0	0	225,000	0.02%	16/3/2008 –15/3/2017	*1,4,7,8,9*
	1.03	150,000	90,000	0	60,000	0.01%	3/1/2008 –2/1/2017	*3,6,7,8,9*
Shen Jianlin	1.49	112,500	0	0	112,500	0.01%	16/3/2008 –15/3/2017	*1,4,7,8,9*
	1.03	75,000	0	0	75,000	0.01%	3/1/2008 –2/1/2017	*3,6,7,8,9*
Cheng Houbo	1.49	112,500	0	0	112,500	0.01%	16/3/2008 –15/3/2017	*1,4,7,8,9*
	1.03	75,000	0	0	75,000	0.01%	3/1/2008 –2/1/2017	*3,6,7,8,9*
Other employees in aggregate for First Batch Share Options	1.49	3,300,000	0	0	3,300,000	0.31%	8/6/2008 –15/3/2017	*1,4,7,8,9*
Other employees in aggregate for Second Batch Share Options	2.07	8,625,000	0	1,350,000	7,275,000	0.68%	16/3/2008 –7/6/2017	*2,5,7,8,9*
Other employees in aggregate for Third Batch Share Options	1.03	7,350,000	2,310,000	600,000	4,400,000	0.42%	3/1/2008 –2/1/2017	*3,6,7,8,9*
Total		20,025,000	2,400,000	1,950,000	15,675,000	1.47%		

Notes:

1. *On 16 March 2007, the Directors resolved to grant share options pursuant to the Share Option Scheme adopted by the Company on 16 November 2006. On the same day, the Company granted share options entitling the holders to subscribe for a total of 5.0 million shares of the Company to the three independent non-executive Directors of the Company and certain senior management of the Group (collectively referred as the "First Batch of Grantees") as an incentive and reward to the First Batch of Grantees for their contribution to the Group. The share options were granted at an exercise price of HK$2.23 and the exercise period is such period not exceeding ten years from the date of the grant of the share options. The closing price of the Company's shares was HK$2.18 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 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 Annual 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. 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 interest held by the relevant participants as beneficial owner.*

8. *Up to 31 December 2010, none of these share options were exercised or cancelled. An aggregate 11.25 million share options were lapsed due to the resignation of the relevant staff.*

9. *On 27 September 2010, the bonus shares issue on the basis of one bonus share for every two shares held to shareholders whose names appeared on the register of members on 24 September 2010 was approved at the general meeting, pursuant to which the number of options and exercise price were adjusted accordingly.*

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance (i) between the Company or its subsidiary and its holding company, its controlling shareholder, or any of its fellow subsidiaries or (ii) subsidiaries in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACT

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 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	Approximate percentage of issued share capital of the Company
SeeSi Universal Limited *(Note 1)*	Beneficial owner	676,000,000 (L) *(Note 2)*	63.42%
Zhang Shuqing *(Note 3)*	Family interest	676,000,000 (L)	63.42%

Notes:

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

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

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

All the interests stated above represent long positions. Save as disclosed above, as at 31 December 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.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CONNECTED TRANSACTIONS

The Group has not engaged in any connected transactions (as defined in the Listing Rules) with the controlling shareholders, Directors or chief executives of the Company or their respective associates during the year.

INTERESTS IN COMPETITORS

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

EMOLUMENT POLICY

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

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme is set out in the Section headed "Share Option Scheme" in Appendix Six of the Prospectus of the Company dated 27 November 2006.

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") under rules and regulations of the Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All the employees of the Group in Hong Kong are required to join the MPF Scheme. Contributions are made based on a percentage of the employees' salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. No forfeited contribution is available to reduce the contribution payable in the future years as at 31 December 2010.

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

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within knowledge of its Directors as at the latest practicable date prior to the issue of the annual report, the Company has maintained a sufficient public float throughout the period from 1 January 2010 to 31 December 2010.

PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of RMB0.04 per share for the year ended 31 December 2010 to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 12 May 2011. The proposed dividend is subject to the approval of the shareholders at the forthcoming annual general meeting to be held on Thursday, 12 May 2011 and will be payable on or before 1 June 2011.

CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed from Monday, 9 May 2011 to Thursday, 12 May 2011 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and attending the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 6 May 2011.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S 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 hereby confirms that the Company has complied with the Code on Corporate Governance Practices specified in Appendix 14 to the Listing Rules throughout the year ended 31 December 2010 .

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the year, 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 year with the required standards set out in the Model Code and the Code.

REVIEW BY THE AUDIT COMMITTEE

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, 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 financial results for the year ended 31 December 2010 have been reviewed by the audit committee of the Company (the "**Audit Committee**"). On the date of this report, the audit committee consists of three independent non-executive directors, including Mr. Wu Tak Lung (Chairman), Mr. Cheng Houbo and Mr. Shen Jianlin and one non-executive director, Mr. Lu Songkang.

AUDITORS

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

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

Hong Kong, 24 March 2011

CORPORATE GOVERNANCE REPORT

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

The Group has also appointed a qualified accountant as its Chief Financial Officer to oversee the financial reporting procedures and internal controls of the Group so as to ensure compliance with the Listing Rules. In addition, the internal audit division of the Group which directly reports to the Audit Committee of the Board has followed and analyzed the specific progress of the reforms being carried out in various departments. The internal audit division of the Group will select various parts of the management process during different periods of time and conduct analysis and review.

To further enhance the Group's corporate governance and its transparency, the Company has established the Remuneration Committee to review the implementation of the then remuneration policy and formulate new one for subsequent period.

The Group has also implemented a compliance manual which covers areas such as ongoing compliance obligations of the Company and the Directors, business operations of the Group, financial management systems, human resources management systems, internal control systems, quality assurance and property management systems.

