AUPU

AUPU GROUP HOLDING COMPANY LIMITED
奧 普 集 团 控 股 有 限 公 司

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

(Stock Code: 00477)

RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014

The board of directors of AUPU Group Holding Company Limited (the "Company") is pleased to announce the unaudited consolidated interim results and financial position of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2014, together with comparative figures for the corresponding period of 2013. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue		**346,967**	272,499
Cost of sales		**(185,061)**	(146,911)
Gross profit		**161,906**	125,588
Other income		**14,009**	11,280
Distribution and selling expenses		**(50,603)**	(55,709)
Administrative expenses		**(15,058)**	(16,863)
Other expenses		**(19,705)**	(14,428)
Share of losses of associates		**(2,508)**	(1,909)
Finance costs		**(1,194)**	(1,202)
Profit before tax	*4*	**86,847**	46,757
Income tax expenses	*5*	**(16,012)**	(11,577)
Profit for the period and total comprehensive income attributable to owners of the Company		**70,835**	35,180
		RMB	*RMB*
Earnings per share			
— Basic	*7*	**0.07**	0.03
— Diluted	*7*	**0.07**	0.03

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	Notes	**30 June 2014** **RMB'000** **(unaudited)**	31 December 2013 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	*8*	**200,660**	191,676
Prepaid lease payments		**27,408**	27,731
Interests in associates	*9*	**28,409**	30,917
Available-for-sale investments	*10*	**66,000**	66,000
Amounts due from associates	*20*	**142,500**	142,500
Deferred tax assets	*11*	**9,274**	10,277
		474,251	469,101
Current assets			
Inventories		**54,910**	45,695
Trade, bills and other receivables	*12*	**55,041**	55,577
Prepaid lease payments		**647**	647
Amounts due from associates	*20*	**3,677**	2,563
Time deposits	*13*	**171,500**	110,000
Pledged bank deposits	*13*	**30,103**	85,213
Bank balances and cash		**30,100**	69,150
		345,978	368,845
Current liabilities			
Trade, bills and other payables	*14*	**224,485**	246,033
Amounts due to associates	*20*	**486**	462
Income tax liabilities		**19,935**	19,644
Other tax liabilities		**5,470**	5,595
Borrowings	*15*	**59,531**	100,637
		309,907	372,371
Net current assets (liabilities)		**36,071**	(3,526)
Total assets less current liabilities		**510,322**	465,575

	Notes	**30 June 2014** *RMB'000* **(unaudited)**	31 December 2013 *RMB'000* (audited)
Capital and reserves			
Share capital	*16*	**100,831**	100,831
Share premium and reserves		**395,603**	351,257
Total equity attributable to owners of the Company		**496,434**	452,088
Non-current liability			
Deferred tax liability	*11*	**13,888**	13,487
		510,322	465,575

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to owners of the Company									
	Share capital RMB'000	**Share premium** RMB'000	**Special reserve** RMB'000 (Note i)	**Statutory reserves** RMB'000 (Note ii)	**Share option reserve** RMB'000 (Note iii)	**Share repurchase reserve** RMB'000	**Share redemption reserve** RMB'000	**Retained profits** RMB'000	**Sub-total** RMB'000	**Total** RMB'000
At 1 January 2013 (audited)	102,046	242,067	(73,274)	75,194	17,458	(527)	755	89,475	351,148	453,194
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	35,180	35,180	35,180
Dividends recognised as distribution *(note 6)*	—	—	—	—	—	—	—	(42,296)	(42,296)	(42,296)
Recognition of equity-settled share-based payments	—	—	—	—	1	—	—	—	1	1
Share repurchased and cancelled *(note 16)*	(81)	(446)	—	—	—	527	81	(81)	81	—
At 30 June 2013 (unaudited)	101,965	241,621	(73,274)	75,194	17,459	—	836	82,278	344,114	446,079
At 1 January 2014 (audited)	100,831	233,684	(73,274)	84,871	17,459	—	1,970	86,547	351,257	452,088
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	70,835	70,835	70,835
Dividends recognised as distribution *(note 6)*	—	—	—	—	—	—	—	(26,489)	(26,489)	(26,489)
At 30 June 2014 (unaudited)	100,831	233,684	(73,274)	84,871	17,459	—	1,970	130,893	395,603	496,434

Notes:

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

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

No transfer has been made to the statutory reserves in respect of the net profit for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil). This transfer will be made at the year end date based on the annual profit and upon directors' approval.

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Net cash from operating activities	**43,060**	66,942
Investing activities:		
Interest received	**8,817**	5,171
Proceeds on disposal of property, plant and equipment	**—**	645
Purchase of property, plant and equipment	**(14,671)**	(8,761)
Deposits for purchase of property, plant and equipment	**—**	(2,172)
Increase in prepaid lease payment	**—**	(2,363)
Placement of time deposits	**(151,500)**	(175,305)
Withdrawal of time deposits	**90,000**	193,000
Withdrawal of pledged bank deposit	**59,085**	33,760
Placement of pledged bank deposit	**(3,975)**	(59,551)
Purchase of available-for-sale investments	**—**	(45,000)
Repayment to associates	**(1,114)**	(203)
Repayment from associates	**24**	281
Acquisition of a subsidiary	**—**	(30,885)
Net cash used in investing activities	**(13,334)**	(91,383)
Financing activities:		
Dividends paid	**(26,489)**	(42,296)
New bank loans raised	**—**	72,584
Repayment of borrowings	**(41,106)**	(23,745)
Interest paid	**(1,181)**	(1,520)
Net cash (used in) from financing activities	**(68,776)**	5,023
Net decrease in cash and cash equivalents	**(39,050)**	(19,418)
Cash and cash equivalents at 1 January	**69,150**	61,771
Cash and cash equivalents at 30 June, represented by bank balances and cash	**30,100**	42,353

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. BASIS OF PREPARATION

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 10, IFRS 12 and IAS 27	Invetment Entities
Amendments to IFRS 32	Offsetting financial assets and financial liabilities
Amendments to IFRS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IFRS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

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

The Group has not early applied the following new and revised International Accounting Standards, IFRSs and amendments that have been issued but are not yet effective.

