A - S China Plumbing Products Limited

ASPPL

# A - S China Plumbing Products Limited

(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT 2005

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

**The GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on the GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on the GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of the GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on the GEM may be more susceptible to high market volatility than securities traded on the Main Board of Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on the GEM.**

**The principal means of information dissemination on the GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on the GEM-listed issuers.**

**The report, for which the directors of A-S China Plumbing Products Limited (the "Company" or "ASPPL") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM for the purpose of giving information with regard to ASPPL. The directors of ASPPL, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.**

# Contents 

# Corporate Profile

**Turnover increased by approximately 6.3% to approximately US$83,323,000**

**Gross profit ratio increased by 2.6% to approximately 38.8%**

**Profit before tax decreased by 12.4% to approximately US$10,673,000**

**Net profit attributable to shareholders decreased 26.9% to approximately US$5,951,000**

The Group manufactures and distributes in the Mainland China a broad range of bathroom and kitchen fixtures and plumbing fittings under the plumbing product brand names of American Standard Inc., including the "American Standard" and "Armitage Shanks" brands. The Group includes the ventures in Mainland China, which have established a manufacturing base for the production of bathroom and kitchen fixtures and plumbing fittings in Beijing, Shanghai, Tianjin and Guangdong province using manufacturing equipment and manufacturing technologies developed by American Standard to ensure the quality of its products.

The Group's products are sold domestically through a network of authorized dealers and their sub-dealers via their sales outlets throughout the Mainland China.

The Group also exports some of its products to North America and Europe with American Standard Inc. serving as its export distributor.

## CHAIRMAN AND EXECUTIVE DIRECTOR

Richard M. Ward

## EXECUTIVE DIRECTORS

| | |
|---|---|
| Yang Yu Qing, Cindy | |
| Ng ChanChoy | (resigned on 21 October 2005) |
| Ye Zhi Mao, Jason | (appointed on 17 February 2005) |
| Wu Wei Lin, Patrick | (appointed on 17 February 2005) |

## NON-EXECUTIVE DIRECTORS

| | |
|---|---|
| Tobias J. Brown | (resigned on 11 April 2005) |
| Stephan R. Custer | (resigned on 17 January 2005) |
| Edena S. I. Low | (resigned on 19 January 2005) |
| Peter James O'Donnell | (appointed on 11 May 2005) |

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Chang Sze-Ming, Sydney
Ho Tse-Wah, Dean
Wong Kin Chi

## COMPANY SECRETARY

| | |
|---|---|
| Edena S. I. Low | (resigned on 21 January 2005) |
| Wu Wei Lin, Patrick | (appointed on 21 January 2005) |

## QUALIFIED ACCOUNTANT

Wu Wei Lin, Patrick

## COMPLIANCE OFFICER

Richard M. Ward

## AUDIT COMMITTEE

| | |
|---|---|
| Chang Sze-Ming, Sydney | |
| Ho Tse-Wah, Dean | |
| Stephan R. Custer | (resigned on 17 January 2005) |
| Wong Kin Chi | |

## AUTHORISED REPRESENTATIVES

| | |
|---|---|
| Richard M. Ward | |
| Edena S. I. Low | (resigned on 21 January 2005) |
| Wu Wei Lin, Patrick | (appointed on 21 January 2005) |

## SPONSOR

Anglo Chinese Corporate Finance, Limited
(from 1 January 2005 to 31 December 2005)

## COMPLIANCE ADVISOR

First Shanghai Capital Limited
(since 1 January 2006 to the despatch of this annual report)

## AUDITORS

Ernst & Young

## REGISTERED OFFICE

P.O. Box 309
Ugland House
South Church Street
Grand Cayman
Cayman Islands, B.W.I.

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

908-909A
9th Floor, AIA Tower
183 Electric Road
North Point
Hong Kong

## SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F.
Hopewell Centre
183 Queen's Road East
Hong Kong

## PRINCIPAL BANKERS

Citibank N.A.
48/F., Citibank Tower
Citibank Plaza
3 Garden Road
Central, Hong Kong

The Hongkong and Shanghai Banking Corporation Limited – Shanghai Branch
35/F., HSBC Tower
101 Yin Cheng East Road
Pudong, Shanghai
PRC

## COMPANY WEBSITE ADDRESSES

www.asppl.com
www.americanstandard.com.cn
www.armitageshanks.com.cn

## STOCK CODE

8262

# Financial Highlights

## FIVE-YEAR FINANCIAL SUMMARY

### Consolidated Results

For the years ended 31 December

| | **2005** | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| | **US$'000** | US$'000 | US$'000 | US$'000 | US$'000 |
| Revenue | **83,323** | 78,376 | 73,733 | 65,333 | 54,918 |
| Profit before tax | **10,673** | 12,185 | 5,659 | 2,841 | 1,213 |
| Taxation | **(2,427)** | (1,877) | (651) | (890) | (545) |
| Net profit | **8,246** | 10,308 | 5,008 | 1,951 | 668 |
| Attributable to: | | | | | |
| Equity holders of the parent | **5,951** | 8,146 | 4,482 | 589 | 150 |
| Minority interests | **2,295** | 2,162 | 526 | 1,362 | 518 |
| Net profit | **8,246** | 10,308 | 5,008 | 1,951 | 668 |

### Consolidated Assets and Liabilities

As at 31 December

| | **2005** | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| | **US$'000** | US$'000 | US$'000 | US$'000 | US$'000 |
| Total assets | **146,167** | 142,842 | 133,881 | 134,682 | 131,163 |
| Total liabilities | **(25,574)** | (29,801) | (29,588) | (32,387) | (29,743) |
| | **120,593** | 113,041 | 104,293 | 102,295 | 101,420 |
| Attributable to: | | | | | |
| Equity holders of the parent | **105,356** | 97,612 | 89,513 | 87,109 | 86,695 |
| Minority interests | **15,237** | 15,429 | 14,780 | 15,186 | 14,725 |
| | **120,593** | 113,041 | 104,293 | 102,295 | 101,420 |

2005 was another year of progress for A-S China Plumbing Products Limited (the "Company") and its subsidiaries (the "Group").

During the year, the Group launched three new bathroom suites with leading-edge designs from Europe (our Inspire project), introduced the Group's unique Family Health anti-bacterial and Champion® super-flush technologies, and continued the Group's investment in the American Standard brand.

Total sales increased by 6.3% to US$83,323,000 in 2005, on the back of strong export sales and gross margin increased by 2.6% as we improved our mix and productivity. However profit before tax decreased by 12.4% to US$10,673,000, and the net profit attributable to shareholders decreased by 26.9% to US$5,951,000 in 2005. The decrease in profit before tax is mainly due to the restructuring costs incurred for the disposal of a subsidiary during the year. By excluding the restructuring costs for the disposal of the subsidiary, profit before tax would be increased by 6.0% to US$12,920,000 and the net profit attributable to shareholders would be increased by 0.6% to US$8,198,000.

During the year, the Group rationalised its fittings production process by disposing of the lower efficiency subsidiary in Shanghai and consolidated all fittings manufacturing operations in Jiangmen. The consolidation has been implemented smoothly and will enhance returns for shareholders.

The domestic China market remained depressed during the year as a result of measures to control the property market. In this competitive environment the Group chose to go for 'quality' of business rather than 'quantity'. We focused on higher margin business benefiting from our new product launches and continued improvement in productivity in our plants. The result was a decline in China sales but a significant improvement in gross margin from 36.2% to 38.8% during the year.

The Company continues to study the cost structures of its plants with a view to taking opportunities to further optimize its manufacturing footprint.

The Board of Directors have discussed the Company's cash position and have adopted a position on dividend payments "The Company will use cash to fund operations and pursue opportunities to fuel future profitability. Any excess funds will be considered for distribution as dividend. The Company is currently considering opportunities which may fully use its cash balances."

Finally, I would like to express my sincerest thanks to the directors, management and staff of the Group for their overwhelming commitment to the Group and gratitude to our shareholders, customers and suppliers for their ongoing support of the Group over the past year.

**Richard M. Ward**
*Chairman*

Hong Kong, 15 March 2006

## CORPORATE GOVERNANCE PRACTICE

The Group commits to maintaining and ensuring a high level of corporate governance standards and continuously reviews and improves our corporate governance and internal controls practices. Set out below are the principles of corporate governance as adopted by the Company during the reporting year.

## DISTINCTIVE ROLE OF CHAIRMAN AND GENERAL MANAGER

The Chairman of the Board is responsible for leading the Board of Directors in establishing and monitoring the implementation of strategies and plans to create values for shareholders.

The General Manager is responsible for managing the operation of the Group's businesses, proposing strategies to the Board and the effective implementation of the strategies and policies adopted by the Board.

Subsequent to the resignation of Mr. Ng ChanChoy, the General Manager, on 21 October 2005, Mr. Richard Ward, the Chairman of the Board, is temporarily acting as General Manager of the Company.

## THE BOARD

As of 31 December 2005, there were eight members on the Board, which are the Chairman, three other Executive Directors, a Non-Executive Director ("NED") and three Independent Non-Executive Directors ("INEDs").

The INEDs are considered by the Board to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgments. The Board considered that each of the INEDs brings his own relevant expertise to the Board and its deliberations.

None of the INEDs has any business or financial interests with the Group nor has any relationship with other directors and confirmed their independences to the Group pursuant to Rule 5.09 of the GEM Listing Rules.

The Board met regularly during the year and on ad hoc basis as required by business needs. The Board's primary purpose is to set and review the overall strategic development of the Group and to oversee the achievement of the plans to enhance shareholders' value. Daily operational decisions are delegated to the Executive Directors. The Board met four times during the year and the Directors' attendance is shown in the table on page 8. The NED and INEDs may take independent professional advice at the Company's expense in carrying out their functions. The Board has arranged for appropriate insurance coverage for the Directors.

The Company appointed each of the Non-Executive directors during the Annual General Meeting or by the Board for new appointment during the year. The term of each of these appointments shall be expired up to the forthcoming Annual General Meeting and can offer for re-election in the Annual General Meeting.

## AUDIT COMMITTEE

The Audit Committee ("Committee") comprises the three INEDs, Mr. Chang Sze-Ming, Sydney, Mr. Ho Tse-Wah, Dean and Mr. Wong Kin Chi with Mr. Ho Tse-Wah serving as the chairman of the Committee. Each member brings to the Committee his valuable experience in reviewing financial statements and evaluating significant control and financial issues of the Group. Mr. Wong is a fellow member of The Hong Kong Institute of Certified Public Accountants and an associate member of the Chartered Institute of Management Accountants of the United Kingdom, and the Society of Management Accountants of Canada for well over 10 years. He possesses the appropriate professional qualification on accounting or related financial management expertise as required under Rule 5.05 (2) of the GEM Listing Rules. Member's attendance at the six meetings held during the year is set out in the table on page 8.

The Committee is required to assist the Board to fulfill its responsibilities related to external financial reporting, associated announcements and system of internal control. During the year, the Committee reviewed the announcements and circulars for a connected and notifiable transaction, estimated continuing connected transactions for 2006 to 2008, the quarterly and annual reports. Additional meetings may also be held by the Committee from time to time to discuss special projects or other issues that the Committee considered necessary. The Committee has met with the external auditor during the year to discuss the 2005 audit plan.

The Committee is also responsible for the development, implementation and monitoring of the Groups' policy on external audit. The Committee recommended the appointment and reappointment of the Group's external auditors.

## REMUNERATION COMMITTEE

The Company has not established a Remuneration Committee. The Board is responsible for determining the Company's policy on remuneration of directors and reviewing all remuneration packages of directors. The Company currently does not have any plan to set up a Remuneration Committee considering the small size of the Board.

In determining the remuneration of each Director, the Board looks into individual competence and his/her contributions to the Company, together with the benchmark of the similar executive positions in the market.

## NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of an individual to act as a Director, and approving and terminating the appointment of a Director. The Company has not established a Nomination Committee. The Company currently does not have any plans to set up a Nomination Committee considering the small size of the Board.

The Chairman is responsible for identifying suitable candidates for member of the Board when there is a vacancy or an additional director is considered necessary. The Chairman proposes the appointment of such candidates to each member of the Board for consideration. Each member of the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his or her qualifications, experiences and background.

During the year under review, the Chairman recommended three candidates for the appointments to the Board. Each member of the Board had reviewed the qualifications of these candidates and agreed to their appointments.

## LOOKING FORWARD

The Group will keep on reviewing its corporate governance standards on a timely basis and the Board endeavors to take the necessary actions to ensure the compliance with the provisions of the Code on Corporate Governance Practices introduced by the Stock Exchange.