FUNCTIONS OF THE BOARD

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

1. Setting the Company's mission and values;

2. Formulating strategic directions of the Company;

3. Reviewing and guiding corporate strategy; setting performance objectives and monitoring implementation and corporate performance;

4. Monitoring and managing potential conflicts of interest of management and Board members; and

5. Ensuring the integrity of the Company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of internal control are in place, in particular, systems for monitoring risk, financial control, and compliance with the law.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTORS

Each of the non-executive Directors is appointed for a fixed term, of which the appointment of Mr. Lu Songkang and Mr. Chai Junqui commenced from 14 July 2006 with a specific term of three years. Mr. Lu Song Kang was re-appointed for a term of three years on 14 July 2009. Mr. Chai Junqui was re-designated as an executive Director of the Company on 5 February 2009 for a term of three years. Currently, there are a total of three independent non-executive Directors, namely Mr. Wu Tak Lung, Mr. Cheng Houbo and Mr. Shen Jianlin. Each of the independent non-executive Directors was appointed for a fixed term of three years commencing from 16 November 2006, and was re-appointed for a term of three years on 16 November 2009.

Pursuant to Article 87 of the Company's Articles of Association, every director shall be subject to retirement by rotation at least once every three years. Mr. Cheng Hou Bo, who shall retire at the forthcoming annual general meeting, would offer himself for re-election. The proposed term of appointment is three years.

BOARD COMPOSITION

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

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

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

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

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

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

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

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

ATTENDANCE OF MEETINGS OF BOARD OF DIRECTORS

Six meetings of the Board of Directors were held on 25 March 2010, 20 May 2010, 25 August 2010, 8 October 2010, 29 October 2010 and 9 November 2010 during the period from 1 January 2010 to 31 December 2010. The meetings held on 25 March 2010 and 25 August 2010 were on-site meetings while the other ones were conducted by telephone conferences. The attendance of each Director is as follows:

Name of Directors	Full Meeting of the Board of Directors	Remuneration Committee of the Board of Directors	Audit Committee of the Board of Directors
	No. of Attendance/ No. of Meetings	No. of Attendance/ No. of Meetings	No. of Attendance/ No. of Meetings
Fang James *(Chairman and Executive Director)*	6/6	N/A	N/A
Fang Shengkang *(President and Executive Director)*	6/6	1/1	N/A
Lu Songkang *(Non-Executive Director)*	6/6	N/A	2/2
Chai Junqi *(Executive Director)*	6/6	N/A	N/A
Wu Tak Lung *(Independent Non-Executive Director)*	6/6	1/1	2/2
Cheng Houbo *(Independent Non-Executive Director)*	6/6	1/1	2/2
Shen Jianlin *(Independent Non-Executive Director)*	6/6	0/1	1/2

NOMINATION OF DIRECTORS

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

AUDIT COMMITTEE

The Company established the Audit Committee on 16 November 2006 with written terms of reference in compliance with the Code on Corporate Governance Practices set forth in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee include the review and supervision of the financial reporting processes and internal control systems of the Group. Messrs. Wu Tak Lung, Shen Jianlin and Cheng Houbo, all being independent non-executive Directors, and Mr. Lu Songkang, a non-executive Director, are members of the Audit Committee, with Mr. Wu Tak Lung being the chairman. Two meetings of the Audit Committee were held on 25 March 2010 and 25 August 2010 respectively. The major businesses of the meetings were to review the internal control review report and the interim and annual reports of the Group before forwarding the same to the Board of Directors for approval.

At the meeting on 24 March 2011, the Audit Committee concluded that the Group's internal control system was effective and adequate, and that the Group had adopted the necessary control mechanisms to monitor and rectify non-compliance throughout 2010. The Audit Committee also reviewed and was satisfied with the adequacy of resources, qualifications and experience of the employees of the Group's accounting and financial reporting function, and their training programmes and budget.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 16 November 2006 with written terms of reference. The primary duties of the Remuneration Committee include reviewing the terms of remuneration packages, determining the award of bonuses and considering the grant of options under the Share Option Scheme. Messrs. Wu Tak Lung, Shen Jianlin, Cheng Houbo, all being independent non-executive Directors, and Mr. Fang Shengkang, an executive Director, are members of the Remuneration Committee with Mr. Fang Shengkang as the chairman. The Remuneration Committee held one meeting on 25 March 2010 during the reporting period and reviewed the remuneration policy of 2009 and planned the remuneration policy of 2010.

SECURITIES TRANSACTIONS BY THE DIRECTORS

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

Mr. Fang Shenkang purchased 720,000 shares of the Company in the open market at an average price of HK$1.35 per share on 22 October 2007, and Mr. Fang informed the Board before he purchased the shares in compliance with the Model Code. Upon the approval of the bonus shares issue on the basis of one bonus share for every two shares held by the shareholders whose names appear on the register of the Company on 24 September 2010 at the general meeting of the Group held on 27 September 2010, the number of shares held by Mr. Fang Shenkang was changed to 1,080,000 shares.

INDEPENDENT AUDITOR'S REMUNERATION

The independent auditors of the Company, Deloitte Touche Tohmatsu, received audit fees amounting to approximately RMB1,370,000 for the year under review.

FINANCIAL REPORTING

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

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

INTERNAL CONTROL

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

The Group placed the division under the Audit Committee of the Board which reports directly to the Audit Committee to enhance its independence in internal auditing. The board has conducted an annual review of the internal control system of the Group during the year.

