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If you are in doubt as to any aspect of this Scheme Document or as to the action to be taken, you should consult a licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your shares in the Company, you should at once hand this Scheme Document and the accompanying forms of proxy to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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AUPU

Upwind Holding Company Limited

(迎風控股有限公司)

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

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: 00477)

**PROPOSAL FOR THE PRIVATISATION OF
AUPU GROUP HOLDING COMPANY LIMITED
BY THE OFFEROR
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW) WITH CANCELLATION
PRICE OF HK\$2.71 FOR EVERY SCHEME SHARE
AND
PROPOSED CASH OFFER TO
CANCEL ALL OUTSTANDING SHARE OPTIONS**

Financial Adviser to the Offeror



BNP PARIBAS

Independent Financial Adviser to Independent Board Committee



**WALLBANCK BROTHERS
Securities (Hong Kong) Limited**

All capitalised terms used in this Scheme Document have the meanings set out in the section headed "Definitions" on pages 1 to 7 of this Scheme Document.

A letter from the Board is set out on pages 11 to 22 of this Scheme Document. An Explanatory Statement regarding the Proposal and the Option Offer is set out on pages 55 to 74 of this Scheme Document. A letter from the Independent Board Committee containing its advice to the Scheme Shareholders in respect of the Scheme and to the Optionholders in respect of the Option Offer is set out on pages 23 and 24 of this Scheme Document. A letter from Wallbanck Brothers Securities (Hong Kong) Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee in respect of the Scheme and the Option Offer is set out on pages 25 to 54 of this Scheme Document.

Notices convening the Court Meeting and the EGM to be held at Ching Room, 4/F, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon on Wednesday, 14 September 2016 at 10:00 a.m. and 11:30 a.m. respectively (or in the case of the EGM as soon as after the conclusion or adjournment of the Court Meeting) are set out on pages 69 to 71 of this Scheme Document. Whether or not you are able to attend the Court Meeting and/or EGM, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed on them respectively, and to deposit them at the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not later than the respective times and dates as stated under paragraph 21 headed "Action to be Taken" in the Explanatory Statement on pages 71 to 73 of this Scheme Document. The pink form of proxy in respect of the Court Meeting may alternatively be handed to the chairman of the Court Meeting at the Court Meeting if it is not so deposited and the chairman of the Court Meeting shall have absolute discretion as to whether or not to accept it.

This Scheme Document is jointly issued by Upwind Holding Company Limited and AUPU Group Holding Company Limited.

The English language text of this Scheme Document shall prevail over the Chinese language text.

22 August 2016

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DEFINITIONS

In this document, the following expressions have the meanings respectively set opposite them, unless the context otherwise requires:

“acting in concert”	has the meaning ascribed to it in the Takeovers Code, and “persons acting in concert” and “concert parties” shall be construed accordingly
“Announcement”	the announcement dated 29 May 2016 issued jointly by the Offeror and the Company pursuant to Rule 3.5 of the Takeovers Code in relation to the Proposal and the Option Offer
“Announcement Date”	29 May 2016, being the date of the Announcement
“associate”	has the meaning ascribed to it in the Takeovers Code
“Beneficial Owner”	any beneficial owner of the Shares registered in the name of any nominee, trustee, depository or any other authorised custodian or third party
“BNP Paribas Securities”	BNP Paribas Securities (Asia) Limited, a licensed corporation to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the financial adviser to the Offeror
“Board”	the board of Directors
“Business Day”	a day on which the Stock Exchange is open for the transaction of business
“Cancellation Price”	the cancellation price of HK\$2.71 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
“CCASS”	the Central Clearing and Settlement System established and operated by the Hong Kong Securities Clearing Company Limited
“CCASS Participant”	a person who is admitted to participate in CCASS as a participant
“Companies Law”	the Companies Law (2013 Revision) of the Cayman Islands

DEFINITIONS

“Company”	AUPU Group Holding Company Limited (奥普集团控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the ordinary shares of which are currently listed on the Main Board of the Stock Exchange
“Conditions”	the conditions to the implementation of the Proposal and the Scheme as set out in the section headed “Conditions of the Proposal and the Scheme” in the Explanatory Statement on pages 59 to 61 of this Scheme Document
“Copious All”	Copious All Limited (百隆有限公司), a company incorporated in the British Virgin Islands, which is wholly owned by Mr. Chai Junqi
“Court Hearing”	the hearing by the Grand Court of the petition seeking sanction of the Scheme and to confirm the proposed reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares
“Court Meeting”	a meeting of the Scheme Shareholders to be convened at the direction of the Grand Court at which the Scheme will be voted upon and which is set out on pages 165 to 167 (Notice of Court Meeting) of this Scheme Document, and any adjournment thereof
“Court Order”	the order of the Grand Court sanctioning the Scheme under section 86 of the Companies Law
“Crista Universal”	Crista Universal Company Limited (羽冠寰宇有限公司), an exempted company incorporated in the Cayman Islands with limited liability and is owned as to 50.01% by Sino Board, as to 42.36% by SeeSi Universal, as to 6.36% by Renown Harbour and as to 1.27% by Copious All
“Directors”	directors of the Company
“Effective Date”	the date on which the Scheme becomes effective in accordance with the Companies Law

DEFINITIONS

“EGM”	the extraordinary general meeting to be convened on Wednesday, 14 September 2016 at 11:30 a.m. (or as soon as after the Court Meeting convened on the same day and place shall have been concluded or adjourned) by the Company to consider and if appropriate, to approve, among others, (i) the special resolution in relation to the reduction of issued share capital of the Company by cancelling the Scheme Shares; (ii) the special resolution in relation to the withdrawal of listing of the Shares upon the Scheme becoming effective; and (iii) the ordinary resolution in relation to the restoration of the issued share capital of the Company to its former amount by the issue of the same number of Shares as the number of Scheme Shares cancelled, credited as fully paid, to the Offeror
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate thereof
“Exercise Price”	in respect of each Share Option, the relevant exercise price payable by the relevant Optionholder to subscribe for a Share under the Share Option Scheme
“Explanatory Statement”	the explanatory statement issued in compliance with the rules of the Grand Court, which is set out on pages 55 to 74 of this document
“Facility”	the loan facility arranged by BNP Paribas (being the parent company of BNP Paribas Securities), acting through its Hong Kong Branch, for the purpose of, among other things, financing the Proposal and the Option Offer; the lenders being BNP Paribas, acting through its Hong Kong branch and other lenders to be arranged by it
“Fang Family Trust”	the discretionary trust established by Mr. Fang James
“Grand Court”	the Grand Court of the Cayman Islands
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited

DEFINITIONS

“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company established by the Board, comprising Mr. Wu Tak Lung, Mr. Shen Jianlin, Mr. Gan Weimin, all being the independent non-executive Directors of the Company and Mr. Lin Xiaofeng, being a non-executive Director of the Company, to make a recommendation to the Independent Shareholders and (as the case may be) the Optionholders in respect of, among others, the Proposal, the Scheme and the Option Offer
“Independent Shareholders”	the Shareholders other than the Offeror and the Offeror Concert Parties
“Investor Participant”	a person admitted to participate in CCASS as an investor participant
“Independent Financial Adviser”	Wallbank Brothers Securities (Hong Kong) Limited, a licensed corporation to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee in relation to the Proposal and the Option Offer
“Last Trading Day”	18 May 2016, being the last trading day prior to the date of suspension of trading in the Shares on the Stock Exchange before the issuance of the Announcement
“Latest Practicable Date”	19 August 2016, being the latest practicable date prior to the despatch of this Scheme Document for the purpose of ascertaining certain information contained in this Scheme Document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 December 2016 (or such later date, if any, as: (i) the Offeror and the Company may agree in writing; or (ii) as the Grand Court may, on application of the Offeror or the Company, allow or direct)

DEFINITIONS

“New Shares”	the new Shares to be issued to the Offeror pursuant to the Scheme, the number of which is equal to the number of Scheme Shares to be cancelled
“Offer Period”	has the meaning given to it in the Takeovers Code
“Offeror”	Upwind Holding Company Limited (迎风控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability and wholly owned by Crista Universal
“Offeror Director(s)”	the director(s) of the Offeror
“Offeror Concert Parties”	parties acting in concert with the Offeror in relation to the Company, including but not limited to Mr. Fang Shengkang, Mr. Fang James (and Fang BVI Holding Limited, Rustem Limited, Cantrust (Far East) Limited and the Fang Family Trust), Mr. Lu Songkang, Mr. Chai Junqi, Crista Universal, Sino Broad, SeeSi Universal, Renown Harbour and Copious All
“Optionholder(s)”	holder(s) of the Share Options
“Option Amount”	the consideration of HK\$0.64 in cash for every Option cancelled
“Option Offer”	the offer to be made by or on behalf of the Offeror to the holders of the outstanding Share Options
“Option Offer Letter”	the letter dated 22 August 2016, setting out the terms and conditions of the Option Offer sent separately to the Optionholders, and substantially in the form set out in “Appendix VI — Sample Option Offer Letter” to this Scheme Document
“Other CCASS Participant”	a broker, custodian, nominee or other relevant person who is, or has deposited the Shares with, a CCASS participant
“person”	any natural person, firm, company, joint venture, partnership, corporation, association or other entity (whether or not having a separate legal personality) or any of them as the context so requires
“PRC”	the People’s Republic of China, but for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region and Taiwan

DEFINITIONS

“Proposal”	the proposal for the privatisation of the Company by the Offeror by way of the Scheme
“Record Date”	28 September 2016, being the record date for determining entitlements under the Scheme
“Record Time”	4:00 p.m. (Hong Kong time) on the Record Date
“Reduction”	the proposed reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares
“Registered Owner”	any owner of the Shares (including without limitation a nominee, trustee, depository or any other authorised custodian or third party) entered in the register of members of the Company
“Registrar of Companies”	the registrar of companies appointed under the Companies Law
“Relevant Authorities”	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions
“Relevant Period” or “Disclosure Period”	the period commencing on 29 November 2015, being the date falling six months prior to the date of the Announcement, and ending on the Latest Practicable Date
“Renown Harbour”	Renown Harbour Limited (尊港有限公司), a company incorporated in the British Virgin Islands, which is wholly owned by Mr. Lu Songkang
“RMB”	Renminbi, the lawful currency of the PRC
“Scheme”	the proposed scheme of arrangement between the Company and the Scheme Shareholders under Section 86 of the Companies Law for the implementation of the Proposal, with or subject to any modification, addition or condition approved or imposed by the Grand Court and agreed to by the Company
“Scheme Document”	this composite document, including each of the letters, statements, appendices and notices in it, as may be amended or supplemented from time to time
“Scheme Shareholders”	holders of Scheme Shares as at the Record Date

DEFINITIONS

“Scheme Shares”	Share(s) other than those held by the Offeror, Mr. Fang Shengkang, Mr. Fang James (and Fang BVI Holding Limited, Rustem Limited, Cantrust (Far East) Limited and the Fang Family Trust), Mr. Lu Songkang, Mr. Chai Junqi, Crista Universal, Sino Broad, SeeSi Universal, Renown Harbor and Copious All
“SeeSi Universal”	SeeSi Universal Limited (思時寰宇有限公司), a company incorporated in the British Virgin Islands, which is wholly and ultimately owned by the Fang Family Trust
“Sino Broad”	Sino Broad Holdings Limited (中博控股有限公司), a company incorporated in the British Virgin Islands, which is wholly owned by Mr. Fang Shengkang, an executive Director
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shareholders”	holder(s) of Shares
“Shares”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“SOA”	the scheme of arrangement which contains the terms of the Scheme, as set out in the section headed “Scheme of Arrangement” on pages 157 to 164 of this document
“Share Option(s)”	the share option(s) granted under the Share Option Scheme from time to time
“Share Option Scheme”	the share option scheme adopted by the Company on 16 November 2006
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers of Hong Kong
“trading day”	a day on which the Stock Exchange is open for the business of dealings in securities
“%”	per cent

EXPECTED TIMETABLE

Hong Kong time
(unless otherwise stated)

Date of despatch of this (1) Scheme Document
and (2) Option Offer Letter 22 August 2016

Latest time for lodging transfers of the Shares
in order to qualify for attending and voting at
the Court Meeting and the EGM..... before 4:30 p.m. on 8 September 2016

Register of members of the Company closed for
determination of entitlements of the Shareholders
to attend and vote at the Court Meeting and
at the EGM ^(Note 1) 9 September 2016 to 14 September 2016
(both days inclusive)

Latest time for lodging forms of proxy in respect of the:

Court Meeting ^(Note 2) 10:00 a.m. on Monday, 12 September 2016

EGM ^(Note 2) 11:30 a.m. on Monday, 12 September 2016

Court Meeting ^(Note 3) 10:00 a.m. on Wednesday 14 September 2016

EGM ^(Note 3) 11:30 a.m. on Wednesday 14 September 2016
(or as soon as after the conclusion
or adjournment of the Court Meeting)

Announcement of the results of the Court Meeting
and the EGM published on the website of
the Stock Exchange and the website of
the Company no later than 7:00 p.m. on 14 September 2016

Expected latest time for dealing in the Shares
on the Stock Exchange 4:00 p.m. on 15 September 2016

Latest time for lodging transfer of Shares in order to
qualify for entitlements under the Scheme 4:30 p.m. on 21 September 2016

Register of members of the Company closed for
determination of the Scheme Shareholders who
are qualified under the Scheme From 22 September 2016 onwards

Court Hearing to sanction the Scheme
and to confirm the Reduction ^(Note 4) Thursday, 22 September 2016
(Cayman Islands time)

EXPECTED TIMETABLE

Announcement of the results of the court hearing to sanction the Scheme and to confirm the Reduction.....	26 September 2016
Record Date	28 September 2016
Effective Date ^(Note 4&5)	28 September 2016 (Cayman Islands time)
Announcement of (1) the Effective Date; and (2) the withdrawal of the listing of the Shares on the Stock Exchange	before 8:30 a.m. on 29 September 2016
Expected withdrawal of the listing of the Shares on the Stock Exchange becomes effective	9:00 a.m. on 30 September 2016
Cheques for cash entitlements under the Proposal ^(Note 6)	on or before 7 October 2016
Latest time to accept Option Offer ^(Note 7)	4:30 p.m. on 12 October 2016
Lapse of outstanding Share Options not tendered into Option Offer	12 October 2016
Last day for despatch of cheques for cash payment under the Option Offer ^(Note 8)	21 October 2016

Shareholders and Optionholders should note that the timetable is subject to change. Further announcement(s) will be made in the event that there is any change to the timetable.

Notes:

- (1) The closure of the register of members of the Company during this period is not for the purpose of determining entitlements under the Scheme. Instead, it is for the purpose of determining entitlements of the Shareholders to attend and vote at the Court Meeting and the EGM.
- (2) Forms of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be deposited with Tricor Investor Services Limited, the Company's Hong Kong branch share registrar and transfer office, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than the times and dates stated above. The pink form of proxy in respect of the Court Meeting may alternatively be handed to the chairman of the Court Meeting at the Court Meeting before the taking of the poll if it is not so deposited and the chairman of the Court Meeting shall have absolute discretion as to whether or not to accept it. In order to be valid, the pink form of proxy for the Court Meeting and the white form of proxy for the EGM must be deposited by the time and date stated above. Completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude a Shareholder entitled to do so from attending the relevant meeting and voting in person. In such event, the relevant form of proxy will be deemed to have been revoked.
- (3) The Court Meeting and EGM will be held at Ching Room, 4/F, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon at the times and dates specified above. Notice of the Court Meeting is set out on pages 165 to 167 of this Scheme Document and Notice of the EGM is set out on pages 168 to 170 of this Scheme Document.

EXPECTED TIMETABLE

- (4) All references in this Scheme Document to times and dates are references to Hong Kong times and dates, other than references to the expected dates of the Court Hearing of the petition to sanction the Scheme and to confirm the Reduction and the Effective Date, which are the relevant times and dates in the Cayman Islands. Cayman Islands time is 13 hours behind Hong Kong time.
- (5) The Scheme will become effective upon all the Conditions having been satisfied or waived, as applicable.
- (6) Cheques for cash entitlements to the Scheme Shareholders will be despatched by ordinary post in envelopes addressed to Scheme Shareholders at their respective addresses as appearing in the register of members at the Record Date or, in the case of joint holders, at the address appearing in the register of members at the Record Date of the joint holder whose name then stands first in the register of members in respect of the relevant joint holdings as soon as possible but in any event within 7 Business Days following the Effective Date. Cheques shall be posted at the risk of the addresses and neither the Offeror nor the Company shall be responsible for any loss or delay in receipt.
- (7) The form of acceptance in relation to the Option Offer (which is appended to the Option Offer Letter) duly completed and executed in accordance with the instructions on them, together with the relevant certificate(s) or other documents (if any) evidencing the grant of the outstanding Share Options to you and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) for the aggregate principal amount of outstanding Share Options which you hold, must be lodged with the Company at Unit A, 6/F, Queen's Centre, 58-64 Queen's Road East, Wan Chai, Hong Kong (marked for the attention of the "Company Secretary"), so as to reach it no later than 4:30 p.m. on 12 October 2016 or such later date and time as may be notified through announcement, failing which the Optionholders will not receive the Option Amount. Copies of the Option Offer Letter and the form of acceptance in relation to the Option Offer can also be obtained from the Company at Unit A, 6/F, Queen's Centre, 58-64 Queen's Road East, Wan Chai, Hong Kong, subsequent to the despatch of the Option Offer Letter.
- (8) Payment in respect of validly completed form of acceptance in relation to the Option Offer received before 4:30 p.m. on 12 October 2016 will be despatched as soon as possible but in any event within 7 Business Days following the later of: (i) the Scheme becoming effective; and (ii) the receipt of such validly completed form of acceptance in relation to the Option Offer.

AUPU

AUPU GROUP HOLDING COMPANY LIMITED

奥普集团控股有限公司

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

(Stock Code: 00477)

Executive Directors:

Mr. Fang James
Mr. Fang Shengkang
Mr. Wu Xingjie

Non-executive Directors:

Mr. Lu Songkang
Mr. Lin Xiaofeng

Independent Non-executive Directors:

Mr. Wu Tak Lung
Mr. Shen Jianlin
Mr. Gan Weimin

Registered office:

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

*Principal place of business
in Hong Kong:*

Unit A, 6/F Queen's Centre
58-64 Queen's Road East
Wan Chai
Hong Kong

22 August 2016

To the Shareholders and Optionholders

Dear Sir or Madam,

**PROPOSAL FOR THE PRIVATISATION OF
AUPU GROUP HOLDING COMPANY LIMITED
BY THE OFFEROR
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW) WITH CANCELLATION
PRICE OF HK\$2.71 FOR EVERY SCHEME SHARE
AND
PROPOSED CASH OFFER TO CANCEL ALL
OUTSTANDING SHARE OPTIONS**

1. INTRODUCTION

On 18 May 2016, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders which, if approved and implemented, would result in the Company becoming wholly-owned by the Offeror and the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules.

LETTER FROM THE BOARD

The Proposal will be implemented by way of a Cayman Islands scheme of arrangement under Section 86 of the Companies Law. If the Scheme becomes effective, the Scheme Shares will be cancelled and the New Shares will be issued and credited as fully paid to the Offeror. Pursuant to Rule 13 of the Takeovers Code, the Offeror is making an appropriate cash offer to the Optionholders to cancel their Share Options. The Option Offer is conditional upon the Scheme becoming effective.

Having reviewed the Proposal, the Board has agreed to put forward the Scheme for consideration by the Scheme Shareholders.

In compliance with Rule 2.1 of the Takeovers Code, the Board has established the Independent Board Committee, comprising Mr. Wu Tak Lung, Mr. Shen Jianlin, Mr. Gan Weimin, all being the independent non-executive Directors of the Company and Mr. Lin Xiaofeng, being a non-executive Director of the Company, to advise and make a recommendation to the Scheme Shareholders in respect of the Scheme and the Optionholders in respect of the Option Offer. Mr. Lu Songkang, a non-executive Director, is not a member of the Independent Board Committee by virtue of him being an Offeror Concert Party. The Independent Board Committee has approved the appointment of Wallbank Brothers Securities (Hong Kong) Limited as the Independent Financial Adviser to the Independent Board Committee in respect of the Proposal and the Option Offer.

The purpose of this Scheme Document is to provide you with further information regarding the Proposal and the Option Offer and, in particular, the Scheme, and to give you notices of the Court Meeting and the EGM. Your attention is also drawn to: (i) the letter from the Independent Board Committee set out on pages 23 to 24 of this Scheme Document; (ii) the letter from Wallbank Brothers Securities (Hong Kong) Limited, the Independent Financial Adviser to the Independent Board Committee, set out on pages 25 to 54 of this Scheme Document; (iii) the Explanatory Statement set out on pages 55 to 74 of this Scheme Document; and (iv) the terms of the Scheme set out on pages 55 to 58 of this Scheme Document.

2. TERMS OF THE PROPOSAL

Scheme of Arrangement

Under the Scheme, the Scheme Shareholders will receive from the Offeror the Cancellation Price as consideration for the cancellation of the Scheme Shares:

HK\$2.71 in cash for every Scheme Share cancelled

The Cancellation Price for each Scheme Share under the Proposal represents:

- a premium of approximately 24.9% over the closing price of HK\$2.17 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 29.7% over the average closing price of approximately HK\$2.09 per Share as quoted on the Stock Exchange over the 30 trading days up to and including the Last Trading Day;

LETTER FROM THE BOARD

- a premium of approximately 29.7% over the average closing price of approximately HK\$2.09 per Share as quoted on the Stock Exchange over the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 28.4% over the average closing price of approximately HK\$2.11 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;
- a premium of approximately 292.8% over the audited consolidated net asset value per Share of approximately HK\$0.69 as at 31 December 2015. A premium of approximately 292.8% to the net asset per Share based on the financial statements of the Company for the year ended 31 December 2015. The calculation of net assets per Share is based on: (i) net assets attributable to owners of the Company and the number of Shares of 1,047,228,500 in issue as at 31 December 2015; and (ii) translations of RMB into HK\$ at the rate of RMB1.00 to HK\$1.20 (for illustration purpose only); and
- a premium of approximately 3.0% over the closing price of HK\$2.63 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

During the period commencing six months preceding the Last Trading Day and ending on the Latest Practicable Date, the highest closing price and the lowest closing price of the Shares as quoted on the Stock Exchange were HK\$2.63 per Share on 19 August 2016 and HK\$1.84 per Share on 31 March 2016, respectively.

As at the Latest Practicable Date, there were 1,047,228,500 Shares in issue and 4,275,000 outstanding Share Options which are convertible into 4,275,000 Shares. Save as disclosed in this paragraph, the Company does not have any outstanding convertible securities, warrants, options or derivatives in respect of any Shares.

The Share Option Scheme and Option Offer

As at the Latest Practicable Date, the Company had one share option scheme (namely, the Share Option Scheme).

As at the Latest Practicable Date, there were 4,275,000 outstanding Share Options under the Share Option Scheme. Under the Share Option Scheme: 4,275,000 outstanding Share Options with an Exercise Price of HK\$2.07 per Share and are expected to lapse on 7 June 2017.

Other than the Shares to be issued under the outstanding Share Options, the Company does not have any outstanding convertible securities, warrants, options or derivatives in respect of any Shares.

LETTER FROM THE BOARD

Pursuant to Rule 13 of the Takeovers Code, the Offeror is also making an appropriate cash offer to the Optionholders to cancel their Share Options. The Option Offer is conditional only upon the Scheme becoming effective. The Option Amount to cancel a Share Option is calculated by deducting the Exercise Price payable on exercise of a Share Option from the Cancellation Price (ie, the “see-through” price). The exercise price of all Share Options is HK\$2.07 per Share. The sum payable to the Optionholders for the Share Option calculated on the aforesaid basis is HK\$0.64 for each Share Option. The following table sets out details of the outstanding Share Options:

	Number	Exercise Price (HK\$)	Exercise Period	Vesting
Share Options under the Share Option Scheme	4,275,000	2.07	8/6/2008–7/6/2017	Vested
Total outstanding Share Options convertible into the same number of the Shares	4,275,000			

As at the Latest Practicable Date, none of the Directors hold any Share Options under the Share Option Scheme.

Under the terms of the Share Option Scheme, following receipt of a notice from the Company an Optionholder may exercise his outstanding Share Option(s) (to the extent not already exercised), even if they are not otherwise exercisable, once the Scheme and the Reduction are approved by the requisite majorities at the Court Meeting and the EGM. However, as all Optionholders have each given an irrevocable undertaking to the Offeror and the Company that they will not exercise any of his/her outstanding Share Options during the Offer Period and that they will accept the Option Offer, the Company will not be issuing such notice.

The Offeror is making an offer to cancel the outstanding Share Options under the Option Offer, conditional only upon the Scheme becoming effective. The Option Offer Letter to Optionholders setting out the terms and conditions of the Option Offer is being despatched separately to Optionholders on the date of this Scheme Document and is substantially in the form set out in “Appendix VI — Sample Option Offer Letter” of this Scheme Document. The offer to cancel each Share Option is calculated on a “see-through” basis, so that each Optionholder is entitled to receive a price for his/her Share Options being the amount by which the Cancellation Price exceeds the Exercise Price of his/her Share Options. The exercise price of all Share Options is HK\$2.07 per Share. The sum payable to the Optionholders for the Share Option calculated on the aforesaid basis is HK\$0.64 for each Share Option. No stamp duty is payable in relation to the Option Amount under the Option Offer. The Option

LETTER FROM THE BOARD

Offer is conditional upon the Scheme becoming effective. In order to accept the Option Offer, each Optionholder must duly complete the form of acceptance (appended to the Option Offer Letter) in accordance with the instructions contained therein and return it to the Company, at Unit A, 6/F, Queen's Centre, 58–64 Queen's Road East, Wan Chai, Hong Kong (marked for the attention of the "Company Secretary"), at or before 4:30 p.m. on 12 October 2016. Further details are set out in the section headed "Action to be Taken" in the Explanatory Statements on pages 71 to 73 of this Scheme Document.

If the Scheme and the Reduction are approved by the requisite majorities at the Court Meeting and the EGM, respectively, and the Scheme is sanctioned by the Grand Court at the Court Hearing and becomes effective, any Share Options that are not cancelled pursuant to the Option Offer will automatically lapse at 4:30 p.m. on 12 October 2016, being the latest time to accept the Option Offer.

If the Scheme is not sanctioned by the Grand Court or any of the Conditions are not satisfied and the Scheme does not become effective, the Option Offer will lapse and all Share Options will remain unaffected and will be exercisable during their relevant exercise periods pursuant to the terms of the Share Option Scheme.

Settlement of the Cancellation Price and the Option Amount to which the Scheme Shareholders and the Optionholders are entitled under the Proposal and the Option Offer, respectively, will be implemented in full in accordance with the terms of the Proposal and the Option Offer, respectively, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Scheme Shareholder or Optionholder.

3. TOTAL CONSIDERATION AND CONFIRMATION OF FINANCIAL RESOURCES

On the basis of the Cancellation Price of HK\$2.71 per Scheme Share and 465,672,500 Scheme Shares in issue as at the Latest Practicable Date, the Scheme Shares are in aggregate valued at approximately HK\$1,262.0 million. As at the Latest Practicable Date, there are 4,275,000 outstanding Share Options. Except for the outstanding Share Options, there are no other outstanding options, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carry a right to subscribe for or which are convertible into Shares.

On the assumption that no outstanding Share Options are exercised or lapsed before the Record Date, the amount of cash required for the Proposal (before taking into account the Option Offer to be made) is approximately HK\$1,262.0 million. On the assumption that no outstanding Share Options are exercised before the Record Date, the amount of cash required for the Option Offer is approximately HK\$2.7 million, which is equal to the see-through price of HK\$0.64 per Share Option multiplied by 4,275,000 outstanding Share Options. On the assumption that all outstanding Share Options are exercised before the Record Date, the amount of cash required for the Proposal is approximately HK\$1,273.6 million. As all the Optionholders have each given an irrevocable undertaking to the Offeror and the Company that they will not exercise any of his/her

LETTER FROM THE BOARD

outstanding Share Options during the Option Period and that they would accept the Option Offer, the amount of cash required to implement the Proposal in full (including the Option Amount) would be approximately HK\$1,264.7 million, of which approximately HK\$1,262.0 million would be for the Proposal and approximately HK\$2.7 million would be for the Option Offer.

The Offeror intends to finance the cash required for the Proposal and the Option Offer from a combination of its internal financial resources and the Facility. BNP Paribas Securities, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the full implementation of the Proposal and the Option Offer.

4. CONDITIONS OF THE PROPOSAL

The Proposal is subject to the fulfilment or waiver (as applicable) of the Conditions as set out in the section headed “Conditions of the Proposal and the Scheme” in the Explanatory Statement on pages 59 to 61 of this Scheme Document. When the Conditions are fulfilled or waived (as applicable) the Scheme will become effective and binding on the Company, the Offeror and all the Scheme Shareholders.

With reference to Condition (e), the Company and the Offeror are not aware of any other necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals required.

The Offeror reserves the right to waive any of Conditions (e) to (i), either in whole or in respect of any particular matter. Conditions (a) to (d) cannot be waived in any event. If any of the above Conditions cannot be fulfilled or waived (as applicable), the Scheme will not become effective, but no break fees will be payable by any party.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to a right to invoke any such Condition are of material significance to the Offeror in the context of the Proposal. All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Grand Court may direct), failing which the Proposal and the Scheme will lapse. The Company has no right to waive any of the Conditions.

The implementation of the Option Offer will be conditional upon the Scheme becoming effective.

When the Conditions are fulfilled or waived (as applicable) the Scheme will become effective and binding on the Offeror, the Company and all the Scheme Shareholders. Assuming that the Conditions are fulfilled (or, as applicable, waived), it is expected that the Scheme may become effective on or 28 September 2016 (Cayman Islands time).

LETTER FROM THE BOARD

Warnings:

Shareholders and potential investors should be aware that the implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not be implemented and the Scheme may or may not become effective. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor and/or other professional advisers.

5. IRREVOCABLE UNDERTAKINGS TO ACCEPT THE PROPOSAL

As at the Latest Practicable Date, none of the Offeror and the Offeror Concert Parties has received any irrevocable commitment from the Independent Shareholders in respect of voting at the Court Meeting or the EGM.

6. IRREVOCABLE UNDERTAKINGS NOT TO EXERCISE THE OUTSTANDING SHARE OPTIONS

All the Optionholders have each given an irrevocable undertaking to the Offeror and the Company not to exercise any of his outstanding Share Options (whether vested or unvested during the Offer Period) and that they will accept the Option Offer.

7. SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, there were 1,047,228,500 Shares in issue. The Offeror and the Offeror Concert Parties held 581,556,000 Shares (representing approximately 55.53% of the Shares in issue).

The Scheme Shareholders held an aggregate of 465,672,500 Shares (representing approximately 44.47% of the Shares in issue) as at the Latest Practicable Date, all of which were held by the Independent Shareholders.

Save as disclosed under paragraph 8 headed “Effects of the Scheme” in the Explanatory Statement, the Offeror, the Offeror Directors and the Offeror Concert Parties did not hold any other types of securities in the Company as at the Latest Practicable Date.

The Shares owned by the Offeror will not form part of the Scheme Shares and the Offeror will not vote at the Court Meeting. All the Independent Shareholders will be entitled to vote at the Court Meeting and all the Shareholders will be entitled to vote at the EGM. The Offeror Concert Parties will, in compliance with the Takeovers Code, abstain from voting in the Court Meeting.

Your attention is drawn to: (i) paragraph 2 headed “Issued Shares and Details of Warrants, Options and Conversion Rights” in the Explanatory Statement; and (ii) paragraph 8 headed “Binding Effects of the Scheme” in the Explanatory Statement.

LETTER FROM THE BOARD

8. REASONS FOR THE PROPOSAL AND BENEFITS TO THE SHAREHOLDERS

The Directors (including members of the Independent Board Committee after having considered the advice from the Independent Financial Adviser) are of the view that the terms of the Proposal are attractive to the Scheme Shareholders and that the Proposal will be beneficial to the Scheme Shareholders as set out in the paragraphs below.

The Company also plans to implement a series of long-term growth strategies, which may affect the Company's short-term growth profile and may result in divergence between the Offeror's views on the Company's potential long-term value and investors' views on the Company's share price. Following the implementation of the Proposal and the Option Offer, the Offeror and the Company can make strategic decisions focused on long-term benefits, free from the pressure of market expectations, profit visibility and share price fluctuation associated with being a publicly listed company.

(a) A depressed share price may continue to adversely impact the Company's business, reputation with customers and employee morale

Since its listing in 2006, the Company's share price performance has not been satisfactory. As a producer of bathroom masters in China, the Company strives to protect and enhance its market image and perception.

The Offeror considers that the depressed share price has had an adverse impact on the Company's reputation with customers, and therefore on its business, and also on employee morale. The implementation of the Proposal could eliminate this adverse impact.

(b) Low liquidity of Shares may continue to cause abnormal share price fluctuation

The average daily trading volume of the Shares for the 24 months up to and including the Last Trading Day was approximately 1.49 million Shares per day, representing only approximately 0.14% of the issued Shares as at the Announcement Date. The low trading liquidity of the Shares could make it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and also make it difficult for Shareholders to dispose of a large number of Shares when any event that has an adverse impact on the Company's share price occurs.

(c) A good opportunity for Scheme Shareholders to realize their investment for a significant premium without suffering any illiquidity discount

The Proposal and the Option Offer are intended to provide the Scheme Shareholders and the Optionholders with an opportunity to realise their investment in the Company for cash at a premium without having to suffer any illiquidity discount. The Shares have closed at a price of HK\$2.17 on the Last Trading Day, which is below the Cancellation Price of HK\$2.71.

LETTER FROM THE BOARD

Taking into account the bonus issue of the Company in 2010 on the basis of one bonus Share for every two Shares, the Cancellation Price is 230.5% higher than the adjusted IPO price of HK\$0.82.

On the basis of the foregoing, the Directors have decided to put forward to the Shareholders for their consideration, and proceed with, the Proposal.

9. OFFEROR'S AND DIRECTORS' INTENTION REGARDING THE COMPANY

It is the intention of the Offeror to continue the existing businesses of the Group in all material respects upon the successful privatisation of the Company.

The Offeror has no plan, in the event that the Scheme becomes effective, to: (i) make any material changes to the existing businesses of the Group (including any redeployment of the fixed assets of the Group); or (ii) make any material changes to the continued employment of the employees of the Group.

On the other hand, the Offeror will continue to assess any business opportunity that may arise from time to time involving the business and/or assets of the Group and will formulate strategic corporate planning as and when appropriate.

The Board has considered the Offeror's intentions as set out in this section and is of the view that, based on the Offeror's plans, there will be no material change to the existing businesses of the Group and the employees of the Group. The Independent Board Committee has taken the Offeror's intentions into account in making its recommendations as set out on page 23 to 24 of this Scheme Document.

10. INFORMATION ON THE COMPANY AND THE OFFEROR

Your attention is drawn to paragraph 13 headed "Information on the Company" in the Explanatory Statement on page 65 to 66 of this Scheme Document and paragraph 13 headed "Information on the Offeror" in the Explanatory Statement on page 67 of this Scheme Document. Your attention is also drawn to the "Financial Information of the Group" set out in Appendix I to this Scheme Document and the "Property Valuation" set out in Appendix VII to this Scheme Document.

11. OVERSEAS SHAREHOLDERS AND OVERSEAS OPTIONHOLDERS

Your attention is drawn to paragraph 15 headed "Overseas Shareholders and Overseas Optionholders" in the Explanatory Statement on page 68 of this Scheme Document.

12. COURT MEETING AND THE EGM

In accordance with the direction of the Grand Court, the Court Meeting will be held at 10:00 a.m. on Wednesday, 14 September 2016 at Ching Room, 4/F, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications). All the Scheme Shareholders will

LETTER FROM THE BOARD

be entitled to vote at the Court Meeting but, for the purposes of Rule 2.10 of the Takeovers Code, only the votes of the Independent Shareholders on the Scheme will be counted at the Court Meeting. Cayman Islands law requires the resolution to approve the Scheme to be passed by a majority in number of the Scheme Shareholders (present in person or by proxy) at the Court Meeting representing not less than 75% in value of the Scheme Shares.

