

ASPPL

A-S China Plumbing Products Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8262



Annual Report 06

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.

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Corporate Profile

The Group manufactures and distributes in the 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 China, which have established a manufacturing base for the production of bathroom and kitchen fixtures and plumbing fittings in 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 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

Ye Zhi Mao, Jason

Wu Wei Lin, Patrick

NON-EXECUTIVE DIRECTOR

Peter James O'Donnell

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chang Sze-Ming, Sydney

Ho Tse-Wah, Dean

Wong Kin Chi

COMPANY SECRETARY

Wu Wei Lin, Patrick

QUALIFIED ACCOUNTANT

Wu Wei Lin, Patrick

COMPLIANCE OFFICER

Richard M. Ward

AUDIT COMMITTEE

Chang Sze-Ming, Sydney

Ho Tse-Wah, Dean

Wong Kin Chi

AUTHORISED REPRESENTATIVES

Richard M. Ward

Wu Wei Lin, Patrick

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

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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

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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

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Pudong, Shanghai

PRC

COMPANY WEBSITE ADDRESSESwww.aspl.comwww.americanstandard.com.cnwww.armitageshanks.com.cn**STOCK CODE**

8262

Financial Highlights

FIVE-YEAR FINANCIAL SUMMARY

Consolidated Results

For the years ended 31 December

	2006	2005	2004	2003	2002
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenue	86,813	83,323	78,376	73,733	65,333
Profit before tax	5,949	10,673	12,185	5,659	2,841
Taxation	(2,466)	(2,427)	(1,877)	(651)	(890)
Net profit	3,483	8,246	10,308	5,008	1,951
Attributable to:					
Equity holders of the parent	1,377	5,951	8,146	4,482	589
Minority interests	2,106	2,295	2,162	526	1,362
Net profit	3,483	8,246	10,308	5,008	1,951

Consolidated Assets and Liabilities

As at 31 December

	2006	2005	2004	2003	2002
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Total assets	146,824	146,167	142,842	133,881	134,682
Total liabilities	(25,387)	(25,574)	(29,801)	(29,588)	(32,387)
	121,437	120,593	113,041	104,293	102,295
Attributable to:					
Equity holders of the parent	109,281	105,356	97,612	89,513	87,109
Minority interests	12,156	15,237	15,429	14,780	15,186
	121,437	120,593	113,041	104,293	102,295

Chairman's Statement

2006 was a year in which we did a lot to develop our business but were disappointed by high levels of inflation in our raw material costs. Here are some of the highlights:

- we continued our drive to launch new leading-edge designs, part of the strategy we have been following for several years to position American Standard as the leader in 'Design Solutions' for the bathroom. Of particular note was the launch of the 'Imagine' suite, developed in Europe by Ronen Joseph, one of Milan's hottest designers, and manufactured in China at our efficient plants using 'Family Health' anti-bacterial technology developed at American Standard's design center in the US. Imagine has exceeded our sales expectation by more than 400%. Imagine is typical of our global approach to product development.
- our manufacturing plants achieved significant improvements in productivity based on rigorous application of Six Sigma and Lean techniques whilst at the same time achieving world class safety records.
- we continued our strategy to optimize our manufacturing footprint, closing our tubs plant in Beijing and consolidating volume into the Guangzhou plant. The Company continues to look at opportunities to further optimize its manufacturing footprint.
- sales to overseas markets through American Standard increased by more than 6% reflecting the efficiency and quality of our manufacturing operations.

The gains from these successful activities were offset by increases in raw materials costs, both energy and more especially copper, a major cost component in our fittings products. During the year copper prices nearly doubled. Whilst we increased prices we were unable to offset all of the increase and our Gross Margin suffered as a result.

For the year Sales grew by over 4% to US\$86.8M, yet Profit Before Tax decreased by 44% from 2005 to US\$5.9M, including the impact of closing our operation in Beijing. Profit Before Tax would have been US\$9.4M, a decrease of 27% on a like for like basis excluding the impact of closing operations in both 2006 and 2005.

We look to 2007 with confidence that the strategies and activities we have been following will bring improvements in returns for our business. The Company does have a strong balance sheet and will use its resources to fund operations and pursue opportunities to fuel future profitability. While excess funds will be considered for distribution as dividend, the Company is currently considering opportunities which may fully use its cash balances.

I would like to close by thanking the board, management, and every member of staff for their ongoing dedication and hard work, and our shareholders for their continued confidence and support.

Richard M. Ward

Chairman

Hong Kong, 27 March 2007

Corporate Governance Report

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. Sets 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.

During the year, Mr. Richard M. Ward, the Chairman of the Board, was acting as General Manager of the Company.

THE BOARD

As of 31 December 2006, 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 five times during the year and the Directors' attendance is shown in the table on page 9. 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 director and Independent 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.

INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control systems for the Group to safeguard the Group's assets and shareholders' interests, as well as for reviewing such systems' effectiveness. Such systems are designed to provide reasonable, but not absolute, assurance against misstatement or loss, and to manage risks of failure in the Group's operational systems.

The systems include a well-established organizational structure with clearly defined lines of responsibility and authority, which is designed to safeguard assets from inappropriate use, maintain proper accounts and ensure compliance with regulations.

For the year ended 31 December 2006, the Board has, through its Audit Committee with the assistance of the internal auditors, conducted review of the Group's internal control systems, including without limitation financial control, operational control, compliance control and risk management functions. The Board is of the view that the internal control systems are effective and there are no irregularities, improprieties, fraud or other deficiencies that suggest material deficiency in the effectiveness of the Group's internal control system.

The Board assesses the effectiveness of internal controls by considering the reviews performed by the Audit Committee, executive management and both internal and external auditors.

The internal auditors follow a risk-and-control-based approach. An audit plan would be formulated in a risk-weight manner so that priorities and appropriate audit frequency could be given to areas with higher risks. Internal auditors perform regular financial and operational reviews on the Group. Summaries of major audit findings and control weakness, if any, are review by Audit Committee. The internal auditors monitor the follow-up actions agreed upon in response to its recommendations.