INVESTOR RELATIONSHIP AND SHAREHOLDERS' COMMUNICATION

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated financial statements of AUPU Group Holding Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 86, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

24 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
Revenue		524,461	541,505
Cost of sales		(271,005)	(276,368)
Gross profit		253,456	265,137
Other income		14,357	19,446
Selling and distribution expenses		(122,982)	(122,340)
Administrative expenses		(41,586)	(35,032)
Other expenses		(7,877)	(9,797)
Finance costs		—	(972)
Share of losses of associates		(762)	(459)
Profit before tax	6	94,606	115,983
Income tax expenses	7	(15,281)	(23,933)
Profit and total comprehensive income for the year attributable to owners of the Company		79,325	92,050
Earnings per share—basic (RMB)	9	0.07	0.09
Earnings per share—diluted (RMB)	9	0.07	0.09

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	11	169,743	173,540
Prepaid lease payments	12	16,333	16,877
Interest in associates	13	25,779	4,341
Deferred tax assets	14	16,028	12,961
		227,883	207,719
Current assets			
Prepaid lease payments	12	532	532
Inventories	15	42,071	32,940
Trade and other receivables	16	68,406	52,092
Amounts due from associates	28	10,107	—
Time deposits	17	200,000	216,000
Bank balances and cash	17	46,919	90,492
		368,035	392,056
Current liabilities			
Trade and other payables	18	132,920	134,361
Amount due to an associate	28	—	1,895
Income tax liabilities		16,065	17,158
Other tax liabilities	19	7,501	13,014
		156,486	166,428
Net current assets		211,549	225,628
Total assets less current liabilities		439,432	433,347
Capital and reserves			
Share capital	20	102,613	71,860
Reserves	21	327,469	352,829
Total equity attributable to owners of the Company		430,082	424,689
Non-current liability			
Deferred tax liability	14	9,350	8,658
		439,432	433,347

The consolidated financial statements on pages 43 to 86 were approved and authorised for issue by the board of directors on 24 March 2011 and are signed on its behalf by:

Fang James	**Fang Shengkang**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

		Reserves						
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 *(Note 21)*	Statutory reserves RMB'000 *(Note 21)*	Share options reserve RMB'000 *(Note 21)*	Retained earnings RMB'000	Sub-total RMB'000	Total RMB'000
At 1 January 2009	71,860	271,002	(73,274)	41,144	11,683	77,581	328,136	399,996
Profit and total comprehensive income for the year	—	—	—	—	—	92,050	92,050	92,050
Transfer	—	—	—	8,624	—	(8,624)	—	—
Dividends recognised as distribution *(note 8)*	—	—	—	—	—	(70,900)	(70,900)	(70,900)
Recognition of equity-settled share-based payments	—	—	—	—	3,543	—	3,543	3,543
At 31 December 2009	71,860	271,002	(73,274)	49,768	15,226	90,107	352,829	424,689
Profit and total comprehensive income for the year	—	—	—	—	—	79,325	79,325	79,325
Transfer	—	—	—	9,800	—	(9,800)	—	—
Dividends recognised as distribution *(note 8)*	—	—	—	—	—	(77,990)	(77,990)	(77,990)
Bonus shares issued	30,547	(30,547)	—	—	—	—	(30,547)	—
Exercise of share option	206	2,922	—	—	(1,009)	—	1,913	2,119
Recognition of equity-settled share-based payments	—	—	—	—	1,939	—	1,939	1,939
At 31 December 2010	**102,613**	**243,377**	**(73,274)**	**59,568**	**16,156**	**81,642**	**327,469**	**430,082**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Operating activities		
Profit before tax	94,606	115,983
Adjustments for:		
Equity-settled share-based payments expenses	1,939	3,543
Depreciation of property, plant and equipment	10,257	9,059
Allowance for inventories obsolescence	1,044	971
Release of prepaid lease payments	544	530
Loss on disposal of property, plant and equipment	20	1,279
Finance costs	—	972
Share of losses of associates	762	459
Interest income	(4,461)	(6,575)
Operating cash flows before movements in working capital	104,711	126,221
(Increase) decrease in inventories	(10,175)	15,441
(Increase) decrease in trade and other receivables	(16,314)	54
(Decrease) increase in trade and other payables	(1,441)	39,212
(Decrease) increase in other tax liabilities	(5,513)	7,767
Cash generated from operations	71,268	188,695
Income taxes paid	(18,749)	(11,103)
Net cash from operating activities	52,519	177,592
Investing activities		
Interest received	4,461	11,039
Investments in associates	(22,200)	(4,800)
Proceeds from disposal of property, plant and equipment	63	135
Purchases of property, plant and equipment	(6,543)	(26,242)
Decrease (increase) in time deposits	16,000	(31,536)
Advanced to associates	(10,107)	—
Decrease in pledged bank deposits	—	10,862
Net cash used in investing activities	(18,326)	(40,542)
Financing activities		
Proceeds from short-term bank loans	—	148,000
Repayment of short-term bank loans	—	(149,230)
(Repayment to) advance from an associate	(1,895)	1,895
Dividends paid	(77,990)	(70,900)
Finance costs	—	(972)
Proceeds from exercise of share option	2,119	—
Net cash used in financing activities	(77,766)	(71,207)
Net (decrease) increase in cash and cash equivalents	(43,573)	65,843
Cash and cash equivalents at beginning of year	90,492	24,649
Cash and cash equivalents at end of year represented by bank balances and cash	46,919	90,492

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. The directors of the Company consider that its parent and ultimate holding company is SeeSi Universal Limited ("SeeSi"), a company incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

The Company is an investment holding company. The activities of its subsidiaries are disclosed in note 29.

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

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

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB.

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

Amendments to IAS 17 Leases

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 amendments to IAS 17 have removed such a requirement. The amendments require 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 amendments 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. No reclassification considered necessary because none of the leasehold land qualifies for finance lease classification.

The application of the new and revised IFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosure set out in these consolidated financial statements.

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

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 issued in 2010[1]
IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[4]
IFRS 9	Financial Instruments[5]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
IAS 24 (Revised)	Related Party Disclosures[2]
IAS 32 (Amendments)	Classification of Rights Issues[7]
IFRIC-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[2]
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 January 2011
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2013
6 Effective for annual periods beginning on or after 1 January 2012
7 Effective for annual periods beginning on or after 1 February 2010

IFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 Financial Instruments (as revised in October 2010) adds requirements for financial liabilities and for derecognition.

