NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006

1. GENERAL

The Company was incorporated and registered in the Cayman Islands on 14 July 2006 as an exempted company with limited liability under The Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 8 December 2006. The Company's ultimate holding company is SeeSi Universal Limited ("SeeSi"), a company incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

In preparation for the listing of the Company's shares on the Stock Exchange, the Company has undergone a group reorganisation (the "Group Reorganisation") on 1 September 2006 pursuant to which the Company became the holding company of the subsidiaries (collectively referred to as the "Group"). The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared using the principles of merger accounting as if the current group structure had been in existence throughout the two years ended 31 December 2006. Details of the Group Reorganisation are set out in the prospectus dated 27 November 2006 issued by the Company.

The Company is an investment holding company. The activities of its principal subsidiaries are disclosed in Note 24.

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

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has applied the International Financial Reporting Standards issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB, which are either effective for accounting periods beginning on or after 1 January 2005, 1 December 2005 and 1 January 2006 since the financial year beginning on 1 January 2003.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS – continued

At the date of authorisation of these consolidated financial statements, the following Standards, Amendment and Interpretations were in issue but not yet effective:

IAS 1 (Amendment)	Capital Disclosures [1]
IAS 7	Financial Instruments: Disclosures [1]
IAS 8	Operating Segments [2]
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies [3]
IFRIC 8	Scope of IFRS 2 [4]
IFRIC 9	Reassessment of Embedded Derivatives [5]
IFRIC 10	Interim Financial Reporting and Impairment [6]
IFRIC 11	IFRS 2: Group and Treasury Share Transactions [7]
IFRIC 12	Service Concession Arrangements [8]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

These Standards, Amendment and Interpretations have not been adopted in preparing the consolidated financial statements.

The directors anticipate that the adoption of the above Standards, Amendment and Interpretations in the future periods will have no material impact on the results and financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and in accordance with International Financial Reporting Standards ("IFRS") issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance. The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of consolidation – continued

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

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

Business combinations under common control

The consolidated financial statements incorporate the financial statement items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

Revenue recognition

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

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimate future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Government grants

Government grants are recognised as income on a systematic and rational basis over the periods necessary to match them with the related costs. If no basis exists for allocating a grant to a period other than the one in which it is received and the grant is unconditional, the grant is recognised on a receipts basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Research and development expenditures

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

Leasing

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

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating leases are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in RMB, which is the currency of the majority of the Group's transactions are denominated.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Retirement benefit costs

Payments to defined contribution retirement benefit plans, the state-managed retirement benefit schemes are charged as an expense as when employees have rendered service entitling them to contributions.

Taxation

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

Current tax

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

Deferred tax

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Property, plant and equipment

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Other property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets, other than properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment – continued

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Prepaid lease payments

The prepaid lease payments represent upfront payment for land use rights and leasehold land are initially recognised at cost and released to income statement over the lease term on a straight-line basis.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a weighted average basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables and bank balances

Trade and other receivables and bank balances are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Financial liability and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006

4. 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 respective notes.

It is, and has been throughout the year, 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, cash flow interest rate risk and liquidity risk. The directors review and monitor policies implemented for managing each of these risks are summarised below.

Foreign currency risk

The Group's exposure to foreign currency risk is arising mainly from:

(1) the exchange rate movements of Hong Kong Dollars as the Group has significant bank deposits denominated in this currency as disclosed in note 16; and

(2) subsidiaries of the Company also have foreign currency sales and trade receivables denominated in currencies other than the functional currency of the relevant subsidiaries, which expose the Group to foreign currency risk.

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

Credit risk

The Group's financial assets are bank balances and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk in relation to trade receivables, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced. The amounts presented in the balance sheet are net of allowances for doubtful receivables, if any, estimated by the management based on prior experience, their assessment of the current economic environment and future discounted cash flow to receive.

The Group has no significant concentration of credit risk for its trade receivables which are spread over a large number of counterparties and customers.

The credit risk on liquid funds is limited because majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Cash flow interest rate risk

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

Liquidity risk

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

5. REVENUE

Revenue is measured at the fair value of the consideration received or receivable and represents the net amounts received and receivable for goods sold to outside customers, less returns and discount, if any, and net of value-added tax during the year.