## MEETINGS ATTENDANCE

| | Board | Audit Committee |
|---|---|---|
| **Number of Meetings** | (4) | (6) |
| **Executive directors** | | |
| Richard, M. Ward | 3 | N/A |
| Yang Yu Qing, Cindy | 3 | N/A |
| Ng ChanChoy (resigned on 21 October 2005) | 3 | N/A |
| Ye Zhi Mao, Jason | 4 | N/A |
| Wu Wei Lin, Patrick | 4 | N/A |
| **Non-executive director** | | |
| Peter, James O'Donnell | 4 | N/A |
| **Independent non-executive directors** | | |
| Chang Sze-Ming, Sydney | 4 | 6 |
| Ho Tse-Wah, Dean | 4 | 6 |
| Wong Kin Chi | 4 | 6 |

## CONFIRMATION OF INDEPENDENCE OF INEDs

The Company had received from each of the INEDs an annual confirmation of his independence. The Company considered all of the INEDs are independent.

## CONFIRMATION OF COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding Directors' securities transactions. The Directors have confirmed, following specific inquiry by the Company that they have complied with the required standard set out in the Model Code during the year under review.

## AUDITORS' REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group is required to pay an aggregate of approximately US$192,000 to the external auditors for their services including audit and non-audit services.

## DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on page 30.

# Group Financial Summary

The following table summarizes the audited consolidated results of the Group for the years ended 31 December, 2005 and 2004 which are prepared based on the consolidated audited financial statements of the Group. This summary should be read in conjunction with the consolidated financial statements of the Group.

| | **2005** | 2004 |
|---|---|---|
| | **US$'000** | US$'000 |
| REVENUE *(Note a)* | **83,323** | 78,376 |
| Cost of sales | **(50,989)** | (49,994) |
| Gross profit | **32,334** | 28,382 |
| Administrative and operating expenses | **(17,728)** | (14,468) |
| Selling and distribution costs | **(2,800)** | (2,309) |
| Other revenue, net | **1,114** | 580 |
| Loss on disposal of a subsidiary | **(2,247)** | – |
| PROFIT BEFORE TAX | **10,673** | 12,185 |
| Tax | **(2,427)** | (1,877) |
| PROFIT FOR THE YEAR | **8,246** | 10,308 |
| Attributable to: | | |
| Equity holders of the parent | **5,951** | 8,146 |
| Minority interests | **2,295** | 2,162 |
| | **8,246** | 10,308 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (US cents) | | |
| – Basic, for profit for the year *(Note b)* | **3.94** | 5.39 |

*Note a:* Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts and business/sales tax where applicable. All significant intra-group transactions have been eliminated on consolidation.

*Note b:* The calculation of the basic earnings per share is based on the net profit attributable to ordinary equity holders of the parent for the year of US$5,951,000 (2004: US$8,146,000), and weighted average number of issued ordinary shares of 151,034,000 (2004:151,034,000) during the year.

## REVENUE

The following tables show the Group's sales by geographical region during the year:

| | **2005** | 2004 |
|---|---|---|
| | **US$'000** | US$'000 |
| *Group's sales by geographic region* | | |
| Mainland China | **45,301** | 45,542 |
| United Kingdom | **12,157** | 9,917 |
| North America | **8,882** | 13,482 |
| Other European Countries | **6,256** | 2,533 |
| Others | **10,727** | 6,902 |
| Total | **83,323** | 78,376 |

## OPERATING RESULTS

The following discussion and analysis of the Group's financial position and results of operations should be read in conjunction with the audited consolidated financial statements and the related notes.

The Group's overall sales increased by 6.3% to US$83,323,000 in 2005. As a result of the macroeconomic measures, Mainland China sales for the year have decreased by 0.5% over the year. Export sales continued to improve due to the continuing recovery of the global economy. The Group reported 15.8% growth in export sales for the year.

Profit before tax decreased by 12.4% from US$12,185,000 in 2004 to US$10,673,000 in 2005, while net profit attributable to shareholders decreased by 26.9% from US$8,146,000 in 2004 to US$5,951,000 in 2005. The decrease in profit before tax is mainly due to the restructuring costs incurred for the disposal of a subsidiary during the year. By excluding the restructuring costs for the disposal of the subsidiary, profit before tax would be increased by 6.0% to US$12,920,000 and the net profit attributable to shareholders would be increased by 0.6% to US$8,198,000.

## GROWING OVERSEAS MARKET

Demands in United Kingdom, other European countries and other overseas market have grown significantly during the year. The strong overseas demands are in line with the continued recovery of the global economy.

The Group still maintains its position as a competitive, lower cost producer within the American Standard group.

## LIQUIDITY AND FINANCIAL RESOURCES

### Net current assets

At 31 December 2005, the net current assets of the Group amounted to US$50.1 million. The current assets comprised of cash and bank deposits of approximately US$45.8 million, and accounts receivable of approximately US$10.0 million, inventories of approximately US$9.1 million, prepayments, deposits, other receivables of approximately US$4.5 million and amounts due from companies within the American Standard Group of approximately US$6.2 million. The current liabilities comprised accounts payable of approximately US$6.9 million, amounts due to companies within the American Standard Group of approximately US$5.9 million, corporate income tax payable of approximately US$0.5 million, dividend payable of approximately US$0.1 million and other payables, deposits and accrued liabilities of approximately US$12.1 million. There were no outstanding bank loans or finance lease obligations as at 31 December 2005.

### Foreign currency risk

The Group has foreign currency risk as certain of its receivables arising from Mainland China sales are denominated in RMB. The fluctuation of the exchange rates of US$ against RMB could affect the Group's result of operations.

## DISPOSAL OF A SUBSIDIARY

Based on an overall analysis and assessment of the operations of A-S (Shanghai) Fittings Co., Ltd ("Shanghai Fittings"), a partially owned subsidiary, the management was of the view that, the manufacturing operations of Shanghai Fittings were operating at lower efficiency and higher costs as compared to the Group's production facilities A-S (Jiangmen) Fittings Co., Ltd ("A-S Jiangmen"). Consequently, the management decided to rationalize the production process by shifting the manufacturing operations of Shanghai Fittings to A-S Jiangmen, with an aim to save costs and enhance efficiency. On 21 September 2005, the Group sold its 64% equity interest in Shanghai Fittings to a joint venture partner and its associated company (the "Disposal"). After the Disposal, Shanghai Fittings ceased to be a subsidiary of the Company. The Disposal represents a good move for the Group to realize its equity interest in Shanghai Fittings.

## ABSENCE OF LAND USE RIGHTS

The land use rights of the land on which the factory and ancillary facilities occupied by Enamel Steel Sanitaryware Co., Ltd. ("A-S Beijing Bathtubs") and the building ownership certificates to the structures erected on such land are held by Beijing Time Stationery Company, the Chinese investor in A-S Beijing Bathtubs. The land and the factory and ancillary facilities were contributed to A-S Beijing Bathtubs by way of capital contribution by the Chinese investor under the joint venture contract. As advised by the Company's Chinese legal advisers, A-S Beijing Bathtubs has a contractual right to occupy the land and the factory and ancillary facilities. In the event of disputes in relation to A-S Beijing Bathtubs' use of the property, A-S Beijing Bathtubs will be able to seek damages from the Chinese investor. The Group may have to relocate its production facilities and the operations of the Group and its business operations and financial position may be adversely affected. Please refer to the subsection headed "A-S Beijing Bathtubs" in the section headed "Properties" in the Company's prospectus for further details.

The Company is in the process of negotiations with the Chinese investor to obtain the land use rights certificate and building ownership certificates.

## IMPROVING PRODUCTION EFFICIENCY

Through continuing efforts with technical and management support from the American Standard Group, the productivity of several factories of the Group continues to improve during the year. As a result of the improved utilization of its capacity, the Group has reduced its average production costs.

In spite of the intensive domestic market competition and resulting pricing pressure, the cost savings from improved productivity enabled the Group to better its profit margin ratio from 36.2% to approximately 38.8% during the year.

During the year, the Group rationalizes its fittings production process by disposal of the lower efficiency subsidiary in Shanghai and consolidated all fittings manufacturing operations in Jiangmen to enhance overall fittings operating efficiency.

## EMPLOYEE INFORMATION

As at 31 December 2005, the Group had 1,907 (2004: 2,100) full time employees. Employee costs amounted to US$12,142,000 (2004: US$12,094,000). The Group is an equal opportunity employer, with the selection and promotion of individual based on suitability for the position offered. The salaries and benefit levels of the Group's employees are kept in competitive level and employees are rewarded on a performance related basis with the general framework of the Group's salary and bonus system, which is reviewed annually. A wide range of benefits, including medical coverage and retirement plans are also provided to employees.

The table below sets out the number of employees at the Mainland China ventures and ASCC as at 31 December 2005:

| | |
|---|---|
| Hua Mei | 353 |
| A-S Jiangmen Fittings | 378 |
| A-S Shanghai Pottery | 487 |
| A-S Guangzhou Bathtubs | 126 |
| A-S Tianjin Pottery | 310 |
| A-S Beijing Bathtubs | 82 |
| ASCC | 171 |
| Total | 1,907 |

The directors believe that the market for bathroom products will continue to grow in line with Mainland China economic growth rate and the growth of personal wealth. The directors also expect the consumers in Mainland China will become more and more aware of how home improvement expenditure can improve their living standard. These changes to Mainland China will require the Group to continue its innovation in products and focused market placement along with continuing to offer better services and quality. Accordingly, the Group will continue its Inspire program to bring leading-edge designs, new products and the best product range with world-class quality to the market on time to meet a broad variety of consumer preferences.

The Company continues to study and compare the cost structures of its plants and considers how to further optimize its manufacturing footprint.

The Group anticipates continued inflationary pressure on raw material prices, in particular copper prices.

# Directors' Profiles

## EXECUTIVE DIRECTORS

Mr. Richard M. Ward, aged 47, joined the American Standard Group in April 2003 as the Vice President and General Manager of the Bath and Kitchen Business in the Asia Pacific Region. He was nominated by the American Standard Group as a director in May 2003. Prior to joining the American Standard Group, Mr. Ward served as the Vice President and General Manager of Dell Computer's Home Small and Medium business unit in Mainland China and Hong Kong. Prior to this, he was the Vice President and Head of Asia Pacific of The Clorox Company. Mr. Ward holds a Bachelor of Arts (Honours) Degree in Economics from the University of Durham in the United Kingdom.

Ms. Yang Yu Qing, Cindy, aged 33, joined the Group in March 1995. She is an operations analyst for the Group's ceramic sanitary ware and vitreous china operations. Ms. Yang started her accounting career in 1995 with the Group and has progressed through the finance and accounting departments both at the Group's headquarters and at the Mainland China Group's ventures level. She holds a bachelor's degree in Accounting from the Shanghai Architectural Material Industrial Institute.

Mr. Ye Zhi Mao, Jason, aged 38, joined the Company in August 2004 as the Chief Financial Officer and was appointed as an executive director on 17 February 2005. Prior to this, he worked at Siemens Business Communication Systems Ltd., AlliedSignal (China) Ltd. as a finance manager and finally at Wall's (China) Ltd. as a finance director. Mr. Ye graduated from the Shanghai University of Finance and Economics with a bachelor's degree in Economics and holds an EMBA degree from China Europe International Business School.

Mr. Wu Wei Lin, Patrick, aged 37, joined the Company in September 2003 as the Qualified Accountant of the Company and is appointed as an executive director of the Company on 17 February 2005. Prior to this, Mr. Wu worked as a financial controller of Beijing Tolihi Electrical Co., Ltd. Mr. Wu graduated from the University of Regina, Canada with a bachelor's degree in Business Administration. Mr. Wu is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

## NON-EXECUTIVE DIRECTOR

Mr. Peter James O'Donnell, aged 43, was appointed as a non-executive director on 14 May 2005. He currently serves as the Managing Director of UCL Asia Limited. The private equity investments in Asia of General Oriental Investments Limited, an initial management shareholder of the Company, are managed by UCL Asia Management Services, L.P., an affiliate of UCL Asia Limited. Prior to joining UCL Asia Limited, Mr. O'Donnell served as a director of General Oriental Investments (HK) Ltd. Prior to this, he served as a Vice-President of Bankers Trust Company in both New York and Hong Kong. Mr. O'Donnell also serves as a non-executive director of Noble Group Limited, Singer Sri Lanka Ltd., and Singer Pakistan Ltd. Mr. O'Donnell holds AB and MBA degrees from Harvard University in Cambridge, Massachusetts, the United States of America.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chang Sze-Ming, Sydney, aged 62, is the General Manager of South Sphere International Ltd. (Hong Kong) and South Sphere Consulting Company Ltd. (Shanghai), which he founded to provide business consultancy on investments in China. He also holds the positions of a director of Government Relationship at the American Chamber of Commerce in Shanghai, and a senior consultant of the Shanghai Foreign Investment Development Board. Prior to his retirement from Armstrong World Industries Inc., a building materials company based in the United States of America in June 2001, he had worked for 28 years for that company on numerous assignments in Asia and the United States of America.