Under IFRS 9, all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. The Group has no financial liabilities designated as at fair value through profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors of the Company anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of the new Standard will have no significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

Investment in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of future losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group, profits and losses from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

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

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

(1) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

(2) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(3) the amount of revenue can be measured reliably;

(4) it is probable that the economic benefits associated with the transaction will flow to the Group; and

(5) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which cases the entire lease is classified as operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

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

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

Borrowing costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are not recognised until there is a reasonably assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specially, government grants whose primary condition is that the Group should purchase, construct, or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Research expenditure

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

Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses on non-current assets (other than deferred tax assets)

At the end of the reporting period, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Inventories

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

Financial instruments

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

Financial assets

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

Loans and receivables

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets

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

The objective evidence of impairment could include:

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

(ii) breach of contract, such as default or delinquency in interest or principal payments; or

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

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

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

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

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

Financial liabilities and equity instruments

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including trade and other payables and amount due to an associate) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for the proceeds received.

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

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Depreciation

The carrying value of the Group's property, plant and equipment as at 31 December 2010 was RMB169,743,000 (2009: RMB173,540,000). The Group depreciates property, plant and equipment over their estimated useful lives, using the straight-line method commencing from the date they are available for use. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technology changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Income tax expenses

Deferred tax assets of RMB16,028,000 (2009: RMB12,961,000) mainly relate to unrealised profits on inter-branch/company sales and other deductible temporary differences as set out in note 14. The directors of the Company determine the deferred tax assets based on the enacted tax rates and laws and the best knowledge of profit projections of the Group for the coming years during which the deferred tax assets are expected to be utilised. The directors of the Company will review the assumptions and profit projections by the end of the reporting period. In case the actual future profits generated are less than expected, a reversal of deferred tax assets would be recognised in the consolidated statement of comprehensive income for the year in which such a reversal takes place.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all the estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Operational procedures have been in place to monitor this risk as a significant proportion of the Group's working capital is devoted to inventories. Accordingly, the management reviews the inventory ageing list on a periodical basis for those aged inventories. This involves comparison of the carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made for any obsolete and slow-moving items. In addition, physical inventory counts are carried out on a periodical basis in order to determine whether allowance needs to be made in respect of any obsolete and defective inventories identified. As at 31 December 2010, the carrying amount of inventories is RMB42,071,000 (net of allowance for inventories of RMB3,435,000) (31 December 2009: carrying amount of RMB32,940,000, net of allowance for inventories of RMB2,391,000).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Allowance for doubtful receivables

Allowance for trade and other receivable is made based on the evaluation of collectability and ageing analysis of accounts and on directors' judgment by reference to the estimation of future cash flows discounted at an effective interest rate to calculate the present value. Where the actual future cash flows are less than expected, an impairment loss should be recognised. As at 31 December 2010, the carrying amount of trade receivable is RMB62,403,000 (31 December 2009: carrying amount of RMB47,185,000).

5. SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on geographical information of goods delivered.

Specifically, the Group's reportable segments under IFRS 8 are as follows:

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

5. SEGMENT INFORMATION (continued)

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment:

For the year ended 31 December 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	184,016	69,031	74,871	57,780	51,810	27,699	42,072	17,182	524,461
Inter-segment sales	—	—	—	—	259,452	—	—	—	259,452
Segment revenue	184,016	69,031	74,871	57,780	311,262	27,699	42,072	17,182	783,913
Eliminations									(259,452)
Group revenue									524,461
Segment profit	80,558	41,295	33,168	35,841	23,329	11,161	21,865	6,239	253,456
Interest income									4,461
Other unallocated income									9,896
Unallocated expenses									(172,445)
Share of losses of associates									(762)
Profit before tax									94,606

For the year ended 31 December 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	191,678	74,447	82,183	61,964	54,161	34,272	38,106	4,694	541,505
Inter-segment sales	—	—	—	—	275,669	—	—	—	275,669
Segment revenue	191,678	74,447	82,183	61,964	329,830	34,272	38,106	4,694	817,174
Eliminations									(275,669)
Group revenue									541,505
Segment profit	86,074	45,561	34,008	39,644	23,800	15,107	19,334	1,609	265,137
Interest income									6,575
Other unallocated income									12,871
Unallocated expenses									(167,169)
Finance costs									(972)
Share of loss of an associate									(459)
Profit before tax									115,983

5. SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. 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 losses of associates and finance costs. This is the measure reported to the Board of Directors for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

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

The Group's non-current assets are substantially located in the PRC, the country of domicile of the Group.

Other segment information

Amounts included in the measure of segment profit or loss:

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
Depreciation	1,696	636	690	532	477	255	388	158	4,832

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
Depreciation	1,277	496	547	413	361	228	254	31	3,607

5. SEGMENT INFORMATION (continued)

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2010 RMB'000	2009 RMB'000
Bathroom masters	325,287	371,289
Bathroom roofs	161,469	151,481
Others	37,705	18,735
	524,461	541,505

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2010 RMB'000	2009 RMB'000
Customer A (Revenue from all operating segments except export)	N/A[1]	60,020

[1] *The corresponding revenue did not contribute over 10% of the total revenue of the Group.*

6. PROFIT BEFORE TAX

Profit before tax has been arrived at:

	2010 RMB'000	2009 RMB'000
After charging:		
Staff costs, including directors' remuneration		
— salaries, wages and other benefits	43,496	39,398
— retirement benefit scheme contributions *(note 25)*	3,793	2,983
— equity-settled share-based payments *(note 22)*	1,939	3,543
Total staff costs	49,228	45,924
Cost of inventories recognised as an expense *(note a)*	271,005	276,368
Research expenditure included in administrative expenses	9,941	5,127
Depreciation of property, plant and equipment	10,257	9,059
Net foreign exchange (gain) loss	(68)	105
Auditors remuneration	1,370	1,280
Release of prepaid lease payments	544	530
Loss on disposal of property, plant and equipment	20	1,279
After crediting:		
Interest income from:		
— bank deposits	4,251	6,575
— amount due from an associate	210	—
Total interest income	4,461	6,575
Rental income	96	—
Government grants *(note b)*	1,985	5,368

Notes:

(a) Allowance for inventories obsolescence amounted to RMB1,044,000 (2009: RMB971,000) has been recognised in the current year and included in cost of sales.

