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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in the Company, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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**ASPPL**  
**A-S China Plumbing Products Limited**  
*(Incorporated in the Cayman Islands with limited liability)*  
(Stock Code: 8262)

**CONTINUING CONNECTED TRANSACTIONS**

**Independent financial adviser to  
the Independent Board Committee and the Independent Shareholders**



CENTURION CORPORATE FINANCE LIMITED

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A letter from the board of directors of the Company is set out on pages 6 to 26 of this circular. A letter from the independent board committee (“Independent Board Committee”) of the Company is set out on pages 27 to 28 of this circular. A letter from Centurion Corporate Finance Limited, the independent financial adviser to the Independent Board Committee and the independent shareholders of the Company is set out on pages 29 to 49 of this circular.

An extraordinary general meeting (“EGM”) of the Company will be held on 31 December 2008 at 9:00 a.m at 22nd Floor, Langshen Building, 8 Huai Hai Zhong Lu, Shanghai, the People’s Republic of China. A notice convening the EGM is set out at the end of this circular. A form of proxy for use in connection with the EGM is enclosed herewith. Whether or not you are able to attend the EGM in person, please complete, sign and return the form of proxy in accordance with the instructions printed on thereon to the Company’s share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting (as the case may) should you so wish.

This circular will remain on the “Latest Company Announcements” page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of its posting and on the website of the Company at [www.asppl.com](http://www.asppl.com).

13 December 2008

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## CHARACTERISTICS OF THE GEM

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**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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 GEM mean that it is a market more suited to professional and other sophisticated investors.**

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

**The principal means of information dissemination on 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 in order to obtain up-to-date information on GEM-listed issuers.**

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings unless the context otherwise requires:*

“A-S Jiangmen Fittings”	American Standard (Jiangmen) Fittings Co., Ltd. (formerly known as A-S (Jiangmen) Fittings Co., Ltd.), a wholly foreign owned enterprise established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“A-S Shanghai Pottery”	A-S (Shanghai) Pottery Co., Ltd., a sino-foreign equity joint venture established under the laws of the PRC and a 82%-owned subsidiary of the Company
“A-S Tianjin Pottery”	A-S (Tianjin) Pottery Co., Ltd., a wholly foreign owned enterprise established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“ASI”	American Standard Inc., a wholly-owned subsidiary of American Standard Companies Inc.
“associates”	has the meaning ascribed to it in the GEM Listing Rules
“Board”	the board of directors of the Company (including the independent non-executive Directors)
“Company”	A-S China Plumbing Products Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the GEM
“Continuing Connected Transaction Agreements”	the agreements governing the terms and conditions of the Continuing Connected Transactions, comprising the Export Distributorship Agreements, the Intellectual Property Agreement, the Management and Administrative Assistance Agreement, the Reimbursement Agreements, the Technical Assistance Agreements, the Management Assistance Agreement and the Trademark Licence Agreements, which were novated by the relevant Novation Agreements, and each of the agreements is individually referred to as a “Continuing Connected Transaction Agreement”
“Continuing Connected Transactions”	the existing transactions set out in the Continuing Connected Transaction Agreements
“connected persons”	has the meaning ascribed to it under the GEM Listing Rules
“Directors”	directors of the Company

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## DEFINITIONS

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“EGM”	the extraordinary general meeting of the shareholders of the Company to be convened to approve the Continuing Connected Transactions and the annual caps for the Continuing Connected Transactions
“Export Distributorship Agreements”	the export distributorship agreements and the supplemental agreements thereto entered into between ASI and each of the PRC Ventures, regarding the appointment of ASI as their exclusive distributor outside the PRC, as novated by the relevant Novation Agreements
“Extension Agreements”	the ten (10) extension agreements all dated 25 November 2008 for the renewal of the Continuing Connected Transaction Agreements in respect of the Relevant Continuing Connected Transactions, and each of the agreements is individually referred to as an “Extension Agreement”
“GEM”	the Growth Enterprise Market on the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hua Mei”	Hua Mei Sanitary Ware Co., Ltd., a sino-foreign equity joint venture established under the laws of the PRC and a 67.6%-owned subsidiary of the Company
“Ideal Standard Group”	ISIHS and its subsidiaries from time to time, excluding the Group
“Ideal Standard (UK)”	Ideal Standard Global Ltd., a company incorporated in England and Wales and an indirect wholly-owned subsidiary of ISIHS
“ISIHS”	Ideal Standard International Holding Sarl, a company incorporated in Luxembourg, and is a controlling shareholder of the Company holding directly and indirectly through its wholly-owned subsidiaries an aggregate of 96,375,500 Shares, representing approximately 63.81% of the issued share capital of the Company as at the date of this circular

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## DEFINITIONS

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“Independent Board Committee”	an independent committee of the Board, comprising Mr. Chang Sze-Ming, Sydney, Mr. Ho Tse-Wah, Dean and Mr. Wong Kin Chi, the independent non-executive Directors, established for the purpose of reviewing and advising the Independent Shareholders in respect of the terms of the Continuing Connected Transactions
“Independent Financial Adviser”	Centurion Corporate Finance Limited, a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions
“Independent Shareholders”	the Shareholders other than ISIHS and its associates
“Intellectual Property Agreement”	the intellectual property agreement dated 1 January 1996 entered into between the Company and ASI which gives the Company the exclusive right to require ASI to grant territorial licences to manufacture and distribute products in the PRC under the plumbing products brand names owned by ASI to the companies in which the Company holds a direct or indirect majority interest, as novated by the relevant Novation Agreement
“Latest Practicable Date”	means 11 December 2008, being the latest practicable date for ascertaining certain information contained in this circular
“Management and Administrative Assistance Agreement”	the management and administrative assistance agreement dated 20 April 1994 and supplements thereto entered into between ASI and the Company regarding the provision of management and administrative services by ASI to the Company, as novated by the relevant Novation Agreement
“Management Assistance Agreements”	the management assistance agreements and supplements thereto, if any, entered into between ASI and each of Hua Mei and A-S Tianjian Pottery respectively, regarding the provision of management assistance to each of Hua Mei and A-S Tianjian Pottery, as novated by the relevant Novation Agreements

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## DEFINITIONS

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“Novation Agreements”	the agreements entered into by ASI (or, in relation to the Reimbursement Agreements, American Standard Companies Inc.), Ideal Standard (UK) and the relevant member(s) of the Group dated 12 October 2007 governing the novation of all rights and obligations under the Continuing Connected Transaction Agreements from ASI (or, in relation to the Reimbursement Agreements, American Standard Companies Inc.) to Ideal Standard (UK), and each of such agreements is individually referred to as a “Novation Agreement”
“PRC”	the People’s Republic of China, which for the purpose of this circular shall exclude Hong Kong, Macau Special Administrative Region and Taiwan
“PRC Venture(s)”	any one or all of the following subsidiaries of the Company in the PRC, namely, A-S Shanghai Pottery, A-S Tianjin Pottery, A-S Jiangmen Fittings and Hua Mei
“Reimbursement Agreements”	the reimbursement agreements entered into between the Company and American Standard Companies Inc. regarding the reimbursement of staff costs, insurance payments and other expenses to/from the Group, as novated by the relevant Novation Agreements
“Relevant Continuing Connected Transactions”	the Continuing Connected Transactions under the following ten (10) existing agreements, namely (1) the Export Distributorship Agreement between Ideal Standard (UK) and A-S Jiangmen Fittings; (2) the Export Distributorship Agreement between Ideal Standard (UK) and A-S Shanghai Pottery; (3) the Export Distributorship Agreement between Ideal Standard (UK) and A-S Tianjin Pottery; (4) the Management and Administrative Assistance Agreement between Ideal Standard (UK) and the Company; (5) the Technical Assistance Agreement between Ideal Standard (UK) and A-S Jiangmen Fittings; (6) the Technical Assistance Agreement between Ideal Standard (UK) and A-S Tianjin Pottery; (7) the Technical Assistance Agreement between Ideal Standard (UK) and A-S Shanghai Pottery; (8) the Management Assistance Agreement between Ideal Standard (UK) and A-S Tianjin Pottery; (9) Reimbursement Agreement between Ideal Standard (UK) and the Company regarding the reimbursement of expenses by the Group to the Ideal Standard Group; and (10) Reimbursement Agreement between Ideal Standard (UK) and the Company regarding the reimbursement of expenses by the Ideal Standard Group to the Group

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## DEFINITIONS

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“RMB”	Renminbi, the lawful currency of PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of Shares
“Shares”	ordinary shares of US\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it in the GEM Listing Rules
“US\$”	United States Dollars, the lawful currency of the United States of America
“Technical Assistance Agreements”	the technical assistance agreements and supplemental agreements thereto entered into between each of the PRC Ventures and ASI and, in the case of Hua Mei, a joint trademark licence and technical assistance agreement signed with ASI regarding the provision of technical assistance to each of the PRC Ventures, as novated by the relevant Novation Agreements
“Trademark Licence Agreements”	the trademark licence agreements entered into between each of the PRC Ventures and ASI and, in the case of Hua Mei, a joint trademark licence and technical assistance agreement signed with ASI regarding the grant of the rights to use certain trademarks owned by ASI in respect of plumbing products to each of the PRC Ventures, as novated by the relevant Novation Agreements

*Unless otherwise specified, US dollars amounts in this circular have been translated into Hong Kong dollars at an exchange rate of HK\$7.80 = US\$1.00. Such translation should not be construed as a representation that US dollars have been, could have been or could be converted into HK\$, as the case may be, at this or any other rates or at all.*



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LETTER FROM THE BOARD

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**ASPPL**

**A-S China Plumbing Products Limited**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 8262)

*Executive Directors:*

Mr. Ye Zhi Mao, Jason (*Chairman*)

Mr. Gao Jinmin

Ms. Chen Rong Fang

Mr. Wang Gang

Mr. Yang Xiong

*Registered Office:*

P.O. Box 309 GT

Ugland House

South Church Street

Grand Cayman Islands

Cayman Islands, B.W.I.

*Non-executive Director:*

Mr. Peter James O'Donnell

*Principal place of*

*business in Hong Kong:*

Suite 3703, Office Tower,

Langham Place, 8 Argyle Street

Mongkok, Kowloon

Hong Kong

*Independent non-executive Directors:*

Mr. Chang Sze-Ming, Sydney

Mr. Ho Tse-Wah, Dean

Mr. Wong Kin Chi

Hong Kong, 13 December 2008

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

**1. INTRODUCTION**

The Group had entered into a number of Continuing Connected Transactions with its previous controlling shareholder ASI and its associates. As a result of the change in control of the Company in 2007, ISIHS became the new controlling shareholder and hence a connected person of the Company, and the then Continuing Connected Transaction Agreements with ASI and its associates were assigned and novated to Ideal Standard (UK), a subsidiary of ISIHS, with effect from 12 October 2007.

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## LETTER FROM THE BOARD

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Particulars of the Continuing Connected Transactions are set out as follows:

### 2. THE CONTINUING CONNECTED TRANSACTIONS

#### 2.1 The agreements governing the Continuing Connected Transactions

The Continuing Connected Transactions with Ideal Standard Group are governed by the following Continuing Connected Transaction Agreements, the major terms and conditions of which are summarized below for ease of reference:

The No. Agreement	Date	Parties	Nature of Transaction	Revenue (R)/ Expenditure (E)
1. Four Export Distributorship Agreements	Various dates, all expiring on 31 Dec 2008 (except the agreement between Hua Mei and Ideal Standard (UK) which expires on 4 June 2015)	the PRC Ventures and Ideal Standard (UK)	Sales of sanitaryware, bathtubs and plumbing fittings products to Ideal Standard (UK)	R
2. Management and Administrative Assistance Agreement	the relevant extension agreement dated 1 January 2006, expiring on 31 Dec 2008	the Company and Ideal Standard (UK)	Provision of management and administrative services to the Company by Ideal Standard (UK) for the Company's plumbing products operations	E
3. Intellectual Property Agreement	1 January 1996, no specific termination date	the Company and Ideal Standard (UK)	Territorial licences to the Company to manufacture and distribute plumbing products in the PRC under the plumbing product brand names of Ideal Standard (UK)	E

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**LETTER FROM THE BOARD**

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No.	The Agreement	Date	Parties	Nature of Transaction	Revenue (R)/ Expenditure (E)
4.	Four Trademark Licence Agreements	Various dates, with various expiring dates ranging from 4 June 2015 to 3 December 2044	the PRC Ventures and Ideal Standard (UK)	Territorial licences to the PRC Ventures to manufacture and distribute plumbing products in the PRC under the plumbing product brand names of Ideal Standard (UK)	E
5.	Four Technical Assistance Agreements	Various dates, with various expiring dates ranging from 31 December 2008 to 4 June 2015	the PRC Ventures and Ideal Standard (UK)	Provision of technical know-how to the Company and the PRC Ventures	E
6.	Two Management Assistance Agreements	23 February 1994 and 5 June 1985, with expiry dates of 22 February 2009 and 4 June 2015 respectively	A-S Tianjin Pottery and Ideal Standard (UK)  Hua Mei and Ideal Standard (UK)	Provision of management assistance to A-S Tianjin Pottery and Hua Mei	E
7.	Reimbursement Agreement (from the Group to Ideal Standard (UK))	the relevant extension agreement dated 1 January 2006, expiring on 31 Dec 2008	the Company and Ideal Standard (UK)	Reimbursement of staff costs, insurance payments and other expenses from the Group to Ideal Standard (UK)	E

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## LETTER FROM THE BOARD

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No.	The Agreement	Date	Parties	Nature of Transaction	Revenue (R)/ Expenditure (E)
8.	Reimbursement Agreement (from Ideal Standard (UK) to the Group)	1 January 2006, expiring on 31 Dec 2008	the Company and Ideal Standard (UK)	Reimbursement of regional staff costs, travelling costs, office rentals, expatriate apartment rental and other expenses from Ideal Standard (UK) to the Group	R

### 2.2 Summary of the terms and conditions of the Continuing Connected Transactions

#### 2.2.1 Sales of sanitaryware, bathtubs and plumbing fittings products to Ideal Standard (UK)

Pursuant to the four Export Distributorship Agreements as extended by the relevant agreements and novated by the relevant Novation Agreements, Ideal Standard (UK) has been appointed the exclusive distributor of each of the PRC Ventures for the distribution and sales of the Group's sanitaryware, bathtubs and plumbing fittings products outside the PRC. The key terms and conditions of such supplies of sanitaryware, bathtubs and plumbing fittings products to Ideal Standard (UK) are as follows:

- (i) such sales shall be on normal commercial terms and on a contract basis, with each contract specifying the quantity to be sold, the selling price and the date of delivery;
- (ii) such products shall be delivered from 45 to 60 days after orders are placed and subject to availability and source; and
- (iii) payments for such products are usually within 120 days from invoice date.

