AUPU Group Holding Company Limited
奧普集團控股有限公司

(Incorporated in the Cayman Islands as an exempted company with limited liability)
(Stock code: 477)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

The board of directors (the "Board") of AUPU Group Holding Company Limited (the "Company") is pleased to announce the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006 as follows:

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	2006 RMB'000	2005 RMB'000
Revenue	4	**448,209**	336,513
Cost of sales		**(216,519)**	(165,961)
Gross profit		**231,690**	170,552
Other income		**8,241**	6,735
Selling and distribution expenses		**(99,789)**	(72,369)
Administrative expenses		**(39,065)**	(25,477)
Other expenses		**(3,473)**	(2,463)
Profit before tax	5	**97,604**	76,978
Income tax expenses	6	**(13,954)**	(21,691)
Profit attributable to equity holders of the Company		**83,650**	55,287
Dividends and distribution paid	7	**54,000**	16,456
		RMB	*RMB*
Earnings per share - basic	8	**0.16**	0.11

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2006

	NOTES	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment		**35,118**	33,432
Prepaid lease payments		**15,747**	6,335
Deferred tax assets		**4,448**	3,198
		55,313	42,965
Current assets			
Prepaid lease payments		**271**	271
Inventories		**40,731**	29,212
Trade and other receivables	9	**59,568**	30,160
Bank balances and cash		**300,934**	69,382
		401,504	129,025
Total assets		**456,817**	171,990
Current liabilities			
Trade and other payables	10	**67,807**	52,512
Income tax liabilities		**5,822**	7,716
Other tax liabilities		**8,625**	5,450
		82,254	65,678
Net current assets		**319,250**	63,347
Net assets/Total assets less liabilities		**374,563**	106,312
Capital and reserves			
Share capital/paid-in capital		**72,023**	32,775
Reserves		**302,540**	73,537
Total equity		**374,563**	106,312

Notes:

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.

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 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

In the current year, the Group has applied, all the 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 respectively since 1 January 2003.

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.

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.

4. Revenue and segmental information

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.

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.

5. Profit before tax

Profit before tax has been arrived at:

	2006 RMB'000	2005 RMB'000
After charging:		
Staff cost, including directors' remuneration		
– Salaries, wages and other benefits	**38,243**	28,123
– Retirement benefit scheme contributions	**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 *(Note)*	**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.

6. Income tax expenses

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

The Company, Ableby Worldwide Limited (which is 100% directly owned subsidiary of the Company) and Tricosco Limited (which is 100% indirectly owned subsidiary of the Company) did not have any tax assessable income during the year.

Hangzhou AUPU Electrical Appliance Co., Ltd. ("***AUPU*** Electrical"), a wholly-owned subsidiary of the Company, 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.

Hangzhou AUPU Bathroom & Kitchen Technology Co., Ltd. ("***AUPU*** Technology"), a wholly-owned subsidiary of the Company, 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, 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

Note: The domestic income tax rate was lower for the year ended 31 December 2006 because of the commencement of business of ***AUPU*** Technology in that year, which domestic income tax rate is 16.5 per cent.

7. Dividends and distribution paid

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

Distribution of RMB Nil (2005: RMB546,000) 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 names 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.

8. 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
Weighted average number of ordinary shares for the purpose 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 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.

9. Trade and other receivables

	2006	2005
	RMB'000	*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 1.72% - 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 Dollar.

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.

10. Trade and other payables

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

	2006	2005
	RMB'000	*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.