Mr. Ho Tse-Wah, Dean, aged 67, is a director of Unison Pacific Corporation. Unison Pacific Corporation is based in San Bruno, California, United States of America and has conducted investment and advisory activities in China since 1979. It has been the principal advisor to the formation of 39 equity joint-ventures, principally in manufacturing. Mr. Ho is a member of the board of ex-officio members of American Chamber of Commerce in Shanghai. He had served as the Chairman of the Manufacturers Business Council, Chairman of the Board of Governors and Secretary of the American Chamber of Commerce in Shanghai. Mr. Ho has been working in China since 1986. He attended the Advanced Management Programme at Harvard Business School.

Mr. Wong Kin Chi, aged 54, has been appointed as an independent non-executive director of the Company since September 2004. Mr. Wong also serves as a member of the audit committee of the Company. Mr. Wong holds an MBA degree from the University of Durham, the United Kingdom. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Chartered Institute of Management Accountants of the United Kingdom, and the Society of Management Accountants of Canada for well over 10 years. Mr. Wong is also an independent non-executive director of Omnicorp Limited, whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

# Comparison of Business Objectives with Actual Business Progress

The following is a comparison of the actual business progress for the year ended 31 December 2005 and the business objectives as set out on pages 123 to 124 of the Company's prospectus. To attain our long-term business goals, the Group reviews its business objectives and strategies on an ongoing basis and makes adjustments as necessary.

| Business objectives for the Review Period as set out in the prospectus | Actual business progress in the Review Period |
|---|---|
| *Strategic Development* | |
| 1 January to 30 June 2005 | |
| The focus will continue to be the development of the Group's dealers and cost improvements. With new entrants expected over the next few years, it will be important for the Group to continue developing new products, building its brand image through targeted advertising and reducing costs through improved efficiency, use of economics of scale and supply chain programmes. | During the period, the Group continued to upgrade sales outlets with new models and popular design products to improve the brand image during the review period. Three new suites (TownSquare, Moment and Expression) were launched during the period. |
| 1 July to 31 December 2005 | |
| The Directors expect that the consumer market for bathroom products will continue to grow in line with China's economic growth rate and the personal wealth of its population. The Directors expect the consumers in China will become more aware of how home improvement expenditure can improve their living standard. As a result, retail presence will continue to be important along with product innovation and variety. The Directors believe that these continued changes to China will require the Group to continue its innovation in product designs and focused market placement along with continuing to offer better service and quality. | The Group has started to change the way it works: to be more focused on its end-user (consumers, developers and designers) and to work together as one company, American Standard China.<br><br>The Group has made great strides in its plants to improve quality and efficiency. |

| Business objectives for the Review Period as set out in the prospectus | Actual business progress in the Review Period |
|---|---|
| *Sales and Marketing and Product Development* | |
| 1 January to 30 June 2005 | |
| The Group will continue developing retail locations and the Directors expect geographical growth to continue into 135 cities with a total of more than 375 outlets by the middle of 2005. Throughout this period, the Group's brand image is expected to improve with the continued efforts on introducing products and product designs from other American Standard Group companies in Europe and the Americas, with particular focus on high-end imported products. | To attain the long-term business goals, the Group reviewed its original geographic expansion strategies on an ongoing basis. In light of the current state of the property market, the Group has determined to slow down its geographic expansion plan. The number of outlets and cities covered remained in the similar level compared to last review period.<br><br>More innovative and creative products roll-out with the utilization of American Standard's globally standardised design and computer platforms. |
| 1 July to 31 December 2005 | |
| With the market continuing to grow and with growth expected to be led by middle to upper segment, the Directors expect that the continuation of new product development and product design will be the key success factors and will continue to use its own design ideas along with those from other American Standard Group companies. Retail outlet expansion in key cities into areas and venues will continue and the Directors expect that Group to be present in 140 cities and to have more than 400 retail outlets by the end of 2005. | The Group launched its Inspire designs from Europe, introduced its unique Family Health and Champion technologies and experimented with new ways of doing business especially on marketing services. |

# Comparison of Business Objectives with Actual Business Progress

| Business objectives for the Review Period as set out in the prospectus | Actual business progress in the Review Period |
|---|---|
| *Human Resource* | |
| 1 January to 30 June 2005 | |
| Continued effort will be made to develop and retain key employees to drive the Group towards meeting its strategic objectives. The Group's growth will add opportunities for advancement for staff throughout the organization. Job safety will continue to be a key human resource objective. | Nearly 180 key employees were selected and participated in the Group's employees retention programs.<br>A total of 1,460 employees received 4,210 hours product training, covering sales and non sales employees, store promoters and dealers. |
| 1 July to 31 December 2005 | |
| Focus will be placed on development of the Group's personnel in the areas of sales and marketing, manufacturing, finance and information systems. Training and incentive programmes will be used to develop and retain key personnel. The localization programme that has been in place will continue. | Total of 1,800 employees received 13,000 training hours, covering sales and non sales employees, store promoters, dealers and factory workers. |

The directors hereby present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The subsidiaries of the Company are principally engaged in the manufacture, sale and distribution of plumbing products in the People's Republic of China. There were no changes in the nature of the Group's principle activities during the year.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the attached audited financial statements on pages 31 to 80.

No dividend was declared for the year ended 31 December 2005. The directors do not recommend the payment of any dividend in respect of the year.

The Company will use cash to fund operations and pursue opportunities to fuel future profitability. Any excess funds will be considered for distribution as dividend. The Company is currently considering opportunities which may fully use its cash balances.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 4 of the annual report. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 13 to the financial statements.

## SHARE CAPITAL AND SHARE OPTION SCHEME

There were no movements in either the Company's authorised or issued share capital during the year. At 31 December 2005, the Company did not have any share option plan in place.

## PRE-EMPTIVE RIGHTS

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

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27(b) to the financial statements and in the consolidated statement of changes in equity on page 75 and 33, respectively.

## DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to US$13,401,000 (2004:US$15,538,000). Under the Companies Laws of the Cayman Islands, the Company can distribute dividends out of the share premium account in the amount of US$83,917,000 (2004: US$83,917,000) provided that the Company will be able to pay off its debts as and when they fall due in the ordinary course of business.

## MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for 51% (2004: 45%) of the total sales for the year and sales to the largest customer included therein amounted to 22% (2004: 15%). Purchases from the Group's five largest suppliers accounted for less than 30% (2004: less than 30%) of the total purchases for the year.

Except for U.S.P.P. – Sourced Chinaware and American Standard Europe which are related parties of the Company (details of which are disclosed in note 19 to the financial statements), none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

## DIRECTORS

The directors of the Company during the year were:

**Executive directors:**

| | |
|---|---|
| Richard M. Ward | |
| Yang Yu Qing, Cindy | |
| Ng ChanChoy | (resigned on 21 October 2005) |
| Ye Zhi Mao, Jason | (appointed on 17 February 2005) |
| Wu Wei Lin, Patrick | (appointed on 17 February 2005) |

## DIRECTORS *(Continued)*

**Non-executive directors:**

| | |
|---|---|
| Stephan R. Custer | (resigned on 17 January 2005) |
| Tobias J. Brown | (resigned on 11 April 2005) |
| Edena S. I. Low | (resigned on 19 January 2005) |
| Peter James O'Donnell | (appointed on 11 May 2005) |

**Independent non-executive directors:**

Chang Sze-Ming, Sydney
Ho Tse-Wah, Dean
Wong Kin Chi

In accordance with the Company's articles of association, the directors will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election. The non-executive directors and independent non-executive directors are appointed up to the next annual general meeting.

The Company has received annual confirmations of independence from the independent non-executive directors and as at the date of this report still considers them to be independent.

## DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on page 16 to 17 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

The Group has entered into a service contract with Ms. Yang Yu Qing, Cindy, effective from 1 May 2001 to 30 November 2006, terminable by mutual consent. The service contract is exempt from the shareholder approval requirements under Rule17.90 of the GEM Listing Rules.

The Group has entered into a service contract with Mr. Ye Zhi Mao, Jason effective from 23 August 2004 to 23 August 2006, terminable by mutual consent. The service contract is exempt from the shareholder approval requirements under Rule17.90 of the GEM Listing Rules as this was entered into before Mr. Ye became a director of the Company.

The Group has entered into a service contract with Mr. Wu Wei Lin, Patrick effective from 26 September 2003 to 25 September 2006 terminable by mutual consent. The service contract is exempt from the shareholder approval requirements under Rule17.90 of the GEM Listing Rules as this was entered into before Mr. Wu became a director of the Company.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' REMUNERATION

The directors' fees are subject to shareholder approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

## DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

## MANAGEMENT CONTRACTS

Pursuant to an agreement dated 16 June 2003 between the Company and American Standard Inc. ("ASI"), ASI provides management services to the Company. During the year, the Company paid management service fees of US$300,000 under this agreement.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the interests and short positions of the directors' and chief executive in the share capital and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

### Interests in associated corporations

| Name of director/ chief executive | Name of company | Number and description of equity derivatives | Capacity | Type of interest | Approximate percentage of holding |
|---|---|---|---|---|---|
| Mr. Richard M. Ward | American Standard | Stock options to subscribe for 41,002 shares in American Standard | Beneficial owner | Personal | 0.0238% |
| Mr. Ye Zhi Mao, Jason | American Standard | Stock options to subscribe for 500 shares in American Standard | Beneficial owner | Personal | 0.0002% |
| Ms. Yang Yu Qing, Cindy | American Standard | Stock options to subscribe for 750 shares in American Standard | Beneficial owner | Personal | 0.0003% |

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

**Movement in directors' interests in the options of American Standard Companies Inc. during the year**

| Name of director | Date of grant | Exercise price US$ | Balance as at 1.1.2005 | Granted during the year | Exercised during the year | Balance as at 31.12.2005 |
|---|---|---|---|---|---|---|
| Mr. Richard M. Ward | 28.4.2003 | 23.58 | 30,000 | – | 19,998 | 10,002 |
| | 4.2.2004 | 35.03 | 21,000 | – | – | 21,000 |
| | 2.2.2005 | 43.34 | – | 10,000 | – | 10,000 |
| | | | 51,000 | | | 41,002 |
| Mr. Ye Zhi Mao, Jason | 2.2.2005 | 43.34 | – | 500 | – | 500 |
| Ms. Yang Yu Qing, Cindy | 1.3.2001 | 18.86 | 750 | – | – | 750 |

The directors listed above were granted to subscribe for shares in American Standard Companies Inc. ("ASCI"), being an associated corporation of the Company (within the meaning of Part XV of the SFO). The options were granted free of consideration. The exercise period is 10 years from each relevant date of grant. Options to subscribe for 1/3 of the options under each relevant grant may be exercised on or after the first anniversary of the relevant date of grant; options to subscribe for another 1/3 of the options may be exercised on or after the second anniversary of the relevant date of grant; and options to subscribe for the remaining options may be exercised on or after the third anniversary of the relevant date of grant.

Save as disclosed above, none of the directors and chief executive had registered an interest or short position in the share capital and underlying shares of the Company and its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executive's interests and short positions in shares and underlying shares" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the following interests and short positions more than of 5% of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

| Name of shareholders | Number of ordinary shares held | Capacity and nature of interest | Percentage of the Company's issued share capital |
|---|---|---|---|
| American Standard Companies Inc *(Note 1)* | 93,123,000 | Corporate beneficial owner | 61.66% |
| American Standard International Inc. *(Note 1)* | 93,058,000 | Corporate beneficial owner | 61.61% |
| American Standard Foreign Sales Limited *(Note 1)* | 93,058,000 | Corporate beneficial owner | 61.61% |
| American Standard Foreign Trading Limited *(Note 1)* | 93,058,000 | Corporate beneficial owner | 61.61% |
| Foundation Brunneria *(Note 2)* | 16,900,000 | Corporate beneficial owner | 11.19% |
| General Oriental Investments Limited *(Note 2)* | 16,900,000 | Corporate beneficial owner | 11.19% |

*Note 1:* American Standard Companies Inc. owns a 61.66% shareholding interest in the Company through (i) a wholly-owned subsidiary, American Standard International Inc., being a corporation established under the laws of the State of Delaware, the United States of America, which in turn owns a 100% interest in American Standard Foreign Sales Limited, being a company incorporated in Bermuda with limited liability, which in turn owns a 100% interest in American Standard Foreign Trading Limited, also being a company incorporated in Bermuda with limited liability, which directly holds a 61.61% shareholding interest in the Company; and (ii) another wholly-owned subsidiary of American Standard Companies Inc., American Standard Inc., which is one of the beneficiaries under the A-S Executive Trust and is entitled to the transfer of 65,000 shares by the trustees as and when the trustees decide. The 65,000 shares represent approximately a 0.04% shareholding interest in the Company.