(b) Government grants mainly represent subsidies received from local authorities in accordance with the relevant rules and regulations.

7. INCOME TAX EXPENSES

	2010 RMB'000	2009 RMB'000
The charge (credit) comprises:		
Current tax		
— PRC Enterprise Income Tax	14,249	21,068
— withholding tax paid	3,407	—
Deferred tax *(note 14)*		
— current year	(2,375)	2,865
	15,281	23,933

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 both years.

PRC enterprise income tax is calculated at the prevailing tax rate on the taxable income of the group entities in the PRC at the rate of 25%.

Pursuant to the relevant laws and regulations in the PRC, one of the subsidiaries of the Company, Hangzhou Aupu Bathroom & Kitchen Technology Co., Ltd. ("AUPU Technology") is entitled to exemption from PRC income tax for two years starting from its first profit making year, followed by a 50% reduction for the next three years ("Tax Holidays") from 2006. The Tax Holidays expired in 2010.

The Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") provides a five year transition period from its effective date for those enterprises which were established before the promulgation date of the EIT Law and which were entitled to a preferential lower tax rate. The applicable tax rate for AUPU Technology is changed to 9%, 10%, 11%, for the years 2008, 2009 and 2010, respectively.

In accordance with PRC tax circular (Guoshuihan [2008] 112) effective from 1 January 2008, PRC withholding income tax at the rate of 10% is applicable to dividends to "non-resident" investors who do not have an establishment or place of business in the PRC. According to the "Arrangement between the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income" and Guoshuihan [2008] 112, where the Hong Kong resident company directly owns at least 25% of the capital of the PRC company, a 5% dividend withholding tax rate is applicable. A provision for such withholding income tax has been made on the profits arisen during both years from the PRC subsidiaries, which are available for distribution to Tricosco Limited, a Hong Kong subsidiary of the Company.

7. INCOME TAX EXPENSES (continued)

The tax charge for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	2010 RMB'000	2010 %	2009 RMB'000	2009 %
Profit before tax	94,606		115,983	
Tax at the domestic income tax rate of 25% (2009:25%)	23,651	25.00	28,996	25.00
Tax effect of expenses not deductible for tax purpose	1,914	2.02	2,274	1.96
Tax concession of a subsidiary	(14,573)	(15.40)	(11,919)	(10.28)
Tax effect of share of losses of associates	190	0.20	115	0.10
Effect of withholding tax	4,099	4.33	4,467	3.85
Tax charge and effective tax rate for the year	15,281	16.15	23,933	20.63

8. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Dividends recognised as distribution during the year:		
2010 Interim—RMB0.05 (2009: 2009 interim dividend RMB0.05) per share	35,450	35,450
2009 Final—RMB0.06 (2009: 2008 final dividend RMB0.05) per share	42,540	35,450
	77,990	70,900

The final dividend of RMB0.04 in respect of the year ended 31 December 2010 (2009: final dividend of RMB0.06 in respect of the year ended 31 December 2009) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming Annual General Meeting.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings:

	2010 RMB'000	2009 RMB'000
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	79,325	92,050

Number of shares:

	Number of ordinary shares 2010	 2009
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,063,835,342	1,063,500,000
Effect of dilutive potential ordinary shares Share-based payment transactions	1,010,877	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,064,846,219	1,063,500,000

For the years ended 31 December 2009 and 2010, the weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the bonus share issued during the year 2010.

For 2009, the computation of diluted earnings per share does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares for 2009.

10. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The emoluments of directors are analysed as follows:

Year ended 31 December 2010

	Basic salaries and allowances RMB'000	Bonus RMB'000 *(note 3)*	Retirement benefit scheme contributions RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
Executive directors:					
Fang James	364	499	12	—	875
Fang Shengkang	364	499	12	—	875
Chai Junqi	280	270	—	—	550
	1,008	1,268	24	—	2,300
Non-executive director:					
Lu Songkang	114	—	12	—	126
Independent non-executive directors:					
Cheng Houbo	40	—	—	15	55
Shen Jianlin	40	—	—	15	55
Wu Tak Lung	87	—	—	30	117
	167	—	—	60	227
	1,289	1,268	36	60	2,653

10. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (continued)

Year ended 31 December 2009

	Basic salaries and allowances RMB'000	Bonus RMB'000 *(note 3)*	Retirement benefit scheme contributions RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
Executive directors:					
Fang James	350	710	—	—	1,060
Fang Shengkang	350	710	12	—	1,072
Chai Junqi *(Note 1)*	280	426	—	—	706
Sun Lijun *(Note 2)*	28	—	—	65	93
	1,008	1,846	12	65	2,931
Non-executive directors:					
Lu Songkang	90	—	11	—	101
Shi Minglei *(Note 2)*	—	—	—	—	—
	90	—	11	—	101
Independent non-executive directors:					
Cheng Houbo	40	—	—	16	56
Shen Jianlin	40	—	—	16	56
Wu Tak Lung	88	—	—	33	121
	168	—	—	65	233
	1,266	1,846	23	130	3,265

Note1: Chai Junqi was redesignated as executive director on 5 February 2009.
Note2: Sun Lijun and Shi Minglei resigned on 8 May 2009.
Note3: The bonus is determined by the Board of Directors based on the financial performance of the Group.

10. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (continued)

Of the five individuals with the highest emoluments in the Group, three (2009: three) were directors of the Company whose emoluments are included in the disclosures in note above. The emoluments of the remaining two (2009: two) individuals were as follows:

	2010 RMB'000	2009 RMB'000
Basic salaries and allowances	404	372
Retirement benefit contributions	22	22
Equity-settled share-based payments	195	212
	621	606

Their emoluments were within HKD1,000,000 for the year ended 31 December 2010 and 2009.

