08 ANNUAL REPORT

ASPPL

A-S China Plumbing Products Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code:8262

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

The 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 the GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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

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

Contents

The Group manufactures and distributes in China a broad range of bathroom and kitchen fixtures and plumbing fittings under the brand names owned by Ideal Standard Global Ltd. ("ISG"), including the "American Standard" and "Armitage Shanks" brands. The Group includes the ventures in China, which have established a manufacturing base for the production of bathroom and kitchen fixtures and plumbing fittings in Shanghai, Tianjin and Guangdong province using manufacturing equipment and manufacturing technologies developed by the former ultimate holding company, American Standard Group to ensure the quality of its products.

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

The Group also exports some of its products to Europe and North America.

CHAIRMAN AND EXECUTIVE DIRECTOR

Ye Zhi Mao, Jason (Acting)

EXECUTIVE DIRECTORS

Gao Jin Min
Chen Rong Fang
Wang Gang
Yang Xiong

NON-EXECUTIVE DIRECTOR

Peter James O'Donnell

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Chen Rong Fang

QUALIFIED ACCOUNTANT

Chen Rong Fang

COMPLIANCE OFFICER

Ye Zhi Mao, Jason

AUDIT COMMITTEE

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

AUTHORISED REPRESENTATIVES

Ye Zhi Mao, Jason

AUDITORS

PricewaterhouseCoopers

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3703, Office Tower Langham Place
8 Argyle Street
Mongkok, Kowloon
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

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

COMPANY WEBSITE ADDRESSES

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

STOCK CODE

8262

FIVE YEAR FINANCIAL SUMMARY

Consolidated Results

For the years ended 31 December

	2008	2007	2006	2005	2004
	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue	**115,552**	106,674	86,813	83,323	78,376
Profit before exceptional items	**1,087**	9,187	9,380	12,920	12,185
Amortisation of intellectual property rights	**–**	(6,998)	–	–	–
Provision on Liquidation of a subsidiary	**(9,975)**	–	(3,431)	(2,247)	–
(Loss)/profit before tax	**(8,888)**	2,189	5,949	10,673	12,185
Taxation	**(2,473)**	(3,069)	(2,466)	(2,427)	(1,877)
(Loss)/profit for the year	**(11,361)**	(880)	3,483	8,246	10,308
Attributable to:					
Equity holders of the Company	**(12,542)**	(2,850)	1,377	5,951	8,146
Minority interests	**1,181**	1,970	2,106	2,295	2,162
	(11,361)	(880)	3,483	8,246	10,308

Consolidated Assets and Liabilities

As at 31 December

	2008	2007	2006	2005	2004
	US$'000	US$'000	US$'000	US$'000	US$'000
Total assets	**126,950**	130,805	146,824	146,167	142,842
Total liabilities	**(35,196)**	(32,249)	(25,387)	(25,574)	(29,801)
	91,754	98,556	121,437	120,593	113,041
Attributable to:					
Equity holders of the Company	**78,695**	87,381	109,281	105,356	97,612
Minority interests	**13,059**	11,175	12,156	15,237	15,429
	91,754	98,556	121,437	120,593	113,041

Chairman's Statement

In a challenging macro-economic environment, we have continued to deliver growth in 2008. Despite a significant softening of the underlying market in the second half of the year, sales in the Mainland China increased by 9.8% as compared with 2007 thanks to the management's continued investment in the distribution platform and improvement of the retail execution. Sales to overseas markets increased by more than 7% due to the improvement on the effectiveness and quality of our manufacturing operations. Here are some of the highlights of the operation in 2008.

- Over 10% growth achieved in project sales driven by the successful execution of our key accounts strategy.

- Development of Shanghai business illustrated by several high profile commercial projects wins such as International Financial Center, BW International Office Building and Wheelock Square.

- Delivery of productivity and efficiency improvements at our manufacturing plants while at the same time achieving world-class safety records.

We look forward to 2009 and remain confident that we will continue to develop the business while achieving healthy profitability. Our strong financial position will enable us to support the business in these difficult economic times and will prove to be a great competitive advantage.

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

Ye Zhi Mao, Jason
Acting Chairman

Hong Kong, 25 March 2009

CORPORATE GOVERNANCE PRACTICE

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

DISTINCTIVE ROLE OF CHAIRMAN AND GENERAL MANAGER

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

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

During the year, Mr. Ye Zhi Mao, Jason, was acting as General Manager of the company.

THE BOARD

As of 31 December 2008, there were nine members on the Board, which are the Chairman, four other Executive Directors, a Non-Executive Director ("NED") and three Independent Non-Executive Directors ("INEDs").

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

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

The Board met regularly during the year and on ad hoc basis as required by business needs. The Board's primary purpose is to set and review the overall strategic development of the Group and to oversee the achievement of the plans to enhance shareholders' value. Daily operational decisions are delegated to the Executive Directors. The Board met eight times during the year and the Directors' attendance is shown in the table on page 9. The NED and INEDs may take independent professional advice at the Company's expense in carrying out their functions. The Board has arranged for appropriate insurance coverage for the Directors.

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

INTERNAL CONTROL

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

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

For the year ended 31 December 2008, the Board has, through its Audit Committee, conducted review of the Group's internal control systems, including without limitation financial control, operational control, compliance control and risk management functions. The Board is of the view that the internal control systems are effective and there are no irregularities, improprieties, fraud or other deficiencies that suggest material deficiency in the effectiveness of the Group's internal control system.

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

AUDIT COMMITTEE

The Audit Committee ("Committee") comprises the three INEDs, Mr. Chang Sze-Ming, Sydney, Mr. Ho Tse-Wah, Dean and Mr. Wong Kin Chi with Mr. Wong Kin Chi serving as the chairman of the Committee. Each member brings to the Committee his valuable experience in reviewing financial statements and evaluating significant control and financial issues of the Group. Mr. Wong is a fellow member of The Hong Kong Institute of Certified Public Accountants and an associate member of the Chartered Institute of Management Accountants of the United Kingdom, and the Society of Management Accountants of Canada for well over 10 years. He possesses the appropriate professional qualification on accounting or related financial management expertise as required under Rule 5.05 (2) of the GEM Listing Rules. Member's attendance at the six meetings held during the year is set out in the table on page 9.

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

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

REMUNERATION COMMITTEE

The Company has not established a Remuneration Committee. The Company currently does not have any plan to set up a Remuneration Committee considering the small size of the Board.

NOMINATION OF DIRECTORS

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

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

LOOKING FORWARD

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

MEETINGS ATTENDANCE

	Board	Audit Committee
Number of Meetings	8	6
Executive directors		
Richard, M. Ward	2	N/A
Yang YuQing, Cindy	1	N/A
Ye Zhi Mao, Jason	8	N/A
Chen Rong Fang	8	N/A
Gao Jin Min	7	N/A
Wang Gang	5	N/A
Yang Xiong	3	N/A
Non-executive director		
Peter James O'Donnell	7	N/A
Independent non-executive directors		
Chang Sze-Ming, Sydney	8	6
Ho Tse-Wah, Dean	8	6
Wong Kin Chi	8	6

CONFIRMATION OF INDEPENDENCE OF INEDS

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

CONFIRMATION OF COMPLIANCE WITH MODEL CODE

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

AUDITORS' REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group is required to pay an aggregate of approximately US$245,000 to the external auditors for their services including audit and non-audit services.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on page 26.

The following table summarises the audited consolidated results of the Group for the years ended 31 December, 2008 and 2007 which are prepared based on the audited financial statements of the Group. This summary should be read in conjunction with the financial statements of the Group.

	Year ended 31 December	
	2008	2007
	US$'000	US$'000
Revenue	**115,552**	106,674
Cost of sales	**(80,538)**	(72,016)
Gross profit	**35,014**	34,658
Other expenses, net	**(165)**	(196)
Distribution costs	**(3,966)**	(3,582)
Administrative and operating expenses	**(29,796)**	(21,693)
Amortisation of intellectual property rights	**–**	(6,998)
Provision on liquidation of a subsidiary	**(9,975)**	–
(Loss)/Profit before income tax	**(8,888)**	2,189
Income tax expense	**(2,473)**	(3,069)
Loss for the year	**(11,361)**	(880)
Attributable to:		
Equity holders of the Company	**(12,542)**	(2,850)
Minority interests	**1,181**	1,970
	(11,361)	(880)
Basic/diluted loss per share for loss attributable to the equity holders of the Company during the year (US cents)	**(8.30)**	(1.89)
Dividends	**–**	24,689

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

Note b: The calculation of the basic loss per share is based on the net loss attributable to ordinary equity holders of the parent for the year of US$12,542,000 (2007: net loss US$2,850,000), and weighted average number of issued ordinary shares of 151,034,000 (2007: 151,034,000) during the year.

