

CHAIRMAN'S STATEMENT



I hereby on behalf of the Board of Directors (the "Board" or "the "Directors") presented the report of AUPU Group Holding Company Limited and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2006.

Financial Review

The Group's results recorded significant growth for the last year. Turnover of the Group for the year ended 31 December 2006 was approximately RMB448,209,000, representing an increase of approximately 33.2% when compared with the corresponding period of last year. Profit attributable to equity holders and basic earning per share was approximately RMB83,650,000 and RMB0.16, representing an increase of approximately 51.3% and 45.5% respectively. Such results reflected the great efforts devoted by the Group in business development.

During the year of 2006, the Group's subsidiary Hangzhou AUPU Bathroom & Kitchen Technology Co., Ltd. was entitled to obtain approval from the relevant tax authority for a preferential tax treatment of "full exemption from enterprise income tax for the first two profit-making years and 50% exemption from enterprise income tax for the next three years (兩免三減半)". The Group is expected to enjoy higher profit for the next few years with such tax exemption.

Final Dividend (if declared)

In order to reward our shareholders for their support to the Group, the Board recommended to pay a final dividend of RMB0.04 per share for the year ended 31 December 2006. Payout ratio was approximately 35%.

Business Review

The Company was successfully listed on the Main Board of the Stock Exchange on 8 December 2006, marking a new milestone for the Group's development and recording a new chapter in the Group's history. Funds raised from listing also helped the Group in implementing its development plans to increase core competitiveness, enhance the Group's awareness, as well as to strengthen and develop the Group's leading position in the industry.

The Group has successfully researched and developed 39 new bathroom masters products in 2006. For Bathroom Roof "1+N", the first phrase of research and development project has completed by developing 16 models, the second phrase of research and development project has completed and developing 20 models. Total number of models developed was 36. The newly developed models and design increased the probability for growth of sales. In 2007, the Group introduced the series of "奥韵", which further enhanced the technical level and sales price of the products.



The Group was designated by the government to participate in formulating the nation standards of "indoor heaters (室內加熱器)" and "fans". These standards are expected to be introduced in August 2007. The Group was also accredited the leading unit for drafting nation standards for Bathroom

Master. The Group has launched Product design identify ("PDI") design during the year. This established a good foundation for our product upgrade.

The Group has assessed 50 suppliers (suppliers for major components) during the year. One supplier was eliminated while the 10 new suppliers were introduced during the year. For production and quality assurance, passing rate for finished products during first examination was approximately 98.69%, passing rate for finished products during random examination was 100%. On site inspection was carried out for OEM and tracking of components,

CHAIRMAN'S STATEMENT



assembling and examination of finished products were carried out throughout the whole process, ensuring our product's quality. No incident in respect of product quality such as return of goods happened during the year. For safety in production and protection of environment, no incident of water, electricity or fire of any kind or human injury accident happened during the year.

In order to meet the huge market demand, the Group has planned to expand its production capacity and production scale. The Group has installed seven production lines in place, and is planning to acquire one addition production line in 2007. Upon completion of our production base in Hangzhou Economic and Technological Development Area, the Group will proceed to expand its production capacity in accordance with the arrangements mentioned in its prospectus dated 27 November 2006 and market condition.

In respect of market development, the Group's products recorded satisfactory sales growth during the year of 2006. Three product lines of the Group, namely AUPU Bathroom Master 3-in-1, AUPU Bathroom Roof 1+N, exhaust fans and electrical appliances all recorded significant sales growth, particularly AUPU Bathroom Roof 1+N which was only launched last year recorded satisfactory sales, turnover reached approximately RMB26,382,000. AUPU Bathroom Master being core product of the Group recorded the highest growth, sales for the product increased by approximately 30.1% compared to the corresponding period of last year.

The Group has 9 branches and 39 distribution centers in the PRC, among which Hangzhou AUPU Electrical Appliances Co., Ltd. accounted for 25 and Hangzhou AUPU Bathroom & Kitchen Technology Co., Ltd. accounted for 14, covering major cities in 22 provinces or autonomous regions and 4 municipalities directly under the central government. Our nationwide end-user market image is unified, and our display style and display price are standardized under such network. We also planned and organised a series of promotion activities under specific



themes. As at the end of 2006, the Group has appointed over 250 authorised distributors and has 4,000 sales points throughout the PRC.

The Group has formulated of its brand positioning and brand associations for 2007. We have launched the slogan of "THE AUPU · 這就是奧普" and attributed brand associations of "technology (科技)", "humanity (人性)" and "environmentalist (綠色環保)" to AUPU products.

CHAIRMAN'S STATEMENT

In 2007, the Group has upgraded the Nc+ U8 financial system. Our internal communication of information has been expedited, and our utilization of resources and management quality were enhanced as a result. This helped to provide the most updated market and product information to domestic and foreign customers.

In 2006, the Group was granted a number of rewards by different governmental and financial institutions. These included "Hangzhou Advanced Enterprise for Harmonious Labor Relation (杭州市和諧勞動關係先進企業)", "Zhejiang Province Top 100 Model SME (浙江省學習型中小企業 100 佳)", "Hangzhou Patented Pilot Enterprise (杭州市專利試點企業)" granted by the people's government of Hangzhou; China Industrial Information Issuing Center ("CIIC") named the Group as "Top sales volume and sales amount in the industry" for 5 consecutive years, while sales volume accounted for approximately 42.8% and sales amount accounted for approximately 55.6% among major brands of bathroom master in 2006. Such awards reflect recognition of AUPU brand and our product quality by the general public.

Prospects

Fast growth of China's economy has stimulated demand for consumer goods in the PRC market. With household disposal income of Chinese families continues to increase, it is expected that demand for products for more comfortable lives such as bathroom masters and bathroom roofs will increase and demand for small home electrical appliances will maintain a high growth rate, creating a promising development prospect for bathroom masters and other high quality household products.

As at end of 2006, the Group has acquired the right to develop an approximately 38,686 sq.m. land in Hangzhou Economic and Technological Development Area. It is expected that construction of a comprehensive production base combining administration, research & development, production and warehouse functions will commence around June 2007. The Group will increase the number of production lines according to demand of its products to enhance the Group's production capacity. This new production base will be used to produce AUPU Bathroom Master 3-in-1, AUPU Bathroom Roof 1+N and other new products.

Looking forward, the Group will continue to allocate more resources to research & development of new products, increase its production capacity and strengthen its promotion activities so as to further develop domestic and foreign markets. Leveraging on its leading position in the bathroom master market, its strong research & development capacity and its widely recognized AUPU brand, the Group believes that it will be able to grasp business opportunities in the market and provide high quality kitchen electrical appliances to enhance living standard of consumers in the PRC. The Group will also strive to pursue sustainable and satisfactory reward for its shareholders.

Appreciation

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

Fang James

Chairman

Hangzhou, Zhejiang, The PRC

18 April 2007