In addition, the Scheme will, in compliance with Rule 2.10 of the Takeovers Code, only be implemented if: (i) the Scheme is approved (by way of a poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are voted at the Court Meeting (either in person or by proxy); and (ii) the number of votes cast (by way of a poll) against the resolution to approve the Scheme at the Court Meeting (either in person or by proxy) is not more than 10% of the votes attaching to the Scheme Shares held by all the Independent Shareholders. As at the Latest Practicable Date, the Independent Shareholders held in aggregate 465,672,500 Scheme Shares. On that basis, and assuming no outstanding Share Options are exercised, 10% of the votes attached to the Scheme Shares held by all the Independent Shareholders represent approximately 46,567,250 Shares as at the Latest Practicable Date.

The EGM will be held at 11:30 a.m. on Wednesday, 14 September 2016 or as soon as after the Court Meeting convened for the same date and place has been concluded or adjourned. All Shareholders shall be entitled to attend and vote, in person or by proxy, at the EGM with respect to: (i) the special resolution to approve the Reduction resulting from the cancellation of the Scheme Shares; (ii) the special resolution in relation to the withdrawal of listing of the Shares upon the Scheme becoming effective; and (iii) the ordinary resolution to approve the restoration in the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and to apply the credit arising in its books of account as a result of the Reduction to pay up in full at par and issue to the Offeror such number of New Shares as is equal to the number of Scheme Shares cancelled. The special resolutions described under (i) and (ii) in the paragraph above will be passed if not less than 75% of the votes cast by the Shareholders present and voting, in person or by proxy, at the EGM are in favour of the special resolutions. The ordinary resolution described under (iii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Shareholders present and voting, in person or by proxy, at the EGM.

Notice of the Court Meeting is set out on pages 165 to 167 of this Scheme Document. A pink form of proxy for the Court Meeting is enclosed with this Scheme Document.

Notice of the EGM is set out on pages 168 to 170 of this Scheme Document. A white form of proxy for the EGM is enclosed with this Scheme Document.

Voting at the Court Meeting and at the EGM will be taken by poll as required under the Listing Rules and the Takeovers Code.

LETTER FROM THE BOARD

The Scheme will take effect when the Court Order has been delivered to the Registrar of Companies for registration pursuant to Section 86(3) of the Companies Law. If the Scheme becomes effective under the Companies Law, it will be binding on the Company and all Scheme Shareholders irrespective of whether they attended or voted, and if they voted, whether they voted for or against the Scheme at the Court Meeting.

It is important that as many votes as possible are cast at the Court Meeting so that the Grand Court may be satisfied that there is a fair and reasonable representation of opinion of the Scheme Shareholders. You are therefore strongly urged to complete and return your pink form of proxy for the Court Meeting as soon as possible.

Further details of the Scheme, the Court Meeting and the EGM are set out in the Explanatory Statement on pages 69 to 70 of this Scheme Document.

13. ACTIONS TO BE TAKEN

The actions which you are required to take in relation to the Proposal are set out under paragraph 20 headed “Action to be taken” in the Explanatory Statement on pages 71 to 73 of this Scheme Document.

14. RECOMMENDATIONS

Your attention is drawn to the recommendations of the Independent Board Committee in respect of the Proposal as set out in the letter from the Independent Board Committee on pages 23 to 24 of this Scheme Document.

15. SHARE CERTIFICATES, DEALINGS, WITHDRAWAL OF LISTING, REGISTRATION AND PAYMENT

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as document or evidence of title, and the register of members of the Company will be updated to reflect the same. The Company will not retain its listing on the Stock Exchange and will apply for the withdrawal of listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules, with effect from the date on which the Scheme becomes effective. Dealings in the Shares on the Stock Exchange are expected to cease after 4:00 p.m. on 15 September 2016, and the listing of the Shares on the Stock Exchange is expected to be withdrawn at 9:00 a.m. on 30 September 2016. Shareholders will be notified by way of an announcement of the exact dates of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective.

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme is not approved or lapses.

LETTER FROM THE BOARD

16. TAXATION, EFFECTS AND LIABILITIES

As the Scheme does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

Similarly, as the acceptance of the Option Offer and the payment of the Option Amount for the cancellation of the outstanding Share Options does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance upon the acceptance the Option Offer or the payment of the Option Amount.

It is emphasised that none of the Company, the Offeror Concert Parties, BNP Paribas Securities, Wallbanck Brothers Securities (Hong Kong) Limited and any of their respective directors or associates or any other person involved in the Scheme and the Proposal accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Proposal. Accordingly, you are asked to read paragraph 18 headed “Taxation, Effects and Liabilities” in the Explanatory Statement appearing on page 69 of this Scheme Document and if you are in any doubt as to any aspect of this Scheme Document or as to the action to be taken, you should consult an appropriately qualified professional adviser.

17. FURTHER INFORMATION

You are urged to read carefully (i) the letter from the Independent Board Committee as set out on pages 23 to 24 of this Scheme Document; (ii) the letter from Wallbanck Brothers Securities (Hong Kong) Limited, the Independent Financial Adviser to the Independent Board Committee, as set out on pages 25 to 54 of this Scheme Document; (iii) the Explanatory Statement as set out on pages 55 to 74 of this Scheme Document; (iv) the Appendices to this Scheme Document, including the Scheme of Arrangement as set out on pages 157 to 164 of this Scheme Document; (v) the notice of the Court Meeting as set out on pages 165 to 167 of this Scheme Document; and (vi) the notice of the EGM as set out on pages 168 to 170 of this Scheme Document, the pink proxy form in respect of the Court Meeting as enclosed with this Scheme Document and the white proxy form in respect of the EGM as enclosed with this Scheme Document. Optionholders are urged to read carefully the Option Offer Letter which was sent separately to Optionholders on the date of this Scheme Document and is substantially in the form set out in “Appendix VI — Sample Option Offer Letter” of this Scheme Document.

Yours faithfully.

For and on behalf of the Board of
AUPU Group Holding Company Limited
Fang James
Chairman

AUPU

AUPU GROUP HOLDING COMPANY LIMITED

奧普集團控股有限公司

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

(Stock Code: 00477)

22 August 2016

To the Scheme Shareholders

Dear Sir or Madam,

**PROPOSAL FOR THE PRIVATISATION OF
AUPU GROUP HOLDING COMPANY LIMITED
BY THE OFFEROR
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW) WITH CANCELLATION
PRICE OF HK\$2.71 FOR EVERY SCHEME SHARE
AND
PROPOSED CASH OFFER TO CANCEL ALL
OUTSTANDING SHARE OPTIONS**

We refer to the document dated 22 August 2016 jointly issued by the Offeror and the Company in relation to the Proposal (the “Scheme Document”), of which this letter forms part. Terms defined in the Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

On 18 May 2016, the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders which, if approved and implemented, would result in the Company becoming wholly-owned by the Offeror and the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules.

The Proposal will be implemented by way of a scheme of arrangement between the Company and the Scheme Shareholders under Section 86 of the Companies Law. If the Scheme becomes effective, the Scheme Shares will be cancelled and the New Shares will be issued and credited as fully paid to the Offeror. The Offeror is also making an appropriate cash offer to the Optionholders to cancel their Share Options. The Option Offer is conditional only upon the Scheme becoming effective. Details of the Proposal and the Option Offer are set out in the “Letter from the Board” on pages 11 to 22 and the Explanatory Statement on pages 55 to 74 of the Scheme Document.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

For the purpose of the Proposal and the Option Offer, we have been appointed by the Board as the Independent Board Committee to give a recommendation to the Scheme Shareholders and the Optionholders in respect of the Proposal and the Option Offer. Wallbank Brother Securities (Hong Kong) Limited has been appointed with our approval as our Independent Financial Adviser in respect of the Proposal and the Option Offer. Details of the advice from the Independent Financial Adviser and the principal factors that it has taken into consideration in arriving at its recommendation are set out in the “Letter from the Independent Financial Adviser” on pages 25 to 54 of the Scheme Document.

We also wish to draw the attention of the Scheme Shareholders and the Optionholders to the additional information set out in the Appendices to the Scheme Document.

RECOMMENDATIONS

Having considered the terms of the Proposal (including the Conditions) and the Option Offer and taken into account the advice from the Independent Financial Adviser, in particular the factors, reasons and recommendations as set out in the letter from the Independent Financial Adviser, we consider that the terms of the Proposal (including the Conditions) and the Option Offer are fair and reasonable so far as the Scheme Shareholders and the Optionholders, respectively, are concerned. Accordingly, we recommend that:

- (a) at the Court Meeting:
 - (i) the Scheme Shareholders vote in favour of the resolution to approve the Scheme;
- (b) at the EGM, the Shareholders vote in favour of:
 - (i) the special resolution to approve the Reduction resulting from the cancellation of the Scheme Shares; and
 - (ii) the ordinary resolution to approve the restoration in the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and to apply the credit arising in its books of account as a result of the Reduction to pay up in full at par and issue to the Offeror such number of New Shares as is equal to the number of Scheme Shares cancelled; and
- (c) the Optionholders accept the Option Offer.

Yours faithfully,

Independent Board Committee of the Board

Mr. Wu Tak Lung

Independent Non-executive Director

Mr. Gan Weimin

Independent Non-executive Director

Mr. Shen Jianlin

Independent Non-executive Director

Mr. Lin Xiaofeng

Non-executive Director

LETTER FROM WALLBANCK BROTHERS

Set out below is the text of a letter received from Wallbanck Brothers Securities (Hong Kong) Limited, the Independent Financial Adviser to the Independent Board Committee prepared for the purpose of inclusion in this Scheme Document.



**WALLBANCK BROTHERS
Securities (Hong Kong) Limited**

1312, Tower 1, Lippo Centre,
89 Queensway, Central,
Hong Kong

22 August 2016

*To: The Independent Board Committee of
AUPU Group Holding Company Limited*

Dear Sirs,

**PROPOSAL FOR THE PRIVATISATION OF
AUPU GROUP HOLDING COMPANY LIMITED
BY THE OFFEROR BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)
WITH CANCELLATION PRICE OF
HK\$2.71 FOR EVERY SCHEME SHARE**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in relation to the Proposal and the Option Offer, details of which are set out in the letter from the Board (the “**Letter from the Board**”) and the explanatory statement (the “**Explanatory Statement**”) contained in the Scheme Document dated 22 August 2016 jointly issued by the Company and the Offeror to the Shareholders and Optionholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Scheme Document unless the context requires otherwise.

On 18 May 2016, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders which, if approved and implemented, would result in the Company becoming wholly-owned by the Offeror and the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules.

LETTER FROM WALLBANCK BROTHERS

The Proposal will be implemented by way of a Cayman Islands scheme of arrangement under Section 86 of the Companies Law. If the Scheme becomes effective, the Scheme Shares will be cancelled and the New Shares will be issued and credited as fully paid to the Offeror. Pursuant to Rule 13 of the Takeovers Code, the Offeror is making an appropriate cash offer to the Optionholders to cancel their Share Options. The Option Offer is conditional upon the Scheme becoming effective.

In compliance with Rule 2.1 of the Takeovers Code, the Board has established the Independent Board Committee, comprising Mr. Wu Tak Lung, Mr. Shen Jianlin, Mr. Gan Weimin, all being the independent non-executive Directors of the Company and Mr. Lin Xiaofeng, being a non-executive Director of the Company, to advise and make a recommendation to the Scheme Shareholders in respect of the Scheme and the Optionholders in respect of the Option Offer. Mr. Lu Songkang, a non-executive Director, is not a member of the Independent Board Committee by virtue of him being an Offeror Concert Party.

We, Wallbanck Brothers, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in this respect, and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Proposal and the Option Offer pursuant to Rule 2.1 of the Takeovers Code. Wallbanck Brothers is not associated with the Company, the Offeror or their respective substantial shareholders, or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give an independent advice to the Independent Board Committee in respect of the Scheme and the Optionholders in respect of the Option Offer. Apart from normal professional fees payable to us in connection with this appointment, there has been no other engagements whereby we will receive any fees or benefits from the Company, the Offeror or their respective substantial shareholders, or any party acting, or presumed to be acting, in concert with any of them. The appointment of Wallbanck Brothers as the Independent Financial Adviser has been approved by the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Scheme Document and the information and representations as provided to us by the Directors and management of the Company, for which they are solely and wholly responsible, are assumed to be true, accurate and complete at the time when they were made and continue to be so as at the Latest Practicable Date. Should there be any material changes to our opinion after the Latest Practicable Date and prior to the date of the Court Meeting and the EGM, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the Offeror (where applicable) in the Scheme Document were reasonably made after due enquiry and careful consideration. We have no reason to doubt that any relevant facts or information have been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the Scheme Document, or the reasonableness of the

LETTER FROM WALLBANCK BROTHERS

opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us, nor are we aware of any fact or circumstances which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading.

The Scheme Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Proposal, the Offeror and the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Scheme Document (other than that relating to the Offeror and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Scheme Document (other than those expressed by the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement contained in the Scheme Document misleading. The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in the Scheme Document (other than that relating to the Group), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Scheme Document (other than those expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document, the omission of which would make any statement in the Scheme Document misleading.

We consider that we have received sufficient information to reach an informed view and justify reliance on the accuracy of the information contained in the Scheme Document to provide a reasonable basis for our opinions and recommendations. We have not, however, conducted any independent investigation into the business, affairs, operations, financial position or other future prospect of the Company, the Offeror, or their respective subsidiaries or associates (where applicable), nor have we carried out any independent verification of the information supplied by the Directors and management of the Company. The Company has been separately advised by its own professional advisers with respect to the Proposal and the Option Offer and the preparation of the Scheme Document aside from this letter.

We have not considered the taxation implication on the Group, the Shareholders, or the Optionholders as a result of and of their acceptance or non-acceptance of the Proposal and the Option Offer. In particular, Shareholders who are overseas residents or are subject to overseas taxation or Hong Kong taxation on securities dealings should consult their own tax position and, if in any doubt, should consult their own professional advisers.

We have assumed that the Proposal and the Option Offer will be consummated in accordance with the terms and conditions set forth in the Scheme Document without any waiver, amendment, addition or delay of any terms or conditions. In addition, our opinion is necessarily based on the financial, economic, market, regulatory, and other conditions as they existed on, and the facts, information and opinions made available to us as at the Latest Practicable Date.

Our opinions are formulated only and exclusively for the purpose of the Proposal and the Option Offer and shall not be used for any other purpose in any circumstances nor for any comparable purpose with any other opinions.

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We take no responsibility for the contents of the Scheme Document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this letter.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Proposal and the Option Offer, we have taken into consideration the following principal factors and reasons:

(1) Background and terms of the Proposal and the Option Offer

On 18 May 2016, the Offeror requested the Board to put forward to the Scheme Shareholders the proposed privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law. The Offeror will also make (or procure to be made on its behalf) an appropriate offer to the Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all outstanding Share Options, vested and unvested, in exchange for cash.

If the Proposal is approved and implemented and the Option Offer is accepted,

- (1) all the Scheme Shares held by the Scheme Shareholders on the Effective Date will be cancelled in exchange for the payment to each Scheme Shareholders of the Cancellation Price in cash for each Scheme Share by the Offeror;
- (2) the issued share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the share capital of the Company will be increased to its former amount by the issuance at par to the Offeror, credited as fully paid, of the same number of Shares as the number of Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror;
- (3) the expected withdrawal of the listing of the Shares on the Stock Exchange is expected to take place forthwith following the Effective Date;
- (4) each of Mr. Fang James, Mr. Fang Shengkang, SeeSi Universal, Sino Broad, Renown Harbour and Copious All will transfer all of their respective Shares in the Company to the Offeror, following which the Offeror will hold 100% issued share capital in the Company; and
- (5) the Share Options will be cancelled in exchange for the payment to each Optionholder of the Option Cancellation Price for each Share Option by the Offeror.

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The Scheme

As at the Latest Practicable Date, (i) there are 1,047,228,500 Shares in issue and the Scheme Shareholders are interested in 465,672,500 Shares, representing approximately 44.47% of the issued share capital of the Company.

Subject to the Scheme becoming effective, all the Scheme Shares will be cancelled in consideration of the payment by the Offeror to each Scheme Shareholder of the Cancellation Price of HK\$2.71 in cash for each Scheme Share.

Under the Scheme, the total consideration payable for the Scheme Shares will be payable by the Offeror.

The Cancellation Price of HK\$2.71 per Scheme Share represents:

- a premium of approximately 24.9% over the closing price of HK\$2.17 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 29.7% over the average closing price of approximately HK\$2.09 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 29.7% over the average closing price of approximately HK\$2.09 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 28.4% over the average closing price of approximately HK\$2.11 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;
- a premium of approximately 3.0% over the closing price of HK\$2.63 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and
- a premium of approximately 292.8% over the audited consolidated net asset value per Share of approximately HK\$0.69 as at 31 December 2015.

The Share Option Scheme and Option Offer

According to the Letter from the Board, as at the Latest Practicable Date, the Company had one share option scheme (namely, the Share Option Scheme).

As at the Latest Practicable Date, there were 4,275,000 outstanding Share Options under the Share Option Scheme. Under the Share Option Scheme: 4,275,000 outstanding Share Options with an Exercise Price of HK\$2.07 per Share and are expected to lapse on 7 June 2017.

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Other than the Shares to be issued under the outstanding Share Options, the Company does not have any outstanding convertible securities, warrants, options or derivatives in respect of any Shares.

Pursuant to Rule 13 of the Takeovers Code, the Offeror is also making an appropriate cash offer to the Optionholders to cancel their Share Options. The Option Offer is conditional only upon the Scheme becoming effective. The Option Amount to cancel a Share Option is calculated by deducting the Exercise Price payable on exercise of a Share Option from the Cancellation Price (ie, the “see-through” price). The exercise price of all Share Options is HK\$2.07 per Share. The sum payable to the Optionholders for the Share Option calculated on the aforesaid basis is HK\$0.64 for each Share Option. The following table sets out details of the outstanding Share Options:

	Number	Exercise Price (HK\$)	Exercise Period	Vesting
Share Options under the Share Option Scheme	4,275,000	2.07	8/6/2008–7/6/2017	Vested
Total outstanding Share Options convertible into the same number of the Shares	4,275,000			

As at the Latest Practicable Date, none of the Directors hold any Share Options under the Share Option Scheme.

Under the terms of the Share Option Scheme, following receipt of a notice from the Company an Optionholder may exercise his outstanding Share Option(s) (to the extent not already exercised), even if they are not otherwise exercisable, once the Scheme and the Reduction are approved by the requisite majorities at the Court Meeting and the EGM. However, as all Optionholders have each given an irrevocable undertaking to the Offeror and the Company that they will not exercise any of his/her outstanding Share Options during the Offer Period and that they will accept the Option Offer, the Company will not be issuing such notice.

The Offeror is making an offer to cancel the outstanding Share Options under the Option Offer, conditional only upon the Scheme becoming effective. The Option Offer Letter to Optionholders setting out the terms and conditions of the Option Offer is being despatched separately to Optionholders on the date of this Scheme Document and is substantially in the

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form set out in “Appendix VI — Sample Option Offer Letter” of this Scheme Document. The offer to cancel each Share Option is calculated on a “see-through” basis, so that each Optionholder is entitled to receive a price for his/her Share Options being the amount by which the Cancellation Price exceeds the Exercise Price of his/her Share Options. The exercise price of all Share Options is HK\$2.07 per Share. The sum payable to the Optionholders for the Share Option calculated on the aforesaid basis is HK\$0.64 for each Share Option. No stamp duty is payable in relation to the Option Amount under the Option Offer. The Option Offer is conditional upon the Scheme becoming effective. In order to accept the Option Offer, each Optionholder must duly complete the form of acceptance (appended to the Option Offer Letter) in accordance with the instructions contained therein and return it to the Company, at Unit A, 6/F, Queen’s Centre, 58–64 Queen’s Road East, Wan Chai, Hong Kong (marked for the attention of the “Company Secretary”), at or before 4:30 p.m. on 12 October 2016. Further details are set out in the section headed “Action to be Taken” in the Explanatory Statement on pages 71 to 73 of this Scheme Document.

If the Scheme and the Reduction are approved by the requisite majorities at the Court Meeting and the EGM, respectively, and the Scheme is sanctioned by the Grand Court at the Court Hearing and becomes effective, any Share Options that are not cancelled pursuant to the Option Offer will automatically lapse at 4:30 p.m. on 12 October 2016, being the latest time to accept the Option Offer.

If the Scheme is not sanctioned by the Grand Court or any of the Conditions are not satisfied and the Scheme does not become effective, the Option Offer will lapse and all Share Options will remain unaffected and will be exercisable during their relevant exercise periods pursuant to the terms of the Share Option Scheme.

Settlement of the Cancellation Price and the Option Amount to which the Scheme Shareholders and the Optionholders are entitled under the Proposal and the Option Offer, respectively, will be implemented in full in accordance with the terms of the Proposal and the Option Offer, respectively, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Scheme Shareholder or Optionholder.

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Conditions of the Proposal and the Scheme

According to the Letter from the Board, the Proposal is, and the Scheme will become effective and binding on the Company and all Shareholders, subject to the fulfilment or waiver (as applicable) of the following conditions:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting provided that:
 - (i) the Scheme is approved (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and
 - (ii) the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders;
- (b) (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the EGM to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares, and (ii) the passing of an ordinary resolution by the Shareholders at the EGM to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror;
- (c) the Grand Court's sanction of the Scheme (with or without modifications) and its confirmation of the reduction of the share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration;
- (d) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15 and 16 of the Companies Law in relation to the reduction of the issued share capital of the Company;

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- (e) all necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals (if any) in connection with the Proposal or the Scheme having been obtained from, given by or made with (as the case may be) the Relevant Authorities, in the Cayman Islands, Hong Kong and any other relevant jurisdictions;
- (f) all necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Proposal or the Scheme remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective;
- (g) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Proposal or the Scheme or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or its implementation in accordance with its terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of the Offeror to proceed with the Proposal or the Scheme;
- (h) since the Announcement Date there having been no adverse change in the business, assets, financial or trading positions, profits or prospects of the Group (to an extent which is material in the context of the Group taken as a whole or in the context of the Proposal); and
- (i) each member of the Group remaining solvent and not being subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, receiver or other person carrying out any similar function having been appointed anywhere in the world in respect of the whole or any substantial part of the assets or undertakings of any member of the Group up to the date immediately preceding the Effective Date, in each case which is material and adverse in the context of the Group taken as a whole.

With reference to Condition (e) above, the Company and the Offeror are not aware of any other necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals required.

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The Offeror reserves the right to waive any of Conditions (e) to (i), either in whole or in respect of any particular matter. Conditions (a) to (d) cannot be waived in any event. If any of the above Conditions cannot be fulfilled or waived (as applicable), the Scheme will not become effective, but no break fees will be payable by any party.

As at the Latest Practicable Date, none of the conditions has been fulfilled or waived. With reference to Condition (e) above, the Company and the Offeror are not aware of any other necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals required.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to a right to invoke any such Condition are of material significance to the Offeror in the context of the Proposal. All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Grand Court may direct), failing which the Proposal and the Scheme will lapse. The Company has no right to waive any of the Conditions.

The implementation of the Option Offer will be conditional only upon the Scheme becoming effective.

When the Conditions are fulfilled or waived (as applicable) the Scheme will become effective and binding on the Offeror, the Company and all the Scheme Shareholders. Assuming that the Conditions are fulfilled (or, as applicable, waived), it is expected that the Scheme may become effective on or before 28 September 2016 (Cayman Islands time).

Warning notice:

Shareholders and potential investors should be aware that the implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not be implemented and the Scheme may or may not become effective. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor and/or other professional advisers.

(2) Information on the Group

The Company is an exempted company incorporated in the Cayman Islands with limited liability whose shares have been listed on the Main Board of the Stock Exchange since 8 December 2006. The Group is principally engaged in the design, manufacture and distribution of bathroom masters, exhaust fans and other home appliances.

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Financial performance of the Group

Set out below is a summary of the consolidated financial performance of the Group for (i) each of the three years ended 31 December 2013, 31 December 2014 and 31 December 2015 as extracted from the Company's annual report for the year ended 31 December 2013 (the "2013 Annual Report"), the annual report for the year ended 31 December 2014 (the "2014 Annual Report"), and the annual report for the year ended 31 December 2015 (the "2015 Annual Report") respectively and (ii) the six-month period ended 30 June 2015 and 30 June 2016 as extracted from the Company's interim report for the six months ended 30 June 2015 and the results announcement for the six months ended 30 June 2016 (the "2016 Interim Results Announcement") respectively:

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	Audited	Audited	Audited	Unaudited	Unaudited
Revenue	620,304	784,263	929,053	423,235	536,283
Gross profit	279,289	374,808	452,115	201,839	273,849
Net profit for the year	81,994	170,248	207,389	97,166	118,507
Gross profit margin	45.0%	47.8%	48.7%	47.7%	51.1%
Net profit margin	13.2%	21.7%	22.3%	23.0%	22.1%

Analysis of financial performance for the year ended 31 December 2014

For the year ended 31 December 2014, the Group recorded a revenue of approximately RMB784,263,000 representing a growth of approximately 26.4% from last year of approximately RMB620,304,000. According to the 2014 Annual Report, the increase in revenue during the year was primarily attributable to combined impetus of corporate governance, brand enhancement, the launch of new products and channel reform. Gross profit increased by approximately 34.2% from approximately RMB279,289,000 in 2013 to approximately RMB374,808,000 with the gross profit margin of the Group for the year increased to approximately 47.8% from approximately 45.0% in 2013. Such changes were mainly due to change in product composition to increase proportion in higher margin products. The net profit for this year increased by approximately 107.6% to approximately RMB170,248,000 from approximately RMB81,994,000 in 2013. Furthermore, in line with the increase of overall gross profit margin, the net profit margin for the year also increased from approximately 13.2% in 2013 to approximately 21.7% in 2014.

Analysis of financial performance for the year ended 31 December 2015

For the year ended 31 December 2015, the Group recorded a revenue of approximately RMB929,053,000 representing a growth of approximately 18.5% from last year of approximately RMB784,263,000. According to the 2015 Annual Report, the increase in

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revenue during the year was primarily attributable to the launching of new products and channel reform. Gross profit increased by approximately 20.6% from approximately RMB374,808,000 in 2014 to approximately RMB452,115,000 with the gross profit margin of the Group for the year increased to approximately 48.7% from approximately 47.8% in 2014. Such changes were mainly due to continual change in product composition to increase proportion in higher margin products. The net profit for this year increased by approximately 21.8% to approximately RMB207,389,000 from approximately RMB170,248,000 in 2014. Furthermore, in line with the increase of overall gross profit margin, the net profit margin for the year also increased from approximately 21.7% in 2014 to approximately 22.3% in 2015.

Analysis of financial performance for the six months ended 30 June 2016

For the six months ended 30 June 2016, the Group recorded a revenue of approximately RMB536,283,000 representing a growth of approximately 26.7% from the last corresponding period of approximately RMB423,235,000. According to the 2016 Interim Results Announcement, the increase in revenue during the period was primarily attributable to the expansion in sales channels and improved product competitiveness. Gross profit increased by approximately 35.7% from approximately RMB201,839,000 in the six months ended 30 June 2015 to approximately RMB273,849,000 with the overall gross profit margin of the Group for the six months ended 30 June 2016 increased to approximately 51.1% from approximately 47.7% of the last corresponding period. Such changes were mainly due to continual change in product composition to increase proportion in higher margin products. The net profit for the first half of 2016 increased by approximately 22.0% to approximately RMB118,507,000 from approximately RMB97,166,000 in the same period of 2015, while the net profit margin decreased slightly to 22.1% from 23.0% of the last corresponding period.

Financial position of the Group

In considering the Proposal, apart from the prevailing market price of the Shares, the net asset value of the Group is one of the factors in analyzing the reasonableness of the Cancellation Price, which is HK\$2.71 in cash for each Scheme Share. As at 31 December 2015, the Group's audited net asset value amounted to RMB605,245,000 or approximately HK\$0.69 per Share, based on 1,047,228,500 Shares in issue as at both 31 December 2015 and the Latest Practicable Date. The Cancellation Price therefore represents a material premium of approximately 292.8% to the aforesaid audited net asset value per Share.

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Set out below is a summary of the audited consolidated financial position of the Group as at (i) 31 December 2013, 31 December 2014 and 31 December 2015 as extracted from the 2013 Annual Report, the 2014 Annual Report and the 2015 Annual Report respectively and (ii) 30 June 2016 as extracted from the 2016 Interim Results Announcement:

	As at 31 December			As at
	2013	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	Audited	Audited	Audited	Unaudited
Non-current assets	469,101	482,167	391,478	470,120
Current assets	<u>368,845</u>	<u>511,638</u>	<u>600,861</u>	<u>657,938</u>
Total assets	<u>837,946</u>	<u>993,805</u>	<u>992,339</u>	<u>1,128,058</u>
Non-current liabilities	13,487	19,116	15,999	20,993
Current liabilities	<u>372,371</u>	<u>427,444</u>	<u>371,095</u>	<u>418,503</u>
Total liabilities	<u>385,858</u>	<u>446,560</u>	<u>387,094</u>	<u>439,496</u>
Net assets	<u>452,088</u>	<u>547,245</u>	<u>605,245</u>	<u>688,562</u>

As shown in the above table, the net assets of the Group grew gradually and amounted to approximately RMB605,245,000 as at 31 December 2015 and approximately RMB688,562,000 as at 30 June 2016.

The Group's audited assets as at 31 December 2015 were primarily consisted of property, plant and equipment of approximately RMB257,679,000, inventories of approximately RMB61,908,000, trade, bills and other receivables of approximately RMB95,007,000, amounts due from associates of approximately RMB131,454,000, time deposits of approximately RMB80,000,000, pledged bank deposits of approximately RMB96,584,000 and bank balances and cash of approximately RMB135,261,000.

On the other hand, the Group's audited liabilities as at 31 December 2015 were primarily consisted of trade, bills and other payables of approximately RMB343,990,000.

The Group's unaudited assets as at 30 June 2016 were primarily consisted of property, plant and equipment of approximately RMB263,493,000, inventories of approximately RMB79,893,000, trade, bills and other receivables of approximately RMB108,702,000, amounts due from associates of approximately RMB67,281,000, time deposits of approximately RMB292,000,000 and bank balances and cash of approximately RMB102,331,000.

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On the other hand, the Group's unaudited liabilities as at 30 June 2016 were primarily consisted of trade, bills and other payables of approximately RMB376,736,000.

Prospect of the Company

According to the 2015 Annual Report, the Group's business operations were mainly in the PRC with over 96% of the revenue generated in China. Further, the Group is principally engaged in the design, manufacture and distribution of bathroom masters, exhaust fans and other home appliances, which is under the consumer discretionary sector. Therefore, the overall economic environment of China shall have an impact on the prospect of the Group.

Macro-economic environment in the PRC

The economic growth in China has been decelerating in the recent years. According to the website of the National Bureau of Statistics of the PRC, the growth rate in the gross domestic product ("GDP") of the PRC of 6.9% was recorded in 2015, compared to the growth of 7.3% and 7.7% in 2014 and 2013 respectively. In January 2016, the International Monetary Fund released the World Economic Outlook update indicating a continuing declining trend with an expected GDP growth in China of 6.3% in 2016. In March 2016, the PRC government announced a target of 6.5% to 7.0% GDP growth for the year 2016. Accordingly, in April 2016, the National Bureau of Statistics released the GDP growth in the 1st quarter of 2016 of 6.7%, compared to the growth of 7.0% and 7.4% for the 1st quarter of 2015 and 2014 respectively. In July 2016, the National Bureau of Statistics released the GDP growth in the 2nd quarter of 2016 of 6.7%, compared to the growth of 7.0% and 7.4% for the 2nd quarter of 2015 and 2014 respectively.

With increasing disposable income, urban households in China are improving their living standards through purchasing more high quality products. However, according to the National Bureau of Statistics of the PRC, the growth in per capita disposable income of urban households in China amounts to approximately 8.2% in 2015, compared to growth rates of approximately 9.0% and 9.7% in 2014 and 2013 respectively.

Real estate market in the PRC

According to the 2015 Annual Report, as the Group derives its business mainly from selling bathroom masters and bathroom roof products which are household products, and that property developers are one of the Group's focused sales channels, the real estate market condition shall have an impact on the Group's industry.

According to the National Bureau of Statistics of the PRC, the sales of commodity housing in the PRC increased by approximately 14.4% in 2015, compared to a decrease of approximately 6.3% and an increase of approximately 26.3% in 2014 and 2013 respectively. The growth rate of investment in real estate development dropped significantly to

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approximately 1.0% in 2015, compared to a growth of approximately 10.5% and 19.8% in 2014 and 2013 respectively. The floor area under construction dropped further by 14.0% in 2015 compared to a decline of 10.7% in 2014 and growth of 13.5% in 2013.

Following the downturn of the PRC real estate market in 2014, uncertainty in its prospects remained given the decline in growth rates in the investments in real estate development and the floor area of housing put under construction in 2015.

Global economic environment and financial market

The global economic environment and financial markets were severely impacted by a recent political event in Europe, which may have a further impact on the Chinese economy. The United Kingdom, fifth largest economy in the world in 2015 in terms of GDP, held a referendum on 23 June 2016 and was voted to leave the European Union by the British people (“**Brexit**”).

Following the release of the voting results, global financial markets suffered a big shock with the MSCI global stock index losing approximately 4.8% from 23 June 2016 to 24 June 2016, the biggest slide since August 2011. The effect was also felt in the local financial market with the Hang Seng Index dropping 609 points, or approximately 2.9%, from 23 June 2016 to 24 June 2016. The currency markets also reacted strongly to Brexit with the British pound and the Euro weakening against the U.S. Dollar. The Renminbi, which has been depreciating against the U.S. Dollar since the beginning of 2014, stood at approximately 6.62 per U.S. Dollar on 24 June 2016, the lowest since early 2011. A strengthening U.S. Dollar from Brexit may put renewed downward pressure on the Renminbi. Further, as London has been pushing to become a main trading center for offshore Renminbi, Brexit may slow down the process of the internationalization of the Renminbi.

As Britain was the second largest contributor to the European Union in terms of GDP in 2015 (according to the Eurostat website by the European Commission), the continuing strength and stability of the European Union and the economy of its constituent members are put into question as Britain and the European Union started on the process of Brexit. Such uncertainty may destabilize trade, slow hiring and lead to a tightening of credit in both Britain and the European Union as both parties need to conduct trade negotiations following Brexit.

The European Union was the second largest trading partner with China with exports to Europe contributing as to approximately 15% of China’s total exports in 2015 according to the National Bureau of Statistics of the PRC. In addition, Britain was the second largest trading partner with China within the European Union. Therefore, the uncertainty on the European and the British economy from Brexit may have an impact on the demand of exports from China and therefore the overall Chinese economy.

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Summary

The PRC has sustained significant growth for many years, but is experiencing a recent downturn in the economy, including the decelerating trend in the economy and disposable income growth, and uncertainty in the real estate market in China. The situation is further complicated by Brexit, leading to a recent turmoil in global financial markets and threatening the continual trade stability of China with both the European Union and Britain. It is uncertain of the extent and duration of such downturn in the foreseeable future.

It is fair and reasonable to infer that demand for high-quality bathroom products, a core business area of the Company, may be potentially affected by the downturn of the PRC economy, which in turn may lead to uncertainties in the development of the Group in the long run.

Given the premium of the Cancellation Price, as further detailed in the subsection headed “(5) The Cancellation Price”, it is fair and reasonable to infer that the Proposal represents a feasible strategy for the Scheme Shareholders to cash out on their investments in the Company and to avert from the aforementioned risks and uncertainties.

(3) Information on the Offeror

According to the Letter from the Board, set out below is the information on the Offeror:

The Offeror is an exempted company incorporated in the Cayman Islands on 5 April 2016. It is an investment holding company and has not been engaged in any other business activities since its incorporation. The directors of the Offeror are Mr. Fang James and Mr. Fang Shengkang.

The Offeror is wholly owned by Crista Universal which is held as to 50.01% by Sino Broad, 42.36% by SeeSi Universal, 6.36% by Renown Harbour and 1.27% by Copious All. The directors of Crista Universal are Mr. Fang James and Mr. Fang Shengkang.