11. Subsequent 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCE REVIEW

Revenue

For the year ended 31 December 2006, the revenue of the Group amounted to approximately RMB448,209,000, representing an increase of approximately 33.2% as compared with the revenue which amounted to approximately RMB336,513,000 for the year ended 31 December 2005. The increase in revenue was mainly attributable to the increase in revenue of the Environmental Series and Economical Series of ***AUPU*** Bathroom Master 3-in-1 and the launch of ***AUPU*** Bathroom Roof 1+N. The revenue of ***AUPU*** Bathroom Master 3-in-1 increased from approximately RMB300,587,000 for the year ended 31 December 2005 to approximately RMB391,110,000 for the year ended 31 December 2006, representing an increase of approximately RMB90,523,000 or approximately 30.1%. The revenue of ***AUPU*** Bathroom Master 3-in-1 accounted for approximately 89.3% and 87.3% of the Group's total revenue for the year ended 31 December 2005 and 2006 respectively. In particular, the revenue of Economical Series increased from approximately RMB112,450,000 for the year ended 31 December 2005 to approximately RMB134,377,000 for the year ended 31 December 2006, representing an increase of approximately RMB21,927,000 or approximately 19.5%. For the year ended 31 December 2006, the revenue of Environmental Series which was launched in August 2005 amounted to approximately RMB178,210,000. Due to changes in product mix, the revenue of Deluxe Series decreased from approximately RMB86,605,000 for the year ended 31 December 2005 to approximately RMB50,449,000 for the year ended 31 December 2006 while the revenue of Colour-Slim Series decreased from approximately RMB76,398,000 to RMB28,073,000 for the same period. The revenue of ***AUPU*** Bathroom Roof 1+N which was launched in April 2006 amounted to approximately RMB26,382,000 for the year ended 31 December 2006.

Costs of sales

For the year ended 31 December 2006, the costs of sales of the Group amounted to approximately RMB216,519,000. The costs of parts and components, direct labour and overhead represented approximately 96.4%, 1.2% and 2.4% of the total costs of sales respectively. For the year ended 31 December 2005, the total costs of sales amounted to approximately RMB165,961,000. The costs of parts and components, direct labour and overhead represented approximately 96.4%, 1.3% and 2.3% of the total costs of sales respectively.

Gross profit and gross profit margin

Gross profit increased from approximately RMB170,552,000 for the year ended 31 December 2005 to approximately RMB231,690,000 for the year ended 31 December 2006, representing an approximately 35.8% increase. Overall gross profit margin increased from approximately 50.7% for the year ended 31 December 2005 to approximately 51.7% for the year ended 31 December 2006. The increase in revenue from Environmental Series which provides higher gross profit margin and the engagement of an OEM manufacturer to produce a certain specification of ***AUPU*** Bathroom Master 3-in-1 contributed to the increase in overall gross profit margin.

Other income

Other income increased from approximately RMB6,700,000 for the year ended 31 December 2005 to approximately RMB8,241,000 for the year ended 31 December 2006 due to the significant increase in interest income of bank deposits and subsidy income.

Selling and distribution expenses

The selling and distribution expenses amounted to approximately RMB99,789,000 for the year ended 31 December 2006. It mainly comprised of advertising expenses of approximately RMB28,679,000, sales promotion expenses of approximately RMB13,629,000, salaries expenses of sales and marketing staff of approximately RMB23,991,000, after-sales services expenses of approximately RMB5,191,000 and transportation expenses of approximately RMB10,663,000. The selling and distribution expenses amounted to approximately RMB72,369,000 for the year ended 31 December 2005. It mainly comprised of advertising expenses of approximately RMB25,200,000, sales promotion expenses of approximately RMB8,000,000, salaries expenses of sales and marketing staff of approximately RMB18,000,000, after-sales services expenses of approximately RMB2,500,000 and transportation expenses of approximately RMB8,700,000. The increase in selling and distribution expenses for the year ended 31 December 2006 compared with the year ended 31 December 2005 was mainly due to increase in salaries expenses of sales and marketing staff and increase in sales promotion expenses.