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 five meetings held during the year is set out in the table on page 9.

Corporate Governance Report

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 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 auditors during the year to discuss the 2006 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 and reviewing director's fees. The Company currently does not have any plan to set up a Remuneration Committee considering the small size of the Board.

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 members 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 Board member for consideration. Each Board member 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.

LOOKING FORWARD

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

Corporate Governance Report

MEETINGS ATTENDANCE

	Board	Audit Committee
Number of Meetings	(5)	(5)
Executive directors		
Richard, M. Ward	4	N/A
Yang Yu Qing, Cindy	5	N/A
Ye Zhi Mao, Jason	4	N/A
Wu Wei Lin, Patrick	5	N/A
Non-executive director		
Peter James O'Donnell	4	N/A
Independent non-executive directors		
Chang Sze-Ming, Sydney	5	4
Ho Tse-Wah, Dean	4	5
Wong Kin Chi	5	5

CONFIRMATION OF INDEPENDENCE OF INEDs

The Company had received from each of the INEDs an annual confirmation of his independence. The Company determined 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\$169,000 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 24.

Group Financial Summary

The following table summarizes the audited consolidated results of the Group for the years ended 31 December, 2006 and 2005 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.

	2006	2005
	US\$'000	US\$'000
REVENUE (<i>Note a</i>)	86,813	83,323
Cost of sales	(57,690)	(50,989)
Gross profit	29,123	32,334
Administrative and operating expenses	(16,900)	(17,728)
Selling and distribution costs	(2,822)	(2,800)
Other revenue, net	(21)	1,114
Loss on disposal of a subsidiary	-	(2,247)
Provision on liquidation of a subsidiary	(3,431)	-
PROFIT BEFORE TAX	5,949	10,673
Tax	(2,466)	(2,427)
PROFIT FOR THE YEAR	<u>3,483</u>	<u>8,246</u>
Attributable to:		
Equity holders of the parent	1,377	5,951
Minority interests	2,106	2,295
	<u>3,483</u>	<u>8,246</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (US cents)		
- Basic, for profit for the year (<i>Note b</i>)	<u>0.91</u>	<u>3.94</u>

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\$1,377,000 (2005: US\$5,951,000), and weighted average number of issued ordinary shares of 151,034,000 (2005:151,034,000) during the year.

Management's Discussion and Analysis

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.

During the year, the Group's overall sales increased 4.2% to US\$86,813,000. Given the continuing macroeconomic measures, China sales for the year still recorded an increased of 2.3% over the year with the effort of the management. Export sales continued to improve due to the continuing improvement of product portfolios. The Group reported 6.4% growth in export sales for the year.

During the year, material costs such as the price of copper has significantly increased. The Group raised its selling price in the mid of the year and successfully transferred part of the increased costs to customers to maintain its reasonable profit margin. Nevertheless, gross profit percentage of the Group still recorded a decrease from 38.8% for 2005 to 33.5% for the year.

Profit before tax decreased by 44.3% from US\$10,673,000 in 2005 to US\$5,949,000 in 2006, while net profit attributable to shareholders decreased by 80% from US\$5,951,000 in 2005 to US\$1,377,000 in 2006. The decrease in profit before tax is mainly due to decrease of gross profit margin and the restructuring costs incurred for the liquidation of a subsidiary during the year. By excluding the restructuring costs for the liquidation (2005: disposal) of the subsidiary, profit before tax would be decreased by 27.4% to US\$9,380,000 and the net profit attributable to shareholders would be decreased by 50.2% to US\$4,808,000.

LIQUIDITY AND FINANCIAL RESOURCES

Net current assets

At 31 December 2006, the net current assets of the Group amounted to US\$56.4 million. The current assets comprised of cash and bank deposits of approximately US\$50.1 million (Of this amount, approximately US\$40 million is held by Company subsidiaries, some of which have minority ownership interests), and accounts receivable of approximately US\$11.5 million, inventories of approximately US\$7.7 million, prepayments, deposits, other receivables of approximately US\$3.4 million and amounts due from companies within the American Standard Group of approximately US\$9.3 million. The current liabilities comprised of accounts payable of approximately US\$6 million, amounts due to companies within the American Standard Group of approximately US\$4.2 million, corporate income tax payable of approximately US\$0.7 million, dividend payable of approximately US\$0.1 million and other payables, deposits and accrued liabilities of approximately US\$12.4 million. There were no outstanding bank loans or finance lease obligations as at 31 December 2006.

Foreign currency risk

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

Management's Discussion and Analysis

Production Restructuring

According to the long-term manufacturing optimization strategy, approval of the Board of the Company and agreement with the joint venture partner, the Group has liquidated an unprofitable bathtub plant in Beijing, PRC, released all employees, reassessed the carrying value of the assets and liabilities of the subsidiary, and consolidated all of its bathtub manufacturing in another plant in Guangzhou to enhance overall bathtubs operating efficiency. The Group charged all restructuring costs of approximately US\$3.4 million to the consolidated profit and loss account during the year ended 31 December 2006. Such restructuring costs include assets impairment written-off, termination severance and other restructuring related expenses. There is no significant cashflow impact as the losses are mainly due to revaluation of its assets.

Prospects

The Group sees good long term opportunities in the bathroom business in both the China market and in manufacture for export. In the short term it sees significant volatility and upward pressure on raw material costs, especially copper and energy. Whilst it is taking all steps to minimize the impact, these upward moves will hurt Gross Margin.

EMPLOYEE INFORMATION

As at 31 December 2006, the Group had 1,640 (2005: 1,907) full time employees. Employee costs amounted to US\$12,789,000 (2005: US\$12,142,000). 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.

EXECUTIVE DIRECTORS

Mr. Richard M. Ward, age 48, joined the American Standard Group in April 2003. Mr. Ward is the President of American Standard Group–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 of Dell Computer's Home Small and Medium business unit in 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 (Honors) Degree in Economics from the University of Durham in the United Kingdom.