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## LETTER FROM THE BOARD

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The table below sets out the original commencement and expiry dates of the original Export Distributorship Agreements and the respective extension agreements:

<b>Original commencement and expiry date of the Export Distributorship Agreements</b>	<b>Date of first extension agreements to Export Distributorship Agreements and extended expiry date</b>	<b>Date of second extension agreements to Export Distributorship Agreements and extended expiry date</b>	<b>Parties</b>
14 January 1994 & 13 January 2004	16 June 2003 & 31 December 2005	1 January 2006 & 31 December 2008	A-S Jiangmen Fittings and Ideal Standard (UK)
29 April 1994 & 28 April 2004	16 June 2003 & 31 December 2005	1 January 2006 & 31 December 2008	A-S Shanghai Pottery and Ideal Standard (UK)
31 January 1994 & 30 January 2004	16 June 2003 & 31 December 2005	1 January 2006 & 31 December 2008	A-S Tianjin Pottery and Ideal Standard (UK)
5 June 1985 & 4 June 2015 (Note 1)	N/A	N/A	Hua Mei and Ideal Standard (UK)

*Note:*

- In the case of Hua Mei, a waiver for the agreement to extend beyond the usual three-year period under Rule 20.35(1) of the GEM Listing Rules was obtained from the Stock Exchange upon the listing of the Company.

The current extension agreements for the Export Distributorship Agreements as novated by the relevant Novation Agreements will all expire on 31 December 2008. The Directors intend to extend each of the Export Distributorship Agreements for a further term of one year until 31 December 2009.

In this connection, the Group has renewed the Continuing Connected Transaction Agreements for the Relevant Continuing Connected Transactions in respect of the three (3) Export Distributorship Agreements entered into between Ideal Standard (UK) and each of A-S Jiangmen Fittings, A-S Shanghai Pottery and A-S Tianjin Pottery, to further extend the term for another period of one year until 31 December 2009 upon the same terms and conditions as the respective current extension agreements, except that the term for payments as disclosed above has been expressly provided to be within 120 days from invoice date, and has entered into the relevant Extension Agreements, but the implementation of these Extension Agreements will be conditional upon the obtaining of the required Independent

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## LETTER FROM THE BOARD

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Shareholders' approvals pursuant to the GEM Listing Rules. It should be noted that though there was no specific payment term prescribed under the existing extension agreements of the Export Distributorship Agreements, payments under such agreements were usually within 60 days from invoice date at the time when the previous approvals by independent shareholders were obtained in 2007. However, since 2008 payments under such existing extension agreements had been changed from usually within 60 days to usually within 120 days from invoice date.

For the Continuing Connected Transactions under the Export Distributorship Agreement entered into between Ideal Standard (UK) and Hua Mei, the continuation of such Continuing Connected Transactions after 31 December 2008 and the annual cap for such Continuing Connected Transactions for the year ending on 31 December 2009 shall be subject to approval by the Independent Shareholders pursuant to the GEM Listing Rules.

### *2.2.2 Management and administrative fee paid to Ideal Standard (UK)*

Pursuant to the Management and Administrative Assistance Agreement as extended by the relevant extension agreement and which has been novated by the relevant Novation Agreement, Ideal Standard (UK) has agreed to provide the Company with management and administrative services, including financial and administrative assistance, management information services and assistance with strategic planning for the Company's plumbing products operations. The services provided under the Management and Administrative Assistance Agreement relate to non-production line and are administrative in nature solely for the Company. The annual management and administrative fee of the Group for the two years ending 31 December 2008 are US\$450,000 and US\$500,000, respectively, which are the existing annual caps for the two years ending 31 December 2008. These fees are calculated based on historical expense figures incurred by the regional Asia-Pacific office, which include staff remuneration and office expenses with no mark-up element. Payments in respect of the management and administrative fee are made to Ideal Standard (UK) 45 days following the end of each quarter. As at the date of this circular, payment of the annual management and administrative fee for the year 2008 by the Company has not exceeded the existing annual cap for the year ending 31 December 2008 in the said sum of US\$500,000. The extension agreement of the Management and Administrative Assistance Agreement as novated by the relevant Novation Agreement will expire on 31 December 2008.

In this connection, the Company has renewed the Continuing Connected Transaction Agreements for the Relevant Continuing Connected Transactions in respect of the Management and Administrative Assistance Agreement entered into between Ideal Standard (UK) and the Company, to further extend the term for another period of one year until 31 December 2009 upon the same terms and conditions as the current extension agreement and has entered into the relevant Extension Agreement, with the amount of the annual fee to be paid to Ideal Standard (UK) to be US\$550,000 for the year 2009. With the recent setting up and operation of the International Designing Center by the Group in Shanghai, to which Ideal Standard (UK) has been providing services under the Management and Administrative Assistance Agreement, the Directors have estimated that the increase of the annual sum for the year 2009 is fair and reasonable based on the expenses to be incurred with no mark-up element.

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## LETTER FROM THE BOARD

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### *2.2.3 Intellectual property royalty payments, trademark licence fees, technical assistance and management assistance service fees paid to Ideal standard (UK)*

Pursuant to the Intellectual Property Agreement, the Trademark Licence Agreements, Technical Assistance Agreements and Management Assistance Agreements, Ideal Standard (UK) has agreed, among other things, to:

- (i) grant territorial licences to manufacture and distribute plumbing products in the PRC under the plumbing product brand names of Ideal Standard (UK) to the companies in which the Company holds a direct or indirect majority interest; and
- (ii) provide technical know-how and management assistance to the Company and the PRC Ventures for their operation.

The nature of all the Trademark Licence Agreements, Technical Assistance Agreements and Management Assistance Agreements relates to the Intellectual Property Agreement, and is for the production operation of the PRC Ventures concerned.

In return, annual fees are payable by the Group to Ideal Standard (UK) calculated on the basis of the net sales of the PRC Ventures for the licences of the intellectual property rights, technical know-how and for management assistance. The relevant fees payable by the Group to Ideal Standard (UK) represent no more than 3.5% (for trademark licence fees), 2.5% (for technical assistance fees) and 2.0% (for management assistance fees) of the net sales of each of the PRC Ventures of products bearing Ideal Standard (UK)'s brand names or other products as agreed from time to time. In respect of the intellectual property royalty payment, pursuant to the Intellectual Property Agreement, the royalty amounts (“**Royalty Amounts**”) payable by the Company shall be equal to 50% of the aggregate of the trademark licence fees under the Trademark Licence Agreements, technical licence fees under the Technical Assistance Agreements and the management assistance fees under the Management Assistance Agreements payable by the PRC Ventures net of the applicable withholding taxes, provided that the aggregate of the Royalty Amounts shall not exceed US\$10,000,000. As the Company had already paid the Royalty Amounts up to US\$10,000,000 in the previous years, payment of such Royalty Amounts will no longer be required under the Intellectual Property Agreement. Since the Intellectual Property Agreement relates to the on-going Trademark Licence Agreements, Technical Assistance Agreements and Management Assistance Agreements, the transactions under all these agreements are aggregated and treated as if they were one transaction. For the purpose of estimating the annual caps for the year ending 31 December 2009 in respect of the transactions under the Trademark Licence Agreements, Technical Assistance Agreements and Management Assistance Agreements, the Intellectual Property Agreement is grouped together even though payment of such Royalty Amounts will no longer be required under the Intellectual Property Agreement.

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## LETTER FROM THE BOARD

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Aggregate fees in respect of intellectual property royalty, trademark licence, technical assistance and management assistance are calculated on a quarterly basis and paid to Ideal Standard (UK) 30 days thereafter. The actual settlement of the fees to Ideal Standard (UK) is subject to the approval of the local State Administration of Foreign Exchange and the cash position of the relevant PRC Ventures who are liable for those charges. Therefore, the payments will normally be made longer than the stipulated amount of time. The rates are determined mainly by negotiation between the Company and the investors of the relevant PRC Ventures with consideration of local rules and conditions (such as the business situation and the labour condition) and market practice in the PRC at the time of establishment of the PRC Ventures.

Ideal Standard (UK) has the right to terminate the above agreements entered into with the relevant PRC Venture upon the occurrence of the termination events specified therein. Some of the termination events are set out below:

1. expiry of the operating terms of the relevant PRC Venture or the relevant agreement;
2. insolvency, bankruptcy or liquidation of the relevant PRC Ventures;
3. expropriation, nationalization, confiscation or seizure in any form, with or without indemnification, of any part of the direct or indirect interest of ISIHS in the Company, or all or any material part of the properties of the Company;
4. non-compliance by the relevant PRC Ventures with any material provisions of the relevant joint venture agreement, the Technical Assistance Agreement, the Export Distributorship Agreement or the Trademark Licence Agreement to which the relevant PRC Ventures is a party;
5. declaration of war involving either the United States or the PRC or both;
6. transfer of the PRC Venture's rights or obligations under the arrangements without prior written consent by Ideal Standard (UK);
7. reduction of the direct or indirect ownership of ISIHS and its subsidiaries and affiliates in any of the relevant PRC Ventures to below 51% or ISIHS loses the right to appoint a majority of the board of the directors of the relevant PRC Venture;
8. refusal by any PRC Venture to accept the directors nominated by ISIHS or an affiliate on its board;
9. termination of the contracts specified therein or the relevant joint venture agreement entered into between Ideal Standard (UK) and the relevant PRC Venture; and



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## LETTER FROM THE BOARD

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10. for Trademark Licence Agreements, the occurrence of any event which impairs the validity or value of the trademarks licensed or any registration thereof.

The table below summarises the basis of calculation of the trademark licence fees, technical assistance fees and management and administrative service fees payable by the PRC Ventures to Ideal Standard (UK).

PRC Ventures	Trademark licence	Fee payment relating to technical assistance	Management assistance
(i) Hua Mei	1.8% of net sales	1.5% of net sales	0.5% of net sales
(ii) A-S Jiangmen Fittings	3.0% of net sales of products bearing licensed trademarks	2.0% of net sales of products bearing trademarks owned by Ideal Standard (UK)	nil
(iii) A-S Shanghai Pottery	3.0% of net sales of products bearing one or more of the licensed trademarks	2.5% of net sales for years 1 to 5 and 2.0% of net sales for years after year 5	nil
(iv) A-S Tianjin Pottery	3.0% of net sales	2% of net sales	2.0% of net sales

*Note:* Net sales referred to in the table above means the PRC Ventures sales of the products as agreed between the parties from time to time, less sales taxes and actual returns.

The table below sets out the commencement and expiry dates of the Intellectual Property Agreement, the Trademark Licence Agreements, the Technical Assistance Agreements, and the Management Assistance Agreements:

### Intellectual Property Agreement

Commencement Date	Expiry Date	Parties
1 January 1996	no specific termination date	the Company and ASI

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## LETTER FROM THE BOARD

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### Trademark Licence Agreements

Commencement Date	Expiry Date	Parties
5 June 1985	4 June 2015	Hua Mei and ASI ( <i>Note 1</i> )
14 January 1994	18 August 2041	A-S Jiangmen Fittings and ASI
23 February 1994	30 January 2044	A-S Tianjin Pottery and ASI
29 April 1994	16 June 2044	A-S Shanghai Pottery and ASI

### Technical Assistance Agreements

Commencement Date	Expiry Date	Parties
5 June 1985	4 June 2015	Hua Mei and ASI ( <i>Note 1</i> )
14 January 1994	13 January 2009	A-S Jiangmen Fittings and ASI
23 February 1994	22 February 2009	A-S Tianjin Pottery and ASI
29 April 1994	31 December 2008	A-S Shanghai Pottery and ASI

### Management Assistance Agreements

Commencement Date	Expiry Date	Parties
5 June 1985	4 June 2015	Hua Mei and ASI
23 February 1994	22 February 2009	A-S Tianjin Pottery and ASI

*Note:*

1. In the case of Hua Mei, a joint trademark licence agreement and technical assistance agreement was signed with ASI.

Pursuant to the relevant Novation Agreements, ASI has assigned and novated its rights and obligations under the Intellectual Property Agreement, the Trademark Licence Agreements, the Technical Assistance Agreements and the Management Assistance Agreements to Ideal Standard (UK). The Company intends to continue the relevant Continuing Connected Transactions with Ideal Standard (UK) after 31 December 2008.