Sino Broad is a company incorporated in the British Virgin Islands, which is wholly and ultimately owned by Mr. Fang Shengkang, an executive Director and a director of the Offeror. Mr. Fang Shengkang is the sole director of Sino Broad.

SeeSi Universal is a company incorporated in the British Virgin Islands, which is wholly owned by Fang BVI Holding Limited which is in turn wholly owned by Rustem Limited. Rustem Limited is wholly and ultimately owned by the family trust of Mr. Fang James, an executive Director and a director of the Offeror, who is the founder and the settlor of the trust. Mr. Fang James is the sole director of SeeSi Universal.

Renown Harbour is a company incorporated in the British Virgin Islands, which is wholly and ultimately owned by Mr. Lu Songkang, a non-executive Director. Mr. Lu Songkang is the sole director of Renown Harbour.

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Copious All is a company incorporated in the British Virgin Islands, which is wholly and ultimately owned by Mr. Chai Junqi. Mr. Chai Junqi is the sole director of Copious All.

Mr. Fang James was the founder of the Group. Mr. Fang Shengkang, Mr. Lu Songkang and Mr. Chai Junqi were the management of the Group and they were founding shareholders of the Group prior to the listing of the Company. In addition, Mr. Fang James and Mr. Fang Shengkang are cousins.

The Offeror, Crista Universal, Sino Board, Renown Harbour, Copious All and SeeSi Universal are special purpose vehicle respectively.

(4) Reasons for and benefits of the Proposal

According to the Letter from the Board, set out below are the reasons for and benefits of the Proposal:

The Company plans to implement a series of long-term growth strategies, which may affect the Company's short-term growth profile and may result in divergence between the Offeror's views on the Company's potential long-term value and investors' views on the Company's share price. Following the implementation of the Proposal and the Option Offer, the Offeror and the Company can make strategic decisions focused on long-term benefits, free from the pressure of market expectations, profit visibility and share price fluctuation associated with being a publicly listed company.

(a) *A depressed share price may continue to adversely impact the Company's business, reputation with customers and employee morale*

Since its listing in 2006, the Company's share price performance has not been satisfactory. As a producer of bathroom masters in China, the Company strives to protect and enhance its market image and perception.

The Offeror considers that the depressed share price has had an adverse impact on the Company's reputation with customers, and therefore on its business, and also on employee morale. The implementation of the Proposal could eliminate this adverse impact.

(b) *Low liquidity of Shares may continue to cause abnormal share price fluctuation*

The liquidity of Shares has been at a low level over the last 24 months. The average daily trading volume of the Shares for the 24 months up to and including the Last Trading Day was approximately 1.49 million Shares per day, representing only approximately 0.14% of the issued Shares as at the Announcement Date. The low trading liquidity of the Shares could make it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and also make it difficult for Shareholders to dispose of a large number of Shares when any event that has an adverse impact on the Company's share price occurs.

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(c) *A good opportunity for Scheme Shareholders to realize their investment for a significant premium without suffering any illiquidity discount*

The Proposal and the Option Offer are intended to provide the Scheme Shareholders and the Optionholders with an opportunity to realise their investment in the Company for cash at a premium without having to suffer any illiquidity discount. The Shares have closed at a price of HK\$2.17 on the Last Trading Day, which is below the Cancellation Price of HK\$2.71. In addition, for long-term Shareholders of the Company that had invested in the Company at its IPO, the Cancellation Price is 230.5% higher than the adjusted IPO price of HK\$0.82 taking into account the bonus issue of the Company in 2010 on the basis of one bonus Share for every two Shares.

Further analysis on the Share price performance and the low liquidity of Shares of the Company were detailed in the subsections headed “(5) The Cancellation Price” and “(6) Historical trading liquidity of the Shares” respectively.

Based on the aforesaid expected benefits to the Company and the Shareholders, it is fair and reasonable for the Directors to consider that the Proposal is beneficial to the Company and the Shareholders as a whole.

(5) The Cancellation Price

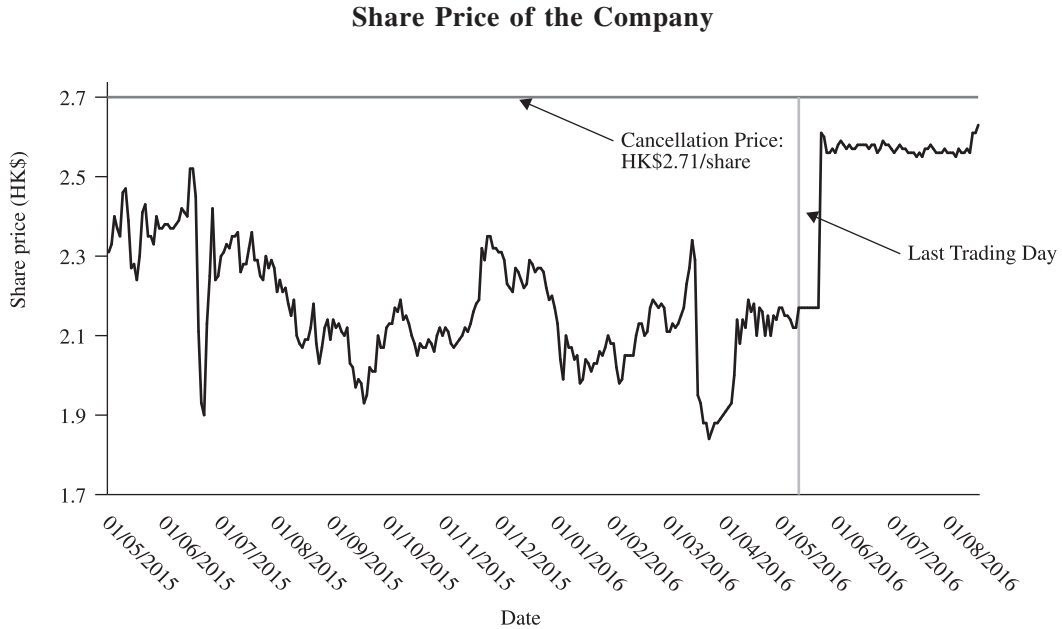
The Cancellation Price of HK\$2.71 per Scheme Share represents:

- a premium of approximately 24.9% over the closing price of HK\$2.17 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 29.7% over the average closing price of approximately HK\$2.09 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 29.7% over the average closing price of approximately HK\$2.09 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 28.4% over the average closing price of approximately HK\$2.11 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;
- a premium of approximately 3.0% over the closing price of HK\$2.63 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and
- a premium of approximately 292.8% over the audited consolidated net asset value per Share of approximately HK\$0.69 as at 31 December 2015.

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(i) *Historical price performance of the Shares*

The daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 19 May 2015, being 12-month period leading up to 18 May 2016, being the Last Trading Day (both days inclusive) (the “**Pre-Announcement Period**”) and from 30 May 2016 to the Latest Practicable Date (both days inclusive) (the “**Post-Announcement Period**”), collectively with the Pre-Announcement Period referred to as the “**Review Period**”) has been reviewed. The following chart sets out the closing price of the Shares as quoted on the Stock Exchange during the Review Period:



Source: the Stock Exchange website (www.hkex.com.hk)

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The highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock Exchange in each month during the Review Period are shown as follows:

Month	Highest closing price (HK\$)	Lowest closing price (HK\$)	Average daily closing price (HK\$)	No. of trading days of the Shares in each month
2015				
19 May to 31 May	2.47	2.31	2.39	8
June	2.52	2.24	2.37	22
July	2.52	1.90	2.27	22
August	2.30	2.07	2.20	21
September	2.18	1.93	2.07	20
October	2.19	2.01	2.10	20
November	2.32	2.06	2.20	21
December	2.35	2.21	2.28	22
2016				
January	2.22	1.98	2.07	20
February	2.17	1.98	2.07	18
March	2.34	1.84	2.12	21
April	2.19	1.86	2.04	20
May (<i>Note</i>)	2.61	2.10	2.21	14
June	2.59	2.56	2.57	21
July	2.58	2.55	2.57	20
August (up to and including the Latest Practicable Date)	2.63	2.55	2.57	14

Source: the Stock Exchange website (www.hkex.com.hk)

Note: Trading in the Shares was suspended from 19 May 2016 to 29 May 2016 pending the release of the Announcement

As illustrated by the above chart and table, during the Review Period, the Cancellation Price is higher than the historical highest closing price and average daily closing prices of the Shares per month for the entire Review Period respectively. During the Pre-Announcement Period, closing prices of the Share fluctuated in which the highest and lowest closing prices of the Share were HK\$2.52 on 30 June 2015 and 2 July 2015 and HK\$1.84 on 31 March 2016 respectively, and the Cancellation Price represents premiums of approximately 7.54% and approximately 47.28% over the aforesaid closing prices.

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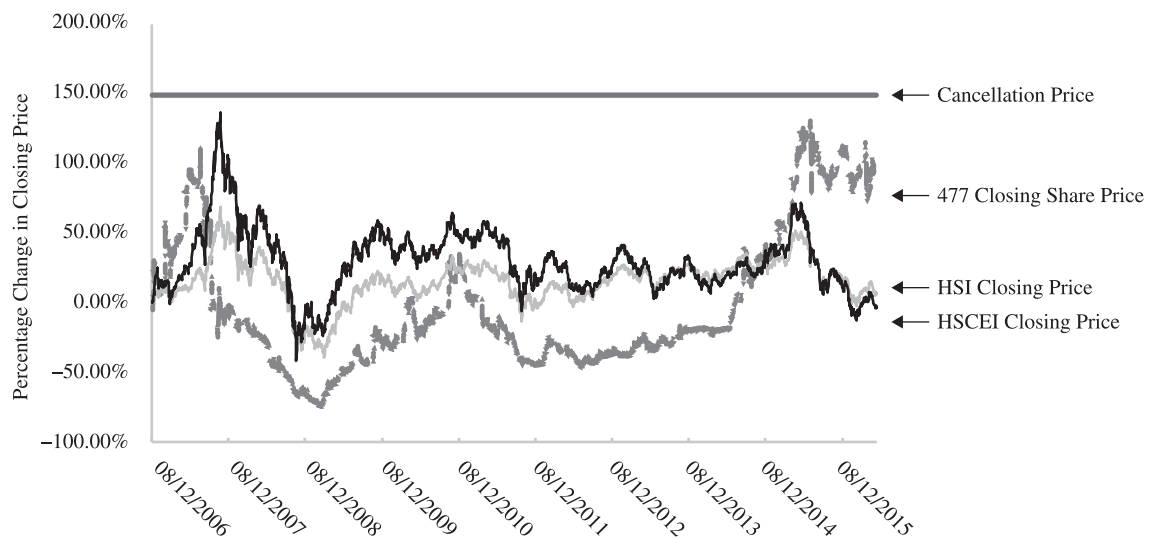
During the Post-Announcement Period, closing prices of the Shares increased significantly by approximately 20.28% from HK\$2.17 on 18 May 2016 (i.e. the Last Trading Day) to HK\$2.61 on 30 May 2016 (i.e. the first trading day immediately after the Announcement) and maintained at a relatively high level but still below the Cancellation Price since then. As at the Latest Practicable Date, closing price of the Shares was HK\$2.63. Upon our enquiry, the Directors confirmed that save for the overall favourable market reaction towards the Proposal, they are not aware of any reasons which may lead to the aforesaid surges of the Share prices. We also noted that besides the Announcement, the Company had not published other material announcements at the relevant time.

From the above observations, the increase in the Share prices during the Post-Announcement Period can be considered to reflect the market's reaction to the Proposal and therefore, the recent market price of the Shares may not be sustained if the Proposal failed to proceed.

The Scheme Shareholders should note that the sustainability of the increased price level is uncertain. Nonetheless, the Scheme Shareholders should also closely monitor the prevailing market price of the Shares, which may be traded above the Cancellation Price, and exercise due care and caution when deciding whether or not to accept the Proposal.

(ii) *Comparison with the stock market*

The price performance of the Shares was further analyzed by comparing with the Hong Kong stock market trend. The following chart shows the closing price performance of the Shares (adjusted for the bonus issue of the Company in 2010 on the basis of one bonus Share for every two Shares) against the Hang Seng Index (the "HSI") and the Hang Seng China Enterprise Index (the "HSCEI") from its listing on 8 December 2006 and up to the Last Trading Day (shown in percentage change from the respective closing prices on 8 December 2006):



Source: the Stock Exchange website (www.hkex.com.hk) and Bloomberg

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As illustrated in the chart above, the Share price fluctuated more notably compared to the HSI and the HSCEI. The closing Share price peaked on 25 July 2007 at HK\$2.33 or 114.63% compared to its closing price on 8 December 2006, before underperforming generally as compared to the HSI and HSCEI during the period from 14 September 2007 to 10 July 2014. During the above period, the Shares oscillated between HK\$0.25 and HK\$1.49, or -77.28% and 37.07% compared to its closing price on 8 December 2006, while the HSI and the HSCEI oscillated between -41.22% and 68.83%, and -42.18% and 136.37% compared to their respective closing prices on 8 December 2006.

During the period from July 2014 to May 2016, the Share price improved following announcements by the Company on positive profit alert and its results for the six months ended 30 June 2014 on 11 July 2014 and 18 August 2014 respectively, in which the Company recorded an increase in profits attributable to owners of the Company for the six months ended 30 June 2014 of approximately 101.35% compared to the last corresponding period. The Company further issued announcements on (i) rising sales for the 10 months ended 31 October 2014, (ii) positive profit alert, and (iii) annual results for the year ended 31 December 2014 on 12 November 2014, 13 January 2015 and 26 March 2015 respectively, in which the Company recorded an increase in profits attributable to owners of the Company for the year ended 31 December 2014 of approximately 107.63% compared to the last corresponding period. The closing Share price increased by approximately 86.46% from HK\$0.96 on 11 July 2014 to HK\$1.79 on 27 March 2015.

However, there were occurrences where the Share price did not react positively to the Company's improved business performance. The Company published a positive profit alert and results for the six months ended 30 June 2015 announcement on 13 July 2015 and 20 August 2015 respectively, in which the Company recorded an increase in profits attributable to owners of the Company for the six months ended 30 June 2015 of approximately 37.17% compared to the last corresponding period. The Company further issued its annual results announcement for the year ended 31 December 2015 on 22 March 2016, in which the Company recorded an increase in profits attributable to owners of the Company of approximately 21.82% compared to the last corresponding period. During this period, the closing Share price decreased by approximately 19.42% from HK\$2.42 on 13 July 2015 to HK\$1.95 on 23 March 2016.

It was further noted that the closing Share price dropped from HK\$2.42 on 13 July 2015, the date of the positive profit alert announcement for the Company's results for the six months ended 30 June 2015, to HK\$2.24 on the following day, or a decrease of 7.44%. The HSI and the HSCEI remained relatively stable with a drop of approximately 0.41% and 1.40% on 14 July 2015 as compared with the respective closing prices on the previous day. A similar trend was observed following the announcement of the Company's annual results for the year ended 31 December 2015 on 22 March 2016, where the closing Share price dropped from HK\$2.29 on the day of the announcement to HK\$1.95 on the following day, or a decrease of 14.85%. Again, the HSI and the HSCEI remained relatively stable with a drop of approximately 0.25% and 0.30% on 23 March 2016 as compared with the respective closing prices on the previous day.

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Summary

Despite the generally improved Share price performance in 2014 to 2016 as compared to the period from 2007 to 2014, the Cancellation Price was above the closing Share price for the entire period in which the Company was listed on the Stock Exchange. Further, the increase in Share price from 2014 to 2015 followed the significant increase in the Company's profits in 2014 of above 100%. Such growth rate may not be sustainable, and during 2015 to 2016, the Share price did not react positively to the increase in the Company's profits in 2015 of around 20%. It is fair and reasonable to infer that this could possibly be due to a different view held by the investors on the expected performance of the Company. Further information on the prospects of the Company was detailed in the subsection headed "Prospect of the Company". Therefore, the Proposal represents a good timing and opportunity for the Scheme Shareholders to realise their investments as future development of the Company and Share price performance may be uncertain.

(6) Historical trading liquidity of the Shares

The number of trading days, the average daily number of the Shares traded per month, and the respective percentages of the Shares' monthly trading volume as compared to the total number of issued Shares as at the end of the relevant month during the Review Period are tabulated as below:

Month	No. of trading days of the Shares in each month	Average daily trading volume ("Average Volume") <i>Number of Shares</i>	% of the Average Volume to total number of issued Shares as at the end of the relevant month %
2015			
19 May to 31 May	8	2,082,500	0.20%
June	22	1,496,732	0.14%
July	22	2,683,871	0.26%
August	21	887,797	0.08%
September	20	966,665	0.09%
October	20	902,750	0.09%
November	21	696,176	0.07%
December	22	608,082	0.06%
2016			
January	20	679,757	0.06%
February	18	292,840	0.03%
March	21	1,033,238	0.10%
April	20	1,178,834	0.11%

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Month	No. of trading days of the Shares in each month	Average daily trading volume ("Average Volume") <i>Number of Shares</i>	% of the Average Volume to total number of issued Shares as at the end of the relevant month %
May (<i>Note</i>)	14	2,762,143	0.26%
June	21	1,724,088	0.16%
July	20	882,739	0.08%
August (up to and including the Latest Practicable Date)	14	816,648	0.08%

Source: the Stock Exchange website (www.hkex.com.hk)

Note: Trading in the Shares was suspended from 19 May 2016 to 29 May 2016 pending the release of the Announcement

As noted from the above table, trading in the Shares had been extremely thin during the entire Pre-Announcement Period with the average daily trading volume being below 0.3% of the total number of issued Shares.

Given that the Shares are highly illiquid, there is currently limited opportunity for the Independent Shareholders to divest their investments in the Company not to mention that the disposal of large blocks of Shares held by them in the open market would likely trigger price slump of the Shares. Accordingly, the Proposal provides a valuable opportunity for Independent Shareholders, especially those holding large blocks of Shares, to realise their investments in the Company.

Independent Shareholders should note that the future liquidity of the Shares is uncertain.

(7) Review of comparable companies

The Group is principally engaged in the design, manufacture and distribution of bathroom masters, exhaust fans and other home appliances.

We have conducted research for companies listed on the Stock Exchange that are principally engaged in the design, manufacture and distribution of bathroom electrical appliances. Based on this criteria, we are not able to identify any company principally engaged in the said business. We have expanded our scope to identify companies which are principally engaged in the design, manufacture and sale of household electrical appliances on an exhaustive basis.

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Accordingly, set out below are price-to-earning ratio (“**P/E ratio**”) and price-to-net-asset-value (“**P/B ratio**”) ratio, two commonly used valuation benchmarks, of companies principally engaged in the design, manufacture and sale of household electrical appliances, that are profit-making and listed on the Stock exchange (“**Peer Comparables**”). Despite the market capitalisation of the Peer Comparables varies, the list provides a meaningful idea on the general investors’ perception on listed companies engaging in similar business of the Company:

Company Name	Stock Code	Principal Business	Market Cap. <i>(HK\$ million)</i> <i>(note 1)</i>	P/E ratio <i>(note 2)</i>	P/B ratio <i>(note 3)</i>
Raymond Industrial Ltd.	229	Manufacturing and selling of electrical home appliances	458.30	12.62	0.81
Allan International Holdings Ltd.	684	Design and manufacturing of a wide range of household electrical appliances	633.97	4.67	0.54
Hisense Kelon Electrical Holdings Co. Ltd.	921	Development and manufacture of such as refrigerators, air-conditioners, and domestic and overseas sales of products and provision of after-sale services.	4,646.89 <i>(note 4)</i>	6.74	0.87
Haier Electronics Group Co., Ltd.	1169	Manufacture & sale of washing machines & water heaters, provision of integrated channel services including provision of logistics services, after-sale services, on-line sales & distribution of home electric appliances & other products	33,573.31	10.46	1.80
			High	12.62	1.80
			Low	4.67	0.54
			Average	8.62	1.01
The Company				9.23	3.16
The Proposal <i>(note 5)</i>				11.52	3.95

Source: the Stock Exchange website (www.hkex.com) and Bloomberg

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Notes:

1. The market capitalisation is taken at the Last Trading Day.
2. The P/E ratio is calculated by the market capitalisation as at the Last Trading Day divided by the latest audited consolidated net profit attributable to equity holders.
3. The P/B ratio is calculated by the market capitalisation as at the Last Trading Day divided by the latest audited net asset value attributable to equity holders.
4. The market capitalization of Hisense Kelon Electrical Holdings Co. Ltd. is calculated by multiplying its H Share price by the total issued share capital of the Company as at the Last Trading Day.
5. The Cancellation Price of HK\$2.71/share is taken for the purpose of determining the implied P/E ratio and P/B ratio of the Proposal.
6. The amounts denominated in RMB in the annual reports of the Peer Comparables have been converted into HK\$ at the exchange rate of approximately RMB1.00: HK\$1.1875 for illustration purpose only.

(i) Analysis of P/E ratio

As shown in the above table, the historical P/E ratio of the Peer Comparables range from 4.67 to 12.62 times, with an average of approximately 8.62 times. The P/E ratio of the Company as at the Last Trading Day is 9.23 times, which is above the average P/E ratio of the Peer Comparables, while the implied P/E ratio under the Proposal is 11.52 times, which is above the average P/E ratio of the Peer Comparables.

(ii) Analysis of P/B ratio

As shown in the above table, the historical P/B ratio of the Peer Comparables range from 0.54 to 1.80 times, with an average of approximately 1.01 times. The P/B ratio of the Company as at the Last Trading Day is 3.16 times, while the implied P/B ratio under the Proposal is 3.95 times, which are both above the average P/B ratio of the Peer Comparables.

(8) Review of Privatisation Precedents

We have compared the Proposal and Scheme to other successful privatisation (including voluntary withdrawal of listing through general offer) proposals by Companies listed on the Stock Exchange announced two years from the Latest Practicable Date (the “**Privatisation Precedents**”). The Privatisation Precedents represent a complete list of privatisation proposals that were able to be identified from the website of the Stock Exchange in this time frame.

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Date of announcement (note 1)	Company	Stock Code	Premium of offer/cancellation price over the share price of the relevant company prior to announcement of privatisation proposals			
			Closing price of last trading day (note 2)	Last 30 trading days	Last 90 trading days	Last 180 trading days
18 February 2016	Dongpeng Holdings Company Limited (Note 3)	3386	31.8%	46.9%	54.5%	35.8%
6 January 2016	New World China Land Limited	917	25.6%	40.8%	53.8%	56.9%
20 October 2015	Wumart Stores, Inc.	1025	90.2%	77.7%	48.1%	18.0%
13 August 2015	Jingwei Textile Machinery Company Limited (Note 4)	350	22.7%	14.0%	7.4%	20.1%
27 May 2015	Dorsett Hospitality International Limited	2266	32.4%	41.7%	42.9%	34.3%
26 February 2015	econtext Asia Limited	1390	41.0%	59.9%	51.3%	43.2%
11 December 2014	Hunan Nonferrous Metals Corporation Limited	2626	68.7%	55.6%	58.5%	70.0%
		Highest	90.2%	77.7%	58.5%	70.0%
		Lowest	22.7%	14.0%	7.4%	18.0%
		Median	32.4%	46.9%	51.3%	35.8%
		Mean	44.6%	48.1%	45.2%	39.8%
29 May 2016	The Proposal and the Scheme		24.9%	29.7%	30.3%	28.4%

Notes:

1. The date of the announcement referred to the announcements made by the relevant companies under Rule 3.5 of the Takeovers Code.
2. The last trading day referred to the trading day immediately prior to the date of the announcement (see Note 1) unless stated otherwise (see Note 3 and Note 4).
3. The premiums were calculated based on the offer price of the proposal over the share price of Dongpeng Holdings Company Limited on 29 January 2016, being the last trading day prior to the announcement on 4 February 2016.

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4. The premiums were calculated based on the offer price of the proposal over the share price of Jingwei Textile Machinery Company Limited (“Jingwei”) on 14 July 2015, being the last trading day prior to the announcement on 28 July 2015 issued by Jingwei on the possible voluntary general offer to acquire all the issued H shares of Jingwei. Jingwei was included in the Privatisation Precedent as the delisting of H Shares also resulted in a withdrawal of listing of its shares on the Stock Exchange as a privatisation.
5. Source: relevant published scheme documents, composite documents, circulars or announcements and the website of Stock Exchange

As illustrated in the table above, all the offer/cancellation prices of the Privatisation Precedents represent premiums over the then prevailing market prices of the relevant shares prior to the announcement of the privatisation over the periods as indicated.

The premiums represented by the offer/cancellation price over the average closing price for the Privatisation Precedents for (i) the trading day prior to announcement of privatisation ranged from approximately 22.7% to 90.2% with an average of approximately 44.6%; (ii) 30 trading days prior to announcement of privatisation ranged from approximately 14.0% to 77.7% with an average of approximately 48.1%; (iii) 90 trading days prior to announcement of privatisation ranged from approximately 7.4% to 58.5% with an average of approximately 45.2%; and (iv) 180 trading days prior to announcement of privatisation ranged from approximately 18.0% to 70.0% with an average of approximately 39.8%. The premiums represented by the Cancellation Price over the average closing prices of the Shares of approximately 24.9%, 29.7%, 30.3% and 28.4% over (i) the closing price on the Last Trading Day; and the average closing prices for the periods of (ii) 30, (iii) 90 and (iv) 180 trading days up to and including the Last Trading Day, respectively, are within the ranges of each of the respective period.

Shareholders should note that different stock market conditions and businesses of the companies involved in other privatisation proposals referred to above may lead to different premium of offer or cancellation consideration when compared to the current Proposal.

(9) Analysis on Option Offer

As summarised under the paragraph headed “The Share Option and Option Offer” in the Letter from the Board, pursuant to Rule 13 of the Takeovers Code, the Offeror is also making an appropriate cash offer to the Optionholders to cancel their Share Options. The Option Offer is conditional only upon the Scheme becoming effective. The Option Amount to cancel a Share Option is calculated by deducting the Exercise Price payable on exercise of a Share Option from the Cancellation Price (ie, the “see-through” price). The exercise price of all Share Options is HK\$2.07 per Share. The sum payable to the Optionholders for the Share Option calculated on the aforesaid basis is HK\$0.64 for each Share Option.

The cash offer for every Share Option is calculated based on a “see-through” basis and the Cancellation Price of HK\$2.71 per Share. Such “see-through” basis is normally adopted in Hong Kong for privatisation proposals and general offers of a similar nature. On the basis that (i) all

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Share Options are in-the-money (i.e. exercise price being below the Cancellation Price); and (ii) the cancellation prices of the Share Options are based on the “see-through” basis, it is fair and reasonable to infer that the terms of the Option Offer to be fair and reasonable.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular:

- (i) Despite the profitability of the Company for the past three financial years and the six months ended 30 June 2016, the future prospects of the Group is uncertain due to the recent downturn of the PRC economy and the real estate market, which may be further exacerbated by the exit of the United Kingdom from the European Union;
- (ii) Evaluation of the Cancellation Price:
 - The Cancellation Price (a) had been above the historical closing prices of the Shares during the entire Review Period and the entire period in which the Company was listed on the Stock Exchange; (b) represents a premium of 24.9% to the prevailing market prices of the Shares on the Last Trading Day, and a premium of 29.7%, 29.7% and 28.4% to the average closing price of the Shares for the 30, 60 and 180 consecutive days up to and including the Last Trading Day; and (c) represents a material premium of approximately 292.8% over the audited consolidated net asset value attributable to Shareholders per Share of approximately HK\$0.69 as at 31 December 2015. The recent surges of the price of the Shares during the Post-Announcement Period were mainly attributable to the market reaction towards the Proposal. The Independent Shareholders should note that sustainability of the increased price level is uncertain;
 - The Cancellation Price is within the ranges of the premiums of privatisation precedents; and
 - The implied P/E ratio under the Proposal represents a premium over the average P/E ratio of the Peer Comparables, while the implied P/B ratio of the Proposal represents a substantial premium over the average P/B ratio of the Peer Comparables; and
- (iii) In view of the low liquidity of the Shares during the entire Review Period there is currently limited opportunity for the Independent Shareholders to divest their investments in the Company and the disposal of large blocks of Shares held by the Independent Shareholders in the open market would likely to trigger price slump of the Shares as a result of the extremely thin trading volume of the Shares.

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We consider that the Proposal provides an opportunity to the Independent Shareholders, in particular those who hold large blocks of the Shares, to realise their investments in the Company and that the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions which will be proposed at the Court Meeting and the EGM to approve the Scheme.

Since the price of the Option Offer is determined according to the Cancellation Price and the Optionholders are entitled to receive the “see-through price” for the cancellation of their outstanding Options pursuant to the Option Offer, we consider that the terms of the Option Offer are fair and reasonable so far as the Optionholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Optionholders to accept the Option Offer.

Yours faithfully,
For and on behalf of
Wallbanck Brothers Securities (Hong Kong) Limited
Phil Chan
Chief executive officer

EXPLANATORY STATEMENT

This Explanatory Statement constitutes the memorandum required under Order 102, rule 20(4) (e) of the Rules of the Grand Court of the Cayman Islands 1995 (revised).

SCHEME OF ARRANGEMENT TO CANCEL ALL THE SCHEME SHARES IN CONSIDERATION OF THE OFFEROR AGREEING TO PAY THE CANCELLATION PRICE FOR EACH SCHEME SHARE

1. INTRODUCTION

On 18 May 2016, the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders which, if approved and implemented, would result in the Company becoming wholly-owned by the Offeror and the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules.

The Proposal will be implemented by way of a scheme of arrangement between the Company and the Scheme Shareholders under Section 86 of the Companies Law. If the Scheme becomes effective, the Scheme Shares will be cancelled and the New Shares will be issued and credited as fully paid at par to the Offeror.

The Offeror is also making the Option Offer to the Optionholders to cancel all outstanding Share Options. The Option Offer is conditional upon the Scheme becoming effective.

The purpose of this Explanatory Statement is to explain the terms and effects of the Proposal and the Option Offer, which are to be implemented by the Scheme and the Option Offer Letters, respectively, and to provide the Scheme Shareholders and Optionholders with other relevant information in relation to the Scheme and the Option Offer, in particular, to provide the intentions of the Offeror with regard to the Group and the shareholding structure of the Company before and after the Scheme.

The particular attention of the Scheme Shareholders and Optionholders is drawn to the following sections of this Scheme Document: (i) a letter from the Board set out on pages 11 to 22 of this Scheme Document; (ii) a letter from the Independent Board Committee set out set out on pages 23 to 24 of this Scheme Document; (iii) a letter from the Independent Financial Adviser, set out on pages 25 to 54 of this Scheme Document; and (iv) the Appendices to this Scheme Document, including the Scheme of Arrangement as set out on pages 157 to 164 of this Scheme Document.

2. TERMS OF THE PROPOSAL

Scheme of Arrangement

Under the Scheme, the Scheme Shareholders will receive from the Offeror the Cancellation Price as consideration for the cancellation of the Scheme Shares:

HK\$2.71 in cash for every Scheme Share cancelled

EXPLANATORY STATEMENT

The Cancellation Price for each Scheme Share under the Proposal represents:

- a premium of approximately 24.9% over the closing price of HK\$2.17 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 29.7% over the average closing price of approximately HK\$2.09 per Share as quoted on the Stock Exchange over the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 29.7% over the average closing price of approximately HK\$2.09 per Share as quoted on the Stock Exchange over the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 28.4% over the average closing price of approximately HK\$2.11 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;
- a premium of approximately 292.8% over the audited consolidated net asset value per Share of approximately HK\$0.69 as at 31 December 2015. The calculation of net assets per Share is based on: (i) net assets attributable to owners of the Company and the number of Shares of 1,047,228,5000 in issue as at 31 December 2015; and (ii) translations of RMB into HK\$ at the rate of RMB1.00 to HK\$1.20 (for illustration purpose only); and
- a premium of approximately 3.0% over the closing price of HK\$2.63 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

During the period commencing six months preceding the Last Trading Day and ending on the Latest Practicable Date, the highest closing price and the lowest closing price of the Shares as quoted on the Stock Exchange were HK\$2.63 per Share on 19 August 2016 and HK\$1.84 per Share on 31 March 2016, respectively.

As at the Latest Practicable Date, there were 1,047,228,500 Shares in issue and 4,275,000 outstanding Share Options which are convertible into 4,275,000 Shares. Save as disclosed in this paragraph, the Company does not have any outstanding convertible securities, warrants, options or derivatives in respect of any Shares.

The Share Option Scheme and Option Offer

Your attention is drawn to “Appendix VI — Sample Option Offer Letter” to this Scheme Document.

As at the Latest Practicable Date, the Company had one share option scheme (namely, the Share Option Scheme).

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As at the Latest Practicable Date, there were 4,275,000 outstanding Share Options under the Share Option Scheme: with an Exercise Price of HK\$2.07 per Share and are expected to lapse on 8 June 2017.

Other than the Shares to be issued under the outstanding Share Options, the Company does not have any outstanding convertible securities, warrants, options or derivatives in respect of any Shares.

Pursuant to Rule 13 of the Takeovers Code, the Offeror is also making an appropriate cash offer to the Optionholders to cancel their Share Options. The Option Offer is conditional upon the Scheme becoming effective. The Option Amount to cancel a Share Option is calculated by deducting the Exercise Price payable on exercise of a Share Option from the Cancellation Price (ie, the “see-through” price). The exercise price of all Share Options is HK\$2.07 per Share. The sum payable to the Optionholders for the Share Option calculated on the aforesaid basis is HK\$0.64 for each Share Option. The following table sets out details of the outstanding Share Options:

	Number	Exercise Price (HK\$)	Vesting Period	Vesting
Share Options under the Share Option Scheme	4,275,000	2.07	8/6/2008–7/6/2017	Vested
Total outstanding Share Options convertible into the same number of the Shares	4,275,000			

As at the Latest Practicable Date, none of the Directors hold any Share Options under the Share Option Scheme.

Under the terms of the Share Option Scheme, following receipt of a notice from the Company an Optionholder may exercise his outstanding Share Option(s) (to the extent not already exercised), even if they are not otherwise exercisable, once the Scheme and the Reduction are approved by the requisite majorities at the Court Meeting and the EGM.

The Offeror is making an offer to cancel the outstanding Share Options under the Option Offer, conditional only upon the Scheme becoming effective. The Option Offer Letter to Optionholders setting out the terms and conditions of the Option Offer is being despatched separately to Optionholders on the date of this Scheme Document and is substantially in the form set out in “Appendix VI — Sample Option Offer Letter” of this Scheme Document. The offer to cancel each Share Option is calculated on a “see-through” basis, so that each Optionholder is entitled to receive a price for his/her Share Options being the amount by which the Cancellation Price exceeds the Exercise Price of his/her Share Options. The exercise

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price of all Share Options is HK\$2.07 per Share. The sum payable to the Optionholders for the Share Option calculated on the aforesaid basis is HK\$0.64 for each Share Option. No stamp duty is payable in relation to the Option Amount under the Option Offer. The Option Offer is conditional only upon the Scheme becoming effective. In order to accept the Option Offer, each Optionholder must duly complete the form of acceptance (appended to the Option Offer Letter) in accordance with the instructions contained therein and return it to the Company, at Unit A, 6/F, Queen's Centre, 58-64 Queen's Road East, Wan Chai, Hong Kong (marked for the attention of the "Company Secretary"), at or before 4:30 p.m. on 12 October 2016. Further details are set out in the section headed "Action to be Taken" below.

If the Scheme and the Reduction are approved by the requisite majorities at the Court Meeting and the EGM, respectively, and the Scheme is sanctioned by the Grand Court at the Court Hearing and becomes effective, any Share Options that are not cancelled pursuant to the Option Offer will automatically lapse at 4:30 p.m. on 12 October 2016, being the latest time to accept the Option Offer.

If the Scheme is not sanctioned by the Grand Court or any of the Conditions are not satisfied and the Scheme does not become effective, the Option Offer will lapse and all Share Options will remain unaffected and will be exercisable during their relevant exercise periods pursuant to the terms of the Share Option Scheme.

Settlement of the Cancellation Price and the Option Amount to which the Scheme Shareholders and the Optionholders are entitled under the Proposal and the Option Offer, respectively, will be implemented in full in accordance with the terms of the Proposal and the Option Offer, respectively, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Scheme Shareholder or Optionholder.