IFRS 9	Financial Instruments[1]
IFRS 14	Regulatory Deferral Accounts[2]
IFRS 15	Revenue from Contracts with Customers[3]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2010–2012 Cycle[6]
Amendments to IFRSs	Annual Improvements to IFRSs 2011–2013 Cycle[4]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[5]
Amendments to IAS 27	Equity Method in Separate Financial Statements[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual IFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 July 2014
5 Effective for annual periods beginning on or after 1 January 2016
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

The directors of the Company anticipate that the application of those new and revised standards, and amendments issued but not yet effective will have no material impact on the results and financial position of the Group.

3. SEGMENT INFORMATION

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

For the six months ended 30 June 2014 (unaudited)

	Second Tier Cities *RMB'000*	**Shanghai** *RMB'000*	**Jiangsu** *RMB'000*	**Beijing** *RMB'000*	**Zhejiang** *RMB'000*	**Northeastern Region** *RMB'000*	**Sichuan Region** *RMB'000*	**Export** *RMB'000*	**Total** *RMB'000*
SEGMENT REVENUE									
External sales	127,393	46,018	55,138	28,247	38,085	11,751	28,788	11,547	346,967
Inter-segment sales	—	—	—	—	15,183	—	—	—	15,183
	127,393	46,018	55,138	28,247	53,268	11,751	28,788	11,547	362,150
Eliminations									(15,183)
Group revenue									346,967
Segment profit	58,051	25,133	26,097	12,269	17,305	5,394	13,895	3,762	161,906
Interest income									7,602
Other unallocated income									6,407
Unallocated expenses									(85,366)
Finance costs									(1,194)
Share of losses of associates									(2,508)
Profit before tax									86,847

For the six months ended 30 June 2013 (unaudited)

	Second Tier Cities *RMB'000*	**Shanghai** *RMB'000*	**Jiangsu** *RMB'000*	**Beijing** *RMB'000*	**Zhejiang** *RMB'000*	**Northeastern Region** *RMB'000*	**Sichuan Region** *RMB'000*	**Export** *RMB'000*	**Total** *RMB'000*
SEGMENT REVENUE									
External sales	87,389	40,440	45,237	33,194	25,299	11,355	20,022	9,563	272,499
Inter-segment sales	—	—	—	—	50,037	—	162	—	50,199
	87,389	40,440	45,237	33,194	75,336	11,355	20,184	9,563	322,698
Eliminations									(50,199)
Group revenue									272,499
Segment profit	36,753	23,685	19,892	15,727	11,258	4,458	10,533	3,282	125,588
Interest income									5,397
Other unallocated income									5,883
Unallocated expenses									(87,000)
Finance costs									(1,202)
Share of losses of associates									(1,909)
Profit before tax									46,757

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

4. PROFIT BEFORE TAX

Profit before tax has been arrived at:

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
After charging:		
Staff costs, including directors' remuneration		
— salaries, wages and other benefits	**15,568**	19,454
— retirement benefit scheme contributions	**1,839**	1,963
— equity-settled share-based payments	**—**	1
Total staff costs	**17,407**	21,418
Research expenditure included in other expenses	**15,138**	8,144
Depreciation of property, plant and equipment	**5,687**	5,541
Release of prepaid lease payments	**555**	324
Cost of inventories recognised as an expense	**185,061**	146,911
Allowance for bad and doubtful debts	**—**	76
After crediting:		
Interest income		
— bank deposits	**3,156**	2,681
— amount due from an associate	**4,446**	2,716
Government grants *(note a)*	**1,067**	916
Gain on disposal of property, plant and equipment	**—**	31

Note:

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

5. INCOME TAX EXPENSES

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
The charge comprises:		
Current tax		
— PRC Enterprise Income Tax	**11,083**	10,489
— Withholding tax paid in this year	**3,525**	—
Deferred tax *(note 11)*	**1,404**	1,088
	16,012	11,577

The subsidiary established in the PRC, other than Hangzhou Aupu Bathroom & Kitchen Technology Co., Ltd. ("AUPU Technology"), is subject to enterprise income tax at a statutory tax rate of 25% (2013: 25%) under Enterprise Income Tax (EIT) Law. AUPU Technology, a subsidiary of the Company, is qualified as "Hi-New Tech Enterprises" and therefore enjoys a preferential tax rate of 15% (2013: 15%).

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

According to the "Arrangement between the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income" and Guoshuihan [2008] 112, a 5% of withholding tax is to be levied on the dividend declared in respect of profits earned by PRC operating subsidiaries from 2008 onwards. A provision for such withholding income tax has been made on the profits arisen during both periods from the PRC subsidiaries, which are available for distribution to its immediate holding company incorporated in Hong Kong.

6. DIVIDENDS

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Final dividend paid for 2013 of RMB0.025 (2013: RMB0.04 for 2012) per share	**26,489**	42,296

In respect of the current interim period, the directors propose that an interim dividend of HKD0.06 (2013: RMB0.03) per share will be paid to shareholders whose names appear in the register of members on 17 September 2014. This dividend was declared after the interim reporting date, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings		
Earnings for the purpose of basic earnings per share (profit attributable to owners of the Company)	**70,835**	35,180

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,043,501,000**	1,057,813,000

The computation of diluted earnings per share does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares for the six months ended 30 June 2014 and 2013.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB12,367,000 for properties under construction and RMB2,277,000 on additions to machinery, motor vehicles, fixtures and equipment and RMB27,000 for addition to buildings in the PRC.