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## LETTER FROM THE BOARD

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In this connection, the Group has renewed the Continuing Connected Transaction Agreements for the Relevant Continuing Connected Transactions in respect of the three (3) Technical Assistance Agreements entered into between Ideal Standard (UK) and each of A-S Jiangmen Fittings, A-S Tianjin Pottery and A-S Shanghai Pottery, to further extend the term of each of the these agreements until 31 December 2009, upon the same terms and conditions as the respective current extension agreements and has entered into the relevant Extension Agreements, but the implementation of these Extension Agreements will be conditional upon the obtaining of the required Independent Shareholders' approvals pursuant to the GEM Listing Rules.

The Group has renewed the Continuing Connected Transaction Agreements for the Relevant Continuing Connected Transactions in respect of the Management Assistance Agreement entered into between Ideal Standard (UK) and A-S Tianjin Pottery to further extend the term for another period of one year until 22 February 2010, upon the same terms and conditions as the current agreement and has entered into the relevant Extension Agreement, but the implementation of this Extension Agreement will be conditional upon the obtaining of the required Independent Shareholders' approvals pursuant to the GEM Listing Rules.

For the Continuing Connected Transactions under the Intellectual Property Agreement, the four (4) Trademark Licence Agreements entered into between Ideal Standard (UK) and each of the PRC Ventures, the Technical Assistance Agreements entered into between Ideal Standard (UK) and Hua Mei, and the Management Assistance Agreement entered into between Ideal Standard (UK) and Hua Mei, the continuation of such Continuing Connected Transactions after 31 December 2008 and the annual cap for such Continuing Connected Transactions for the year ending on 31 December 2009 shall be subject to approval by the Independent Shareholders pursuant to the GEM Listing Rules.

#### *2.2.4 Reimbursement of expenses from the Group to Ideal Standard (UK)*

Pursuant to the Reimbursement Agreement dated 16 June 2003 as extended by an extension agreement dated 1 January 2006 and which has been novated by the relevant Novation Agreement, the Group has agreed to reimburse Ideal Standard (UK) for certain expenses based on actual costs paid by Ideal Standard (UK) on behalf of the Group. The extension agreement will expire on 31 December 2008. These expenses comprise mainly staff costs relating to expatriate employees seconded to the Group from Ideal Standard (UK), insurance payments under insurance policies adopted by Ideal Standard (UK), legal fees and other amounts paid by Ideal Standard (UK) on behalf of the Group. These expenses incurred by Ideal Standard (UK) on behalf of the Group will be charged to the Group on a dollar-to-dollar basis with reference to the actual cost incurred and the Group will reimburse these expenses to Ideal Standard (UK) within 60 days of these expenses falling due.

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## LETTER FROM THE BOARD

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The Company has renewed the Continuing Connected Transaction Agreement for the Relevant Continuing Connected Transactions in respect of the Reimbursement Agreement entered into between Ideal Standard (UK) and the Company regarding the reimbursement of expenses by the Group to the Ideal Standard Group, to further extend the term of for a period of one year until 31 December 2009, upon the same terms and conditions as the current extension agreement and has entered into the relevant Extension Agreement, but the implementation of this Extension Agreement will be conditional upon the obtaining of the required Independent Shareholders' approvals pursuant to the GEM Listing Rules.

### *2.2.5 Reimbursement of expenses from Ideal Standard (UK) to the Group*

Pursuant to the Reimbursement Agreement dated 1 January 2006 and which has been novated by the relevant Novation Agreement, Ideal Standard (UK) will reimburse to the Group certain expenses based on actual costs paid by the Group on behalf of Ideal Standard (UK). These expenses comprise mainly regional staff costs, travelling costs, office rentals, expatriate apartment rental and other amounts incurred in the PRC and paid by the Group on behalf of Ideal Standard (UK). These expenses incurred by the Group on behalf of Ideal Standard (UK) will be charged to Ideal Standard (UK) on a dollar-to-dollar basis with reference to the actual cost incurred and Ideal Standard (UK) will reimburse these expenses to the Group within 60 days of these expenses falling due.

The Company has renewed the Continuing Connected Transaction Agreement for the Relevant Continuing Connected Transactions in respect of the Reimbursement Agreement entered into between Ideal Standard (UK) and the Company regarding the reimbursement of expenses by the Ideal Standard Group to the Group, to further extend the term of for a period of one year until 31 December 2009 and has entered into the relevant Extension Agreement, upon the same terms and conditions as the current extension agreement, but the implementation of this Extension Agreement will be conditional upon the obtaining of the required Independent Shareholders' approvals pursuant to the GEM Listing Rules.

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## LETTER FROM THE BOARD

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### 2.3 Historical amounts of the Continuing Connected Transactions for the years 2006, 2007 and the estimated amounts for 2008

Set out below are the amounts of each category of the Continuing Connected Transactions for the two previous years and the estimated amounts for the year ending 31 December 2008 based on the historical trends and figures.

<b>Transactions</b>	<b>2006</b>	<b>2007</b>	<b>Estimated amount for 2008</b>
	<i>in million</i>	<i>in million</i>	<i>in million</i>
<i>Revenue</i>			
1. Export Distributorship Agreements	US\$39.16 (approximately HK\$305.45)	US\$49.97 (approximately HK\$389.77)	US\$51.64 (approximately HK\$402.79)
Sales of ceramic sanitaryware, bathtubs and plumbing fittings products			
2. Reimbursement Agreement	US\$1.71 (approximately HK\$13.34)	US\$0.12 (approximately HK\$0.94)	US\$1.11 (approximately HK\$8.66)
Reimbursement to the Group from Ideal Standard (UK) for regional staff costs, traveling costs, office rentals, expatriate apartment rental and other amounts incurred in the PRC on behalf of Ideal Standard (UK)			
<i>Expenditure</i>			
3. Management and Administrative Assistance Agreement	US\$0.40 (approximately HK\$3.12)	US\$0.45 (approximately HK\$3.51)	US\$0.50 (approximately HK\$3.90)
Provision of management and administrative services			

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## LETTER FROM THE BOARD

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<b>Transactions</b>	<b>2006</b>	<b>2007</b>	<b>Estimated amount for 2008</b>
	<i>in million</i>	<i>in million</i>	<i>in million</i>
<i>Expenditure</i>			
4. Total intellectual property royalty payments, including:	US\$2.08 (approximately HK\$16.22)	US\$2.64 (approximately HK\$20.59)	US\$3.31 (approximately HK\$25.82)
(a) Territorial licences to manufacture and distribute plumbing products	US\$0.97 (approximately HK\$7.57)	US\$1.28 (approximately HK\$9.99)	US\$1.60 (approximately HK\$12.46)
(b) Provision of technical know-how	US\$0.83 (approximately HK\$6.45)	US\$1.06 (approximately HK\$8.25)	US\$1.36 (approximately HK\$10.62)
(c) Provision of management assistance	US\$0.28 (approximately HK\$2.18)	US\$0.30 (approximately HK\$2.37)	US\$0.35 (approximately HK\$2.76)
5. Reimbursement Agreement	US\$0.50 (approximately HK\$3.90)	US\$0.70 (approximately HK\$5.46)	US\$0.35 (approximately HK\$2.73)
Reimbursement to Ideal Standard (UK) from the Group for staff costs, legal fees and other amounts paid by Ideal Standard (UK) on the Group's behalf			

As at the date of this circular, the current annual caps for the year ending 31 December 2008 in respect of all the existing Continuing Connected Transactions have not been exceeded by the Group.

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## LETTER FROM THE BOARD

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### 3. PROPOSED ANNUAL CAPS FOR THE CONTINUING CONNECTED TRANSACTIONS FOR THE YEAR 2009

Based on the following, the Directors have estimated the proposed annual caps of the continuation of the Continuing Connected Transactions for the financial year ending 31 December 2009:

- (1) the Continuing Connected Transactions will continue to be entered into between the Company and Ideal Standard (UK) upon the terms and conditions set out in the Continuing Connected Transaction Agreements (or, in relation to the Relevant Continuing Connected Transactions, the Extension Agreements for such Relevant Continuing Connected Transactions) governing the relevant Continuing Connected Transactions;
- (2) such Continuing Connected Transactions will continue to be entered into in the ordinary course of business of the Company and upon normal commercial terms; and
- (3) the proposed annual caps are based on the historical amounts of the Continuing Connected Transactions for the two financial years ended 31 December 2007 and the estimated amounts of the Continuing Connected Transactions for the year ending 31 December 2008.

The projected annual limits for the Continuing Connected Transactions for the financial year ending 31 December 2009 are as follows:

<b>Agreements</b>	<b>Transactions</b>	<b>For the year ending 31 December 2009 <i>in million</i></b>
	<i>Revenue</i>	
1. Export Distributorship Agreements  <i>(Please refer to paragraph 2.2.1 for a summary of the terms and conditions)</i>	Sales of ceramic sanitaryware, bathtubs and plumbing fittings products <i>(Note 1)</i>	US\$124.00 (approximately HK\$967.20)
2. Reimbursement Agreement  <i>(Please refer to paragraph 2.2.5 for a summary of the terms and conditions)</i>	Reimbursement to the Group from Ideal Standard (UK) for regional staff costs, traveling costs, office rentals, expatriate apartment rental and other amounts incurred in the PRC on behalf of Ideal Standard (UK) <i>(Note 2)</i>	US\$2.00 (approximately HK\$15.60)

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## LETTER FROM THE BOARD

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Agreements	Transactions	For the year ending 31 December 2009 <i>in million</i>
	<i>Expenditure</i>	
3. Intellectual Property Agreement, Trademark Licence Agreements, Technical Assistance Agreements and Management Assistance Agreements  <i>(Please refer to paragraph 2.2.3 for a summary of the terms and conditions)</i>	Total intellectual property royalty payments, including:  (a) Territorial licences to manufacture and distribute plumbing products <i>(Note 3)</i>  (b) Provision of technical know-how <i>(Note 3)</i>  (c) Provision of management assistance <i>(Note 3)</i>	US\$6.01 (approximately HK\$46.85)  US\$2.86 (approximately HK\$22.31)  US\$2.29 (approximately HK\$17.85)  US\$0.86 (approximately HK\$6.69)
4. Reimbursement Agreement  <i>(Please refer to paragraph 2.2.4 for a summary of the terms and conditions)</i>	Reimbursement to Ideal Standard (UK) from the Group for staff costs, legal fees and other amounts paid by Ideal Standard (UK) on the Group's behalf <i>(Note 4)</i>	US\$2.00 (approximately HK\$15.60)

*Notes:*

Bases for the annual caps:

1. The annual caps were determined based on the projected growth in the Group's sales in the year ending 31 December 2009.
2. The annual caps were determined based on the Company's management's estimation. These items may include traveling expenses, office rental and salary of regional employees in the PRC.
3. The annual caps were determined based on the terms of the relevant agreements and the projected sales of the relevant PRC Ventures in the year ending 31 December 2009.
4. The annual caps were determined based on historical reimbursement expenses made.

In arriving at the above figures for the proposed annual caps for the year 2009, the Directors have also taken into account the projected growth in the Group's business activities due to the reason that the Group and the Ideal Standard Group will place more focus on the Asian markets for the year 2009, having regard to the business environment, commercial considerations and the relatively lower labour costs in the Asian markets as compared with those in the European markets.



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## LETTER FROM THE BOARD

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Based on the projected growth in the sales in the Asian markets for the subject transactions, the Board believes that it is fair and reasonable to come up with the proposed annual caps for the Continuing Connected Transactions.

#### **4. REASONS AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS**

The Directors consider that it is in the interest of the Company to continue the Continuing Connected Transactions upon the terms and conditions of the relevant Connected Transaction Agreements (or, in relation to the Relevant Continuing Connected Transactions, the Extension Agreements for such Relevant Continuing Connected Transactions).

The Board considers that the Continuing Connected Transactions will enable the Group to continue to leverage on the international sales network, expertise of staff, technical know-how and management assistance in connection with the business of the Group.

The Board, having taken into account all facts available, considers that the continuation and the terms of the Continuing Connected Transactions, the entering into and the terms of the Extension Agreements, and the annual caps for the Relevant Continuing Connected Transactions, and the renewal of the annual caps for the existing Continuing Connected Transaction Agreements (other than the Relevant Continuing Connected Transactions) which will expire on 31 December 2008 are fair and reasonable and in the interests of the Shareholders as a whole.

#### **5. GEM LISTING RULES IMPLICATIONS**

Pursuant to Rule 20.36 of the GEM Listing Rules, the Company is required to re-comply with Rules 20.35(3) and (4) of the GEM Listing Rules in respect of the Continuing Connected Transactions.

##### **5.1 Transactions exempt from Independent Shareholders' approval requirement**

The applicable percentage ratios calculated in accordance with Chapter 19 of the GEM Listing Rules in respect of the transactions under the Management and Administrative Assistance Agreement are greater than 0.1% but below 2.5%, and therefore the entering into of the relevant Continuing Connected Transactions in respect of the Management and Administrative Assistance Agreement and the transactions contemplated thereunder are only subject to the reporting and announcement requirements under Rules 20.45 to 20.47 and are exempt from the Independent Shareholders' approval requirements under the GEM Listing Rules.

The relevant Continuing Connected Transactions in respect of the Management and Administrative Assistance Agreement will be entered into in the usual and ordinary course of business of the Group, on normal commercial terms and on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### 5.2 Non-exempt Continuing Connected Transactions

Pursuant to Rule 20.25 of the GEM Listing Rules, the transactions under the Intellectual Property Agreement, the Trademark Licence Agreements, the Technical Assistance Agreements, the Management Assistance Agreements are aggregated and treated as if they were one transaction. As a result, the applicable percentage ratios calculated in accordance with Chapter 19 of the GEM Listing Rules in respect of these transactions are greater than 2.5%.

