# Interim Report 2011

AUPU

AUPU GROUP HOLDING COMPANY LIMITED

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

(Stock Code: 00477)

# Contents

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Fang James (方杰)
Fang Shengkang (方勝康)
Chai Junqi (柴俊麒) (resigned as an executive director on 26 August 2011)
Li Ruishan (李瑞山) (appointed on 26 August 2011)
Lin Xiaofeng (林曉峰) (appointed on 26 August 2011)

### Non-executive Directors

Lu Songkang (盧頌康)

### Independent non-executive Directors

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

## MEMBERS OF THE AUDIT COMMITTEE

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

## MEMBERS OF THE REMUNERATION COMMITTEE

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

## AUDITORS

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

## COMPANY SECRETARY

Chan Kat Fat *(CPA)*

## AUTHORISED REPRESENTATIVES

Fang James
Fang Shengkang

## STOCK CODE

00477

## REGISTERED OFFICE

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 210, 21st
Xiasha Economic & Technological Development Zone
Hangzhou City
Zhejiang Province
The People's Republic of China

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

29th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

# Corporate Information *(continued)*

## PRINCIPAL BANKERS

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

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

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

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

## COMPANY LAWYERS

*As to Hong Kong Law*
Jones Day
29th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

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

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

## WEBSITE

www.aupu.cn

# Financial Highlights

The board of directors of AUPU Group Holding Company Limited (the "Company") announced the unaudited consolidated interim results and financial position of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011, with comparative figures for the same period last year as follows:

| | 2011<br>RMB'000 | 2010<br>RMB'000 | Change |
|---|---|---|---|
| Revenue | 250,106 | 252,709 | –1% |
| Gross profit | 118,233 | 124,211 | –4.8% |
| Profit before tax | 51,820 | 46,399 | +11.7% |
| Profit for the period and total comprehensive income attributable to owners of the Company | 36,878 | 38,880 | –5.1% |
| | RMB | RMB | |
| Earnings per share | | | |
| —Basic | 0.03 | 0.04 | –25% |

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

# Condensed Consolidated Statement of Comprehensive Income

*For the six months ended 30 June 2011*

| | | Six months ended 30 June | |
|---|---|---|---|
| | *Notes* | **2011 RMB'000 (unaudited)** | 2010 RMB'000 (unaudited) |
| Revenue | | **250,106** | 252,709 |
| Cost of sales | | **(131,873)** | (128,498) |
| Gross profit | | **118,233** | 124,211 |
| Other income | | **8,712** | 7,542 |
| Selling and distribution expenses | | **(52,400)** | (63,138) |
| Administrative expenses | | **(14,584)** | (14,934) |
| Other expenses | | **(6,985)** | (6,696) |
| Share of losses of associates | | **(1,000)** | (586) |
| Finance costs | | **(156)** | — |
| Profit before tax | *4* | **51,820** | 46,399 |
| Income tax expenses | *5* | **(14,942)** | (7,519) |
| Profit for the period and total comprehensive income attributable to owners of the Company | | **36,878** | 38,880 |
| | | **RMB** | RMB |
| Earnings per share | | | |
| —Basic | *7* | **0.03** | 0.04 |
| —Diluted | *7* | **0.03** | 0.04 |

# Condensed Consolidated Statement of Financial Position

*At 30 June 2011*

| | *Notes* | **30 June 2011 RMB'000 (unaudited)** | 31 December 2010 RMB'000 (audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *8* | **166,974** | 169,743 |
| Investment properties | *8* | **3,092** | — |
| Prepaid lease payments | | **16,061** | 16,333 |
| Interests in associates | *9* | **24,779** | 25,779 |
| Available-for-sale investment | *10* | **15,000** | — |
| Deferred tax assets | *11* | **12,749** | 16,028 |
| | | **238,655** | 227,883 |
| **Current assets** | | | |
| Prepaid lease payments | | **532** | 532 |
| Inventories | | **35,987** | 42,071 |
| Trade and other receivables | *12* | **70,061** | 68,406 |
| Amounts due from associates | *20* | **10,096** | 10,107 |
| Amount due from a shareholder | *20* | **275** | — |
| Time deposits | | **203,021** | 200,000 |
| Pledged bank deposit | *13* | **44,000** | — |
| Bank balances and cash | | **39,723** | 46,919 |
| | | **403,695** | 368,035 |
| **Current liabilities** | | | |
| Trade and other payables | *14* | **135,157** | 132,920 |
| Income tax liabilities | | **18,395** | 16,065 |
| Other tax liabilities | | **8,671** | 7,501 |
| Short-term bank loan | *15* | **41,580** | — |
| | | **203,803** | 156,486 |
| Net current assets | | **199,892** | 211,549 |
| Total assets less current liabilities | | **438,547** | 439,432 |
| **Capital and reserves** | | | |
| Share capital | *16* | **102,801** | 102,613 |
| Reserves | | **324,264** | 327,469 |
| Total equity attributable to owners of the Company | | **427,065** | 430,082 |
| **Non-current liability** | | | |
| Deferred tax liability | *11* | **11,482** | 9,350 |
| | | **438,547** | 439,432 |

# Condensed Consolidated Statement of Changes in Equity

*For the six months ended 30 June 2011*

| | | Reserves | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share capital** RMB'000 | **Share premium** RMB'000 | **Special reserve** RMB'000 *(Note i)* | **Statutory reserves** RMB'000 *(Note ii)* | **Share option reserve** RMB'000 *(Note iii)* | **Retained profits** RMB'000 | **Sub-total** RMB'000 | **Total** RMB'000 |
| At 1 January 2010 (audited) | 71,860 | 271,002 | (73,274) | 49,768 | 15,226 | 90,107 | 352,829 | 424,689 |
| Profit and total comprehensive income for the period | — | — | — | — | — | 38,880 | 38,880 | 38,880 |
| Dividends recognised as distribution *(note 6)* | — | — | — | — | — | (42,540) | (42,540) | (42,540) |
| Recognition of equity-settled share-based payments | — | — | — | — | 1,204 | — | 1,204 | 1,204 |
| At 30 June 2010 (unaudited) | 71,860 | 271,002 | (73,274) | 49,768 | 16,430 | 86,447 | 350,373 | 422,233 |
| At 1 January 2011 (audited) | **102,613** | **243,377** | **(73,274)** | **59,568** | **16,156** | **81,642** | **327,469** | **430,082** |
| Profit and total comprehensive income for the period | **—** | **—** | **—** | **—** | **—** | **36,878** | **36,878** | **36,878** |
| Dividends recognised as distribution *(note 6)* | **—** | **—** | **—** | **—** | **—** | **(42,724)** | **(42,724)** | **(42,724)** |
| Exercise of share option *(note 17)* | **188** | **2,730** | **—** | **—** | **(986)** | **—** | **1,744** | **1,932** |
| Recognition of equity-settled share-based payments | **—** | **—** | **—** | **—** | **897** | **—** | **897** | **897** |
| At 30 June 2011 (unaudited) | **102,801** | **246,107** | **(73,274)** | **59,568** | **16,067** | **75,796** | **324,264** | **427,065** |

*Notes:*

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

(ii) As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC") and the Articles of Association of Hangzhou Aupu Electrical Appliances Co., Ltd. and Hangzhou Aupu Bathroom & Kitchen Technology Co., Ltd., both are required to make appropriation from profit after taxation as reported in the PRC statutory financial statements to reserve fund at rates not less than 10% until the reserve fund balance reaches 50% of its registered capital. The reserve fund can be used to increase capital or to meet unexpected future losses.