*Note 2:* General Oriental Investments Limited is 100% indirectly owned by Foundation Brunneria, a private discretionary trust whose ultimate beneficiaries are independent from the other shareholders, directors and chief executive of the Company.

Save as disclosed above, as at 31 December 2005, no other person (other than the directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above) had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation that was required to be kept under Section 336 of the SFO.

## CONNECTED TRANSACTIONS

### Continuing connected transactions

Save as disclosed under the heading "Continuing connected transactions" of the Section headed "Business" of the Company's prospectus, the Group had entered into the following continuing connected transactions ("Connected Transactions") as defined under the GEM Listing Rules and a waiver was granted by the Stock Exchange on 19 June 2003 from strict compliance with the requirements of Rules 20.30, 20.34, 20.35 and 20.36 of the GEM Listing Rules:

| | *Notes* | US$'000 |
|---|---|---|
| Sales of finished goods | (a) | 33,482 |
| Purchases of raw materials | (a) | (2,162) |
| Management fees expenses | (b) | (300) |
| Trademark license, technical assistance and management assistance fees | (c) | (2,066) |

*Notes:*

(a) The sales and purchase transactions were conducted with reference to the standard price lists and will continue in the future on the same basis.

(b) the management fees were charged in accordance with the terms of the relevant agreement with American Standard Inc.

(c) The trademark license, technical assistance and management assistance fees were related to the sale of products bearing American Standard brands by the Group's subsidiaries in Mainland China, which were charged on the bases as stated in the respective joint venture agreements, net of amounts credited to the Group pursuant to the Intellectual Property Agreement (as defined in note [29(2)] to the financial statements) with American Standard Inc.

During the year, in addition to the above Connected Transactions, American Standard group paid expenses on behalf of the Group. Reimbursements of such payments on behalf were based on the actual amounts incurred. The Group reimbursed American Standard group an aggregate amount of US$880,000 for the year ended 31 December 2005.

Pursuant to the waiver granted by the Stock Exchange, the Connected Transactions have been reviewed by the independent non-executive directors of the Company. The independent non-executive directors have confirmed that the Connected Transactions have been entered into (a) in the ordinary and usual course of the Group's business; (b) on normal commercial terms or on terms no less favorable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (d) have not exceeded the relevant cap amounts as described in the paragraph headed "Non-exempt continuing connected transactions" of the subsection headed "Continuing connected transactions" of the section headed "Business" in the Company's Prospectus.

The auditors of the Company have also confirmed that the Connected Transactions (a) have received the approval of the Company's board of directors; (b) have been entered into in accordance with relevant agreements governing the transactions; and (c) have not exceeded the relevant cap amounts as described in the paragraph headed "Non-exempted continuing connected transactions" of the subsection headed "Continuing connected transactions" of the section headed "Business" of the Company's prospectus.

## CONNECTED TRANSACTIONS *(Continued)*

### Other connected transactions

During the year, a service fee that amounted to US$82,000 (2004: US$74,000) was paid to Qing Yuan Jianbei Enterprises Group Corporation ("Qing Yuan"), a minority shareholder of a PRC subsidiary, by the PRC subsidiary for the provision of administrative services, and was charged based on 0.5% (2004: 0.5%) of net sales of that PRC subsidiary.

In April 2003, a subsidiary had extended a loan of Rmb10,000,000 to Qing Yuan. This loan was made initially for a term of 1 year, and extended subsequently in April 2004 and April 2005. This loan is due for repayment in April 2006. This loan bears interest of 5.3% per annum (2004: 5.3% per annum).

On 21 September 2005, the Group entered into an equity transfer contract with a minority shareholder of A-S (Shanghai) Fittings Co., Ltd. ("Shanghai Fittings"), pursuant to which the Group agreed to transfer an aggregate of 64% equity interest in Shanghai Fittings.

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to 19 January 2005, Ms. Edena S. I. Law (resigned on 19 January 2005), a director of the Company, was also a director of the American Standard Vietnam Inc. American Standard Vietnam Inc. is a member of American Standard Group, which is engaged in the plumbing products business and potentially competes with the Group in relation to its export sales to independent third parties.

## SPONSOR'S INTEREST

At 31 December 2005, neither Anglo Chinese Corporate Finance, Limited (the "Sponsor"), nor any of its respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the shares of the Company or of any member of the Group, or had any right to subscribe for, or to nominate persons to subscribe for the shares of the Company, or of any member of the Group.

Pursuant to an agreement dated 13 January 2006 between the Company and the Sponsor, the Sponsor is entitled to receive a fee for professional services rendered as the Company's sponsor for the period from the date of listing and to 31 December 2005 and the Company paid an agreed advisory fee per financial quarter to the Sponsor for its provision of such services.

## COMPLIANCE ADVISOR'S INTERESTS

At 31 December 2005, neither First Shanghai Capital Limited (the "Compliance Advisor"), nor any of its respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the shares of the Company or of any member of the Group, or had any right to subscribe for, or to nominate persons to subscribe for the share of the Company, or of any member of the Group.

Pursuant to an compliance advisor agreement between the Company and the Compliance Advisor, the Compliance Advisor is entitled to receive a fee for professional services rendered as the Company's Compliance Advisor for the period from 1 January 2006 to the date the Company dispatches its annual report, which is expected to be no later than 31 March 2006 and the Company has paid an agreed advisory fee to the Compliance Advisor for its provision of such services.

## BOARD PRACTICE AND PROCEDURE

The Company complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the year ended 31 December 2005.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has complied with the code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings. The Company has made specific inquiry of all directors whether its directors have complied with or whether there has been any non-compliance with the required standard of dealings. The Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors during the year.

## AUDIT COMMITTEE

The Company established an Audit committee on 16 June 2003 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal control. During the year ended 31 December 2005, the Audit committee had three members, comprising of three independent non-executive directors, Mr. Chang Sze-Ming, Sydney, Mr. Ho Tse-Wah, Dean and Mr. Wong Kin Chi, with Mr. Ho Tse-Wah, Dean serving as the chairman of the committee. The Audit committee has reviewed the Group's audited consolidated results for the year ended 31 December 2005.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

## CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on pages 6 to 9 of the annual report.

ON BEHALF OF THE BOARD

**Richard M. Ward**
*Chairman*

Hong Kong
15 March 2006

ERNST & YOUNG
安永會計師事務所

To the members
**A-S China Plumbing Products Limited**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 31 to 80 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Hong Kong
15 March 2006

# Consolidated Income Statement

Year ended 31 December 2005

| | *Notes* | **2005** | 2004 |
|---|---|---|---|
| | | **US$'000** | US$'000 |
| | | | (Restated) |
| REVENUE | 5 | **83,323** | 78,376 |
| Cost of sales | | **(50,989)** | (49,994) |
| Gross profit | | **32,334** | 28,382 |
| Administrative and operating expenses | | **(17,728)** | (14,468) |
| Selling and distribution costs | | **(2,800)** | (2,309) |
| Other revenue, net | | **1,114** | 580 |
| Loss on disposal of a subsidiary | 18 | **(2,247)** | – |
| PROFIT BEFORE TAX | 6 | **10,673** | 12,185 |
| Tax | 10 | **(2,427)** | (1,877) |
| PROFIT FOR THE YEAR | | **8,246** | 10,308 |
| Attributable to: | | | |
| Equity holders of the parent | | **5,951** | 8,146 |
| Minority interests | | **2,295** | 2,162 |
| | | **8,246** | 10,308 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (US cents) | | | |
| – Basic, for profit for the year | 12 | **3.94** | 5.39 |

# Consolidated Balance Sheet

31 December 2005

| | Notes | 2005 US$'000 | 2004 US$'000 (Restated) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **53,162** | 59,179 |
| Goodwill | 14 | **2,105** | 2,105 |
| Intangible assets | 15 | **6,998** | 6,998 |
| Prepaid land lease payments | 16 | **8,210** | 8,717 |
| Total non-current assets | | **70,475** | 76,999 |
| **Current assets** | | | |
| Due from group companies | 19 | **6,251** | 9,185 |
| Prepayments, deposits and other receivables | | **4,459** | 4,310 |
| Inventories | 20 | **9,125** | 7,809 |
| Trade receivables | 21 | **10,003** | 8,097 |
| Cash and cash equivalents | 22 | **45,854** | 36,442 |
| Total current assets | | **75,692** | 65,843 |
| **Total assets** | | **146,167** | 142,842 |
| **Current liabilities** | | | |
| Due to group companies | 23 | **5,926** | 6,827 |
| Dividend payable | | **132** | 132 |
| Trade payables | 24 | **6,847** | 6,926 |
| Corporate income tax payable | | **542** | 452 |
| Other payables, deposits and accrued liabilities | | **12,127** | 14,585 |
| Total current liabilities | | **25,574** | 28,922 |
| **Net current assets** | | **50,118** | 36,921 |
| **Total assets less current liabilities** | | **120,593** | 113,920 |
| **Non-current liability** | | | |
| Due to American Standard Inc. | 25 | **–** | 879 |
| **Net assets** | | **120,593** | 113,041 |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Issued share capital | 26 | **1,510** | 1,510 |
| Reserves | 27(a) | **103,846** | 96,102 |
| | | **105,356** | 97,612 |
| **Minority interests** | | **15,237** | 15,429 |
| **Total equity** | | **120,593** | 113,041 |

**Richard M. Ward**
*Director*

**Ye Zhi Mao, Jason**
*Director*

Year ended 31 December 2005

| | Attributable to equity holders of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Issued share capital** | **Share premium account** | **Reserve fund** | **Expansion reserve** | **Exchange fluctuation reserve** | **Retained profits** | **Total** | **Minority interests** | **Total equity** |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 (Restated) |
| At 1 January 2004 | 1,510 | 85,305 | 3,088 | 989 | (3,074) | 1,695 | 89,513 | 14,780 | 104,293 |
| Exchange realignment | – | – | – | – | (47) | – | (47) | – | (47) |
| Net loss not recognised in the profit and loss account | – | – | – | – | (47) | – | (47) | – | (47) |
| Net profit for the year | – | – | – | – | – | 8,146 | 8,146 | 2,162 | 10,308 |
| Dividend declared or paid to minority interest shareholders | – | – | – | – | – | – | – | (1,513) | (1,513) |
| Appropriation to reserve fund and expansion reserve | – | – | 465 | 317 | – | (782) | – | – | – |
| At 31 December 2004 and 1 January 2005 | 1,510 | 85,305 | 3,553 | 1,306 | (3,121) | 9,059 | 97,612 | 15,429 | 113,041 |
| Exchange realignment | – | – | – | – | 1,793 | – | 1,793 | 264 | 2,057 |
| Net gain not recognized in the profit and loss account | – | – | – | – | 1,793 | – | 1,793 | 264 | 2,057 |
| Net profit for the year | – | – | – | – | – | 5,951 | 5,951 | 2,295 | 8,246 |
| Disposal of a subsidiary | – | – | – | – | – | – | – | (2,751) | (2,751) |
| Appropriation to reserve fund and expansion reserve | – | – | 404 | – | – | (404) | – | – | – |
| **At 31 December 2005** | **1,510** | **85,305*** | **3,957*** | **1,306*** | **(1,328)*** | **14,606*** | **105,356** | **15,237** | **120,593** |

According to the Company Law of the People's Republic of China (the "PRC") and Mainland China subsidiaries' articles of association, each of the Mainland China subsidiaries is required to set aside a certain percentage of its net profit, decided by the board of directors with due consideration to the business performance of the company from time to time, to the expansion reserve and reserve fund. The expansion reserve and reserve fund are non-distributable reserves and, subject to certain restrictions set out in the Company Law of the PRC and the articles of association of the Mainland China subsidiaries, part of the expansion reserve and reserve fund may be converted to increase share capital.

Pursuant to Section 34(2) in Chapter 22 of the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the Company can distribute dividends out of the share premium account in the amount of US$83,917,000 (2004:US$83,917,000) provided that the Company will be able to pay off its debts as and when they fall due in the ordinary course of business.