9. INTERESTS IN ASSOCIATES

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Cost of unlisted investment in associates	**38,000**	38,000
Share of post-acquisition losses	**(9,591)**	(7,083)
	28,409	30,917

As at 30 June 2014 and 31 December 2013, the Group had interests in the following associates:

Name	Place and date of establishment	Proportion of ownership interest 30 June 2014	31 December 2013	Registered capital RMB	Principal activity
Hangzhou AUPU Broni Kitchen & Bath Co., Ltd 杭州奧普博朗尼廚衛科技有限公司	Hangzhou, PRC 2 November 2009	**40%**	40%	30,000,000	Manufacture and distribution of electrical kitchen appliances and equipment
Chengdu Qianyin Investment Company Limited 成都牽銀投資有限公司	Chengdu, PRC 9 June 2010	**41.67%**	41.67%	60,000,000	Investment of real estate and development of automotive service

10. AVAILABLE-FOR-SALE INVESTMENTS

At 30 June 2014, the available-for-sale investments of the Group are summarized as follows:

(i) AUPU Technology has an investment in partnership named Zhejiang Haibang Cai Zhi Venture Partnership (浙江海邦才智投資合夥企業) ("Haibang Cai Zhi") amounting to RMB25,000,000, representing a 16.78% interest in Haibang Cai Zhi.

Pursuant to the venture partnership agreement, as one of the limited partners, AUPU Technology has no power to participate in the financial and operating policy decisions of the Haibang Cai Zhi. Therefore, the Directors designated such non-derivative financial asset as available-for-sale investment.

(ii) AUPU Technology has an investment in Hangzhou Hexing Electrical Co., Ltd. (杭州海興電力科技有限公司) ("Hexing Electrical") amounting to RMB40,000,000, representing a 1.08% equity interest in Hexing Electrical.

(iii) In 2013, AUPU Technology made an investment in Hangzhou Yinzhi Zuobang Venture Partnership (杭州引智佐邦投資合夥企業)("Yinzhi Zuobang") amounting to RMB1,000,000, representing 10.42% equity interest in Yinzhi Zuobang. Pursuant to the agreement, the total investment to be made by the Group is RMB5,000,000, with remaining RMB4,000,000 to be paid up before 30 April, 2016.

During the current period, the paid in capital of Yinzhi Zuobang was increased by RMB20,000,000. As a result, the Group's equity interest in Yinzhi Zuobang was diluted from 10.42% to 7.35%.

Available-for-sale investments are measured at cost less any identified impairment losses at the end of the reporting period. Details of the available-for-sale investments are set out below:

	30 June 2014 *RMB'000* **(unaudited)**	31 December 2013 *RMB'000* (audited)
Unlisted investments:		
— Haibang Cai Zhi	**25,000**	25,000
— Hexing Electrical	**40,000**	40,000
— Yinzhi Zuobang	**1,000**	1,000
	66,000	66,000

11. DEFERRED TAXATION

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

	Unrealised profit on inventories *RMB'000*	**Other deductible temporary differences** *RMB'000*	**Withholding tax on undistributed retained earnings of PRC subsidiaries** *RMB'000*	**Total** *RMB'000*
At 1 January 2013 (audited)	1,868	5,006	(9,329)	(2,455)
(Charge) credit to profit for the period *(note 5)*	(889)	2,247	(2,446)	(1,088)
At 30 June 2013 (unaudited)	979	7,253	(11,775)	(3,543)
At 1 January 2014 (audited)	658	9,619	(13,487)	(3,210)
(Charge) credit to profit for the period *(note 5)*	50	(1,053)	(401)	(1,404)
At 30 June 2014 (unaudited)	708	8,566	(13,888)	(4,614)

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

	30 June 2014 *RMB'000* **(unaudited)**	31 December 2013 *RMB'000* (audited)
Deferred tax assets	**9,274**	10,277
Deferred tax liability	**(13,888)**	(13,487)
	(4,614)	(3,210)

Unrealised profit on inventories mainly represents unrealised profit on inter-branch/company sales. Other deductible temporary differences relate to temporary differences on certain accrued charges.

12. TRADE, BILLS AND OTHER RECEIVABLES

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

The following is an analysis of trade receivables by age, net of allowance for doubtful debts, presented based on the invoice date.

	30 June 2014 *RMB'000* **(unaudited)**	31 December 2013 *RMB'000* (audited)
Within 90 days	**39,290**	36,675
91–180 days	**7,328**	10,320
181–365 days	**349**	286
Over 365 days	**62**	237
Total trade and bills receivables	**47,029**	47,518
Other receivables, deposits and prepayments	**8,012**	8,059
	55,041	55,577

13. OTHER FINANCIAL ASSETS

The time deposits held in banks are denominated in RMB and with an initial term of six to twelve months. The deposits carry at fixed interest rate ranging from 3.08% to 3.25% per annum as at 30 June 2014 (2013: 3.05% to 3.30% per annum).

Pledged bank deposits represent deposit pledged to a bank to secure short-term bank loans and bills payables and are therefore classified as current assets amounting to RMB30,103,000(31 December 2013: RMB85,213,000). Pledged bank deposits carry at fixed interest rate ranging from 3.08% to 3.25% per annum as at 30 June 2014 (2013: 2.85% to 3.85%).