In addition, the applicable percentage ratios calculated in accordance with Chapter 19 of the GEM Listing Rules in respect of each of (i) the Export Distributorship Agreements; and (ii) the Reimbursement Agreements are greater than 2.5%.

Hence, the entering into or continuation of the Continuing Connected Transactions in respect of the Intellectual Property Agreement, the Trademark Licence Agreements, the Technical Assistance Agreements, the Management Assistance Agreements, the Export Distributorship Agreements, the Reimbursement Agreements and the transactions contemplated thereunder constitute non-exempt continuing connected transactions for the Company, and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Rules 20.45 to 20.54 of the GEM Listing Rules and the requirements of annual review of continuing connected transactions under Rules 20.37 to 20.40 of the GEM Listing Rules.

The Company will seek the Independent Shareholders' approval at the EGM by way of poll for (a) the entering into of the Extension Agreements for the renewal of the Continuing Connected Transaction Agreements for the Relevant Continuing Connected Transactions and the transactions contemplated respectively thereunder, and the annual caps for the Relevant Continuing Connected Transactions (save and except for the Extension Agreement of the Management and Administrative Assistance Agreement); and (b) the renewal of the annual caps for the existing Continuing Connected Transaction Agreements (other than the Relevant Continuing Connected Transactions) which will expire on 31 December 2008, upon the terms that:

1. the Continuing Connected Transactions will be entered into in the usual and ordinary course of business of the Group and either (a) on normal commercial terms; or (b) if there is no available comparison, on terms no less favourable to the Group than terms available from/to (as appropriate) independent third parties; and
2. the Continuing Connected Transactions will be entered into in accordance with the relevant Continuing Connected Transaction Agreements and on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

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## LETTER FROM THE BOARD

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In view of the interests of ISIHS, ISIHS and its respective associates will abstain from voting in relation to the EGM. An Independent Board Committee (comprising Mr. Chang Sze-Ming, Sydney, Mr. Ho Tse-Wah, Dean and Mr. Wong Kin Chi) has been appointed to advise the Independent Shareholders on whether or not (a) the entering into of the Extension Agreements for the renewal of the Continuing Connected Transaction Agreements for the Relevant Continuing Connected Transactions and the transactions contemplated respectively thereunder, and the annual caps for the Relevant Continuing Connected Transactions; and (b) the renewal of the annual caps for the existing Continuing Connected Transaction Agreements (other than the Relevant Continuing Connected Transactions) which will expire on 31 December 2008), are fair and reasonable so far as the Independent Shareholders are concerned. The Independent Financial Adviser was appointed to advise the Independent Board regarding (a) the entering into of the Extension Agreements for the renewal of the Continuing Connected Transaction Agreements for the Relevant Continuing Connected Transactions and the transactions contemplated respectively thereunder, and the annual caps for the Relevant Continuing Connected Transactions; and (b) the renewal of the annual caps for the existing Continuing Connected Transaction Agreements (other than the Relevant Continuing Connected Transactions) which will expire on 31 December 2008).

### **6. PROCEDURES FOR DEMANDING A POLL**

**Article 80 of the Company's Articles of Association sets out the procedures by which shareholders may demand a poll:**

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the results of the show of hands or on the withdrawal of any other demand for a poll) a poll is required under the Listing Rules or a poll is duly demanded. A poll may be demanded by:

- (a) the Chairman of the meeting; or
- (b) at least five members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) any member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and representing in aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or
- (d) any member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

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## LETTER FROM THE BOARD

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Unless a poll is so required under the Listing Rules or duly demanded and, in the latter case, the demand is not withdrawn, a declaration by the Chairman that a resolution has on a show of hands been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the Company's book containing the minutes of proceedings of meetings of the Company shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

### **7. EGM**

An EGM will be convened for the purpose of considering and, if deemed appropriate, approving (a) the entering into of the Extension Agreements for the renewal of the Continuing Connected Transaction Agreements for the Relevant Continuing Connected Transactions and the transactions contemplated respectively thereunder, and the annual caps for the Relevant Continuing Connected Transactions (save and except for the Extension Agreement of the Management and Administrative Assistance Agreement); and (b) the renewal of the annual caps for the existing Continuing Connected Transaction Agreements (other than the Relevant Continuing Connected Transactions) which will expire on 31 December 2008). A circular containing particulars of the renewal of the Continuing Connected Transaction Agreement for the Relevant Continuing Connected Transactions, and the annual caps for the Continuing Connected Transactions, as well as a letter of recommendation from the Independent Board Committee to the Independent Shareholders, a letter of advice by the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, will be despatched to the Shareholders as soon as practicable in accordance with the GEM Listing Rules.

### **8. GENERAL INFORMATION**

The principal business activities of the Group involve the manufacturing and distribution in the PRC of a broad range of bathroom and kitchen fixtures and plumbing fittings under the plumbing product brand names of "American Standard" and "Armitage Shanks" brands.

The principal business activities of the Ideal Standard Group involve the provision of bathroom furnishings, fixtures and shower enclosures under the product brand names of the Ideal Standard Group, including "Ideal Standard" and "Jado".

### **9. RECOMMENDATION**

The Directors are of the opinion that the resolution in relation to the (a) the entering into of the Extension Agreements for the renewal of the Continuing Connected Transaction Agreements for the Relevant Continuing Connected Transactions and the transactions contemplated respectively thereunder, and the annual caps for the Relevant Continuing Connected Transactions (save and except for the Extension Agreement of the Management and Administrative Assistance Agreement); and (b) the renewal of the annual caps for the existing Continuing Connected Transaction Agreements (other than the Relevant Continuing Connected Transactions) which will expire on 31 December 2008) as set out in the notice of EGM are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 27 to 28 of this circular which contains its recommendation to the Independent Shareholders concerning the resolution to be voted in the EGM; and (ii) the letter from the Independent Financial Adviser set out on pages 29 to 49 of this circular, which contains their advice to the Independent Board Committee and the Independent Shareholders concerning the resolution to be voted in the EGM and the principal factors and reasons considered by them in formulating their advice.

### 10. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,  
For and on behalf of  
**A-S China Plumbing Products Limited**  
**Ye Zhi Mao, Jason**  
*Chairman*



**A-S China Plumbing Products Limited**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 8262)

13 December 2008

*To the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of even date issued by the Company (the “**Circular**”) to its shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to give a recommendation to the Independent Shareholders in respect of (a) the entering into of the Extension Agreements for the renewal of the Continuing Connected Transaction Agreements for the Relevant Continuing Connected Transactions and the transactions contemplated respectively thereunder, and the annual caps for the Relevant Continuing Connected Transactions (save and except for the Extension Agreement of the Management and Administrative Assistance Agreement); and (b) the renewal of the annual caps for the existing Continuing Connected Transaction Agreements (other than the Relevant Continuing Connected Transactions) which will expire on 31 December 2008 as set out in the notice of EGM. Centurion Corporate Finance Limited has been appointed by the Company as the independent financial adviser to advise you and us in this regard.

Your attention is drawn to the letter from the Board set out on pages 6 to 26 of the Circular and the general information set out in the appendix to the Circular.

Having considered the advice from Centurion Corporate Finance Limited and in particular the principal factors and reasons set out in the letter of advice from Centurion Corporate Finance Limited, we are of the view that (a) the entering into of the Extension Agreements for the renewal of the Continuing Connected Transaction Agreements for the Relevant Continuing Connected Transactions and the transactions contemplated respectively thereunder, and the annual caps for the Relevant Continuing Connected Transactions (save and except for the Extension Agreement of the Management and Administrative Assistance Agreement); and (b) the renewal of the annual caps for the existing Continuing Connected Transaction Agreements (other than the Relevant Continuing Connected Transactions) which will expire on 31 December 2008 as set out in the notice of EGM are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve (a) the entering into of the Extension Agreements for the renewal of the Continuing Connected Transaction Agreements for the Relevant Continuing Connected Transactions and the transactions contemplated respectively thereunder, and the annual caps for the Relevant Continuing Connected Transactions (save and except for the Extension Agreement of the Management and Administrative Assistance Agreement); and (b) the renewal of the annual caps for the existing Continuing Connected Transaction Agreements (other than the Relevant Continuing Connected Transactions) which will expire on 31 December 2008.

Yours faithfully,  
Independent Board Committee

**Chang Sze-Ming, Sydney**  
*Independent Non-Executive Director*

**Ho Tse-Wah, Dean**  
*Independent Non-Executive Director*

**Wong Kin Chi**  
*Independent Non-Executive Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Centurion Corporate Finance Limited dated 13 December 2008 for incorporation in this Circular:*



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### CENTURION CORPORATE FINANCE LIMITED 盛百利財務顧問有限公司

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14 -24 Wellington Street  
Central, Hong Kong

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威靈頓公爵大廈7樓

Telephone : (852) 2525 2128  
(852) 2525 6026  
Facsimile : (852) 2537 7622

13 December 2008

*To the Independent Board Committee and  
the Independent Shareholders of A-S China Plumbing Products Limited*

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We have been engaged to advise the Independent Board Committee and the Independent Shareholders with respect to the terms of the Continuing Connected Transaction Agreements, the Extension Agreements and their respective continuing connected transactions contemplated thereunder, details of which are outlined in the “Letter from the Board” set out from pages 6 to 26 of the circular dated 13 December 2008 to the Shareholders (“Circular”) of which this letter forms a part.

We have been appointed to give an opinion as to whether the terms of the aforesaid agreements, the Continuing Connected Transactions and the Relevant Continuing Connected Transactions contemplated thereunder and their respective relevant caps are of normal commercial terms, are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Company announced on 25 November 2008 the existing Continuing Connected Transactions, the entering into of the Extension Agreements, the Relevant Continuing Connected Transactions and their respective annual caps contemplated thereunder. These transactions, save and except the transactions contemplated under the Management and Administrative Assistance Agreement, constitute non-exempt “Continuing Connected Transactions” of the Company under the GEM Listing Rules and are subject to the approval of the Independent Shareholders at a meeting of the Shareholders at the EGM. In so far as the ordinary resolutions approving such agreements and the revised or new annual caps as contemplated thereunder are concerned, since ISIHS and its associates are connected persons of the Company for the purpose of the GEM Listing Rules and thus (i) ISIHS and its associates are required to abstain from voting at the EGM; and (ii) such ordinary resolutions will be taken by way of poll. In this regard, please refer to the sections headed “EGM” as set out in the “Letter From The Board” for further details.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Independent Board Committee has been formed to advise the Independent Shareholders in relation to the terms of the Continuing Connected Transactions, the Relevant Continuing Connected Transactions, their respective revised annual caps and the transactions contemplated thereunder.

The Existing Continuing Connected Transactions are also subject to the annual review requirements of the GEM Listing Rules.

### **BASIS OF OUR OPINION**

In formulating our opinion and recommendation, we have relied on the accuracy of the information, opinions and representation contained in the Circular, the prospectus and circular of the Company dated 19 June 2003 and 13 October 2007 respectively and other documents (including but not limited to the Continuing Connected Transaction Agreements and the Extension Agreements), which have been provided to us by the Directors and for which they take full responsibility. We have also assumed that all statements, information, opinions and representations made or referred to in the Circular and in the circular of the company dated 13 October 2007 were true at the time they were made and continued to be true at the date of this Circular. We have also assumed that all statements of belief, opinions and intention made by the Directors in the Circular are reasonably made after due and careful enquiry.

In respect of the financial information of each of the Group and the PRC Ventures, we have relied principally on their respective audited and/or unaudited financial statements or projections, all prepared by the Company and for which the Directors take full responsibility. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and/or referred to in the Circular.

We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We consider that we have reviewed sufficient financial information to enable us to reach an informed view and to justify reliance on the accuracy of the financial information of the Group as contained in the Circular. We have not, however, conducted any form of independent or in-depth investigation into the businesses and affairs of the prospects of the Group, the PRC Ventures, or any of their respective subsidiaries or associates, or the cap amounts sought, or the circumstances surrounding the Intellectual Property Agreement, nor have we independently verified any of the information supplied to us.

# LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

### 1. BACKGROUND

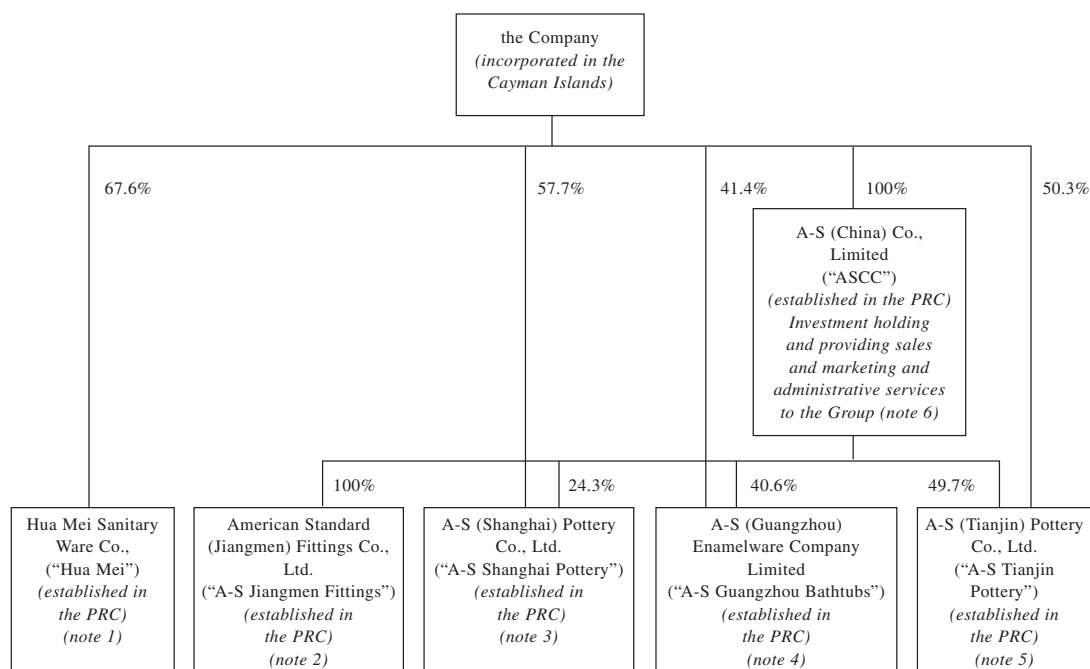
#### 1.1 The Group's business

The Group manufactures and distributes in the PRC (excluding Hong Kong) 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. As the Group's major product lines are ceramic sanitaryware, bathtubs and plumbing fittings and the raw materials for such product lines are steel, copper, zinc and clay.