Administrative expenses

The administrative expenses amounted to approximately RMB39,065,000 for the year ended 31 December 2006. It mainly comprised of salaries expenses of general and administrative staff of approximately RMB12,359,000, depreciation of approximately RMB2,514,000, professional fees and travel grants of approximately RMB14,532,000, office expenses of approximately RMB4,110,000. The administrative expenses amounted to approximately RMB25,477,000 for the year ended 31 December 2005. It mainly comprised of salaries expenses of general and administrative staff of approximately RMB9,500,000, depreciation of approximately RMB2,800,000, professional fees and related disbursements of approximately RMB6,200,000 and office expenses of approximately RMB2,300,000. The increase in administrative expenses for the year ended 31 December 2006 compared with the year ended 31 December 2005 was mainly due to significant increase in professional fees arising from the booking of listing expenses and increase in salaries expenses of general and administrative staff.

Other expenses

Other expenses increased from approximately RMB2,463,000 for the year ended 31 December 2005 to approximately RMB3,473,000 for the year ended 31 December 2006 due to increase in cost of spare parts and non-operating expenses.

Profit before tax

Based on the above factors, the Group's profit before tax increased from approximately RMB76,978,000 for the year ended 31 December 2005 to approximately RMB97,604,000 for the year ended 31 December 2006, representing an increase of approximately 26.8%.

Income tax expenses

Leveraging on the well-known brand name, technology know-how and the well-established distribution network of ***AUPU***, ***AUPU*** Technology was able to generate a remarkable profit immediately following the commencement of its commercial production in 2006.

As the Directors consider that 2006 will be the first PRC enterprise income tax exemption year for ***AUPU*** Technology and therefore no provision of taxation has been made in respect of the estimated assessable profit of ***AUPU*** Technology for the year ended 31 December 2006, the income tax expenses of the Group decreased from approximately RMB21,691,000 for the year ended 31 December 2005 to approximately RMB13,954,000 for the year ended 31 December 2006 and the effective tax rate decreased from approximately 28.2% for the year ended 31 December 2005 to approximately 14.3% for the year ended 31 December 2006.

Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company increased from approximately RMB55,287,000 for the year ended 31 December 2005 to approximately RMB83,650,000 for the year ended 31 December 2006. Due to the PRC enterprise income tax exemption to be enjoyed by ***AUPU*** Technology in 2006 as mentioned above, the net profit margin (stated in its percentage of revenue) increased from approximately 16.4% for the year ended 31 December 2005 to approximately 18.7% for the year ended 31 December 2006.

ANALYSIS OF FINANCIAL POSITION

Inventory turnover

The following table sets out the summary of the Group's inventory turnover days during the two years ended 31 December 2005 and 2006:

	2006	2005
Inventory turnover days	**59**	59

Inventory primarily comprised parts and components and finished goods. For both the years ended 31 December 2005 and 2006, inventory turnover period remained stable at 59 days.

Turnover days of trade receivables

The following table set out the summary of the Group's turnover days of trade receivables during the two years ended 31 December 2005 and 2006:

	2006	2005
Turnover days of trade receivables	**32**	31

The turnover days of trade receivables increased from 31 days for the year ended 31 December 2005 to 32 days for the year ended 31 December 2006.

Turnover days of trade payables

The following table sets out the summary of the Group's turnover days of trade payables during the two years ended 31 December 2005 and 2006:

	2006	2005
Turnover days of trade payables	**41**	49

The turnover days of trade payables decreased from 49 days in 2005 to 41 days in 2006 as the Group has changed the payment terms for certain suppliers added in 2006 in relation to materials for new products.

Other financial liabilities

Retention sum due to suppliers

To ensure the products quality of suppliers, the Group retains a deposit representing 7% to 12% of the annual purchases by the Group from the respective suppliers. The retention sum due to suppliers will be released to respective suppliers 30 days after receipt of the goods and completion of satisfactory quality check by the Group.

Advance from customers

The advances from customers mainly represents sales made to authorised agents and distributors who are required to pay in advance before the delivery of goods. As the Group has some new customers in 2006 which are required by the Group to pay in advance before the delivery of goods, the balance of advances from customers as at 31 December 2006 increased comparing with 31 December 2005.