14. TRADE, BILLS AND OTHER PAYABLES

Trade, bills and other payables principally comprise amounts outstanding for trade purchases. The average credit period taken for trade purchases is 90 days. The following is an aged analysis of trade payables based on the date of the goods received at the end of the reporting period:

	30 June 2014 *RMB'000* **(unaudited)**	31 December 2013 *RMB'000* (audited)
Aged analysis of trade payables presented based on invoice date:		
Within 90 days	**69,219**	76,670
91–180 days	**3,191**	1,520
181–365 days	**629**	214
Over 365 days	**102**	34
Total trade payables	**73,141**	78,438
Aged analysis of bills payables presented based on issue date:		
Within 90 days	**27,410**	26,700
91–180 days	**12,240**	21,020
Retention sum due to suppliers	**4,514**	2,148
Advances from customers	**26,689**	24,251
Sales commission accruals	**30,972**	39,903
Other accruals	**49,519**	53,573
	224,485	246,033

15. BORROWINGS

The borrowings were secured by pledged bank deposits and guarantee and repayable within one year.

16. SHARE CAPITAL

	Number of shares	Amounts
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2013, and 30 June 2013 and 2014	5,000,000,000	500,000
Issued and fully paid:		
At 1 January 2013	1,058,813,000	105,881
Shares repurchased and cancelled	(1,000,000)	(100)
As at 30 June 2013	1,057,813,000	105,781
At 1 January and 30 June 2014	1,043,501,000	104,350

	30 June 2014	31 December 2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Presented as RMB		
Ordinary shares	**100,831**	100,831

17. SHARE-BASED PAYMENTS

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

These was no option that has been exercised or forfeited under the Scheme during the period.

18. OPERATING LEASE ARRANGEMENTS

The Group as Lessee

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Minimum lease payments under operating leases recognised in the condensed consolidated statement of comprehensive income	**595**	1,241

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

	30 June	31 December
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within one year	**484**	94
In the second to fifth years	**100**	—
	584	94

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

The Group as Lessor

Property rental income earned during the period was RMB86,400 (RMB115,200 for the six months ended 30 June 2013) which are generated from rental of certain properties of the Group on a negotiated yearly basis.

19. CAPITAL COMMITMENTS

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

	30 June	31 December
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Acquisition of property, plant and equipment	**60,585**	72,297
Capital contribution to an equity investment	**4,000**	4,000
	64,585	76,297

20. RELATED PARTY TRANSACTIONS

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

	30 June 2014	31 December 2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Amounts due from associates		
— interest bearing *(note i)*	**142,500**	142,500
— non-interest bearing *(note ii)*	**3,677**	2,563
	146,177	145,063
Analysed for reporting purpose as:		
— Non-current assets *(note i)*	**142,500**	142,500
— Current assets *(note ii)*	**3,677**	2,563
	146,177	145,063
Amounts due to an associate		
— non-interest bearing *(note ii)*	**486**	462

Notes:

(i) The balance as at 30 June 2014 amounting to RMB142,500,000 are the unsecured entrusted loans due from associates. A total sum of RMB127,500,000 are five entrusted loans advanced to Chengdu Qianyin for terms of three years and bear interest at the rate of 6.15% (2013: 6.15%) per annum. A total of RMB15,000,000 is the entrusted loan advanced to AUPU Broni for a term of three years and bears interest at the rate of 7.00% (2013: 7.00%) per annum.

(ii) The amounts are unsecured and repayable on demand.

(b) During the period, the Group had the following transactions with the associates:

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Purchases of goods	**2**	301
Interest income	**4,446**	2,716
Rental income	**86**	115
Other income	**428**	168
	4,962	3,300

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

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Short-term employee benefits	**1,029**	1,109
Post-employment benefits	**17**	51
	1,046	1,160

BUSINESS AND FINANCE REVIEW

Revenue

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

a. Second-Tier Cities

b. Shanghai

c. Jiangsu

d. Beijing

e. Zhejiang

f. Northeastern Region

g. Sichuan Region

h. Export

Notes: The Second-Tier cities included Anhui, Hubei, Hebei, Henan, Shandong, Guizhou, Fujian, Yunnan, Jiangxi, Guangzhou. Sichuan Region included Sichuan and Chongqing.

The revenue of the Group for the six months ended 30 June 2014 and 2013 are analysed as follows:

	Six months ended 30 June 2014		Six months ended 30 June 2013	
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
	Revenue	***Gross Profit***	*Revenue*	*Gross Profit*
Second-Tier Cities	**127,393**	**58,051**	87,389	36,753
Shanghai	**46,018**	**25,133**	40,440	23,685
Jiangsu	**55,138**	**26,097**	45,237	19,892
Beijing	**28,247**	**12,269**	33,194	15,727
Zhejiang	**38,085**	**17,305**	25,299	11,258
Northeastern Region	**11,751**	**5,394**	11,355	4,458
Sichuan Region	**28,788**	**13,895**	20,022	10,533
Export	**11,547**	**3,762**	9,563	3,282
Total	**346,967**	**161,906**	272,499	125,588

For the six months ended 30 June 2014, the revenue of the Group amounted to approximately RMB346.96 million, representing an increase of approximately 27.3% as compared with the revenue which amounted to approximately RMB272.5 million for the six months ended 30 June 2013. The increase in revenue was mainly attributable to the expansion in online sales channels, increased motivation of sales agents after sale mechanism reform and improved product competitiveness. The revenue of AUPU Bathroom Master 3-in-1, Bathroom Roof 1+N and others accounted for approximately 59.1%, 34.7% and 6.3% of the Group's total revenue for the six months ended 30 June 2014, respectively.

In particular, the revenue from Zhejiang increased from approximately RMB25.3 million for the six months ended 30 June 2013 to approximately RMB38.1 million for the six months ended 30 June 2014 representing an increase of approximately RMB12.8 million or approximately 50.6%. For the six months ended 30 June 2014, the revenue from Second-Tier Cities amounted to approximately RMB127.4 million, representing an increase of approximately 45.8% as compared with the revenue from Second-Tier Cities which amounted to approximately RMB87.4 million for the six months ended 30 June 2013.