* *These reserve accounts comprise the consolidated reserves of US$103,846,000 (2004: US$96,102,000) in the consolidated balance sheet.*

# Consolidated Cash Flow Statement

Year ended 31 December 2005

| | Notes | 2005 US$'000 | 2004 US$'000 (Restated) |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **10,673** | 12,185 |
| Adjustments for: | | | |
| Interest income | 6 | **(397)** | (168) |
| Depreciation | 6 | **4,632** | 4,682 |
| Amortization of goodwill | 6 | **–** | 181 |
| Amortization of intangible assets | 6 | **–** | 636 |
| Recognition of prepaid land lease payments | 6 | **227** | 244 |
| Impairment of property, plant and equipment | 6 | **576** | – |
| Loss on disposal of a subsidiary | 6 | **2,247** | – |
| Gains on disposal of property, plant and equipment | 6 | **(523)** | (110) |
| Operating profit before working capital changes | | **17,435** | 17,650 |
| Decrease/(increase) in balances with group companies | | **1,154** | (4,774) |
| Increase in prepayments, deposits and other receivables | | **(171)** | (270) |
| Increase in inventories | | **(1,316)** | (3) |
| (Increase)/decrease in trade receivables | | **(1,906)** | 802 |
| (Decrease)/increase in trade payables | | **(79)** | 2,410 |
| Decrease in other payables, deposits and accrued liabilities | | **(1,673)** | (1,303) |
| Cash generated from operations | | **13,444** | 14,512 |
| Income taxes paid | | **(2,337)** | (1,473) |
| Net cash inflow from operating activities | | **11,107** | 13,039 |

# Consolidated Cash Flow Statement



Year ended 31 December 2005

| | Notes | 2005<br>US$'000 | 2004<br>US$'000<br>(Restated) |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Additions to property, plant and equipment | 13 | **(2,473)** | (1,422) |
| Proceeds from disposal of property, plant and equipment | | **1,183** | 153 |
| Interest received | | **397** | 168 |
| Net cash outflow from investing activities | | **(893)** | (1,101) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividends paid to minority shareholders | | **(785)** | (956) |
| Net cash outflow from financing activities | | **(785)** | (956) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **9,429** | 10,982 |
| Cash and cash equivalents at beginning of year | | **36,442** | 25,507 |
| Effect of foreign exchange rate changes, net | | **(17)** | (47) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **45,854** | 36,442 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 22 | **39,790** | 25,942 |
| Non-pledged time deposits with original maturity of less than three months when acquired | 22 | **6,064** | 10,500 |
| | | **45,854** | 36,442 |

# Balance Sheet

31 December 2005

| | Notes | 2005 US$'000 | 2004 US$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **415** | 524 |
| Intangible assets | 15 | **6,998** | 6,998 |
| Interests in subsidiaries | 17 | **87,866** | 92,686 |
| Total non-current assets | | **95,279** | 100,208 |
| **Current assets** | | | |
| Prepayments, deposits and other receivables | | **160** | 162 |
| Cash and cash equivalents | 22 | **5,788** | 4,211 |
| Total current assets | | **5,948** | 4,373 |
| **Total assets** | | **101,227** | 104,581 |
| **Current liabilities** | | | |
| Due to group companies | 23 | **1,930** | 1,948 |
| Dividend payable | | **132** | 132 |
| Other payables, deposits and accrued liabilities | | **337** | 657 |
| Total current liabilities | | **2,399** | 2,737 |
| **Net current assets** | | **3,549** | 1,636 |
| **Total assets less current liabilities** | | **98,828** | 101,844 |
| **Non-current liability** | | | |
| Due to American Standard Inc. | 25 | **–** | 879 |
| **Net assets** | | **98,828** | 100,965 |
| **EQUITY** | | | |
| Issued share capital | 26 | **1,510** | 1,510 |
| Reserves | 27(b) | **97,318** | 99,455 |
| **Total equity** | | **98,828** | 100,965 |

**Richard M. Ward**
*Director*

**Ye Zhi Mao, Jason**
*Director*

## 1. CORPORATE INFORMATION

A-S China Plumbing Products Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 14 December 1993 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares have been listed on the Growth Enterprises Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 11 July 2003. The Company's registered office address is P.O. Box 309 Ugland House, South Church Street, Grand Cayman, the Cayman Islands and its principal place of business is located at 908-909A, 9th Floor, AIA Tower, 183 Electric Road, North Point, Hong Kong.

During the year, the Company remained as an investment holding company and its subsidiaries were principally engaged in the manufacture, sale and distribution of plumbing products in Mainland China.

In the opinion of the directors, the parent of the Company is American Standard Foreign Trading Limited and the ultimate holding company of the Group is American Standard Companies Inc., a company incorporated in Delaware, the United States of America and is listed on the New York Stock Exchange.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKAS") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in United States dollars and all values are rounded to the nearest thousand (US$'000) except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. These results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent interests of outside shareholders in the results and net assets of the Company's subsidiaries.

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 12 | Income Taxes |
| HKAS 14 | Segment Reporting |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 18 | Revenue |
| HKAS 19 | Employee Benefits |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 32 | Financial Instruments: Disclosure and Presentation |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 38 | Intangible Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS 39 Amendment | Transition and Initial Recognition of Financial Assets and Financial Liabilities |
| HKFRS 2 | Share-based Payment |
| HKFRS 3 | Business Combinations |

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 32, 33, 37 and 39 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the Company's functional currency.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarized as follows:

### (a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortized on the straight-line basis over the lease term.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

### (b) HKAS 38 – Intangible assets

In prior years, intangible assets were amortized over useful lives of 20 years, under the rebuttable presumption that their useful lives would not exceed 20 years from the date when the assets were available for use.

Upon the adoption of HKAS 38, the intellectual property rights of the Group are regarded to have indefinite useful lives, as there is no foreseeable limit to the period over which these assets are expected to generate cash flows for the Group.

In accordance with the transitional provisions of HKAS 38, the Group has not adjusted the carrying amount of the intangible assets as at 1 January 2005.

### (c) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted stock options for shares in the Company's ultimate holding company under "the 2002 Omnibus Incentive Plan" were required as there was no recharge to the Company.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the impact of the share options granted to employees are immaterial for the current and prior years, the adoption of HKFRS 2 has had no effect on the consolidated income statement, retained profits and balance sheet.

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

### (d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill arising on acquisitions prior to 1 January 2001 were eliminated against the consolidated retained profits in the year of acquisition and were not recognized in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalized and amortized on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortization and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortization with a corresponding adjustment to the cost of goodwill. Goodwill previously eliminated against retained profits remains eliminated against retained profits and is not recognized in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effect of the above change is reflected in note 14 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

| | |
|---|---|
| HKAS 1 Amendment | Capital Disclosures |
| HKAS 19 Amendment | Actuarial Gains and Losses, Group Plans and Disclosures |
| HKAS 39 Amendment | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 Amendment | The Fair Value Option |
| HKAS 39 & HKFRS 4 Amendments | Financial Guarantee Contracts |
| HKFRSs 1 & 6 Amendments | First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources |
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC)-Int 4 | Determining whether an Arrangement contains a Lease |
| HK(IFRIC)-Int 5 | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds |
| HK(IFRIC)-Int 6 | Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment |

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

The HKAS 19 Amendment, HKAS 39 Amendments regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

## 2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

### Goodwill

Goodwill arising on the acquisition of subsidiaries, represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognized in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

## 2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Goodwill** *(Continued)*

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognized for goodwill is not reversed in a subsequent period.

**Related parties**

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Company/Group; (ii) has an interest in the Company that gives it significant influence over the Company/Group; or (iii) has joint control over the Company/Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Company or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

## 2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization), had no impairment loss been recognized for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

## 2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Property, plant and equipment** *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Buildings | 2% – 3.3% |
| Plant and machinery | 5% |
| Furniture, equipment and motor vehicles | 14.3% – 20% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the income statement in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents factory buildings, plant and machinery and other fixed assets under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

**Intangible assets (other than goodwill)**

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

## 2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Intangible assets (other than goodwill)** *(Continued)*

Intangible assets with definite useful lives comprise:

*Trademark license fees*

Trademark license fees, other than intellectual property rights, are stated at cost less accumulated amortizations and any impairment losses.

Intangible assets with indefinite useful lives comprise:

*Intellectual property rights*

Intellectual property rights represent present and future exclusive territorial rights to manufacture and distribute products under the plumbing product trademarks owned by American Standard Inc. in Mainland China and are stated at cost and any impairment losses.

Amortization is calculated on the straight-line basis to write off the cost of the trademark license fees over the period of the respective licenses. Amortization starts on the commencement of the respective subsidiaries' operations.

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

**Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**Trade and other receivables**

Trade receivables, which generally have terms of 45 days, are recognised and carried at original invoice amounts less allowances for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Prepayments, deposits and other receivables are recognised and carried at cost less allowances for any uncollectible amounts.

## 2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### Trade and other payables

Liabilities for trade and other payables which are normally settled on 30 days terms are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

### Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## 2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Income tax** *(Continued)*

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Conversely, previously unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Revenue recognition**

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

## 2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Research and development costs**

All research and development costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

**Employee benefits**

*Share-based payment transactions*

The Company's ultimate holding company operates a stock option plan ("2002 Omnibus Incentive Plan") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair market value at the date at which they are granted. The fair market value is determined using the Black-Scholes model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognized for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

## 2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Employee benefits** *(Continued)*

*Share-based payment transactions (Continued)*

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 January 2005 and to those granted on or after 1 January 2005.

*Pension scheme*

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Mainland China subsidiaries are required to contribute 19.0% to 22.5% of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

**Foreign currencies**

The consolidated financial statements are presented in the United States dollar ("US$"), which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of overseas subsidiaries is the Renminbi ("RMB"). As at the balance sheet date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated at the weight average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to the particular foreign operation is recognized in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into US$ at the exchange rates ending at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which are throughout the year are translated into US$ dollar at the weighted average exchange rates for the year.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgment, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

*Useful lives of intellectual property rights; and*

The Group's intellectual property rights of indefinite useful lives as the Group considered that there is no foreseeable limit to the period over which these assets may be used to generate cash flow for the Group.

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

*Impairment of goodwill and intellectual property rights*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill and intellectual property rights at 31 December 2005 were US$2,105,000 and US$6,998,000 respectively. More details are given in note 15.1.

## 4. SEGMENT INFORMATION

The Group's revenue is principally derived from the manufacture, sale and distribution of plumbing products with focus in Mainland China. The products of the Group are subject to similar risks and returns and therefore, the Group has only one business segment.

An analysis of the segment revenue of the Group's geographical segments is as follows:

| | **Segment revenue** | |
|---|---|---|
| | **2005** | 2004 |
| | **US$'000** | US$'000 |
| Mainland China | **45,301** | 45,542 |
| United Kingdom | **12,157** | 9,917 |
| North America | **8,882** | 13,482 |
| Other European countries | **6,256** | 2,533 |
| Others | **10,727** | 6,902 |
| Total | **83,323** | 78,376 |

No further geographical segment information is provided as over 90% of the Group's assets are located in Mainland China.

## 5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and business/sales tax where applicable. All significant intra-group transactions have been eliminated on consolidation.

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/ (crediting):

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | **US$'000** | US$'000 |
| | | (Restated) |
| Cost of inventories sold | **50,150** | 47,523 |
| Amortization: | | |
| Goodwill* *(note 14)* | **–** | 181 |
| Intangible assets** *(note 15)* | **–** | 636 |
| Recognition of prepaid land lease payments *(note 16)* | **227** | 244 |
| Auditors' remuneration | **192** | 174 |
| Depreciation *(note 13)* | **4,632** | 4,682 |
| Staff costs (including directors' remuneration) *(note 7)*: | | |
| Wages and salaries | **11,385** | 11,195 |
| Pension scheme contributions | **757** | 899 |
| | **12,142** | 12,094 |
| Gains on disposal of property, plant and equipment | **(523)** | (110) |
| Loss on disposal of a subsidiary | **2,247** | – |
| Operating lease rentals in respect of land and buildings | **723** | 611 |
| Provision/(Reversal of) for doubtful debts | **145** | (69) |
| Provision for slow-moving inventories | **369** | 94 |
| Research and development costs | **765** | 289 |
| Impairment of property, plant and equipment | **576** | – |
| Interest income | **(397)** | (168) |
| Foreign exchange losses, net | **309** | 4 |

* The amortization of goodwill for 2004 is included in "Administration and operating expenses" on the face of the consolidated income statement.

** The amortization of intangible assets for 2004 is included in "Cost of sales" on the face of the consolidated income statement.