3. TOTAL CONSIDERATION AND CONFIRMATION OF FINANCIAL RESOURCES

On the basis of the Cancellation Price of HK\$2.71 per Scheme Share and 465,672,500 Scheme Shares in issue as at the Announcement Date, the Scheme Shares are in aggregate valued at approximately HK\$1,262.0 million. As at the Latest Practicable Date, there are 4,275,000 outstanding Share Options. Except for the outstanding Share Options, there are no other outstanding options, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carry a right to subscribe for or which are convertible into Shares.

On the assumption that no outstanding Share Options are exercised or lapsed before the Record Date, the amount of cash required for the Proposal (before taking into account the Option Offer to be made) is approximately HK\$1,262.0 million. On the assumption that no outstanding Share Options are exercised before the Record Date, the amount of cash required for the Option Offer is approximately HK\$2.7 million, which is equal to the see-through price of HK\$0.64 per Share Option multiplied by 4,275,000 outstanding Share Options. On the assumption that all outstanding Share Options are exercised before the Record Date, the amount of cash required for

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the Proposal is approximately HK\$1,273.6 million. As all the Optionholders have each given an irrevocable undertaking to the Offeror and the Company that they will not exercise any of his/her outstanding Share Options during the Option Period and that they would accept the Option Offer, the amount of cash required to implement the Proposal in full (including the Option Amount) would be approximately HK\$1,264.7 million, of which approximately HK\$1,262.0 million would be for the Proposal and approximately HK\$2.7 million would be for the Option Offer.

The Offeror intends to finance the cash required for the Proposal and the Option Offer from a combination of its internal financial resources and the Facility. BNP Paribas Securities, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the full implementation of the Proposal and the Option Offer.

4. CONDITIONS OF THE PROPOSAL AND THE SCHEME

The Proposal is, and the Scheme will become effective and binding on the Company and all Shareholders, subject to the fulfilment or waiver (as applicable) of the following conditions:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting provided that:
 - (i) the Scheme is approved (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and
 - (ii) the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders;
- (b) (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the EGM to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares, and (ii) the passing of an ordinary resolution by the Shareholders at the EGM to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror;

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- (c) the Grand Court's sanction of the Scheme (with or without modifications) and its confirmation of the reduction of the share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration;
- (d) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15 and 16 of the Companies Law in relation to the reduction of the issued share capital of the Company;
- (e) all necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Proposal having been obtained from, given by or made with (as the case may be) the Relevant Authorities, in the Cayman Islands, Hong Kong and any other relevant jurisdictions;
- (f) all necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Proposal remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective;
- (g) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Proposal or the Scheme or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or its implementation in accordance with its terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of the Offeror to proceed with the Proposal or the Scheme;
- (h) since the Announcement Date there having been no adverse change in the business, assets, financial or trading positions, profits or prospects of the Group (to an extent which is material in the context of the Group taken as a whole or in the context of the Proposal); and
- (i) each member of the Group remaining solvent and not being subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, receiver or other person carrying out any similar function having been appointed anywhere in the world in respect of the whole or any substantial part of the assets or undertakings of any member of the Group up to the date immediately preceding the Effective Date, in each case which is material and adverse in the context of the Group taken as a whole.

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The Offeror reserves the right to waive any of Conditions (e) to (i), either in whole or in respect of any particular matter. Conditions (a) to (d) cannot be waived in any event. If any of the above Conditions cannot be fulfilled or waived (as applicable), the Scheme will not become effective, but no break fees will be payable by any party.

As at the Latest Practicable Date, none of the conditions has been fulfilled or waived. With reference to Condition (e) above, the Company and the Offeror are not aware of any other necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals required.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to a right to invoke any such Condition are of material significance to the Offeror in the context of the Proposal. All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Grand Court may direct), failing which the Proposal and the Scheme will lapse. The Company has no right to waive any of the Conditions.

The implementation of the Option Offer will be conditional upon the Scheme becoming effective.

When the Conditions are fulfilled or waived (as applicable) the Scheme will become effective and binding on the Offeror, the Company and all the Scheme Shareholders. Assuming that the Conditions are fulfilled (or, as applicable, waived), it is expected that the Scheme may become effective on 28 September 2016 (Cayman Islands time).

Warnings:

Shareholders and potential investors should be aware that the implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not be implemented and the Scheme may or may not become effective. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor and/or other professional advisers.

5. IRREVOCABLE UNDERTAKINGS TO ACCEPT THE PROPOSAL

As at the Latest Practicable Date, none of the Offeror and Offeror Concert Parties has received any irrevocable commitment from the Independent Shareholders in respect of voting at the Court Meeting or the EGM.

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6. IRREVOCABLE UNDERTAKINGS NOT TO EXERCISE THE OUTSTANDING SHARE OPTIONS AND TO ACCEPT THE OPTION OFFER

All the Optionholders have each given an irrevocable undertaking to the Offeror and the Company not to exercise any of his outstanding Share Options (whether vested or unvested during the Offer Period).

All the Optionholders have each given an irrevocable undertaking to the Offeror and the Company to accept the Option Offer.

7. SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES LAW AND THE COURT MEETING

Pursuant to Section 86 of the Companies Law, where an arrangement is proposed between a company and its members or any class of them, the Grand Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be held in such manner as the Grand Court directs.

8. ADDITIONAL REQUIREMENTS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

In addition to satisfying any requirements imposed by law as summarised above, other than with the consent of the Executive to dispense with compliance or strict compliance therewith, Rule 2.10 of the Takeovers Code requires that the Scheme may only be implemented if:

- (a) the Scheme is approved by at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are cast either in person or by proxy at a duly convened meeting of the Independent Shareholders; and
- (b) the number of votes cast against the resolution to approve the Scheme at such meeting is not more than 10% of the votes attaching to the Scheme Shares held by all the Independent Shareholders.

For the purpose of this vote, Independent Shareholders comprise all Shareholders other than the Offeror Concert Parties and any other persons acting in concert with the Offeror. Scheme Shareholders that are not Independent Shareholders will be required to abstain from voting at the Court Meeting in accordance with the Takeovers Code.

As at the Latest Practicable Date, the Independent Shareholders held in aggregate 465,627,500 Scheme Shares. On that basis, 10% of the votes attached to the Scheme Shares held by all the Independent Shareholders represent approximately 46,562,750 Shares as at the Latest Practicable Date.

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9. BINDING EFFECT OF THE SCHEME

If the Scheme becomes effective under the Companies Law, it will be binding on the Company and all the Scheme Shareholders, irrespective of whether they attended or voted, and if they voted, whether they voted for or against the Scheme at the Court Meeting.

10. SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, there were 1,047,228,500 Shares in issue. The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately following the completion of the Proposal, on the basis that there will be no change to the shareholding structure:

	As at the Latest Practicable Date		Upon completion of the Proposal	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
Shareholders				
Offeror	—	—	1,047,228,500	100.00
Offeror Concert Parties				
SeeSi Universal	267,718,310	25.57	—	—
Sino Broad	259,605,634	24.79	—	—
Renown Harbour	40,563,380	3.87	—	—
Copious All	8,112,676	0.77	—	—
Fang Shengkang	3,056,000	0.29	—	—
Fang James	2,500,000	0.24	—	—
Aggregate number of Shares of the above Offeror and the Offeror Concert Parties	581,556,000	55.53	—	—
Independent Shareholders	<u>465,672,500</u>	<u>44.47</u>	<u>—</u>	<u>—</u>
Total	1,047,228,500	100.00	1,047,228,500	100.00
Total Number of Scheme Shares	465,672,500	44.47		

As at the Latest Practicable Date, the Offeror is an exempted company incorporated in the Cayman Islands. It is an investment holding company and has not been engaged in any other business activities since its incorporation. The Offeror is wholly owned by Crista Universal which is held as to 50.01% by Sino Broad, 42.35% by SeeSi Universal, 6.36% by Renown Harbour and 1.27% by Copious All.

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Pursuant to the Takeovers Code, SeeSi Universal, Sino Broad, Renown Harbour and Copious All are deemed to be associates of Mr. Fang James, Mr. Fang Shengkeng, Mr. Lu Songkang and Chai Junqi and each other, and SeeSi Universal, Sino Broad, Renown Harbour and Copious All, and Mr. Fang James, Mr. Fang Shengkeng, Mr. Lu Songkang and Chai Junqi are presumed to be parties acting in concert with the Offeror.

Accordingly, the Offeror and the Offeror Concert Parties hold an aggregate of 581,556,000 Shares (representing approximately 55.53% of the entire issued share capital of the Company) as at the Latest Practicable Date.

The Scheme Shareholders held an aggregate of 465,672,500 Shares (representing approximately 44.47% of the Shares in issue) as at the Latest Practicable Date.

Each of the Offeror and the Offeror Concert Parties have agreed to undertake to the Grand Court that each of them will be bound by the Scheme, so as to ensure that they will be subject to the terms and conditions of the Scheme.

11. REASONS FOR AND BENEFITS OF THE PROPOSAL

The Directors (including members of the Independent Board Committee after having considered the advice from the Independent Financial Adviser) are of the view that the terms of the Proposal are attractive to the Scheme Shareholders and that the Proposal will be beneficial to the Scheme Shareholders as set out in the paragraphs below.

The Company also plans to implement a series of long-term growth strategies, which may affect the Company's short-term growth profile and may result in divergence between the Offeror's views on the Company's potential long-term value and investors' views on the Company's share price. Following the implementation of the Proposal and the Option Offer, the Offeror and the Company can make strategic decisions focused on long-term benefits, free from the pressure of market expectations, profit visibility and share price fluctuation associated with being a publicly listed company.

(a) A depressed share price may continue to adversely impact the Company's business, reputation with customers and employee morale

Since its listing in 2006, the Company's share price performance has not been satisfactory. As a producer of bathroom masters in China, the Company strives to protect and enhance its market image and perception.

The Offeror considers that the depressed share price has had an adverse impact on the Company's reputation with customers, and therefore on its business, and also on employee morale. The implementation of the Proposal could eliminate this adverse impact.

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(b) Low liquidity of Shares may continue to cause abnormal share price fluctuation

The average daily trading volume of the Shares for the 24 months up to and including the Last Trading Day was approximately 1.49 million Shares per day, representing only approximately 0.14% of the issued Shares as at the Announcement Date. The low trading liquidity of the Shares could make it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and also make it difficult for Shareholders to dispose of a large number of Shares when any event that has an adverse impact on the Company's share price occurs.

(c) A good opportunity for Scheme Shareholders to realize their investment for a significant premium without suffering any illiquidity discount

The Proposal and the Option Offer are intended to provide the Scheme Shareholders and the Optionholders with an opportunity to realise their investment in the Company for cash at a premium without having to suffer any illiquidity discount. The Shares have closed at a price of HK\$2.17 on the Last Trading Day, which is below the Cancellation Price of HK\$2.71. Taking into account the bonus issue of the Company in 2010 on the basis of one bonus Share for every two Shares, the Cancellation Price is 230.5% higher than the adjusted IPO price of HK\$0.82.

On the basis of the foregoing, the Directors (other than members of the Independent Board Committee) have decided to put forward to the Shareholders for their consideration, and proceed with, the Proposal.

12. INFORMATION ON THE COMPANY

The Company is an exempted company incorporated in the Cayman Islands with limited liability whose shares have been listed on the Main Board of the Stock Exchange since 8 December 2006. The Group is principally engaged in the design, manufacture and distribution of bathroom masters, exhaust fans and other home appliances.

As at the Latest Practicable Date, the Company is solvent and is not unable to pay its debts as they fall due and will not become unable to do so immediately after the Latest Practicable Date.

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Set out below is a summary of the audited consolidated results of the Company for financial years ended 31 December 2014 and 31 December 2015 as extracted from the Company's annual report for the year ended 31 December 2015:

	Year ended 31 December	
	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	784,263	929,053
Profit before tax	210,690	262,994
Profit and total comprehensive income for the period/year		
attributable to owners of the Company	170,248	207,389
Basic Earnings per Share (basic and diluted)	0.16	0.20

The audited consolidated net assets of the Company attributable to owners of the Company as at 31 December 2014 and 2015 were approximately RMB547.25 million and RMB605.25 million, respectively (equivalent to approximately HK\$656.70 million and HK\$726.30 million, respectively, translated at the rate of RMB1.00 to HK\$1.2 (for illustration purpose only)).

The table below sets out the closing prices of the Shares on the Stock Exchange on: (i) the last Business Day of each of the calendar months during the period commencing six months preceding the Last Trading Day; (ii) the Last Trading Day and ending on the Latest Practicable Date; and (iii) the Latest Practicable Date:

Dates	Closing price <i>(HK\$)</i>
30 November 2015	2.34
31 December 2015	2.26
29 January 2016	2.06
29 February 2016	2.17
31 March 2016	1.84
29 April 2016	2.10
18 May 2016 (Last Trading Day)	2.17
30 May 2016	2.60
30 June 2016	2.59
29 July 2016	2.56
19 August 2016 (Latest Practicable Date)	2.63

During the Relevant Period, the highest closing price of the Shares on the Stock Exchange was HK\$2.63 each on 19 August 2016 and the lowest closing price of the Shares on the Stock Exchange was HK\$1.84 each on 31 March 2016.

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13. INFORMATION ON THE OFFEROR AND THE OFFEROR CONCERT PARTIES

The Offeror is an exempted company incorporated in the Cayman Islands on 5 April 2016. It is an investment holding company and has not been engaged in any other business activities since its incorporation. The directors of the Offeror are Mr. Fang James and Mr. Fang Shengkang.

The Offeror is wholly owned by Crista Universal which is held as to 50.01% by Sino Board, 42.36% by SeeSi Universal, 6.36% by Renown Harbour and 1.27% by Copious All. The directors of Crista Universal are Mr. Fang James and Mr. Fang Shengkang.

Sino Broad is a company incorporated in the British Virgin Islands, which is wholly and ultimately owned by Mr. Fang Shengkang, an executive Director and a director of the Offeror. Mr. Fang Shengkang is the sole director of Sino Broad.

SeeSi Universal is a company incorporated in the British Virgin Islands, which is wholly owned by Fang BVI Holding Limited which is in turn wholly owned by Rustem Limited. Rustem Limited is wholly and ultimately owned by the family trust of Mr. Fang James, an executive Director and a director of the Offeror, who is the founder and the seller settlor of the trust. Mr. Fang James is the sole director of SeeSi Universal.

Renown Harbour is a company incorporated in the British Virgin Islands, which is wholly and ultimately owned by Mr. Lu Songkang, a non-executive Director. Mr. Lu Songkang is the sole director of Renown Harbour.

Copious All is a company incorporated in the British Virgin Islands, which is wholly and ultimately owned by Mr. Chai Junqi. Mr. Chai Junqi is the sole director of Copious All.

Mr. Fang James was the founder of the Group. Mr. Fang Shengkang, Mr. Lu Songkang and Mr. Chai Junqi were the management of the Group and they were founding shareholders of the Group prior to the listing of the Company. In addition, Mr. Fang James and Mr. Fang Shengkang are cousins.

14. OFFEROR'S INTENTION REGARDING THE COMPANY

It is the intention of the Offeror to continue the existing businesses of the Group in all material respects upon the successful privatisation of the Company.

The Offeror has no plan, in the event that the Scheme becomes effective, to: (i) make any material changes to the existing businesses of the Group (including any redeployment of the fixed assets of the Group); or (ii) make any material changes to the continued employment of the employees of the Group.

On the other hand, the Offeror will continue to assess any business opportunity that may arise from time to time involving the business and/or assets of the Group and will formulate strategic corporate planning as and when appropriate.

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The Board has considered the Offeror's intentions as set out in this section and is of the view that, based on the Offeror's plans, there will be no material change to the existing businesses of the Group and the employees of the Group. The Independent Board Committee has taken the Offeror's intentions into account in making its recommendations as set out on page 23 to 24 of this Scheme Document.

15. OVERSEAS SHAREHOLDERS AND OVERSEAS OPTIONHOLDERS

The making and implementation of the Proposal to Scheme Shareholders and the Option Offer to Optionholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders and Optionholders are located. Such Scheme Shareholders and Optionholders should inform themselves about and observe any applicable legal, tax or regulatory requirements.

It is the responsibility of any overseas Scheme Shareholders and Optionholders wishing to take any action in relation to the Proposal and the Option Offer respectively to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction. Any acceptance by the Scheme Shareholders and Optionholders will be deemed to constitute a representation and warranty from such persons to the Offeror and the Company and their respective advisers that those laws and regulatory requirements have been complied with.

16. SHARE CERTIFICATES, DEALINGS AND WITHDRAWAL OF LISTING

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as document or evidence of title, and the register of members of the Company will be updated to reflect the same. The Company will not retain its listing on the Stock Exchange and will apply for the withdrawal of listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules, with effect from the date on which the Scheme becomes effective. Dealings in the Shares on the Stock Exchange are expected to cease after 4:00 p.m. on 15 September 2016, and the listing of the Shares on the Stock Exchange is expected to be withdrawn at 9:00 a.m. on 30 September 2016. Shareholders will be notified by way of an announcement of the exact dates of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective.

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme is not approved or lapses.

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17. IF THE SCHEME IS NOT APPROVED OR LAPSES

The Scheme will lapse if any of the Conditions has not been fulfilled or waived (as applicable) on or before the Long Stop Date. If the Scheme is withdrawn, not approved or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn and trading in the Shares on the Stock Exchange will be resumed.

If the Scheme is not approved or otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may within 12 months from the date on which the Proposal lapses announce an offer or possible offer for the Company, except with the consent of the Executive.

18. TAXATION, EFFECTS AND LIABILITIES

As the Scheme does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

Similarly, as the acceptance of the Option Offer and the payment of the Option Amount for the cancellation of the outstanding Share Options does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance upon the acceptance the Option Offer or the payment of the Option Amount.

It is emphasised that none of the Company, the Offeror Concert Parties, BNP Paribas Securities, the Independent Financial Adviser and any of their respective directors or associates or any other person involved in the Scheme and the Proposal accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Proposal. If you are in any doubt as to any aspect of this Scheme Document or as to the action to be taken, you should consult an appropriately qualified professional adviser.

19. COURT MEETING AND EGM

In accordance with the direction of the Grand Court, the Court Meeting will be held at 10:00 a.m. on Wednesday, 14 September 2016 at Ching Room, 4/F, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modification(s)). All the Scheme Shareholders will be entitled to vote at the Court Meeting but, for the purposes of Rule 2.10 of the Takeovers Code, only the votes of the Independent Shareholders on the Scheme will be counted at the Court Meeting. Cayman Islands law requires the resolution to approve the Scheme to be passed by a majority in number of the Scheme Shareholders (present in person or by proxy) at the Court Meeting representing not less than 75% in value of the Scheme Shares.

In addition, the Scheme will, in compliance with Rule 2.10 of the Takeovers Code, only be implemented if: (i) the Scheme is approved (by way of a poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that

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are voted at the Court Meeting (either in person or by proxy); and (ii) the number of votes cast (by way of a poll) against the resolution to approve the Scheme at the Court Meeting (either in person or by proxy) is not more than 10% of the votes attaching to the Scheme Shares held by all the Independent Shareholders. As at the Latest Practicable Date, the Independent Shareholders held in aggregate 465,627,500 Scheme Shares. On that basis, 10% of the votes attached to the Scheme Shares held by all the Independent Shareholders represent approximately 46,562,750 Shares as at the Latest Practicable Date.

The EGM will be held at 11:30 a.m. on Wednesday, 14 September 2016 or as soon as after the Court Meeting convened for the same date and place has been concluded or adjourned. All Shareholders shall be entitled to attend and vote, in person or by proxy, at the EGM with respect to: (i) the special resolution to approve the Reduction resulting from the cancellation of the Scheme Shares; (ii) the special resolution in relation to the withdrawal of listing of the Shares upon the Scheme becoming effective; and (iii) the ordinary resolution to approve the restoration in the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and to apply the credit arising in its books of account as a result of the Reduction to pay up in full at par and issue to the Offeror such number of New Shares as is equal to the number of Scheme Shares cancelled. The special resolutions described under (i) and (ii) in this paragraph will be passed if not less than 75% of the votes cast by the Shareholders present and voting, in person or by proxy, at the EGM are in favour of the special resolutions. The ordinary resolution described under (iii) in this paragraph will be passed if a simple majority of votes are cast in favour of the ordinary resolution by the Shareholders present and voting, in person or by proxy, at the EGM.

Notice of the Court Meeting is set out on pages 165 to 167 of this Scheme Document. A pink form of proxy for the Court Meeting is enclosed with this Scheme Document.

Notice of the EGM is set out on pages 168 to 170 of this Scheme Document. A white form of proxy for the EGM is enclosed with this Scheme Document.

Voting at the Court Meeting and at the EGM will be taken by poll as required under the Listing Rules and the Takeovers Code.

The Scheme will take effect when the Court Order has been delivered to the Registrar of Companies for registration pursuant to Section 86(3) of the Companies Law. If the Scheme becomes effective under the Companies Law, it will be binding on the Company and all Scheme Shareholders irrespective of whether they attended or voted, and if they voted, whether they voted for or against the Scheme at the Court Meeting.

An announcement will be made by the Company and the Offeror in relation to the results of the Court Meeting and EGM in accordance with Rule 19.1 of the Takeovers Code. Information on the number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be included in such announcement.

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It is important that as many votes as possible are cast at the Court Meeting so that the Grand Court may be satisfied that there is a fair and reasonable representation of opinion of the Scheme Shareholders. You are therefore strongly urged to complete and return your pink form of proxy for the Court Meeting as soon as possible.

Further details of the Scheme, the Court Meeting and the EGM are set out in the Explanatory Statement on pages 69 to 71 of this Scheme Document.

20. ACTION TO BE TAKEN

Shareholders

A pink form of proxy for use at the Court Meeting and a white form of proxy for use at the EGM have been enclosed with this Scheme Document that has been sent to the Registered Owners of the Shares. Subsequent purchasers of the Scheme Shares will need to obtain proxy forms from the transferor. Whether or not you are able to attend the Court Meeting and/or the EGM, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting, and if you are a Shareholder, you are strongly urged to complete and sign the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them with Tricor Investor Services Limited, the Company's Hong Kong branch share registrar and transfer office, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged not later than 10:00 a.m. on Monday, 12 September 2016 or be handed to the chairman of the Court Meeting at the Court Meeting before the taking of the poll (who shall have absolute discretion as to whether or not to accept it), and the white form of proxy for use at the EGM should be lodged not later than 11:30 a.m. on Monday, 12 September 2016. The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude you from attending the relevant meeting and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the EGM, you will still be bound by the terms of the Scheme should it be sanctioned by the Grand Court and become effective. You are therefore strongly urged to attend and vote at the Court Meeting and the EGM in person or by proxy.

For the purpose of determining the entitlements of Scheme Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from 9 September 2016 to 14 September 2016 (both days inclusive) and during such period, no transfer of the Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with Tricor Investor Services Limited, the Company's Hong Kong branch share registrar and transfer office, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on 8 September 2016.

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An announcement will be made by the Company in relation to the results of the Court Meeting and the EGM. If all the resolutions are passed at those meetings, further announcement(s) will be made of the results of the Court Hearing of the petition to sanction the Scheme by the Grand Court and, if the Scheme is sanctioned, the Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

Holders through trusts or CCASS

The Company will not recognise any person as holding any Shares upon any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with, an Other CCASS Participant regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC Nominees Limited with instructions or make arrangements with HKSCC Nominees Limited in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. The procedure for voting in respect of the Scheme by the Investor Participants and the Other CCASS Participants with respect to Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

HKSCC Nominees Limited may also vote once for and once against the Scheme in accordance with instructions received from CCASS participants. The number of votes cast in favour of the Scheme and the number of CCASS participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS participants

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on whose instructions they are cast may be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

Optionholders

Option Offer Letters are being sent to Optionholders separately, together with this Scheme Document. If you are an Optionholder and you wish to accept the Option Offer, you must complete and return the duly completed and executed form of acceptance in relation to the Option Offer (which will be appended to the Option Offer Letter) together with the relevant certificate(s) or other documents (if any) evidencing the grant of the outstanding Share Options to you and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) for the aggregate principal amount of outstanding Share Options which you hold, so as to reach the Company at Unit A, 6/F Queen's Centre, 58–64 Queen's Road East, Wan Chai, Hong Kong (marked for the attention of the "Company Secretary") by 4:30 p.m. on 12 October 2016, or such later date and time as may be notified through announcement. No acknowledgement of receipt of any form of acceptance in relation to the Option Offer or other document evidencing the grant of the outstanding Share Options or other documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given. The Offeror is offering to cancel the outstanding Share Options under the Option Offer at HK\$0.64 per Share Option. Optionholders should be aware that after the Scheme becomes effective, the outstanding Share Options will no longer be exercisable and will no longer entitle you to subscribe for the Shares. **If you, as an Optionholder, do not lodge the duly completed and executed form of acceptance in relation to the Option Offer together with the relevant certificate(s) or other documents as mentioned above at or before 4:30 p.m. on 12 October 2016 (or such later date and time as may be notified through announcement), your outstanding Share Options will automatically lapse on 12 October 2016 and you will not receive the Option Amount.**

You are urged to read the instructions and other terms and conditions of the Option Offer in the Option Offer Letter.

21. COSTS OF THE SCHEME

If the Independent Board Committee or the Independent Financial Adviser to the Independent Board Committee do not recommend the Proposal, the Scheme, or the Option Offer, and the Scheme is not approved, all expenses incurred by the Company in connection therewith shall be borne by the Offeror in accordance with Rule 2.3 of the Takeovers Code.

The costs of the Scheme and of its implementation incurred by the Company are expected to amount to approximately HK\$5,000,000. These primarily consist of fees for financial advisers, legal advisers, accounting, printing and other related charges.

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22. RECOMMENDATION

Your attention is drawn to the following:

- (a) paragraph 14 headed “Recommendation” in the “Letter from the Board” set out on page 21 of this Scheme Document;
- (b) the letter from the Independent Board Committee set out on pages 23 to 24 of this Scheme Document; and
- (c) the letter from Wallbank Brothers Securities (Hong Kong) Limited, the Independent Financial Adviser to the Independent Board Committee, set out on pages 25 to 54 of this Scheme Document.

23. FURTHER INFORMATION

Further information is set out in the Appendices to, and elsewhere in, this Scheme Document, all of which form part of this Explanatory Statement.

1 FINANCIAL SUMMARY

The following summary financial information for each of the three years ended 31 December 2013, 2014 and 2015 is extracted from the audited consolidated financial statements of the Group as set forth in the annual reports of the Company for the years ended 31 December 2013, 2014 and 2015. The auditor's reports issued by Deloitte Touche Tohmatsu in respect of the Group's audited consolidated financial statements for each of the three years ended 31 December 2013, 2014 and 2015 did not contain any qualifications.

Consolidated Income Statement

	Year ended 31 December		
	2015 (Audited) RMB'000	2014 (Audited) RMB'000	2013 (Audited) RMB'000
Revenue	929,053	784,263	620,304
Cost of sales	<u>(476,938)</u>	<u>(409,455)</u>	<u>(341,015)</u>
Gross profit	452,115	374,808	279,289
Other income	44,600	28,787	24,648
Selling and distribution expenses	(132,077)	(104,995)	(120,064)
Administrative expenses	(46,504)	(40,088)	(38,432)
Other expenses	(45,121)	(36,128)	(34,325)
Finance costs	(4,435)	(2,532)	(1,700)
Share of losses of associates	<u>(5,584)</u>	<u>(9,162)</u>	<u>(4,447)</u>
Profit before tax	262,994	210,690	104,969
Income tax expenses	<u>(55,605)</u>	<u>(40,442)</u>	<u>(22,975)</u>
Profit and total comprehensive income for the year attributable to owners of the Company	<u>207,389</u>	<u>170,248</u>	<u>81,994</u>
Earnings per share — basic (RMB)	0.20	0.16	0.08
Earnings per share — diluted (RMB)	<u>0.20</u>	<u>0.16</u>	<u>0.08</u>
The Amount absorbed by dividends	<u>152,122</u>	<u>76,215</u>	<u>74,030</u>
Dividends per share (RMB)	<u>0.15</u>	<u>0.07</u>	<u>0.07</u>

The Group had no profit or loss attributable to minority interest for the three years ended 31 December 2013, 2014 and 2015, and the six months ended 30 June 2016.

There were no exceptional items because of size, nature or incidence that are required to be disclosed in the financial statements of the Group for each of the three years ended 31 December 2013, 2014 and 2015, and the six months ended 30 June 2016.

2 AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

The following financial information has been derived from the audited consolidated accounts of the Company for the year ended 31 December 2015 as set out in the annual report of the Company for the year ended 31 December 2015.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	<i>Notes</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Revenue	5	929,053	784,263
Cost of sales		<u>(476,938)</u>	<u>(409,455)</u>
Gross profit		452,115	374,808
Other income		44,600	28,787
Selling and distribution expenses		(132,077)	(104,995)
Administrative expenses		(46,504)	(40,088)
Other expenses		(45,121)	(36,128)
Finance costs		(4,435)	(2,532)
Share of losses of associates		<u>(5,584)</u>	<u>(9,162)</u>
Profit before tax	6	262,994	210,690
Income tax expenses	7	<u>(55,605)</u>	<u>(40,442)</u>
Profit and total comprehensive income for the year attributable to owners of the Company		<u><u>207,389</u></u>	<u><u>170,248</u></u>
Earnings per share — basic (RMB)	9	0.20	0.16
Earnings per share — diluted (RMB)	9	<u>0.20</u>	<u>0.16</u>

Consolidated Statement of Financial Position*As 31 December 2015*

	<i>Notes</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	<i>11</i>	257,679	219,691
Prepaid lease payments	<i>12</i>	26,437	27,084
Interests in associates	<i>13</i>	16,171	21,755
Available-for-sale investments	<i>14</i>	70,000	67,500
Amounts due from associates	<i>31</i>	9,000	136,500
Deferred tax assets	<i>15</i>	<u>12,191</u>	<u>9,637</u>
		<u>391,478</u>	<u>482,167</u>
Current assets			
Prepaid lease payments	<i>12</i>	647	647
Inventories	<i>16</i>	61,908	69,937
Trade, bills and other receivables	<i>17</i>	95,007	59,166
Amounts due from associates	<i>31</i>	131,454	3,273
Held-for-trading investments	<i>18</i>	—	30,000
Time deposits	<i>19</i>	80,000	167,000
Pledged bank deposits	<i>19</i>	96,584	139,968
Bank balances and cash	<i>19</i>	<u>135,261</u>	<u>41,647</u>
		<u>600,861</u>	<u>511,638</u>
Current liabilities			
Trade, bills and other payables	<i>20</i>	343,990	283,885
Amounts due to associates	<i>31</i>	39	—
Income tax liabilities		22,301	25,134
Other tax liabilities	<i>21</i>	4,765	7,983
Short-term bank loans	<i>22</i>	<u>—</u>	<u>110,442</u>
		<u>371,095</u>	<u>427,444</u>
Net current assets		<u>229,766</u>	<u>84,194</u>
Total assets less current liabilities		<u><u>621,244</u></u>	<u><u>566,361</u></u>

		2015	2014
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital and reserves			
Share capital	23	101,129	100,940
Share premium and reserves	24	<u>504,116</u>	<u>446,305</u>
Equity attributable to owners of the Company		605,245	547,245
Non-current liabilities			
Deferred tax liabilities	15	<u>15,999</u>	<u>19,116</u>
		<u><u>621,244</u></u>	<u><u>566,361</u></u>

Consolidated Statement of Changes in Equity*For the year ended 31 December 2015*

	Attributable to owners of the Company								
	Share capital	Share premium	Special reserve	Statutory reserves	Share options reserve	Capital redemption reserve	Retained profits	Sub-total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Note 24 & 25)				
			(Note 24)	(Note 24)					
At 1 January 2014	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 year	—	—	—	—	—	—	170,248	170,248	170,248
Transfer	—	—	—	9,702	—	—	(9,702)	—	—
Dividends recognised as distribution (note 8)	—	—	—	—	—	—	(76,215)	(76,215)	(76,215)
Exercise of share options (note 25)	109	2,070	—	—	(1,055)	—	—	1,015	1,124
At 31 December 2014	100,940	235,754	(73,274)	94,573	16,404	1,970	170,878	446,305	547,245
Profit and total comprehensive income for the year	—	—	—	—	—	—	207,389	207,389	207,389
Dividends recognised as distribution (note 8)	—	—	—	—	—	—	(152,122)	(152,122)	(152,122)
Exercise of share options (note 25)	189	6,702	—	—	(4,158)	—	—	2,544	2,733
At 31 December 2015	101,129	242,456	(73,274)	94,573	12,246	1,970	226,145	504,116	605,245

Consolidated Statement of Cash Flows*For the year ended 31 December 2015*

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Operating activities		
Profit before tax	262,994	210,690
Adjustments for:		
Depreciation of property, plant and equipment	14,846	13,134
Allowance for (reversal of) inventories obsolescence	196	(1,973)
Write off for accounts receivable	—	500
Release of prepaid lease payments	647	647
Loss on disposal of property, plant and equipment	32	20
Finance costs	4,435	2,532
Share of losses of associates	5,584	9,162
Dividend income from available-for-sale investments	(14,718)	—
Interest income	(18,444)	(15,550)
	<u>255,572</u>	<u>219,162</u>
Operating cash flows before movements in working capital	255,572	219,162
Decrease (increase) in inventories	7,833	(22,269)
Decrease in trade, bills and other receivables	(34,644)	(4,770)
Proceeds on disposal of (purchase of) held-for-trading investments	30,000	(30,000)
Increase in trade, bills and other payables	60,105	37,611
Increase in amount due to associates	39	—
Increase (decrease) in other tax liabilities	(3,218)	2,388
	<u>315,687</u>	<u>202,122</u>
Cash generated from operations	315,687	202,122
Income taxes paid	(64,109)	(28,683)
	<u>251,578</u>	<u>173,439</u>
Net cash from operating activities	<u>251,578</u>	<u>173,439</u>

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Investing activities		
Interest received	17,247	7,578
Dividends received	14,718	—
Proceeds on disposal of property, plant and equipment	80	10
Purchases of property, plant and equipment	(52,946)	(41,179)
Purchase of available-for-sale investments	(2,500)	(1,500)
Withdrawal of time deposits	177,000	296,500
Placement of time deposits	(90,000)	(353,500)
Advance to associates	(681)	(710)
Repayment from associates	—	8,192
Withdrawal of pledged bank deposits	156,813	67,958
Placement of pledged bank deposits	(113,429)	(122,713)
Repayment of loan to associates	—	6,000
Net cash from (used in) investing activities	<u>106,302</u>	<u>(133,364)</u>
Financing activities		
New bank loans raised	102,584	112,018
Repayment of borrowings	(213,026)	(102,213)
Payment of interest expense of bank loans	(4,435)	(2,292)
Dividends paid	(152,122)	(76,215)
Proceeds from exercise of share options	2,733	1,124
Net cash used in financing activities	<u>(264,266)</u>	<u>(67,578)</u>
Net increase (decrease) in cash and cash equivalents	93,614	(27,503)
Cash and cash equivalents at beginning of year	<u>41,647</u>	<u>69,150</u>
Cash and cash equivalents at end of year represented by bank balances and cash	<u><u>135,261</u></u>	<u><u>41,647</u></u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

The Company is an investment holding company. The activities of its subsidiaries are disclosed in note 32.

The consolidated financial statements are presented in Renminbi (“RMB”), the functional currency of the Company, which is also the currency in which the majority of the Group’s transactions are denominated.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the “IASB”) for the first time in the current year.

Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2010–2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011–2013 Cycle

The application of the amendments to IFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and amendments to Standards that have been issued but are not yet effective:

IFRS 9	Financial Instruments ¹
IFRS 15	Revenue from Contracts with Customers ¹
IFRS 16	Leases ³
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations ⁴
Amendments to IAS 1	Disclosure Initiative ⁴
Amendments to IAS 16 and IAS 38	Clarifications of Acceptable Methods of Depreciation and Amortisation ⁴
Amendments to IFRSs	Annual Improvements to IFRSs 2012–2014 Cycle ⁴
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants ⁴
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception ⁴
Amendments to IAS 7	Disclosure Initiative ²
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ²

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2017

³ Effective for annual periods beginning on or after 1 January 2019

⁴ Effective for annual periods beginning on or after 1 January 2016

⁵ Effective for annual periods beginning on or after a date to be determined

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments.