6. SEGMENT INFORMATION

The Group's principal activities are manufacturing, sales, retail and wholesale of bathroom masters, exhaust fans and electrical appliances used in bathroom and kitchen. The Group is currently organised into one operating division which is bathroom masters, exhaust fans and electrical appliances used in bathroom and kitchen. This division is the basis on which the Group reports its primary segment information. The production facilities of such division are located in the Peoples' Republic of China (the "PRC") while the products are mainly sold to the markets in the PRC.

In addition, more than 90% of the Group's assets and liabilities are located in the PRC and more than 90% of the sales were made in the PRC during the year.

Accordingly, no segment information by business and geographical is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006

7. PROFIT BEFORE TAX

Profit before tax has been arrived at:

	2006	2005
	RMB'000	RMB'000
After charging:		
Staff cost, including directors' remuneration (note 11)		
– salaries, wages and other benefits	**38,243**	28,123
– retirement benefit scheme contributions (note 22)	**4,555**	2,578
Total staff cost	**42,798**	30,701
Research and development expenditure	**1,957**	676
Depreciation of property, plant and equipment	**4,619**	3,912
Release of prepaid lease payments	**271**	271
Loss on disposal of property, plant and equipment	**43**	44
Auditors' remuneration	**1,256**	965
Allowance for inventories obsolescence	**851**	–
Net foreign exchange loss	**634**	181
Listing expenses	**11,863**	–
Cost of inventories recognised as an expense	**215,214**	165,953
After crediting:		
Interest income	**2,375**	251
Government grants	**4,314**	3,910

Note: Government grants are received from the local government to recognise the eminence of certain design, research and development of new products of the Group which contributes positively to the local industry environment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006

8. INCOME TAX EXPENSES

	2006	2005
	RMB'000	RMB'000
The charge (credit) comprises:		
Current tax	**15,204**	22,492
Deferred tax (note 14)	**(1,250)**	(801)
	13,954	21,691

The Company, Ableby Worldwide and Tricosco did not have any tax assessable income during both years.

AUPU Electrical is a foreign investment enterprise of a manufacturing nature established in coastal economic open zone in the PRC. In accordance with the tax legislations in the PRC applicable to foreign investment enterprises involved in manufacturing, AUPU Electrical is entitled to a preferential enterprise income tax rate of 26.4 per cent, inclusive of 2.4 per cent for local enterprise income tax.

AUPU Technology is a foreign investment enterprise of a manufacturing nature established in national economic and technology development zone in the PRC. In accordance with the tax legislations, AUPU Technology is entitled to a preferential enterprise income tax rate of 16.5 per cent, inclusive of 1.5 per cent for local enterprise income tax. AUPU Technology is entitled to obtain approval from the relevant tax authority for an exemption from PRC enterprise income tax for two years starting from its first profit making year of operations, followed by a 50 per cent tax relief for the following three years.

AUPU Technology had been inactive since the date of establishment to the year ended 31 December 2005 and accordingly, AUPU Technology did not have any assessable income in the year of 2005. In the opinion of directors, the year of 2006 will be the first tax exemption year for AUPU Technology, and accordingly, no provision for taxation has been made on the estimated assessable profit of AUPU Technology for the year ended 31 December 2006.

The charge for the current year can be reconciled to the profit before tax per the consolidated income statements as follows:

	2006		2005	
	RMB'000	**%**	RMB'000	%
Profit before tax	**97,604**	**–**	76,978	–
Tax at the domestic rates applicable to profit in the jurisdiction concerned	**25,767**	**26.40**	20,322	26.40
Tax effect of expenses that are not deductible in determining taxable profit	**3,317**	**3.40**	1,352	1.76
Tax exemption of a subsidiary	**(15,130)**	**(15.50)**	–	
Tax effect of tax loss not recognised	**–**	**–**	17	0.02
Tax expense and effective tax rate for the year	**13,954**	**14.30**	21,691	28.18

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006

9. DIVIDENDS AND DISTRIBUTION

The dividends of a subsidiary of RMB54,000,000 (2005: RMB16,000,000) were declared to its owners prior to the completion of the Group Reorganisation.

Distribution RMB nil (2005: RMB456,000) represents a deem distribution of the retained profits of AOPU Kitchen Beijing Branch as at 31 December 2004 was returned to AOPU Kitchen when AOPU Kitchen Beijing Branch was deregistered on 29 March 2005.