## 7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | **US$'000** | US$'000 |
| Fees | **60** | 38 |
| Other emoluments: | | |
| Basic salaries, housing benefits, other allowances and benefits in kind | **420** | 237 |
| Bonuses | **40** | 22 |
| Pension scheme contributions | **4** | 9 |
| | **524** | 306 |

| **2005** | **Fees** | **Other emoluments** | **Bonuses** | **Total** |
|---|---|---|---|---|
| | **US$'000** | **US$'000** | **US$'000** | **US$'000** |
| **Directors** | | | | |
| Ng ChanChoy | **–** | **252** | **–** | **252** |
| Ye Zhi Mao, Jason | **–** | **103** | **36** | **139** |
| Wu Wei Lin, Patrick | **–** | **69** | **4** | **73** |
| Chang Sze Ming, Sydney | **20** | **–** | **–** | **20** |
| Ho Tse Wah, Dean | **20** | **–** | **–** | **20** |
| Wong Kin Chi | **20** | **–** | **–** | **20** |
| Richard M. Ward | **–** | **–** | **–** | **–** |
| Yang Yu Qing, Cindy | **–** | **–** | **–** | **–** |
| Stephan R. Custer | **–** | **–** | **–** | **–** |
| Tobias J. Brown | **–** | **–** | **–** | **–** |
| Edena S. I. Low | **–** | **–** | **–** | **–** |
| Peter James O'Donnell | **–** | **–** | **–** | **–** |
| | **60** | **424** | **40** | **524** |

## 7. DIRECTORS' REMUNERATION *(Continued)*

| 2004 | Fees | Other emoluments | Bonuses | Total |
|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 |
| Directors | | | | |
| Ng ChanChoy | – | 215 | 17 | 232 |
| Yang Yu Qing, Cindy | – | 31 | 5 | 36 |
| Chang Sze Ming, Sydney | 16 | – | – | 16 |
| Ho Tse Wah, Dean | 16 | – | – | 16 |
| Wong Kin Chi | 6 | – | – | 6 |
| Richard M. Ward | – | – | – | – |
| Tobias J. Brown | – | – | – | – |
| Stephan R. Custer | – | – | – | – |
| Edena S. I. Low | – | – | – | – |
| | 38 | 246 | 22 | 306 |

There was no arrangement under which a director waived or agreed to waive any remuneration for the years ended 31 December 2004 and 2005.

During the year, certain directors were granted share options in respect of their services to the Group under the share option scheme of the ultimate holding company. For details, please refer to note 9.

## 8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2004: one) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining three (2004: four) highest paid employees for the year are as follows:

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | **US$'000** | US$'000 |
| Basic salaries, housing benefits, other allowances and benefits in kind | **409** | 260 |
| Bonuses | **61** | 86 |
| Pension scheme contributions | **4** | 5 |
| | **474** | 351 |

## 8. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of employees | |
|---|---|---|
| | **2005** | 2004 |
| Nil to US$128,205 (HK$1,000,000) | **2** | 4 |
| US$128,206 (HK$1,000,001) to US$192,308 (HK$1,500,000) | **1** | – |
| US$192,309 (HK$1,500,001) to US$256,410 (HK$2,000,000) | **–** | – |
| | **3** | 4 |

During the year, no emoluments were paid by the Group to the directors or the other highest paid employees either as an inducement to join or upon joining the Group, or as compensation for loss of office (2004: Nil).

During the year, certain employees were granted share options of the ultimate holding company (2004: Nil) in respect of their services to the Group under the share option scheme of the ultimate holding company. For details, please refer to note 9.

## 9. SHARE-BASED PAYMENT

During the year, certain directors and employees of the Group were granted options under American Standard Companies Inc.'s ("ASCI") 2002 Omnibus Incentive Plan, to subscribe shares in ASCI. ASCI is the ultimate shareholder of the Company.

The 2002 Omnibus Incentive Plan was approved and became effective on 1 January 2002 and unless otherwise cancelled or amended, will remain in force for five years from that date. Under the Omnibus Incentive Plan, awards may be granted to employees and non-employee directors in the form of stock options, restricted stock, restricted stock units, stock appreciation right ("SARs") and certain other incentive awards. The maximum number of shares or units that may be issued under to 2002 Omnibus Incentive Plan is 16,500,000, of which no more than 2,475,000 may be used for awards other than stock options or SARs. The total of stock options and SARs that may be granted to any individual annually may not exceed 4,500,000 shares and the number of restricted stock and restricted unit awards to any individual annually may not exceed 450,000 shares or units.

The exercise period is 10 years from each relevant date of grant. Options to subscribe for 1/3 of the shares under each relevant grant may be exercised on or after the first anniversary of the relevant date of grant; options to subscribe for another 1/3 of the shares may be exercised on or after the second anniversary of the relevant date of grant; options to subscribe for the remaining shares may be exercised on or after the third anniversary of the relevant date of grant.

## 9. SHARE-BASED PAYMENT *(Continued)*

Certain directors and employees were granted stock options in respect of their services to the Group under the 2002 Omnibus Incentive Plan. The related costs are not recharged to the Group. The Group has not accounted for the costs of these stock options as these are immaterial to the Group's financial statements.

The fair market value of the stock options was estimated by ASCI at the date of grant using the Black-Scholes option pricing model.

The following stock options were outstanding under the 2002 Omnibus Incentive Plan during the year:

| | Number of share options | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | At 1 January | Granted during the year | Exercised during the year | Expired during the year | Forfeited during the year | Resignation of director during the year | At 31 December 2005 | Exercisable at 31 December 2005 | Exercise price of share option * | Exercise period of share options |
| | | | | | | | | | US$ | |
| **Directors** | | | | | | | | | | |
| Richard M. Ward | 51,000 | 10,000 | (19,998) | – | – | – | 41,002 | 7,002 | 23.58-43.34 | 28/4/2003-1/2/2015 |
| Yang Yu Qing, Cindy | 750 | – | – | – | – | – | 750 | 750 | 18.86 | 3/1/2001-3/1/2011 |
| Stephan R. Custer | 11,700 | – | – | – | – | (11,700) | – | – | – | – |
| Ng Chan Choy | 6,000 | 3,000 | (2,000) | – | – | (7,000) | – | – | – | – |
| Edena S. I. Low | 10,401 | – | – | – | – | (10,401) | – | – | – | – |
| Ye Zhi Mao, Jason | – | 500 | – | – | – | – | 500 | – | 43.34 | 2/2/2005-1/2/2015 |
| | 79,851 | 13,500 | (21,998) | – | – | (29,101) | 42,252 | 7,752 | | |
| **Other employees** | | | | | | | | | | |
| In aggregate | 1,500 | 4,000 | – | – | – | – | 5,500 | 1,500 | 18.86-43.34 | 3/1/2001-1/2/2015 |
| | 81,351 | 17,500 | (21,998) | – | – | (29,101) | 47,752 | 9,252 | | |

* The exercise price of the stock options is subject to adjustment in the case of rights or bonus issues, or other similar charges in ASCI's share capital.

## 10. TAX

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | **US$'000** | US$'000 |
| Current year provision in respect of Mainland China tax | **2,427** | 1,877 |

Currently, no taxes are imposed in the Cayman Islands on the income or capital profit of the Company.

Hong Kong profits tax has not been provided during the current and prior years as the Group had no assessable profits attributable to its operations in Hong Kong.

The Mainland China subsidiaries were granted or have a right to apply for the exemption from corporate income taxes ("CIT") for the two years starting from the first year in which they earn assessable profits, and are entitled to a 50% exemption from CIT for the following three years (the "50% exemption").

A Mainland China subsidiary, A-S (Jiangmen) Fittings Co., Ltd. ("A-S Jiangmen Fittings"), is subject to a CIT rate of 24% as it is located in a coastal economic development region.

A Mainland China subsidiary, A-S (Shanghai) Pottery Co., Ltd., is subject to a CIT rate of 24% as it is located in the Shanghai region and is entitled to a 50% exemption from CIT as it is in its fourth profitable year.

A Mainland China subsidiary, A-S (Tianjin) Pottery Co., Ltd., is subject to a CIT rate of 15% as it is located in Tianjin economic & development zone and is entitled to a 50% exemption from CIT as it is in its fifth profitable year.

Another Mainland China subsidiary, Hua Mei Sanitary Ware Co., Ltd ("Hua Mei") is subject to a CIT rate of 24% and has obtained a written approval for a preferential tax rate of 15% for the year ended 31 December 2005 from the local tax bureau as it qualifies to be a "Knowledge and Technology Concentration Enterprise".

No provision for deferred tax has been provided as the taxable and deductible temporary differences are immaterial for the current and prior years.

## 10. TAX *(Continued)*

A reconciliation of tax expense applicable to profit before tax using the statutory rates for Mainland China in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the statutory rate to the effective rate, are as follows:

| | **Group** | | | |
|---|---|---|---|---|
| | **2005** | **2005** | 2004 | 2004 |
| | **US$'000** | **%** | US$'000 | % |
| | | | (Restated) | (Restated) |
| Profit before tax | **10,673** | | 12,185 | |
| Tax at the statutory rate | **3,522** | **33.0** | 4,021 | 33.0 |
| (Income not taxable)/ Expenses not deductible for tax purpose | **829** | **7.8** | 132 | 1.0 |
| Tax losses not recognized | **1,428** | **13.4** | 848 | 7.0 |
| Tax exemptions/deductions | **(3,352)** | **(31.5)** | (3,124) | (25.6) |
| Tax charge at the Group's effective tax rate | **2,427** | **22.7** | 1,877 | 15.4 |

## 11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net loss from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was US$2,137,000 (2004: net profit of US$1,496,000) (note 27 (b)).

## 12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amount is based on the net profit for the year attributable to equity holders of the parent of US$5,951,000 (2004: US$8,146,000), and the weighted average number of issued ordinary shares of 151,034,000 (2004: 151,034,000) during the year.

Diluted earnings per share amount for the year ended 31 December 2005 and 2004 have not been disclosed as no diluting events existed during the current or prior year.

## 13. PROPERTY, PLANT AND EQUIPMENT

Group

| | Buildings US$'000 | Plant and machinery US$'000 | Furniture, equipment and motor vehicles US$'000 | Construction in progress US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| **31 December 2005** | | | | | |
| At 31 December 2004 and 1 January 2005: | | | | | |
| Cost | 29,467 | 60,989 | 11,999 | 218 | 102,673 |
| Accumulated depreciation | (7,195) | (25,697) | (10,602) | – | (43,494) |
| Net carrying amount | 22,272 | 35,292 | 1,397 | 218 | 59,179 |
| At 31 December 2004, and 1 January 2005, net of accumulated depreciation | 22,272 | 35,292 | 1,397 | 218 | 59,179 |
| Additions | – | 625 | 1,146 | 702 | 2,473 |
| Transfer | – | – | 249 | (249) | – |
| Disposals | (476) | (149) | (35) | – | (660) |
| Disposals of a subsidiary *(Note 18)* | (1,050) | (2,881) | (60) | – | (3,991) |
| Depreciation provided for the year | (753) | (2,085) | (1,794) | – | (4,632) |
| Impairment | – | (576) | – | – | (576) |
| Exchange realignment | 528 | 820 | 21 | – | 1,369 |
| At 31 December 2005, net of accumulated depreciation | 20,521 | 31,046 | 924 | 671 | 53,162 |
| At 31 December 2005: | | | | | |
| Cost | 27,888 | 56,007 | 12,398 | 671 | 96,964 |
| Accumulated depreciation | (7,367) | (24,385) | (11,474) | – | (43,226) |
| Impairment | – | (576) | – | – | (576) |
| Net carrying amount | 20,521 | 31,046 | 924 | 671 | 53,162 |

## 13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### Group

| | Buildings US$'000 | Plant and machinery US$'000 | Furniture, equipment and motor vehicles US$'000 | Construction in progress US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| 31 December 2004 | | | | | |
| At 1 January 2004: | | | | | |
| Cost | 29,446 | 60,168 | 12,036 | 252 | 101,902 |
| Accumulated depreciation | (6,402) | (23,037) | (9,981) | – | (39,420) |
| Net carrying amount | 23,044 | 37,131 | 2,055 | 252 | 62,482 |
| At 1 January 2004, net of accumulated depreciation | 23,044 | 37,131 | 2,055 | 252 | 62,482 |
| Additions | 21 | 848 | 304 | 249 | 1,422 |
| Transfer | – | – | 283 | (283) | – |
| Disposals | – | (19) | (24) | – | (43) |
| Depreciation provided for the year | (793) | (2,668) | (1,221) | – | (4,682) |
| At 31 December 2004, net of accumulated depreciation | 22,272 | 35,292 | 1,397 | 218 | 59,179 |
| At 31 December 2004: | | | | | |
| Cost | 29,467 | 60,989 | 11,999 | 218 | 102,673 |
| Accumulated depreciation | (7,195) | (25,697) | (10,602) | – | (43,494) |
| Net carrying amount | 22,272 | 35,292 | 1,397 | 218 | 59,179 |

The Group's buildings are all situated in Mainland China.