No transfer has been made to the statutory reserves in respect of the net profit for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil). This transfer will be made at the year end date based on the annual profit and upon directors' approval.

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

# Condensed Consolidated Statement of Cash Flows

*For the six months ended 30 June 2011*

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| **Net cash from operating activities** | **56,184** | 2,559 |
| **Net cash from (used in) investing activities:** | | |
| Interest received | **3,338** | 2,388 |
| Investments in associates | **—** | (22,200) |
| Proceeds from disposal of property, plant and equipment | **205** | — |
| Purchases of available-for-sale investment | **(15,000)** | — |
| Additions of property, plant and equipment | **(5,690)** | (436) |
| Placement of time deposits | **(460,591)** | (120,000) |
| Proceeds on release of time deposits | **457,570** | 216,000 |
| Placement of pledged bank deposit | **(44,000)** | — |
| | **(64,168)** | 75,752 |
| **Net cash from (used in) financing activities:** | | |
| Proceeds from short-term bank loan | **41,580** | — |
| Proceeds from exercise of share option | **1,932** | — |
| Dividends paid | **(42,724)** | (42,540) |
| | **788** | (42,540) |
| **Net (decrease) increase in cash and cash equivalents** | **(7,196)** | 35,771 |
| **Cash and cash equivalents at the beginning of the period** | **46,919** | 90,492 |
| **Cash and cash equivalents at the end of the period, represented by bank balances and cash** | **39,723** | 126,263 |

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2011*

## 1. BASIS OF PREPARATION

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

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

## 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

During the period under review, the Group has transferred part of an office premise from owner-occupied properties to investment properties. Furthermore, the Company invested in an entity as a limited partner in the form of partnership, which was designated as available-for-sale investment. Accordingly, the Group has applied the following accounting policies.

### Investment properties measured using the cost model

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. 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 asset) is included in the profit or loss in the period in which the item is derecognised.

### Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period.

Financial assets carried at cost, the amount of the impairment loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return from a similar asset. Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### Available-for-sale financial assets *(continued)*

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new or revised IFRSs").

- Improvements to IFRSs issued in 2010
- IAS24 (as revised in 2009) Related Party Disclosure
- Amendments to IAS32 Classification of Rights Issues
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The application of the above new or revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new or revised standards that have been issued but are not yet effective. The following new or revised standards have been issued after the date the consolidated financial statements for the year ended 31 December 2010 were authorised for issuance and are not yet effective:

| | |
|---|---|
| IFRS 10 | Consolidated Financial Statements[1] |
| IFRS 11 | Joint Arrangements[1] |
| IFRS 12 | Disclosure of Interests in Other Entities[1] |
| IFRS 13 | Fair Value Measurement[1] |
| IAS 1 (Amendments) | Presentation of Items of Other Comprehensive Income[2] |
| IAS 19 (Revised 2011) | Employee Benefits[1] |
| IAS 27 (Revised 2011) | Separate Financial Statements[1] |
| IAS 28 (Revised 2011) | Investments in Associates and Joint Ventures[1] |

1 Effective for annual periods beginning on or after 1 January 2013
2 Effective for annual periods beginning on or after 1 July 2012

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios. Overall, the application of IFRS 10 requires extensive use of judgment. The directors of the Company consider that it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

In addition, due to the new addition of the available-for-sale investment, the application of IFRS 9 "Financial Instruments" will affect the classification and measurement of the Group's available-for-sale investment. The directors of the Company consider that it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

## 3. SEGMENT INFORMATION

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

### For the six months ended 30 June 2011 (unaudited)

| | 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 |
|---|---|---|---|---|---|---|---|---|---|
| **SEGMENT REVENUE** | | | | | | | | | |
| External sales | 90,940 | 32,411 | 37,766 | 21,628 | 25,315 | 15,662 | 17,122 | 9,262 | 250,106 |
| Inter-segment sales | | | | | 117,280 | | | | 117,280 |
| | 90,940 | 32,411 | 37,766 | 21,628 | 142,595 | 15,662 | 17,122 | 9,262 | |
| Eliminations | | | | | | | | | (117,280) |
| Group revenue | | | | | | | | | 250,106 |
| Segment profit | 38,183 | 19,100 | 17,636 | 13,651 | 11,832 | 5,635 | 9,126 | 3,070 | 118,233 |
| Interest income | | | | | | | | | 3,338 |
| Other unallocated income | | | | | | | | | 5,374 |
| Unallocated expenses | | | | | | | | | (73,969) |
| Finance costs | | | | | | | | | (156) |
| Share of losses of associates | | | | | | | | | (1,000) |
| Profit before tax | | | | | | | | | 51,820 |

## 3. SEGMENT INFORMATION *(continued)*

### For the six months ended 30 June 2010 (unaudited)

| | 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 |
|---|---|---|---|---|---|---|---|---|---|
| **SEGMENT REVENUE** | | | | | | | | | |
| External sales | 87,482 | 37,939 | 38,076 | 26,462 | 25,226 | 14,084 | 16,470 | 6,970 | 252,709 |
| Inter-segment sales | | | | | 126,923 | | | | 126,923 |
| | 87,482 | 37,939 | 38,076 | 26,462 | 152,149 | 14,084 | 16,470 | 6,970 | |
| Eliminations | | | | | | | | | (126,923) |
| Group revenue | | | | | | | | | 252,709 |
| Segment profit | 38,808 | 23,027 | 16,574 | 16,860 | 11,667 | 6,057 | 8,547 | 2,671 | 124,211 |
| Interest income | | | | | | | | | 2,388 |
| Other unallocated income | | | | | | | | | 5,154 |
| Unallocated expenses | | | | | | | | | (84,768) |
| Share of losses of associates | | | | | | | | | (586) |
| Profit before tax | | | | | | | | | 46,399 |