Current ratio, quick ratio and gearing ratio

The current ratio, quick ratio and gearing ratio of the Group for the two years ended 31 December 2005 and 2006 was as follows:

	2006	2005
Current ratio	**4.88**	1.96
Quick ratio	**4.39**	1.52
Gearing ratio	**Nil**	Nil

The current ratio increased from approximately 1.96 times as at 31 December 2005 to 4.88 times as at 31 December 2006 as the Company received cash in the amount of approximately HK$227,000,000 from new issue of shares.

The quick ratio increased from approximately 1.52 times as at 31 December 2005 to approximately 4.39 times as at 31 December 2006 due to same reason stated above.

The Group had a zero gearing ratio as at 31 December 2005 and 31 Decrease 2006 as the Group did not have external bank loans as at 31 December 2005 and 31 December 2006.

EXPOSURE TO FOREIGN EXCHANGE RISK

The Group considers that fluctuations in exchange rate do not impose a significant risk to the Group since the Group's operations are principally in the PRC and all assets and liabilities are denominated either in Renminbi or Hong Kong dollars.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

Cash flow

The table below summarises the Group's cash flow during the two years ended 31 December 2005 and 31 December 2006:

	2006 *RMB' million*	2005 *RMB' million*
Net cash from operating activities	**60.6**	62.2
Net cash used in investing activities	**(13.7)**	(7.7)
Net cash from (used in) financing activities	**184.6**	(16.5)

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 and the net proceeds from the Share Offer to meet its working capital and other capital expenditure requirements in the near future. In the long run, the Group will be funded by net cash from operating activities and if necessary, by additional equity financing or bank borrowings.

Capital expenditures

Capital expenditure was used for construction in progress, purchases of land use rights, property, plant and equipment. For the year ended 31 December 2006, the Group's capital expenditure were approximately RMB16,057,000. The significant capital expenditures during the year ended 31 December 2006 were mainly for buildings, properties under construction and motor vehicles.

INDEBTEDNESS

Borrowings, banking facilities, debt securities and contingent liabilities

As at the close of business on 31 December 2006, the Group did not have any outstanding borrowings, banking facilities, debt securities and contingent liabilities.

Capital commitments and other commitments

As at 31 December 2006, the future aggregate minimum lease payments under non-cancellable operating lease in respect of rental properties amounted to approximately RMB3,089,000 and the Group had no capital commitment.

HUMAN RESOURCES

The Group employed approximately 1,016 people on 31 December 2006 (about 634 people on 31 December 2005). The total personnel cost of the Group was RMB42,798,000 for the year ended 31 December 2006 (2005: RMB30,701,000). Employees' remuneration packages are based on individual experience and work profile. The packages are reviewed annually by the management who takes into account the overall performance of the working staff and market conditions. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit scheme in the PRC.

On 16 November 2006, a share option scheme was approved by a resolution of the sole shareholder and the Board of Directors of the Company. The purpose of the share option scheme is to encourage the existing eligible employees for making further contributions to the future performance of the Group. However, no option have been granted or agreed to be granted to any person under the share option scheme by the end of 2006.

FUTURE PROSPECTS

The Directors consider that the demand for bathroom masters in the PRC will continue to grow in the future. The targeted consumer base for bathroom masters is expected to expand as the product becomes increasingly affordable by the middle class consumers in the PRC and gradually gains acceptance in towns and in villages. The increase in disposable income of consumers in the PRC has also contributed towards the demand for a more comfortable lifestyle and higher-end products. This would mean that consumers in the PRC would readily accept bathroom master as a necessary amenity in the household (which can be used for various purposes throughout the entire year), as opposed to the traditional view that it was a luxury item which could only be used for heating purposes at cold weather.

Apart from bathroom masters, the Directors are of the view that consumers are also looking for other quality household products including exhaust fans and other home appliances. Accordingly, the Group intends to leverage on the strength of its brand, ***AUPU***, to design, manufacture and distribute other quality home electrical appliances that will capture the emerging needs of consumers in the PRC. In addition, the Directors consider that with its leading position and well-recognised brand name in the PRC, the Group will be able to continue to developing overseas markets for its products.