The revenue of AUPU Bathroom Roof 1+N amounted to approximately RMB120.3 million for the six months ended 30 June 2014, representing an increase of approximately 41% as compared with the revenue of AUPU Bathroom Roof 1+N which amounted to approximately RMB85.3 million for the six months ended 30 June 2013.

Cost of sales

For the six months ended 30 June 2014, the cost of sales of the Group amounted to approximately RMB185.1 million, representing an increase of approximately 26.0% as compared with the cost of sales which amounted to approximately RMB146.9 million for the six months ended 30 June 2013.

For the six months ended 30 June 2014, the costs of parts and components, direct labour and overhead represented approximately 91.3% and 8.7% of the total cost of sales respectively while the costs of parts and components, direct labour and overhead for the six months ended 30 June 2013 represented approximately 91.4% and 8.6% of the total cost of sales in the same period respectively.

Gross profit and gross profit margin

Gross profit increased from approximately RMB125.6 million for the six months ended 30 June 2013 to approximately RMB161.9 million for the six months ended 30 June 2014, representing an increase of approximately 28.9%. Overall gross profit margin was approximately 46.7% for the six months ended 30 June 2014. It was relatively stable when comparing with the gross profit margin for the six months ended 30 June 2013, which was approximately 46.1%.

Other income

Other income increased from approximately RMB11.3 million for the six months ended 30 June 2013 to approximately RMB14.0 million for the six months ended 30 June 2014. The increase in other income was mainly attributed to the increase in interest income of RMB1.7 million.

Selling and distribution expenses

The selling and distribution expenses amounted to approximately RMB50.6 million for the six months ended 30 June 2014. It mainly consisted of advertising expenses of approximately RMB16.8 million, sales promotion expenses of approximately RMB1.6 million, salary expenses of sales and marketing staff of approximately RMB7.8 million, after sales services expenses of approximately RMB1 million and transportation expenses of approximately RMB8.7 million.

The selling and distribution expenses amounted to approximately RMB55.7 million for the six months ended 30 June 2013. It mainly consisted of advertising expenses of approximately RMB14.6 million, sales promotion expenses of approximately RMB7.6 million, salary expenses of sales and marketing staff of approximately RMB11.6 million, after-sales services expenses of approximately RMB1.9 million and transportation expenses of approximately RMB6.7 million.

The selling and distribution expenses for the six months ended 30 June 2014 were decreased as compared with the six months ended 30 June 2013 because there were reductions in sales promotion expenses and labour costs after the sale mechanism reform (its branches were restructured into agents).

Administrative expenses

The administrative expenses amounted to approximately RMB15.1 million for the six months ended 30 June 2014. It mainly consisted of salary expenses of general and administrative staff of approximately RMB4.1 million, depreciation of approximately RMB2.0 million, professional fees and related disbursements of approximately RMB2.2 million, utility expenses of approximately RMB0.13 million and office expenses of approximately RMB1.1 million.

The administrative expenses amounted to approximately RMB16.9 million for the six months ended 30 June 2013. It mainly consisted of salary expenses of general and administrative staff of approximately RMB4.8 million, depreciation of approximately RMB1.3 million, professional fees and related disbursements of approximately RMB3.5 million, utility expenses of approximately RMB1.1 million and office expenses of approximately RMB0.8 million.

Other expenses

Other expenses increased from approximately RMB14.4 million for the six months ended 30 June 2013 to approximately RMB19.7 million for the six months ended 30 June 2014, which was mainly due to the increase in research and development cost by approximately RMB6.9 million.

The research and development cost for the six months ended 30 June 2014 included mainly the testing fees of RMB7.1 million, development costs for new products of RMB2.6 million, materials consumption of RMB1.1 million. The research and development cost for the six months ended 30 June 2013 included mainly the testing fees of RMB4.1 million, development costs for new products of RMB0.6 million, materials consumption of RMB0.1 million.

Profit before tax

Based on the above factors, the Group's profit before tax increased from approximately RMB46.8 million for the six months ended 30 June 2013 to approximately RMB86.8 million for the six months ended 30 June 2014, representing an increase of approximately 85.5%.

Income tax

Income tax expenses of the Group increased by RMB4.4 million from approximately RMB11.6 million for the six months ended 30 June 2013 to approximately RMB16.0 million for the six months ended 30 June 2014. The effective tax rate decreased from approximately 24.8% from the six months ended 30 June 2013 to approximately 18.4% for the six months ended 30 June 2014.

The subsidiaries established in the PRC, other than Hangzhou Aupu Bathroom & Kitchen Technology Co., Ltd. ("AUPU Technology"), are subject to enterprise income tax at a statutory tax rate of 25% (2013: 25%). AUPU Technology, a subsidiary of the Company, is qualified as "Hi-New Tech Enterprises" and therefore enjoys a preferential tax rate of 15% under EIT Law (2013: 15%).

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

According to the "Arrangement between the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income" and Guoshuihan [2008] 112, a 5% of withholding tax is to be levied on the dividend declared in respect of profits earned by PRC operating subsidiaries from 2008 onwards. A provision for such withholding income tax has been made on the profits arisen during both periods from the PRC subsidiaries, which are available for distribution to its immediate holding company incorporated in Hong Kong.

ANALYSIS OF FINANCIAL POSITION

Inventory turnover

The following table sets out the summary of the Group's inventory turnover days for the six months ended 30 June 2014 and the year ended 31 December 2013:

	Six months ended 30 June 2014	Year ended 31 December 2013
Inventory turnover day *(Note)*	**49**	48

Note: The inventory turnover days for the year ended 31 December 2013 is arrived at by dividing the average inventories by cost of sales and then multiplying by 365 while the inventory turnover days for the six months ended 30 June 2014 is arrived at by dividing the average inventories by cost of sales and then multiplying by 182. Average inventories is arrived at by dividing the sum of the inventories at the beginning of year/period and that at the end of the year/period by 2. Inventory primarily comprised parts and components and finished goods. The turnover days of inventory for the six months ended 30 June 2014 were stable as compared with the turnover days of inventory for the year ended 31 December 2013. The figures for both of the two periods are considered to be at a reasonable level.