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

## 4. PROFIT BEFORE TAX

Profit before tax has been arrived at:

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| *After charging:* | | |
| Staff costs, including directors' remuneration | | |
| — salaries, wages and other benefits | **24,688** | 20,842 |
| — retirement benefit scheme contributions | **2,164** | 1,747 |
| — equity-settled share-based payments *(note 17)* | **897** | 1,204 |
| Total staff costs | **27,749** | 23,793 |
| Research expenditure included in other expenses | **3,721** | 2,483 |
| Depreciation of property, plant and equipment | **5,122** | 5,125 |
| Depreciation of investment properties | **40** | — |
| Release of prepaid lease payments | **272** | 266 |
| Loss on disposal of property, plant and equipment | **—** | 29 |
| Net foreign exchange (gain) loss | **(93)** | 99 |
| Cost of inventories recognised as an expense *(note a)* | **131,873** | 128,498 |
| *After crediting:* | | |
| Interest income | | |
| — bank deposits | **2,731** | 2,388 |
| — amount due from an associate | **607** | — |
| Government grants *(note b)* | **1,008** | 1,388 |

*Notes:*

(a) Allowance for inventories obsolescence amounted to RMB59,000 (six months ended 30 June 2010: RMB1,268,000) has been recognised in the current period and included in the cost of inventories recognised as an expense.

(b) The amounts mainly represent incentive subsidies granted by the PRC local government authorities in recognition of the group entities for performance in enterprise information technology application and product research activities. The government grants have been approved by and received from the PRC local government authorities, which are unconditional and nonrecurring.

## 5. INCOME TAX EXPENSES

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| The charge comprises: | | |
| Current tax | | |
| — PRC Enterprise Income Tax | **9,531** | 9,075 |
| Deferred tax *(note 11)* | **5,411** | (1,556) |
| | **14,942** | 7,519 |

Pursuant to the relevant laws and regulations in the PRC, one of the subsidiaries of the Company is entitled to exemption from PRC income tax for two years starting from their first profit making year, followed by a 50% reduction for the next three years from 2006 ("Tax Holidays"). Under a 5-year transitional provision starting from 1 January 2008 pursuant to the Law of the People's Republic of China on Enterprise Income Tax, the Tax Holidays has been expired in 2010. In 2011, the subsidiary is qualified as "Hi-New Tech Enterprises" and therefore enjoys a preferential tax rate of 15% under EIT Law (2010: 11%).

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

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, a 5% of withholding tax is to be levied on the dividend declared in respect of profits earned by PRC operating subsidiaries from 2008 onwards. A provision for such withholding income tax has been made on the profits arisen during both periods from the PRC subsidiaries, which are available for distribution to its immediate holding company incorporated in Hong Kong.

## 6. DIVIDENDS

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Final dividend paid for 2010 of RMB0.04 (2010: RMB0.06 for 2009) per share | **42,724** | 42,540 |

In respect of the current interim period, the directors propose that an interim dividend of RMB0.04 (2010: RMB0.05) per share will be paid to shareholders whose names appear in the register of members on 15 September 2011. This dividend was declared after the interim reporting date, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

## 7. EARNINGS PER SHARE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| **Earnings** | | |
| Earnings for the purpose of basic earnings per share (profit attributable to owners of the Company) | **36,878** | 38,880 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,067,959,000** | 1,063,500,000 |
| Effect of dilutive potential ordinary shares: | | |
| Share option | **–** | 435,000 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,067,959,000** | 1,063,935,000 |

For the six months ended 30 June 2010, the weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the bonus share issued in September 2010. 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 the six months ended 30 June 2011.

## 8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period, the Group disposed of certain plant and machinery with an aggregate carrying amount of RMB205,000 for cash proceeds of RMB205,000, with no gain or loss resulted from disposal.

In addition, during the period, the Group spent approximately RMB1,983,000 on the construction of its new manufacturing premises and RMB3,707,000 on additions to machinery, motor vehicles and fixtures and equipment in the PRC.

During the period, the Group has transferred part of an office premise amounting to RMB3,132,000 from owner-occupied properties to investment properties on commencement of operating leases, the Group intends to hold the properties for rental earning rather than for use in the production. The Group adopted the cost model to measure all of its investment properties, which are depreciated on a straight-line basis at the rate of 4.5% per annum.

## 9. INTERESTS IN ASSOCIATES

| | 30 June 2011 RMB'000 (unaudited) | 31 December 2010 RMB'000 (audited) |
|---|---|---|
| Cost of unlisted investment in associates | 27,000 | 27,000 |
| Share of post-acquisition losses | (2,221) | (1,221) |
| | 24,779 | 25,779 |

As at 30 June 2011 and 31 December 2010, the Group had interests in the following associates:

| Name | Place and date of establishment | Proportion of ownership interest 30 June 2011 | 31 December 2010 | 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% | 30% | 50,000,000 | Investment of real estate and development of automotive service |

## 10. AVAILABLE-FOR-SALE INVESTMENT

On 9 January 2011, Hangzhou Aupu Bathroom & Kitchen Technology Co., Ltd. ("AUPU Technology"), a subsidiary of the Company, together with other 22 independent third parties, established an entity in the form of a partnership namely Zhejiang Haibang Human Resources Venture Partnership (浙江海邦人才創業投資合夥企業) ("Zhejiang Haibang") and AUPU Technology is acted as a limited partner. Under the agreement, the total investment to be made by Aupu Technology amounting to RMB25 million, representing 16.67% interest in Zhejiang Haibang. As at 30 June 2011, Aupu Technology has paid up RMB15 million capital, representing 10% in Zhejiang Haibang.