OPERATING RESULTS

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

During the year, the Group's overall sales increased 8.3% to US$115,552,000. Despite a significant softening of the underlying market in the second half of the year, China sales for the year still recorded an increase of 10% over the year with the effort of the management. Export sales continued to improve due to the continuing improvement of product portfolios. The Group reported 7% growth in export sales for the year.

During the year, energy costs and material costs such as the price of copper has significantly increased. The Group raised its selling price in the mid of the year and successfully transferred part of the increased costs to customers to maintain its reasonable profit margin. Nevertheless, gross profit percentage of the Group still recorded a decrease from 32.5% for 2007 to 30.3% for the year.

The Group recorded a net loss after minority interests of approximately US$12.5 million for the year compared to a net loss after minority interests of approximately US$2.9 million for 2007. The net loss for the year was mainly due to a provision of restructuring costs incurred for the liquidation of a subsidiary of approximately US$10.0 million. By excluding the restructuring costs for the liquidation of the subsidiary, the Group recorded a net loss after minority interests of approximately US$2.5 million, which was mainly due to much stronger sales and marketing investment, which aimed to strengthen the brand image.

LIQUIDITY AND FINANCIAL RESOURCES

Net current assets

At 31 December 2008, the net current assets of the Group amounted to US$29.1 million. The current assets comprised of cash and bank deposits of approximately US$18.9 million (of this amount, approximately US$18 million is held by Company's subsidiaries, some of which have minority ownership interests), and accounts receivable of approximately US$11.9 million, inventories of approximately US$11.6 million, prepayments, deposits, other receivables of approximately US$4.5 million and amounts due from related parties of approximately US$17.4 million. The current liabilities comprised of accounts payable of approximately US$10.0 million, amounts due to related parties approximately US$7.4 million, corporate income tax payable of approximately US$0.8 million, other payables, deposits and accrued liabilities of approximately US$16.9 million. The outstanding dividend payable as at 31 December 2008 is US$0.16 million. There were no outstanding bank loans or finance lease obligations as at 31 December 2008.

Foreign currency risk

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

Prospects

In these difficult economic times, management is confident that domestic sales will maintain growth in 2009 over the year. However, the recession is right at the corner and has affected every industry with its magnitude yet to be known.

EMPLOYEE INFORMATION

As at 31 December 2008, the Group had 1,521 (2007: 1,593) full time employees. Employee costs amounted to US$15,903,000 (2007: US$14,726,000). The Group is an equal opportunity employer, with the selection and promotion of individual based on suitability for the position offered. The salaries and benefit levels of the Group's employees are kept in competitive level and employees are rewarded on a performance related basis with the general framework of the Group's salary and bonus system, which is reviewed annually. A wide range of benefits, including medical coverage and retirement plans are also provided to employees.

EXECUTIVE DIRECTORS

Mr. Ye Zhi Mao, Jason, age 41, joined the Company in August 2004 as the Chief Financial Officer and was appointed as an Executive Director on 17 February 2005. Prior to this, he worked at Siemens Business Communication Systems Ltd., AlliedSignal (China) Ltd. as a Finance Manager and finally at Wall's (China) Ltd. as a Finance Director. Mr. Ye graduated from the Shanghai University of Finance and Economics with a bachelor's degree in Economics and holds an EMBA degree from China Europe International Business School.

Ms. Chen Rong Fang, age 33, joined the Company in May 2002 as the Finance Manager of the Company and is appointed as an Executive Director of the Company on 27 July 2007. Prior to this, she worked with an international accounting firm. Ms. Chen graduated from Shanghai International Studies University with a bachelor's degree in Economics. Ms. Chen is an associated member of China Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Mr. Gao Jin Min, age 48, joined the Company in December 2006 as General Manager of Bath and Kitchen China and is appointed as executive director of the Company on 4 May 2007. Prior to this, he worked at Meilin Group as MIS Manager; Wyan Electronic System Ltd. DVS (U.S), Hyundai (South Korea), AHTV (China) JV as Marketing Manager; Motorola – Panda JV Nanjing Power Computer Ltd as Marketing manager; Siemens Ltd. China (SLC) as Regional General Manager; and finally at Sunshine 100 Real Estate Group as Chief Operation Officer. Mr. Gao did not hold any directorships in listed public companies in the last three years. Mr. Gao graduated from the University of Science and Technology of China with a master degree in Modal Analysis and before that, he graduated from the National University of Defense Technology China with a Bachelor degree in Applied Mechanics.

Mr. Wang Gang, age 42, joined the Company as laboratory supervisor, production manager and Six Sigma leader of the company successively from 1993 and is appointed as executive director of the Company on 13 March 2008. Prior to this, he worked as a ceramic engineer in a tile factory in the mainland China. Wang Gang graduated from Shanghai University with a bachelor degree in engineering, majoring in inorganic non-metal materials, and holds a MBA degree from Maastricht School of Management, The Netherlands. Mr. Wang has over 18 years of experience in ceramic manufacturing, and has a strong background on operation management, cost control and staff training in the areas of management, leadership and team-building skills and career development.

Mr. Yang Xiong, age 39, joined the Group in June 2004, is currently the operation leader of the fittings and tubs operations of A-S (China) Co., Limited, a subsidiary of the Company and is appointed as executive director of the Company on 4 June 2008. Prior to his joining of the Group, Mr. Yang was a plant manager of Honeywell (Kaiping) Industrial Polymers Co., Ltd. Mr. Yang holds a bachelor degree in chemical engineering, majoring in polymer, from the Nanjing University of Technology. In 2002, he was awarded with a diploma in management program by the China Europe International Business School. Mr. Yang has over 17 years of experience in operation management, and has a strong background on cost control and staff training in the areas of management, leadership and team-building skills and career development.

NON-EXECUTIVE DIRECTORS

Mr. Peter James O'Donnell, age 46, was appointed as a non-executive director on 14 May 2005. He currently serves as the Managing Director of UCL Asia Limited. The private equity investments in Asia of General Oriental Investments Limited, an initial management shareholder of the Company, are managed by UCL Asia Management Services, L.P., an affiliate of UCL Asia Limited. Prior to joining UCL Asia Limited, Mr. O'Donnell served as a director of General Oriental Investments (HK) Ltd. Prior to this, he served as a Vice-President of Bankers Trust Company in both New York and Hong Kong. Mr. O'Donnell also serves as a non-executive director of Singer Sri Lanka Ltd., and Singer Pakistan Ltd. Mr. O'Donnell holds BA and MBA degrees from Harvard University in Cambridge, Massachusetts, in the United States of America.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chang Sze-Ming, Sydney, age 66, is the General Manager of South Sphere Consulting Company Ltd. (Shanghai), which he founded to provide business consultancy on investments in China. He also holds the positions of Chairman, International Business Forum (IBF) in Shanghai, and a senior consultant of the Shanghai Foreign Investment Development Board. Prior to his retirement from Armstrong World Industries Inc., a building materials company based in the United States of America in June 2001, he had worked for 28 years for that company on numerous assignments in Asia and the United States of America.

Mr. Ho Tse-Wah, Dean, age 71, is a partner in ALC Advisors, providing China based advisory services to private equity investors and their investees. He is also a director of Unison Pacific Corporation. Unison Pacific Corporation is based in San Bruno, California, United States of America, and has conducted investment and advisory activities in China since 1979. He has been the principal advisor to the formation of 39 equity joint-ventures, principally in manufacturing. Mr. Ho is a member of the board of ex-officio members of American Chamber of Commerce in Shanghai. He had served as the chairman of the Manufacturers Business Council, Chairman of the Board of Governors and secretary of the American Chamber of Commerce in Shanghai. Mr. Ho has been working in China since 1986. He graduated from the University of California (Berkley) (AB), Cornell University (BS) and the Advanced Management Program at Harvard Business School.

Mr. Wong Kin Chi, age 57, is currently running a company rendering professional services to clients with respect to financial and educational management in Hong Kong and Mainland China. He holds a MBA degree from the University of Durham, the United Kingdom. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Chartered Institute of Management Accountants of the United Kingdom, and the Society of Management Accountants of Canada for well over 10 years. Mr. Wong is also an independent non-executive director of Omnicorp Limited, whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The directors hereby present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the attached audited financial statements on pages 28 to 91.

The directors do not recommend the payment of any dividend in respect of the year.