The Group and its PRC Ventures have established a manufacturing base for the production of bathroom and kitchen fixtures and plumbing fittings in Shanghai, Tianjin and Guangdong province, using the manufacturing equipment and 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 the sub-dealers via their sales outlets throughout the PRC. The Group also exports its products to North America and Europe with Ideal Standard (UK) serving as its export distributor. Hong Kong is not part of the Group's business, but is part of the Asia-Pacific division of the Ideal Standard Group. The following is a structure chart of the Group as extracted from the Company's prospectus dated 19 June 2003 (and amended where necessary):

#### Structure chart of the Group



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Notes:*

1. Hua Mei, a sino-foreign equity joint venture established in the PRC on 22 May 1985 for a term of 50 years, is principally engaged in the manufacturing of ceramic sanitary ware and tank fittings.
2. A-S Jiangmen Fittings, a wholly foreign-owned enterprise established in the PRC on 19 August 1991 for a term of 50 years, is principally engaged in the manufacturing of faucets and taps and related plastic accessories. It also manufactures toilet seats and covers.
3. A-S Shanghai Pottery, a sino-foreign equity joint venture established in the PRC on 17 June 1994 for a term of 50 years, is principally engaged in the manufacturing of kitchen sinks, ceramic sanitaryware and related accessories.
4. A-S Guangzhou Bathtubs, a sino-foreign equity joint venture established in the PRC on 3 December 1994 for a term of 50 years, is principally engaged in the manufacturing of bathtubs, including enamelled steel bathtubs and acrylic bathtubs, accessories and related products. This joint venture is currently proposed to be restructured, pending the entering into of the relevant finalized agreements, details of which were set out in the Company's announcement dated 24 September 2008.
5. A-S Tianjin Pottery, a wholly-foreign-owned enterprise established in the PRC on 31 January 1994 for a term of 50 years, is principally engaged in the manufacturing of ceramic sanitaryware products and accessories.
6. ASCC, a wholly-foreign-owned enterprise established in the PRC on 19 October 1995 for a term of 50 years, is principally engaged in investment in companies in the sanitaryware industry. It also provides services to such investee companies relating to the training of staff, marketing and market development, consultation, the obtaining of loans and provision of guarantees. It is a subsidiary of the Company.

From time to time, the Group conducted business with its then controlling shareholder ASI and its associates. Following the change in control of the Company in 2007, ISHS became the new controlling Shareholder and hence a connected person of the Company.

As set out in the prospectus of the Company dated 19 June 2003, the Company had in place with ASI the Intellectual Property Agreement, which enables the Company to require ASI to grant to the companies in which the Company holds a majority interest territorial licences to manufacture and distribute products in the PRC under the various plumbing products brand names of American Standard. Individual PRC Ventures as set out above have entered into certain trademark licence agreements, technical assistance agreements and some have entered into management assistance agreements with ASI. Individual PRC Ventures have also entered into the Export Distributorship Agreements whereby ASI had been appointed as the exclusive distributor of each of such PRC ventures for the distribution and sales of the Group's sanitaryware, bathtubs and plumbing fittings products outside the PRC. All the abovementioned agreements have since been novated and assigned to Ideal Standard (UK).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Whilst it is true that the PRC market is a large market with considerable potential, it is also a market in which competition for plumbing products is fierce and there is no one dominant player. This competitive market is described as fragmented, with close to some 1,000 competitors in the manufacturing and sales of plumbing products, a large number of which are in the ceramic sanitaryware, with others in bathtubs and plumbing fittings. This large number of players have in general, surplus production capacity. The Group's major competitors are TOTO and Kohler, of Japan and the U.S. respectively. The competitive environment in which the Group operates means it has to leverage on its relationship with, and the proprietary know-how of, Ideal Standard Group and hence, the need for the proposed Continuing Connected Transactions and Relevant Continuing Connected Transactions set out below.

### *1.2 Change in control of the Company and issues arising thereof*

As a result of the change in control of the Company in 2007, ISIHS became the new controlling shareholder of the Company and hence a connected person of the Company, and the then Continuing Connected Transaction Agreements with ASI and its associates were assigned and novated to Ideal Standard (UK), a subsidiary of ISIHS, with effect from 12 October 2007. The Group entered into eighteen Novation Agreements on 12 October 2007 and pursuant to which, the rights and obligations of ASI under the Connected Transaction Agreements were assigned and novated to Ideal Standard (UK), with effect from 31 October 2007.

The aforesaid changes are set out in details in the Company's offeree company document and circular dated 7 November 2007 and 13 October 2007 respectively. Further, due to the issues relating to the intangible assets under the Intellectual Property Agreement arising from the aforesaid events, a full provision was required by the auditors to be made for the impairment of the value of the intangible assets of the Company under the Intellectual Property Agreement, details of which are set out in note 16.2 to the audited financial statements of the Group for the year ended 31 December 2007 as contained in the Company's 2007 annual report. Whilst such provision does not affect our independent advice as set out herein, such provision did have an impact on the audited financial statements of the Group.

### *1.3 The Group's profitability*

For the two years ended 31 December 2007, total turnovers of the Group were approximately US\$86.8 million and US\$106.7 million respectively whereas gross profits were approximately US\$29.1 million and US\$34.7 million respectively. As set out below, a large portion of these turnovers and gross profits were the results of, and will continue to be supported by, the Continuing Connected Transactions and the Relevant Continuing Connected Transactions.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 2. PRINCIPAL TERMS, TRANSACTION VALUES AND CAP AMOUNTS OF THE CONTINUING CONNECTED TRANSACTIONS

The Continuing Connected Transactions, in their previous forms, began prior to the Shares were first listed on the GEM board of the Stock Exchange in 2003. Following the listing of the Shares, these transactions, which are governed by the Continuing Connected Transaction Agreements, constitute non-exempt continuing connected transactions for the Company under the GEM Listing Rules so long as Ideal Standard (UK) (previously it was ASI) remains a connected person of the Company. The Continuing Connected Transaction Agreements, where applicable, have been extended by the relevant extension agreements from time to time and the following are the Extension Agreements currently proposed to be approved at the EGM. For details of the Continuing Connected Transaction Agreements governing the Continuing Connected Transactions, please refer to the section headed “2.1 The agreements governing the Continuing Connected Transactions” in the “Letter From The Board”.

#### *2.1 The 10 New Extension Agreements*

The “Letter From The Board” sets out details of the Extension Agreements, the Continuing Connected Transaction Agreements, their respective terms, natures and dates (including commencement, expiry and extension dates). The Extension Agreements, which are all dated 25 November 2008, are to extend, renew and in the case of Export Distributorship Agreements (sub-section 2.1.1 below), revise, the relevant Continuing Connected Transaction Agreements. A brief summary of the Extension Agreements is as follows:

- 2.1.1 three Extension Agreements to extend each of the expiring Export Distributorship Agreements between Ideal Standard (UK) and (i) A-S Jiangmen Fittings (to 31 December 2009); (ii) A-S Shanghai Pottery (to 31 December 2009); and (iii) A-S Tianjin Pottery (to 31 December 2009), respectively;
- 2.1.2 one Extension Agreement to extend the expiring Management and Administrative Assistance Agreement between Ideal Standard (UK) and the Company (to 31 December 2009);
- 2.1.3 three Extension Agreements to extend each of the expiring Technical Assistance Agreements between Ideal Standard (UK) and (i) A-S Jiangmen Fittings (to 31 December 2009); (ii) A-S Tianjin Pottery (to 31 December 2009); (iii) A-S Shanghai Pottery (to 31 December 2009);
- 2.1.4 one Extension Agreement to extend the expiring Management Assistance Agreement between Ideal Standard (UK) and A-S Tianjin Pottery (to 22 February 2010);
- 2.1.5 one Extension Agreement to extend the expiring Reimbursement Agreement between Ideal Standard (UK) and the Company regarding the reimbursement of expenses by the Group to the Ideal Standard (UK) (to 31 December 2009); and
- 2.1.6 one Extension Agreement to extend the expiring Reimbursement Agreement between Ideal Standard (UK) and the Company regarding the reimbursement of expenses by the Ideal Standard (UK) to the Group (to 31 December 2009).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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These Extension Agreements (together with the Continuing Connected Transaction Agreements), continue to enhance the Group's market positioning in a competitive industry, in the light of the following:

- the historical aspects of the Group's reliance on the then ASI for the provision of technical assistance of its manufacturing process as well as certain managerial assistance and hence the Relevant Continuing Connected Transactions;
- such assistance includes Ideal Standard (UK) to continue providing specialists to conduct technical training to local staff of the relevant PRC Ventures;
- the needs of the Group to continue to rely on technical supports from the Ideal Standard Group, in particular (i) the technical know-how in relation to the Group's manufacturing; (ii) the continuous updating of such know-how due to evolving leading-edge designs of the Group's products overseas (e.g. the launch of European designed "Image" suite and the use of anti-bacterial technology developed at the then ASI's design center in the U.S.);
- the Group's brand history is one of the longest in the industry and can be traced back 1875 under the then Standard Sanitary Manufacturing Company in the U.S. and the Group needs to continue leverage the Ideal Standard Group's global and regional scale, particularly in product design, innovation and marketing, to remain competitive in the PRC market;
- insofar as the Group's products are concerned, emphasis on value notwithstanding, there is a noticeable shift from function to design and designs popular in the PRC tend to follow design trends in Europe and in some cases, combined with technologies from the U.S., with suitable modifications for local PRC technical requirements (e.g. the "Imagine" suite mentioned above); and
- the Group will continue to benefit from being a sourcing center which provides design and reasonably low manufacturing cost within the Ideal Standard Group.

As a result of the aforesaid brand support and development under the Extension Agreements (together with the Continuing Connected Transaction Agreements), the Group is better able to achieve a strong market presence in the PRC with good product mix and increased margins. We are therefore of the view that the new terms of the Extension Agreements, which serve to extend their respective expiring Continuing Connected Transaction Agreements approved by independent Shareholders earlier and in the case of those expiring Export Distributorship Agreements, to specify a 120 days payment term for export sales, are fair and reasonable and in the interest of the Company and the Shareholders as a whole. For the reasons and bases set out herein, including our review of the bases and assumptions for the relevant projections prepared by the executive Directors; sample contracts entered into by other Asian joint-ventures within the Ideal Standard Group; the working papers of historical Continuing Connected Transactions and aging receivables schedules, all provided by the Company, we are also of the view that the transactions contemplated under the Extension Agreements, details of which are set out in this letter of independent advice, are in the ordinary and usual course of business and on normal commercial terms.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 2.2 *Sales under the Export Distributorship Agreements*

Pursuant to the Export Distributorship Agreements, (i) the Group manufactures and sells sanitaryware, bathtubs and plumbing fittings products to Ideal Standard (UK); and (ii) each of the PRC Ventures has appointed Ideal Standard (UK) as its exclusive distributor outside the PRC for the plumbing products manufactured by it and bearing the technical know-how, patents and trademarks licensed to it by Ideal Standard (UK) pursuant to the relevant Trademark Licence Agreement and Technical Assistance Agreement.

The Group supplies its aforesaid products to Ideal Standard (UK) based on the following terms and conditions:

- (i) such sales shall be on normal commercial terms and on a contract basis, with each contract specifying the quantity to be sold, the selling price and the date of delivery;
- (ii) such products shall be delivered from 45 to 60 days after orders are placed and subject to availability and source; and
- (iii) payments for such products are usually within 120 days from invoice date.

It should be noted that payments for such products sold under the Export Distributorship Agreements were usually within 60 days from invoice date and it was on this basis that previous approvals by independent Shareholders were obtained. Our review of the relevant receivables schedules provided by the Company confirmed that the Group's outstanding receivables ranged between 60 to 120 days, and in aggregate, was the single largest receivable amount and represented approximately 39% of all the then outstanding receivables. The relevant Extension Agreement to extend each of the three expiring Export Distributorship Agreements as mentioned in sub-section 2.1.1 above contains a provision to amend and stipulate that payment terms for products sold under the Export Distributorship Agreements shall be within 120 days going forward.