Maintenance of brand name management

The Directors consider that brand name management is crucial to the success of the Group. Since the establishment of ***AUPU*** Electrical, the Group has successfully built a reputation for its ***AUPU*** Bathroom Master 3-in-1 as high quality, safe and reliable products. The Group attaches very great importance to marketing and promotion of the ***AUPU*** brand and corporate image of the Group, which provides the Group with an important competitive advantage and has helped the Group in building a leading market position in the bathroom master industry in the PRC.

In September 2005, ***AUPU*** was recognised as a "China Well-known Trademark" by Wuhan Intermediate People's Court, after taking into consideration, among other things, the reputation of the Group and the market share of the Group's products. This award demonstrates strong consumer recognition and awareness of the Group's brand name. The Group has successfully positioned itself as a brand name manager, as evidenced by its well-established brand name, ***AUPU***, which is known for its high quality and efficient services, its market leadership and its safe and reliable products. The Group intends to develop its brand recognition across the PRC to (i) expand its position in markets in other regions of the PRC where the Directors foresee growth potential, including secondary cities and rural areas in the PRC, and (ii) promote the sale of ***AUPU*** Bathroom Roof 1+N which was launched in 2006. The Group will continue to leverage on its strength in providing high quality products and efficient customer services, and will continue to promote the ***AUPU*** brand, its corporate image and products through television advertisements and participation in trade fairs.

Establishment of a new production plant

The Directors are optimistic about the business prospects of the Group as the living standard of the people in the PRC is improving. The Group endeavours to increase its production capacity to meet the anticipated increase in demand for its products in the PRC market. The Group will also set up a new production plant in Hangzhou Economic and Technological Development Area with a gross floor area of approximately 80,000 sq.m. for the production of ***AUPU*** Bathroom Roof 1+N, ***AUPU*** Bathroom Master 3-in-1 and other new products of the Group. The new production plant will include production workshop, showroom, research centre for development of other home electrical appliances, logistic centre and office building. The Group has signed documents with the local government authorities in the PRC in December 2006, regarding the acquisition of a piece of land with a total site area of approximately 38,686 sq.m in Hangzhou Economic and Technological Development Area.

The unit purchase costs of the land is approximately of RMB250 per sq.m. and the acquisition costs have been paid from the net proceeds received by the Company from the new issue of shares in December 2006. The construction work is expected to be commenced around June 2007. The new production plant will eventually become the head office of the Group and the Directors believe that such expansion plan would enhance the Group's competitiveness in the PRC home electrical appliance industry.

Enhancement and expansion of the Group's sales and distribution network in the PRC

As at 31 December 2006, the Group had nine branch offices and 39 sales and distribution centres in the PRC which cover major cities in approximately 22 provinces or autonomous regions and four centrally-administered cities. To further explore the PRC home electrical appliance market and to further increase the market share of the Group, the Group intends to enhance and further develop its sales and distribution network by (1) setting up its own stores; (2) establishing retail chain stores by franchise; and (3) increasing the number of points-of-sales, especially in secondary cities in the PRC.

The Directors consider that the living standard in the PRC is improving and, accordingly, the demand for bathroom accessories will also increase. As such, the Group is optimistic about the business prospects of chain stores of bathroom accessories in the PRC.

Pursuant to Measures for the Administration of Foreign Investment in the PRC Commercial Sector and Administrative Measures on Commercial Franchising Operations, which were promulgated by the Ministry of Commerce of the PRC in April 2005 and December 2005 respectively, the Group obtained a new business licence recently, which allows ***AUPU*** Electrical to engage in the retail business, and the Group further intends to make an application for a licence to carry on franchise business in order to enable it to establish retail chain stores by franchise.