## 10. AVAILABLE-FOR-SALE INVESTMENT *(continued)*

Pursuant to the venture partnership agreement, as one of the limited partners, AUPU Technology has no power to participate in the financial and operating policy decisions of the investee, neither control nor joint control over Zhejiang Haibang. Therefore, the directors designated such non-derivative financial asset as available-for-sale investment, which is measured at cost less any identified impairment losses at the end of the reporting period (31 December 2010: nil). Details of the available-for-sale investment are set out below:

| | **30 June 2011 RMB'000 (unaudited)** | 31 December 2010 RMB'000 (audited) |
|---|---|---|
| Unlisted investments: | | |
| — unlisted equity instruments | **15,000** | — |
| | **15,000** | — |

## 11. DEFERRED TAXATION

The followings are the major deferred tax liability and assets recognised and the movements thereon, during the interim periods:

| | **Unrealised profit on inventories** RMB'000 | **Other deductible temporary differences** RMB'000 | **Withholding tax on undistributed retained earnings of PRC subsidiaries** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|
| At 1 January 2010 (audited) | 3,919 | 9,042 | (8,658) | 4,303 |
| Credit (charge) to profit for the period *(note 5)* | 497 | 1,677 | (618) | 1,556 |
| At 30 June 2010 (unaudited) | 4,416 | 10,719 | (9,276) | 5,859 |
| At 1 January 2011 (audited) | **2,693** | **13,335** | **(9,350)** | **6,678** |
| (Charge) credit to profit for the period *(note 5)* | **(438)** | **(2,841)** | **(2,132)** | **(5,411)** |
| At 30 June 2011 (unaudited) | **2,255** | **10,494** | **(11,482)** | **1,267** |

## 11. DEFERRED TAXATION *(continued)*

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

| | 30 June 2011 RMB'000 (unaudited) | 31 December 2010 RMB'000 (audited) |
|---|---|---|
| Deferred tax assets | 12,749 | 16,028 |
| Deferred tax liability | (11,482) | (9,350) |
| | 1,267 | 6,678 |

Unrealised profit on inventories mainly represents unrealised profit on inter-companies sales. Other deductible temporary differences refer to temporary differences on certain accrued charges.

## 12. TRADE AND OTHER RECEIVABLES

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

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

| | 30 June 2011 RMB'000 (unaudited) | 31 December 2010 RMB'000 (audited) |
|---|---|---|
| Within 90 days | 52,399 | 56,959 |
| 91–180 days | 6,598 | 3,773 |
| 181–365 days | 2,453 | 763 |
| Over 365 days | 630 | 908 |
| Total trade receivables | 62,080 | 62,403 |
| Other receivables, deposits and prepayments | 7,981 | 6,003 |
| | 70,061 | 68,406 |

## 13. PLEDGED BANK DEPOSIT

Pledged bank deposit represents deposit pledged to a bank to secure short-term bank loan and is therefore classified as a current asset (31 December 2010: nil).

The pledged bank deposit's interest rate is related to EURO/USD exchange rate. When the fluctuation of EURO/USD exchange rate is within the range between 1.3990 and 1.4390, the annual interest rate is 3.75%; when it exceeds the range, the annual interest rate is 3.55%.

## 14. TRADE AND OTHER PAYABLES

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

| | **30 June 2011 RMB'000 (unaudited)** | 31 December 2010 RMB'000 (audited) |
|---|---|---|
| Aged analysis of trade payables presented based on invoice date: | | |
| Within 90 days | **53,525** | 53,132 |
| 91–180 days | **1,396** | 1,825 |
| 181–365 days | **173** | 48 |
| Over 365 days | **220** | 217 |
| Total trade payables | **55,314** | 55,222 |
| Retention sum due to dealers | **2,176** | 1,853 |
| Advances from customers | **21,355** | 16,719 |
| Sales commission accruals | **23,477** | 24,104 |
| Other accruals | **32,835** | 35,022 |
| | **135,157** | 132,920 |

## 15. SHORT-TERM BANK LOAN

During the period, the Group obtained a new variable-rate borrowing in the amount of HK$50,000,000, which carries interest at Hong Kong Interbank Offered Rate plus 300 basis points. The borrowing was secured by a pledged bank deposit and repayable within one year.

## 16. SHARE CAPITAL

| | Number of shares | Amounts HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.10 each | | |
| *Authorised:* | | |
| At 1 January 2010, and 30 June 2010 and 2011 | 5,000,000,000 | 500,000 |
| *Issued and fully paid:* | | |
| At 1 January 2010 and 30 June 2010 | 709,000,000 | 70,900 |
| At 1 January 2011 | **1,065,900,000** | **106,590** |
| Share option exercised | **2,205,000** | **221** |
| As at 30 June 2011 | **1,068,105,000** | **106,811** |

| | 30 June 2011 RMB'000 (unaudited) | 31 December 2010 RMB'000 (audited) |
|---|---|---|
| Presented as RMB | | |
| Ordinary shares | **102,801** | 102,613 |

On 12 January 2011, there were 2,205,000 options under the share option scheme exercised by the employees. All the exercised option shares are on the adjusted exercise price of HK$1.03.

## 17. SHARE-BASED PAYMENTS

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

| | Number of share options |
|---|---|
| Outstanding at 1 January 2011 (audited) | 15,675,000 |
| Forfeited during the period | (1,620,000) |
| Exercised during the period | (2,205,000) |
| Outstanding at 30 June 2011 (unaudited) | 11,850,000 |

Except for the share options forfeited as disclosed above, there were 2,205,000 options that have been exercised under the share option scheme by employees on 12 January 2011, which accounted for as a 0.21% of existing issued share capital before issuance of the relevant shares. The exercise price per share was HK$1.03, the closing market price per share of the immediately before the date on which the options were exercised was HK$1.29. 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.

## 18. OPERATING LEASE ARRANGEMENTS

### The Group as Lessee

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Minimum lease payments under operating leases recognised in the condensed consolidated statement of comprehensive income | **1,557** | 1,187 |

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

| | **30 June** | 31 December |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (audited) |
| Within one year | **1,979** | 1,462 |
| In the second to fifth year inclusive | **773** | 467 |
| | **2,752** | 1,929 |

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

### The Group as Lessor

Property rental income earned during the period was RMB466,000 (nil for the six months ended 30 June 2010). Certain of the Group's properties held for rental purpose, are expected to generate rental yields of 5% on an ongoing basis.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments.

| | **30 June** | 31 December |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (audited) |
| Within one year | **466** | — |

## 19. CAPITAL COMMITMENTS

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

| | | 30 June 2011 RMB'000 (unaudited) | 31 December 2010 RMB'000 (audited) |
|---|---|---|---|
| (i) | acquisition of property, plant and equipment | **5,559** | 5,328 |
| (ii) | investment in available-for-sale investment | **10,000** | — |
| | | **15,559** | 5,328 |

## 20. RELATED PARTY TRANSACTIONS

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

| | 30 June 2011 RMB'000 (unaudited) | 31 December 2010 RMB'000 (audited) |
|---|---|---|
| Amounts due from associates | | |
| — interest bearing | **10,000** | 10,000 |
| — non-interest bearing | **96** | 107 |
| | **10,096** | 10,107 |

The balance amounting to RMB10,000,000 is an unsecured entrusted loan due from Chengdu Qianyin Investment Company Limited for a term of one year and bears interest at the rate of 12% per annum. The remaining balance of RMB96,000 is expected to be settled on demand.