Key requirements of IFRS 9 are described below:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company ("Directors") anticipate that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Group's investments in unlisted equity securities currently classified as available-for-sale investments may have to

be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the Standard introduced a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Directors are in the process of evaluating the financial impact on IFRS 15, which may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements in the future. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

Except as described above, the Directors anticipate that the application of other new and amendments to IFRSs in issue but not effective will have no material effect on Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The provisions of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with IFRSs. Accordingly the presentation and disclosure on information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosure under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and service.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Interest in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, interests in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of future losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Leasing

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lumpsum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Equity-settled share-based payment transactions

Shares granted to employees

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When the share options are exercised, the amount previously recognised in the share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

Research expenditure

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sales of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group;
- and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognised when services are provided.

Interest incomes

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Taxation

Current tax

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Property, plant and equipment

Property, plant and equipment including building held for use in the production or supply of good or services, or for administrative purpose (other than construction in progress and freehold land) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such property, plant and equipment are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Prepaid lease payments

The payments made on the rental of land are accounted for as an operating lease which is released to the profit or loss on a straight-line basis over their relevant lease terms.

Impairment losses on non-current assets (other than deferred tax assets)

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

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating units) in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The Group designated certain equity investments as available-for-sale on initial recognition of those items. Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on AFS equity instrument are recognised in profit or loss when the Group's right to receive the dividends is established. Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade, bills and other receivables, amounts due from an associates, pledged bank deposits, time deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been impacted. The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit terms of the customers, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities including trade, bills and other payables, amounts due to associates, and bank loans are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Depreciation

The carrying value of the Group's property, plant and equipment as at 31 December 2015 was RMB257,679,000 (31 December 2014 RMB219,691,000). The Group depreciates property, plant and equipment over their estimated useful lives, using the straight-line method commencing from the date they are available for use. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technology changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all the estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Operational procedures have been in place to monitor this risk as a significant proportion of the Group's working capital is devoted to inventories. Accordingly, the management reviews the inventory ageing list on a periodical basis for those aged inventories. This involves comparison of the carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made for any obsolete and slow-moving items. In addition, physical inventory counts are carried out on a periodical basis in order to determine whether allowance needs to be made in respect of any obsolete and defective inventories identified. As at 31 December 2015, the carrying amount of inventories is RMB61,908,000 (net of allowance for inventories of RMB4,539,000) (31 December 2014: carrying amount of RMB69,937,000, net of allowance for inventories of RMB4,343,000).

Income tax expenses

As at 31 December 2015, a deferred tax assets of RMB12,191,000 (31 December 2014: RMB9,637,000) mainly relate to unrealised profits on inter-branch/company sales and other deductible temporary differences as set out in note 15. The Directors determine the deferred tax assets based on the enacted tax rates and laws and the best knowledge of profit projections of the Group for the coming years during which the deferred tax assets are expected to be utilised. The Directors will review the assumptions and profit projections by the end of the reporting period. In case the actual future profits generated are less than expected, a reversal of deferred tax assets would be recognised in profit or loss for the period in which such a reversal takes place.

Estimated impairment of available-for-sale investments

Impairment for available-for-sale investment measured at cost is estimated as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. When the actual future cash flows are less than expected, an impairment loss may arise. As at 31 December 2015, the carrying amount of available-for-sale investment measured at cost is RMB70,000,000 (31 December 2014: RMB67,500,000).

Estimated impairment of trade and bills receivables and amounts due from associates

Allowance for trade and bills receivables and amounts due from associates are made based on the evaluation of collectability and aging analysis of accounts and on directors' judgment by reference to the estimation of future cash flows discounted at an effective interest rate to calculate the present value. Where the actual future cash flows are less than expected, an impairment loss may arise. As at 31 December 2015, the carrying amount of trade and bills receivables is RMB82,273,000 (net of allowance for doubtful debts of RMB2,761,000) (31 December 2014: carrying amount of RMB49,940,000, net of allowance for doubtful debts of RMB3,118,000). As at 31 December 2015, the carrying amount of the amounts due from associates due after one year is RMB9,000,000, due within in one year is RMB 131,454,000. (2014: RMB 136,500,000 and RMB3,273,000 respectively).

5. REVENUE AND SEGMENT INFORMATION

Information reported to the Board, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on geographical information of goods (i.e., bathroom masters, bathroom roofs, etc) delivered.

Specifically, the Group's reportable and operating segments under IFRS 8 are as follows:

- (a) Second Tier Cities (Guangdong, Hunan, Hubei, Henan, Hebei, etc)
- (b) Shanghai
- (c) Jiangsu
- (d) Beijing
- (e) Zhejiang
- (f) Northeastern Region (Heilongjiang, Liaoning, Jilin, etc)
- (g) Sichuan
- (h) Export (Hong Kong, Taiwan, Australia, Korea, etc)

Segment revenues and results

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

For the year ended 31 December 2015

	Second Tier			North-eastern			Export	Total	
	Cities Shanghai	Jiangsu	Beijing	Zhejiang	Region	Sichuan			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
REVENUE									
External sales	328,608	98,553	148,502	81,997	160,380	21,823	59,048	30,142	929,053
Inter-segment sales	—	—	—	—	31,021	—	—	—	31,021
Segment revenue	<u>328,608</u>	<u>98,553</u>	<u>148,502</u>	<u>81,997</u>	<u>191,401</u>	<u>21,823</u>	<u>59,048</u>	<u>30,142</u>	960,074
Eliminations					(31,021)				<u>(31,021)</u>
Group revenue									<u>929,053</u>
Segment profit	<u>152,170</u>	<u>49,301</u>	<u>76,506</u>	<u>42,460</u>	<u>79,993</u>	<u>10,942</u>	<u>29,370</u>	<u>11,373</u>	452,115
Interest income									18,444
Other unallocated income									26,156
Unallocated expenses									(223,702)
Finance costs									(4,435)
Share of losses of associates									<u>(5,584)</u>
Profit before tax									<u>262,994</u>

For the year ended 31 December 2014

	Second Tier				North-eastern			Total	
	Cities Shanghai	Jiangsu	Beijing	Zhejiang	Region	Sichuan	Export		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
REVENUE									
External sales	281,234	88,001	120,141	71,508	117,590	21,178	53,988	30,623	784,263
Inter-segment sales	—	—	—	—	31,014	—	—	—	31,014
Segment revenue	<u>281,234</u>	<u>88,001</u>	<u>120,141</u>	<u>71,508</u>	<u>148,604</u>	<u>21,178</u>	<u>53,988</u>	<u>30,623</u>	815,277
Eliminations					(31,014)				<u>(31,014)</u>
Group revenue									<u>784,263</u>
Segment profit	<u>137,559</u>	<u>44,326</u>	<u>61,263</u>	<u>33,210</u>	<u>53,400</u>	<u>10,206</u>	<u>23,878</u>	<u>10,966</u>	374,808
Interest income									15,550
Other unallocated income									13,237
Unallocated expenses									(181,211)
Finance costs									(2,532)
Share of losses of associates									<u>(9,162)</u>
Profit before tax									<u>210,690</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. 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 losses of associates and finance costs. This is the measure reported to the Board for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

Assets and liabilities are not allocated to operating segments for the purposes of resource allocation and performance assessment.

The Group's non-current assets are substantially located in the People's Republic of China (the "PRC"), the country of domicile of the Group.

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Bathroom masters	554,618	474,245
Bathroom roofs	330,231	273,325
Others	<u>44,204</u>	<u>36,693</u>
	<u><u>929,053</u></u>	<u><u>784,263</u></u>

Information about major customers

No individual major customer contribute over 10% of the total revenue of the Group for both years.

6. PROFIT BEFORE TAX

Profit before tax has been arrived at:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
<i>After charging:</i>		
Staff costs, including directors' remuneration		
— salaries, wages and other benefits	37,738	32,411
— retirement benefit scheme contributions (<i>note 28</i>)	<u>5,942</u>	<u>5,174</u>
Total staff costs	<u>43,680</u>	<u>37,585</u>
Cost of inventories recognised as an expense (<i>note a</i>)	476,938	409,455
Research expenditure included in other expenses	33,005	30,010
Depreciation of property, plant and equipment	14,846	13,134
Auditors' remuneration	1,850	1,680
Release of prepaid lease payments	647	647
Loss on disposal of property, plant and equipment	32	20
Write off for accounts receivable	—	500
<i>After crediting:</i>		
Interest income from:		
— bank deposits	10,273	6,896
— amounts due from associates	<u>8,171</u>	<u>8,654</u>
Total interest income	<u>18,444</u>	<u>15,550</u>
Net foreign exchange loss	4,636	1,447
Rental income	808	259
Government grants (<i>note b</i>)	2,794	4,100
Dividend income from available-for-sale investments	<u><u>14,718</u></u>	<u><u>—</u></u>

Notes:

- (a) Allowance of inventories obsolescence amounting to RMB196,000 (2014: Reverse for allowance RMB1,973,000) has been recognised in the current year.
- (b) The amounts mainly represent incentive subsidies granted by the PRC local government authorities in recognition of the Group entities for performance in enterprise information technology application and product research activities. The government grants have been approved by and received from the PRC local government authorities, which are unconditional.

7. INCOME TAX EXPENSES

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Income tax expenses comprises:		
Current tax		
— PRC Enterprise Income Tax	46,195	32,207
— Over provision in prior years	<u>(169)</u>	<u>(1,809)</u>
	46,026	30,398
Deferred tax (<i>note 15</i>)	<u>9,579</u>	<u>10,044</u>
	<u><u>55,605</u></u>	<u><u>40,442</u></u>

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

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%. AUPU Technology is qualified as a “Hi-New Tech Enterprise” and therefore enjoys a preferential tax rate of 15% (2014: 15%) under Enterprise Income Tax Law of the PRC (“EIT Law”).

In accordance with PRC tax circular (Guoshuihan [2008] 112) effective from 1 January 2008, PRC withholding income tax at the rate of 10% is applicable to dividends to “non-resident” investors who do not have an establishment or place of business in the PRC. 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, where the Hong Kong resident company directly owns at least 25% of the capital of the PRC company, a 5% dividend withholding tax rate is applicable. A provision for such withholding income tax has been made based on 5% of the profits arisen during both years from the PRC subsidiaries, which are available for distribution to Tricosco Limited (“Tricosco”), a Hong Kong subsidiary of the Company.

The tax charge for the year can be reconciled to the profit per the consolidated statement of profit or loss and other comprehensive income as follows:

	2015		2014	
	RMB'000	%	RMB'000	%
Profit before tax	262,994		210,690	
Tax at the domestic income tax rate of 25%	65,748	25.00	52,672	25.00
Tax effect of expenses not deductible for tax purpose	7,380	2.80	2,931	1.39
Over provision in respect of prior years	(169)	(0.06)	(1,809)	(0.86)
Tax effect of share of loss of associate	1,396	0.53	2,290	1.09
Effect of different tax rate of a subsidiary	(31,686)	(12.05)	(25,070)	(11.89)
Tax effect on tax loss not recognised	803	0.31	24	0.01
Effect of withholding tax	<u>12,133</u>	<u>4.61</u>	<u>9,404</u>	<u>4.46</u>
Tax charge and effective tax rate for the year	<u>55,605</u>	<u>21.14</u>	<u>40,442</u>	<u>19.20</u>

8. DIVIDENDS

	2015	2014
	RMB'000	RMB'000
Dividends recognised as distribution during the year:		
2015 Interim — HK\$0.08 (2014: 2014 interim dividend HK\$0.06) per share	67,610	49,726
2014 Final — HK\$0.10 (2014: 2013 final dividend RMB0.025) per share	<u>84,512</u>	<u>26,489</u>
	<u>152,122</u>	<u>76,215</u>

The final dividend of HK\$0.04 per share in respect of the year ended 31 December 2015 has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings:

	2015	2014
	RMB'000	RMB'000
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	<u>207,389</u>	<u>170,248</u>

Number of shares:

	Number of ordinary shares	
	2015	2014
	RMB'000	RMB'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,046,464,733	1,043,946,027
Effect of dilutive potential ordinary shares Share-based payment transactions	—	26,519
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,046,464,733</u>	<u>1,043,972,546</u>

For the year ended 31 December 2015, the computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise prices of the Company's options were higher than the average market price in 2015.

10. REMUNERATION OF DIRECTORS AND CHIEF EXECUTIVE AND FIVE HIGHEST PAID INDIVIDUALS

The emoluments of Directors and chief executive are analysed as follows:

Year ended 31 December 2015

	Fees	Salaries and other benefits	Bonus	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(note 4)		
Executive directors:					
Fang James	—	1,018	2,180	17	3,215
Fang Shengkang (note 1)	—	1,000	2,180	—	3,180
Wu Xingjie (note 2)	—	720	1,962	17	2,699
	—	2,738	6,322	34	9,094
Non-executive directors:					
Lu Songkang	100	—	—	—	100
Lin Xiaofeng	60	—	—	—	60
	160	—	—	—	160
Independent non-executive directors:					
Shen Jianlin	60	—	—	—	60
Wu Tak Lung	104	—	—	—	104
Gan Weimin	60	—	—	—	60
	224	—	—	—	224
	<u>384</u>	<u>2,738</u>	<u>6,322</u>	<u>34</u>	<u>9,478</u>

Year ended 31 December 2014

	Fees <i>RMB'000</i>	Salaries and other benefits <i>RMB'000</i>	Bonus <i>RMB'000</i> <i>(note 4)</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Executive directors:					
Fang James	—	1,018	1,602	17	2,637
Fang Shengkang (<i>note 1</i>)	—	1,000	1,602	—	2,602
Wu Xingjie (<i>note 2</i>)	—	254	1,441	17	1,712
	<u>—</u>	<u>2,272</u>	<u>4,645</u>	<u>34</u>	<u>6,951</u>
Non-executive directors:					
Lu Songkang	100	—	—	—	100
Lin Xiaofeng	60	—	—	—	60
	<u>160</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>160</u>
Independent non-executive directors:					
Cheng Houbo (<i>note 3</i>)	33	—	—	—	33
Shen Jianlin	53	—	—	—	53
Wu Tak Lung	97	—	—	—	97
Gan Weimin	20	—	—	—	20
	<u>203</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>203</u>
	<u>363</u>	<u>2,272</u>	<u>4,645</u>	<u>34</u>	<u>7,314</u>

Note 1: Mr. Fang Shengkang is the president of the Company.

Note 2: Mr. Wu Xingjie is the chief executive officer of the Company, and his emoluments disclosed above include those for services rendered by him as the chief executive.

Note 3: Mr. Cheng Hobo resigned on 1 September 2014 as a non-executive director.

Note 4: The bonus is determined by the Board of Directors based on the financial performance of the Group.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company. The non-executive directors' and independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

Of the five individuals with the highest emoluments in the Group, three (2014: three) were Directors whose emoluments are included above. The emoluments of the remaining two (2014: two) individuals were as follows:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Basic salaries and allowances	532	528
Retirement benefit contributions	<u>17</u>	<u>17</u>
	<u><u>549</u></u>	<u><u>545</u></u>

The emoluments of the five highest paid individuals were within the following bands:

	2015	2014
	<i>No. of</i>	<i>No. of</i>
	<i>Individuals</i>	<i>Individuals</i>
Nil to HK\$1,000,000	2	2
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$3,000,001 to HK\$3,500,000	<u>2</u>	<u>2</u>
	<u><u>5</u></u>	<u><u>5</u></u>

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

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Fixtures and equipment <i>RMB'000</i>	Properties under construction <i>RMB'000</i>	Total <i>RMB'000</i>
COST						
At 1 January 2014	160,168	7,622	11,677	24,634	40,804	244,905
Additions	27	3,968	108	3,675	33,401	41,179
Transfers	31,742	1,501	—	53	(33,296)	—
Reconstruction	—	(1,023)	—	—	343	(680)
Disposals	—	—	(306)	—	—	(306)
At 31 December 2014	<u>191,937</u>	<u>12,068</u>	<u>11,479</u>	<u>28,362</u>	<u>41,252</u>	<u>285,098</u>
Additions	996	258	1,180	4,372	46,140	52,946
Transfers	9,511	—	—	701	(10,212)	—
Disposals	—	—	(150)	(69)	—	(219)
At 31 December 2015	<u>202,444</u>	<u>12,326</u>	<u>12,509</u>	<u>33,366</u>	<u>77,180</u>	<u>337,825</u>
ACCUMULATED DEPRECIATION						
At 1 January 2014	27,567	4,056	6,405	15,201	—	53,229
Provided for the year	8,550	725	1,316	2,543	—	13,134
Eliminated on reconstruction	—	(680)	—	—	—	(680)
Eliminated on disposals	—	—	(276)	—	—	(276)
At 31 December 2014	<u>36,117</u>	<u>4,101</u>	<u>7,445</u>	<u>17,744</u>	<u>—</u>	<u>65,407</u>
Provided for the year	9,060	966	1,263	3,557	—	14,846
Eliminated on disposals	—	—	(47)	(60)	—	(107)
At 31 December 2015	<u>45,177</u>	<u>5,067</u>	<u>8,661</u>	<u>21,241</u>	<u>—</u>	<u>80,146</u>
CARRYING VALUES						
At 31 December 2014	<u>155,820</u>	<u>7,967</u>	<u>4,034</u>	<u>10,618</u>	<u>41,252</u>	<u>219,691</u>
At 31 December 2015	<u>157,267</u>	<u>7,259</u>	<u>3,848</u>	<u>12,125</u>	<u>77,180</u>	<u>257,679</u>

Included in properties as at 31 December 2015 is an amount of RMB107,151,000 (2014: RMB61,318,000) in respect of buildings for which the Group was in the process of obtaining ownership certificate.

The above items of property, plant and equipment other than properties under construction are depreciated, taking into account their residual values, on a straight-line basis at the following rates:

Buildings	Lesser of lease term or 20 years
Machinery	10 years
Motor vehicles	5 years
Fixtures and equipment	5 years

12. PREPAID LEASE PAYMENTS

	2015 RMB'000	2014 RMB'000
Analysed for reporting purposes as:		
Non-current assets	26,437	27,084
Current assets	<u>647</u>	<u>647</u>
	<u>27,084</u>	<u>27,731</u>

The carrying amount represents the prepaid rentals for land use rights situated in the PRC under a medium-term lease of 50 years.

13. INTERESTS IN ASSOCIATES

	2015 RMB'000	2014 RMB'000
Cost of unlisted investments in associates	38,000	38,000
Share of post-acquisition losses	<u>(21,829)</u>	<u>(16,245)</u>
	<u>16,171</u>	<u>21,755</u>

As at 31 December 2015 and 2014, the Group had interests in the following associates:

Name of Entity	Place and date of establishment	Proportion of ownership interest		Registered capital		Principal activity
		31 December 2015	31 December 2014	RMB 2015	RMB 2014	
Chengdu Qianyin Investment Company Limited (“Chengdu Qianyin”) 成都牽銀投資有限公司	Chengdu, PRC 9 June 2010	41.67%	41.67%	60,000,000	60,000,000	Investment of real estate and development
Hangzhou APU Broni Kitchen & Bath Co., Ltd (“APU Broni”) 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	30,000,000	Manufacture and distribution of electrical kitchen appliances and equipment

The Company entered into an agreement (the “Sales and Purchase Agreement”) with Dazhou City Dongfu Commercial & Trading Company Limited (“Dongfu”) on 15 April 2015 to dispose of its 41.67% equity interest in Chengdu Qianyin, together with a loan to it with carrying amounts of RMB3,200,000 and RMB127,500,000 as at 15 April 2015, respectively, for an aggregated cash consideration of RMB164,080,000. Deposit of RMB10,000,000 was received on 27 March 2015 (see note 20).

The details of this transaction was disclosed in the Company’s announcement on discloseable transaction dated 15 April 2015.

Subsequent to 15 April 2015, the purchaser failed to make payment of RMB2,620,000, RMB1,960,000 and RMB127,500,000 on 16 April 2015, 1 August 2015 and 1 November 2015 respectively, in accordance with the payment schedule and the Sales and Purchase Agreement is voidable by the Company in accordance with terms set out in the Sales and Purchase Agreement.

The Directors are of the view that the purchaser will not be able to exercise significant influence until full payments to the Group pursuant to the terms of the Sales and Purchase Agreement at which time the Group is obliged to transfer its rights over Chengdu Qianyin. As the Company still has significant influence over Chengdu Qianyin, the investment continued to be accounted for an interest in an associate at 31 December 2015.

Summarised financial information of material associates

Summarised financial information in respect of each of the Group’s material associates is set out below. The summarised financial information below represents amounts shown in the associate’s financial statements prepared in accordance with IFRSs.

All of these associates are accounted for using the equity method in these consolidated financial statements.

Chengdu Qianyin

	2015 <i>RMB’000</i>	2014 <i>RMB’000</i>
Current assets	<u>3,224</u>	<u>3,009</u>
Non-Current Assets	<u>355,700</u>	<u>351,455</u>
Current Liabilities	<u>49,940</u>	<u>31,293</u>
Non-current Liabilities	<u>305,937</u>	<u>302,963</u>
	2015 <i>RMB’000</i>	2014 <i>RMB’000</i>
Revenue	<u>—</u>	<u>—</u>
Loss and total comprehensive expense for the year	<u>(17,161)</u>	<u>(26,115)</u>
Dividends received from the associate during the year	<u>—</u>	<u>—</u>

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Net assets of Chengdu Qianyin	3,047	20,208
Proportion of the Group's ownership interest in Chengdu Qianyin	41.67%	41.67%
Goodwill	<u>815</u>	<u>815</u>
Carrying amount of the Group's interest in Chengdu Qianyin	<u><u>2,085</u></u>	<u><u>9,236</u></u>

AUPU Broni

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Current assets	<u>20,014</u>	<u>16,622</u>
Non-Current Assets	<u>42,483</u>	<u>39,796</u>
Current Liabilities	<u>18,282</u>	<u>16,121</u>
Non-current Liabilities	<u>9,000</u>	<u>9,000</u>
Revenue	<u>42,165</u>	<u>43,436</u>
Profit and total comprehensive income for the year	<u>3,918</u>	<u>4,300</u>
Dividends received from the associate during the year	<u>—</u>	<u>—</u>

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Net assets of AUPU Broni	35,215	31,297
Proportion of the Group's ownership interest in AUPU Broni	<u>40%</u>	<u>40%</u>
Carrying amount of the Group's interest in AUPU Broni	<u><u>14,086</u></u>	<u><u>12,519</u></u>

14. AVAILABLE-FOR-SALE INVESTMENTS

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Available-for-sale investments comprise:		
Unlisted equity investment:		
— Haibang Cai Zhi (<i>note i</i>)	25,000	25,000
— Hexing Electrical (<i>note ii</i>)	40,000	40,000
— Yinzhi Zuobang (<i>note iii</i>)	<u>5,000</u>	<u>2,500</u>
	<u>70,000</u>	<u>67,500</u>

Notes:

- (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. (杭州海興電力科技股份有限公司) (“Hexing Electrical”) amounting to RMB40,000,000, representing a 1.08% equity interest in Hexing Electrical.
- (iii) AUPU Technology has an investment in Yinzhi Zuobang Venture Partnership (杭州引智佐邦投資合夥企業) (“Yinzhi Zuobang”) amounting to RMB5,000,000 (2014: RMB2,500,000), representing a 7.35% (2014: 7.35%) equity interest in Yinzhi Zuobang.

Available-for-sale investments are measured at cost less any identified impairment losses at the end of the reporting period. Since these equity investments do not have a quoted market price in an active market and the range of reasonable fair value estimates is so significant that the Directors are of the opinion that the fair value cannot be reliably measured.

15. DEFERRED TAX ASSETS AND LIABILITY

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior year.

	Unrealised profits on inventories <i>RMB'000</i> <i>(note)</i>	Other deductible temporary differences <i>RMB'000</i> <i>(note)</i>	Withholding tax on undistributed retained earnings of PRC subsidiaries <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2014	658	9,619	(13,487)	(3,210)
Credit (charge) to profit or loss <i>(note 7)</i>	171	(811)	(9,404)	(10,044)
Withholding tax paid in this year	<u>—</u>	<u>—</u>	<u>3,775</u>	<u>3,775</u>
At 31 December 2014	829	8,808	(19,116)	(9,479)
Credit (charge) to profit or loss <i>(note 7)</i>	118	2,436	(12,133)	(9,579)
Withholding tax paid in this year	<u>—</u>	<u>—</u>	<u>15,250</u>	<u>15,250</u>
At 31 December 2015	<u>947</u>	<u>11,244</u>	<u>(15,999)</u>	<u>(3,808)</u>

Note: Unrealised profits on inventories mainly represent unrealised profits on inter-branch/company sales. Other deductible temporary differences relate to temporary differences on certain accrued charges.

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Deferred tax assets	12,191	9,637
Deferred tax liabilities	<u>(15,999)</u>	<u>(19,116)</u>
	<u>(3,808)</u>	<u>(9,479)</u>

At the end of the reporting period, the Group has the following unused tax losses available for offset against future profits which will be expired at the following years:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
2018	5,144	5,144
2019	97	97
2020	<u>3,211</u>	<u>—</u>
	<u>8,452</u>	<u>5,241</u>

No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

16. INVENTORIES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Raw materials	8,725	8,314
Finished goods	<u>53,183</u>	<u>61,623</u>
	<u><u>61,908</u></u>	<u><u>69,937</u></u>

17. TRADE, BILLS AND OTHER RECEIVABLES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Aged analysis of trade and bills receivables, net of allowance for doubtful debts, presented based on invoice date, which approximated the respective revenue recognition dates:		
Within 90 days	48,875	38,854
91–180 days	29,159	8,212
181–365 days	1,841	771
Over 365 days	<u>2,398</u>	<u>2,103</u>
Total trade and bills receivables	82,273	49,940
Other receivables, deposits and prepayments	<u>12,734</u>	<u>9,226</u>
	<u><u>95,007</u></u>	<u><u>59,166</u></u>

The average credit period granted on sales of goods ranges from 0 to 90 days (2014: 0 to 90 days). No interest is charged on overdue trade receivables. The Group provides allowance for doubtful debts on a case-by-case basis. In determining the recoverability of a trade receivable, the Group considers any changes in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period.

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Movement in the allowance for bad and doubtful debts:		
At beginning of the year	3,118	3,118
Written off bad and doubtful debts	<u>(357)</u>	<u>—</u>
At end of the year	<u><u>2,761</u></u>	<u><u>3,118</u></u>

Included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of RMB2,761,000 (2014: RMB3,118,000) recognised, which the counterparties have been in financial difficulties.

Trade receivables amounting to RMB6,287,000(2014: RMB6,936,000) were denominated in United States Dollar (“USD”) which is not the functional currency of the respective entities.

Included in the Group’s trade receivable balance are debtors with aggregate carrying amount of RMB6,198,000 (2014: RMB4,433,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Aging of trade receivables which are past due but not impaired		
91–180 days	1,959	1,559
181–365 days	1,841	771
Over 365 days	<u>2,398</u>	<u>2,103</u>
	<u>6,198</u>	<u>4,433</u>

18. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Held-for-trading investments include:		
Bank financial products	<u>—</u>	<u>30,000</u>

The investments were managed by licensed financial institutions in the PRC to invest principally in certain financial assets including notes or bonds issued and circulated in the PRC in accordance with the entrusted agreements entered into between the parties involved. The investment yield at a floating rate. The fair value represented the quoted prices in active markets. Such investments were fully disposed in 2015.

19. 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 2.25% to 3.00% per annum as at 31 December 2015 (2014: 2.55% to 4.30% per annum).

Pledged bank deposits amounting to RMB96,584,000 (31 December 2014: RMB139,968,000) represent deposit pledged to a bank to secure short-term bank loans and bills payable and are therefore classified as current assets. Pledged bank deposits carry at fixed interest rate ranging from 3.08% to 3.59% per annum (2014: 3.08% to 3.25% per annum).

Bank balances and cash comprise cash and short-term deposits with an original maturity of three months or less which are held with banks and carry interest ranging from 0.01% to 0.35% per annum as at 31 December 2015 (2014: 0.01% to 0.385% per annum).

The carrying amount of these assets approximates to their fair values.

Bank balances amounting to RMB10,812,000 and RMB16,367,000 (2014: RMB7,451,000 and RMB94,000) were denominated in Hong Kong Dollar (“HK\$”) and USD, respectively, which are not the functional currencies of the respective entities.

Bank balances, pledged bank deposits, time deposits and cash of RMB284,666,000 (2014: RMB341,070,000) were 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.

20. TRADE, BILLS AND OTHER PAYABLES

Trade, bills and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 90 days (2014: 90 days).

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Aged analysis of trade payables presented based on invoice date:		
Within 90 days	105,809	91,216
91–180 days	2,308	2,155
181–365 days	483	753
Over 365 days	<u>822</u>	<u>391</u>
Total trade payables	109,422	94,515
Aged analysis of bills payables presented based on issue date:		
Within 90 days	76,848	62,840
Retention sum due to suppliers	10,583	8,571
Deposit received from Dongfu	10,000	—
Advances from customers	40,802	27,578
Sales commission accruals	37,711	33,941
Other payables and accruals	<u>58,624</u>	<u>56,440</u>
	<u>343,990</u>	<u>283,885</u>

21. OTHER TAX LIABILITIES

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Value added tax	4,269	7,196
Others	<u>496</u>	<u>787</u>
	<u>4,765</u>	<u>7,983</u>

22. SHORT-TERM BANK LOANS

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans		
Repayable within one year	<u>—</u>	<u>110,442</u>

At 31 December 2014, the Group's bank borrowings were demonstrated in HK\$, and carried interest at CTBC Bank Offered Rate plus 4% per annum.

23. SHARE CAPITAL

	Number of shares	Amounts HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 January 2014, and 31 December 2014 and 2015	<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 1 January 2014	1,043,501,000	104,350
Exercise of shares options	<u>1,365,000</u>	<u>137</u>
At 31 December 2014	1,044,866,000	104,487
Exercise of shares options	<u>2,362,500</u>	<u>236</u>
At 31 December 2015	<u>1,047,228,500</u>	<u>104,723</u>
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Presented as RMB		
Ordinary shares	<u>101,129</u>	<u>100,940</u>

On 29 April 2015, 2,362,500 shares were issued upon the exercise of options under the share option scheme. 2,137,500 shares of the exercised options were from batch “2007A” with the adjusted exercise price of HK\$1.49 and 225,000 shares were from batch “2008A” with the adjusted exercise price of HK\$1.03.

On 3 September 2014, 1,365,000 shares were issued upon the exercise of options under the share option. All the exercised option shares are from batch “2008A” on the adjusted exercise price of HK\$1.03.

24. RESERVES**Special reserve**

In preparation for the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited, the Company underwent a group reorganisation (the “Group Reorganisation”) on 1 September 2006 pursuant to which the Company became the holding company of its subsidiaries.

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

Statutory reserves

Pursuant to relevant laws and regulations in the PRC and the Articles of Association of AUPU Electrical and AUPU Technology, both entities are required to make an appropriation from profit after taxation as reported in their PRC statutory financial statements to reserve fund at rates not less than 10% until the reserve fund balance reaches 50% of their respective registered capital.

No contributions to the reserve fund were made by AUPU Electrical because its reserve fund balance had reached the level of 50% of its registered capital since 2004.

No contributions to the reserve fund were made by AUPU Technology because its reserve fund balance had reached the level of 50% of its registered capital since 2014.

The reserve fund is not distributable and it can only be used to increase capital or to make up unexpected or future losses.

Share options reserve

The share options 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 less the amount transferred to share premium upon the exercise of the share options.

25. SHARE-BASED PAYMENT TRANSACTIONS

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 the Directors and employees of the Company and its subsidiaries to the growth of the Group and to incentivise them going forward.

At 31 December 2015, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 4,275,000 (2014: 6,862,500), representing approximately 0.4% (2014: 0.7%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the issued share capital of the Company at any point in time without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted and to any individual in any one year is not permitted to exceed 0.1% of the issued share capital of the Company at any point in time without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5,000,000 must be approved in advance by the Company's shareholders.

The exercise price is determined by the Directors, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

Details of the options are as follows:

After bonus share issue in 2010:

Option type	Date of grant	Adjusted number of shares	Exercise period	Adjusted Exercise price
2007A	16/3/2007	7,500,000	16/3/2008 to 15/3/2017	HK\$1.49
2007B	8/6/2007	9,675,000	8/6/2008 to 7/6/2017	HK\$2.07
2008A	3/1/2008	12,150,000	3/1/2008 to 2/1/2017	HK\$1.03

The share options granted in 2007 are exercisable until the tenth anniversary from the date of grant. The vesting period of the options is as follows:

20%	1st anniversary of the date of grant
20%	2nd anniversary of the date of grant
20%	3rd anniversary of the date of grant
20%	4th anniversary of the date of grant
20%	5th anniversary of the date of grant

For the share option granted on 3 January 2008, the grantees may exercise up to a cumulative maximum of 20%, 40%, 60%, 80% and 100% of the total options for the period from date of grant to the first anniversary, from date of first anniversary to the second anniversary, after date of second anniversary to the date of third anniversary, after date of third anniversary to the fourth anniversary and after date of fourth anniversary to the expiry of the exercise period, respectively.

The following table discloses movements of the Company's share options held by the Directors and employees during the years ended 31 December 2015 and 2014:

	Outstanding at 1/1/2014	Forfeited/ lapsed during the year	Exercised during the year	Outstanding at 31/12/2014
Option type				
2007A	2,250,000	112,500	—	2,137,500
2007B	6,300,000	1,800,000	—	4,500,000
2008A	<u>1,995,000</u>	<u>405,000</u>	<u>1,365,000</u>	<u>225,000</u>
	<u>10,545,000</u>	<u>2,317,500</u>	<u>1,365,000</u>	<u>6,862,500</u>
Exercisable at the end of the year				<u>6,862,500</u>
Weighted average exercise price	<u>1.75</u>			<u>1.86</u>
	Outstanding at 1/1/2015	Forfeited/ lapsed during the year	Exercised during the year	Outstanding at 31/12/2015
Option type				
2007A	2,137,500	—	2,137,500	—
2007B	4,500,000	225,000	—	4,275,000
2008A	<u>225,000</u>	<u>—</u>	<u>225,000</u>	<u>—</u>
	<u>6,862,500</u>	<u>225,000</u>	<u>2,362,500</u>	<u>4,275,000</u>
Exercisable at the end of the year				<u>4,275,000</u>
Weighted average exercise price	<u>1.86</u>			<u>2.07</u>

Note: The option lapsed represented the share options granted to eligible directors and employees of the Group, which were forfeited/lapsed in the year of their resignation.

In respect of the share options exercised during the year 2015, the weight average share price at the date of exercise is HK\$2.25(2014: HK\$1.47).

26. OPERATING LEASE COMMITMENTS**The Group as lessee**

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Minimum lease payments under operating leases recognised in the consolidated statement of profit or loss and other comprehensive income for the year	<u>919</u>	<u>655</u>

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	517	363
In the second to fifth years	<u>1,003</u>	<u>—</u>

Operating lease payments represent rentals payable by the Group for certain branch offices and warehouses. Leases are negotiated for a lease term of from 1 year to 5 years (2014: 1 year) at inception.

The Group as lessor

Property rental income earned during the year was RMB808,000 (2014: RMB259,000). Leases are negotiated for a lease term of 1 year (2014: 1 year). There were no future minimum lease payments as the lease contracts were expired and not yet renewed prior to the end of the reporting period in both years.

27. CAPITAL COMMITMENTS

Capital expenditures in the consolidated financial statements in respect of:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for but not provided		
Acquisition of property, plant and equipment	18,865	48,072
Capital contribution to available-for-sale investment (<i>Note 14</i>)	<u>—</u>	<u>2,500</u>
	<u>18,865</u>	<u>50,572</u>

28. RETIREMENT BENEFIT SCHEME

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

The total cost charged to profit or loss of RMB5,942,000 (2014: RMB5,174,000) represents contributions payable to these retirement benefits schemes by the Group in respect of the current accounting period.

29. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes short-term bank loans net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves including retained earnings.