On 18 April 2007, the directors proposed a final dividend of RMB0.04 per share to the shareholders whose name appear on the register of members of the Company on 25 May 2007, amounting to approximately RMB29,278,000 subject to the approval of shareholders at the coming Annual General Meeting.

10. EARNINGS PER SHARE

Basic earnings per share

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

	2006	2005
	RMB'000	RMB'000
Earnings for the purpose of basic earnings per share (profit attributable to equity holders of the Company)	**83,650**	55,287

	Number of ordinary shares	
	2006	2005 (note)
Weighted average number of ordinary shares for the purposes of basic earnings per share	**523,190,000**	510,000,000

Note: For the purpose of calculation of basic earnings per share for the year 2005, 510,000,000 shares in issue was in use as if the Group Reorganisation and the capitalisation issue of 310,000,000 shares in the Company as disclosed in note 19 have been taken place on 1 January 2005.

Diluted earnings per share

Diluted earnings per share has not been presented for both 2005 and 2006 as there was no dilutive potential ordinary shares in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006

11. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The emoluments of directors are analysed as follows:

Year ended 31 December 2005

	Basic salaries and allowances RMB'000	Retirement benefit contributions RMB'000	Total RMB'000
Executive directors:			
Fang James	140	–	140
Fang Shengkang	140	8	148
Chai Junqi	140	3	143
	420	11	431

Year ended 31 December 2006

	Basic salaries and allowances RMB'000	**Retirement benefit contributions RMB'000**	**Total RMB'000**
Executive directors:			
Fang James	**144**	**–**	**144**
Fang Shengkang	**144**	**12**	**156**
	288	**12**	**300**
Non-executive directors:			
Chai Junqi	**137**	**–**	**137**
Lu Songkang	**137**	**12**	**149**
	274	**12**	**286**
Independent non-executive directors:			
Cheng Houbo	**3**	**–**	**3**
Shen Jianlin	**3**	**–**	**3**
Wu Taklung	**13**	**–**	**13**
	19	**–**	**19**
	581	**24**	**605**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006

11. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS – continued

The emoluments of the five highest paid individuals were as follows:

	2006	2005
	RMB'000	RMB'000
Basic salaries and allowances	**774**	645
Retirement benefit contributions	**48**	15
	822	660
Included in above are number of:		
– Directors	**3**	3
– Employees	**2**	2
	5	5

The emoluments of each of these individuals for the year were less than RMB1,000,000.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery	Motor vehicles	Fixtures and equipment	Properties under construction	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2005	23,476	2,782	6,728	7,498	1,325	41,809
Additions	35	544	4,101	2,301	1,097	8,078
Disposals	–	–	(439)	(136)	–	(575)
Transfers	1,808	497	–	–	(2,305)	–
At 31 December 2005	25,319	3,823	10,390	9,663	117	49,312
ACCUMULATED DEPRECIATION						
At 1 January 2005	2,832	1,346	4,314	3,885	–	12,377
Charge for the year	1,390	211	1,033	1,278	–	3,912
Eliminated on disposals	–	–	(312)	(97)	–	(409)
At 31 December 2005	4,222	1,557	5,035	5,066	–	15,880
CARRYING AMOUNT						
At 31 December 2005	21,097	2,266	5,355	4,597	117	33,432

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006

12. PROPERTY, PLANT AND EQUIPMENT – continued

	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Fixtures and equipment RMB'000	Properties under construction RMB'000	Total RMB'000
COST						
At 1 January 2006	25,319	3,823	10,390	9,663	117	49,312
Additions	625	741	1,919	3,083	6	6,374
Disposals	–	–	–	(182)	–	(182)
At 31 December 2006	25,944	4,564	12,309	12,564	123	55,504
ACCUMULATED DEPRECIATION						
At 1 January 2006	4,222	1,557	5,035	5,066	–	15,880
Charge for the year	1,642	218	1,645	1,114	–	4,619
Eliminated on disposals	–	–	–	(113)	–	(113)
At 31 December 2006	5,864	1,775	6,680	6,067	–	20,386
CARRYING AMOUNT						
At 31 December 2006	20,080	2,789	5,629	6,497	123	35,118

The depreciation is charged using straight-line method on the following bases:

Buildings	20 years
Machinery	10 years
Motor vehicles	5 years
Fixtures and equipment	5 years

13. PREPAID LEASE PAYMENTS

	2006 RMB'000	2005 RMB'000
Including:		
Current portion	271	271
Non-current portion	15,747	6,335
	16,018	6,606

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006

14. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised by the Group, and the movements thereon, during the year.