## 20. RELATED PARTY TRANSACTIONS *(continued)*

(a) (continued)

| | **30 June 2011 RMB'000 (unaudited)** | 31 December 2010 RMB'000 (audited) |
|---|---|---|
| Amount due from a shareholder | **275** | — |

Amount due from a shareholder is unsecured, interest free and is expected to be collected within one year.

During the period, the Group has the following transaction with the associate:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2011 RMB'000 (unaudited)** | 2010 RMB'000 (unaudited) |
| Interest income | **607** | — |

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

| | **Six months ended 30 June** | |
|---|---|---|
| | **2011 RMB'000 (unaudited)** | 2010 RMB'000 (unaudited) |
| Short-term employee benefits | **866** | 625 |
| Post-employment benefits | **28** | 28 |
| Share-based payments | **67** | 187 |
| | **961** | 840 |

## BUSINESS AND FINANCE REVIEW

### Revenue

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

a. Second-Tier Cities

b. Shanghai

c. Jiangsu

d. Beijing

e. Zhejiang

f. Northeastern Region

g. Sichuan

h. Export

The revenue of the Group for the six months ended 30 June 2010 and 2011 are analysed as follows:

| | Six months ended 30 June 2011 | | Six months ended 30 June 2010 | |
|---|---|---|---|---|
| | RMB'000 Revenue | RMB'000 Gross Profit | RMB'000 Revenue | RMB'000 Gross Profit |
| Second-Tier Cities | **90,940** | **38,183** | 87,482 | 38,808 |
| Shanghai | **32,411** | **19,100** | 37,939 | 23,027 |
| Jiangsu | **37,766** | **17,636** | 38,076 | 16,574 |
| Beijing | **21,628** | **13,651** | 26,462 | 16,860 |
| Zhejiang | **25,315** | **11,832** | 25,226 | 11,667 |
| Northeastern Region | **15,662** | **5,635** | 14,084 | 6,057 |
| Sichuan | **17,122** | **9,126** | 16,470 | 8,547 |
| Export | **9,262** | **3,070** | 6,970 | 2,671 |
| Total | **250,106** | **118,233** | 252,709 | 124,211 |

For the six months ended 30 June 2011, the revenue of the Group amounted to approximately RMB250.1 million, representing a decrease of approximately 1.0% as compared with the revenue which amounted to approximately RMB252.7 million for the six months ended 30 June 2010. The decrease in revenue was mainly attributable to the decrease in revenue of AUPU Bathroom Master. The revenue of AUPU Bathroom Master 3-in-1 and exhaust fans accounted for approximately 67.8% and 63.3% of the Group's total revenue for the six months ended 30 June 2010 and 2011 respectively.

In particular, the revenue from Shanghai decreased from approximately RMB37.9 million for the six months ended 30 June 2010 to approximately RMB32.4 million for the six months ended 30 June 2011, representing a decrease of approximately RMB5.5 million or approximately 14.6%. For the six months ended 30 June 2011, the revenue from Beijing amounted to approximately RMB21.6 million, representing a decrease of approximately 18.3% as compared with the revenue from Beijing which amounted to approximately RMB26.5 million for the six months ended 30 June 2010.

The revenue of AUPU Bathroom Roof 1+N amounted to approximately RMB82.4 million for the six months ended 30 June 2011, representing an increase of approximately 10.6% as compared with the revenue of AUPU Bathroom Roof 1+N which amounted to approximately RMB74.5 million for the six months ended 30 June 2010.

## Costs of sales

For the six months ended 30 June 2011, the costs of sales of the Group amounted to approximately RMB131.9 million, representing an increase of approximately 2.6% as compared with the costs of sales which amounted to approximately RMB128.5 million for the six months ended 30 June 2010.

For the six months ended 30 June 2011, the costs of parts and components, direct labour and overhead represented approximately 89.9% and 10.1% of the total costs of sales respectively while the costs of parts and components, direct labour and overhead for the six months ended 30 June 2010 represented approximately 90.6% and 9.4% of the total costs of sales in the same period respectively.

## Gross profit and gross profit margin

Gross profit decreased from approximately RMB124.2 million for the six months ended 30 June 2010 to approximately RMB118.2 million for the six months ended 30 June 2011, representing a decrease of approximately 4.8%. Overall gross profit margin decreased from approximately 49.2% for the six months ended 30 June 2010 to approximately 47.3% for the six months ended 30 June 2011. The decrease in gross profit margin was mainly due to the change in marketing strategies, increase in costs of production materials, parts and components.

## Other income

Other income increased from approximately RMB7.5 million for the six months ended 30 June 2010 to approximately RMB8.7 million for the six months ended 30 June 2011, mainly due to the increase in interest income.

## Selling and distribution expenses

The selling and distribution expenses amounted to approximately RMB52.4 million for the six months ended 30 June 2011. It mainly consisted of advertising expenses of approximately RMB8.5 million, sales promotion expenses of approximately RMB8.1 million, salary expenses of sales and marketing staff of approximately RMB16.1 million, after-sales services expenses of approximately RMB1.8 million and transportation expenses of approximately RMB6.6 million.

The selling and distribution expenses amounted to approximately RMB63.1 million for the six months ended 30 June 2010. It mainly consisted of advertising expenses of approximately RMB16.0 million, sales promotion expenses of approximately RMB9.9 million, salary expenses of sales and marketing staff of approximately RMB16.2 million, after-sales services expenses of approximately RMB1.9 million and transportation expenses of approximately RMB7.2 million.

The decrease in selling and distribution expenses for the six months ended 30 June 2011 as compared with the six months ended 30 June 2010 was mainly due to the decrease in advertising expenses, and sales promotion expenses.

### Administrative expenses

The administrative expenses amounted to approximately RMB14.6 million for the six months ended 30 June 2011. It mainly consisted of salary expenses of general and administrative staff of approximately RMB6.5 million, depreciation of approximately RMB1.7 million, professional fees and related disbursements of approximately RMB1.2 million, office expenses of approximately RMB1.6 million and the amortisation of share option costs about RMB0.9 million.

The administrative expenses amounted to approximately RMB14.9 million for the six months ended 30 June 2010. It mainly comprised of salary expenses of general and administrative staff of approximately RMB6.1 million, depreciation of approximately RMB1.6 million, professional fees and related disbursements of approximately RMB2.8 million and office expenses of approximately RMB1.4 million and the amortisation of share option costs about RMB1.2 million.

The decrease in administrative expenses for the six months ended 30 June 2011 as compared with the six months ended 30 June 2010 was mainly due to the decrease in professional fees and amortization of share option costs.

### Other expenses

Other expenses increased from approximately RMB6.7 million for the six months ended 30 June 2010 to approximately RMB7.0 million for the six months ended 30 June 2011 due to the increase in R&D investments.