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

SUMMARY FINANCIAL INFORMATION

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in Note 8 to the financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

There were no movements in either the Company's authorised or issued share capital during the year. At 31 December 2008, the Company did not have any share option plan in place.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 19 to the financial statements on page 75 and in the consolidated statement of changes in equity on page 31, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to US$411,000 (2007: US$19,874,000). Under the Companies Laws of the Cayman Islands, the Company can distribute dividends out of the share premium account in the amount of US$59,228,000 (2007: US$59,228,000) provided that the Company will be able to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for 38% (2007: 43%) of the total sales for the year and sales to the largest customer included therein amounted to 20% (2007: 22%). Purchase from the Group's five largest suppliers accounted for less than 30% (2007: less than 30%) of the total purchases for the year.

Except for Ideal Standard International BVBA, American Standard Bath & Kitchen (Thailand) Public Company Ltd. and American Standard Korea Inc. which are related parties of the Company, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Richard M. Ward (resigned on 29 February 2008) *(Note)*

Yang Yu Qing, Cindy (resigned on 28 January 2008)

Ye Zhi Mao, Jason *(Note)*

Chen Rong Fang

Gao Jin Min

Wang Gang (appointed on 13 March 2008)

Yang Xiong (appointed on 4 June 2008)

Non-executive director:

Peter James O'Donnell

Independent non-executive directors:

Chang Sze-Ming, Sydney

Ho Tse-Wah, Dean

Wong Kin Chi

Note: Mr. Richard M. Ward, resigned as an Executive Director, the Chairman of the Board of Directors, the General Manager, the Compliance Officer and an Authorised Representative of the Company with effect from 29 February 2008; following Mr. Ward's resignation, Mr. Ye Zhi Mao, Jason, an Executive Director of the Company, has taken up the positions of Compliance Officer, Authorised Representative, Acting Chairman of the Board and Acting General Manager of the Company with effect from 29 February 2008.

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

The Company has received annual confirmations of independence from the independent non-executive directors pursuant to Rule 5.09 and still considers them to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on page 14 to 15 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

The directors' fees are subject to board of directors' approval via a board resolution or a board minutes.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section "Directors' and chief executive's interests and short position in shares and underlying shares", "no director has a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

Pursuant to an extension agreement dated 1 January 2006 between the Company and American Standard Inc. ("ASI"), and a novation agreement entered into on 12 October 2007 between the Company, ASI and Ideal Standard Global Ltd ("ISG"), ASI provides management service to the Company until 31 October 2007, and thereafter, ISG continues to provide management service to the Company. During the year, the Company paid management service fees of US$500,000 under this agreement.

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

At 31 December, 2008, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as refer to Rule 5.46 of the GEM Listing Rules, except as disclosed below, were as follow:

Interest in associated corporations

Name of director/ chief executive	Name of associated corporation	Relationship with the Company	Share/ equity derivatives	Numbers of share/equity derivatives held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Ye Zhi Mao, Jason	Ideal Standard International TopCo (BC) Luxco S.C.A ("Ideal Standard")	Ultimate holding company	Ordinary shares	244,505	Directly beneficially owned	0.97%
			PEC	177,456	Directly beneficially owned	Not applicable
			CPEC	31,316	Directly beneficially owned	Not applicable
Mr. Gao Jin Min	Ideal Standard	Ultimate holding company	Ordinary shares	719,134	Directly beneficially owned	2.86%
			PEC	831,556	Directly beneficially owned	Not applicable
			CPEC	146,754	Directly beneficially owned	Not applicable

Name of director/ chief executive	Name of associated corporation	Relationship with the Company	Share/ equity derivatives	Numbers of share/equity derivatives held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Chen Rong Fang	Ideal Standard	Ultimate holding company	Ordinary shares	143,828	Directly beneficially owned	0.57%
			PEC	154,381	Directly beneficially owned	Not applicable
			CPEC	27,244	Directly beneficially owned	Not applicable
Wang Gang	Ideal Standard	Ultimate holding company	Ordinary shares	143,828	Directly beneficially owned	0.57%
			PEC	214,030	Directly beneficially owned	Not applicable
			CPEC	37,770	Directly beneficially owned	Not applicable
Yang Xiong	Ideal Standard	Ultimate holding company	Ordinary shares	143,828	Directly beneficially owned	0.57%
			PEC	512,276	Directly beneficially owned	Not applicable
			CPEC	90,402	Directly beneficially owned	Not applicable

The directors above being senior members of management are requested, by taking the form of co-investment with Bain Capital Ltd. in Ideal Standard, to subscribe for certain equity interests in preferred equity certificate ("PEC") and convertible preferred equity certificate ("CPEC"), and ordinary share of Ideal Standard. All the directors, at their own expenses, make the afore-said investment.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

At 31 December 2008, the following interests and short positions of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholders	**Number of ordinary shares held**	**Capacity and nature of interest**	**Percentage of the Company's issued share capital**
Ideal Standard *(Note 1)*	96,375,500	Corporate Beneficial owner	63.81%
Ideal Standard International Holding Sarl ("Ideal Standard International") *(Note 1)*	96,375,500	Corporate Beneficial owner	63.81%
Ideal Standard Holdings (BC) France SAS *(Note 1)*	95,867,000	Corporate Beneficial owner	63.47%
American Standard Foreign Trading Limited *(Note 1)*	95,867,000	Corporate Beneficial owner	63.47%
Foundation Brunneria *(Note 2)*	16,900,000	Corporate Beneficial owner	11.19%
General Oriental Investments Limited *(Note 2)*	16,900,000	Corporate Beneficial owner	11.19%

Note 1: Ideal Standard International, being a subsidiary of Ideal Standard, owns a 63.81% shareholding interest in the Company through (i) a wholly-owned subsidiary, Ideal Standard Holdings (BC) France SAS., being a corporation established under the laws of France, which in turn owns a 100% interest in American Standard Foreign Trading Limited, being a company incorporated in Bermuda with limited liability, which directly holds a 63.47% shareholding interest in the Company; and (ii) a direct shareholding of 508,500 shares, which represents approximately 0.34% shareholding interest in the Company.

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

As disclosed above, at 31 December 2008, no other person (other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above) had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation that was required to be kept under Section 336 of the SFO.

CONNECTED TRANSACTIONS

Continuing connected transactions

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

	Notes	US$'000
Sales of finished goods	(a)	41,486
Purchase of raw materials	(a)	1,156
Management fee expenses	(b)	(500)
Trademark license, technical assistance and management assistance fees	(c)	(2,830)

Notes:

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

(b) The management fees were charged in accordance with the terms of the relevant agreements.

(c) The trademark license, technical assistance and management assistance fees were related to the sale of products bearing the brand names of the Ideal Standard Group by the Group's subsidiaries in China, which were charged on the basis as stated in the respective joint venture agreements.

The connected transactions have been reviewed by the independent non-executive directors of the Company. The independent non-executive directors have confirmed that the Connected Transactions have been entered into (a) in the ordinary and usual course of the Group's business; (b) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole and (d) have not exceeded the relevant cap amounts as approved by the shareholders during the extraordinary general meeting on 30 October 2007.

BOARD PRACTICE AND PROCEDURE

The Company complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the year ended 31 December 2008.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The Company established an Audit Committee (the "Committee") with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal control. During the year ended 31 December 2008, the Committee had three members, comprising three independent Non-Executive Directors, Mr. Chang Sze-Ming, Sydney, Mr. Ho Tse-Wah, Dean and Mr. Wong Kin Chi, with Mr. Wong Kin Chi serving as the Chairman of the Committee. The Committee has reviewed the Group's audited financial statements for the year ended 31 December 2008.

AUDITORS

PricewaterhouseCoopers was appointed as the auditors of the Company following the retirement of Ernst & Young at the conclusion of annual general meeting of the Company on 30 June 2008. PricewaterhouseCoopers retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on pages 6 to 10 of the annual report.

ON BEHALF OF THE BOARD

Ye Zhi Mao, Jason
Acting Chairman

Hong Kong
25 March 2009

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

TO THE SHAREHOLDERS OF A-S CHINA PLUMBING PRODUCTS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of A-S China Plumbing Products Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 28 to 91, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2009

As at 31 December 2008

	Note	As at 31 December 2008 US$'000	2007 US$'000
ASSETS			
Non-current assets			
Goodwill	6	**2,105**	2,105
Land use rights	7	**8,259**	8,121
Property, plant & equipment	8	**48,793**	49,767
Other non-current assets	10	**3,523**	1,550
		62,680	61,543
Current assets			
Inventories	13	**11,570**	10,448
Trade receivables	14	**11,867**	13,779
Amounts due from related parties	15	**17,420**	10,919
Deposits, prepayments and other receivables	16	**4,489**	3,259
Cash and cash equivalents	17	**18,924**	30,857
		64,270	69,262
Total assets		**126,950**	130,805
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	18	**1,510**	1,510
Reserves	19	**77,185**	85,871
		78,695	87,381
Minority interests		**13,059**	11,175
Total equity		**91,754**	98,556
LIABILITIES			
Current liabilities			
Trade payables	20	**9,994**	8,929
Amounts due to related parties	21	**7,383**	5,848
Other payables and accruals		**16,894**	16,545
Current income tax liabilities		**761**	763
Dividend payable		**164**	164
Total liabilities		**35,196**	32,249
Total equity and liabilities		**126,950**	130,805
Net current assets		**29,074**	37,013
Total assets less current liabilities		**91,754**	98,556

Ye Zhi Mao, Jason	**Chen Rong Fang**
Director	*Director*

The notes on pages 33 to 91 are an integral part of these financial statements.