Construction in progress represents costs incurred for the development and construction of factory buildings, plant and machinery and other fixed assets in Mainland China, and is stated at cost.

## 13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

**Company**

| | **Furniture, equipment and motor vehicles US$'000** |
|---|---|
| **31 December 2005** | |
| At 31 December 2004 and 1 January 2005: | |
| Cost | **2,085** |
| Accumulated depreciation | **(1,561)** |
| Net carrying amount | **524** |
| At 1 January 2005, net of accumulated depreciation | **524** |
| Depreciation provided during the year | **(109)** |
| At 31 December 2005, net of accumulated depreciation | **415** |
| At 31 December 2005: | |
| Cost | **2,080** |
| Accumulated depreciation | **(1,665)** |
| Net carrying amount | **415** |
| **31 December 2004** | |
| At 1 January 2004: | |
| Cost | 2,288 |
| Accumulated depreciation | (1,640) |
| Net carrying amount | 648 |
| At 1 January 2004, net of accumulated depreciation | 648 |
| Depreciation provided during the year | (124) |
| At 31 December 2004, net of accumulated depreciation | 524 |
| At 31 December 2004: | |
| Cost | 2,085 |
| Accumulated depreciation | (1,561) |
| Net carrying amount | 524 |

Fully depreciated equipment of the Company with original costs of US$5,000 (2004: US$203,000) were written off during the year.

## 14. GOODWILL

### Group

| | US$'000 |
|---|---|
| **31 December 2005** | |
| At 1 January 2005 | |
| Cost as previously reported | **3,361** |
| Effect of adopting HKFRS 3 | **(1,256)** |
| Cost as restated | **2,105** |
| Accumulated amortization as previously reported | **1,256** |
| Effect of adopting HKFRS 3 | **(1,256)** |
| Accumulated amortization as restated | **–** |
| Net carrying amount | **2,105** |
| Cost and carrying amount at 31 December 2005 | **2,105** |
| **31 December 2004** | |
| At 1 January 2004 | |
| Costs | 3,361 |
| Accumulated amortization | (1,075) |
| Net carrying amount | 2,286 |
| Cost at 1 January 2004, net of accumulated amortization | 2,286 |
| Amortization provided during the year | (181) |
| At 31 December 2004 | 2,105 |
| At 31 December 2004 | |
| Cost | 3,361 |
| Accumulated amortization | (1,256) |
| Net carrying amount | 2,105 |

In 2004, goodwill was amortized on the straight-line basis over its estimated useful life of 20 years.

Details of the impairment testing of goodwill are disclosed in note 15.1.

## 15. INTANGIBLE ASSETS

Group

| | Intellectual property rights | Trademark license fees | Total |
|---|---|---|---|
| | US$'000 | US$'000 | US$'000 |
| **31 December 2005** | | | |
| At 1 January 2005 and 31 December 2005 | | | |
| Cost | **10,000** | **1,650** | **11,650** |
| Accumulated amortization | **(3,002)** | **(1,650)** | **(4,652)** |
| Net carrying amount | **6,998** | **–** | **6,998** |
| **At 31 December 2004** | | | |
| At 1 January 2004 | | | |
| Cost | 10,000 | 1,650 | 11,650 |
| Accumulated amortization | (2,439) | (1,577) | (4,016) |
| Net carrying amount | 7,561 | 73 | 7,634 |
| Cost at 1 January 2004, net of accumulated amortization | 7,561 | 73 | 7,634 |
| Amortization during the year | (563) | (73) | (636) |
| At 31 December 2004 | 6,998 | – | 6,998 |
| At 31 December 2004 | | | |
| Cost | 10,000 | 1,650 | 11,650 |
| Accumulated amortization | (3,002) | (1,650) | (4,652) |
| Net carrying amount | 6,998 | – | 6,998 |

## 15. INTANGIBLE ASSETS *(Continued)*

### Company

| | Intellectual property rights US$'000 |
|---|---|
| **31 December 2005** | |
| At 1 January 2005 and 31 December 2005 | |
| Cost | **10,000** |
| Accumulated amortization | **(3,002)** |
| Net carrying amount | **6,998** |
| **31 December 2004** | |
| At 1 January 2004 | |
| Cost | 10,000 |
| Accumulated amortization | (2,439) |
| Net carrying amount | 7,561 |
| Cost at 1 January 2004, net of accumulated amortization | 7,561 |
| Amortization during the year | (563) |
| At 31 December 2004 | 6,998 |
| At 31 December 2004 | |
| Cost | 10,000 |
| Accumulated amortization | (3,002) |
| Net carrying amount | 6,998 |

## 15. INTANGIBLE ASSETS *(Continued)*

### 15.1 Impairment testing of goodwill and intangible assets with indefinite lives

Goodwill relates to the acquisition of shareholding interests in subsidiaries.

Intangible assets are the acquisition of exclusive territorial rights to use American Standard Inc.'s present and future trademark, and to have access to its present and future technology, know-how on how to manufacture, market, distribute and sell American Standard Inc.'s plumbing products in Mainland China (the "Intellectual Property Rights").

Goodwill and the Intellectual Property Rights have been tested for impairment at Group level as the Group's revenue is primarily derived from one segment, i.e. the manufacture, sale and distribution of plumbing products.

The recoverable amounts of the goodwill and Intellectual Property Rights have been determined based on value in use calculation using cash flow projections according to financial budgets approved by management covering a five years period. The discount rate applied to the cash flow projections was determined after considering lending rates offered to enterprises by large financial institutions in Mainland China. The annual growth rate used is in line with the average growth rate of the industry.

Key assumptions were used in the value in use calculation for 31 December 2005 and 31 December 2004. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill and Intellectual Property Rights:

*Budgeted gross margins* – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, adjusted for expected efficiency improvements and raw materials price inflation.

*Discount rates* – The discount rates used are before tax and reflect specific risks relating to the industry.

## 16. PREPAID LAND LEASE PAYMENTS

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | **US$'000** | US$'000 |
| Carrying amount at 1 January | | |
| As previously reported | **–** | – |
| Effect of adopting HKAS 17 | **8,961** | 9,205 |
| As restated | **8,961** | 9,205 |
| Recognized during the year | **(227)** | (244) |
| Disposal of a subsidiary *(note 18)* | **(508)** | – |
| Exchange realignment | **206** | – |
| Carrying amount at 31 December | **8,432** | 8,961 |
| Current portion included in prepayments, deposits and other receivables | **(222)** | (244) |
| Non-current portion | **8,210** | 8,717 |

The leasehold land are held under long term leases, and are situated in Mainland China.

Included in the value for prepaid land lease payments is a net book value of approximately US$317,000 (2004: US$317,000) relating to land use rights of a Mainland China subsidiary, for which the official land use rights certificate. The Company is in the process of negotiations with the Chinese investor to obtain the land use rights certificate and building ownership certificate. The directors are of the opinion that they would continue to take necessary actions to obtain the official certificates.

Prepaid land lease payments with net book value of approximately US$508,000 were disposed for disposal of a subsidiary during the year.

## 17. INTERESTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2005** | 2004 |
| | **US$'000** | US$'000 |
| Unlisted shares, at cost | **81,545** | 85,549 |
| Due from subsidiaries | **10,752** | 11,437 |
| Due to a subsidiary | **(4,431)** | (4,300) |
| | **87,866** | 92,686 |

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying value of the amounts due from/to subsidiaries approximates to fair value.

## 17. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued/ registered share capital/ paid in capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| A-S (Beijing) Enamel Steel Sanitaryware Co., Ltd. ("A-S Beijing Bathtubs")*, ** | Mainland China | US$9,920,000 | 50.00 | 18.50 | Manufacturing of enamelled steel bathtubs |
| A-S (China) Co. Limited ("ASCC") | Mainland China | US$30,000,000 | – | 100 | Investment holding and marketing of the Group's products |
| A-S (Guangzhou) Enamelware Company Limited ("A-S Guangzhou Bathtubs")* | Mainland China | US$18,000,000 | 41.40 | 40.60 | Manufacturing of enamelled steel bathtubs |
| A-S (Jiangmen) Fittings Co., Ltd. | Mainland China | US$10,850,000 | – | 100 | Manufacturing of brass fittings |
| A-S (Shanghai) Pottery Co., Ltd. ("A-S Shanghai Pottery")* | Mainland China | US$24,725,000 | 57.73 | 24.27 | Manufacturing of vitreous china sanitary ware |
| A-S (Tianjin) Pottery Co., Ltd. ("A-S Tianjin Pottery") | Mainland China | US$17,500,000 | 50.30 | 49.70 | Manufacturing of vitreous china sanitary ware |
| Central Hope (China) Limited | Hong Kong | HK$100 | 100 | – | Investment holding |
| Hua Mei Sanitary Ware Co., Ltd. ("Hua Mei")* | Mainland China | US$12,000,000 | 67.58 | – | Manufacturing of vitreous china sanitary ware |
| Ultrawide Engineering Limited ("Ultrawide HK") | Hong Kong | HK$54,600,000 | 100 | – | Investment holding |

* These subsidiaries are registrated as contractual joint ventures under Mainland China law.

** Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

A-S Shanghai Fittings Co. Ltd., a subsidiary of the Company was disposed in 2005. See Note 18.

## 18. DISPOSAL OF A SUBSIDIARY

A-S Shanghai Fittings Co., Ltd. ("Shanghai Fittings") is a sino-foreign equity joint venture established in Mainland China and is a non-wholly owned subsidiary of the Company. Prior to the disposal, the Group held an aggregate of 64% of the equity interest of Shanghai Fittings. Shanghai Fittings was principally engaged in the manufacturing of faucets, taps and related metallic accessories in Mainland China. After the disposal, Shanghai Fittings ceased to be a subsidiary of the Company.

On 21 September 2005, the Group entered into an equity transfer contract with a joint venture partner, persuant to which the Group agreed to transfer an aggregate of 64% of the equity interest in Shanghai Fittings. The effective date of transfer of control was 31 May 2005.

| | *Note* | **2005**<br>**US$000** |
|---|---|---|
| Net assets disposed of: | | |
| Cash and bank balances | | **1,658** |
| Debtors and other receivables | | **1,927** |
| Inventory | | **1,039** |
| Property, plant and equipment | 13 | **3,991** |
| Prepaid land lease payments | 16 | **508** |
| Other long term assets | | **94** |
| Creditors | | **(1,574)** |
| Minority interests | | **(2,751)** |
| | | **4,892** |
| Loss on disposal of subsidiary | 6 | **(2,247)** |
| | | **2,645** |
| Satisfied by: | | |
| Cash and bank balances disposed of | | **1,658** |
| Non-cash assets and liabilities | | **987** |
| | | **2,645** |

There is no cash flow impact arising from the disposal of subsidiary as the sales proceeds are mainly satisfied by non-cash assets and liabilities.

The subsidiary disposed of had no significant impact on the turnover and results of the Group during the year.

## 19. DUE FROM GROUP COMPANIES

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | **US$'000** | US$'000 |
| American Standard – Canada | **117** | 41 |
| American Standard Europe | **2,214** | 4,062 |
| American Standard Inc. – USPPL | **6** | – |
| American Standard Korea Inc. | **625** | 563 |
| American Standard LLC Fixture | **158** | – |
| American Standard Vietnam Inc. | **165** | 111 |
| American Standard – Japan | **102** | 65 |
| Asia Pacific Staff – WSL | **480** | – |
| Bath & Kitchen-Global Group | **471** | 72 |
| Bulgaria Fittings CM | **36** | 7 |
| Corporate Units-Corporate St | **2** | 2 |
| Far East – Thailand | **768** | 8 |
| Ideal Standard S.A. | **–** | 17 |
| Incesa – Guatemala | **3** | – |
| International-Maxico Traditi | **–** | 27 |
| LaCrosse Business Svcs. | **46** | 35 |
| Metal Based Plumbing Fixtures | **63** | 551 |
| Mixco – Brass Fittings | **350** | 433 |
| PT American Standard Indonesia | **16** | 8 |
| Sanitaryware Manufacturing Corporation – Philippines | **117** | 181 |
| Thailand Fittings | **26** | 35 |
| U.S.P.P – Tiffin | **18** | – |
| U.S.P.P.-Sourced Chinaware | **260** | 2,951 |
| VCS China Shanghai | **11** | – |
| World Wide Fittings – Paints | **197** | 16 |
| | **6,251** | 9,185 |

All the amounts due at each balance sheet date arose from trading transactions.