Ms. Yang Yu Qing, Cindy, age 34, joined the Group in March 1995. She is an operations analyst for the Group's ceramic sanitary ware of American Standard Group–Bath and Kitchen Business in the Asia Pacific Region. 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 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, age 39, 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, age 38, 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 fellow member of the Association of Chartered Certified Accountants.

NON-EXECUTIVE DIRECTOR

Mr. Peter James O'Donnell, age 44, 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 Singer Sri Lanka Ltd., and Singer Pakistan Ltd. Mr. O'Donnell holds BA and MBA degrees from Harvard University in Cambridge, Massachusetts, in the United States of America.

Directors' Profiles

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chang Sze-Ming, Sydney, age 64, is the General Manager of South Sphere Consulting Company Ltd. (Shanghai), which he founded to provide business consultancy on investments in China. He also holds the positions of Chairman, International Business Forum (IBF) 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, age 69, is a partner in ALC Advisors, providing China based advisory services to private equity investors and their investees. He is also 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 was graduated from the University of California (Berkeley) (AB), Cornell University (BS) and the Advanced Management Program at Harvard Business School.

Mr. Wong Kin Chi, age 55, has been appointed as an independent non-executive director of the Company since September 2004, and is a member of the audit committee of the Company. Mr. Wong is currently running a company rendering professional services to clients with respect to financial and educational management in Hong Kong. He 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.

The directors hereby present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

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 2006 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 26 to 72.

No dividend was declared for the year ended 31 December 2006. 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 this 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 authorized or issued share capital during the year. At 31 December 2006, 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.

Report of the Directors

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 66 and 28, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2006, 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\$13,112,000 (2005: US\$13,401,000). 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 (2005: 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 47% (2005: 51%) of the total sales for the year and sales to the largest customer included therein amounted to 20% (2005: 22%). Purchase from the Group's five largest suppliers accounted for less than 30% (2005: less than 30%) of the total purchases for the year.

Except for U.S.P.P. – Sourced Chinaware, American Standard Europe and Korea Fittings which are related parties of the Company, 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
Ye Zhi Mao, Jason
Wu Wei Lin, Patrick

DIRECTORS *(Continued)***Non-executive director:**

Peter James O'Donnell

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 pursuant to Rule 5.09 and still considers them to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on page 13 to 14 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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.

Report of the Directors

DIRECTORS' FEES

The directors' fees are subject to shareholders' approval at general meetings.

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 1 January 2006 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\$400,000 under this agreement.

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

At 31 December 2006, 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 27,002 shares in American Standard	Beneficial owner	Personal	less than 0.1%
Mr. Ye Zhi Mao, Jason	American Standard	Stock options to subscribe for 1,500 shares in American Standard	Beneficial owner	Personal	less than 0.1%

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 1.1.2006	Granted during the year	Exercised during the year	Balance as at 31.12.2006
Mr. Richard M. Ward	28.4.2003	23.58	10,002	–	10,002	–
	4.2.2004	35.03	21,000	–	13,998	7,002
	2.2.2005	43.34	10,000	–	–	10,000
	1.2.2006	36.87	–	10,000	–	10,000
			<u>41,002</u>			<u>27,002</u>
Mr. Ye Zhi Mao, Jason	2.2.2005	43.34	500	–	–	500
	1.2.2006	36.87	–	1,000	–	1,000
			<u>500</u>			<u>1,500</u>
Ms. Yang Yu Qing, Cindy	1.3.2001	18.86	<u>750</u>	–	750	<u>–</u>

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) and the ultimate holding company of the Company. 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 nor the chief executive has a registered 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.

Report of the Directors

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; nor 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 2006, the following interests and short positions more than 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 (<i>Note 1</i>)	93,253,000	Corporate beneficial owner	61.74%
American Standard Inc. (<i>Note 1</i>)	65,000	Corporate beneficial owner	0.04%
American Standard International Inc. (<i>Note 1</i>)	93,188,000	Corporate beneficial owner	61.70%
American Standard Bermuda Limited (<i>Note 1</i>)	93,188,000	Corporate beneficial owner	61.70%
American Standard Foreign Trading Limited (<i>Note 1</i>)	93,188,000	Corporate beneficial owner	61.70%
Foundation Brunneria (<i>Note 2</i>)	16,900,000	Corporate beneficial owner	11.19%
General Oriental Investments Limited (<i>Note 2</i>)	16,900,000	Corporate beneficial owner	11.19%

Note 1: American Standard Companies Inc. owns a 61.74% 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 Bermuda Limited, a company incorporated in Bermuda with limited liability, which in turn owns a 100% interest in American Standard Foreign Trading Limited, also a company incorporated in Bermuda with limited liability, which directly holds a 61.70% shareholding interest in the Company; and (ii) another wholly-owned subsidiary of American Standard Companies Inc., American Standard Inc., holds 65,000 shares, which 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.

As disclosed above, at 31 December 2006, 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

During the year, the Company and the Group had the following continuing connected transactions, certain details of which are disclosed in compliance with the requirements of chapter 20 of the GEM Listing Rules.

	<i>Notes</i>	US\$'000
Sales of finished goods	(a)	39,162
Purchases of raw materials	(a)	(1,519)
Management fees expenses	(b)	(400)
Trademark license, technical assistance and management assistance fees	(c)	(2,076)

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 China, which were charged on the basis as stated in the respective joint venture agreements.

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\$504,000 for the year ended 31 December 2006.

The Group also period on behalf on American Standard Group an amount of 1,711,000 based on actual amounts incurred.

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 approved by the shareholders during the extraordinary general meeting on 21 December 2005 and the annual general meeting on 21 June 2006.

The auditors of the Company have also confirmed that the Connected Transactions have (a) received the approval of the Company's board of directors; (b) been entered into in accordance with relevant agreements governing the transactions; and (c) not exceeded the relevant cap amounts as approved by the shareholders during the extraordinary general meeting on 21 December 2005 and the annual general meeting on 21 June 2006.