### Profit before tax

Based on the above factors, the Group's profit before tax increased from approximately RMB46.4 million for the six months ended 30 June 2010 to approximately RMB51.8 million for the six months ended 30 June 2011, representing an increase of approximately 11.7%.

### Income tax expenses

Pursuant to the relevant laws and regulations in the PRC, one of the subsidiaries of the Company is entitled to exemption from PRC income tax for two years starting from their first profit making year, followed by a 50% reduction for the next three years from 2006 ("Tax Holidays"). Under a 5-year transitional provision starting from 1 January 2008 pursuant to the Law of the People's Republic of China on Enterprise Income Tax ("EIT Law"), the Tax Holidays has been expired in 2010. In 2011, the subsidiary is qualified as "Hi-New Tech Enterprises" and therefore enjoys a preferential tax rate of 15% under EIT Law (2010: 11%).

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

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, a 5% of withholding tax is to be levied on the dividend declared in respect of profits earned by PRC operating subsidiaries from 2008 onwards. A provision for such withholding income tax has been made on the profits arisen during both periods from the PRC subsidiaries, which are available for distribution to its immediate holding company incorporated in Hong Kong.

The income tax expenses of the Group increased from approximately RMB7.5 million for the six months ended 30 June 2010 to approximately RMB15 million for the six months ended 30 June 2011. Such change was mainly due to the expiry of the Tax Holidays of the above subsidiaries and the new preferential tax rate entitled to under the EIT Law, as well as the effect of deferred tax in prior years on the current period. The effective tax rate increased from approximately 16.2% for the six months ended 30 June 2010 to approximately 28.8% for the six months ended 30 June 2011.

### Profit and total comprehensive income attributable to owners of the Company

Profit and total comprehensive income attributable to owners of the Company decreased from approximately RMB38.9 million for the six months ended 30 June 2010 to approximately RMB36.9 million for the six months ended 30 June 2011.

## ANALYSIS OF FINANCIAL POSITION

### Inventory turnover

The following table sets out the summary of the Group's inventory turnover days for the six months ended 30 June 2011 and the year ended 31 December 2010:

| | **Six months ended 30 June 2011** | Year ended 31 December 2010 |
|---|---|---|
| Inventory turnover day *(Note)* | **54** | 51 |

*Note:* The inventory turnover days for the year ended 31 December 2010 is arrived at by dividing the average inventories by cost of sales and then multiplying by 365 while the inventory turnover days for the six months ended 30 June 2011 is arrived at by dividing the average inventories by cost of sales and then multiplying by 181. Average inventories is arrived at by dividing the sum of the inventories at the beginning of year/period and that at the end of the year/period by 2. Inventory primarily comprised parts and components and finished goods. The turnover days of inventory increased from 51 days for the year ended 31 December 2010 to 54 days for the six months ended 30 June 2011. The figures for both of the two periods are considered to be at a reasonable level.

## Turnover days of trade receivables

The following table sets out the summary of the Group's turnover days of trade receivables for the six months ended 30 June 2011 and the year ended 31 December 2010:

| | Six months ended 30 June 2011 | Year ended 31 December 2010 |
|---|---|---|
| Turnover days of trade receivables *(Note)* | **31** | 29 |

*Note:* The turnover days of trade receivables for the year ended 31 December 2010 is arrived at by dividing the average trade receivables by revenue and then multiplying by 365 while the turnover days of trade receivables for the six months ended 30 June 2011 is arrived at by dividing the average trade receivables by revenue and then multiplying by 181. Average trade receivables is arrived at by dividing the sum of the trade receivables at the beginning of year/period and that at the end of the year/period by 2. Trade receivables are arrived at by deducting the bill receivables at the end of the period. The turnover days of trade receivables increased from 29 days for the year ended 31 December 2010 to 31 days for the six months ended 30 June 2011. The figures for both of the two periods are considered to be at a reasonable level.

## Aging analysis of trade receivables

The aging analysis of trade receivables of the Group as at 30 June 2011 and 31 December 2010 is as follows:

Trade receivables analysed by age:

| | At 30 June 2011 RMB'000 | At 31 December 2010 RMB'000 |
|---|---|---|
| Within 90 days | **52,399** | 56,959 |
| 91–180 days | **6,598** | 3,773 |
| 181–365 days | **2,453** | 763 |
| Over 365 days | **630** | 908 |
| Total trade receivables | **62,080** | 62,403 |

Most of the authorised agents of the Group are required to place deposits or pay upon delivery of the Group's products. The balances of trade receivables are mainly related to retail chain stores which are usually granted credit terms ranging from 0 to 90 days, depending on several factors such as the length of relationship, financial strength and settlement history of each customer. No material long outstanding trade receivables were identified at the end of the current period.

## Turnover days of trade payables

The following table sets out the summary of the Group's turnover days of trade payables for the six months ended 30 June 2011 and the year ended 31 December 2010:

| | Six months ended 30 June 2011 | Year ended 31 December 2010 |
|---|---|---|
| Turnover days of trade payables (*Note*) | **76** | 73 |

*Note:* The turnover days of the trade payables for the year ended 31 December 2010 is arrived at by dividing average trade payables by cost of sales and then multiplying by 365 while the turnover days of the trade payables for the six months ended 30 June 2011 is arrived at by dividing average trade payables by cost of sales and then multiplying by 181. Average trade payables is arrived at by dividing the sum of the trade payables at the beginning of year/period and that at the end of the year/period by 2. The turnover days of trade payables increased from 73 days for the year ended 31 December 2010 to 76 days for the six months ended 30 June 2011. The figures for both of the two periods are considered to be at a reasonable level.

## Aging analysis of trade payables

The aging analysis of trade payables of the Group as at 30 June 2011 and 31 December 2010 is as follows:

Trade payables analysed by age:

| | At 30 June 2011 RMB'000 | At 31 December 2010 RMB'000 |
|---|---|---|
| Within 90 days | **53,525** | 53,132 |
| 91–180 days | **1,396** | 1,825 |
| 181–365 days | **173** | 48 |
| Over 365 days | **220** | 217 |
| Total trade payables | **55,314** | 55,222 |

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

### Current ratio, quick ratio and gearing ratio

The current ratio, quick ratio and gearing ratio of the Group as at 30 June 2011 and 31 December 2010 were as follows:

| | At 30 June 2011 RMB'000 | At 31 December 2010 RMB'000 |
|---|---|---|
| Current ratio | **1.98** | 2.35 |
| Quick ratio | **1.80** | 2.08 |
| Gearing ratio | **0.06** | 0.00 |

*Note:* Current ratio is arrived at by dividing the current assets by current liabilities at the end of the corresponding year/period. Quick ratio is calculated as total current assets excluding inventories divided by total current liabilities at end of the year/period. Gearing ratio is arrived at by dividing the total external financing debt by total assets at the end of the corresponding year/period.