The balances due from group companies are unsecured, interest-free and are repayable in accordance with trade terms. The balances due from group companies approximate to fair value due, to their relatively short term maturity.

## 20. INVENTORIES

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | **US$'000** | US$'000 |
| Raw materials | **4,013** | 2,323 |
| Work in progress | **1,178** | 992 |
| Finished goods | **3,934** | 4,494 |
| | **9,125** | 7,809 |

## 21. TRADE RECEIVABLES

The Group generally grants a credit term of 45 days to its customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. An aged analysis of the net trade receivables at the balance sheet dates, based on the invoice date, is as follows:

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | **US$'000** | US$'000 |
| Within 30 days | **5,985** | 6,253 |
| Within 31-90 days | **2,967** | 1,478 |
| Within 91-180 days | **870** | 366 |
| Over 180 days | **181** | – |
| | **10,003** | 8,097 |

The trade receivables approximate to fair value due to their relatively short term maturity.

## 22. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **US$'000** | US$'000 | **US$'000** | US$'000 |
| Cash and bank balances | **39,790** | 25,942 | **2,288** | 211 |
| Time deposits | **6,064** | 10,500 | **3,500** | 4,000 |
| | **45,854** | 36,442 | **5,788** | 4,211 |

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to US$29,908,000 (2004: US$15,380,000). The RMB is not freely convertible into other currencies. However, under Mainland China Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Bank balances earn interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the time deposits approximate to their fair values.

At 31 December 2005, the Group's cash and bank balances included an amount of US$121,000 (2004: Nil) which was pledged as security for a bankers' guarantee issued by a bank on behalf of a subsidiary.

## 23. DUE TO GROUP COMPANIES

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | **US$'000** | US$'000 |
| American Standard Europe | **406** | 748 |
| American Standard Inc. | **5,164** | 5,579 |
| American Standard Korea Inc. | **66** | 254 |
| American Standard Plumbing (UK) Ltd. | **11** | 12 |
| American Standard Sanitaryware (ThaiLand) | **26** | 64 |
| PT American Standard Indonesia | **58** | 62 |
| Sanitary wares Manufacturing Corporation – Philppines | **1** | 9 |
| Edwards of Hull | **7** | 14 |
| Ideal Standard Fittings – Mexico | **36** | 1 |
| Ideal Standard Wittlich GmbH | **8** | 6 |
| Ideal Standard Bulgaria CM | **–** | 29 |
| International – Mexico Traditi | **124** | – |
| Incesa – Costa Rica | **4** | – |
| UK Fittings LRD | **–** | 23 |
| The US Plumbing Products division – Paintsville | **–** | 3 |
| The US Plumbing Products division – Staff | **15** | 23 |
| | **5,926** | 6,827 |

| | Company | |
|---|---|---|
| | **2005** | 2004 |
| | **US$'000** | US$'000 |
| American Standard Inc. | **1,930** | 1,948 |

Apart from the amounts due to American Standard Inc., which arose from transactions as detailed in note 29(1), all the amounts due at each balance sheet date arose from trading transactions.

The balances due to group companies are unsecured, interest-free and repayable in accordance with trade terms. The balances due to group companies approximate to fair value due to their relatively short term maturity.

## 24. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet dates, based on the invoice date, is as follows:

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | **US$'000** | US$'000 |
| Within 30 days | **5,830** | 4,449 |
| Within 31-90 days | **502** | 1,848 |
| Within 91-180 days | **51** | 419 |
| Over 180 days | **464** | 210 |
| | **6,847** | 6,926 |

The trade payables are non-interest bearing and are normally settled on 30 days terms.

## 25. DUE TO AMERICAN STANDARD INC.

The 2004 balance represented the remaining consideration for the Intellectual Property Rights granted by American Standard Inc. (see notes 29(1)(c) and 29(2)).

## 26. SHARE CAPITAL

| | Group and Company | |
|---|---|---|
| | **2005** | 2004 |
| | **US$'000** | US$'000 |
| Authorized: | | |
| 300,000,000 ordinary shares of US$0.01 each | **3,000** | 3,000 |
| Issued and fully paid: | | |
| 151,034,000 ordinary shares of US$0.01 each | **1,510** | 1,510 |

## 27. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 33 of the financial statements.

### (b) Company

| | **Share premium account** | **Retained profits** | **Total** |
|---|---|---|---|
| | US$'000 | US$'000 | US$'000 |
| At 1 January 2004 | 83,917 | 14,042 | 97,959 |
| Net profit for the year | – | 1,496 | 1,496 |
| At 31 December 2004 and 1 January 2005 | 83,917 | 15,538 | 99,455 |
| Net loss for the year | – | (2,137) | (2,137) |
| **At 31 December 2005** | **83,917** | **13,401** | **97,318** |

## 28. CONTINGENT LIABILITY

During the two years ended 31 December 2005 and 2004, the Group had a credit facility of US$2,000,000 which was secured by an irrevocable and unconditional corporate guarantee by the Company up to the amount of the credit facility utilized. At 31 December 2005 and 2004, there was no credit facility utilized by way of performance bonds.

## 29. RELATED PARTY TRANSACTIONS

(1) The Group had the following material continuing transactions with group companies of the Company's ultimate holding company, ASCI during the year:

| | | Group | |
|---|---|---|---|
| | Notes | **2005** | 2004 |
| | | **US$'000** | US$'000 |
| Sales of finished goods | (a) | **33,482** | 29,236 |
| Purchases of raw materials | (a) | **(2,162)** | (2,341) |
| Management fee expenses | (b) | **(300)** | (300) |
| Trademark licence, technical assistance and management assistance fees | (c) | **(2,066)** | (1,825) |

*Notes:*

(a) The sales and purchase transactions were conducted with reference to the standard price lists and will continue in the future on the same basis.

(b) The management fees were charged in accordance with the terms of the relevant agreements with American Standard Inc, a wholly owned subsidiary of ASCI.

(c) The trademark license, technical assistance and management assistance fees were related to the sale of American Standard ("AS") products by the Group's subsidiaries in Mainland China, which were charged on the bases as stated in the respective joint venture agreements, net of amounts credited to the Group pursuant to the Intellectual Property Agreement (as defined in note 29(2) below) with American Standard Inc.

During the year, in addition to the above continuing transactions, the ASCI Group paid expenses on behalf of the Group. Reimbursements of such payments on behalf were based on the actual amounts incurred. The Group reimbursed the ASCI Group an aggregate amount of US$880,000 (2004: US$1,544,000) for the year ended 31 December 2005.

For the year ended 31 December 2005, the Company settled with American Standard Inc. an amount of US$879,000 (2004: US$906,000) in respect of the consideration for the Intellectual Property Rights.

## 29. RELATED PARTY TRANSACTIONS *(Continued)*

(2) Pursuant to the Intellectual Property Agreement entered into on 1 January 1996 (the "Intellectual Property Agreement"), American Standard Inc. agreed to grant the Company and its Mainland China subsidiaries, upon the fulfillment of certain conditions contained in the Shareholders' Agreement dated 20 April 1994, and as amended on 24 December 1996, the exclusive territorial rights to use its present and future trademark, and to have access to its present and future technology know-how to manufacture, market, distribute and sell AS plumbing products in Mainland China (the "intellectual property rights") for a consideration of US$10,000,000. In 1997, ASCI purchased an aggregate of 3,000 B shares from certain B shareholders and increased its shareholding in the Company from 28.94% to 54.8%, thus fulfilling the conditions required for the granting of the intellectual property rights. Accordingly, the Intellectual Property Rights were granted by American Standard Inc. to the Company on 21 October 1997 (note 29(1)(c)).

(3) During the year, a service fee that amounted to US$82,000 (2004: US$74,000) was paid to Qing Yuan Jianbei Enterprises Group Corporation ("Qing Yuan"), a minority shareholder of a Mainland China subsidiary, by the Mainland China subsidiary for the provision of administrative services, and was charged at 0.5% (2004: 0.5%) of net sales of that Mainland China subsidiary.

(4) Outstanding balances with related parties:

Details of the Group's balance with American Standard Inc. are disclosed in note 25.

(5) Details of the Group's trade balances with the related companies of the Company's ultimate holding company are disclosed in notes 19 and 23.

Details of the compensation of key management personnel of the Group are disclosed in note 8.

(6) In April 2003, a subsidiary had extended a loan of RMB10,000,000 to Qing Yuan. This loan was made initially for a term of one year, and was further extended in April 2004 and April 2005. This loan was due for repayment in April 2006. This loan bears interest at rate of 5.3% per annum (2004: 5.3% per annum).

(7) On 31 May 2005, the Group transferred its equity interests in Shanghai Fittings to a joint venture partner. Details of this transaction are disclosed in note 18.

(8) The related party transactions in respect of 29(1) above also constitute connected transactions or continuing connected transactions as defined under the GEM Listing Rules.

## 30. COMMITMENTS

(1) The Company and the Group had no capital commitments at the balance sheet dates.

(2) Upon entering into the joint venture agreements of the Company's Mainland China subsidiaries, American Standard Inc. undertakes to provide the technical knowhow and to allow trademarks under license from American Standard Inc. and its affiliates used for the plumbing products manufactured and sold by the Company's Mainland China subsidiaries in return for the following fees:

| | |
|---|---|
| A-S Beijing Bathtubs: | |
| Technical assistance fee | 2% of net sales and a lump sum start up fee of US$100,000 |
| Trademark license fee | 3% of net sales of AS products |
| A-S Guangzhou Bathtubs: | |
| Technical assistance fee | 2.5% of net sales |
| Trademark license fee | 2.5% of net sales of AS products |
| A-S Shanghai Fittings*: | |
| Technical assistance fee | 1.5% of net sales |
| Trademark license fee | 3.5% of net sales of AS products |
| A-S Shanghai Pottery: | |
| Technical assistance fee | 2.5% of net sales for years 1 to 5 and 2% of net sales for years 6 to 10 |
| Trademark license fee | 3% of net sales of AS products |
| A-S Tianjin Pottery: | |
| Technical assistance fee | 2% of net sales |
| Trademark license fee | 3% of net sales |
| Management assistance fee | 2% of net sales |
| Hua Mei: | |
| Technical assistance fee | 1.5% of net sales |
| Trademark license fee | 1.8% of net sales |
| Management assistance fee | 0.5% of net sales |
| A-S Jiangmen Fittings: | |
| Technical assistance fee | 2% of net sales of AS products for year 1 to 2 and 2% of net sales for subsequent years |
| Trademark license fee | 3% of net sales of AS products |

American Standard Inc. agreed to treat one-half of the technical assistance, trademark licenses and management assistance fees receivable from the Mainland China subsidiaries to American Standard Inc. as settlements by the Company for the purchase of the Intellectual Property Rights (note 29(2)).

* A-S Shanghai Fittings was disposed on 31 May 2005. Accordingly, American Standard Inc. ceased the provision of technical assistance and trademark license and the charging of fees to this company from the date of disposal.

## 30. COMMITMENTS *(Continued)*

(3) Operating lease commitments

The Group leases certain of its land and buildings and motor vehicles under operating lease arrangements. Leases for properties and motor vehicles are negotiated for terms ranging from one to three years and half to five years, respectively. The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **2005** | 2004 |
|---|---|---|
| | **US$'000** | US$'000 |
| Within one year | **657** | 844 |
| In the second to fifth years, inclusive | **373** | 521 |
| | **1,030** | 1,365 |

The Company did not have any operating lease commitments at the balance sheet dates.

## 31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarized below.

### Cash flow interest rate risk

The Group does not have any significant exposure to interest rate risk as the Group does not have any long term receivables or payables.

## 31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Foreign currency risk**

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 47% (2004: 39%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 53% (2004: 61%) of costs are denominated in the unit's functional currency.

The operation units also have liabilities denominated in foreign currencies relating to technical assistance, trademark license and management assistance provided by American Standard Inc. The Group considers that this will be able to hedge a substantial portion of the foreign currency risk.

The Group does not enter into any hedging instruments as the directors consider the Group's exposure to foreign currency risk to be insignificant.

**Credit risk**

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral.

**Liquidity risk**

The Group does not have any significant exposure to liquidity risk as the Group does not rely on external financing and the Group was in a net current asset position as at 31 December 2005.

## 32. COMPARATIVE AMOUNTS

As further explained in notes 2.2, 14 and 16 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

## 33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 15 March 2006.