Report of the Directors

CONNECTED TRANSACTIONS *(Continued)*

Other connected transactions

During the year, a service fee that amounted to US\$79,000 (2005: US\$82,000) 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% (2005: 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 one year, and extended subsequently in April 2004 and April 2005. Qing Yuan repaid this loan during the year. Before repayment, this loan bears interest of 5.3% per annum (2005: 5.3% per annum).

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year, Mr. Richard M. Ward was the President of American Standard Group Bath and Kitchen Business in the Asia Pacific Region which is engaged in the plumbing products business.

COMPLIANCE ADVISOR'S INTERESTS

At 31 December 2006, 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 a 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 dispatched its 2005 annual report on 15 March 2006. 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 2006.

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 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 2006, 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 2006.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Company are set out in note 32 to the financial statements.

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

27 March 2007

Independent Auditors' Report



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

We have audited the financial statements of A-S China Plumbing Products Limited set out on pages 26 to 72, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

Without qualifying our opinion, we draw your attention to a post balance sheet event as disclosed in note 32 to the financial statements concerning the announcement made by American Standard Companies Inc., the ultimate holding company of the Company in the United States in February 2007, regarding its prospective separation of business encompassing the intention to sell its bath and kitchen business line, to which the Group belongs.

Hong Kong
27 March 2007

Consolidated Income Statement

Year ended 31 December 2006

	<i>Notes</i>	2006 US\$'000	2005 US\$'000
REVENUE	5	86,813	83,323
Cost of sales		(57,690)	(50,989)
Gross profit		29,123	32,334
Administrative and operating expenses		(16,900)	(17,728)
Selling and distribution costs		(2,822)	(2,800)
Other revenue, net		(21)	1,114
Provision on liquidation of a subsidiary	18	(3,431)	–
Loss on disposal of a subsidiary	19	–	(2,247)
PROFIT BEFORE TAX	6	5,949	10,673
Tax	10	(2,466)	(2,427)
PROFIT FOR THE YEAR		<u>3,483</u>	<u>8,246</u>
Attributable to:			
Equity holders of the parent		1,377	5,951
Minority interests		2,106	2,295
		<u>3,483</u>	<u>8,246</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (US cents)			
– Basic, for profit for the year	12	<u>0.91</u>	<u>3.94</u>

Consolidated Balance Sheet

31 December 2006

	Notes	2006 US\$'000	2005 US\$'000
Non-current assets			
Property, plant and equipment	13	48,105	53,162
Goodwill	14	2,105	2,105
Intangible assets	15	6,998	6,998
Prepaid land lease payments	16	7,837	8,210
Total non-current assets		65,045	70,475
Current assets			
Due from group companies	20	9,344	6,251
Prepayments, deposits and other receivables		3,063	4,459
Inventories	21	7,727	9,125
Trade receivables	22	11,531	10,003
Cash and cash equivalents	23	50,114	45,854
Total current assets		81,779	75,692
Total assets		146,824	146,167
Current liabilities			
Due to group companies	24	4,208	5,926
Dividend payable		132	132
Dividend payable to a minority interest shareholder		1,995	–
Trade payables	25	6,030	6,847
Corporate income tax payable		670	542
Other payables, deposits and accrued liabilities		12,352	12,127
Total current liabilities		25,387	25,574
Net current assets		56,392	50,118
Net assets		121,437	120,593
EQUITY			
Equity attributable to equity holders of the parent			
Issued share capital	26	1,510	1,510
Reserves	27(a)	107,771	103,846
		109,281	105,356
Minority interests		12,156	15,237
Total equity		121,437	120,593

Richard M. Ward
Director

Ye Zhi Mao, Jason
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2006

	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
At 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 loss not recognised 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 and 1 January 2006	1,510	85,305*	3,957*	1,306*	(1,328)*	14,606*	105,356	15,237	120,593
Exchange realignment	-	-	-	-	2,548	-	2,548	425	2,973
Net gain not recognized in the profit and loss account	-	-	-	-	2,548	-	2,548	425	2,973
Net profit for the year	-	-	-	-	-	1,377	1,377	2,106	3,483
Liquidation of a subsidiary	-	-	-	-	-	-	-	(1,431)	(1,431)
Dividend declared or paid to minority interest shareholders	-	-	-	-	-	-	-	(4,181)	(4,181)
Appropriation to reserve fund and expansion reserve	-	-	377	-	-	(377)	-	-	-
At 31 December 2006	1,510	85,305*	4,334*	1,306*	1,220*	15,606*	109,281	12,156	121,437

According to the Company Law of the People's Republic of China (the "PRC") and China subsidiaries' articles of association, each of the China subsidiary 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 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 (2005: 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\$107,771,000 (2005: US\$103,846,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2006

	<i>Notes</i>	2006 US\$'000	2005 US\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		5,949	10,673
Adjustments for:			
Interest income	6	(749)	(397)
Depreciation	6	4,174	4,632
Recognition of prepaid land lease payments	6	219	227
Impairment of property, plant and equipment	6	-	576
Loss on disposal of a subsidiary	6	-	2,247
Provision on liquidation of a subsidiary		3,431	-
Gains on disposal of property, plant and equipment	6	-	(523)
		<hr/>	<hr/>
Operating profit before working capital changes		13,024	17,435
(Increase)/decrease in balances with group companies		(4,811)	1,154
(Increase)/decrease in prepayments, deposits and other receivables		1,396	(171)
(Increase)/decrease in inventories		1,398	(1,316)
Increase in trade receivables		(1,528)	(1,906)
Decrease in trade payables		(817)	(79)
Increase/(Decrease) in other payables, deposits and accrued liabilities		225	(1,673)
		<hr/>	<hr/>
Cash generated from operations		8,887	13,444
Income taxes paid		(2,338)	(2,337)
		<hr/>	<hr/>
Net cash inflow from operating activities		6,549	11,107