The numbers in the above table are expressed in the form of ratio and not as a percentage. With a lower base of liabilities of the Group, the current ratio decreased from approximately 2.35 times as at 31 December 2010 to 1.98 times as at 30 June 2011. The quick ratio decreased from approximately 2.08 times as at 31 December 2010 to 1.80 times as at 30 June 2011 due to the increase in short-term bank loan. The Group had a gearing ratio of zero as at 31 December 2010 and 0.06 as at 30 June 2011, mainly as a result of the bank facilities of the Group during the period.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

### Cash flow

The table below summarises the Group's cash flow for the six months ended 30 June 2010 and 2011:

| | Six months ended 30 June 2011 | Year ended 31 December 2010 |
|---|---|---|
| Net cash generated from operating activities | **56,184** | 2,559 |
| Net cash (used in) generated from investing activities | **(64,168)** | 75,752 |
| Net cash generated from (used in) financing activities | **788** | (42,540) |

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

### Operating activities

Cash inflow from operations is mainly derived from cash receipts from sales of the Group's products. Cash outflow from operations is principally generated for the purchase of parts and components, staff costs, selling and distribution expenses and administrative expenses. Net cash generated from operating activities was approximately RMB56.2 million for the six months ended 30 June 2011 while there was a net cash inflow in the amount of approximately RMB2.6 million for the six months ended 30 June 2010.

### Investing activities

Net cash used in investing activities was approximately RMB64.2 million for the six months ended 30 June 2011 which was primarily attributable to a net increase in pledged time deposit of approximately RMB44.0 million and a net increase in time deposit of approximately RMB3.0 million. Net cash generated from investing activities was approximately RMB75.8 million for the six months ended 30 June 2010 which was primarily attributable to a decrease in time deposit of approximately RMB96.0 million.

### Financing activities

Net cash generated from financing activities was approximately RMB0.8 million for the six months ended 30 June 2011 while net cash used in financing activities was approximately RMB42.5 million for the six months ended 30 June 2010. Such a decrease was attributable to proceeds from short-term bank loans.

## INDEBTEDNESS

### Borrowings

As at the close of business on 30 June 2011, the Group had bank borrowings RMB41.6 million.

### Bank facilities

As at the close of business on 30 June 2011, the Group had bank facilities totaling RMB100 million.

### Debt securities

As at the close of business on 30 June 2011, the Group did not have any debt securities.

### Contingent liabilities

As at the close of business on 30 June 2011, the Group did not have any material contingent liabilities or guarantees.

## PLEDGE OF ASSETS

As at the close of business on 30 June 2011, the Group had pledged bank deposit of RMB44 million.

## CAPITAL COMMITMENTS AND OTHER COMMITMENTS

As at 30 June 2011, the capital expenditure contracted for but not provided in respect of acquisition of property, plant and equipment amounted to approximately RMB15.6 million and the Group had no other significant capital commitment other than those mentioned above.

## HUMAN RESOURCES

As at 30 June 2011, the Group employed approximately 1,314 employees (as at 31 December 2010: approximately 1,379 employees). The total personnel cost of the Group was RMB27,749,000 for the six months ended 30 June 2011 (corresponding period 2010: RMB23,793,000). Employees' remuneration packages are based on individual performance, qualification, competence and job duties. The packages are reviewed annually by the management after taking 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

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. Transaction volume of properties in some medium and large cities in the short run reveals a decline. 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.

Meanwhile, the Directors consider that the Company may seek potential opportunities in other businesses as its strategic breakthroughs with a view to attaining growth and diversification.

## 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.

## BRAND NAME MANAGEMENT

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

## MANAGEMENT OF MARKETING CHANNELS

With respect to the Group's bathroom products, customers now opt for styles over product functions and demand more convenient services. The target regions have also shifted from single cities to small- to medium-cities and towns, with channels changing from single markets to both single markets and multi-channels. The Group will timely adjust its strategic direction, accelerate diversified channel development, improve channel structure, strengthen brand building and enhance product differentiation. The Group's sales proposals will continue to focus on regulating the market pricing mechanism, strengthening channel breakthrough (by stabilizing KA channels, accelerating expansion construction, e-commerce and new rural channel development whilst reducing its reliance towards KA channels); expanding market share; speeding up the sales of bathroom ceiling; and stepping up the marketing of Kitchen & Sanitary Lifestyle Stores. In view of the multi-channel development and adjustment of operating strategies, the Directors consider that, based on the changes of the target markets, the considerable adjustment of gross profit margin will better cater for the needs of market expansion and channel development.

As at 30 June 2011, the Group operated over 4,800 points of sales, 842 specialty stores and 23 Kitchen & Sanitary Lifestyle Stores (奥普廚衛生活館). The Group had seven branches and 14 offices, as well as 475 franchise agents covering the major cities and municipalities in 28 provinces and autonomous regions in China. It is the firm belief of the Directors that in the second half of 2011, in anticipation of the progress in the development of the Group's 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 the first half of 2011, the Company decided to invest RMB25 million in Zhejiang Haibang Human Resources Venture Partnership (浙江海邦人才創業投資合夥企業) ("Zhejiang Haibang"), of which the injection of RMB15 million was completed. 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. In the first half of 2011, Zhejiang Haibang invested RMB66 million in three projects. Based on the information feedbacks on the investment agreements provided by Zhejiang Haibang, as of the end of the reporting period, the three target companies performed well with a sound financial position and detailed schedules were formulated for further expansion and financing. The Directors consider that the three projects invested by Zhejiang Haibang were secured with a sound investment operation as a whole.

## JOINT VENTURE COMPANIES

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

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

## FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bank balances, trade and other receivables and payables. Details of these financial instruments are disclosed in the condensed consolidated financial statements.

It is, and has been throughout the period, the Group's policy not to enter into trading of financial instruments. The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, interest rate risk and liquidity risk. The directors review and monitor policies implemented for managing each of these risks as summarized below.

### Foreign currency risk

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

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

## Credit risk

The Group's financial assets are bank balances and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets. In order to minimise the credit risk in relation to trade receivables, the management has delegated a team responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts.

In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate provision for impairment losses is made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced. The amounts presented in the balance sheet are net of allowances for doubtful receivables, if any, estimated by the management based on prior experience, their assessment of the current economic environment and future discounted cash flow to be received.