We have sought an explanation from the Board of such proposed change and we understand from the Board that due to global economic downturn, demand for the Group's products under the Export Distributorship Agreements, in particular demand from Europe, have begun to show signs of weakness. This is further complicated by the rising manufacturing costs in the PRC and the appreciation in RMB, which all resulted in making the Group's products less competitive, compared to certain East European manufacturers. In order to make the Group's products more competitive, the Board believes longer payment term is certainly a competitive advantage the Group could leverage on, given its relatively strong cash position and in so doing, better protect its position as a main sourcing center under the Export Distributorship Agreements. In light of the current global economic downturn and financial markets' turmoil, the scale of which are un-precedent in recent history, we find the Board's decision to extend such payment term a commercial one and accordingly, we are in concurrence with the Board's view on the proposed amendment of the payment terms from 60 days to 120 days.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Purchase orders under the Export Distributorship Agreements are subject to acceptance by the relevant PRC Ventures. Pricing of the products sold are cost plus mark-up and according to the relevant Export Distributorship Agreements, shall be “*those prices in effect at the time of shipment*”.

The table below sets out the original commencement and expiry dates of the original Export Distributorship Agreements, as extracted from the prospectus of the Company dated 19 June 2003:

<b>Original commencement and expiry dates of the Export Distributorship Agreements</b>	<b>PRC Ventures as parties to the agreements with Ideal Standard (UK)</b>
14 January 1994 & 13 January 2004	A-S Jiangmen Fittings
29 April 1994 & 28 April 2004	A-S Shanghai Pottery
31 January 1994 & 30 January 2004	A-S Tianjin Pottery
5 June 1985 & 4 June 2015	Hua Mei

For details on the commencement and expiry dates of the previous extension agreements of the Export Distributorship Agreements, please refer to the section headed “*Sales of sanitaryware, bathtubs and plumbing fittings products to Ideal Standard (UK)*” in the “Letter From The Board”.

An analysis of the Group’s revenue by geographical segment is as follows:

	<b>Segment revenue</b>		
	<b>For the year ended 31 December,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
PRC	45,301	46,354	54,892
European countries	18,413	17,875	24,965
North America	8,882	10,367	13,282
Others	10,727	12,217	13,535
Total	<u>83,323</u>	<u>86,813</u>	<u>106,674</u>

*(Source: 2007 and 2008 annual reports of the Company)*



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Export sales of the Group are mainly made to connected parties and such related party sales amounted to approximately US\$49.97 million for the year ended 31 December 2007. In view of the Group's sales to Europe, North America and others for the year ended 31 December 2007 totaling US\$51.78 million and the US\$49.97 million sales to connected parties, thus sales to independent third parties amounted to approximately US\$1.81 million for the corresponding period. As there are no marketing or other administrative and operating expenses associated with the Group's export sales and no trademark licence fees for export sales to connected parties, the operating profit margins for the Group's export business are generally higher compared to the Group's domestic sales.

As mentioned above, the Group does supply independent third parties outside the PRC with certain of its products, albeit in much smaller scale. Based on sample orders reviewed by us, whilst the terms and conditions of such sales are generally in line with those made to related parties, due to the small amount of such sales to independent third parties outside the PRC, there is no comparable independent third party rate as products sold to Ideal Standard (UK), which accounted for almost half of the Group's total turnover for the year ended 31 December 2007, are different (in terms of designs, models and quantities) from those sold to independent third party customers. The sales made to Ideal Standard (UK), which are classified as part of the sales to North America, European countries and others referred to in the table above, also improve the utilisation of the Group's production capacity, which remains underutilized.

In view of the aforesaid, in particular, the proposed new payment terms of 120 days for sales of the Group's products under the Export Distributorship Agreements is a result of the current global economic downturn, the need of the Group to remain competitive and such purchases will benefit the Group in utilizing its production capacity, we concur with the Directors that the terms of the sales are in the ordinary and usual course of business, concluded on normal commercial terms and are fair and reasonable and in the interests of the Company and its shareholders as a whole.

### 2.3 Annual caps under the Export Distributorship Agreements

The total export sales of the Group under the Export Distributorship Agreements for the years ended/ending 31 December 2006, 2007 and 2008 were/are estimated at US\$39.16 million, US\$49.97 million and US\$51.64 million respectively. The table below sets out the historical annual caps sought and approved:

<b>For the year ended/ending</b>	<b>31 December 2006</b>	<b>31 December 2007</b>	<b>31 December 2008</b>
Annual caps approved in 2007	US\$40 million (HK\$312 million)	US\$82 million (HK\$639.6 million)	US\$124 million (HK\$967.2 million)

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Company currently estimates that the total export sales of the Group under the Export Distributorship Agreements will need the same cap amount as sought in 2008, as follows:

**For the year ending**

**31 December 2009**

Annual cap to be sought for 2009

US\$124 million  
(HK\$967.2 million)

We have enquired with the Company the actual amount and estimated amount of the relevant export sales for 2007 and 2008 were substantially lower than their respective annual caps approved and as such, the need of maintaining the same annual cap amount for 2009.

The Company is of the view that:

- (i) whilst the executive Directors' "base case" projection suggests there is an expected low double digit percentage increase in export sales under the Export Distributorship Agreements from that of 2008, there is an expectation under the executive Directors' "best case" scenario to try to increase export sales under the Export Distributorship Agreements further, following the need of the Ideal Standard Group to continue to rationalize its production capacities located in developed countries to more cost effective locations such as the PRC. In this regard, notwithstanding the ongoing economic downturn, the Group has recently incurred considerable capital expenditure in increasing the manufacturing capacity of Hua Mei, in anticipation for more export business; and
- (ii) as both annual caps for 2007 and 2008 were the subject of two past revisions in May 2006 and May 2007 respectively due to insufficient cap amounts, a buffer between 20%-25% has been built in for the proposed annual cap for 2009, based on the "best case" scenario (which assumes a full capacity utilisation of the relevant PRC Ventures for the export sales of bathroom and kitchen fixtures and plumbing fittings and products at the relevant export prices).

We have reviewed the projections prepared by the Company and the assumptions therein. Whilst it is clear that any increase in export sales under the Company's "best case" projection would potentially increase the cap amount materially, we are of the view that export sales under such scenario may not necessarily materialize. That said, given the importance of the export sales under the Export Distributorship Agreements to the Group and the potential impediment to the Group's business should such cap be inadequate, we consider the executive Directors' view for a larger cap amount fair and reasonable, notwithstanding that such cap amount appears to exceed the Group's present needs.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *2.4 Fees payable under the Intellectual Property Agreement, Trademark Licence Agreements, Technical Assistance Agreements and Management Assistance Agreements*

The nature of all the Trademark Licence Agreements, Technical Assistance Agreements and Management Assistance Agreements relates to the Intellectual Property Agreement, and is for the production operation of the PRC Ventures concerned. Pursuant to Rule 20.25 of the GEM Listing Rules, the transactions under the Intellectual Property Agreement, the Trademark Licence Agreements, the Technical Assistance Agreements and the Management Assistance Agreements are aggregated and treated as if they were one transaction.

Pursuant to the Intellectual Property Agreement, the Trademark Licence Agreements, Technical Assistance Agreements and Management Assistance Agreements, the Company enjoys the exclusive right to require Ideal Standard (UK) 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 the Ideal Standard (UK).

In addition, pursuant to the Technical Assistance Agreements and the Management Assistance Agreements, Ideal Standard (UK) will provide to the Company and the PRC Ventures the technical know-how and management assistance for their operations.

In return, annual fees are payable by the Group to Ideal Standard (UK) calculated on the basis of the net sales of the PRC Ventures for the licences of the intellectual property rights, technical know-how and for management assistance. The calculation of the relevant fees payable by the Group to Ideal Standard (UK) are set out in the table below and are based on the net sales of the PRC Ventures of products bearing Ideal Standard (UK)'s brand names and/or other products as agreed from time to time.

In respect of the intellectual property royalty payment, pursuant to the Intellectual Property Agreement, the royalty amounts (“**Royalty Amounts**”) payable by the Company shall be equal to 50% of the aggregate of the trademark licence fees under the Trademark Licence Agreements, technical licence fees under the Technical Assistance Agreements and the management assistance fees under the Management Assistance Agreements payable by the PRC Ventures net of the applicable withholding taxes, provided that the aggregate of the Royalty Amounts shall not exceed US\$10,000,000. As the Company had already paid the Royalty Amounts up to US\$10,000,000 in the previous years, payment of such Royalty Amounts will no longer be required under the Intellectual Property Agreement. Since the Intellectual Property Agreement relates to the on-going Trademark Licence Agreements, Technical Assistance Agreements and Management Assistance Agreements, the transactions under all these agreements are aggregated and treated as if they were one transaction. For the purpose of estimating the annual caps for the year ending 31 December 2009 in respect of the transactions under the Trademark Licence Agreements, Technical Assistance Agreements and Management Assistance Agreements, the Intellectual Property Agreement is grouped together even though payment of such Royalty Amounts will no longer be required under the Intellectual Property Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Aggregate fees in respect of intellectual property royalty, trademark licence, technical assistance and management assistance are calculated on a quarterly basis and are generally paid to Ideal Standard (UK) 30 days thereafter. The actual settlement of the fees to Ideal Standard (UK) is subject to the approval of the local State Administration of Foreign Exchange and the cash position of the relevant PRC Ventures who are liable for those charges. Therefore, the payments will normally be made longer than the stipulated amount of time. The rates are determined by negotiation between the Company and the investors of the relevant PRC Ventures with consideration of local rules and the then prevailing market conditions in the PRC at the time of establishment of the PRC Ventures.

Ideal Standard (UK) has the right to terminate the above agreements entered into with the relevant PRC Venture upon the occurrence of the termination events specified therein. Some of the termination events are set out in the section headed “*Intellectual property royalty payments, trademark licence fees, technical assistance and management assistance service fees paid to Ideal standard (UK)*” in the “Letter From The Board”.

The table below summarises the basis of calculation of the trademark licence fees, technical assistance fees and management assistance fees payable by the PRC Ventures to Ideal Standard (UK):

PRC Ventures	Fee payment relating to		
	trademark licence	technical assistance	management assistance
(i) Hua Mei	1.8% of net sales	1.5% of net sales	0.5% of net sales
(ii) A-S Jiangmen Fittings	3.0% of net sales	2.0% of net sales of products bearing trademarks owned by ASI for year 1 to 2 and 2.0% of net sales for subsequent years	nil
(iii) A-S Shanghai Pottery	3.0% of net sales	2.5% of net sales for years 1 to 5 and 2.0% of net sales for years 6 to 10	nil
(iv) A-S Tianjin Pottery	3.0% of net sales	2% of net sales	2.0% of net sales

*Note:* Net sales referred to in the table above means the PRC Ventures’ sales of the products as agreed between the parties from time to time, less sales taxes and actual returns.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Intellectual Property Agreement was entered into between the Company and ASI on 1 January 1996 and contains no specified termination date. Details of the Intellectual Property Agreement and whether or not it could be terminated or revoked are set out in the Company's (i) circular dated 13 October 2007; (ii) composite offer document dated 7 November 2007; and (iii) 2007 annual report dated 15 May 2008.

Pursuant to the relevant Novation Agreements, ASI has assigned and novated its rights and obligations under the Intellectual Property Agreement, the Trademark Licence Agreements, the Technical Assistance Agreements and the Management Assistance Agreements to Ideal Standard (UK). The Company intends to continue the relevant Continuing Connected Transactions with Ideal Standard (UK) after 31 December 2008.

In this connection, the Company will renew the Continuing Connected Transaction Agreements for the Relevant Continuing Connected Transactions in respect of the three Technical Assistance Agreements entered into between Ideal Standard (UK) and each of A-S Jiangmen Fittings, A-S Tianjin Pottery and A-S Shanghai Pottery, to further extend the term of each of the renewed agreements until 31 December 2009, upon the same terms and conditions as the respective current extension agreements and has entered into the relevant Extension Agreements. The implementation of these Extension Agreements will be conditional upon the obtaining of the required Independent Shareholders' approvals pursuant to the GEM Listing Rules.

The Group has renewed the Continuing Connected Transaction Agreements for the Relevant Continuing Connected Transactions in respect of the Management Assistance Agreement entered into between Ideal Standard (UK) and A-S Tianjin Pottery to further extend the term for another period of one year until 22 February 2010, upon the same terms and conditions as the current agreement and has entered into the relevant Extension Agreement, but the implementation of this Extension Agreement will be conditional upon the obtaining of the required Independent Shareholders' approvals pursuant to the GEM Listing Rules.