Company Balance Sheet

As at 31 December 2008

	Note	As at 31 December 2008 US$'000	2007 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	**–**	228
Investments in and amounts due from subsidiaries	11	**59,865**	78,882
		59,865	79,110
Current assets			
Amounts due from related parties	15	**1,794**	1,699
Deposits and other receivables	16	**107**	106
Cash and cash equivalents	17	**930**	847
		2,831	2,652
Total assets		**62,696**	81,762
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	18	**1,510**	1,510
Reserves	19	**60,243**	79,706
Total equity		**61,753**	81,216
LIABILITIES			
Current liabilities			
Amounts due to related parties	21	**699**	195
Other payables and accruals		**80**	187
Dividends payable		**164**	164
Total liabilities		**943**	546
Total equity and liabilities		**62,696**	81,762
Net current assets		**1,888**	2,106
Total assets less current liabilities		**61,753**	81,216

Ye Zhi Mao, Jason
Director

Chen Rong Fang
Director

The notes on pages 33 to 91 are an integral part of these financial statements.

For the year ended 31 December 2008

	Note	Year ended 31 December 2008 US$'000	2007 US$'000
Revenue	5	**115,552**	106,674
Cost of sales		**(80,538)**	(72,016)
Gross profit		**35,014**	34,658
Other expenses, net		**(165)**	(196)
Distribution costs		**(3,966)**	(3,582)
Administrative and operating expenses		**(29,796)**	(21,693)
Amortisation of intellectual property rights	9	**–**	(6,998)
Provision on liquidation of a subsidiary	25	**(9,975)**	–
(Loss)/profit before income tax		**(8,888)**	2,189
Income tax expense	26	**(2,473)**	(3,069)
Loss for the year		**(11,361)**	(880)
Attributable to:			
Equity holders of the Company		**(12,542)**	(2,850)
Minority interests		**1,181**	1,970
		(11,361)	(880)
Basic/diluted loss per share for loss attributable to the equity holders of the Company during the year (US cents)	28	**(8.30)**	(1.89)
Dividends	29	**–**	24,689

Ye Zhi Mao, Jason
Director

Chen Rong Fang
Director

The notes on pages 33 to 91 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company								
	Issued share capital	Share premium account	Statutory and discretionary reserve fund	Currency translation reserve	Capital contribution	Retained earnings/ (accumulated losses)	Total	Minority interests	Total equity
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2007	**1,510**	**85,305**	**5,640**	**1,220**	**–**	**15,606**	**109,281**	**12,156**	**121,437**
Net gain not recognised in the income statement	–	–	–	5,035	–	–	5,035	770	5,805
(Loss)/profit for the year	–	–	–	–	–	(2,850)	(2,850)	1,970	(880)
Dividends paid to minority interests	–	–	–	–	–	–	–	(3,721)	(3,721)
Equity-settled share option arrangements	–	–	–	–	604	–	604	–	604
Interim dividend paid	–	(24,689)	–	–	–	–	(24,689)	–	(24,689)
Appropriation to reserve fund and expansion fund	–	–	2,949	–	–	(2,949)	–	–	–
Balance at 31 December 2007 and at 1 January 2008	**1,510**	**60,616**	**8,589**	**6,255**	**604**	**9,807**	**87,381**	**11,175**	**98,556**
Net gain not recognised in the income statement	–	–	–	3,856	–	–	3,856	703	4,559
(Loss)/profit for the year	–	–	–	–	–	(12,542)	(12,542)	1,181	(11,361)
Appropriation to reserve fund and expansion fund	–	–	133	–	–	(133)	–	–	–
Balance at 31 December 2008	**1,510**	**60,616**	**8,722**	**10,111**	**604**	**(2,868)**	**78,695**	**13,059**	**91,754**

Ye Zhi Mao, Jason
Director

Chen Rong Fang
Director

The notes on pages 33 to 91 are an integral part of these financial statements.

For the year ended 31 December 2008

	Notes	2008 US$'000	2007 US$'000
		Year ended 31 December	
Cash flows from operating activities			
Cash generated from operations	31	**387**	16,279
Income tax paid		**(2,475)**	(2,976)
Net cash (outflow)/inflow from operating activities		**(2,088)**	13,303
Cash flows from investing activities			
Purchase of property, plant and equipment	8	**(7,936)**	(3,437)
Purchase of other non-current assets	10	**(3,016)**	(2,334)
Proceeds from sale of property, plant and equipment	31	**142**	197
Interest received		**342**	916
Net cash outflow from investing activities		**(10,468)**	(4,658)
Cash flows from financing activities			
Interim dividends paid to the Company's shareholders		**–**	(24,657)
Dividends paid to minority interests		**–**	(5,716)
Net cash outflow from financing activities		**–**	(30,373)
Net decrease in cash and cash equivalents		**(12,556)**	(21,728)
Cash and cash equivalents at beginning of year	17	**30,857**	50,062
Exchange differences		**623**	2,523
Cash and cash equivalents at end of the year	17	**18,924**	30,857

The notes on pages 33 to 91 are an integral part of these financial statements.

1. GENERAL INFORMATION

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

During the year, the Company remained an investment holding company and its subsidiaries were principally engaged in the manufacture, sale and distribution of plumbing products in China. The Company and its subsidiaries are collectively referred to as the "Group" in these financial statements.

American Standard Companies Inc. ("ASCI"), ASD Acquisition Corp. ("ASD") and Ideal Standard International Holding Sarl ("Ideal Standard International") entered into certain stock and assets purchase agreements, pursuant to which ASD and Ideal Standard International agreed to acquire the worldwide bath and kitchen products business of ASCI which includes the Group. In October 2007, ASCI completed the sale of its worldwide bath and kitchen products business to Ideal Standard International. Ideal Standard International is a 100% owned subsidiary of Ideal Standard International Topco (BC) Luxco S.C.A. ("Ideal Standard").

As at 31 December 2008, in the opinion of the directors, the immediate holding company of the Company is American Standard Foreign Trading Limited, the penultimate holding company of the Company is Ideal Standard International and the ultimate holding company of the Company is Ideal Standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of The Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, financial assets and financial liabilities are generally stated at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

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

2.1 Basis of preparation *(Continued)*

(a) Amendments and interpretations effective in 2008

In 2008, the Group adopted the following amendments and interpretation to existing standards which are relevant to its operations.

- The HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any significant impact on the Group's financial statements.

- HK(IFRIC) – Int 11, HKFRS 2 – 'Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have a significant impact on the Group's financial statements.

(b) Interpretations effective in 2008 but are not relevant to the Group

The following interpretation to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the Group's operations:

- HK(IFRIC) – Int 12, 'Service concession arrangements'

- HK (IFRIC) – Int 14, HKAS 19 – 'The limit on a defined benefit asset, minimum funding requirements and their interaction'

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

2.1 Basis of preparation *(Continued)*

(c) *Standards, amendments and interpretations to existing standards that are not yet effective in 2008 and have not been early adopted by the Group*

The following standards and amendments to existing standards have been published which are relevant to the Group's operations and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009. It is likely that both the consolidated income statement and statement of comprehensive income will be presented as performance statements.

- HKFRS 8, 'Operating segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. The Group will apply HKFRS 8 from 1 January 2009. The adoption of the standard is not expected to have significant impact on the Group's financial statements.

- HKAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) retrospectively from 1 January 2009 but is currently not applicable to the Group as there are no borrowings.

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

2.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective in 2008 and have not been early adopted by the Group (Continued)

- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010. The adoption of the standard is not expected to have significant impact on the Group's financial statements as currently no material transaction with minority interest is anticipated.

- HKFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009, but it is not expected to have a material impact on the Group's financial statements.

- HKFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010. The adoption of the standard is not expected to have significant impact on the Group's financial statements as currently no material business combination activities are anticipated.

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

2.1 Basis of preparation *(Continued)*

(c) *Standards, amendments and interpretations to existing standards that are not yet effective in 2008 and have not been early adopted by the Group (Continued)*

- HKICPA's improvements to HKFRS published in October 2008
  - ➢ HKAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the HKAS 1 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

  - ➢ HKAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).
    - – The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

    - – The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

    - – The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

    - – HKAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed, not recognised. HKAS 19 has been amended to be consistent.