During the year, no emoluments were paid by the Group to the five highest paid individuals and directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery	Motor vehicles	Fixtures and equipment	Properties under construction	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2009	44,970	6,500	9,718	14,888	115,598	191,674
Additions	178	860	395	1,282	13,527	16,242
Disposals	—	(836)	(1,758)	(1,088)	—	(3,682)
Transfers	95,145	—	—	—	(95,145)	—
Transfers to prepaid lease payments	—	—	—	—	(67)	(67)
At 31 December 2009	140,293	6,524	8,355	15,082	33,913	204,167
Additions	—	32	1,144	1,440	3,927	6,543
Disposals	—	—	(264)	(294)	—	(558)
Transfers	—	—	—	772	(772)	—
At 31 December 2010	**140,293**	**6,556**	**9,235**	**17,000**	**37,068**	**210,152**
ACCUMULATED DEPRECIATION						
At 1 January 2009	8,786	2,049	5,234	7,767	—	23,836
Charge for the year	4,910	574	1,270	2,305	—	9,059
Eliminated on disposals	—	(317)	(1,186)	(765)	—	(2,268)
At 31 December 2009	13,696	2,306	5,318	9,307	—	30,627
Charge for the year	6,337	537	1,186	2,197	—	10,257
Eliminated on disposals	—	—	(243)	(232)	—	(475)
At 31 December 2010	**20,033**	**2,843**	**6,261**	**11,272**	**—**	**40,409**
CARRYING VALUES						
At 31 December 2010	**120,260**	**3,713**	**2,974**	**5,728**	**37,068**	**169,743**
At 31 December 2009	126,597	4,218	3,037	5,775	33,913	173,540

11. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment other than properties under construction are depreciated on a straight-line basis at the following rates:

Buildings	Lesser of lease term or 20 years
Machinery	10 years
Motor vehicles	5 years
Fixtures and equipment	5 years

12. PREPAID LEASE PAYMENTS

	2010 RMB'000	2009 RMB'000
Analysed for reporting purposes as:		
Non-current portion	16,333	16,877
Current portion	532	532
	16,865	17,409

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

13. INTERESTS IN ASSOCIATES

	2010 RMB'000	2009 RMB'000
Cost of unlisted investment in associates	27,000	4,800
Share of post-acquisition losses	(1,221)	(459)
	25,779	4,341

13. INTERESTS IN ASSOCIATES (continued)

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

Name	Place and date of establishment	Proportion of ownership interest 31 December 2010	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, PRC 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, PRC 9 June 2010	30%	–	50,000,000	Investment of real estate and development of automotive service

The summarised financial information in respect of the Group's associates is set out below:

	31/12/2010 RMB'000	31/12/2009 RMB'000
Total assets	101,691	16,824
Total liabilities	(24,860)	(5,972)
Net assets	76,831	10,852
Group's share of the associates' net assets	25,779	4,341

	Year ended 31/12/2010 RMB	Year ended 31/12/2009 RMB
Revenue	14,832	1,451
Loss for the year	(2,022)	(1,148)
Group's share of the associates' losses of the year	(762)	(459)

14. DEFERRED TAX ASSETS AND LIABILITIES

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior years.

	Unrealised profits on inventories RMB'000 *(note a)*	Other deductible temporary differences RMB'000 *(note b)*	Withholding tax on undistributed retained earnings of PRC subsidiaries RMB'000	Total RMB'000
At 1 January 2009	6,374	4,985	(4,191)	7,168
(Charge) credit to profit or loss *(note 7)*	(2,455)	4,057	(4,467)	(2,865)
At 31 December 2009	3,919	9,042	(8,658)	4,303
(Charge) credit to profit or loss *(note 7)*	(1,226)	4,293	(692)	2,375
At 31 December 2010	2,693	13,335	(9,350)	6,678

Notes:

(a) *Unrealised profits on inventories mainly represent unrealised profits on inter-branch/company sales. Other deductible temporary differences relate to temporary differences on certain accrued charges.*

(b) *The withholding tax on undistributed retained earnings of PRC subsidiaries paid during the year amounted to RMB 3,407,000 (2009: nil).*

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

	2010 RMB'000	2009 RMB'000
Deferred tax assets	16,028	12,961
Deferred tax liabilities	(9,350)	(8,658)
	6,678	4,303

15. INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials	6,865	6,375
Finished goods	35,206	26,565
	42,071	32,940

16. TRADE AND OTHER RECEIVABLES

	2010 RMB'000	2009 RMB'000
Aged analysis of trade receivables presented based on invoice date:		
Within 90 days	56,959	42,686
91—180 days	3,773	2,619
181—365 days	763	1,159
Over 365 days	908	721
Total trade receivables	62,403	47,185
Other receivables, deposits and prepayments	6,003	4,907
	68,406	52,092

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

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB5,444,000 (2009: RMB4,499,000) which are past due as at the end of the reporting period for which the Group has not provided impairment loss, as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience. The Group does not hold any collateral over these balances.

For the remaining trade receivables which are neither past due nor impaired, the management considers that no allowance for doubtful debts were necessary based on the good payment history of the related debtors from historical experience. No allowance has been made for each of the years ended 31 December 2010 and 2009.

Trade receivables amounting to RMB2,702,000 (2009: RMB374,000) were denominated in United States Dollar which is not the functional currency of the respective entities.

17. OTHER FINANCIAL ASSETS

The time deposits are denominated in RMB, with an initial term of six to twelve months. The deposits carry fixed interest ranging from 1.98% to 2.20% per annum as at 31 December 2010 (2009: 1.98% to 4.14% per annum).

Bank balances and cash comprise cash and short-term deposits with an original maturity of three months or less which are held with banks and carry interest ranging from 0.36% to 1.35% per annum as at 31 December 2010 (2009: 0.36% to 1.71% per annum).

The carrying amount of these assets approximates to their fair value .

Bank balances amounting to RMB4,557,000 and RMB103,000 (2009: 3,490,000 and RMB581,000) were denominated in Hong Kong Dollar and United States Dollar, respectively (see note 27), which are not the functional currencies of the respective entities.