	Unrealised profit on inventory RMB'000	Other deductible temporary differences RMB'000	Total RMB'000
At 1 January 2005	2,154	243	2,397
Credit to profit for the year (note 8)	635	166	801
At 31 December 2005	2,789	409	3,198
Credit to profit for the year (note 8)	133	1,117	1,250
At 31 December 2006	**2,922**	**1,526**	**4,448**

Unrealised profit on inventory mainly represents unrealized profit on inter-branches/companies sales while other deductible temporary differences refer to temporary difference on certain accrued charges in accordance with their respective enacted tax rates.

There were no significant recognised/unrecognised deferred tax liabilities during the year or at each of the respective balance sheet dates.

15. INVENTORIES

	2006 RMB'000	2005 RMB'000
Raw materials	**7,947**	7,144
Finished goods	**32,784**	22,068
	40,731	29,212

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006

16. OTHER FINANCIAL ASSETS

Trade and other receivables

	2006 RMB'000	2005 RMB'000
Trade receivables analysed by age:		
Within 90 days	**49,053**	27,114
91 – 180 days	**2,903**	467
181 – 365 days	**572**	67
Over 365 days	**73**	22
Total trade receivables	**52,601**	27,670
Other receivables	**6,967**	2,490
	59,568	30,160

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

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Bank balances and cash

Bank balances and cash comprise cash and short-term deposits with an original maturity of three months or less which are held with financial institutions and carry interest ranges from 0.72% to 4%. The carrying amount of these assets approximates to their fair value.

Bank balances amounting to RMB69,529,782 (2005: RMB Nil) was denominated in Hong Kong Dollars (see note 4).

Certain bank balances and cash of RMB230,626,483 (2005: RMB68,310,773) was denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006

17. OTHER FINANCIAL LIABILITIES

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

	2006 RMB'000	2005 RMB'000
Trade payable analysed by age:		
Within 90 days	**25,012**	20,297
91 – 180 days	**890**	38
181 – 365 days	**995**	350
Over 365 days	**276**	203
Total trade payables	**27,173**	20,888
Retention sum due to suppliers	**12,592**	11,892
Advances from customers	**12,538**	6,944
Advertisement accruals	**2,631**	3,098
Sales commission accruals	**4,377**	980
Welfare payables	**1,985**	1,985
Others	**6,511**	6,725
	67,807	52,512

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

18. OTHER TAX LIABILITIES

	2006 RMB'000	2005 RMB'000
Value added tax	**8,555**	5,404
Others	**70**	46
	8,625	5,450

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for the year ended 31 December 2006

19. SHARE CAPITAL/PAID-IN CAPITAL

	Number of shares	Amounts HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
On the date of incorporation and at 31 December 2006	5,000,000,000	500,000,000

	Number of shares	Amounts RMB'000
Issued and fully paid:		
Issued share at nil paid on the date of incorporation	1	–
Issued shares upon the Group Reorganisation	199,999,999	20,466
Issued shares on capitalisation of share premium account	310,000,000	31,345
Issued shares by public offering	200,600,000	20,212
At 31 December 2006	710,600,000	72,023

The following changes in the share capital of the Company took place during the period from 14 July 2006 (date of incorporation) to 31 December 2006:

(a) The Company was incorporated on 14 July 2006 with an authorised capital of HK$500,000,000 dividend into 5,000,000,000 shares of HK$0.1 each. On the date of incorporation, 1 share was issued at nil paid.

(b) On 1 September 2006, the Company issued 199,999,999 shares pursuant to the Group Reorganisation.

(c) On 16 November 2006, 310,000,000 shares were allotted and issued as fully paid to the holders of shares whose name appear on the register of members of the Company at that date, by the capitalisation of share premium account of the Company.

(d) On 8 December 2006, the Company issued 200,600,000 shares upon listing of the shares on the Stock Exchange at the price of HK$1.23 per share.

All the shares issued during the period rank pari passu in all respects with the then existing shares.