    The Group will apply the HKAS 19 (Amendment) from 1 January 2009.

  - ➢ HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39, 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between HKAS 39 and HKAS 23. The Group will apply the HKAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

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

2.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective in 2008 and have not been early adopted by the Group (Continued)

- HKICPA's improvements to HKFRS published in October 2008 *(Continued)*
  - ➢ HKAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

  - ➢ HKAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the HKAS 38 (Amendment) from 1 January 2009.

  - ➢ HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).
    - – This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

    - – The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

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

2.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective in 2008 and have not been early adopted by the Group (Continued)

- HKICPA's improvements to HKFRS published in October 2008 *(Continued)*

  ➢ HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009) *(Continued)*.

  – The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that HKAS 39 is consistent with HKFRS 8, 'Operating segments' which requires disclosure for segments to be based on information reported to the chief operating decision maker. Currently, for segment reporting purposes, each subsidiary designates and documents (including effectiveness testing) contracts with group treasury as fair value or cash flow hedges so that the hedges are reflected in the segment to which the hedged items relate. This is consistent with the information viewed by the chief operating decision maker. After the amendment is effective, the hedge will continue to be reflected in the segment to which the hedged items relate (and information provided to the chief operating decision maker) but the Group will not formally document and test this hedging relationship.

  – When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

  The Group will apply the HKAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's consolidated income statement.

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

2.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective in 2008 and have not been early adopted by the Group (Continued)

- HKICPA's improvements to HKFRS published in October 2008 *(Continued)*
  - ➢ HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to HKFRS 1 states that these amendments are applied prospectively from the date of transition to HKFRSs. The Group will apply the HKFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.
  - ➢ There are a number of minor amendments to HKFRS 7, 'Financial instruments: Disclosures', HKAS 8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the balance sheet date', HKAS 18, 'Revenue' and HKAS 34, 'Interim financial reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

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

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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

2.2 Consolidation *(Continued)*

(b) Transactions with minority interests

Minority interests represent the interests of outside members in the operating results and net assets of subsidiaries.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group and are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's management determined that the functional currency of the Company and its PRC subsidiaries shall be Renminbi and the presentation currency of the Company shall be US dollar.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

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

2.4 Foreign currency translation *(Continued)*

(c) Group companies

The results and financial position of all the group companies (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

2.5 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

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

2.5 Property, plant and equipment *(Continued)*

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives as follows:

Buildings	40 years
Plant and machinery	20 years
Furniture, equipment and motor vehicles	4-6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gains/(loss) – net, in the consolidated income statement.

2.6 Other non-current assets

Other non-current assets mainly include in-store decoration and display costs, amortised on a straight-line basis over the estimated useful life of 3 years. Other non-current assets are stated at cost less accumulated amortisation.

2.7 Land use rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. The premiums paid for such rights are treated as prepayments for operating leases and recorded as land use rights, which are amortised over the period of the respective lease using the straight-line method.

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

2.8 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2.9 Intangible assets (other than goodwill)

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

2.10 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Non-current assets (or disposal groups) held for sales

Non-current assets (or disposal groups) are classified as assets held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

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

2.12 Financial assets

2.12.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivable and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 2.14 and 2.15).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

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

2.12 Financial assets *(Continued)*

2.12.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'other (losses)/gains – net', in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. Impairment testing of trade receivables is described in Note 2.14.

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

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within 'administrative and operating expenses'. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against 'administrative and operating expenses' in the consolidated income statement.

2.15 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.16 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

2.18 Employee benefits

(a) Employee retirement benefits

The employees of the Group's subsidiaries which operate in China are required to participate in a central pension scheme operated by the local or municipal government. The Mainland China subsidiaries are required to contribute 19.0% to 22.5% of their payroll costs, subject to a certain ceiling, to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

(b) The Co-investment plan

In 2007, Bain Capital Ltd. ("Bain Capital"), an investor in the ultimate holding company of the Company, launched the Co-investment Plan (the "Plan"), to certain directors of the Company, which described that the directors shall own certain equity interests in Ideal Standard and have participated in the co-investment in the bath and kitchen business with Bain Capital. Certain directors of the Company were granted, by Bain Capital, Preferred Equity Certificates ("PEC"), Convertible Preferred Equity Certificates ("CPEC") and ordinary shares of Ideal Standard ("equity-settled transactions") under the Co-investment Plan (the "Plan") in 2007 and 2008.

The directors' investment in Ideal Standard will take the form of co-investment with Bain Capital in the PEC and CPEC ("co-investment securities") and the right to acquire the allocated performance-based equity securities ("performance securities"), i.e. ordinary shares Class B, Class C and Class D. The directors will be entitled to receive distributions from Ideal Standard with respect to its co-investment securities and accredited performance securities.

The cost of equity-settled transactions is recognised at the fair value of these equity instruments at the time of grant. For market price not available as reference, the equity instrument should be measured using a valuation technique to estimate what the price of those equity instruments would have been on the measurement date in an arm's length transaction between knowledgeable, willing parties. For fair value of the equity instruments not feasible to be measured reliably on the measurement date, intrinsic value should be considered in the valuation.

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

2.18 Employee benefit *(Continued)*

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.19 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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

2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below.

(a) *Sale of goods*

Sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

(b) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(c) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

2.21 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

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

2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.23 Comparatives

Where necessary, prior year amounts have been reclassified to conform with changes in presentation in the current year.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 48% (2007: 49%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 8.2% (2007: 3.2%) of costs are denominated other than the unit's functional currency.

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

The Group does not enter into any hedging instruments.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk (Continued)

(i) Foreign currency risk *(Continued)*

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in Rmb rate %	Increase/ (decrease) in profit before tax US$'000
2008		
If US$ weakens against RMB	**5**	**753**
If US$ strengthens against RMB	**(5)**	**(753)**
2007		
If US$ weakens against RMB	5	978
If US$ strengthens against RMB	(5)	(978)

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer, by geographical region and by industry sector. At the balance sheet date, the Group has certain concentrations of credit risk as 29% (2007: 19%) and 54% (2007: 43%) of the Group's total trade receivables, including amounts due from related parties, were due from the Group's largest customer and the five largest customers, respectively. However, most of these customers are related companies within the Ideal Standard Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in Note 14 to the financial statements.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group's objective is to maintain an adequate level of cash and bank balances and investments in highly liquid securities.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows.

	Less than 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000	Over 5 years US$'000
Group				
At 31 December 2008				
Trade payables	9,994	–	–	–
Amounts due to related parties	7,383	–	–	–
Other payables and accruals	16,894	–	–	–
At 31 December 2007				
Trade payables	8,929	–	–	–
Amounts due to related parties	5,848	–	–	–
Other payables and accruals	16,546	–	–	–

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity', as shown in the consolidated balance sheet, plus net debt. As the Company had no borrowings as at 31 December 2008, the gearing ratio at 31 December 2007 and 2008 was zero.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

(b) Useful lives of property, plant and equipment

The Group determines the estimated lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

The Group will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Estimated impairment of non-financial assets other than goodwill

The Group follows HKAS 36 to determine whether non-financial assets (other than goodwill stated in above 4(a)) have suffered any impairment. The recoverable amount of an asset is determined based on the higher of the asset's fair value less costs to sell and value in use. The determination of fair value less costs to sell requires the use of estimates.

(d) Recognition of deferred tax assets

In assessing the amount of deferred tax assets that need to be recognised in accordance with the accounting policy stated in Note 2.17 to the financial statements, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to utilise the tax benefits of net operating loss carry forwards in the future, adjustments of deferred tax asset would be made.

(e) Provision for impairment of trade and other receivables

The policy for the impairment of receivables and amounts due from related parties of the Group is based on, where appropriate, management's judgment and the evaluation of collectability and ageing analysis of the receivables. A considerable amount of judgment is required in assessing the ultimate realisation of these outstanding, including the current creditworthiness, trading history and the past collection history of each debtor. Management believe that the current provision for impairment of trade and other receivables are sufficient. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision for impairment may be required.

5. SEGMENT INFORMATION

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

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

	Segment revenue	
	2008	2007
	US$'000	US$'000
Mainland China	**60,276**	54,892
European countries	**26,677**	24,965
North America	**11,045**	13,282
Others	**17,554**	13,535
Total	**115,552**	106,674

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

6. GOODWILL

	Group
	US$'000
At 31 December 2007 and 2008	
Cost and net carrying amount	2,105

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

The recoverable amount of the goodwill has been determined based on a value in use calculation using cash flow projections according to financial budgets approved by management covering a five year period. The discount rate applied to the cash flow projections was determined after considering specific risks relating to the business. The annual growth rate used is in line with the average growth rate of the industry.