Bank balances, time deposits and cash of RMB242,259,000 (2009: RMB302,421,000) were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

18. 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.

	2010 RMB'000	2009 RMB'000
Aged analysis of trade payables presented based on invoice date:		
Within 90 days	53,132	49,823
91—180 days	1,825	1,061
181—365 days	48	485
Over 365 days	217	1,454
Total trade payables	55,222	52,823
Retention sum due to suppliers	1,853	12,796
Advances from customers	16,719	12,020
Sales commission accruals	24,104	17,992
Other accruals	35,022	38,730
	132,920	134,361

19. OTHER TAX LIABILITIES

	2010 RMB'000	2009 RMB'000
Value added tax	7,314	12,859
Others	187	155
	7,501	13,014

20. SHARE CAPITAL

	Number of shares	Amounts HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2010, and 31 December 2010 and 2009	5,000,000,000	500,000

	Number of shares	Amounts HK$'000
Issued and fully paid:		
At 1 January 2009 and 31 December 2009	709,000,000	70,900
Bonus shares issued	354,500,000	35,450
Share option exercised	2,400,000	240
At 31 December 2010	1,065,900,000	106,590

	31 December 2010 RMB'000	31 December 2009 RMB'000
Presented as RMB		
Ordinary shares	102,613	71,860

During the year, the Company issued bonus shares by way of capitalization of the Company's share premium account to the shareholders on the basis of one share for every two shares held by the shareholders whose names appear on the register of members on 24 September 2010. The bonus shares are credited as fully paid at par and ranked pari passu with the existing issued ordinary shares of the Company in all respects from the date of issue.

On 10 November 2010, there were 90,000 shares and 2,310,000 shares of option under the share option scheme exercised by a director and the employees respectively. All the exercised option shares are from batch "2008A" on the adjusted exercise price of HK$1.03 (note 22).

21. RESERVES

Special reserve

In preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the Company underwent a group reorganisation (the "Group Reorganisation") on 1 September 2006 pursuant to which the Company became the holding company of its subsidiaries.

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

Statutory reserves

Pursuant to relevant laws and regulations in the PRC and the Articles of Association of Hangzhou Aupu Electrical Appliances Co., Ltd. ("AUPU Electrical") and AUPU Technology, both entities are required to make appropriation from profit after taxation as reported in their PRC statutory financial statements to reserve fund at rates not less than 10% until the reserve fund balance reaches 50% of their respective registered capital.

No contributions to the reserve fund were made by AUPU Electrical because its reserve fund balance had reached the level of 50% of its registered capital since 2004.

AUPU Technology has adopted a rate of 10% for the contributions to the reserve fund based on its net profit for the years ended 31 December 2010 and 2009 as reported in its PRC statutory financial statements.

The reserve fund is not distributable and it can only be used to increase capital or to make up unexpected or future losses.

Share options reserve

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

22. SHARE-BASED PAYMENT TRANSACTIONS

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

At 31 December 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 15,675,000 (2009: 13,350,000), representing approximately 1.5% (2009: 1.9%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the issued share capital of the Company at any point in time without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted and to any individual in any one year is not permitted to exceed 0.1% of the issued share capital of the Company at any point in time without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HKD 5 million must be approved in advance by the Company's shareholders.

22. SHARE-BASED PAYMENT TRANSACTIONS (continued)

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

Details of the options are as follows:

Before bonus share issue:

Option type	Date of grant	Number of shares	Exercise period	Exercise price	Fair value at grant date
2007A	16/3/2007	5,000,000	16/3/2008 to 15/3/2017	HK$2.23	HK$1.14 to HK$1.61
2007B	8/6/2007	6,450,000	8/6/2008 to 7/6/2017	HK$3.11	HK$1.41 to HK$2.01
2008A	3/1/2008	8,100,000	3/1/2008 to 2/1/2017	HK$1.55	HK$0.58 to HK$0.66

After bonus share issue:

Option type	Date of grant	Adjusted Number of shares	Exercise period	Adjusted Exercise price
2007A	16/3/2007	7,500,000	16/3/2008 to 15/3/2017	HK$1.49
2007B	8/6/2007	9,675,000	8/6/2008 to 7/6/2017	HK$2.07
2008A	3/1/2008	12,150,000	3/1/2008 to 2/1/2017	HK$1.03

The share options granted in 2007 are exercisable until the tenth anniversary from the date of grant. The vesting period of the options is as follows:

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

For the share option granted on 3 January 2008, the Grantees may exercise up to a cumulative maximum of 20%, 40%, 60%, 80% and 100% of the total options granted 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.

22. SHARE-BASED PAYMENT TRANSACTIONS (continued)

The following table discloses movements of the Company's share options held by directors and employees during the years ended 31 December 2010 and 2009:

Option type	Outstanding at 01/01/2010	Forfeited before bonus issue during the year	Adjusted for bonus issue during the year *(note 20)*	Exercised during the year	Outstanding at 31/12/2010
2007A	2,500,000	—	1,250,000	—	3,750,000
2007B	5,750,000	(900,000)	2,425,000	—	7,275,000
2008A	5,100,000	(400,000)	2,350,000	(2,400,000)	4,650,000
	13,350,000	(1,300,000)	6,025,000	(2,400,000)	15,675,000
Exercisable at the end of the year					8,445,000

Option type	Outstanding at 01/01/2009	Forfeited during the year	Outstanding at 31/12/2009
2007A	3,800,000	1,300,000	2,500,000
2007B	6,250,000	500,000	5,750,000
2008A	6,800,000	1,700,000	5,100,000
	16,850,000	3,500,000	13,350,000
Exercisable at the end of the year			5,340,000

In respect of the share options exercised during the year 2010, the weighted average share price at the date of exercise is HK$1.03. No option was exercised during the year ended 31 December 2009.

The Group recognised an expense of RMB1,939,000 for the year ended 31 December 2010 (2009: RMB3,543,000) in relation to the share options granted by the Company.