For the Continuing Connected Transactions under the Intellectual Property Agreement, the four Trademark Licence Agreements entered into between Ideal Standard (UK) and each of the PRC Ventures, the Technical Assistance Agreements entered into between Ideal Standard (UK) and Hua Mei, and the Management Assistance Agreement entered into between Ideal Standard (UK) and Hua Mei, the continuation of such Continuing Connected Transactions after 31 December 2008 and the annual cap for such Continuing Connected Transactions for the year ending on 31 December 2009 shall be subject to approval by the Independent Shareholders pursuant to the GEM Listing Rules.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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For each of the two years ended 31 December 2007, the Group paid an aggregate of trademark licence fees, technical and management assistance fees of approximately US\$2,076,000 (or approximately HK\$16,192,800) and approximately US\$2,641,000 (or approximately HK\$20,599,800), respectively, representing approximately 2.4% and 2.5% of the Group's turnover for the corresponding periods. Breakdown of these fees are as follows:

<b>For the year ended</b>	<b>31 December 2006</b> <i>(US\$'000)</i>	<b>31 December 2007</b> <i>(US\$'000)</i>
Trademark licence fees	970	1,280
Technical assistance fees	826	1,057
Management assistance fees	280	304
	<hr/>	<hr/>
Total	<u>2,076</u>	<u>2,641</u>

The Directors estimate the maximum aggregate amounts of the trademark licence, technical and management assistance fees payable to Ideal Standard (UK) for the two years ending 31 December 2008 and 2009 to be US\$3,313,000 (or approximately HK\$25,841,400) and US\$4,307,000 (or approximately HK\$33,594,600) respectively, the breakdown of which is set out below:

<b>For the year ending</b>	<b>31 December 2008</b> <i>(US\$'000)</i>	<b>31 December 2009</b> <i>(US\$'000)</i>
Trademark licence fees	1,598	2,077
Technical assistance fees	1,361	1,769
Management assistance fees	354	461
	<hr/>	<hr/>
Total	<u>3,313</u>	<u>4,307</u>

The following table sets out the annual caps approved in respect of the aggregate amounts of the trademark licence, technical and management assistance fees payable to Ideal Standard (UK) for the three years ended 31 December 2006, 2007 and 2008 respectively:

<b>For the year ended/ending</b>	<b>31 December 2006</b>	<b>31 December 2007</b>	<b>31 December 2008</b>
Annual caps for trademark licence fees	US\$1.4 million	US\$1.7 million	US\$2.0 million
Annual caps for technical assistance fees	US\$1.2 million	US\$1.4 million	US\$1.6 million
Annual caps for management assistance fees	US\$0.4 million	US\$0.5 million	US\$0.6 million
	<hr/>	<hr/>	<hr/>
Total annual caps sought and approved	<u>US\$3.0 million</u> <u>(HK\$23.4 million)</u>	<u>US\$3.6 million</u> <u>(HK\$28.1 million)</u>	<u>US\$4.2 million</u> <u>(HK\$32.8 million)</u>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Company currently estimates that the aggregate amounts of the trademark licence, technical and management assistance fees payable to Ideal Standard (UK) for the year ending 31 December 2009 will required the following cap amount:

<b>For the year ending</b>	<b>31 December 2009</b>
Annual caps for trademark licence fees	US\$2.860 million
Annual caps for technical assistance fees	US\$2.288 million
Annual caps for management assistance fees	US\$0.858 million
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Total annual cap to be sought	US\$6.006 million (HK\$46.847 million)
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The above estimates are based on the terms of the relevant agreements and the projected sales of the PRC Ventures in the next year, having considered the historical sales trends of the Group. We have enquired with the Company the need for such annual cap amount for 2009, given the corresponding maximum aggregate amount as estimated by the Directors as set out above is US\$4.307 million (or approximately HK\$33,594,600), which represents a 30% increase on a year-on-year basis already. We understand from the Company that notwithstanding such estimated amount, the executive Directors are of the view that under a “best case” scenario, domestic sales could rise as much as another 35%, the effect of which has not been included in the said US\$4.307 million. This “best case” scenario assumes favorable PRC government policy and regulations in favor of property market, the advantages arise from major international events to be hosted in the PRC and the PRC government’s investment and stimulus plan in response to the current global economic downturn. The executive Directors therefore are of the view that under the “best case” scenario, a larger cap amount would be required. Apart from reviewing the assumptions and bases adopted by the executive Directors for the cap amount sought, we have also reviewed the historical calculation of each of the trademark licence, technical and management assistance fees for the two years ended 31 December 2007.

Whilst we are of the view that such cap appears to be considerably higher than the Group’s present requirements, in view of the domestic sales nature of such cap amount, the still relative robust PRC economy in the midst of a global recession, we concur with the executive Director’s view that such cap amount is considered fair and reasonable.

It should be noted that the abovementioned agreements, which were entered into at the time the relevant PRC Ventures were established, were determined by negotiation between the Company and the investors of the relevant PRC Ventures with consideration of local rules and the then prevailing market conditions in the PRC at the time of establishment of the PRC Ventures. We have also reviewed current sample technical assistance/license agreement and intellectual property agreement provided by the Company which were entered into by the Ideal Standard Group’s joint venture parties in other Asian countries and other industries’ agreements in the PRC in technology transfer. As a result, we are of the opinion that the rates set out in the table above for the calculation of the trademark licence fees, technical assistance fees and management assistance fees payable by the PRC Ventures to Ideal Standard (UK) are in line with market practice.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Group's brand history is one of the longest in the industry and the products of the Group bearing the brand names of Ideal Standard (UK) thus have a well established customer base globally and are popular among customers in the PRC. Such brand recognition better enable the PRC Ventures to market their products.

Given the long history of the trademark of the American Standard plumbing products and the importance of the technical and management assistance from Ideal Standard (UK), which are required for the Group's operations, we concur with the Directors' view that the amount of fees charged under the Trademark Licence Agreements, Technical Assistance Agreements and Management Assistance Agreements are in the ordinary and usual course of business, are fair and reasonable and are in the interest of the Company and its shareholders as a whole.

### *2.5 Reimbursement of expenses under the Reimbursement Agreements*

#### *Reimbursement of expenses from the Group to Ideal Standard (UK)*

As set out in the Letter From The Board, pursuant to the Reimbursement Agreement dated 16 June 2003 as extended by an extension agreement dated 1 January 2006 and which has been novated by the relevant Novation Agreement, the Group has agreed to reimburse Ideal Standard (UK) for certain expenses based on actual costs paid by Ideal Standard (UK) on behalf of the Group. The extension agreement will expire on 31 December 2008. These expenses comprise mainly staff costs relating to expatriate employees seconded to the Group from Ideal Standard (UK), insurance payments under insurance policies adopted by Ideal Standard (UK), legal fees and other amounts paid by Ideal Standard (UK) on behalf of the Group. These expenses incurred by Ideal Standard (UK) on behalf of the Group will be charged to the Group on a dollar-to-dollar basis with reference to the actual cost incurred and the Group will reimburse these expenses to Ideal Standard (UK) within 60 days of these expenses falling due.

The Company will renew the Continuing Connected Transaction Agreement for the Relevant Continuing Connected Transactions in respect of the Reimbursement Agreement entered into between Ideal Standard (UK) and the Company regarding the reimbursement of expenses by the Group to the Ideal Standard (UK), to further extend the term for a period of one year until 31 December 2009, upon the same terms and conditions as the current extension agreement, but the implementation of this renewed agreement will be conditional upon the obtaining of the required Independent Shareholders' approvals pursuant to the GEM Listing Rules.

For the two years ended 31 December 2007, the Group's reimbursement of expenses made to Ideal Standard (UK) were approximately US\$504,000 (or approximately HK\$3,931,200) and US\$703,000 (or approximately HK\$5,483,400) respectively, representing approximately 0.6% and 0.7% of the Group's turnover for the corresponding periods. The executive Directors estimate the aggregate amounts of the Group's reimbursement of expenses made to Ideal Standard (UK) for the two years ending 31 December 2009 to be US\$351,000 (or approximately HK\$2,737,800) and US\$386,000 (or approximately HK\$3,010,800) respectively.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The following table sets out the annual caps approved in respect of the aggregate amounts of the Group's reimbursement of expenses made to Ideal Standard (UK) for the two years ended 31 December 2007 and 2008 respectively:

<b>For the year ended/ending</b>	<b>31 December 2006</b>	<b>31 December 2007</b>	<b>31 December 2008</b>
Annual caps for the Group's reimbursement of expenses made to Ideal Standard (UK)	US\$2.0 million	US\$2.0 million	US\$2.0 million

The Company currently estimates that the total Group's reimbursement of expenses made to Ideal Standard (UK) in 2009 will need the same cap amount as sought in 2008, as follows:

<b>For the year ending</b>	<b>31 December 2009</b>
Annual cap to be sought for 2009	US\$2.0 million (HK\$15.6 million)

We have enquired with the Company about the need for such cap amount for 2009, in light of the executive Directors' estimate of the aggregate amounts of the Group's reimbursement of expenses made to Ideal Standard (UK) for the year ending 31 December 2009 of approximately US\$386,000 (or approximately HK\$3,010,800). The executive Directors are of the view that:

- (i) the US\$386,000 amount is for IT related nature, which could be revised upward to close to US\$500,000 as the IT nature includes internet server and IT specialists who are based at the corporate office of the Ideal Standard Group. In addition, another US\$700,000 could potentially be required for insurance purpose, which includes liabilities and property insurance;
- (ii) there are potential reimbursement payments under a historical bonus arrangement to certain senior management, which may or may not be required;
- (iii) as a result of increase liaison between the Group and the Ideal Standard Group, there is potentially unexpected increase in staff costs and other payment incurred by the Ideal Standard Group; and
- (iv) such reimbursement is on a dollar-to-dollar basis without any mark-up and the Company has the sole discretion to determine incurring such expenses.

We have reviewed the bases and assumptions made by the executive Directors in this regard.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In view of the above, whilst we noted the cap amount appears to be higher for the Group's present requirements, we concur with the executive Directors' view that the said cap amount is fair and reasonable.

### *Reimbursement of expenses from Ideal Standard (UK) to the Group*

As set out in the Letter From The Board, pursuant to the Reimbursement Agreement dated 1 January 2006 and which has been novated by the relevant Novation Agreement, Ideal Standard (UK) will reimburse to the Group certain expenses based on actual costs paid by the Group on behalf of Ideal Standard (UK). These expenses comprise mainly regional staff costs, travelling costs, office rentals, expatriate apartment rental and other amounts incurred in the PRC and paid by the Group on behalf of Ideal Standard (UK). These expenses incurred by the Group on behalf of Ideal Standard (UK) will be charged to Ideal Standard (UK) on a dollar-to-dollar basis with reference to the actual cost incurred and Ideal Standard (UK) will reimburse these expenses to the Group within 60 days of these expenses falling due.

The Company will renew the Continuing Connected Transaction Agreement for the Relevant Continuing Connected Transactions in respect of the Reimbursement Agreement entered into between Ideal Standard (UK) and the Company regarding the reimbursement of expenses by the Ideal Standard (UK) to the Group, to further extend the term for a period of one year until 31 December 2009, upon the same terms and conditions as the current extension agreement, but the implementation of this renewed agreement will be conditional upon the obtaining of the required Independent Shareholders' approvals pursuant to the GEM Listing Rules.

The total amount of such reimbursement was US\$1.711 million and US\$118,000 for the two years ended 31 December 2006 and 2007 respectively. The annual caps approved in respect of the aggregate amounts of the reimbursement of expenses made to the Group by Ideal Standard (UK) for the three years ended 31 December 2006, 2007 and 2008 respectively are as follows:

<b>For the year ended/ending</b>	<b>31 December 2006</b>	<b>31 December 2007</b>	<b>31 December 2008</b>
Annual caps for the reimbursement of expenses made to the Group by Ideal Standard (UK)	US\$2.0 million	US\$2.0 million	US\$2.0 million

The Company currently estimates that the total reimbursement of expenses made to the Group by Ideal Standard (UK) will need the same cap amount as sought in 2008, as follows:

<b>For the year ending</b>	<b>31 December 2009</b>
Annual cap to be sought for 2009	US\$2.0 million (HK\$15.6 million)

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Company believes the need to maintain the 2009 annual cap amount as set out above, in view of the following:

- (i) the current estimates of total reimbursement of expenses made to the Group by Ideal Standard (UK) for 2008 and 2009 are approximately US\$1.113 million and US\$1.224 million respectively; and
- (ii) The executive Directors anticipate that the increase in transactions under the Export Distributorship Agreement and the establishment of the International Designing Center in Shanghai in 2008 will increase the liaison activities between the Ideal Standard Group and the Group and as a result, will likely increase expenses related to regional staff costs, traveling expenses and expatriate apartment rental,

We have reviewed the bases and assumptions made by the executive Directors in this regard.

In view of the above, whilst we noted the aforesaid cap amount appears to be higher for the Group's present requirements, we concur with the executive Directors' view that the said cap amount is fair and reasonable.

We have further enquired with the Company the needs to maintain such annual cap amounts under the Reimbursement Agreements, in the light of the current economic downturn in Europe and the U.S.. The Group does not believe such economic downturn will have a material impact on its estimated and prospective business opportunities, given the Group's newly expanded capacity in Hua Mei, a result of its expected increase in export sales, and the establishment of the aforesaid International Designing Center in Shanghai. We are thus in concurrence with the executive Directors on the Group's needs to maintain such annual cap amounts under the Reimbursement Agreements.

The executive Directors consider the arrangement relating to the reimbursement of expenses to/from Ideal Standard (UK) to be fair and reasonable as the reimbursements are and will continue to be made on an actual cost basis. We concur with such view.

### RECOMMENDATION

Having considered the principal factors and reasons set out above, and in particular, the Continuing Connected Transactions will be entered into in the usual and ordinary course of business of the Group and either (a) on normal commercial terms; or (b) if there is no available comparison, on terms no less favourable to the Group than terms available from/to (as appropriate) independent third parties; and the Continuing Connected Transactions will be entered into in accordance with the relevant Continuing Connected Transaction Agreements and on terms that are fair and reasonable, we consider that the terms of the Continuing Connected Transactions and the Relevant Continuing Connected Transactions under the Continuing Connected Transaction Agreements, the Extension Agreements and their respective relevant caps are on normal commercial terms, are fair and reasonable so far as the Company and the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We therefore, advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution approving (a) the entering into of the Extension Agreements for the renewal of the Continuing Connected Transaction Agreements for the Relevant Continuing Connected Transactions and the transactions contemplated respectively thereunder, and the annual caps for the Relevant Continuing Connected Transactions (save and except for the renewed agreement of the Management and Administrative Assistance Agreement); and (b) the renewal of the annual caps for the existing Continuing Connected Transaction Agreements (other than the Relevant Continuing Connected Transactions), which will expire on 31 December 2008, at the EGM.