The share capital of the Group at 31 December 2005 represented the aggregated paid-in capital of the subsidiaries of the Company prior to the Group Reorganisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006

20. RESERVES

Special reserve

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

Statutory reserves

Pursuant to relevant laws and regulations in the PRC and the Articles of Association of AUPU Electrical and AUPU Technology, 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.

No contributions to the reserve fund were made by AUPU Electrical during the year because it had reached the maximum level of 50% of its registered capital for the year ended 31 December 2005.

AUPU Technology has been inactive since the date of establishment to the year ended 31 December 2005 and accordingly, no appropriation was made in the year of 2005. No profit of AUPU Technology for the year of 2006 was appropriated to the reserve fund up to the date of approval of these consolidated financial statements.

The reserve fund may also be used to increase capital or to meet unexpected or future losses.

21. OPERATING LEASE COMMITMENTS

	2006 **RMB'000**	2005 RMB'000
Minimum lease payments under operating leases recognised in the income statement for the year	**3,089**	1,912

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

	2006 **RMB'000**	2005 RMB'000
Within one year	**2,141**	1,198
In the second to fifth year inclusive	**1,137**	794
More than five years	**12**	24
	3,290	2,016

Operating lease payments represent rentals payable by the Group for certain branch offices and warehouses. Leases are negotiated for lease term ranging from 1 to 8 years at inception.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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22. RETIREMENT BENEFIT PLAN

	2006	2005
	RMB'000	RMB'000
Retirement benefit contribution	**4,555**	2,578

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

As at 31 December 2005 and 31 December 2006, contributions of approximately RMB12,000 and RMB6,000, respectively, due in respect of the corresponding reporting year had not been paid over to the schemes.

23. RELATED PARTY TRANSACTIONS

(a) Names and relationships with related parties are as follows:

Name	**Relationship**
Fang James	Director
Fang Shengkang	Director
Chai Junqi	Director
Lu Songkang	Director
AUPU International Holdings Pte. Ltd. ("AUPU International")	Fang James, Fang Shengkang, Chai Junqi, and Lu Songkang have beneficial interests
Hangzhou Dahe Lighting Equipment Co., Ltd. ("Da He")	The director of Da He was a family member of Fang Shengkang (note)

Note: The family member resigned as a director of Da He since 8 August 2005 and Da He is not considered as a related party from that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. RELATED PARTY TRANSACTIONS – continued

(b) During the year, the Group entered into the following transactions with related parties:

	2006	2005
	RMB'000	RMB'000
Da He		
Purchase of goods	**–**	5,821
Fang Shengkang		
Lease rental paid	**–**	40

(c) At the balance sheet date, included in the other payables were the following amount due to AUPU International which are unsecured, interest-free, repayable on demand and aged within 90 days:

	2006	2005
	RMB'000	RMB'000
Amount due to AUPU International	**–**	11

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for the year ended 31 December 2006

24. SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2006 are as follow:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of share capital/ registered capital held by the Company		Principal activities
			Direct	Indirect	
Ableby Worldwide Limited 藝寶環球有限公司 ("Ableby Worldwide")	The British Virgin Islands (note 1) 18 May 2006	Ordinary shares US$1	100%	–	Investment holding
Tricosco Limited ("Tricosco")	Hong Kong (note 2) 20 June 2006	Ordinary shares HK$1	–	100%	Investment holding
Hangzhou Aupu Bathroom & Kitchen Technology Co., Ltd. 杭州奧普衛廚科技有限公司 ("AUPU Technology")	The PRC (note 3) 9 September 2004	Registered and contributed capital US$20,000,000	–	100%	Manufacture and distribution of bathroom masters, exhaust fans and other home appliances
Hangzhou Aupu Electrical Appliances Co., Ltd. 杭州奧普電器有限公司 ("AUPU Electrical")	The PRC (note 3) 29 July 1993	Registered and contributed capital US$3,350,000	–	100%	Manufacture and distribution of bathroom masters, exhaust fans and other home appliances

Notes:

1. Ableby Worldwide Limited is a limited liability company incorporated in the British Virgin Islands.

2. Tricosco Limited is a limited liability company incorporated in Hong Kong.

3. AUPU Technology and AUPU Electrical are established as a wholly foreign owned enterprise.

25. POST BALANCE SHEET EVENTS

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 to the three independent non-executive directors of the Company and certain senior management of the Group (collectively referred as the "Grantees") as an incentive and reward to the Grantees for their contribution to the Group.

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