Turnover days of trade receivables

The following table sets out the summary of the Group's turnover days of trade receivables for the six months ended 30 June 2014 and the year ended 31 December 2013:

	Six months ended 30 June 2014	Year ended 31 December 2013
Turnover days of trade receivables (Note)	**20**	20

Note: The turnover days of trade receivables for the year ended 31 December 2013 is arrived at by dividing the average trade receivables by revenue and then multiplying by 365 while the turnover days of trade receivables for the six months ended 30 June 2014 is arrived at by dividing the average trade receivables by revenue and then multiplying by 182. Average trade receivables is arrived at by dividing the sum of the trade receivables at the beginning of year/period and that at the end of the year/period by 2. Trade receivables are arrived at by deducting the bill receivables at the end of the year/period. The turnover days of trade receivables for the six months ended 30 June 2014 were stable as compared with the turnover days of trade receivable for the year ended 31 December 2013. The figures for both of the two periods are considered to be at a reasonable level.

Aging analysis of trade and bills receivables

The aging analysis of trade and bills receivables of the Group as at 30 June 2014 and 31 December 2013 is as follows:

Trade receivables analysed by age:

	At 30 June 2014 *RMB'000*	At 31 December 2013 *RMB'000*
Within 90 days	**39,290**	36,675
91–180 days	**7,328**	10,320
181–365 days	**349**	286
Over 365 days	**62**	237
Total trade receivables	**47,029**	47,518

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

Turnover days of trade payables

The following table sets out the summary of the Group's turnover days of trade payables for the six months ended 30 June 2014 and the year ended 31 December 2013:

	Six months ended 30 June 2014	Year ended 31 December 2013
Turnover days of trade payables *(Note)*	**75**	79

Note: The turnover days of the trade payables for the year ended 31 December 2013 is arrived at by dividing average trade payables by cost of sales and then multiplying by 365 while the turnover days of the trade payables for the six months ended 30 June 2014 is arrived at by dividing average trade payables by cost of sales and then multiplying by 182. Average trade payables is arrived at by dividing the sum of the trade payables at the beginning of year/period and that at the end of the year/period by 2. The turnover days of trade payables decreased from 79 days for the year ended 31 December 2013 to 75 days for the six months ended 30 June 2014. The figures for both of the two periods are considered to be at a reasonable level.

Aging analysis of trade and bills payables

The aging analysis of trade and bills payables of the Group as at 30 June 2014 and 31 December 2013 is as follows:

Trade and bills payables analysed by age:

	At 30 June 2014 *RMB'000*	At 31 December 2013 *RMB'000*
Within 90 days	**108,869**	124,390
91–180 days	**3,191**	1,520
181–365 days	**629**	214
Over 365 days	**102**	34
Total trade and bills payables	**112,791**	126,158

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

Current ratio, quick ratio and gearing ratio

The current ratio, quick ratio and gearing ratio of the Group as at 30 June 2014 and 31 December 2013 were as follows:

	At 30 June 2014 *RMB'000*	At 31 December 2013 *RMB'000*
Current ratio	**1.12**	0.99
Quick ratio	**0.94**	0.87
Gearing ratio	**0.07**	0.12

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

The numbers in the above table are expressed in the form of ratio and not as a percentage. With a decrease in bank borrowing, the current ratio increased from approximately 0.99 times as at 31 December 2013 to 1.12 times as at 30 June 2014, and the quick ratio increased from approximately 0.87 times as at 31 December 2013 to 0.94 times as at 30 June 2014. The Group had a gearing ratio of 0.12 times as at 31 December 2013 and 0.07 times as at 30 June 2014.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

Cash flow

The table below summarises the Group's cash flow for the six months ended 30 June 2014 and 2013:

	Six months ended 30 June 2014	Six months ended 30 June 2013
Net cash generated from operating activities	**43,060**	66,942
Net cash used in investing activities	**(13,334)**	(91,383)
Net cash (used in) from financing activities	**(68,776)**	5,023

The Group's working capital mainly comes from net cash from operating activities. The Directors expect that the Group will rely on net cash from operating activities to meet its working capital and other capital expenditure requirements in the near future.

Operating activities

Cash inflow from operations is mainly derived from cash received from sales of the Group's products. Cash outflow from operations is principally paid for the purchase of parts and components, staff costs, selling and distribution expenses and administrative expenses. Net cash generated from operating activities was approximately RMB43.1 million for the six months ended 30 June 2014 while there was a net cash inflow in the amount of approximately RMB66.9 million for the six months ended 30 June 2013.

Investing activities

Net cash used in investing activities was approximately RMB13.3 million for the six months ended 30 June 2014 which was mainly attributable to the net cash withdrew from pledged bank deposit of approximately RMB55.1 million and net cash placed for time deposits of approximately RMB61.5 million. Net cash used in investing activities was approximately RMB91.4 million for the six months ended 30 June 2013 which was mainly attributable to the acquisition of a subsidiary of amounted approximately RMB30.9 million, increase in placement of pledged bank deposit of approximately RMB25.8 million and amounts due from associates of approximately RMB45.0 million.

Financing activities

Net cash used in financing activities was approximately RMB68.8 million for the six months ended 30 June 2014 while net cash generated from financing activities was approximately RMB5.0 million for the six months ended 30 June 2013. The cash outflows for financing activities for the six months ended 30 June 2014 were mainly the repayment of bank loans of approximately RMB41.1 million and distribution of dividends to the Shareholders of the Company of approximately RMB26.5 million.