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

## Cash flow interest rate risk

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

## Liquidity risk

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

# Other Information

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

## CODE ON CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") of the Company hereby confirms that the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the period for the six months ended 30 June 2011.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the period under review, the Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own Code for Securities Transactions by the Officers (the "Code"). All directors of the Company have confirmed their compliance during the period under review with the required standards set out in the Model Code and the Code.

## AUDIT COMMITTEE

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

The interim results have been reviewed by the Audit Committee which was established in compliance with Rule 3.21 of the Listing Rules and the relevant code provisions of the Code on Corporate Governance Practices. On the date of this report, the Audit Committee consists of three independent non-executive directors, namely, Mr. Wu Tak Lung (Chairman), Mr. Cheng Houbo and Mr. Shen Jianlin, and a non-executive director, Mr. Lu Songkang.

## USE OF PROCEEDS FROM THE NEW SHARE ISSUE

As at 30 June 2011, the Group had totally utilised approximately of RMB231.8 million out of the proceeds from the new share issue mainly for the construction of new production plants (including the acquisition of a piece of land for a new production plant).

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES

As at 30 June 2011, the interests and short positions of the Directors and the chief executive in the shares, underlying shares and debentures of the Company or of any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### I. Long position in shares of the Company and an associated corporation

| Name of director | Company/name of associated company | Capacity | Number of issued ordinary shares held *(Note 1)* | Approximate percentage of issued share capital of the Company/ Associated Company |
|---|---|---|---|---|
| Mr. Fang James *(Note 2)* | The Company | Interest in controlled corporation *(Note 2)* | 576,000,000 | 53.93% |
| 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)* | 576,000,000 | 53.93% |
| 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. On 5 July 2011, SeeSi Universal Limited disposed of 100,000,000 shares at HK$0.86 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 | 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% |

*Note:*

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 30 June 2011.

## SHARE OPTION SCHEME

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

### (1) Purposes of the scheme:

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

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

### (2) Participants of the scheme:

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

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

The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company shall not exceed such number of Shares representing 30% of the issued share capital of the Company from time to time. The total number of issued share in the capital of the Company was 1,068,105,000 shares as at the date of this Interim Report.

### (4) Maximum entitlement of each participant under the scheme:

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

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

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

— having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5,000,000.00. Such further grant of options must be approved by the Shareholders in general meeting by poll convened and held in accordance with the Articles of Association of the Company and Rules 13.39(5), 13.40, 13.41 and 13.42 of the Listing Rules. All connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour at such general meeting. The aforementioned circular shall contain such information as required under Rule 17.04 of the Listing Rules.

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

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

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

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

## (7) Minimum period, if any, for which an option must be held before it can be exercised:

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

## (8) Basis of determining the exercise price:

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

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

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the Date of Grant; and

(iii) the nominal value of the Shares.

## (9) Remaining life of the scheme:

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

On 16 March 2007, the Directors resolved to grant share options pursuant to the Share Option Scheme adopted by the Company on 16 November 2006. On the same day, the Company granted share options entitling the holders to subscribe for a total of 5,000,000 shares of the Company (representing approximately 0.71% of the total issued share capital of the Company as at the date of this Interim Report) to the three independent non-executive Directors of the Company and certain senior management of the Group (collectively the "First Batch Grantees") as an incentive and reward to the First Batch Grantees for their contribution to the Group.

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

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

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

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 30 June 2011, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 11,850,000, representing 1.11% 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 but 2,100,000 of which were lapsed as at 30 June 2011. Details of the options granted to the Directors as at 30 June 2011 are set out in the section headed "Directors' and Chief Executives' interests and Short Positions".

As at 30 June 2011, 11,850,000 share options granted to eligible Directors and employees of the Group were still outstanding and details are as follows:

| | | Maximum number of shares that may be subscribed under share options | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Name or category of participant** | **Exercise price (HK$)** | **Outstanding as at 1 January 2011** | **Exercised in the half year ended 30 June 2011** | **Cancelled or lapsed in the half year ended 30 June 2011** | **Outstanding as at 30 June 2011** | **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 | 60,000 | 0 | 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 | 900,000 | 2,400,000 | 0.22% | 8/6/2008 –15/3/2017 | *1,4,7,8,9* |
| *Other employees in aggregate* for Second Batch Share Options | 2.07 | 7,275,000 | 0 | 375,000 | 6,900,000 | 0.65% | 16/3/2008 –7/6/2017 | *2,5,7,8,9* |
| *Other employees in aggregate* for Third Batch Share Options | 1.03 | 4,440,000 | 2,205,000 | 345,000 | 1,890,000 | 0.18% | 3/1/2008 –2/1/2017 | *3,6,7,8,9* |
| Total | | 15,675,000 | 2,205,000 | 1,620,000 | 11,850,000 | 1.11% | | |

*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 30 June 2011, an aggregate of 12.87 million share options were lapsed due to the resignation of the relevant staff and an aggregate of 4,605,000 share options were exercised.*

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. The number of share options after adjustment was 29,325,000 share options.*

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2011, the interests or short positions of every person, other than a Director or chief executive of the Company in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

| Name of shareholder | Capacity | Number of issued ordinary shares held *Note* | Approximate percentage of issued share capital of the Company |
|---|---|---|---|
| SeeSi Universal Limited *(Note 1)* | Beneficial owner | 576,000,000 (L) *(Note 2)* | 53.93% |
| Zhang Shuqing *(Note 3)* | Family interest | 576,000,000 (L) | 53.93% |
| Qiang Yan *(Note 4)* | Family interest | 576,000,000 (L) | 53.93% |

*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.

(4) Madam Qiang Yan is the spouse of Mr. Fang James, a Director of the Company, Madam Qiang Yan is therefore deemed to be interested in the interests of Mr. Fang James.

All the interests stated above represent long positions. Save as disclosed above, as at 30 June 2011, none of the substantial shareholders, other than Directors or chief executives, of the Company had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

## PRE-EMPTIVE RIGHTS

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

## INTERIM DIVIDEND

The Board is pleased to declare that an interim dividend of RMB0.04 per share for the six months ended 30 June 2011 will be payable in cash on or before Friday, 7 October 2011 to the shareholders whose names appear on the register of members of the Company (the "Register of Members") as at the close of business on Thursday, 15 September 2011. The interim dividend in cash will be paid in Hong Kong dollars. The conversion of RMB into Hong Kong dollars will be made at the official exchange rate of RMB against Hong Kong dollars as quoted by Bank of China on Thursday, 15 September 2011.

# Other Information *(continued)*

## CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 14 September 2011 to Thursday, 15 September 2011 both days inclusive, during which period no share transfer will be effected. In order to qualify for the special interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration, not later than 4:30 p.m. on Monday, 12 September 2011.

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

Hong Kong, 24 August 2011