As at 31 December 2006, the Group owned and operated one store in Hangzhou. The Group intends to set up a total of approximately 20 stores in the next five years to cover major cities in the PRC as part of its vertical expansion plan. Also, to reduce the Group's business risks and to speed up the establishment of the Group's chain stores, the Group will also establish retail chain stores by franchise. The Group intends to establish approximately 100 retail chain stores by franchise in the next five years to further cover other major cities in the PRC. As at 31 December 2006, the Group had not granted any franchise in relation to the sales of its products. The Directors' plan is that the chain stores owned or operated by franchise in the future will mainly focus on selling the Group's new products, such as ***AUPU*** Bathroom Roof 1+N (which provides customised services such as design and installation), whereas the distributors of the Group will be mainly responsible for the distribution of ***AUPU*** Bathroom Master 3-in-1. The Directors also intend to establish approximately 500 new points-of-sales through its authorised agents and distributors in the next five years and to convert some of the existing points-of-sales into franchised stores of the Group.

Enhancement of product development capability

The Directors believe that strong product development capability is one of the key factors for success in the home electrical appliance industry and is important for maintaining the Group's position as the market leader in the PRC bathroom master industry and increasing its market share for other products distributed under its brand, ***AUPU***. In order to develop innovative home electrical appliances, the Group intends to strengthen its product development capability by setting up its own research and development centre and a rapid prototyping centre with computer-assisted technology and equipment to facilitate the designing and developing of new models of bathroom masters and exhaust fans. The Group also intends to recruit approximately 60 additional research and development professionals with relevant skills and expertise in years 2007 and 2008. The Group will also collaborate with or engage universities and professional organisations to develop new products or new technology which will be applied by the Group in product development. With its increased product development capability, the Group intends to further expand its products portfolio and enhance product quality and functionality.

Improvement and upgrade of information and management systems

In order to improve internal control of the Group, the Group has set up a new centralized information and management system, including production information, logistic information and information security.

PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of RMB0.04 cents per share for the year ended 31 December 2006 to shareholders whose names appear on the register of members of the Company on 25 May 2007. The proposed dividend is subject to the approval of the shareholders at the forthcoming annual general meeting to be held on 25 May 2007 and will be payable on or before 30 June 2007.

CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed from 21 May 2007 to 25 May 2007 both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and attending the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars and transfer office in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 18 May 2007.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S SECURITIES

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors hereby confirms that the Company has complied with the Code on Corporate Governance Practices specified in Appendix 14 to the Listing Rules throughout the period from the date of listing on 8 December 2006 to 31 December 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

REVIEW BY THE AUDIT COMMITTEE

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

The financial results for the year ended 31 December 2006 have been reviewed by the audit committee of the Company. On the date of this announcement, the audit committee consists of three independent non-executive directors, including Mr. Wu Tak Lung (Chairman), Mr. Cheng Houbo and Mr. Shen Jianlin and one non-executive director, Mr Lu Songkang.

USE OF PROCEEDS FROM THE NEW SHARE ISSUE

As at 31 December 2006, the Group had only utilised approximately of RMB10 million out of the proceeds from the new share issue to purchase a piece of land for new production plant. To the extent that the net proceeds from the Company's portion of new share issue are not immediately required for the purposes mentioned in the Company's Prospectus dated 27 November 2006, they were placed on short term interest – bearing deposits with licensed banks in Hong Kong or the PRC.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2006 have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF DETAILED ANNUAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

This announcement will be published on the website of Stock Exchange. All the information required by paragraph 45 of Appendix 16 of the Listing Rules will be dispatched to shareholders and published on the website of the Stock Exchange in due course.

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

Hong Kong, 18 April 2007

On the date of this announcement, the executive directors are Mr. James Fang and Mr. Fang Shengkang; the non-executive directors are Mr. Lu Songkang and Mr. Chai Junqi; the independent non-executive directors are Mr. Wu Tak Lung, Mr. Cheng Houbo and Mr. Shen Jianlin.