Yours faithfully,  
for and on behalf of  
**Centurion Corporate Finance Limited**  
**Baldwin LEE**  
*Managing Director*

**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this document misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

**2. DISCLOSURE OF INTERESTS****(i) Interests of Directors and chief executive in the Shares, underlying Shares**

- (a) As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange (a) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the

SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange, were as follows:

*Interest in shares of associated corporations of the Company*

Name of Director	Name of associated corporation	Number and description of equity derivatives	Capacity	Type of interest	Approximate percentage of holding in the associated corporation
Mr. Richard M. Ward (note a)	Ideal Standard International TopCo (BC) Luxco S.C.A.	2,385,965 preferred equity certificates ("PEC")	directly beneficially owned	Personal	not applicable
		421,053 convertible preferred equity certificate ("CPEC") (note b)	directly beneficially owned	Personal	not applicable
Mr. Ye Zhi Mao, Jason	Ideal Standard International TopCo (BC) Luxco S.C.A.	244,505 Ordinary shares	directly beneficially owned	Personal	0.93%
		177,456 PEC	directly beneficially owned	Personal	not applicable
		31,316 CPEC (note b)	directly beneficially owned	Personal	not applicable

Name of Director	Name of associated corporation	Number and description of equity derivatives	Capacity	Type of interest	Approximate percentage of holding in the associated corporation
Mr. Gao Jinmin	Ideal Standard International TopCo (BC) Luxco S.C.A.	719,134 Ordinary shares	directly beneficially owned	Personal	2.74%
		831,556 PEC	directly beneficially owned	Personal	not applicable
		146,745 CPEC (note b)	directly beneficially owned	Personal	not applicable

*Note a:* Mr. Richard M. Ward, resigned as an executive Director, the chairman of the Board, the general manager, the compliance officer and an authorized representative of the Company with effect from 29 February 2008; following Mr. Ward's resignation, Mr. Ye Zhi Mao, Jason, and executive Director of the Company, has taken up the positions of the compliance officer, authorized representative and acting chairman of the Company with effect from 29 February 2008.

*Note b:* In November 2007, the directors and former director above being the senior members of management are requested, by taking the form of co-investment with Bain Capital Ltd. in Ideal Standard International TopCo (BC) Luxco S.C.A., being the ultimate holding company of the Company, to subscribe for certain equity interests in PEC and CPEC, and ordinary shares of Ideal Standard International TopCo (BC) Luxco S.C.A.. All the directors, at their own expenses, make the aforesaid investment.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and Stock Exchange.

- (b) As at the Latest Practicable Date, none of the Directors had entered into any service agreement with any member of the Group which was not terminable by the employer within one year without payment of compensation other than statutory compensation.

**(ii) Interests of Substantial Shareholders**

- (a) As at the Latest Practicable Date, so far as was known to the Directors, the following persons, not being Directors or chief executive of the Company had, or were deemed to have, interests or short positions in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or held any option in respect of such capital:

Name of Shareholders	Number of shares held in the issued share capital of the Company	Capacity	Type of interest	Approximate percentage of holding
Bain Capital Fund IX LP <i>(Note 1)</i>	96,375,500	Interest in controlled corporation	Corporate	63.81%
Bain Capital Fund VIII-E L.P. <i>(Note 1)</i>	96,375,500	Interest in controlled corporation	Corporate	63.81%
Bain Capital Investors LLC <i>(Note 1)</i>	96,375,500	Interest in controlled corporation	Corporate	63.81%
Bain Capital Partners IX LP <i>(Note 1)</i>	96,375,500	Interest in controlled corporation	Corporate	63.81%
Bain Capital Partners VIII-E L.P. <i>(Note 1)</i>	96,375,500	Interest in controlled corporation	Corporate	63.81%
Ideal Standard International Topco SCA <i>(Note 1)</i>	96,375,500	Interest in controlled corporation	Corporate	63.81%



Name of Shareholders	Number of shares held in the issued share capital of the Company	Capacity	Type of interest	Approximate percentage of holding
Ideal Standard International Acquisition Sarl <i>(Note 1)</i>	96,375,500	Interest in controlled corporation	Corporate	63.81%
Ideal Standard International Holding SARL <i>(Note 1)</i>	508,500 95,867,000	Beneficial owner Interest in controlled corporation	Corporate	63.81%
Ideal Standard Holding (BC) France SAS. <i>(Note 1)</i>	95,867,000	Interest in controlled corporation	Corporate	63.47%
American Standard Foreign Trading Limited <i>(Note 1)</i>	95,867,000	Beneficial owner	Corporate	63.47%
Foundation Brunneria <i>(Note 2)</i>	16,900,000	Interest in controlled corporation	Corporate	11.19%
Clearwater Capital GP (III), Ltd. <i>(Note 3)</i>	15,088,297	Interest in controlled corporation	Corporate	9.99%
Clearwater Capital Partners Holdings, LLC <i>(Note 3)</i>	15,088,297	Interest in controlled corporation	Corporate	9.99%
Clearwater Capital Partners, LLC <i>(Note 3)</i>	15,088,297	Investment manager	Corporate	9.99%
Petty Robert Dean <i>(Note 3)</i>	15,088,297	Interest in controlled corporation	Personal	9.99%
RDP Holdings, LLC <i>(Note 3)</i>	15,088,297	Interest in controlled corporation	Corporate	9.99%
General Oriental Investments Limited <i>(Note 2)</i>	16,900,000	Beneficial owner	Corporate	11.19%

*Note 1:* As at the Latest Practicable Date, Bain Capital Fund IX LP, Bain Capital Fund VIII-E L.P., Bain Capital Investors LLC, Bain Capital Partners IX LP, Bain Capital Partners VIII-E L.P., Ideal Standard International Topco SCA and Ideal Standard International Acquisition Sarl are taken to have an interest in the Shares held by Ideal Standard International Holding SARL directly (as to 508,500 Shares, which represents approximately 0.34% shareholding) and indirectly through its wholly-owned subsidiary Ideal Standard Holding (BC) France SAS, which in turn wholly owns American Standard Foreign Trading Limited which holds directly 95,867,000 Shares, representing approximately 63.47% shareholding, due to their direct or indirect control over Ideal Standard International Holding SARL and American Standard Foreign Trading Limited, and therefore are deemed under Part XV of the SFO to be interested in the interests of Ideal Standard International Holding SARL and American Standard Foreign Trading Limited in the Company.

*Note 2:* As at the Latest Practicable Date, General Oriental Investments Limited was 100% indirectly owned by Foundation Brunneria, a private discretionary trust. Foundation Brunneria is therefore deemed under Part XV of the SFO to be interested in the interests of General Oriental Investments Limited in the Company.

*Note 3:* As at the Latest Practicable Date, Petty Robert Dean, RDP Holdings, LLC, Clearwater Capital GP (III), Ltd. and Clearwater Capital Partners Holdings, LLC SCA are taken to have an interest in the Shares held by Clearwater Capital Partners, LLC due to their direct or indirect control over, and therefore are deemed under Part XV of the SFO to be interested in the interests of Clearwater Capital Partners, LLC in the Company.

- (b) Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person, other than the Directors and the chief executives of the Company, who had, or was deemed to have, interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or held any option in respect of such capital.

### 3. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or the Management Shareholders (as defined in the GEM Listing Rules) or any of their respective associates or the employees of the Group had any interest in a business which competes or may compete directly or indirectly with the business of the Group (as would be required to be disclosed under Rule 11.04 of the GEM Listing Rules if each of them were a controlling Shareholder) or any other conflicts of interests with the Group.

None of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company, or any of its subsidiaries during the period since 31 December 2007, the date to which the latest published audited financial statements of the Group were made up, up to and including the Latest Practicable Date.

There is no contract or arrangement subsisting as at the Latest Practicable Date in which any Director is materially interested and which is significant in relation to the business of the Group.

#### 4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into a service contract with the Company or any member of the Group, which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

#### 5. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or arbitration of material importance known to the Directors to be pending or threatened by or against any member of the Group.

#### 6. QUALIFICATIONS AND CONSENTS OF EXPERTS

- (a) The following are the qualifications of the experts who have given opinions or advice contained in this circular:

<b>Name</b>	<b>Qualification</b>
Centurion Corporate Finance Limited	A corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

- (b) As at the Latest Practicable Date, Centurion Corporate Finance Limited has no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member in the Group.
- (c) Centurion Corporate Finance Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear.

#### 7. EXPERTS' INTERESTS

As at the Latest Practicable Date,

- (a) Centurion Corporate Finance Limited did not have any direct or indirect interest in any asset which had since 31 December 2007, being the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by, or leased to, any member of the Group, or was proposed to be acquired or disposed of by, or leased to, any member of the Group; and
- (b) Centurion Corporate Finance Limited was not beneficially interested in the share capital of any member of the Group or did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

**8. MATERIAL ADVERSE CHANCE**

The Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2007, being the date to which the latest published audited financial statements of the Group was made up.

**9. MISCELLANEOUS**

- (a) The registered office of the Company is at P.O. Box 309, Ugland House, South Church Street, Grand Cayman, Cayman Islands, B.W.I.
- (b) The head office and principal place of business of the Company is at Suite 3703, Office Tower, Langham Place, 8 Argyle Street, Mongkok, Kowloon, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The company secretary and qualified accountant of the Company is Ms. Chen Rong Fang, who joined the Company in January 2005 and was appointed as an executive Director on 27 July 2007. Ms. Chen graduated from Shanghai International Studies University with a bachelor degree of economics, major in international accounting. Ms. Chen is a member of China Institute of Certified Public Accountants of the Association of Chartered Certified Accountants.
- (e) The compliance officer of the Company is Mr. Ye Zhi Mao, Jason, who joined the Company in August 2004 as the chief financial officer and was appointed as an executive Director with effect from 17 February 2005. Mr. Ye was appointed as the compliance officer of the Company with effect from 29 February 2008. 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.
- (f) The Company established its audit committee on 16 June 2003 with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee has three members, comprising the 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.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Suite 3703, Office Tower, Langham Place, 8 Argyle Street, Mongkok, Kowloon, Hong Kong for a period of 14 days (except public holidays) from the date of this circular:

- (a) the memorandum and articles of association of the Company;
- (b) the letter from the Board, the text of which is set out on pages 6 to 26 of this circular;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 27 to 28 of this circular;
- (d) the letter from Centurion Corporate Finance Limited, the Independent Financial Adviser, the text of which is set out on pages 29 to 49 of this circular;
- (e) the written consent referred to in the paragraph headed "Qualifications and Consents of Experts" in this Appendix;
- (f) the service contracts referred to in paragraph 4 above;
- (g) this circular;
- (h) the Continuing Connected Transaction Agreements; and
- (i) the Extension Agreements.

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## NOTICE OF EGM

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# ASPPL

## A-S China Plumbing Products Limited

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 8262)

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of the shareholders of A-S China Plumbing Products Limited (the “**Company**”) will be held at 22nd Floor, Langshen Building, 8 Huai Hai Zhong Lu, Shanghai, the People’s Republic of China on 31 December 2008 at 9:00 a.m. or any adjournment thereof for the purpose of considering and, if thought fit, pass with or without amendments, the following resolution of the Company:

### ORDINARY RESOLUTION

“**THAT**

- (a) the entering into of the Extension Agreements for the renewal of the following nine (9) agreements listed as (1) to (9) and the transactions contemplated respectively thereunder, and the proposed annual caps for such transactions under the Extension Agreements for the financial year ending 31 December 2009 as set forth in the Circular (as defined below) be and are hereby approved, ratified and confirmed;

The nine agreements mentioned above are:

- (1) the Export Distributorship Agreement between Ideal Standard (UK) and A-S Jiangmen Fittings;
- (2) the Export Distributorship Agreement between Ideal Standard (UK) and A-S Shanghai Pottery;
- (3) the Export Distributorship Agreement between Ideal Standard (UK) and A-S Tianjin Pottery;
- (4) the Technical Assistance Agreement between Ideal Standard (UK) and A-S Jiangmen Fittings;
- (5) the Technical Assistance Agreement between Ideal Standard (UK) and A-S Tianjin Pottery;
- (6) the Technical Assistance Agreement between Ideal Standard (UK) and A-S Shanghai Pottery;

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## NOTICE OF EGM

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- (7) the Management Assistance Agreement between Ideal Standard (UK) and A-S Tianjin Pottery;
  - (8) Reimbursement Agreement between Ideal Standard (UK) and the Company regarding the reimbursement of expenses by the Group to the Ideal Standard Group; and
  - (9) Reimbursement Agreement between Ideal Standard (UK) and the Company regarding the reimbursement of expenses by the Ideal Standard Group to the Group;
- (b) the proposed annual caps for the transactions under the existing Continuing Connected Transaction Agreements (other than the Relevant Continuing Connected Transactions) for the financial year ending 31 December 2009 as set forth in the Circular be and are hereby approved; and
- (c) any one director of the Company be and is hereby authorised to execute all such documents and/or do all such acts and things on behalf of the Company as he or she may deem necessary, desirable or expedient for the purposes of giving effect to, or in connection with the Continuing Connected Transactions.

Terms defined in the circular of even date issued by the Company (the “**Circular**”) to its shareholders shall have the same meanings in this notice of EGM unless the context otherwise requires.”

By Order of the Board  
**Chen Rong Fang**  
*Company Secretary*

Shanghai, the PRC, 13 December 2008

*Notes:*

- (a) Any member entitled to attend and vote at the EGM is entitled to appoint one or more proxy to attend and on a poll, vote in his stead. A proxy need not be a member of the Company.
- (b) In order to be valid, the form of proxy together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company’s share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting (as the case may be).
- (c) The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.