Consolidated Cash Flow Statement

Year ended 31 December 2006

	<i>Notes</i>	2006 US\$'000	2005 US\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	13	(2,200)	(2,473)
Proceeds from disposal of property, plant and equipment		12	1,183
Interest received		749	397
(Increase)/decrease in pledged time deposits		69	(121)
Net cash outflow from investing activities		(1,370)	(1,014)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to minority interest shareholders		(2,186)	(785)
Net cash outflow from financing activities		(2,186)	(785)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		45,733	36,442
Effect of foreign exchange rate changes, net		1,336	(17)
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>50,062</u>	<u>45,733</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	24,752	39,790
Non-pledged time deposits with original maturity of less than three months when acquired	23	25,310	5,943
		<u>50,062</u>	<u>45,733</u>

Balance Sheet

31 December 2006

	<i>Notes</i>	2006 US\$'000	2005 US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	308	415
Intangible assets	15	6,998	6,998
Interests in subsidiaries	17	79,066	87,866
Total non-current assets		86,372	95,279
Current assets			
Due from group companies	20	2,121	–
Prepayments, deposits and other receivables		131	160
Cash and cash equivalents	23	10,115	5,788
Total current assets		12,367	5,948
Total assets		98,739	101,227
Current liabilities			
Due to group companies	24	–	1,930
Dividend payable		132	132
Other payables, deposits and accrued liabilities		68	337
Total current liabilities		200	2,399
Net current assets		12,167	3,549
Total assets less current liabilities/net assets		98,539	98,828
EQUITY			
Issued share capital	26	1,510	1,510
Reserves	27(b)	97,029	97,318
Total equity		98,539	98,828

Richard M. Ward
Director

Ye Zhi Mao, Jason
Director

Notes to Financial Statements

31 December 2006

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 an investment holding company and its subsidiaries were principally engaged in the manufacture, sale and distribution of plumbing products in 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 ("HKASs") 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 2006. The 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 the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) **HKAS 21 The Effects of Changes in Foreign Exchange Rates**

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements, irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) **HKAS 27 Consolidated and Separate Financial Statements**

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements, as described in note 2.4 "Summary of significant accounting policies" below.

Notes to Financial Statements

31 December 2006

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

(c) HKAS 39 Financial Instruments: Recognition and Measurement

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognized initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized less, when appropriate, cumulative amortization recognised in accordance with HKAS 18 Revenue. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(d) HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

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.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

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.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 10 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006 and 1 November 2006, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

Notes to Financial Statements

31 December 2006

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.

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.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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).

Impairment of non-financial assets other than goodwill

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.

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31 December 2006

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

Property, plant and equipment and depreciation

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.

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 the 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.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 China and are stated at cost and any impairment losses.

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.

Notes to Financial Statements

31 December 2006

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

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 60-90 days, are recognized 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 recognized and carried at cost less allowances for any uncollectible amounts.

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-day 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.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Notes to Financial Statements

31 December 2006

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

Income tax *(Continued)*

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.

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.

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

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.

Notes to Financial Statements

31 December 2006

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 China are required to participate in a central pension scheme operated by the local municipal government. The 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.

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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

The Group's intellectual property rights are 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 2006 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 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	
	2006	2005
	US\$'000	US\$'000
China	46,354	45,301
European countries	17,875	18,413
North America	10,367	8,882
Others	12,217	10,727
Total	86,813	83,323

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

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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	
	2006	2005
	US\$'000	US\$'000
Cost of inventories sold	52,672	50,150
Recognition of prepaid land lease payments (<i>note 16</i>)	219	227
Auditors' remuneration	185	192
Depreciation (<i>note 13</i>)	4,174	4,632
Staff costs (including directors' remuneration) (<i>note 7</i>):		
Wages and salaries	12,055	11,385
Pension scheme contributions	734	757
	12,789	12,142
Gains on disposal of property, plant and equipment	-	(523)
Loss on disposal of a subsidiary	-	2,247
Provision on liquidation of a subsidiary	3,431	-
Operating lease rentals in respect of land and buildings	950	723
Provision for doubtful debts	72	145
Provision/(Reversal of) for slow-moving inventories	(243)	369
Research and development costs	771	765
Impairment of property, plant and equipment	-	576
Interest income	(749)	(397)
Foreign exchange losses, net	251	309

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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	
	2006	2005
	US\$'000	US\$'000
Fees	60	60
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	189	420
Bonuses	25	40
Pension scheme contributions	5	4
	279	524

2006	Other			Total
	Fees	emoluments	Bonuses	
	US\$'000	US\$'000	US\$'000	US\$'000
Directors				
Ye Zhi Mao, Jason	-	109	20	129
Wu Wei Lin, Patrick	-	85	5	90
Chang Sze Ming, Sydney	20	-	-	20
Ho Tse Wah, Dean	20	-	-	20
Wong Kin Chi	20	-	-	20
Richard M. Ward	-	-	-	-
Yang Yu Qing, Cindy	-	-	-	-
Peter James O'Donnell	-	-	-	-
	60	194	25	279

Notes to Financial Statements

31 December 2006

7. DIRECTORS' REMUNERATION (Continued)

2005	Fees US\$'000	Other emoluments US\$'000	Bonuses US\$'000	Total 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

There was no arrangement under which a director waived or agreed to waive any remuneration for the years ended 31 December 2006 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 one (2005: two) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining four (2005: three) highest paid employees for the year are as follows:

	2006 US\$'000	Group 2005 US\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	513	409
Bonuses	28	61
Pension scheme contributions	11	4
	552	474

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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	
	2006	2005
Nil to US\$128,205 (HK\$1,000,000)	3	2
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)	1	-
	4	3

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 (2005: Nil).

During the year, certain employees were granted share options of the ultimate holding company 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 on 2 May 2002 and unless otherwise cancelled or amended, will remain in force for five years from that date. Under the 2002 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 generally 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.