The Directors review the capital structure on a regular basis. As part of the review, the Directors consider the cost of capital and the risk associates with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share repurchases as well as the issue of new debt or the redemption of existing debt.

30. FINANCIAL INSTRUMENTS**Financial risk management objectives and policies**

The Group's major financial instruments include available-for-sale investments, trade, bills and other receivables, held-for-trading investment, time deposits, pledged bank deposits, bank balances and cash, amounts due from/to associates, trade, bills and other payables and short-term bank loans. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial assets and financial liabilities are disclosed in note 3.

Categories of financial instruments

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets		
Loan and receivables (including cash and cash equivalents)	537,483	540,041
Available-for-sale instruments	70,000	67,500
Held-for-trading investments	—	30,000
	<u> </u>	<u> </u>
Financial liabilities		
Amortised costs	206,646	277,449
	<u> </u>	<u> </u>

Market risk**(i) Foreign currency risk management**

The Company and certain subsidiaries have bank balances and bank loans denominated in foreign currencies. Certain subsidiaries of the Group also have foreign currency sales and purchases and certain trade receivables and payables of these subsidiaries are denominated in foreign currencies.

The carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting period are as follows:

	Assets		Liabilities	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
USD	22,654	7,030	—	—
HK\$	<u>10,812</u>	<u>7,451</u>	<u>—</u>	<u>110,442</u>

The Group currently does not use any derivative contracts to hedge against its exposure to currency risk. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate, and will consider hedging significant foreign currency exposure should the need arises.

Sensitivity analysis

The sensitivity analysis details the Group's sensitivity to a 5% (2014: 5%) increase and decrease in RMB against HK\$ and USD 5% (2014: 5%) represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at year end for a 5% change in foreign currency rates. If RMB had strengthened/weakened 5% against HK\$ and USD, the Group's post-tax profit for the year ended 31 December 2015 would have been decreased/increased by RMB1,319,000 (2014: increased/decreased by RMB3,877,000).

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to a fixed-rate loan receivable from an associate, time deposits and pledged bank deposits.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and short-term bank loans. The cash flow interest rate risk relates primarily to floating-rate bank loans. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate CTBC Bank Offered from the Group's HK\$ dominated loans.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. For variable-rate bank loans, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point (2014: 50 basis point) increase or decrease represents management's assessment of the reasonably possible change in interest rates.

Since there is no bank loan on 31 December 2015, if interest rates had been 50 basis points (2014: 50 basis point) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2015 would have decreased/increased by RMB0 (2014: RMB446,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank loans.

If interest rates had been 10 basis points (2014: 10 basis points) higher/lower on bank balances and all other variables were held constant, the Group's profit for the year ended 31 December 2015 would have increased/decreased by RMB107,000 (2014: RMB34,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate debt instruments.

Credit risk

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade receivables. In order to minimise the credit risk, the management of the Group has delegated a team to be responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the ageing status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability, specific allowance is only made for trade receivable that is unlikely to be collected. In this regards, the Directors consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 10% (2014: 10%) of the total trade receivables was due from the Group's main customer.

The Group has concentration of credit risk in respect of bank balances, time deposits, pledged bank deposits and held-for-trading investments. As at 31 December 2015, approximately 97% (2014: 89%) of the bank balances were deposited at five banks (2014: seven). The credit risk on bank balances, time deposits, pledged bank deposit and held-for-trading investments is limited because majority of the counterparties are banks in the PRC with high credit ratings or have good reputation.

As at 31 December 2015, with respect to amount due from associates in the amount of RMB140,454,000 (31 December 2014: RMB139,773,000), the Group consider the credit risk is limited because the Group will closely monitor the financials of the associates.

Liquidity risk

The Group closely monitors its cash position resulting from its operations and maintains a level of cash and cash equivalents deemed adequate by the management to enable the Group to meet in full its financial obligations as they fall due for the foreseeable future.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specially, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Liquidity tables

	Weighted average interest rate %	On demand or less than six months RMB'000	Six months to one year RMB'000	Over one year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2015						
Non-derivative financial liabilities						
Trade, bills and other payables	—	205,302	483	822	206,607	206,607
Amounts due to an associate	—	39	—	—	39	39
		<u>205,341</u>	<u>483</u>	<u>822</u>	<u>206,646</u>	<u>206,646</u>
2014						
Non-derivative financial liabilities						
Trade, bills and other payables	—	165,863	753	391	167,007	167,007
Short-term bank loans	2.9357%	1,621	111,099	—	112,720	110,442
		<u>167,484</u>	<u>111,852</u>	<u>391</u>	<u>279,727</u>	<u>277,449</u>

Fair value of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31/12/2015	31/12/2014				
Held-for-trading investments in the consolidated statement of financial position	N/A	Unlisted debt investments RMB30,000,000	Level 2	Discounted cash flows based on expected future cash flows discounted at a rate that reflect the credit risk of counterparty	N/A	N/A

The Directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximates their fair value.

31. RELATED PARTY TRANSACTIONS

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

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due from associates		
— interest bearing (<i>note i</i>)	136,500	136,500
— non-interest bearing (<i>note ii</i>)	<u>3,954</u>	<u>3,273</u>
	<u>140,454</u>	<u>139,773</u>
Analysed for reporting purpose as:		
— Non-current assets	9,000	136,500
— Current assets (<i>note ii, note iii</i>)	<u>131,454</u>	<u>3,273</u>
	<u>140,454</u>	<u>139,773</u>
Amounts due to associates		
— non-interest bearing (<i>note ii</i>)	<u>39</u>	<u>—</u>

Notes:

- (i) Interest bearing loans of RMB136,500,000 represents entrusted loans advanced to associates for a term of three years and bear interest at rates ranging from 6.15% to 7% per annum.
- (ii) The amounts are unsecured and repayable on demand.
- (iii) At 31 December 2015, interest loans of RMB127,500,000 will due in one year.

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

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Rental income	173	172
Interest income	8,171	8,654
Purchase	3,300	—
Other income	<u>443</u>	<u>428</u>
	<u>12,087</u>	<u>9,254</u>

(c) The remuneration of Directors and other members of key management during the year was as follows:

	2015 RMB'000	2014 RMB'000
Short-term employee benefits	9,976	7,809
Post-employment benefits	<u>51</u>	<u>51</u>
	<u>10,027</u>	<u>7,860</u>

The remuneration of Directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

32. SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2015 and 2014 are as follow:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid up share capital/registered capital	Proportion of nominal value of share capital/registered capital held by the Company				Principal activities
			Direct		Indirect		
			2015	2014	2015	2014	
Ableby Worldwide Limited 藝寶環球有限公司	BVI 18 May 2006	Ordinary shares US\$1	100%	100%	—	—	Investment holding
Tricosco	Hong Kong 20 June 2006	Ordinary shares HK\$1	—	—	100%	100%	Investment holding
AUPU Technology 杭州奧普衛廚科技有限 公司	PRC as a wholly-owned foreign investment enterprise ("WOFE") 9 September 2004	Registered and contributed capital US\$20,610,000	—	—	100%	100%	Manufacture and distribution of bathroom masters, exhaust fans and other home appliances
AUPU Electrical 杭州奧普電器有限公司	PRC as a WOFE 29 July 1993	Registered and contributed capital US\$3,350,000	—	—	100%	100%	Manufacture and distribution of bathroom masters, exhaust fans and other home appliances
AUPU Broni 成都奧普博朗尼 廚衛科技有限公司	PRC 18 January 2011	Registered and contributed capital RMB65,000,000	—	—	100%	100%	Manufacture and distribution of bathroom and bathroom products

33. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets		
Investment and amount due from associates	184,065	218,878
Trade and other receivables	<u>332</u>	<u>215</u>
	<u>184,397</u>	<u>219,093</u>
Current assets		
Bank balances and cash	<u>7,417</u>	<u>2,294</u>
	<u>7,417</u>	<u>2,294</u>
Current liabilities		
Trade and other payables	6,691	4,962
Amounts due to subsidiaries	56,338	140,323
Income tax liabilities	<u>48</u>	<u>48</u>
	<u>63,077</u>	<u>145,333</u>
Total assets less current liabilities	<u><u>128,737</u></u>	<u><u>76,054</u></u>
Capital and reserves		
Share capital	101,129	100,940
Share premium and reserves	<u>27,608</u>	<u>(24,886)</u>
Equity attributable to owners of the Company	<u><u>128,737</u></u>	<u><u>76,054</u></u>

Movement in reserve

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Share options reserve <i>RMB'000</i>	Capital redemption reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Sub-total <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2014	100,831	233,684	17,459	1,970	(224,620)	28,493	129,324
Profit and total comprehensive income for the year	—	—	—	—	21,821	21,821	21,821
Dividends recognised as distribution	—	—	—	—	(76,215)	(76,215)	(76,215)
Exercise of share options	109	2,070	(1,055)	—	—	1,015	1,124
At 31 December 2014	100,940	235,754	16,404	1,970	(279,014)	(24,886)	76,054
Profit and total comprehensive income for the year	—	—	—	—	202,072	202,072	202,072
Dividends recognised as distribution	—	—	—	—	(152,122)	(152,122)	(152,122)
Exercise of share options	189	6,702	(4,158)	—	—	2,544	2,733
At 31 December 2015	101,129	242,456	12,246	1,970	(229,064)	27,608	128,737

Summary of Financial Information

A summary of the results, assets and liabilities of the Group is as follows:

	For the year ended 31 December				
	2011	2012	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Results					
Revenue	<u>537,989</u>	<u>568,857</u>	<u>620,304</u>	<u>784,263</u>	<u>929,053</u>
Income tax expenses	<u>(22,348)</u>	<u>(35,895)</u>	<u>(22,975)</u>	<u>(40,442)</u>	<u>(55,605)</u>
Profit attributable to owners of the Company	<u>72,988</u>	<u>89,970</u>	<u>81,994</u>	<u>170,248</u>	<u>207,389</u>
Dividends	<u>85,448</u>	<u>53,296</u>	<u>74,030</u>	<u>76,215</u>	<u>152,122</u>
As at 31 December					
	2011	2012	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets and Liabilities					
Total assets	675,110	686,316	837,946	993,805	992,339
Total liabilities	<u>(254,311)</u>	<u>(233,122)</u>	<u>(385,858)</u>	<u>(446,560)</u>	<u>(387,094)</u>
Equity attributable to owners of the Company	<u>420,799</u>	<u>453,194</u>	<u>452,088</u>	<u>547,245</u>	<u>605,245</u>

3. UNAUDITED INTERIM FINANCIAL INFORMATION OF THE GROUP

Set out below is the full text of the unaudited condensed consolidated financial statements of the Company for the six months ended 30 June 2016 as extracted from the interim results announcement of the Company for the six months ended 30 June 2016:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2016

	<i>Notes</i>	Six months ended 30 June	
		2016	2015
		<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(unaudited)
Revenue		536,283	423,235
Cost of sales		<u>(262,434)</u>	<u>(221,396)</u>
Gross profit		273,849	201,839
Other income		14,143	26,643
Distribution and selling expenses		(83,712)	(55,333)
Administrative expenses		(24,114)	(19,594)
Other expenses		(31,811)	(15,875)
Other losses		—	(1,795)
Share of losses of associates		(2,685)	(2,545)
Finance costs		<u>—</u>	<u>(2,889)</u>
Profit before tax	4	145,670	130,451
Income tax expenses	5	<u>(27,163)</u>	<u>(33,285)</u>
Profit for the period and total comprehensive income attributable to owners of the Company		<u>118,507</u>	<u>97,166</u>
		<i>RMB</i>	<i>RMB</i>
Earnings per share			
— Basic	7	0.11	0.09
— Diluted	7	<u>0.11</u>	<u>0.09</u>

Condensed Consolidated Statement of Financial Position*At 30 June 2016*

		30 June 2016	31 December 2015
	<i>Notes</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (audited)
Non-current assets			
Property, plant and equipment	8	263,493	257,679
Prepaid lease payments		26,113	26,437
Interests in associates	9	13,486	16,171
Available-for-sale investments	10	72,399	70,000
Amount due from associates	19	81,000	9,000
Deferred tax assets	11	<u>13,629</u>	<u>12,191</u>
		<u>470,120</u>	<u>391,478</u>
Current assets			
Prepaid lease payments		647	647
Inventories		79,893	61,908
Trade, bills and other receivables	12	108,702	95,007
Amounts due from associates	19	67,281	131,454
Time deposits	13	292,000	80,000
Pledged bank deposits	13	7,084	96,584
Bank balances and cash		<u>102,331</u>	<u>135,261</u>
		<u>657,938</u>	<u>600,861</u>
Current liabilities			
Trade, bills and other payables	14	376,736	343,990
Amounts due to associates	19	474	39
Income tax liabilities		28,859	22,301
Other tax liabilities		<u>12,434</u>	<u>4,765</u>
		<u>418,503</u>	<u>371,095</u>
Net current assets		<u>239,435</u>	<u>229,766</u>
Total assets less current liabilities		<u><u>709,555</u></u>	<u><u>621,244</u></u>

		30 June 2016	31 December 2015
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(audited)
Capital and reserves			
Share capital	15	101,129	101,129
Share premium and reserves		<u>587,433</u>	<u>504,116</u>
Equity attributable to owners of the Company		688,562	605,245
Non-current liability			
Deferred tax liability	11	<u>20,993</u>	<u>15,999</u>
		<u><u>709,555</u></u>	<u><u>621,244</u></u>

Condensed Consolidated Statement of Changes in Equity*For the six months ended 30 June 2016*

	Attributable to owners of the Company								
	Share capital	Share premium	Special reserve	Statutory reserves	Share option reserve	Capital redemption reserve	Retained profits	Sub-total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015 (audited)	100,940	235,754	(73,274)	94,573	16,404	1,970	170,878	446,305	547,245
Profit and total comprehensive income for the period	—	—	—	—	—	—	97,166	97,166	97,166
Dividends recognised as distribution (<i>note 6</i>)	—	—	—	—	—	—	(82,586)	(82,586)	(82,586)
Exercise of share options	189	6,702	—	—	(4,158)	—	—	2,544	2,733
At 30 June 2015 (unaudited)	<u>101,129</u>	<u>242,456</u>	<u>(73,274)</u>	<u>94,573</u>	<u>12,246</u>	<u>1,970</u>	<u>185,458</u>	<u>463,429</u>	<u>564,558</u>
At 1 January 2016 (audited)	101,129	242,456	(73,274)	94,573	12,246	1,970	226,145	504,116	605,245
Profit and total comprehensive income for the period	—	—	—	—	—	—	118,507	118,507	118,507
Dividends recognised as distribution (<i>note 6</i>)	—	—	—	—	—	—	(35,190)	(35,190)	(35,190)
At 30 June 2016 (unaudited)	<u>101,129</u>	<u>242,456</u>	<u>(73,274)</u>	<u>94,573</u>	<u>12,246</u>	<u>1,970</u>	<u>309,462</u>	<u>587,433</u>	<u>688,562</u>

Condensed Consolidated Statement of Cash Flows
For the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Net cash from operating activities	<u>140,806</u>	<u>77,602</u>
Investing activities:		
Interest received	6,630	7,214
Dividends received	807	14,716
Purchases of property, plant and equipment	(13,294)	(23,816)
Proceeds from disposal of property, plant and equipment	37	—
Placement of time deposits	—	(55,000)
Withdrawal of time deposits	70,000	137,000
Withdrawal of pledged bank deposit	89,500	103,141
Placement of pledged bank deposit	—	(185,886)
Withdrawal of held-for-trading investment	—	30,000
Advance to associates	(827)	(505)
Withdrawal loan to associate	67,000	—
Placement loan to associate	(74,000)	—
Deposit received	—	10,000
Withdrawal of available-for-sale investments	7,101	—
Placement of available-for-sale investments	<u>(9,500)</u>	<u>—</u>
Net cash generated from investing activities	<u>143,454</u>	<u>36,864</u>
Financing activities:		
Dividends paid	(35,190)	(82,586)
New bank loan raised	—	102,767
Interest paid	—	(2,144)
Proceeds from exercise of share option	<u>—</u>	<u>2,733</u>
Net cash (used in) generated from financing activities	<u>(35,190)</u>	<u>20,770</u>
Net increase in cash and cash equivalents	249,070	135,236
Cash and cash equivalents at 1 January	<u>135,261</u>	<u>41,647</u>
Cash and cash equivalents at 30 June	384,331	176,883
Cash and cash equivalents at 30 June, represented by		
Bank balances and cash	102,331	176,883
Time deposits	<u>282,000</u>	<u>—</u>
	<u>384,331</u>	<u>176,883</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 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 accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, certain standards of and amendments to International Financial Reporting Standards that are mandatorily effective for the current interim period.

The application of the new standards of and amendments to 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 or revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments ¹
IFRS 15	Revenue from Contracts with Customers ¹
IFRS 16	Leases ²
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IAS 7	Disclosure Initiative ⁴
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ⁴

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 Effective for annual periods beginning on or after a date to be determined

4 Effective for annual periods beginning on or after 1 January 2017

The directors of the Company (the “Directors”) do not anticipate that the application of the above new or revised IFRSs will have any significant impact on the Group’s financial results and financial position.

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 2016 (unaudited)

	Second Tier Cities RMB'000	Shanghai RMB'000	Jiangsu RMB'000	Beijing RMB'000	Zhejiang RMB'000	North- eastern Region RMB'000	Sichuan RMB'000	Export RMB'000	Total RMB'000
SEGMENT REVENUE									
External sales	209,743	59,327	89,715	39,806	84,983	13,531	26,923	12,255	536,283
Inter-segment sales	—	—	—	—	18,323	—	—	—	18,323
	<u>209,743</u>	<u>59,327</u>	<u>89,715</u>	<u>39,806</u>	<u>103,306</u>	<u>13,531</u>	<u>26,923</u>	<u>12,255</u>	554,606
Eliminations					(18,323)				(18,323)
Group revenue									<u>536,283</u>
Segment profit	<u>104,677</u>	<u>29,881</u>	<u>47,987</u>	<u>21,469</u>	<u>43,872</u>	<u>6,970</u>	<u>13,799</u>	<u>5,194</u>	273,849
Interest income									7,218
Dividend income									807
Other unallocated income									5,849
Unallocated expenses									(139,368)
Share of losses of associates									(2,685)
Profit before tax									<u>145,670</u>

For the six months ended 30 June 2015 (unaudited)

	Second Tier Cities RMB'000	Shanghai RMB'000	Jiangsu RMB'000	Beijing RMB'000	Zhejiang RMB'000	North- eastern Region RMB'000	Sichuan RMB'000	Export RMB'000	Total RMB'000
SEGMENT REVENUE									
External sales	140,999	55,116	70,843	37,381	68,417	12,292	29,199	8,988	423,235
Inter-segment sales	—	—	—	—	14,317	—	—	—	14,317
	<u>140,999</u>	<u>55,116</u>	<u>70,843</u>	<u>37,381</u>	<u>82,734</u>	<u>12,292</u>	<u>29,199</u>	<u>8,988</u>	437,552
Eliminations					(14,317)				(14,317)
Group revenue									<u>423,235</u>
Segment profit	<u>62,838</u>	<u>26,755</u>	<u>36,029</u>	<u>19,162</u>	<u>33,638</u>	<u>6,162</u>	<u>14,212</u>	<u>3,043</u>	201,839
Interest income									7,992
Dividend income									14,716
Other unallocated income									3,935
Unallocated expenses									(92,597)
Finance costs									(2,889)
Share of losses of associates									(2,545)
Profit before tax									<u>130,451</u>

Segment profit represents the gross profit earned by each segment without allocation of interest income, dividend 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	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
<i>After charging:</i>		
Staff costs, including directors' remuneration		
— salaries, wages and other benefits	23,312	18,536
— retirement benefit scheme contributions	<u>2,261</u>	<u>1,967</u>
Total staff costs	<u>25,573</u>	<u>20,503</u>
Research expenditure included in other expenses	27,781	14,146
Depreciation of property, plant and equipment	7,357	6,858
Release of prepaid lease payments	324	324
Loss on disposal of property, plant and equipment	6	—
Cost of inventories recognised as an expense	262,434	221,396
Allowance for bad and doubtful debts	—	1,795
<i>After crediting:</i>		
Interest income		
— bank deposits	2,768	4,458
— interest income from associates	4,450	3,534
Dividend income	807	14,716
Government grants (<i>note a</i>)	<u>85</u>	<u>254</u>

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 non-recurring.

5. INCOME TAX EXPENSES

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
The charge comprises:		
Current tax		
— PRC Enterprise Income Tax	23,607	38,853
Deferred tax charge (credit) (<i>note 11</i>)	<u>3,556</u>	<u>(5,568)</u>
	<u>27,163</u>	<u>33,285</u>

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.

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% (2015: 25%) under Enterprise Income Tax (EIT) Law. AUPU Technology, a subsidiary of the Company, was qualified as “Hi-New Tech Enterprises”, and therefore enjoys a preferential tax rate of 15% under Enterprise Income Tax Law of the PRC (“EIT Law”). As at 30 June 2015, the Hi-New Tech Enterprises certification of AUPU Technology (the “Certificate”) was expired so AUPU Technology was subject to enterprise income tax rate of 25% for the six-months period ended 30 June 2015. The Certificate was subsequently granted on 17 September 2015, which covers a period from 17 September 2015 to 16 September 2018. Therefore, the applicable tax rate of AUPU Technology for the six months period ended 30 June 2016 is 15%.

In accordance with PRC tax circular (Guoshuihan [2008] 112) effective from 1 January 2008, PRC withholding income tax at the rate of 10% is applicable to dividends to “non-resident” investors who do not have an establishment or place of business in the PRC. 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, where the Hong Kong resident company directly owns at least 25% of the capital of the PRC company, a 5% dividend withholding tax rate is applicable. A provision for such withholding income tax has been made based on 5% of the profits arisen during both years from the PRC subsidiaries, which are available for distribution to Tricosco Limited (“Tricosco”), a Hong Kong subsidiary of the Company.

6. DIVIDENDS

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Final dividend paid for 2015 of Hong Kong Dollars (HK\$) 0.04 per share (2014 final: HK\$ 0.1 per share)	35,190	82,586

In respect of the current interim period, no dividend will be paid to shareholders.

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	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Earnings		
Earnings for the purpose of basic earnings per share (profit attributable to owners of the Company)	118,507	97,166

	Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,047,228,500	1,045,267,301
Effect of dilutive potential ordinary shares share-based payment transactions	<u>740,955</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>1,047,969,455</u></u>	<u><u>1,045,267,301</u></u>

For the period ended 30 June 2016, the computation of diluted earnings per share has taken into account of the impact from the exercise of the Company's outstanding share options as the exercise prices of the Company's options were lower than the average market price in 2016.

For the period ended 30 June 2015, the computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise prices of the Company's options were higher than the average market price in 2015.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB11,143,000 for properties under construction, RMB2,136,000 on additions to machinery, motor vehicles, fixtures and equipment and RMB154,000 for addition to buildings in the PRC.

9. INTERESTS IN ASSOCIATES

	30 June 2016 <i>RMB'000</i> (unaudited)	31 December 2015 <i>RMB'000</i> (audited)
	Cost of unlisted investment in associates	38,000
Share of post-acquisition losses	<u>(24,514)</u>	<u>(21,829)</u>
	<u><u>13,486</u></u>	<u><u>16,171</u></u>

As at 30 June 2016, the Group had interests in the following associates:

Name	Place and date of establishment	Proportion of ownership interest		Registered capital RMB	Principal activity
		30 June 2016	31 December 2015		
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 development

The Company entered into an agreement (the “Sales and Purchase Agreement”) with Dazhou City Dongfu Commercial & Trading Company Limited (“Dongfu”) on 15 April 2015 to dispose of its 41.67% equity interest in Chengdu Qianyin, together with a loan to it with carrying amounts of RMB3,200,000 and RMB127,500,000 as at 15 April 2015, respectively, for an aggregated cash consideration of RMB164,080,000. Deposit of RMB10,000,000 was received on 27 March 2015. The details of this transaction was disclosed in the Company’s announcement on discloseable transaction dated 15 April 2015.

Subsequent to 15 April 2015, the purchaser failed to make payment of RMB2,620,000, RMB1,960,000 and RMB127,500,000 on 16 April 2015, 1 August 2015 and 1 November 2015 respectively, in accordance with the payment schedule and the Sales and Purchase Agreement is voidable by the Company in accordance with terms set out in the Sales and Purchase Agreement.

The Directors are of the view that the purchaser will not be able to exercise significant influence until full payments to the Group pursuant to the terms of the Sales and Purchase Agreement at which time the Group is obliged to transfer its rights over Chengdu Qianyin. As the Company still has significant influence over Chengdu Qianyin, the investment continued to be accounted for an interest in an associate at 30 June 2016.

10. AVAILABLE-FOR-SALE INVESTMENTS

At 30 June 2016, 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 RMB17,899,000, representing a 16.78% (2015: RMB25,000,000, 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% (2015: RMB40,000,000, 1.08%) equity interest in Hexing Electrical.

- (iii) AUPU Technology has an investment in Yinzhi Zuobang Venture Partnership (杭州引智佐邦投資合夥企業) (“Yinzhi Zuobang”) amounting to RMB5,000,000, representing a 7.35% (2015: RMB5,000,000, 7.35%) equity interest in Yinzhi Zuobang.
- (iv) AUPU Technology has an investment in Zhejiang Haibang Hou Si Venture Partnership (浙江海邦厚思投資合夥企業) (“Haibang Hou Si”) amounting to RMB6,000,000, representing a 17.39% (2015: nil) equity interest in Haibang Hou Si.

Pursuant to the venture partnership agreement, the total investment to be made by the Group is RMB20,000,000, with remaining RMB14,000,000 to be paid up before 31 December, 2018. As one of the limited partners, AUPU Technology has no power to participate in the financial and operating policy decisions of the Haibang Hou Si. Therefore, the Directors designated such non-derivative financial asset as available-for-sale investment.

- (v) AUPU Technology has an investment in Yi Shi (Beijing) Technology Co., Ltd. (易事(北京)科技有限公司) (“Yi Shi Beijing”) amounting to RMB3,500,000, representing a 5% (2015: nil) equity interest in Yi Shi Beijing.

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 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Unlisted investments:		
— Haibang Cai Zhi	17,899	25,000
— Hexing Electrical	40,000	40,000
— Yinzhi Zuobang	5,000	5,000
— Haibang Hou Si	6,000	—
— Yi Shi Beijing	3,500	—
	<u>72,399</u>	<u>70,000</u>

11. DEFERRED TAXATION

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

	Unrealised profits on inventories <i>RMB'000</i>	Other deductible temporary differences <i>RMB'000</i>	Withholding tax on undistributed retained earnings of PRC subsidiaries <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2015 (audited)	829	8,808	(19,116)	(9,479)
(Charge) credit to profit for the period (note 5)	(8)	4,296	(5,144)	(856)
Effect of change in tax rate (note 5)	<u>553</u>	<u>5,871</u>	<u>—</u>	<u>6,424</u>
At 30 June 2015 (unaudited)	<u>1,374</u>	<u>18,975</u>	<u>(24,260)</u>	<u>(3,911)</u>
At 1 January 2016 (audited)	947	11,244	(15,999)	(3,808)
(Charge) credit to profit for the period (note 5)	<u>101</u>	<u>1,337</u>	<u>(4,994)</u>	<u>(3,556)</u>
At 30 June 2016 (unaudited)	<u>1,048</u>	<u>12,581</u>	<u>(20,993)</u>	<u>(7,364)</u>

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

	30 June 2016 <i>RMB'000</i> (unaudited)	31 December 2015 <i>RMB'000</i> (audited)
Deferred tax assets	13,629	12,191
Deferred tax liability	<u>(20,993)</u>	<u>(15,999)</u>
	<u>(7,364)</u>	<u>(3,808)</u>

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 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Within 90 days	75,481	48,875
91–180 days	10,982	29,159
181–365 days	1,429	1,841
Over 365 days	<u>2,706</u>	<u>2,398</u>
Total trade and bills receivables	90,598	82,273
Other receivables, deposits and prepayments	<u>18,104</u>	<u>12,734</u>
	<u>108,702</u>	<u>95,007</u>

13. OTHER FINANCIAL ASSETS

The time deposits are held in banks are denominated in RMB and with an initial maturity term of two to twelve months. The deposits carry at fixed interest rate ranging from 1.95% to 2.54% per annum as at 30 June 2016 (2015: 2.25% to 3.00% per annum). Included in the time deposits as at 30 June 2016 are time deposits of RMB282,000,000 with an initial maturity term of less than 90 days (2015: RMB nil) and such time deposits are accounted for as cash and cash equivalents in the statement of cash flow.

Pledged bank deposits represent RMB deposits pledged to a bank to secure bill payables and are therefore classified as current assets. Pledged bank deposits carry at fixed interest rate ranging from 3.08% to 3.25% per annum as at 30 June 2016 (2015: 3.08% to 3.95%).

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 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Aged analysis of trade payables presented based on invoice date:		
Within 90 days	152,735	105,809
91–180 days	1,212	2,308
181–365 days	443	483
Over 365 days	<u>964</u>	<u>822</u>
Total trade payables	<u>155,354</u>	<u>109,422</u>
Aged analysis of bills payables presented based on issue date:		
Within 90 days	62,910	76,848
Retention sum due to suppliers	13,350	10,583
Deposit received from Dongfu	10,000	10,000
Advances from customers	40,152	40,802
Sales commission accruals	34,345	37,711
Other accruals	<u>60,625</u>	<u>58,624</u>
	<u>376,736</u>	<u>343,990</u>

15. SHARE CAPITAL

	Number of shares	Amounts <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
Authorised		
At 1 January 2015, and 30 June 2015 and 2016	<u>5,000,000,000</u>	<u>500,000</u>
	Number of shares	Amounts <i>HK\$'000</i>
Issued and fully paid:		
At 1 January 2015, and 30 June 2015 and 2016	<u>1,047,228,500</u>	<u>104,723</u>

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Presented as RMB		
Ordinary shares	<u>101,129</u>	<u>101,129</u>

16. 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.

	Outstanding at 31/12/2015	Lapsed during the period	Exercised during the period	Outstanding at 30/06/2016
Option type				
2007B	<u>4,275,000</u>	<u>—</u>	<u>—</u>	<u>4,275,000</u>
Exercisable at the end of the period				<u>4,275,000</u>
Weighted average exercise price	<u>HK\$2.07</u>			<u>HK\$2.07</u>

17. OPERATING LEASE ARRANGEMENTS**The Group as Lessee**

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Minimum lease payments under operating leases recognised in the condensed consolidated statement of profit or loss and other comprehensive income	<u>412</u>	<u>492</u>

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

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Within one year	301	571
In second years to fifth years inclusive	<u>1,205</u>	<u>1,003</u>
Total	<u>1,506</u>	<u>1,574</u>

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 five years at inception with fixed rentals.

The Group as Lessor

Property rental income earned during the period was RMB838,204 (RMB129,600 for the six months ended 30 June 2015) which are generated from lease of certain properties of the Group negotiated on a yearly basis.

18. CAPITAL COMMITMENTS

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

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Acquisition of property, plant and equipment	9,252	18,865
Capital contribution to an entity investment	<u>14,000</u>	<u>—</u>
	<u><u>23,252</u></u>	<u><u>18,865</u></u>

19. RELATED PARTY TRANSACTIONS

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

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Amounts due from associates		
— interest bearing (<i>note i</i>)	143,500	136,500
— non-interest bearing (<i>note ii</i>)	<u>4,781</u>	<u>3,954</u>
	<u><u>148,281</u></u>	<u><u>140,454</u></u>
Analysed for reporting purpose as:		
— Non-current assets (<i>note i</i>)	81,000	9,000
— Current assets (<i>note ii</i>)	<u>67,281</u>	<u>131,454</u>
	<u><u>148,281</u></u>	<u><u>140,454</u></u>
Amounts due to associates		
— non-interest bearing (<i>note ii</i>)	<u>474</u>	<u>39</u>

Notes:

- (i) The balance as at 30 June 2016 amounting to RMB143,500,000 (2015: RMB136,500,000) are the unsecured entrusted loans due from associates for a term of three years and bears interest at rates ranging from 5.23% to 7% (2015: 6.15% to 7%) per annum.
- (ii) The amounts are unsecured and repayable on demand.

(b) During the period, the Group has the following transaction with the associates:

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Purchases of goods	435	1,757
Interest income	4,450	3,534
Rental income	86	86
Other income	401	443
	<u>5,372</u>	<u>5,820</u>

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

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Short-term employee benefits	1,410	1,400
Post-employment benefits	34	34
	<u>1,444</u>	<u>1,434</u>

4 INDEBTEDNESS STATEMENT

As at the close of business on 30 June 2016, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of the circular, apart from trade, bills and other payables, intra-group balances and amounts due to associates in trade and non-trade nature, as at the close of business on 30 June 2016, other than buildings and land use rights with net book value of RMB102,619,000 and bank deposits of RMB 7,084,000 of the Group were secured for banking facilities up to RMB110,000,000 of which RMB47,090,000 were not yet utilized, the Group did not have any outstanding mortgages, charges, debentures or loan capital issued and outstanding and authorized or otherwise created but unissued, bank overdrafts or loans, similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

The Directors have confirmed that, as at the Latest Practicable Date, there has been no material change to the Group's indebtedness and contingent liability position since 31 December 2015.

5 MATERIAL CHANGES

(i) Unaudited consolidated profit attributable to the equity shareholders and financial positions of the Company for the six months ended 30 June 2016 (as compared for the year 2015)

According to the Group's results announcement for the six months ended 30 June 2016 (the "2016 Interim Results") published on 15 August 2016, the Group recorded an unaudited revenue of approximately RMB536.3 million for the six months ended 30 June 2016, representing an increase of approximately 26.7% for the corresponding period last year. The increase in revenue was mainly attributable to the expansion in sales channels and improved product competitiveness. The unaudited gross profit had been increased from approximately RMB201.8 million (with a gross profit margin of approximately 47.7%) for the six months ended 30 June 2015 to approximately RMB273.8 million (with a gross profit margin of approximately 51.1%) for the six months ended 30 June 2016. Meanwhile, though the Group's unaudited distribution and selling expenses and administrative expenses had been increased by approximately 51.3% and 23.1% (as compared to the corresponding period last year) to approximately RMB83.7 million and RMB24.1 million respectively for the six months ended 30 June 2016, the Group's unaudited profit after tax was arrived at approximately RMB118.5 million, representing an increase of approximately 22.0% as compared to the corresponding period in 2015.

As disclosed in the 2016 Interim Results, the Group's cash and bank balances (including time deposits and pledged bank deposits) increased from approximately RMB311.8 million as at 31 December 2015 to approximately RMB401.4 million as at 30 June 2016.

(ii) Subscription of investment in Zhejiang Haibang Housi Investment Joint Venture (LP)

As disclosed in the 2016 Interim Results, the Group had subscribed an investment of RMB20 million in Zhejiang Haibang Housi Investment Joint Venture (LP) ("Haibang Housi"), representing an equity interest of 17.39% in Haibang Housi. The first tranche of subscribed injection amounted to RMB6 million had already been paid up during the first half of 2016 and the remaining amount shall be paid according to the capital requirements of the investment projects of Haibang Housi.

(iii) Renewed entrusted loan agreements entered with Chengdu Qianyin

As set out in the announcement of the Company dated 20 May 2016, 杭州奧普衛廚科技有限公司 (Hangzhou Aupu Bathroom & Kitchen Technology Co., Ltd.) ("AUPU Technology") (an indirect wholly-owned subsidiary of the Company) entered into the renewed second entrusted loan agreements with 成都牽銀投資有限公司 (Chengdu Qianyin Investment Company Limited), ("Chengdu Qianyin") and Agricultural Bank of China, Hangzhou Wensan Road Branch, pursuant to which AUPU Technology agreed to extend the renewed entrusted loans in the aggregate amount of RMB65 million granted to Chengdu

Qianyin. Chengdu Qianyin is a limited company incorporated in the PRC and is held as to 41.67% by AUPU Technology and as to 58.33% by 杭州牽銀投資有限公司 (Hangzhou Qian Yin Investment Company Limited), an independent third party. The renewed entrusted loans comprise renewal of three existing loans. The renewal of an existing loan of RMB28 million for a term up to 3 June 2017, the renewal of an existing loan of RMB17 million for a term up to 16 June 2017 and the renewal of an existing loan of RMB20 million for a term up to 8 July 2017. The interest rate of the renewed entrusted loan is 6.15% per annum which shall be payable quarterly during the term of each respective underlying loan. The purpose of the renewed entrusted loans is to maintain the day-today business operations of Chengdu Qianyin. The total amount of amount of financial assistance to affiliated companies of the Company (including Chengdu Qianyin and Hangzhou AUPU Broni Kitchen & Bath Co., Ltd. (杭州奧普博朗尼廚衛科技有限公司)) amounts to RMB163.5 million. Further details of the terms of loans and financial assistance are set out in the announcement of the Company dated 20 May 2016.