INDEBTEDNESS

Borrowings

All the bank borrowings were secured by the pledged bank deposits amounting to RMB59,531,000 (31 December 2013: RMB100,637,000).

Bank facilities

As at the close of business on 30 June 2014, the Group had undrawn facilities amounting to RMB77,000,000.

Debt securities

As at the close of business on 30 June 2014, the Group did not have any debt securities.

Contingent liabilities

As at the close of business on 30 June 2014, the Group did not have any material contingent liabilities or guarantees.

PLEDGE OF ASSETS

Pledged bank deposit represents deposit pledged to a bank to secure short-term bank loan and is therefore classified as a current asset. As at the close of business on 30 June 2014, the Group had pledged bank deposits of RMB30,103,000 (31 December 2013: RMB85,213,000).

Regarding the pledged bank deposit amounting to RMB12 million, the interest rate has been fixed to 3.3% per annum.

Regarding the pledged deposit amounting to RMB42 million, the interest rate has been fixed to 3.85% per annum.

FOREIGN EXCHANGE CONTROLS

During the period, the major businesses of the Company were all settled by RMB and there was no large amount of foreign currency cash and foreign currency investment projects. The existing foreign currency capital is only used to secure the necessary expenditures of the daily businesses.

The Group entered into offshore loan with domestic guarantee arrangements with domestic banks with annual deposit interest rate of 3.25%. As offshore banks in Hong Kong can provide a lower annual loan interest rate of 2.75% as compared with the loan financing in China and the fluctuations of the exchange rate for Hong Kong dollars to RMB was limited during the period, the Group can obtain a higher capital loan-deposit gain with controllable risk exposure.

HUMAN RESOURCES

As at 30 June 2014, the Group employed 675 employees (as at 31 December 2013: 690). The total personnel cost of the Group for the six-month period ended 30 June 2014 was approximately RMB17,400,000 (for the six-month period ended 30 June 2013: RMB21,400,000). In the first half of 2014, the Group continued to promote the local agency system in its operation mechanism. At present, the Group maintains only one branch, based in Shanghai. Employees' remuneration packages are based on work experience and duties. The packages are reviewed annually by the management, taking into account the overall performance of individual employees and market conditions. The Group also participates in the state-managed pension scheme in the PRC.

BUSINESS MANAGEMENT

In the first half of 2014, the Group achieved a significant growth of sales, driven by effective marketing and operation mechanism reforms and channel adjustments. As at 30 June 2014, the Group had restructured six of its original seven branches into local agents and merged its original twenty three offices into nine regional offices with a reduction of affiliate management expenses. Meanwhile, the Group motivated the agency team which were basically the staff of the branches closed and then boosting the regional sales. It also made a progress in its sales channel transformation, with the e-commerce and real estate projects channels seeing an over 80% growth and over 40% growth from the same period of last year respectively. As at 30 June 2014, the Group has almost 6,000 points of sales, of which 770 are exclusive retail stores (130 speciality stores at provinces and municipalities level, 299 speciality stores in prefectual cities and 341 speciality stores in country-level cities). After branch restructuring, the Group has one branch in Shanghai, nine regional offices, 223 bathroom master franchise agents, 396 bathroom roof franchise agents, and 21 e-commerce agents. In the first half of 2014, the Group preliminarily completed its agency network and architecture covering provincial capitals, municipalities directly under the central government, and prefecture-level cities, while continuing to integrate and strengthen medium and small agents and comprehensively improve the overall quality of its agents through a more mature regional market development assessment system which constitute by management, training and performance evaluation.

In 2014, Group products continued to undergo upgrades and generational shifts. The successful launch of a wide variety of products, including the BAIJING series, the CHUNPING series, and the new-generation TANJING series and new ventilating fans of bathroom masters, more than 40 varieties of gusset plates in the five new series of OUFAN, JINXIU, JINYU, JINGJIE and NAIDE, and more than 30 new electric appliances represented by AOXIN Gen-2, greatly expanded the Group's product mix. The sales departments also launched special excellently-timed marketing campaigns in coordination with the launch of new products. All these helped substantially increase the Group's sales and profits in the first half of 2014.

The Group also made changes to its brand building strategies. In addition to advertising on CCTV meant to establish the brand as a premium brand, the Group also released low-cost creative ads on the Internet and new media. AUPU made into "China's Top 500 Most Influential Brands" for the eighth consecutive year in the ranking released by World Brand Laboratory on 25 June 2014, which comprehensively assesses brands on the basis of financial analysis, consumer behaviour analysis and brand strength analysis.

Full Year Prospects

The Directors consider that in the second half of 2014 the Group should continue to strengthen management, improve agency team building, adapt to marketing channel changes, and maintain a stable growth in the market. The Group will continue to increase spending on brand value management and improve AUPU's brand image and positioning on diverse platforms including TV advertising, Internet and new media, Internet-enabled hand-held devices, and e-commerce sites. The bathroom master business will maintain stable development on all channels, with further refinement of home appliance chain stores management and differentiation of store types. On the B2C front, the Group will guide agents to strengthen investments in online platforms, coordinate with online promotions, and aim at online-offline synergy. The bathroom roof business will focus on integrated and intelligent solutions, gusset plate design diversification and compatibility, and O2O commerce development. In the second half of 2014, the Group will continue to promote centralized purchase promotions, grasp important marketing opportunities, advance brand alliance and TOP100 points-of-sale building, strengthen the training and capability building of medium and small agents, further expand market coverage and, ultimately, drive the stable and sustainable growth of sales and profits.