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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					Exercisable		Exercise price of share option *	Exercise period of share options
	At 1 January 2006	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2006	at 31 December 2006		
US\$									
Directors									
Richard M. Ward	41,002	10,000	(24,000)	-	-	27,002	3,335	35.03-43.34	4/2/2004-1/2/2015
Yang Yu Qing, Cindy	750	-	(750)	-	-	-	-	-	-
Ye Zhi Mao, Jason	500	1,000	-	-	-	1,500	167	36.87-43.34	2/2/2005-1/2/2015
	<u>42,252</u>	<u>11,000</u>	<u>(24,750)</u>	<u>-</u>	<u>-</u>	<u>28,502</u>	<u>3,502</u>		
Other employees									
In aggregate	<u>5,500</u>	<u>4,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>2,667</u>	18.86-43.34	3/1/2001-1/2/2015
	<u>47,752</u>	<u>15,500</u>	<u>(24,750)</u>	<u>-</u>	<u>-</u>	<u>38,502</u>	<u>6,169</u>		

* 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.

Notes to Financial Statements

31 December 2006

10. TAX

	2006	2005
	US\$'000	US\$'000
Current year provision in respect of China tax	<u>2,466</u>	<u>2,427</u>

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 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 China subsidiary, A-S (Jiangmen) Fittings Co., Ltd. ("A-S Jiangmen Fittings"), is subject to a CIT rate of 27% as it is located in a coastal economic development region.

A 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 fifth profitable year.

A 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.

Another China subsidiary, Hua Mei Sanitary Ware Co., Ltd ("Hua Mei") is subject to a CIT rate of 24% and has obtained a written approval from the local tax bureau for a preferential tax rate of 18% for the year ended 31 December 2006 as it qualifies as 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.

Notes to Financial Statements

31 December 2006

10. TAX (Continued)

A reconciliation of tax expense applicable to profit before tax using the statutory rates for 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			
	2006	2006	2005	2005
	US\$'000	%	US\$'000	%
Profit before tax	5,949		10,673	
Tax at the statutory rate	1,964	33	3,522	33.0
(Income not taxable)/				
Expenses not deductible for tax purpose	322	5.4	829	7.8
Tax losses not recognized	2,862	48.1	1,428	13.4
Tax exemptions/deductions	(2,682)	(45.1)	(3,352)	(31.4)
Tax charge at the Group's effective tax rate	<u>2,466</u>	<u>41.4</u>	<u>2,427</u>	<u>22.8</u>

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a loss of US\$289,000 (2005: loss of US\$2,137,000) which has been dealt with the financial statement of the Company (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\$1,377,000 (2005: US\$5,951,000), and the weighted average number of issued ordinary shares of 151,034,000 (2005: 151,034,000) during the year.

Diluted earnings per share amount for the year ended 31 December 2006 and 2005 have not been disclosed as no diluting events existed during the current or prior year.

Notes to Financial Statements

31 December 2006

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant and machinery	Furniture, equipment and motor vehicles	Construction in progress	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
31 December 2006					
At 31 December 2005 and 1 January 2006:					
Cost	27,888	56,007	12,398	671	96,964
Accumulated depreciation	(7,367)	(24,385)	(11,474)	-	(43,226)
Impairment	-	(576)	-	-	(576)
	<u>20,521</u>	<u>31,046</u>	<u>924</u>	<u>671</u>	<u>53,162</u>
Net carrying amount	<u>20,521</u>	<u>31,046</u>	<u>924</u>	<u>671</u>	<u>53,162</u>
At 31 December 2005, and 1 January 2006, net of accumulated depreciation					
	20,521	31,046	924	671	53,162
Additions	170	872	994	164	2,200
Transfer	-	-	100	(100)	-
Disposals	-	(9)	(3)	-	(12)
Liquidation of a subsidiary (<i>Note 18</i>)	(2,197)	(2,125)	(60)	-	(4,382)
Depreciation provided for the year	(576)	(2,529)	(1,069)	-	(4,174)
Exchange realignment	548	763	-	-	1,311
	<u>18,466</u>	<u>28,018</u>	<u>886</u>	<u>735</u>	<u>48,105</u>
At 31 December 2006, net of accumulated depreciation	<u>18,466</u>	<u>28,018</u>	<u>886</u>	<u>735</u>	<u>48,105</u>
At 31 December 2006:					
Cost	25,855	52,223	12,604	735	91,417
Accumulated depreciation	(7,389)	(24,205)	(11,718)	-	(43,312)
	<u>18,466</u>	<u>28,018</u>	<u>886</u>	<u>735</u>	<u>48,105</u>
Net carrying amount	<u>18,466</u>	<u>28,018</u>	<u>886</u>	<u>735</u>	<u>48,105</u>

Notes to Financial Statements

31 December 2006

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 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	<u>22,272</u>	<u>35,292</u>	<u>1,397</u>	<u>218</u>	<u>59,179</u>
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	(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	<u>20,521</u>	<u>31,046</u>	<u>924</u>	<u>671</u>	<u>53,162</u>
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	<u>20,521</u>	<u>31,046</u>	<u>924</u>	<u>671</u>	<u>53,162</u>

The Group's buildings are all situated in China.

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

Notes to Financial Statements

31 December 2006

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

Company

**Furniture,
equipment and
motor vehicles
US\$'000**

31 December 2006

At 31 December 2005 and 1 January 2006:

Cost	2,080
Accumulated depreciation	(1,665)

Net carrying amount	415
---------------------	-----

At 1 January 2006, net of accumulated depreciation

Depreciation provided during the year	(107)
---------------------------------------	-------

At 31 December 2006, net of accumulated depreciation

	308
--	-----

At 31 December 2006:

Cost	2,080
Accumulated depreciation	(1,772)

Net carrying amount	308
---------------------	-----

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

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
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Notes to Financial Statements

31 December 2006

14. GOODWILL

	2006 US\$'000	Group 2005 US\$'000
Cost and carrying amount at 1 January and 31 December	2,105	2,105

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

15. INTANGIBLE ASSETS

Group

	Intellectual property rights US\$'000	Trademark license fees US\$'000	Total US\$'000
At 31 December 2006 and 2005			
Cost	10,000	1,650	11,650
Accumulated amortization	(3,002)	(1,650)	(4,652)
Net carrying amount	6,998	-	6,998

Notes to Financial Statements

31 December 2006

15. INTANGIBLE ASSETS (Continued)

Company

	Intellectual property rights
	US\$'000
At 31 December 2006 and 2005	
Cost	10,000
Accumulated amortization	(3,002)
Net carrying amount	<u>6,998</u>

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 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 China. The annual growth rate used is in line with the average growth rate of the industry.