Saved as disclosed above, the Directors confirm that there has been no material change in the financial or trading position or outlook of the Group since 31 December 2015, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

The information contained in this Scheme Document relating to the Group has been supplied by the Company. The issue of this Scheme Document has been approved by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Offeror or the Offeror Concert Parties), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

The information contained in this Scheme Document relating to the Offeror and the Offeror Concert Parties has been supplied by the Offeror. The issue of this Scheme Document has been approved by the Offeror Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Group) and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Scheme Document have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date:

- (a) the authorised share capital of the Company was HK\$500,000,000 divided into 5,000,000,000 Shares;
- (b) the issued share capital of the Company was HK\$104,722,850 divided into 1,047,228,500 Shares;
- (c) the Company has not issued any Shares since 31 December 2015, being the end of the last financial year of the Company, up to the Latest Practicable Date;
- (d) all of the Shares rank *pari passu* in all respects as regards rights to capital, dividends and voting;
- (e) as at the Latest Practicable Date, there were 4,275,000 outstanding Share Options under the Share Option Scheme with an Exercise Price of HK\$2.07 per Share. For the vesting period of the outstanding Share Options, please refer to the section headed “The Share Option Scheme and Option Offer” in the Explanatory Statement. All the Optionholders have each given an irrevocable undertaking to the Offeror and the Company that they will not exercise any of his/her outstanding Share Options during the Option Period and that they would accept the Option Offer;

- (f) other than the Shares and the outstanding Share Options as disclosed in paragraphs (b) and (e) above, there are no other options, derivatives, warrants or other securities convertible or exchangeable into the Shares which were issued by the Company as at the Latest Practicable Date.

3. MARKET PRICES OF THE SHARES

The table below sets out the closing prices of the Shares on the Stock Exchange on: (i) the last Business Day of each of the calendar months during the period commencing six months preceding the Last Trading Day; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Dates	Closing price (HK\$)
30 November 2015	2.34
31 December 2015	2.26
29 January 2016	2.06
29 February 2016	2.17
31 March 2016	1.84
29 April 2016	2.10
18 May 2016 (Last Trading Day)	2.17
31 May 2016	2.60
30 June 2016	2.59
29 July 2016	2.56
19 August 2016 (Latest Practicable Date)	2.63

During the Relevant Period, the highest closing price of the Shares on the Stock Exchange was HK\$2.63 each on 19 August 2016 and the lowest closing price of the Shares on the Stock Exchange was HK\$1.84 each on 31 March 2016.

4. IRREVOCABLE UNDERTAKINGS

Your attention is drawn to the sections headed “Irrevocable Undertakings to Accept the Proposal” and “Irrevocable Undertakings to Not Exercise the Outstanding Share Options” in the Explanatory Statement set out on pages 61 to 62 of this Scheme Document.

5. DISCLOSURE OF INTERESTS

For the purpose of this paragraph: (i) “interested” and “interests” have the same meanings as given to them in the appropriate part of the SFO; (ii) the “Offer Period” means the period from 29 May 2016 (being the date on which the Company first announced the possible proposal for the privatization of the Company) to the Effective Date, both dates inclusive; and (iii) the “Disclosure Period” means the period beginning from the date which is six months prior to the commencement of the Offer Period (from 29 November 2016) and ending on the Latest Practicable Date, both dates inclusive.

(a) Interests and dealings in the Shares

- (i) As at the Latest Practicable Date: (1) the Offeror Directors had the following interests in the Shares; and (2) the Offeror and the Offeror Concert Parties had the following interests in the Shares:

Shareholder	Number of Shares held	Approximate percentage of total issued share capital of the Company
SeeSi Universal <i>(Note 1)</i>	267,718,310	25.57
Sino Broad <i>(Note 2)</i>	259,605,634	24.79
Renown Harbour <i>(Note 3)</i>	40,563,380	3.87
Copious All <i>(Note 4)</i>	8,112,676	0.77
Fang Shengkang	3,056,000	0.29
Fang James	2,500,000	0.24

Notes:

- (1) SeeSi Universal is a company incorporated in the British Virgin Islands, which is wholly owned by Fang BVI Holding Limited which is in turn wholly owned by Rustem Limited. Rustem Limited is wholly and ultimately owned by the family trust of Mr. Fang James, an executive Director and a director of the Offeror, who is the founder and the settlor of the trust.
 - (2) Sino Board is a company incorporated in the British Virgin Islands, which is wholly and ultimately owned by Mr. Fang Shengkang, an executive Director and a director of the Offeror.
 - (3) Renown Harbour is a company incorporated in the British Virgin Islands, which is wholly and ultimately owned by Mr. Lu Songkang, a non-executive Director.
 - (4) Copious All is a company incorporated in the British Virgin Islands, which is wholly and ultimately owned by Mr. Chai Junqi.
- (ii) None of the Directors had conducted any dealings in the Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period.
- (iii) None of the Offeror, the Offeror Director and the parties acting in concert with the Offeror had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period.
- (iv) As at the Latest Practicable Date, no subsidiary of the Company, pension fund of the Company or of any subsidiary of the Company or adviser of the Company as specified in class (2) of the definition of associate under the Takeovers Code (other than exempt principal traders) owned or controlled any Shares or any convertible

securities, warrants, options or derivatives in respect of any Shares. During the Disclosure Period, no such person had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.

- (v) As at the Latest Practicable Date, no person had any indemnity or other arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror (or with any person acting in concert with the Offeror) and no such person owned or controlled any Shares or dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period.
- (vi) As at the Latest Practicable Date, no person had any other arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company (or with any person who is an associate of the Company by virtue of class (1) to (4) of the definition of “associate” under the Takeovers Code). During the Disclosure Period, no such person had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.
- (vii) As at the Latest Practicable Date, save as disclosed in the table below, none of the Directors had any interest in the Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.

Name of Director	Number of Shares held	Approximate percentage of total issued share capital of the Company
Fang James	270,218,310 <i>(Notes 1 and 6)</i>	25.81%
Fang Shengkang	262,661,634 <i>(Notes 2 and 6)</i>	25.08%
Lu Songkang	40,563,380 <i>(Notes 3 and 6)</i>	3.87%
Wu Tak Lung	285,000 <i>(Notes 4 and 7)</i>	0.03%
Shen Jianlin	187,500 <i>(Notes 5 and 7)</i>	0.02%

Notes:

- (1) Shares owned by Mr. Fang James consist of (i) 267,718,310 Shares held by SeeSi Universal, a company wholly and ultimately owned by Mr. Fang James, and (ii) 2,500,000 Shares beneficially owned by Mr. Fang James.
- (2) Shares owned by Mr. Fang Shengkang consist of (i) 259,605,634 Shares held by Sino Board, a company wholly and ultimately owned by Mr. Fang Shengkang, and (ii) 3,056,000 Shares beneficially owned by Mr. Fang Shengkang.
- (3) These Shares are held by Renown Harbour which is wholly and ultimately owned by Mr. Lu Songkang.

- (4) These Shares are beneficially owned by Mr. Wu Tak Lung.
 - (5) These Shares are beneficially owned by Mr. Shen Jianlin.
 - (6) Mr. Fang James, Mr. Fang Shengkang and Mr. Lu Songkang are members of the Offeror Concert Parties. As a result, none of the Shares held by them will constitute Scheme Shares and none of them will vote on the Scheme at the Court Meeting. Nevertheless, if the Scheme is approved at the Court Meeting, they intend to cast the votes in respect of those Shares held by them in favour of the resolutions to be proposed at the EGM.
 - (7) Mr. Wu Tak Lung and Mr. Shen Jianlin are Independent Shareholders. They intend to cast the votes in respect of those Shares held by them in favour of the resolutions to be proposed at the EGM.
- (viii) Save as disclosed in paragraph 5(a)(i) of this section, the Offeror did not own or control any Shares or convertible securities, warrants, options or derivatives in respect of the Shares.
- (ix) Save as disclosed in paragraph 5(a)(i) of this section, none of the parties acting in concert with the Offeror owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of the Shares.
- (x) As at the Latest Practicable Date, there are no Shares or convertible securities, warrants, options or derivatives in respect of the Shares or any other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror, the Offeror Concert Parties, the Company or the Directors had borrowed or lent, save for any borrowed shares which have been either on-lent or sold.
- (xi) During the Disclosure Period, no fund managers (other than exempt fund managers) connected with the Company who managed funds on a discretionary basis had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares. As at the Latest Practicable Date, no such fund managers owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of the Shares.
- (xii) As at the Latest Practicable Date, none of the non-exempt discretionary fund managers and principal traders connected with the Offeror owned or controlled any Shares or dealt for value in any Shares or convertible securities, warranties, options or derivatives in respect of Shares during the Disclosure Period.
- (xiii) save for (i) the share mortgage dated 22 June 2016 entered into between Crista Universal as mortgagor and BNP Paribas as mortgagee in relation to the mortgage of all Shares to be owned by Crista Universal in favour of BNP Paribas as security for the Facility; and (ii) the share mortgage dated 22 June 2016 entered into between the Offeror as mortgagor and BNP Paribas as mortgagee in relation to the mortgage of all Shares to be owned by the Offeror in favour of BNP Paribas as

security for the Facility, there was no agreement, arrangement or understanding between the Offeror and any other person in relation to the transfer, charge or pledge of the Shares to be issued to the Offeror (or any of its wholly-owned subsidiaries) upon completion of the Scheme.

(xiv) save for the share mortgages disclosed in paragraph 5(a)(xiii) above, the Offeror has no intention to transfer, charge or pledge any securities in the Company acquired pursuant to the Scheme to any other person, and has no agreement, arrangement or understanding with any other person to do so.

(xv) As at the Latest Practicable Date, BNP Paribas did not own any securities in the Company.

(b) Interests and dealings in the Offeror's shares

The Offeror is a wholly-owned subsidiary of Crista Universal which is in turn owned as to 50.01% by Sino Broad, 42.36% by SeeSi Universal, 6.36% by Renown Harbour and 1.2% by Copious All. Accordingly, Mr. Fang James, Mr. Fang Shengkang, Mr. Lu Songkang and Mr. Chai Junqi are deemed to be interested in the Offeror's shares held by Crista Universal.

Save as disclosed in the above paragraph, none of the other Directors or the Company had any interest in the Offeror's shares or convertible securities, warranties, options or derivatives in respect of the Offeror's shares as at the Latest Practicable Date. None of the Directors or the Company dealt for value in the Offeror's shares or convertible securities, warranties, options or derivatives in respect of the Offeror's shares during the Disclosure Period.

(c) Interests and dealings in the Offeror's shares

As at the Latest Practicable Date:

- (i) there were no indemnities or other arrangements of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code exist between the Offeror or any person acting in concert with the Offeror and any other person; and
- (ii) there was no agreement or arrangement to which the Offeror is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Scheme.

Scheme Shareholders that are not Independent Shareholders will be required to abstain from voting at the Court Meeting for the purposes of Rule 2.10 of the Takeovers Code. Mr. Fang James, Mr. Fang Shengkang and Mr. Lu Songkang, who are persons acting in concert with the Offeror, are not Independent Shareholders and will therefore be required to abstain from voting at the Court Meeting in accordance with the Takeovers Code.

(d) Other interests

As at the Latest Practicable Date:

- (i) no benefit is or will be paid/given to any Director as compensation for loss of office or otherwise in connection with the Proposal and the Scheme;
- (ii) save for the Proposal and the Scheme, there was no agreement, arrangement or understanding between the Offeror or parties acting in concert with it on the one hand and any of the Directors, recent Directors, Shareholders or recent Shareholders on the other hand; or between any Directors and any other person which is conditional on or dependent upon the outcome of the Proposal and the Scheme or otherwise in connection with the Proposal and the Scheme;
- (iii) no material contract has been entered into by the Offeror in which any Director has a material personal interest; and
- (iv) no Director has a service contract with any member of the Group in force which (i) (including both continuous and fixed term contracts) has been entered into or amended within six months before the Last Trading Day; or (ii) is continuous contract with a notice period of 12 months or more; or (iii) is a fixed term contract that has more than 12 months to run irrespective of the notice period:

6. MATERIAL LITIGATION

As at the Latest Practicable Date, there was no material litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

7. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried or by the Company or any of its subsidiaries) have been entered into by the Company or any of its subsidiaries after the date two years before the Last Trading Day up to and including the Latest Practicable Date:

- (i) a sale and purchase agreement dated 15 April 2015 entered into between 杭州奧普衛廚科技有限公司 (Hangzhou Aupu Bathroom & Kitchen Technology Co., Ltd.) (“AUPU Technology”), an indirect wholly-owned subsidiary of the Company, as the vendor and 達州市東福商貿有限公司 (Dazhou City Dongfu Commercial & Trading Company Limited) as the purchaser in relation to the disposal of 41.67% of the entire equity interest of 成都牽銀投資有限公司 (Chengdu Qian Yin Investment Company) Limited (“Chengdu Qianyin”), a joint venture company incorporated in the PRC and owned as to 41.67% by AUPU Technology, by AUPU Technology for a consideration of RMB32.0 million (please also see the Company’s announcement dated 15 April 2015);

- (ii) an agreement dated 2 November 2015 entered into between AUPU Technology, Chengdu Qianyin and Agricultural Bank of China, Hangzhou Wensan Road Branch pursuant to which AUPU Technology agreed to extend the unsecured entrusted loan in the amount of RMB9.5 million out of the aggregate amount of RMB62.5 million granted to Chengdu Qianyin on 2 November 2012 (please also see the Company's announcement dated 2 November 2015);
- (iii) an agreement dated 2 November 2015 entered into between AUPU Technology, Chengdu Qianyin and Agricultural Bank of China, Hangzhou Wensan Road Branch pursuant to which AUPU Technology agreed to extend the unsecured entrusted loan in the amount of RMB53 million out of the aggregate amount of RMB65 million granted to Chengdu Qianyin on 2 November 2012 (please also see the Company's announcement dated 2 November 2015);
- (iv) an agreement dated 15 March 2016 entered into between AUPU Technology, Chengdu Qianyin and Agricultural Bank of China, Hangzhou Wensan Road Branch pursuant to which AUPU Technology agreed to provide funding of a total amount of RMB9.0 million to Chengdu Qianyin (please also see the Company's announcement dated 21 December 2015);
- (v) an agreement dated 30 May 2016 entered into between AUPU Technology, Chengdu Qianyin and Agricultural Bank of China, Hangzhou Wensan Road Branch pursuant to which AUPU Technology agreed to extend the unsecured entrusted loan in the amount of RMB20 million out of the aggregate amount of RMB65 million granted to Chengdu Qianyin on 16 May 2013 (please also see the Company's announcement dated 20 May 2016);
- (vi) an agreement dated 1 June 2016 entered into between AUPU Technology, Chengdu Qianyin and Agricultural Bank of China, Hangzhou Wensan Road Branch pursuant to which AUPU Technology agreed to extend the unsecured entrusted loan in the amount of RMB 8 million out of the aggregate amount of RMB65 million granted to Chengdu Qianyin on 16 May 2013 (please also see the Company's announcement dated 20 May 2016);
- (vii) an agreement dated 3 June 2016 entered into between AUPU Technology, Chengdu Qianyin and Agricultural Bank of China, Hangzhou Wensan Road Branch pursuant to which AUPU Technology agreed to extend the unsecured entrusted loan in the amount of RMB17 million out of the aggregate amount of RMB65 million granted to Chengdu Qianyin on 16 May 2013 (please also see the Company's announcement dated 20 May 2016); and
- (viii) an agreement dated 7 June 2016 entered into between AUPU Technology, Chengdu Qianyin and Agricultural Bank of China, Hangzhou Wensan Road Branch pursuant to which AUPU Technology agreed to extend the unsecured entrusted loan in the amount of

RMB20 million out of the aggregate amount of RMB65 million granted to Chengdu Qianyin on 16 May 2013 (please also see the Company's announcement dated 20 May 2016).

8. EXPERTS

The following are the qualifications of each of the experts who has given opinions or advice which are contained in this Scheme Document:

Name	Qualification
BNP Paribas Securities (Asia) Limited	A licensed corporation to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Wallbank Brothers Securities (Hong Kong) Limited	a licensed corporation to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
Jones Lang Lasalle	Chartered professional surveyors and valuers
Fangda Partners	Legal advisers to the Company as to the laws of the PRC

9. CONSENTS

Each of: (i) BNP Paribas Securities; (ii) Wallbank Brothers Securities (Hong Kong) Limited; (iii) Jones Lang Lasalle; and (iv) Fangda Partners has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion therein of the opinions, reports and/or letters and/or the references to its name and/or opinions, reports and/or letters in the form and context in which they respectively appear.

10. MISCELLANEOUS

(a) The Directors are:

Executive Directors:

Mr. Fang James

Mr. Fang Shengkang

Mr. Wu Xingjie

Non-executive Directors:

Mr. Lu Songkang

Mr. Lin Xiaofeng

Independent Non-executive Directors:

Mr. Wu Tak Lung

Mr. Shen Jianlin

Mr. Gan Weimin

- (b) The Company Secretary of the Company is Mr. Chan Ka Fat.
- (c) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111 Cayman Islands.
- (d) The principal place of business of the Company in Hong Kong is at Unit A, 6/F Queen's Centre, 58-64 Queen's Road East, Wan Chai, Hong Kong.
- (e) The headquarters of the Company is situated at No. 210, 21st Street, Xiasha Economic & Technological Development Zone, Hangzhou, Zhejiang Province, the PRC.
- (f) The principal share registrar and transfer office of the Company is Royal Bank of Canada Trust Company (Cayman) Limited, 4th Floor, Royal Bank House, 24 Shedden Road, George Town, Grand Cayman KY1-1110, the Cayman Islands.
- (g) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (h) The addresses of Mr. Fang James and Mr. Fang Shengkang, each being a director of the Offeror are Luyuan 1-104, Kun he Xixili, Chongyi Road, Xihu District, Hangzhou, the PRC and ground floor, 266 Tai Sun Back Street, Cheung Chau, New Territories, Hong Kong respectively, while the addresses of Mr. Lu Songkang and Mr. Chai Junqi, each being an Offeror Concert Party, are room 202, Unit 2, Block11, Fenghe Yuan, Hupan Huayuan, Xihu District, Hangzhou, Zhejiang, PRC and room 501, Unit 3, Block 3, Shen Tang East Village, Gong Shu District, Hangzhou, Zhejiang, PRC respectively.
- (i) The registered office of the Offeror is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (j) The Offeror is an exempted company incorporated in the Cayman Islands on 5 April 2016. It is an investment holding company and has not been engaged in any other business activities since its incorporation. The Offeror is wholly owned by Crista Universal which is held as to 50.01% by Sino Broad, 42.36% by Seesi Universal, 6.36% by Renown Harbour and 1.27% by Copious All.
- (k) The registered office of BNP Paribas Securities is 59/F to 63/F Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of the Company, Unit A, 6/F Queen's Centre, 58–64 Queen's Road East, Wan Chai, Hong Kong from 9:30 a.m. to 5:30 p.m., Monday to Friday and on the website of the Company at www.aupu.cn and the website of SFC at www.sfc.hk from 22 August 2016 until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is earlier:

- (a) the memorandum and articles of association of the Offeror;
- (b) the memorandum and articles of association of the Company;
- (c) the annual reports of the Company for the two financial years ended 31 December 2014 and 2015 respectively;
- (d) the interim results announcement of the Company for the six months ended 30 June 2016;
- (e) the letter from the Board, the text of which is set out on pages 11 to 22 of this Scheme Document;
- (f) the letter from the Independent Board Committee, the text of which is set out on pages 23 to 24 of this Scheme Document;
- (g) the letter from Wallbanck Brothers Securities (Hong Kong) Limited, the text of which is set out on pages 25 to 54 of this Scheme Document;
- (h) the valuation report from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the text of which is set out on pages 177 to 191 of this Scheme Document;
- (i) written consents referred to in the section headed "Consent" in "Appendix II — General Information" to this Scheme Document;
- (j) the material contracts referred to in the section headed "Material Contracts" in "Appendix II — General Information" to this Scheme Document;
- (k) the Facility;
- (l) the share mortgage dated 22 June 2016 entered into between Crista Universal as mortgagor and BNP Paribas as mortgagee in relation to the mortgage of all Shares to be owned by Crista Universal in favour of BNP Paribas as security for the Facility;
- (m) the share mortgage dated 22 June 2016 entered into between the Offeror as mortgagor and BNP Paribas as mortgagee in relation to the mortgage of all Shares to be owned by the Offeror in favour of BNP Paribas as security for the Facility; and
- (n) irrevocable undertaking given by each of the Optionholders to the Offeror and the Company not to exercise any of his outstanding Share Options.

IN THE GRAND COURT OF THE CAYMAN ISLANDS
FINANCIAL SERVICES DIVISION

Cause No. FSD 96 of 2016

IN THE MATTER of sections 15 and 86 of the Companies Law (2013 Revision) (as amended)

AND IN THE MATTER of the Grand Court Rules 1995 Order 102

AND IN THE MATTER of **AUPU Group Holding Company Limited**

SCHEME OF ARRANGEMENT

Between

AUPU GROUP HOLDING COMPANY LIMITED
(奥普集团控股有限公司)

and

THE SCHEME SHAREHOLDERS
(as hereinafter defined)

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set opposite them:

“acting in concert”	has the same meaning ascribed to it in the Takeovers Code
“Board”	the board of Directors
“Business Day”	a day other than a Saturday, Sunday or a public holiday in Hong Kong or the Cayman Islands
“Cash Consideration”	the consideration payable under the terms of the Scheme of Arrangement by the Offeror to the Scheme Shareholders in an amount of HK\$2.71 in cash for every Scheme Share cancelled
“Company”	AUPU Group Holding Company Limited (奥普集团控股有限公司), an exempted company incorporated in the Cayman Islands on 14 July 2006 with limited liability, the ordinary shares of which are currently listed on the Main Board of the Stock Exchange (stock code: 477)

“Companies Law”	the Companies Law (2013 Revision) of the Cayman Islands (as amended)
“Copious All”	Copious All Limited (百隆有限公司), a company incorporated in the British Virgin Islands with limited liability and is wholly owned by Mr. Chai Junqi
“Crista Universal”	Crista Universal Company Limited (羽冠寰宇有限公司), an exempted company incorporated in the Cayman Islands with limited liability and is owned as to 50.01% by Sino Broad, as to 42.36% by SeeSi Universal, as to 6.36% by Renown Harbour and as to 1.27% by Copious All
“Director”	a director of the Company
“Effective Date”	the date on which the Scheme of Arrangement, if approved and sanctioned by the Grand Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the Order of the Grand Court sanctioning the Scheme of Arrangement is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law
“Fang Family Trust”	the discretionary trust established by Mr. Fang James, an executive Director
“Grand Court”	the Grand Court of the Cayman Islands
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent committee of the Board established by the Board to make a recommendation to the Scheme Shareholders in respect of, amongst other things, the Proposal, the Scheme of Arrangement and the Option Offer, comprising Mr. Wu Tak Lung, Mr. Shen Jianlin, Mr. Gan Weimin and Mr. Lin Xiaofeng

“Independent Financial Adviser” or “Wallbanck Securities”	Wallbanck Brothers Securities (Hong Kong) Limited, being the independent financial adviser to the Independent Board Committee appointed pursuant to Rule 2.1 of the Takeovers Code in relation to, amongst other things, the Proposal and the Option Offer, being a licensed corporation to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
“Latest Practicable Date”	19 August 2016, being the latest practicable date prior to the despatch of the composite scheme document containing the Scheme of Arrangement for ascertaining certain information contained herein
“Offeror”	Upwind Holding Company Limited (迎风控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability and wholly owned by Crista Universal
“Offeror Concert Parties”	parties acting in concert with the Offeror in relation to the Company, including Mr. Fang Shengkang, Mr. Fang James (and Fang BVI Holding Limited, Rustem Limited, Cantrust (Far East) Limited and the Fang Family Trust), Mr. Lu Songkang, Mr. Chai Junqi, Crista Universal, Sino Broad, SeeSi Universal, Renown Harbour and Copious All
“Option Offer”	the offer to the holders of options over the Shares for the cancellation of every vested and unvested option in accordance with the Takeovers Code
“Proposal”	the proposal for the privatisation of the Company by the Offeror by way of the Scheme of Arrangement
“Record Date”	14 September 2016 or such other date as shall have been announced to the Scheme Shareholders being the record date for the purpose of determining the entitlement of the Scheme Shareholders to attend and vote at the Court Meeting
“Register”	the principal or branch register of members of the Company (as the case may be)
“Renown Harbour”	Renown Harbour Limited (尊港有限公司), a company incorporated in the British Virgin Islands with limited liability and is wholly owned by Mr. Lu Songkang, a non-executive Director

“Scheme of Arrangement”	the scheme of arrangement between the Company and the Scheme Shareholders under Section 86 of the Companies Law (subject to any modification(s) or addition(s) or condition(s) approved or imposed by the Grand Court and agreed to by the Offeror) involving the cancellation of all the Scheme Shares and reduction of share capital and the restoration of the share capital of the Company to the amount immediately before the cancellation of the Scheme Shares and reduction of share capital, on the terms and subject to the conditions set out in this Scheme of Arrangement
“Scheme Record Date”	28 September 2016 (Hong Kong date) or such other date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlements of the Scheme Shareholders to the Cash Consideration upon the Scheme of Arrangement becoming effective
“Scheme Record Time”	4:00 p.m. (Hong Kong time) on the Scheme Record Date
“Scheme Share(s)”	Share(s) other than those directly or indirectly held by the Offeror Concert Parties as at the Scheme Record Time on the Scheme Record Date
“Scheme Shareholder(s)”	the Shareholders other than the Offeror Concert Parties as at the Scheme Record Time on the Scheme Record Date
“SeeSi Universal”	SeeSi Universal Limited (思時寰宇有限公司), a company incorporated in the British Virgin Islands with limited liability and is wholly and ultimately owned by the Fang Family Trust
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Sino Broad”	Sino Broad Holdings Limited (中博控股有限公司), a company incorporated in the British Virgin Islands with limited liability and is wholly owned by Mr. Fang Shengkang, an executive Director
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	registered holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers of Hong Kong

- (B) The Company was incorporated as an exempted company on 14 July 2006 with limited liability in the Cayman Islands under the Companies Law.
- (C) The authorised share capital of the Company as at the Latest Practicable Date was HK\$500,000,000 divided into 5,000,000,000 Shares of par value HK\$0.10.
- (D) The Offeror, which is owned by the Offeror Concert Parties, has proposed the privatisation of the Company by way of the Scheme of Arrangement.
- (E) The primary purpose of the Scheme of Arrangement is to privatise the Company by cancelling and extinguishing all of the Scheme Shares in consideration for the Cash Consideration so that thereafter and after the transfer of the Shares held by the Offeror Concert Parties to the Offeror, the Offeror will own 100% of the Company. Simultaneously with the cancellation of the Scheme Shares, the issued share capital of the Company will be restored to its former amount by the issue to the Offeror at par credited as fully paid such number of Shares as is equal to the number of Scheme Shares cancelled and extinguished at the Scheme Record Date.
- (F) As at the Latest Practicable Date, 581,556,000 Shares were legally and/or beneficially owned by the Offeror Concert Parties and parties acting in concert with them and registered as follows:

	As at the Latest Practicable Date		Upon completion of the Proposal	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
Shareholders				
Offeror	—	—	1,047,228,500	100.00
Offeror Concert Parties				
SeeSi Universal	267,718,310	25.57	—	—
Sino Broad	259,605,634	24.79	—	—
Renown Harbour	40,563,380	3.87	—	—
Copious All	8,112,676	0.77	—	—
Fang Shengkang	3,056,000	0.29	—	—
Fang James	2,500,000	0.24	—	—
Aggregate number of Shares of the above Offeror and the Offeror Concert Parties	581,556,000	55.53	—	—
Independent Shareholders	<u>465,672,500</u>	<u>44.47</u>	<u>—</u>	<u>—</u>
Total	<u>1,047,228,500</u>	<u>100.00</u>	<u>1,047,228,500</u>	<u>100.00</u>
Total Number of Scheme Shares	<u>465,672,500</u>	<u>44.47</u>		

- (G) Each of the parties acting in concert with the Offeror (which include the Offeror Concert Parties) will procure that any Shares in respect of which they are beneficially interested will not be represented or voted at the meeting convened at the direction of the Grand Court for the purpose of considering and, if thought fit, approving the Scheme of Arrangement.
- (H) The Offeror and the Offeror Concert Parties have undertaken to the Grand Court to be bound by the Scheme of Arrangement and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable for the purpose of giving effect to and satisfying their respective obligations under the Scheme of Arrangement.

SCHEME OF ARRANGEMENT

PART I

Cancellation of the Scheme Shares and issue of new Shares credited as fully paid at par to the Offeror

1. On the Effective Date:
 - (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares and the Scheme Shareholders shall cease to have any right with respect to the Scheme Shares except the right to receive the Cash Consideration;
 - (b) subject to and forthwith upon such reduction of capital taking effect, the issued share capital of the Company will be restored to its former amount by issuing to the Offeror the same number of Shares as is equal to the number of Scheme Shares cancelled and extinguished at the Scheme Record Date; and
 - (c) the Company shall apply the credit arising in its books of account as a result of the cancellation of the Scheme Shares by paying up in full at par such number of Shares as is equal to the number of Scheme Shares cancelled at the Scheme Record Date, which shall be allotted and issued and credited as fully paid at par to the Offeror as mentioned in paragraph (b) above.

After the Scheme of Arrangement has become effective, the Shares held by the Offeror Concert Parties will be transferred to the Offeror so that the Offeror will own 100% of the Company.

PART II

Consideration for the cancellation and extinguishment of the Scheme Shares

2. In consideration of the cancellation and extinguishment of the Scheme Shares, the Offeror shall pay (or procure that there shall be paid) to each person who is a holder of the Scheme Shares (as appears in the Register at the Scheme Record Time on the Scheme Record Date);

for each Scheme Share cancelled. HK\$2.71 in cash

PART III

General

3. (a) As soon as possible and in any event not later than five (5) Business Days after the Effective Date, on request the Company shall issue share certificate(s) to the Offeror.
- (b) As soon as possible and in any event not later than seven (7) Business Days following the Effective Date, the Offeror shall send or cause to be sent to the Scheme Shareholders cheques representing the Cash Consideration.
- (c) Unless otherwise indicated in writing to the Hong Kong branch share registrar and transfer office of the Company, being Tricor Investor Services Limited, all cheques to be despatched to the Scheme Shareholders shall be sent by ordinary post in envelopes addressed to the Scheme Shareholders at their respective addresses as appearing in the Register at the Scheme Record Time on the Scheme Record Date or, in the case of joint holders, at the address appearing in the Register at the Scheme Record Time on the Scheme Record Date of the joint holder whose name then stands first in the Register in respect of the relevant joint holding.
- (d) Cheques shall be posted at the risk of the addressees and neither the Offeror nor the Company shall be responsible for any loss or delay in receipt.
- (e) Cheques shall be in favour of the person to whom, in accordance with the provisions of paragraph (b) of this Clause 3, the envelope containing the same is addressed and the encashment of any such cheques shall be a good discharge to the Offeror for the monies represented thereby.
- (f) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph (b) of this Clause 3, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been encashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in the Offeror's name with a licensed bank in Hong Kong selected by the Offeror. The Offeror shall hold such monies on trust for those entitled under the terms of the Scheme of Arrangement until the expiration of six years from the Effective Date and shall prior to such date pay out of such monies the sums payable pursuant to the Scheme of Arrangement to persons who satisfy the Offeror that they are entitled thereto and the cheques referred to in paragraph (b) of this Clause 3 of which they are payees have not been encashed. Any payments made by the Offeror shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to this Scheme of Arrangement. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.
- (g) On the expiration of six years from the Effective Date, the Offeror and the Company shall be released from any further obligation to make any payments under the Scheme of Arrangement.

- (h) Paragraph (g) of this Clause 3 shall take effect subject to any prohibition or condition imposed by law.
 - (i) Upon cancellation of the Scheme Shares, the Register shall be updated to reflect such cancellation.
4. As from the Effective Date, any instruments of transfer relating to and all certificates representing, the Scheme Shares shall cease to have effect as documents of title (and/or for any purpose as an instrument of transfer) and every Scheme Shareholder and every holder of such certificate shall be bound on the request of the Offeror to deliver up the same to the Offeror for cancellation thereof.
 5. All mandates or relevant instructions to or by the Company in force at the Scheme Record Time on the Scheme Record Date relating to any of the Scheme Shares shall cease to be valid as effective mandates or instructions on the Effective Date.
 6. The Scheme of Arrangement shall become effective as soon as a copy of the Order of the Grand Court sanctioning the Scheme of Arrangement has been delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law.
 7. Unless the Scheme of Arrangement shall have become effective on or before 31 December 2016 or such later date, if any, as the Offeror and the Company may agree or as the Grand Court on application of the Offeror or the Company may allow, the Scheme of Arrangement shall lapse and be no effect.
 8. The Company and the Offeror may jointly consent for and on behalf of all concerned to any modification of or addition to the Scheme of Arrangement or to any condition which the Grand Court may think fit to approve or impose.
 9. If the Independent Board Committee or the Independent Financial Adviser does not recommend the Proposal, the Scheme of Arrangement, or the Option Offer and the Scheme of Arrangement is not effective, all expenses incurred by the Company in connection therewith shall be borne by the Offeror in accordance with the Takeovers Code. If the Scheme of Arrangement has become effective, all costs, charges and expenses of the advisers and counsels appointed by the Company will be borne by the Company whereas all costs, charges and expenses of the advisers and counsels appointed by Offeror will be borne by the Offeror, and other costs, charges and expenses of the Scheme of Arrangement will be shared between the Offeror and the Company equally.

Date 22 August 2016

**IN THE GRAND COURT OF THE CAYMAN ISLANDS
FINANCIAL SERVICES DIVISION**

Cause No. FSD 96 of 2016

IN THE MATTER of sections 15 and 86 of the Companies Law (2013 Revision) (as amended)

AND IN THE MATTER of the Grand Court Rules 1995 Order 102

AND IN THE MATTER of **AUPU Group Holding Company Limited** (奥普集团控股有限公司)

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated 2 August 2016 (the “Order”) made in the above matter, the Grand Court of the Cayman Islands (the “Court”) has directed a meeting (the “Court Meeting”) to be convened of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) for the purpose of considering and, if thought fit, approving, with or without modification(s), a scheme of arrangement (the “Scheme of Arrangement”) proposed to be made between AUPU Group Holding Company Limited (the “Company”) and the Scheme Shareholders and that the Court Meeting will be held at Ching Room, 4/F, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on Wednesday 14 September 2016 at 10:00 a.m. (Hong Kong time) at which place and time all Scheme Shareholders are invited to attend.

A copy of the Scheme of Arrangement and a copy of an explanatory statement explaining the effect of the Scheme of Arrangement are incorporated in the composite scheme document of which this Notice forms part. A copy of the composite scheme document can also be obtained by the Scheme Shareholders from the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

Scheme Shareholders may vote in person at the Court Meeting or they may appoint another person (who must be an individual), whether a member of the Company or not, to attend, speak and vote in their stead. A pink form of proxy for use at the Court Meeting is enclosed with the composite scheme document dated 22 August 2016 despatched to members of the Company on 22 August 2016. Completion and return of the pink proxy form will not prevent a Scheme Shareholder from attending and voting at the Court Meeting, or any adjournment thereof, in person if he/she wishes to do so and in event, the pink proxy form previously submitted shall be deemed to be revoked.