Product Research and Development

In 2014, the Group's research and development of bathroom masters have placed a greater emphasis on market opportunities and product features. In addition to the CHUNPING series which has the best-in-class compatibility and ventilating fan products, the Group has launched the new TANJING and BAIJING series boasting energy efficiency, constant temperature and rapid heating. With respect to bathroom roofs, the Group released more than 40 varieties of gusset plates in the five new series of OUFAN, JINXIU, JINYU, JINGJIE and NAIDE, and more than 30 new electric appliances represented by AOXIN Gen-2, with the emphasis on developing integrated solutions of roof material and electric appliance styles in a bid to constantly enrich the Group's product mix and meet the needs of different consumer groups. In the second half of 2014, the Group will make new progresses in LED lightings, super-thin high-power low-noise ventilating modules, intelligent control of bathroom appliances and smart home connections, step up efforts to improve user comfort, energy efficiency and environmental friendliness, and strive to maintain the Group's technological leadership in the industry.

At present, the Group has obtained 256 approved and authorised technical patents, including 6 invention patents, 58 utility new model patents and 192 design patents. The approved and authorised high-tech patents protect the high technology design of the Group's products and effectively prevent the infringement of the market competitors.

The Directors consider that safeguarding AUPU's brand and intellectual property rights and combating the manufacturing and selling of counterfeit products has a great importance for the Group to maintain its leadership position in China's bathroom master market and the market shares of other products distributed by AUPU. In the first half of 2014, AUPU made a major progress in safeguarding its intellectual property rights and combating counterfeiting, with criminal judgements issued by courts against pirates of AUPU brand in Pinghu city and Yinzhou District of Ningbo city.

Investing Activities

In 2013, the Group completed the acquisition of Chengdu AUPU Broni Kitchen and Bathroom Technology Co., Ltd. ("Chengdu Broni"). At present, Chengdu Broni has completed the construction of part of a new factory building and the installation and debugging of a gusset plate production line.

The Group's another joint-venture project, Chengdu Qianyin Investment Company Limited, has obtained two parcels of commercial and residential land with a total area of 322 mu. The project is now in the planning and design phase. In consideration of the Group's actual conditions and the local real estate market, the Group may explore opportunities for cooperation with strategic partners for development of that project.

The Group's joint-venture company Hangzhou AUPU Broni Kitchen & Bath Co., Ltd (40% owned by the Group) is mainly engaged in the production and selling of integrated environmentally friendly kitchenware. In the first half of 2014, it generated RMB19.3 million in sales revenue (unaudited), representing an increase of 55% as compared with the same period of 2013, and recorded a profit.

Connected Transactions

An entrusted loan agreement and a supplemental individual loan agreement (the "Entrusted Loan Agreement") were entered into by and among the Company's indirect wholly-owned subsidiaries Hangzhou AUPU Bathroom & Kitchen Technology Co., Ltd. ("AUPU Technology") and Hangzhou AUPU Broni Kitchen & Bath Co., Ltd ("AUPU Broni") and the Bank of Communications on 16 February 2012 and 22 April 2013, respectively. As at 30 June 2014, AUPU Technology, through the Bank of Communications, had provided an entrusted loan in an aggregate sum of RMB15 million to AUPU Broni. The repayment deadline for the loan is in 2016. The interest rate for the loan is 7% per annum and the total principal and interest shall be payable in one lump sum on the maturity date.

AUPU Broni is 40% owned by Tricosco Limited, an indirectly wholly-owned subsidiary of the Company, and 60% owned by Hangzhou Qian Cai Investment Company Limited ("Hangzhou Company"). Hangzhou Company is currently 92% owned by Mr. Fang Shengkang, an executive Director, and 8% owned by two other natural persons. As such, AUPU Broni is an associate (as defined in the Listing Rules) of Mr. Fang Shengkang and therefore a connected person of the Company. Accordingly, the transactions contemplated under the Entrusted Loan Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios represented by the aggregate amount of the aforesaid entrusted loan was less than 5% as determined in accordance with Chapter 14A of the Listing Rules, the transactions contemplated under the Entrusted Loan Agreement are only subject to the reporting and announcement requirements but are exempt from independent shareholder's approval requirement under the Listing Rules.

Details of this connected transaction were set out in the announcement dated 22 April 2013.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

CORPORATE GOVERNANCE PRACTICES

The Directors recognise the importance of good corporate governance in the management of the Group. During the six months ended 30 June 2014, the Company had complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own Code for Securities Transactions by the Officers (the "Code"). The Board confirms that, having made specific enquiry to all directors, the Directors have complied with the required standards set out in the Model Code and the Code during the period under review.

REVIEW BY THE AUDIT COMMITTEE

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

The interim results have been reviewed by the audit committee which was established in compliance with the Listing Rules and the relevant provisions of the Code on Corporate Governance Practices. As at the date of this announcement, the audit committee consists of three independent non-executive Directors, namely, Mr. Wu Tak Lung (Chairman), Mr. Cheng Houbo and Mr. Shen Jianlin, and a non-executive director, Mr. Lu Songkang.

PRE-EMPTIVE RIGHTS

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

INTERIM DIVIDEND

The Board is pleased to declare that an interim dividend of HKD0.06 per share for the six months ended 30 June 2014 will be payable in cash on or before Friday, 17 October 2014 to the shareholders whose names appear on the register of members of the Company (the "Register of Members") as at the close of business on Wednesday, 17 September 2014. The interim dividend in cash will be paid in Hong Kong dollars.

CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 15 September 2014 to Wednesday, 17 September 2014 (both days inclusive), during which period no share transfer will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration, not later than 4:30 p.m. on Friday, 12 September 2014.

PUBLICATION OF DETAILED INTERIM RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.aupu.cn) and the interim report containing all the information required by the Listing Rules will be dispatched to shareholders and published on the websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 18 August 2014

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