Notes to Financial Statements

31 December 2006

15. INTANGIBLE ASSETS (Continued)

15.1 Impairment testing of goodwill and intangible assets with indefinite lives (Continued)

Key assumptions were used in the value in use calculation for 31 December 2006 and 31 December 2005. 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.

The Company has in place with American Standard Inc. (“ASI”) an intellectual property agreement (the “Intellectual Property Agreement”) which gives the Company the exclusive right to require ASI to grant to the companies in which the Company holds directly or indirectly a majority interest territorial licences to manufacture and distribute plumbing products in the PRC under the plumbing product brand names of ASI. The Intellectual Property Agreement contains no specified termination date and the right provided thereunder to the Company cannot be terminated or revoked by notice even if ASCI Group’s interest in the Company falls below 51%. Under the terms of this agreement, ASI is not permitted to license any of its plumbing product trademarks and patents to any party within the PRC other than companies in which the Company holds directly or indirectly a majority interest. However, if ASCI’s direct or indirect ownership interest in any of the PRC licensees falls below 51%, ASI has the right to terminate the territorial licenses granted to such licensees. The Company’s PRC subsidiaries have entered into various trademark licence agreements (the “Trademark Licence Agreements”) with ASI. These licences are subject to certain termination events including the eventual expiry of the operating terms of the relevant Company’s PRC subsidiaries or, as just noted, if the direct or indirect ownership interest in any such Company’s PRC subsidiaries by ASCI Group falls below 51%. In the event that ASCI’s ownership interest in the Company falls below 51%, the Company is still entitled to require ASI to grant territorial licenses to the Company’s new subsidiaries in the PRC established after January 1, 1996, and such licenses will be granted under the standard terms of similar contracts granted by ASI from time to time.

As disclosed in note 32 to the financial statements, ASCI announced on 1 February 2007 regarding its prospective separation of business encompassing the intention to sell its bath and kitchen business line to which the Group belongs. The continuation of the Trademark Licence Agreements and the impairment amount, if any, of the intellectual property rights of US\$6,998,000, forming part of the intangible assets of the Group as at 31 December 2006, are dependent on the final structure of the bath and kitchen business sale agreement with the purchaser and whether the Trademark Licence Agreements will be continued with terms no less favourable to the Group by the purchaser.

Notes to Financial Statements

31 December 2006

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	US\$'000	US\$'000
Carrying amount at 1 January	8,432	8,961
Recognized during the year	(219)	(227)
Disposal of a subsidiary	-	(508)
Liquidation of a subsidiary (<i>note 18</i>)	(316)	-
Disposal	(89)	-
Exchange realignment	245	206
	<hr/>	<hr/>
Carrying amount at 31 December	8,053	8,432
Current portion included in prepayments, deposits and other receivables	(216)	(222)
	<hr/>	<hr/>
Non-current portion	7,837	8,210
	<hr/> <hr/>	<hr/> <hr/>

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

Prepaid land lease payments with net book value of approximately US\$316,000 were transferred to a joint venture partner as a result of a liquidation.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	US\$'000	US\$'000
Unlisted shares, at cost	81,545	81,545
Impairment	(9,460)	-
	<hr/>	<hr/>
	72,085	81,545
	<hr/>	<hr/>
Due from subsidiaries	6,981	10,752
Due to a subsidiary	-	(4,431)
	<hr/>	<hr/>
	79,066	87,866
	<hr/> <hr/>	<hr/> <hr/>

Notes to Financial Statements

31 December 2006

17. INTERESTS IN SUBSIDIARIES (Continued)

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.

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		Principal activities
			Direct	Indirect	
A-S (Beijing) Enamel Steel Sanitaryware Co., Ltd. ("A-S Beijing Bathtubs")* **	China	US\$9,920,000	50.00	18.50	In the stage of de-registration
A-S (China) Co. Limited ("ASCC")	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")*	China	US\$18,000,000	41.40	40.60	Manufacturing of enamelled steel bathtubs
A-S (Jiangmen) Fittings Co., Ltd.	China	US\$10,850,000	–	100	Manufacturing of brass fittings
A-S (Shanghai) Pottery Co., Ltd. ("A-S Shanghai Pottery")*	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")	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")*	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 registered as contractual joint ventures under China law.

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

Notes to Financial Statements

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18. LIQUIDATION OF A SUBSIDIARY

According to the long-term manufacturing optimization strategy, approval of the Board of the Company and agreement with the joint venture partner, the Group has liquidated an unprofitable bathtub plant in Beijing, PRC, released all employees, reassessed the carrying value of the assets and liabilities of the subsidiary, and consolidated all of its bathtub manufacturing in another plant in Guangzhou to enhance overall bathtubs operating efficiency. The Group charged all restructuring costs to the consolidated income statement during the year ended 31 December 2006. Such restructuring costs include assets impairment written-off, termination severance and other expenses related to the restructuring.

	<i>Notes</i>	2006 US\$'000	2005 US\$'000
Net assets written-off:			
Inventory		95	—
Property, plant and equipment	13	4,382	—
Prepaid land lease payments	16	316	—
Minority interests		(1,431)	—
Others		69	—
		<hr/> 3,431 <hr/>	<hr/> — <hr/>

There is no significant cash flow impact arising from the liquidation of this subsidiary as the losses is mainly due to revaluation of its assets.

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

Notes to Financial Statements

31 December 2006

19. DISPOSAL OF A SUBSIDIARY

A-S Shanghai Fittings Co., Ltd. ("Shanghai Fittings") is a sino-foreign equity joint venture established in 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 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, pursuant 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.