In the case of joint holders of a share, any one of such persons may vote at the Court Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto. However, if more than one of such joint holders be present at the Court Meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more

senior shall alone be entitled to vote in respect of the relevant joint holding. For this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the Register of Members of the Company in respect of such joint holding, the first named shareholder being the senior.

It is requested that pink forms appointing proxies be deposited at the Hong Kong branch share registrar and transfer office of the Company in Hong Kong at Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 10:00 a.m. on Monday, 12 September 2016, but if forms are not so lodged they may be handed to the chairman of the Court Meeting at the Court Meeting before the taking of the poll, who has absolute discretion as to whether or not to accept them pursuant to the Order.

By the Order, the Court has appointed Wu Tak Lung, a director of the Company, or failing him, Gan Weimin, also a director of the Company, or failing him, any other person who is a director of the Company as at the date of the Court Meeting, to act as the chairman of the Court Meeting and has directed the chairman of the Court Meeting to report the results of the Court Meeting to the Court.

The Scheme of Arrangement will be subject to a subsequent application seeking the sanction of the Court.

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

Hong Kong, 22 August 2016

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

Principal Place of Business in Hong Kong
Unit A, 6/F Queen's Centre
58-64 Queen's Road East
Wanchai
Hong Kong

Notes:

1. A Scheme Shareholder entitled to attend and vote at the Court Meeting is entitled to appoint one, and if such Scheme Shareholder is the holder of two or more shares, more than one proxy to attend and vote instead of him. A proxy need not be a Scheme Shareholder of the Company, but must attend the Court Meeting in person to represent him.
2. A pink form of proxy for use at the Court Meeting is enclosed with the composite document containing the Scheme of Arrangement dated 22 August 2016 despatched to Scheme Shareholder of the Company.

3. In order to be valid, the pink form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be lodged with Tricor Investor Services Limited, the Company's Hong Kong branch share registrar and transfer office at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time for holding the Court Meeting or any adjournment thereof but if the forms are not so lodged, they may be handed to the Chairman of the Court Meeting at the Court Meeting before taking of the poll, who has absolute discretion as to whether or not to accept them pursuant to the Order. Completion and return of the pink form of proxy will not preclude a Scheme Shareholder from attending the Court Meeting and voting in person if he so wishes. In the event that a Scheme Shareholder attends and votes at the Court Meeting after having lodged his pink form of proxy, his pink form of proxy will be revoked by operation of law.
4. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the relevant joint holding.
5. Voting at the Court Meeting will be taken by poll as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Code on Takeovers and Mergers.
6. The Register of Members of the Company will be closed from 9 September 2016 to 14 September 2016 (both days inclusive) and during such period no transfer of shares will be registered. In order to be entitled to attend and vote at the Court Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 8 September 2016.

AUPU

AUPU GROUP HOLDING COMPANY LIMITED

奧普集團控股有限公司

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

(Stock Code: 00477)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “Extraordinary General Meeting”) of AUPU Group Holding Company Limited (the “Company”) will be held at Ching Room, 4/F, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on Wednesday, 14 September 2016 at 11:30 a.m. (Hong Kong time) (or as soon as after the conclusion or the adjournment of the meeting of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) convened at the direction of the Grand Court of the Cayman Islands for the same day and place), for the purpose of considering and, if thought fit, passing the following resolutions:

SPECIAL RESOLUTIONS

1. **“THAT:**

- (a) pursuant to the scheme of arrangement dated 22 August 2016 (the “Scheme of Arrangement”) between the Company and the holders of the Scheme Shares (as defined in the Scheme of Arrangement) in the form of the print thereof, which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved or imposed by the Grand Court of the Cayman Islands, on the Effective Date (as defined in the Scheme of Arrangement), the issued share capital of the Company shall be reduced by the cancellation and extinguishment of the Scheme Shares (as defined in the Scheme of Arrangement); and
- (b) the directors of the Company be and are hereby authorised to do all acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme of Arrangement and the reduction of capital pursuant to the Scheme of Arrangement, including (without limitation) giving consent to any modification of, or addition to, the Scheme of Arrangement or the reduction of capital which the Grand Court of the Cayman Islands may see fit to impose.”

2. “**THAT:**
- (a) the withdrawal of the listing of the shares of the Company from The Stock Exchange of Hong Kong Limited be and is hereby approved; and
 - (b) any one of the directors of the Company be and is hereby authorised to apply to The Stock Exchange of Hong Kong Limited for the withdrawal of the listing of the shares of the Company.”

ORDINARY RESOLUTION

3. “**THAT:**
- (a) subject to and simultaneously with the cancellation and extinguishment of the Scheme Shares referred to in resolution 1(a) taking effect, the issued share capital of the Company be restored to its former amount by allotting and issuing to the Offeror (as defined in the Scheme of Arrangement), credited as fully paid at par, the same number of ordinary shares of HK\$0.10 each in the share capital of the Company as is equal to the number of Scheme Shares cancelled;
 - (b) the credit arising in the books of account of the Company consequent upon the reduction of its issued share capital resulting from the cancellation and extinguishment of the Scheme Shares referred to in resolution 1(a) shall be applied by the Company in paying up in full at par the new ordinary shares allotted and issued to the Offeror, pursuant to resolution 3(a) above, and the directors of the Company be and are hereby authorised to allot and issue the same accordingly; and
 - (c) any one of the directors of the Company be and is hereby authorised to do all acts and things considered by him/her to be necessary or desirable in connection with the implementation of the Scheme of Arrangement, including (without limitation) the giving of consent to any modification of, or addition to, the Scheme of Arrangement, which the Grand Court of the Cayman Islands may see fit to impose.”

By order of the board of
AUPU Group Holding Company Limited
Fang James
Chairman

Hong Kong, 22 August 2016

Registered office

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

Principal Place of Business in Hong Kong

Unit A, 6/F Queen's Centre
58-64 Queen's Road East
Wanchai
Hong Kong

Notes:

1. A member entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint one, and if such member is the holder of two or more shares, more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company, but must attend the Extraordinary General Meeting in person to represent him.
2. A white form of proxy for use at the Extraordinary General Meeting is enclosed with the composite document containing the Scheme of Arrangement dated 22 August 2016 despatched to members of the Company.
3. In order to be valid, the white form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be lodged with Tricor Investor Services Limited, the Company's Hong Kong branch share registrar and transfer office at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time for holding the Extraordinary General Meeting or any adjournment thereof. Completion and return of the white form of proxy will not preclude a member from attending the Extraordinary General Meeting and voting in person if he so wishes. In the event that a member attends and votes at the Extraordinary General Meeting after having lodged his white form of proxy, his white form of proxy will be revoked by operation of law.
4. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the relevant joint holding.
5. Voting at the Extraordinary General Meeting will be taken by poll as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Code on Takeovers and Mergers.
6. The Register of Members of the Company will be closed from 9 September 2016 to 14 September 2016 (both days inclusive) and during such period no transfer of shares will be registered. In order to be entitled to attend and vote at the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 8 September 2016.

The following is a sample of the Option Offer Letter being sent to the relevant Optionholders in connection with the Option Offer.

**BNP PARIBAS****Financial Adviser to the Offeror**

22 August 2016

To the Optionholders

Dear Sir or Madam,

**PROPOSAL FOR THE PRIVATISATION OF
AUPU GROUP HOLDING COMPANY LIMITED
BY THE OFFEROR
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW) WITH CANCELLATION
PRICE OF HK\$0.64 FOR EVERY SCHEME SHARE
AND
PROPOSED CASH OFFER TO CANCEL ALL
OUTSTANDING SHARE OPTIONS**

A composite scheme document dated the same date as this letter issued jointly by the Offeror, and AUPU Group Holding Company Limited (the “Company”) (the “Scheme Document”) is enclosed with this letter. Terms used but not defined in this letter shall have the same meanings and construction as in the Scheme Document. This letter should be read in conjunction with the Scheme Document.

On 29 May 2016, the Offeror and the Company jointly announced that the Offeror, had requested the Board to put forward the Proposal to the Scheme Shareholders regarding a privatisation of the Company by way of the Scheme. As stated in the Announcement, the Offeror will make an appropriate offer to the holders of the outstanding Share Options in accordance with the Takeovers Code, subject to and conditional upon the Scheme becoming effective.

This letter explains the actions you may take in relation to your outstanding Share Options. You are advised to refer to the Scheme Document when considering them.

Your attention is also drawn to the terms and conditions of the Share Option.

TERMS OF THE OPTION OFFER

On behalf of the Offeror, we are making an offer, which is conditional on the Scheme becoming effective, to you pursuant to the terms of the Share Option Scheme.

You may accept the Option Offer by lodging a completed form of acceptance in relation to the Option Offer (the “Option Form of Acceptance”) by 4:30 p.m. (Hong Kong time) on 12 October 2016. The Option Amount to cancel an Option is calculated by deducting the Exercise Price payable on exercise of an Option from the Cancellation Price (i.e., the “see-through” price). As the Exercise Price of all the Options is HK\$2.07 per share, the “see-through” price is \$0.64 per share.

The Option Offer is conditional upon the Scheme becoming effective. The Conditions of the Proposal are set out in the section headed “Conditions of the Proposal” in the Explanatory Statement on pages 59 to 61 of the Scheme Document. In addition, all payments in respect of the Option Amount will be made by cheque in Hong Kong dollars.

You may face delays or obstacles in changing Hong Kong dollars to other currency or cashing such cheque in certain locations or situations. You are further advised to refer to the section headed “Overseas Shareholders and Overseas Optionholders” set out on page 68 of the Scheme Document.

Your attention is drawn to the letter from the Independent Board Committee to the Scheme Shareholders and the Optionholders set out on pages 23 to 24 of the Scheme Document and the letter from Wallbank Brothers Securities (Hong Kong) Limited, the Independent Financial Adviser, set out on pages 25 to 54 of the Scheme Document which contain the recommendation of the Independent Board Committee and of the Independent Financial Adviser, respectively, in relation to the Proposal and the Option Offer.

COURSES OF ACTION AVAILABLE TO OPTIONHOLDERS

In summary, the choices available to you in respect of your outstanding Share Options are:

- (a) you may accept the Option Offer in accordance with its terms in respect of such outstanding Share Options, as set out in this letter and in the Scheme Document, by electing on the enclosed Option Form of Acceptance, by not later than 4:30 p.m. (Hong Kong time) on 12 October 2016 (or such later date as may be notified to you by BNP Paribas Securities or the Offeror), to receive the Option Amount if the Scheme becomes effective; or
- (b) do nothing, in which case, conditional on the passing of the resolutions to be proposed at the Court Meeting and the EGM to approve the Scheme, and the Scheme becoming effective, your outstanding Share Options will lapse automatically on 12 October 2016, and you will not hold the outstanding Share Options or receive the Option Amount.

Each outstanding Share Option you hold is independent and you should make a separate decision for each one.

For further details, please refer to the remaining sections of this letter, the Scheme Document and the terms of the Share Option Scheme.

OUTSTANDING SHARES OPTIONS HELD AS AT THE LATEST PRACTICABLE DATE

Information on the outstanding Share Options held by you as at the Latest Practicable Date is available from the Company Secretary of the Company.

LAPSED OPTIONS

Please note that nothing in this letter or the Scheme Document serves to extend the life of a Share Option which lapses, will lapse, or has already lapsed, under the terms of the Share Option Schemes. You cannot accept the Option Offer in respect of a Share Option which has lapsed.

INDEPENDENT FINANCIAL ADVICE

The information provided in this letter is intended to give you factual details on which to base your decision as to the action you wish to take.

If you are in any doubt as to any aspect of this letter, the Scheme Document or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

DECLARATION

By returning the enclosed Option Form of Acceptance, you thereby:

- (a) warrant and confirm that each outstanding Share Option in respect of which you make an election is valid and subsisting, not subject to any outstanding exercise notice, free from all liens, charges, mortgages and third party interests of any nature whatsoever;
- (b) acknowledge that any outstanding share option certificate in respect of such outstanding Share Option shall become void once that outstanding Share Option has been cancelled as a result of your acceptance of the Option Offer pursuant to your decisions shown on the Option Form of Acceptance;
- (c) confirm that the decisions which you have made on the Option Form of Acceptance cannot be withdrawn or altered;
- (d) authorise the Company and the Offeror, jointly and severally, or any director or officer of the Company or the Offeror or any agent of such person to do all acts and things and to execute any document as may be necessary or desirable to give effect to, or in consequence, of the acceptance you have made on the Option Form of Acceptance, and you hereby undertake to execute any further assurance that may be required in respect of such acceptance;
- (e) undertake to confirm and ratify any action properly or lawfully taken on your behalf by any attorney appointed by or pursuant to this letter and the Option Form of Acceptance; and

- (f) confirm you have read, understood and agreed to the terms and conditions of the Option Offer (including without limitation those set out in this letter and the Option Form of Acceptance), and that you have received the Scheme Document and this letter.

GENERAL

All communications, notices, Option Forms of Acceptance, cheques, certificates and other documents of any nature to be delivered by or sent to or from Optionholders will be delivered by or sent to or from them, or their designated agents, at their risk, and none of BNP Paribas Securities, the Offeror or the Company accepts any liability for any loss or any other liabilities whatsoever which may arise as a result.

The provisions set out in the Option Form of Acceptance form part of the terms of the Option Offer.

The Option Offer and all acceptances are governed by and construed in accordance with the laws of Hong Kong.

Due execution of the Option Form of Acceptance in respect of the Option Offer will constitute an authority to BNP Paribas Securities, the Offeror, the Offeror Director or their respective agents to complete and execute on behalf of the accepting Optionholder, the Option Form of Acceptance and any document and to do any other act that may be necessary or expedient for the purpose of cancelling, or vesting in the Offeror or such person(s) as the Offeror shall direct, all rights of the Optionholders in respect of the outstanding Share Options which are the subject of such acceptance.

The delivery of the Option Form of Acceptance, duly signed, may, if the Offeror determines it appropriate, be as effective as if it were duly completed and received notwithstanding that it is not completed or received strictly in accordance with the Option Form of Acceptance and this letter, including the date specified for receipt.

By completing the Option Form of Acceptance in respect of a particular outstanding Share Option, you irrevocably and at your own risk elect to authorise the Offeror to send to you (or to any other payee you specify in the Option Form of Acceptance), or procure the sending to you (or to any such payee) of, the cash to which you are entitled.

ACTIONS TO BE TAKEN

You should return the duly completed Option Form of Acceptance together with the relevant certificate(s) or other documents evidencing the grant of the outstanding Share Options to you and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Company at Unit A, 6/F Queen's Centre, 58-64 Queen's Road East, Wan Chai, Hong Kong (marked for the attention of the "Company Secretary"), by no later than 4:30 p.m. (Hong Kong time) on 12 October 2016 (or such other date and time as may be notified to you

by BNP Paribas Securities or the Offeror). If you do not complete an Option Form of Acceptance, subject to and conditional upon the Scheme becoming effective, your outstanding Share Options will lapse.

Before forwarding the Option Form of Acceptance to the Company, please ensure that you have signed the Option Form of Acceptance and that your signature has been witnessed.

As stated above, the Option Offer is conditional upon the Scheme becoming effective. Unless the Scheme becomes effective, and therefore the Option Offer becomes unconditional, on or before 12 October 2016 (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Grand Court may direct), the Option Offer will lapse.

Assuming the Option Offer becomes unconditional on 28 September 2016 (Cayman Islands time), payments (by cheque) for the Option Amount are expected to be despatched within 7 Business Days following the later of: (i) the Option Offer becoming unconditional; and (ii) the receipt of each validly completed Option Form of Acceptance.

No acknowledgment of receipt of any Option Form of Acceptance or other document evidencing the grant of the outstanding Share Options or other documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

RECOMMENDATION OF THE INDEPENDENT FINANCIAL ADVISER AND THE INDEPENDENT BOARD COMMITTEE

In the letter from the Independent Financial Adviser set out on pages 40 to 42 of the Scheme Document, the Independent Financial Adviser states that it considers the terms of the Option Offer to be fair and reasonable and advises the Independent Board Committee to recommend the Optionholders to accept the Option Offer.

The full text of the letter from Wallbank Brothers Securities (Hong Kong) Limited is set out on pages 25 to 54 of the Scheme Document.

The Independent Board Committee, having considered the terms of the Option Offer and having taken into account the opinion of Wallbank Brothers Securities (Hong Kong) Limited, and in particular the factors, reasons and recommendations set out in its letter on pages 23 to 24 of this Scheme Document considers that the terms of the Option Offer are fair and reasonable.

Accordingly, the Independent Board Committee recommends the Optionholders to accept the Option Offer.

RESPONSIBILITY STATEMENTS

The information contained in this Option Offer Letter relating to the Group has been supplied by the Company. The issue of this Option Offer Letter has been approved by the directors of the Company, who jointly and severally accept full responsibility for the accuracy of the information contained in this Option Offer Letter (other than that relating to the Offeror or the Offeror Concert

Parties), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Option Offer Letter have been arrived at after due and careful consideration and there are no other facts not contained in this Option Offer Letter, the omission of which would make any statement in this Option Offer Letter misleading.

The information contained in this Option Offer Letter relating to the Offeror or the Offeror Concert Parties has been supplied by the Offeror. The issue of this Option Offer Letter has been approved by the Offeror Director, who accepts full responsibility for the accuracy of the information contained in this Option Offer Letter (other than that relating to the Group) and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Option Offer Letter have been arrived at after due and careful consideration and there are no other facts not contained in this Option Offer Letter, the omission of which would make any statement in this Option Offer Letter misleading.

Yours faithfully.

For and on behalf of

BNP Paribas Securities (Asia) Limited

Isadora Li

Managing Director

The following is the text of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 31 May 2016 of the property interests held by the Group.



Jones Lang LaSalle Corporate Appraisal and Advisory Limited
6/F Three Pacific Place 1 Queen's Road East Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No.: C-030171

22 August 2016

The Board of Directors
AUPU Group Holding Company Limited
No. 210, 21 Street
Xiasha Economic Technological Development Zone
Hangzhou City
Zhejiang Province
The PRC

Dear Sirs,

On 18 May 2016, Upwind Holding Company Limited (the “Offeror”) requested the Board of AUPU Group Holding Company Limited to put forward a proposal to the Scheme Shareholders which, if approved and implemented, would result in the Company becoming wholly-owned by the Offeror and the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules.

In accordance with your instructions to value the properties held by AUPU Group Holding Company Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property interests as at 31 May 2016 (the “valuation date”).

Our valuation is carried out on a market value basis. Market value is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion”.

Due to the nature of the buildings and structures of property nos. 1 and 4 in Group I and the particular locations in which they are situated, there are no market sales comparables readily available, the property interests have been valued by cost approach with reference to their depreciated replacement cost.

Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation of property nos. 1 and 4 in Group I, it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

In valuing property nos. 2 and 3, we have adopted the comparison approach in our valuation by making reference to comparable market transactions in our assessment of the market value of the property interest. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

In valuing the property no. 5 in Group II, which was under construction as at the valuation date, we also have applied the Cost Approach by taking into account the market value for the existing use of the land, plus the construction cost, professional fees and relevant interests accordingly to the stage of the construction as at the valuation date.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; Rule 11 of the Code on Takeovers and Mergers issued by Securities and Futures Commission; the RICS Valuation Standards — Professional Standards published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Construction Work Planning Permits and Building Ownership Certificates, Tenancy Agreements relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property

interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers — Fangda Partners, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the properties was carried out in April 2016 by Mr. Jerry Shen, Ms. Jun Yang, Ms. Evelyn Xu, Ms. Jenny Chen and Ms. Jordan Qiao. Mr. Jerry Shen is a China Real Estate Appraiser and other staff have 1 to 2 years' experience in valuation of properties in the PRC.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive at an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached.

As advised by the Company, the potential tax liabilities which would arise if the property interests of the Company specified in Groups I and II of this report were to be sold at the amount of the valuation are estimated to be approximately RMB39 million. The taxes mainly include value added tax (5% of the transaction amount for self-built properties or 5% of the capital gains for purchased properties), land appreciation tax (30% of appreciated amount), stamp duty (0.05% of the transaction amount) and income tax (25% of the capital gains after deducting the potential tax fee in effecting the sales). As confirmed by the Company, they have no intention to sell the properties as those properties are mainly occupied for the production of bathroom and kitchen appliance. Therefore, the possibility of the incurrence of such tax liabilities is very small.

Yours faithfully,

For and on behalf of

Jones Lang LaSalle Corporate Appraisal and Advisory Limited

Eddie T.W. Yiu

MRICS MHKIS RPS(GP)

Director

Note: Eddie T.W. Yiu is a Chartered Surveyor who has 22 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interests held and occupied by the Group in the PRC

No.	Property	Market value in existing state as at 31 May 2016 <i>RMB</i>
1.	A parcel of land, various buildings and structures located at No. 210 of No. 21 Avenue, Baiyang Sub-district Economic and Development Area Hangzhou City Zhejiang Province The PRC	134,865,000
2.	Level 3 and 3 underground car parking spaces of a building known as Shanghai Jufu Building, located at Nos. 85 and 87 Fumin Road, Jing'an District Shanghai The PRC	29,199,000
3.	Unit 507 and Unit 509 of Block No. 10, Unit 302, Unit 304, Unit 523, Unit 1502 and Unit 1706 of Block No. 11 Poly East Bay (保利灣天地) located at Economic and Development Area Hangzhou City Zhejiang Province The PRC	4,218,000
4.	A parcel of land, various buildings and structures located at Cluster No. 5 and 8, Shuilu Village, Chongyang Town Chongzhou City Sichuan Province The PRC	14,626,000 <i>(Refer note 1)</i>
Sub-total:		<hr/> 182,908,000 <hr/>

Group II — Property interests held under development by the Group in the PRC

No.	Property	Market value in existing state as at 31 May 2016 RMB
5.	2 parcels of land and 3 office buildings under construction located at the No. 1418 Moganshan Road Gongshu District Hangzhou City Zhejiang Province The PRC	121,124,000
	Sub-total:	<u>121,124,000</u>
	Grand Total:	<u><u>304,032,000</u></u>

Notes:

- In the valuation of property no. 4, we only attributed commercial value to the land portion of the property which has obtained the State-owned Land Use Rights Certificate but no commercial value to the building portions of the property which have not obtained Building Ownership Certificates. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the building portions as at the valuation date would be RMB46,869,000 assuming the building title certificates had been obtained and the property could be freely transferred.
- The aggregate market value in existing state as at 31 May 2016 plus the value for reference purpose as stated in the above-mentioned note 1 are in the amount of RMB350,901,000.

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 May 2016 RMB										
1.	A parcel of land, various buildings and structures located at No. 210 of No. 21 Avenue Baiyang Sub-district Economic and Development Area Hangzhou City Zhejiang Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 38,671.00 sq.m., six 1 to 6-storey buildings and various structures erected thereon which were completed between 2008 and 2009.</p> <p>The buildings have a total gross floor area of approximately 96,494.19 sq.m., the details of the buildings are listed as follows:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;">Building</th> <th style="text-align: right;">Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>A workshop & warehouse</td> <td style="text-align: right;">81,228.32</td> </tr> <tr> <td>2 office buildings</td> <td style="text-align: right;">14,736.78</td> </tr> <tr> <td>3 auxiliary buildings</td> <td style="text-align: right;">529.09</td> </tr> <tr> <td>Total:</td> <td style="text-align: right;"><u>96,494.19</u></td> </tr> </tbody> </table>	Building	Gross Floor Area (sq.m.)	A workshop & warehouse	81,228.32	2 office buildings	14,736.78	3 auxiliary buildings	529.09	Total:	<u>96,494.19</u>	The property was occupied by Hangzhou AUPU Bathroom & Kitchen for production, storage, office and ancillary uses as at the valuation date.	134,865,000
Building	Gross Floor Area (sq.m.)													
A workshop & warehouse	81,228.32													
2 office buildings	14,736.78													
3 auxiliary buildings	529.09													
Total:	<u>96,494.19</u>													
		The land use rights of the property have been granted for a term expiring on 8 September 2054 for industrial use.												

Notes:

- Pursuant to a State-owned Land Use Rights Certificate — Hang Jing Guo Yong (2010) Di No. 000006, the land use rights of a parcel of land with a site area of approximately 38,671.00 sq.m. have been granted to Hangzhou AUPU Bathroom & Kitchen Technology Co., Ltd., a wholly-owned subsidiary of the Company, (杭州奥普衛廚科技有限公司, “Hangzhou AUPU Bathroom & Kitchen”) for a term of 48 years expiring on 8 September 2054 for industrial use.
- Pursuant to 7 Building Ownership Certificates — Hang Fang Quan Zheng Jing Zi Di Nos. 10044681 to 10044687, 6 buildings of the property with a total gross floor area of approximately 96,494.19 sq.m. are owned by Hangzhou AUPU Bathroom & Kitchen. According to the record of the abovementioned certificates, 4 buildings with a total gross floor area of approximately 95,965.10 sq.m. have been pledged as a collateral in favour of Hangzhou Chengxi Branch, Bank of Communications.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Hangzhou AUPU Bathroom & Kitchen legally owns the land use rights and building ownership rights of the property; and
 - b. Hangzhou AUPU Bathroom & Kitchen is entitled to legally occupy, use, lease, transfer, mortgage or otherwise dispose of portions of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 May 2016 RMB
2.	Level 3 and 3 underground car parking spaces of a building known as Shanghai Jufu Building, located at Nos. 85 and 87 Fumin Road Jing'an District Shanghai The PRC	The property comprises the whole level 3 office space and 3 underground car parking spaces of a 4-storey (plus 1-level basement) office building (known as Shanghai Jufu Building) which was completed in 1996. The property has a total gross floor area of approximately 1,363.97 sq.m., the details of the property are listed as follows:	The property was occupied by Hangzhou AUPU Electric Appliance for office and car parking uses as at the valuation date.	29,199,000

Item	Gross Floor Area (sq.m.)
Office space	1,270.82
3 underground car parking spaces	93.15
Total:	<u>1,363.97</u>

The land use rights of the property have been granted for a term expiring on 9 November 2042 for commercial use.

Notes:

1. Pursuant to a Real Estate Ownership Certificate — Hu Fang Di Jing Zi (2008) Di No. 004744, the whole level 3 office space and 3 underground car parks of the property with a total gross floor area of approximately 1,363.97 sq.m. are owned by Hangzhou AUPU Electric Appliance Co., Ltd., a wholly-owned subsidiary of the Company, (杭州奥普电器有限公司, “Hangzhou AUPU Electric Appliance”) for a term of 50 years expiring on 9 November 2042 for commercial and car parking uses.
2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Hangzhou AUPU Electric Appliance legally owns the real estate ownership rights of the property; and
 - b. Hangzhou AUPU Electric Appliance is entitled to legally occupy, use, lease, transfer, mortgage or otherwise dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 May 2016 RMB
3.	Unit 507 and Unit 509 of Block No.10, Unit 302, Unit 304, Unit 523, Unit 1502 and Unit 1706 of Block No.11, known as Poly East Bay (保利灣天地) located at Economic and Development Area Hangzhou City Zhejiang Province The PRC	The property comprises 5 units of a 17-storey (plus 2-level basement) composite building (Block 11) and 2 units of a 34-storey (plus 2-level basement) composite building (Block 10) known as Poly East Bay (保利灣天地) which was completed in 2013. The property has a total gross floor area of approximately 425.59 sq.m., the details of the property are listed as follows:	The property was occupied by Hangzhou AUPU Bathroom & Kitchen for staff quarters use as at the valuation date.	4,218,000

Unit	Gross Floor Area (sq.m.)
Unit 507 of Block No. 10	94.27
Unit 509 of Block No. 10	94.27
Unit 302 of Block No. 11	47.41
Unit 304 of Block No. 11	47.41
Unit 523 of Block No. 11	47.41
Unit 1502 of Block No. 11	47.41
Unit 1706 of Block No. 11	47.41
Total:	<u>425.59</u>

The land use rights of the property have been granted for a term expiring on 20 February 2048 for commercial use.

Notes:

1. Pursuant to 7 State-owned Land Use Rights Certificates — Hang Jing Guo Yong (2014) Di Nos. 007657 to 007663, the land use rights of the property with a total apportioned site area of approximately 34.8 sq.m. have been granted to Hangzhou AUPU Bathroom & Kitchen Technology Co., Ltd., a wholly-owned subsidiary of the Company, (杭州奥普衛廚科技有限公司, “Hangzhou AUPU Bathroom & Kitchen”) for a term of 40 years expiring on 20 February 2048 for commercial use.
2. Pursuant to 7 Commodity Housing Presale Agreements dated 3 July 2013 — 2013 Yu 1226110, 2013 Yu 1226122, 2013 Yu 1226150, 2013 Yu 1226155, 2013 Yu 1226165, 2013 Yu 1226172, 2013 Yu 1226175, the property with a total gross floor area of approximately 425.59 sq.m. was transferred to Hangzhou AUPU Bathroom & Kitchen for office use with a total consideration of approximately RMB4.36 million.
3. Pursuant to 7 Building Ownership Certificates — Hang Fang Quan Zheng Jing Yi Zi Di Nos. 14784091, 14784098, 14784118, 14784134, 14784141, 14784149 and 14784154, the property with a total gross floor area of approximately 425.59 sq.m. is owned by Hangzhou AUPU Bathroom & Kitchen.
4. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. Hangzhou AUPU Bathroom & Kitchen legally owns the land use rights and building ownership rights of the property; and
 - b. Hangzhou AUPU Bathroom & Kitchen is entitled to legally occupy, use, lease, transfer, mortgage or otherwise dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value												
				in existing state as at 31 May 2016 RMB												
4.	A parcel of land, various buildings and structures located at Cluster No. 5 and 8, Shuilu Village Chongyang Town Chongzhou City Sichuan Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 68,415.02 sq.m., 4 buildings and various structures erected thereon which were completed in 2013 and 2014.</p> <p>The buildings have a total gross floor area of approximately 35,486.71 sq.m., the details of the buildings are listed as follows:</p> <table border="1"> <thead> <tr> <th>Building</th> <th>Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Workshop No. 1</td> <td>12,860.04</td> </tr> <tr> <td>Workshop No. 3</td> <td>11,045.64</td> </tr> <tr> <td>Workshop No. 5</td> <td>6,077.03</td> </tr> <tr> <td>R & D building</td> <td><u>5,504.00</u></td> </tr> <tr> <td>Total:</td> <td><u>35,486.71</u></td> </tr> </tbody> </table>	Building	Gross Floor Area (sq.m.)	Workshop No. 1	12,860.04	Workshop No. 3	11,045.64	Workshop No. 5	6,077.03	R & D building	<u>5,504.00</u>	Total:	<u>35,486.71</u>	Portion of the property was occupied by Chengdu AUPU Bolangni Kitchen and Bathroom for industrial use and the remaining portions of the property was rented to 2 independent third parties for industrial use as at the valuation date.	14,626,000 (Refer note 4)
Building	Gross Floor Area (sq.m.)															
Workshop No. 1	12,860.04															
Workshop No. 3	11,045.64															
Workshop No. 5	6,077.03															
R & D building	<u>5,504.00</u>															
Total:	<u>35,486.71</u>															
		The land use rights of the property have been granted for a term expiring on 20 January 2062 for industrial use.														

Notes:

- Pursuant to a State-owned Land Use Rights Certificate — Chong Guo Yong (2013) Di No. 1605, the land use rights of a parcel of land with a site area of approximately 68,415.02 sq.m. have been granted to Chengdu AUPU Bolangni Kitchen and Bathroom Technology Co., Ltd., a wholly-owned subsidiary of the Company, (成都奧普博朗尼廚衛科技有限公司, “Chengdu AUPU Bolangni Kitchen and Bathroom”) for a term of 50 years expiring on 20 January 2062 for industrial use.
- Pursuant to a Tenancy Agreement dated 24 March 2015, entered into between Chongzhou Siwei Metal Surface Treatment Plant (崇州市四維金屬表面處理廠), an independent third party, (the “lessee”, a wholly owned subsidiary of the Company), and Chengdu AUPU Bolangni Kitchen and Bathroom Technology Co., Ltd. (成都奧普博朗尼廚衛科技有限公司), (the “lessor”), portion of the property with a gross floor area of approximately 6,000 sq.m. was leased to the lessee for a term commencing from 1 April 2015 and expiring on 1 April 2020. The annual rent for the first three years commencing from 1 April 2015 is RMB648,000, and will be escalated by 5% to RMB680,400 commencing from 1 April 2018.

3. Pursuant to a Tenancy Agreement dated October 2015, entered into between Li Wenzhong, (李文忠), an independent third party (the “lessee”), and Chengdu AUPU Bolangni Kitchen and Bathroom Technology Co., Ltd. (成都奥普博朗尼廚衛科技有限公司), (the “lessor”), another portion of the property with a gross floor area of approximately 5,500 sq.m. was leased to the lessee for a term of 24 months commencing from October 2015. The annual rent for the entire lease period is RMB594,000.
4. In the valuation of this property, we have attributed no commercial value to the 4 buildings with a total gross floor area of approximately 35,486.71 sq.m. which have not obtained any Building Ownership Certificates. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings would be RMB46,869,000 as at the valuation date, assuming that all Building Ownership Certificates have been obtained and the buildings could be freely transferred.
5. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. Chengdu AUPU Bolangni Kitchen and Bathroom legally owns the land use rights of the property; and
 - b. Chengdu AUPU Bolangni Kitchen and Bathroom will have right to transfer the property after completing the building completion registrations, pre-registrations of building ownership rights and relevant procedures.

VALUATION CERTIFICATE

Group II — Property interests held under development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 May 2016 RMB
5.	2 parcels of land and 3 office buildings under construction located at No. 1418 Moganshan Road Gongshu District Hangzhou City Zhejiang Province The PRC	The property comprises two parcels of land with a total site area of approximately 12,229.30 sq.m. and three 10-storey office buildings erected thereon which were under construction as at the valuation date.	The property was under construction as at the valuation date.	121,124,000

As advised by the Company, the development was completed in July 2016. Upon completion, the development has a total gross floor area of approximately 30,480.00 sq.m.. The details of the property are listed as follows:

Usage	Gross Floor Area (sq.m.)
Office	20,480.00
Ancillary	1,532.70
Underground Car Park	8,467.30
Total:	<u>30,480.00</u>

As advised by the Company, the total development cost (including the land) of the property is estimated to be approximately RMB88,905,000, of which RMB84,387,164 had been incurred as at the valuation date.

The land use rights of the property have been granted for terms expiring on 6 April 2052 and 28 June 2057 for industrial use.

Notes:

1. Pursuant to 2 State-owned Land Use Rights Grant Contracts, the land use rights of the property were contracted to be granted to Hangzhou AUPU Electric Appliance Co.,Ltd. (杭州奥普电器有限公司, “Hangzhou AUPU Electric Appliance”), a wholly-owned subsidiary of the Company, for terms expiring on 6 April 2052 and 28 June 2057 for industrial use. The land premium was RMB2,713,728.
2. Pursuant to 2 State-owned Land Use Rights Certificates — Hang Gong Guo Yong (2004) Zi Di No. 000280 and Hang Yu Chu Guo Yong (2009) Di No. 110-29, the land use rights of 2 parcels of land with a total site area of approximately 12,229.30 sq.m. have been granted to Hangzhou AUPU Electric Appliance for terms expiring on 6 April 2052 and 28 June 2057 for industrial use.
3. Pursuant to a Construction Work Planning Permit — Jian Zi Di No. 330100201300123 in favour of Hangzhou AUPU Electric Appliance, a total planned gross floor area of approximately 30,480.00 sq.m. has been approved for construction.
4. Pursuant to a Construction Work Commencement Permit — No. 330100201312250101 in favour of Hangzhou AUPU Electric Appliance, permissions by the relevant local authority were given to commence the construction of the buildings with a total gross floor area of approximately 30,480.00 sq.m..
5. The market value of the property as if completed as at the valuation date according to the development proposal as described above and which can be freely transferred in the market, would be RMB132,000,000.
6. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. Hangzhou AUPU Electric Appliance legally owns the land use rights of the property;
 - b. Hangzhou AUPU Electric Appliance has not obtained the Construction Land Planning Permits as at the valuation date. If relevant approvals are cancelled, Hangzhou AUPU Electric Appliance may not continue using the land parcels; and
 - c. Hangzhou AUPU Electric Appliance has obtained the requested construction approvals of the construction of the property and has rights to develop the property according to the permitted scope of these approvals.