23. OPERATING LEASE COMMITMENTS

	2010 RMB'000	2009 RMB'000
Minimum lease payments under operating leases recognised in the consolidated statement of comprehensive income for the year	2,783	3,517

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2010 RMB'000	2009 RMB'000
Within one year	1,462	1,240
In the second to fifth year inclusive	467	914
	1,929	2,154

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

24. CAPITAL COMMITMENT

	2010 RMB'000	2009 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	5,328	4,863

25. RETIREMENT BENEFIT SCHEME

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

The Group also participates in a Mandatory Provident Fund Scheme (the MPF Scheme) for the Group's Hong Kong employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the respective employees.

The total cost charged to profit or loss of RMB 3,793,000 (2009: RMB 2,983,000) represents contributions paid to the retirement benefits schemes by the Group in respect of the current accounting period.

26. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital and reserves including retained earnings.

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

27. FINANCIAL INSTRUMENTS

The Group's major financial instruments include trade and other receivables, time deposits, bank balances and cash, amounts due from/to associates and trade and other payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

27. FINANCIAL INSTRUMENTS (continued)

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

Categories of financial instruments

	2010 RMB'000	2009 RMB'000
Financial assets		
Loan and receivables (including cash and cash equivalents)	321,048	355,183
Financial liabilities		
Liabilities measured at amortised costs	55,222	54,718

Foreign currency risk

The Company and certain subsidiaries have bank balances denominated in foreign currencies. Certain subsidiaries of the Group also have foreign currency sales and purchases and certain trade receivables and payables of these subsidiaries are denominated in foreign currencies.

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

	Assets	
	2010 RMB'000	2009 RMB'000
USD	2,805	955
HKD	4,557	3,490

Foreign currency risk

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

Sensitivity analysis

The sensitivity analysis details the Group's sensitivity to a 5% (2009: 5%) increase and decrease in RMB against HKD and USD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at year end for a 5% change in foreign currency rates. If RMB had strengthened/weakened 5% against HKD and USD, the Group's post-tax profit for the year ended 31 December 2010 would have been decreased/ increased by RMB309,000 (2009: decreased/increased by RMB 176,000).

27. FINANCIAL INSTRUMENTS (continued)

Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to a fixed-rate loan receivable from an associate (note 28) and time deposits (note 17).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (note 17).

The Group currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

No sensitivity analysis has been presented as the directors of the Company consider the Group's exposure to interest rate risk at the end of the reporting period to be insignificant.

Credit risk management

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

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

The Group has concentration of credit risk as 17% (2009: 18%) of the total trade receivables was due from the Group's largest customer.

The credit risk on bank balances and time deposits is limited because majority of the counterparties are banks with high credit ratings or have good reputation.

27. FINANCIAL INSTRUMENTS (continued)

Liquidity risk management

The Group manages liquidity risk by maintaining an adequate level of cash and cash equivalents to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment term.

	Repayable on demand or less than 6 months	Total
Financial liabilities		
31 December 2010		
Trade and other payables	55,222	55,222
31 December 2009		
Trade and other payables	52,823	52,823
Amount due to an associate	1,895	1,895
	54,718	54,718

Fair value of financial instruments

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

28. RELATED PARTY TRANSACTIONS

(a) The following balances were outstanding at the end of the reporting period:

	2010 RMB'000	2009 RMB'000
Amounts due from associates		
— interest bearing	10,000	—
— non-interest bearing	107	—
	10,107	—
Amount due to an associate	—	1,895

28. RELATED PARTY TRANSACTIONS (continued)

The balance amounting to RMB10,000,000 is the entrusted loan due from Chengdu Qianyin Investment Company Limited for a term of one year and bear interest at the rate of 12% per annum. The remaining balance of RMB 107,000 represented amount due from Hangzhou AUPU Broni Kitchen & Bath Co., Ltd., which is unsecured, interest free and repayable on demand.

During the year, the Group entered into the following transactions with associates:

	2010 RMB'000	2009 RMB'000
Trade sales	153	251
Rental income	96	—
Interest income	210	—

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

	2010 RMB'000	2009 RMB'000
Short-term employee benefits	2,962	3,484
Post-employment benefits	57	47
Share-based payments	255	342
	3,274	3,873

29. SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2010 and 2009 are as follow:

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

30. EVENT AFTER THE REPORTING PERIOD

There were 2,205,000 shares of options that have been exercised under the Scheme by employees on 12 January 2011, which accounted as a 0.21% of existing issued share capital before relevant share issue. The exercise price per share was HK$1.03, the closing market price per share of the immediately preceding business day was HK$1.29, and it counted to a 20.16% discount per premium of issue price to market price. After the exercise of option, the number of ordinary shares of the Company increased from 1,065,900,000 shares to 1,068,105,000 shares.

On 9 January 2011, AUPU Technology has completed its negotiations with Zhejiang Haibang Human Resources Venture Partnership (浙江海邦人才創業投資合夥企業) ("Zhejiang Haibang") to invest RMB15 million as one of its limited partners. Zhejiang Haibang will be owned as to 10% by AUPU Technology and the first installment was made, amounted to 4.5 million. Zhejiang Haibang focuses on returnees' high-tech venture projects that are strongly supported by the government and, which are in line with the emerging strategic industries which aim at achieving capital appreciation by way of public listing of the target company on local or overseas stock exchanges or share transfer.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets and liabilities of the Group is as follows:

	For the year ended 31 December				
	2006	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	448,209	606,750	528,006	541,505	**524,461**
Income tax expenses	(13,954)	(16,211)	(18,375)	(23,933)	**(15,281)**
Profit attributable to owners of the Company	83,650	103,554	61,098	92,050	**79,325**
Dividends	54,000	56,848	92,266	70,900	**77,990**

	As at 31 December				
	2006	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and Liabilities					
Total assets	456,817	575,620	523,006	599,775	**595,918**
Total liabilities	(82,254)	(149,416)	(123,010)	(175,086)	**(165,836)**
Shareholders' funds	374,563	426,204	399,996	424,689	**430,082**