	2006	2005
	US\$'000	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	-	3,991
Prepaid land lease payments	-	508
Other long term assets	-	94
Creditors	-	(1,574)
Minority interests	-	(2,751)
	<hr/>	<hr/>
	-	4,892
Loss on disposal of subsidiary	-	(2,247)
	<hr/>	<hr/>
	-	2,645
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash and bank balances disposed of	-	1,658
Non-cash assets and liabilities	-	987
	<hr/>	<hr/>
	-	2,645
	<hr/> <hr/>	<hr/> <hr/>

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 year 2005.

Notes to Financial Statements

31 December 2006

20. DUE FROM GROUP COMPANIES

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.

Included in the balances due from group companies is an overdue amount due from a group company of US\$2,121,000. As further disclosed and defined in note 32 to the financial statements, subsequent to the balance sheet date, on 1 February 2007, ASCI announced the Intended Separation of Business. The recoverability of the above receivable is dependent on the final structure of the bath and kitchen business sale agreement with the purchaser and whether the Group and the relevant parties can agree and execute a legally binding agreement to offset the above receivable against the Group's payable as included in the balances due to group companies in note 24 to the financial statements. Subsequent to the balance sheet date on 13 March 2007, the Company received from ASCI a non-legally enforceable letter whereby ASCI expressed its intention to settle or to offset the above receivable to the extent allowed by the law.

21. INVENTORIES

	2006 US\$'000	Group 2005 US\$'000
Raw materials	2,832	4,013
Work in progress	1,722	1,178
Finished goods	3,173	3,934
	7,727	9,125

22. TRADE RECEIVABLES

The Group generally grants a credit term of 60-90 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:

	2006 US\$'000	Group 2005 US\$'000
Within 30 days	7,699	5,985
Within 31-90 days	1,645	2,967
Within 91-180 days	1,218	870
Over 180 days	969	181
	11,531	10,003

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

Notes to Financial Statements

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23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	2006	2005
	US\$'000	US\$'000	US\$'000	US\$'000
Cash and bank balances	24,752	39,790	615	2,288
Time deposits	25,362	6,064	9,500	3,500
	<hr/>	<hr/>	<hr/>	<hr/>
	50,114	45,854	10,115	5,788
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to US\$24,498,000 (2005: US\$29,908,000). The RMB is not freely convertible into other currencies. However, under China's 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 2006, the Group's cash and bank balances included an amount of US\$52,000 (2005: US\$121,000) which was pledged as a security for a bankers' guarantee issued by a bank on behalf of a subsidiary.

24. DUE TO GROUP COMPANIES

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.

Notes to Financial Statements

31 December 2006

25. TRADE PAYABLES

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

	Group	
	2006	2005
	US\$'000	US\$'000
Within 30 days	5,523	5,830
Within 31-90 days	138	502
Within 91-180 days	5	51
Over 180 days	364	464
	6,030	6,847

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

26. SHARE CAPITAL

	Group and Company	
	2006	2005
	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

Notes to Financial Statements

31 December 2006

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 2005	83,917	15,538	99,455
Net loss for the year	—	(2,137)	(2,137)
	<u>83,917</u>	<u>(2,137)</u>	<u>(2,137)</u>
At 31 December 2005 and 1 January 2006	83,917	13,401	97,318
Net profit for the year	—	(289)	(289)
	<u>—</u>	<u>(289)</u>	<u>(289)</u>
At 31 December 2006	<u>83,917</u>	<u>13,112</u>	<u>97,029</u>

28. CONTINGENT LIABILITY

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

Notes to Financial Statements

31 December 2006

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:

	Notes	Group 2006 US\$'000	2005 US\$'000
Sales of finished goods	(a)	39,162	33,482
Purchases of raw materials	(a)	(1,519)	(2,162)
Management fee expenses	(b)	(400)	(300)
Trademark licence, technical assistance and management assistance fees	(c)	<u>(2,076)</u>	<u>(2,066)</u>

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 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 30(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\$504,000 (2005: US\$880,000) for the year ended 31 December 2006.

The Group also paid on behalf of ASCI Group as amount of US\$1,711,000 based on actual amounts incurred.

Notes to Financial Statements

31 December 2006

29. RELATED PARTY TRANSACTIONS *(Continued)*

- (2) During the year, a service fee that amounted to US\$79,000 (2005: US\$82,000) was paid to Qing Yuan Jianbei Enterprises Group Corporation ("Qing Yuan"), a minority shareholder of a China subsidiary, by the China subsidiary for the provision of administrative services, and was charged at 0.5% (2005: 0.5%) of net sales of that China subsidiary.
- (3) Details of the compensation of key management personnel of the Group are disclosed in note 8.
- (4) 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. Qing Yuan repaid this loan during the year. Before repayment, this loan bears interest at rate of 5.3% per annum (2005: 5.3% per annum).
- (5) 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.
- (6) As disclosed in note 20 to the financial statements, subsequent to the balance sheet date on 13 March 2007, the Company received from ASCI a non-legally enforceable letter whereby ASCI expressed its intention to settle or to offset to the extent allowed by the law the receivable of US\$2,121,000 against the Group's payable as included in the balances due to group companies in note 24 to the financial statements.

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 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 China subsidiaries in return for the following fees:

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 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

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31 December 2006

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:

	2006	2005
	US\$'000	US\$'000
Within one year	425	657
In the second to fifth years, inclusive	132	373
	557	1,030

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% (2005: 47%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 53% (2005: 53%) 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 2006.

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32. POST BALANCE SHEET EVENT

As set forth in the press announcement made by the Company on 5 February 2007, ASCI, the ultimate holding company of the Company, announced in the United States on 1 February 2007 regarding its prospective separation of business encompassing the intention to sell its bath and kitchen business line (the "Intended Separation of Business") to which the Group belongs. As of the date of the approval of the financial statements, the directors of the Company have not received further information regarding the final outcome of the Intended Separation of Business by ASCI and consequently, are not able to determine the impact and effect, if any, on the financial performance and financial position of the Group, including the matters as disclosed in note 15.1 and note 20 to the financial statements.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 27 March 2007.