Key assumptions were used in the value in use calculation for 31 December 2008 and 31 December 2007. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

7. LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	Group	
	2008	2007
	US$'000	US$'000
In China held on:		
Leases of between 29 to 40 years	**8,259**	8,121
Net book value at 1 January	**8,337**	8,053
Amortisation	**(247)**	(216)
Exchange differences	**370**	500
Net book value at 31 December	**8,460**	8,337
Current portion included in prepayments, Deposits and other receivables	**(201)**	(216)
Non-current portion	**8,259**	8,121

8. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings US$'000	Plant & machinery US$'000	Furniture, equipment & motor vehicles US$'000	Construction in progress US$'000	Total US$'000
At 1 January 2007					
Cost	25,855	52,223	12,604	735	91,417
Accumulated depreciation	(7,389)	(24,205)	(11,718)	–	(43,312)
Net book amount	18,466	28,018	886	735	48,105
Year ended 31 December 2007					
Opening net book amount	18,466	28,018	886	735	48,105
Exchange differences	1,085	1,645	52	–	2,782
Additions	–	272	475	2,690	3,437
Transfers	53	2,115	867	(3,035)	–
Disposals *(Note 31)*	(300)	(35)	–	–	(335)
Depreciation	(569)	(2,747)	(906)	–	(4,222)
Closing net book amount	18,735	29,268	1,374	390	49,767
At 31 December 2007					
Cost	27,299	57,971	13,421	390	99,081
Accumulated depreciation	(8,564)	(28,703)	(12,047)	–	(49,314)
Net book amount	18,735	29,268	1,374	390	49,767
Year ended 31 December 2008					
Opening net book amount	**18,735**	**29,268**	**1,374**	**390**	**49,767**
Exchange differences	**1,042**	**1,842**	**327**	**–**	**3,211**
Additions	**–**	**10**	**807**	**7,119**	**7,936**
Transfers	**728**	**954**	**839**	**(2,521)**	**–**
Disposals *(Note 31)*	**(135)**	**(117)**	**(55)**	**–**	**(307)**
Depreciation	**(709)**	**(2,774)**	**(1,206)**	**–**	**(4,689)**
Impairment charge *(Note 25)*	**(3,873)**	**(2,992)**	**(260)**	**–**	**(7,125)**
Closing net book amount	**15,788**	**26,191**	**1,826**	**4,988**	**48,793**
At 31 December 2008					
Cost or valuation	**29,112**	**59,283**	**14,433**	**4,988**	**107,816**
Accumulated depreciation & Impairment	**(13,324)**	**(33,092)**	**(12,607)**	**–**	**(59,023)**
Net book amount	**15,788**	**26,191**	**1,826**	**4,988**	**48,793**

Depreciation expense of US$4,305,000 (2007: US$3,813,000) has been charged in 'cost of sales' and US$384,000 (2007: US$409,000) in 'administrative and operating expenses'.

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

Company

	Furniture, equipment & motor vehicles US$'000
At 1 January 2007	
Cost	2,080
Accumulated depreciation	(1,772)
Net book amount	308
Year ended 31 December 2007	
Opening net book amount	308
Depreciation	(80)
Closing net book amount	228
At 31 December 2007	
Cost	2,085
Accumulated depreciation	(1,857)
Net book amount	228
Year ended 31 December 2008	
Opening net book amount	**228**
Additions	**–**
Disposals	**(226)**
Depreciation	**(2)**
Closing net book amount	**–**
At 31 December 2008	
Cost or valuation	**563**
Accumulated depreciation	**(563)**
Net book amount	**–**

9. INTANGIBLE ASSETS

Group

	Intellectual property rights US$'000	Trademark license fees US$'000	Total US$'000
At 1 January 2007			
Cost	10,000	1,650	11,650
Accumulated amortisation	(3,002)	(1,650)	(4,652)
Net book amount	6,998	–	6,998
Year ended 31 December 2007			
Opening net book amount	6,998	–	6,998
Amortisation charge	(6,998)	–	(6,998)
Closing net book amount	–	–	–
At 31 December 2007, 1 January and 31 December 2008			
Cost	**10,000**	**1,650**	**11,650**
Accumulated amortisation	**(10,000)**	**(1,650)**	**(11,650)**
Net book amount	**–**	**–**	**–**

Company

	Intellectual property rights US$'000
At 1 January 2007	
Cost	10,000
Accumulated amortisation	(3,002)
Net book amount	6,998
Year ended 31 December 2007	
Opening net book amount	6,998
Amortisation charge	(6,998)
Closing net book amount	–
At 31 December 2007, 1 January and 31 December 2008	
Cost	**10,000**
Accumulated amortisation	**(10,000)**
Net book amount	**–**

9. INTANGIBLE ASSETS *(Continued)*

The Company entered into an agreement with ASCI on 1 January 1996 for the Company to have the exclusive territorial rights to use American Standard Inc.'s ("ASI's") present and future trademark, and to have access to its present and future technology, know-how on how to manufacture, market distribute and sell ASI's plumbing products in Mainland China (the "Intellectual Property Rights"). There is no termination date specified in this agreement.

The Intellectual Property Rights was amortised with an estimated useful live of 20 years up to 2005. In 2005, the Company made an assessment to categorise the Intellectual Property Rights as an indefinite intangible asset. The amortisation was then ceased in 2005.

In 2007, the Group was disposed by ASCI to Ideal Standard. Ideal Standard did not state its intention not to terminate the agreement at will. The Company had therefore made a full impairment charge against the net book amount of Intellectual Property Rights as at 31 December 2007 which indeed was amortisation charge including those understated amortisation for years 2005 and 2006. The corresponding figure has been amended to reflect the amortisation charge. After the amendment, the net book amount of the Intellectual Property Rights as at 31 December 2007 remained as zero.

10. OTHER NON-CURRENT ASSETS

Group

	In-store decoration and display costs US$'000	Office decoration US$'000	Total US$'000
At 1 January 2007			
Cost	36	–	36
Accumulated amortisation	(5)	–	(5)
Net book amount	31	–	31
Year ended 31 December 2007			
Opening net book amount	31	–	31
Additions	2,334	–	2,334
Amortisation charge	(815)	–	(815)
Closing net book amount	1,550	–	1,550
At 31 December 2007			
Cost	2,369	–	2,369
Accumulated amortisation	(819)	–	(819)
Net book amount	1,550	–	1,550
Year ended 31 December 2008			
Opening net book amount	**1,550**	**–**	**1,550**
Additions	**2,851**	**165**	**3,016**
Amortisation charge	**(1,167)**	**–**	**(1,167)**
Exchange differences	**123**	**1**	**124**
Closing net book amount	**3,357**	**166**	**3,523**
At 31 December 2008			
Cost	**5,436**	**166**	**5,602**
Accumulated amortisation	**(2,079)**	**–**	**(2,079)**
Net book amount	**3,357**	**166**	**3,523**

11. INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES

	Company	
	2008	2007
	US$'000	US$'000
Unlisted equity investments, at cost:	**64,357**	64,357
Impairment	**(17,514)**	–
	46,843	64,357
Amounts due from subsidiaries	**14,819**	14,525
Provision	**(1,797)**	–
	13,022	14,525
Total	**59,865**	78,882

According to the long-term manufacturing optimisation strategy, approval of the Board of the Company and agreement with the joint venture partner, the Group has planned to liquidate an unprofitable bathtub plant, A-S (Guangzhou) Enamelware Company Limited. In addition, another subsidiary, A-S (China) Company, Ltd. has continuously operated in a loss and was in an accumulated losses position. Impairment losses are recognised for these two subsidiaries accordingly.

The following is a list of the principal subsidiaries at 31 December 2008:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Effective interest held Direct	Effective interest held Indirect
A-S (China) Company, Ltd. ("ASCC")	Mainland China, limited liability company	Investment holding and marketing of the Group's products in mainland China	US$30,000,000	100%	–
A-S (Guangzhou) Enamelware Company Limited ("A-S Guangzhou Bathtubs")*	Mainland China, limited liability company	Manufacturing of enamelled steel bathtubs in Guangdong Province	US$18,000,000	41.40%	40.60%
A-S (Jiangmen) Fittings Co., Ltd.	Mainland China, limited liability company	Manufacturing of brass fittings in Guangdong Province	US$10,850,000	–	100%
A-S (Shanghai) Pottery Co., Ltd. ("A-S Shanghai Pottery")*	Mainland China, limited liability company	Manufacturing of vitreous china sanitary ware in Shanghai	US$24,725,000	57.73%	24.27%
A-S (Tianjin) Pottery Co., Ltd. ("A-S Tianjin Pottery")	Mainland China, limited liability company	Manufacturing of vitreous china sanitary ware in Tianjin	US$17,500,000	50.30%	49.70%
Hua Mei Sanitary Ware Co., Ltd.* ("Hua Mei")	Mainland China, limited liability company	Manufacturing of vitreous china sanitary ware in Guangdong Province	US$12,000,000	67.58%	–

* These subsidiaries are registered as contractual joint ventures under the PRC law.

12. FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

Group

	Loans and receivables US$'000	Assets at fair value through profit or loss US$'000	Derivatives used for hedging US$'000	Available-for-sale US$'000	Total US$'000
Assets as per consolidated balance sheet					
As at 31 December 2008					
– Trade receivables *(Note 14)*	**11,867**	**–**	**–**	**–**	**11,867**
– Amounts due from related parties *(Note 15)*	**17,420**	**–**	**–**	**–**	**17,420**
– Deposits and other receivables *(Note 16)*	**3,758**	**–**	**–**	**–**	**3,758**
– Cash and cash equivalents *(Note 17)*	**18,924**	**–**	**–**	**–**	**18,924**
Total	**51,969**	**–**	**–**	**–**	**51,969**
As at 31 December 2007					
– Trade receivables *(Note 14)*	13,779	–	–	–	13,779
– Amounts due from related parties *(Note 15)*	10,919	–	–	–	10,919
– Deposits and other receivables *(Note 16)*	2,469	–	–	–	2,469
– Cash and cash equivalents *(Note 17)*	30,857	–	–	–	30,857
Total	58,024	–	–	–	58,024

	Liabilities at fair value through profit or loss US$'000	Derivatives used for hedging US$'000	Other financial liabilities at amortised cost US$'000	Total US$'000
Liabilities as per consolidated balance sheet				
As at 31 December 2008				
– Trade payables *(Note 20)*	**–**	**–**	**9,994**	**9,994**
– Amounts due to related parties *(Note 21)*	**–**	**–**	**7,383**	**7,383**
– Other payables and accruals	**–**	**–**	**16,894**	**16,894**
Total	**–**	**–**	**34,271**	**34,271**
As at 31 December 2007				
– Trade payables *(Note 20)*	–	–	8,929	8,929
– Amounts due to related parties *(Note 21)*	–	–	5,848	5,848
– Other payables and accruals	–	–	16,546	16,546
Total	–	–	31,323	31,323

12. FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY *(Continued)*

Company

	Loans and receivables US$'000	Assets at fair value through profit or loss US$'000	Derivatives used for hedging US$'000	Available-for-sale US$'000	Total US$'000
Assets as per consolidated balance sheet					
As at 31 December 2008					
– Amounts due from related parties *(Note 15)*	**1,794**	**–**	**–**	**–**	**1,794**
– Deposits and other receivables *(Note 16)*	**107**	**–**	**–**	**–**	**107**
– Cash and cash equivalents *(Note 17)*	**930**	**–**	**–**	**–**	**930**
Total	**2,831**	**–**	**–**	**–**	**2,831**
As at 31 December 2007					
– Amounts due from related parties *(Note 15)*	1,699	–	–	–	1,699
– Deposits and other receivables *(Note 16)*	106	–	–	–	106
– Cash and cash equivalents *(Note 17)*	847	–	–	–	847
Total	2,652	–	–	–	2,652

	Liabilities at fair value through profit or loss US$'000	Derivatives used for hedging US$'000	Other financial liabilities at amortised cost US$'000	Total US$'000
Liabilities as per consolidated balance sheet				
As at 31 December 2008				
– Amounts due to related parties *(Note 21)*	**–**	**–**	**699**	**699**
– Other payables and accruals	**–**	**–**	**80**	**80**
Total	**–**	**–**	**779**	**779**
As at 31 December 2007				
– Amounts due to related parties *(Note 21)*	–	–	195	195
– Other payables and accruals	–	–	187	187
Total	–	–	382	382

13. INVENTORIES

	Group 2008 US$'000	Group 2007 US$'000
Raw materials	**3,741**	3,693
Work in progress	**1,773**	1,899
Finished goods	**6,056**	4,856
	11,570	10,448

The cost of inventories recognised as expense and included in 'cost of sales' amounted to US$60,368,000 (2007: US$53,844,000).

The Group provided US$42,000 inventory provision which has been recorded under 'cost of sales' in the consolidated income statement (2007: reversal of provision US$155,000).

14. TRADE RECEIVABLES

	Group 2008 US$'000	Group 2007 US$'000
Trade receivables	**13,962**	14,973
Less: Provision for impairment of receivables	**(2,095)**	(1,194)
Trade receivables – net	**11,867**	13,779

The Group's trading terms with its customers are mainly on credit. The Group generally grants a credit term of 60 to 210 days to its customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

14. TRADE RECEIVABLES *(Continued)*

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

	Group	
	2008	2007
	US$'000	US$'000
Within 30 days	**3,955**	7,708
Within 31-90 days	**4,078**	2,503
Within 91-180 days	**2,606**	2,418
Over 180 days	**1,228**	1,150
	11,867	13,779

As at 31 December 2008, trade receivables of US$8,722,000 (2007: US$12,560,000) were fully performing.

As at 31 December 2008, trade receivables of US$3,145,000 (2007: US$1,219,000) were past due but not impaired. Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The ageing analysis of these trade receivables, based on the invoice date, is as follows:

	2008	2007
	US$'000	US$'000
Within 30 days	**–**	–
Within 31-90 days	**929**	111
Within 91-180 days	**1,284**	548
Over 180 days	**932**	560
	3,145	1,219

14. TRADE RECEIVABLES *(Continued)*

As at 31 December 2008, trade receivables of US$2,095,000 (2007: US$1,194,000) were impaired and provided for. The amount of the provision was US$2,095,000 as at 31 December 2008 (2007: US$1,194,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables, based on the invoice date, is as follows:

	2008 US$'000	2007 US$'000
Within 31-90 days	**6**	–
Within 91-180 days	**27**	7
Over 180 days	**2,062**	1,187
	2,095	1,194

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2008 US$'000	2007 US$'000
US dollar	**3,095**	2,530
RMB	**8,772**	11,249
	11,867	13,779

Movements on the Group's provision for impairment of trade receivables are as follows:

	Group	
	2008 US$'000	2007 US$'000
At 1 January	**1,194**	564
Provision for receivable impairment	**901**	640
Receivables written off during the year as uncollectible	**–**	(10)
At 31 December	**2,095**	1,194

The creation and release of provision for impaired receivables have been included in 'Administrative and operating expenses' in the income statement (Note 23). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

15. AMOUNTS DUE FROM RELATED PARTIES

The balances due from related parties are unsecured, interest-free and are repayable in accordance with trade terms. The carrying value of the balances due from related parties approximates to their fair value due to their relatively short term maturity.

The Group's trading terms with its related parties are mainly on credit. The Group generally grants a credit term of 60 to 120 days to its related parties. Each related party has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. At the balance sheet date, the Group has certain concentrations of credit risk as 48% (2007: 41%) of the Group's total amounts due from related parties, were due from the Group's largest customer. Trade receivables are non-interest-bearing.

An analysis of amounts due from related parties as at the balance sheet date is as follows:

	Group	
	2008	2007
	US$'000	US$'000
Trade receivables	**15,288**	9,074
Other receivables	**2,132**	1,845
	17,420	10,919

An analysis of trade receivable as at the balance sheet date is as follows:

	Group	
	2008	2007
	US$'000	US$'000
Fully performing	**9,359**	7,973
Past due but not impaired	**5,929**	1,101
	15,288	9,074

15. AMOUNTS DUE FROM RELATED PARTIES *(Continued)*

	Company	
	2008	2007
	US$'000	US$'000
Other receivables	**1,794**	1,699

An amount of US$1,699,000 due from World Standard Limited, which was part of the ASCI group, was included in the other receivables balance in the 2007 financial statements. Ideal Standard has subsequently confirmed that such a receivable should have been regarded as due from Ideal Standard after the Group was disposed by ASCI to Ideal Standard International in October 2007. Accordingly the amount has been reclassified from other receivables to amounts due from related parties in the 2007 comparative figures of these 2008 financial statements. Such a receivable due from Ideal Standard has increased to US$1,718,000 as at 31 December 2008.

Ideal Standard has confirmed its intention to settle the amount of US$1,718,000 to the Company within the year 2009, subject to and conditional upon the settlement of trademark license, technical assistance and management assistance fees payable owed by the Group to Ideal Standard.

16. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

As at 31 December 2008, the fair value of the deposits and other receivables of the Group and the Company approximate their carrying amounts.

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	US$'000	US$'000	**US$'000**	US$'000
Cash at bank and on hand	**11,606**	30,018	**930**	147
Short-term bank deposits	**7,318**	839	**–**	700
Cash and cash equivalents	**18,924**	30,857	**930**	847

17. CASH AND CASH EQUIVALENTS *(Continued)*

The carrying amounts of the Group's and the Company's cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	US$'000	US$'000	**US$'000**	US$'000
RMB	**16,116**	26,769	**–**	–
US dollar	**2,385**	3,266	**899**	813
Euro	**392**	787	**–**	–
HK dollar	**31**	35	**31**	34
	18,924	30,857	**930**	847

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to US$16,116,000 (2007: US$26,769,000). The RMB is not freely convertible into other currencies. However, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Bank balances earn interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. As at 31 December 2008, the Group's bank deposits are deposited in reputable banks in the PRC, which is considered by management without significant credit risk. The carrying amounts of the cash and cash equivalents and the time deposits approximate to their fair values.

18. SHARE CAPITAL

	Group and Company	
	2008	2007
	US$'000	US$'000
Authorised:		
300,000,000 ordinary shares of US$0.01 each	**3,000**	3,000
Issued and fully paid:		
151,034,000 ordinary shares of US$0.01 each	**1,510**	1,510

19. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 31 of the financial statements.

(b) Company

	Share premium account US$'000	Capital contribution US$'000	Retained earnings/ accumulated losses US$'000	Total US$'000
At 1 January 2007	83,917	–	13,112	97,029
Profit for the year	–	–	6,762	6,762
Equity-settled share option arrangements	–	604	–	604
Interim dividend paid	(24,689)	–	–	(24,689)
At 31 December 2007 and 1 January 2008	59,228	604	19,874	79,706
Loss for the year	–	–	(19,463)	(19,463)
At 31 December 2008	**59,228**	**604**	**411**	**60,243**

20. TRADE PAYABLES

At 31 December 2008, the ageing were as follows:

	Group	
	2008	2007
	US$'000	US$'000
Within 30 days	**8,061**	7,096
Within 31-90 days	**1,078**	431
Within 91-180 days	**415**	400
Over 180 days	**440**	1,002
	9,994	8,929

The trade payables are non-interest-bearing and are normally settled within 30 to 60 days terms.

21. AMOUNTS DUE TO RELATED PARTIES

Amounts due at each balance sheet date arose from trademark license, technical assistance and management assistance fees and purchase transactions. The ageing of amounts due to related parties arising from purchase transactions are within one year.

The balances due to related parties are unsecured, interest-free and repayable in accordance with trade terms. The carrying value of the balances due to related parties approximates to their fair value due to their relatively short term maturity.

An amount of US$3,659,000 due to ASCI was included in the other payables balance in the 2007 financial statements. Ideal Standard has subsequently clarified that such a payable should have been regarded as due to Ideal Standard after the Group was disposed by ASCI to Ideal Standard International in October 2007. Accordingly the amount has been reclassified from other payables to amounts due to related parties in the 2007 comparative figures of these 2008 financial statements.

22. DEFERRED INCOME TAX

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2008	2007
	US$'000	US$'000
Tax losses	**9,009**	3,905
Temporary differences	**3,738**	3,753
	12,747	7,658

In accordance with the PRC tax law, tax losses can be carried forward to offset against future taxable income for a period of five years. At 31 December 2008, deferred tax assets have not been recognised in the accounts as, in the opinion of the directors, it is uncertain that there will be sufficient future taxable profit to utilise these tax losses before their expiry, which are five years since incurred.

At 31 December 2008, there was no significant unrecognised deferred tax liability (2007: Nil).

23. EXPENSES BY NATURE

	2008 US$'000	2007 US$'000
Changes in inventories of finished goods and work in progress (Note 13)	**(1,074)**	(1,860)
Raw materials and consumables used (Note 13)	**60,368**	53,844
Non-refundable input VAT on export	**5,815**	3,616
Employee benefit expenses (Note 24)	**15,903**	14,726
Amortisation of land use rights (Note 7)	**247**	216
Depreciation (Note 8)	**4,689**	4,222
Amortisation of other non-current assets (Note 10)	**1,167**	815
Operating lease payments	**870**	792
Auditors' remuneration	**245**	195
Provision for doubtful debts (Note 14)	**901**	640
Provision/(reversal) of provision against slow-moving inventories (Note 13)	**42**	(155)
Equity-settled share option expense	**–**	604
Research and development costs	**432**	1,095
Management fee expenses	**500**	450
Trademark, technical and management assistance fee	**2,830**	2,641
Distribution costs	**3,966**	3,582
Advertising and marketing costs	**10,666**	6,720
Maintenance expense	**1,177**	1,021
Travel and entertainment expenses	**1,081**	989
Foreign exchange losses, net	**2,171**	782
Other expenses	**2,304**	2,356
Total cost of sales, distribution costs and administrative expenses	**114,300**	97,291

24. EMPLOYEE BENEFIT EXPENSES

	2008	2007
	US$'000	US$'000
Salaries and wages	**11,867**	10,561
Retirement benefit costs		
– defined contribution plans	**987**	822
Medical benefits and other welfare expenses	**3,049**	3,343
Termination severance *(Note 25)*	**743**	–
	16,646	14,726
Number of employees	**1,533**	1,646

In accordance with the rules and regulations in the PRC, the employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to a ceiling, during the year.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under the plans described above. Contributions to these plans are expensed as incurred and other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administered funds managed by the PRC government.

25. PROVISION ON LIQUIDATION OF A SUBSIDIARY

According to the long-term manufacturing optimisation strategy, approval of the Board of the Company and agreement with the joint venture partner, the Group has planned to liquidate an unprofitable bathtub plant, A-S Guangzhou Bathtubs. It has ceased production and operation in the September of 2008. All the employees have been dismissed in accordance with local laws and regulations. ASCC has entered into a Framework Agreement with the local partners about A-S Guangzhou Bathtubs restructuring and the acquisition of local partners' shares in A-S Guangzhou Bathtubs. The relevant transactions were under negotiation and bidding process of state-owned assets. All the bathtub manufacturing has been consolidated in another plant in Guangdong to enhance overall operating efficiency. Inventories have been stated at the lower of cost and net realisable value. Land use rights and property, plant & equipment has been written down to fair value less costs to sell. The restructuring costs include assets impairment, termination severance and other restructuring related expenses.

	2008 **US$'000**
Assets Impairment	
– Property, plant and equipment	**7,125**
– Inventory	**216**
Termination severance	**743**
Others	**1,891**
	9,975

26. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided for as the Group has no estimated assessable profits subject to Hong Kong profits tax.

PRC income tax for 2008 is calculated based on the statutory income tax rate of 25% (2007: 33%) of the assessable income of the Group except for certain subsidiaries which are taxed at preferential rates of 18% (2007: 10% to 27%) based on the relevant PRC tax rules and regulations.

	2008 **US$'000**	2007 US$'000
Current tax:		
– PRC income tax	**2,473**	3,069
Income tax expense	**2,473**	3,069

26. INCOME TAX EXPENSE *(Continued)*

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to (losses)/profits of the consolidated entities as follows:

	2008	2007
	US$'000	US$'000
(Loss)/profit before tax	**(8,888)**	2,189
Tax calculated at domestic tax rates applicable to (losses)/profits in the respective countries	**(2,222)**	722
Tax effects of:		
Preferential tax rates on the income of certain subsidiaries	**(305)**	(2,832)
Expenses not deductible for tax purposes	**743**	131
Tax losses for which no deferred income tax asset was recognised		
– the Company and the subsidiary to be liquidated	**2,981**	2,888
– other entities	**1,276**	2,160
Tax charge	**2,473**	3,069

27. LOSS/(PROFIT) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of US$19,463,000 (2007: Profit of US$6,762,000).

28. LOSS PER SHARE

The calculation of the basic loss per share amount is based on the loss for the year attributable to equity holders of the Company of US$12,542,000 (2007: US$2,850,000), and the weighted average number of issued ordinary shares of 151,034,000 (2007: 151,034,000) during the year.

Diluted loss per share amounts for the years ended 31 December 2008 and 2007 have not been disclosed as no diluting events existed during the current or prior year.

The calculation of basic loss per share is based on:

	2008	2007
	US$'000	US$'000
Loss:		
Loss attributable to equity holders of the Company used in the basic loss per share calculation	**(12,542)**	(2,850)

	2008	2007
Share:		
Weighted average number of shares in issue during the year used in basic loss per share calculation	**151,034**	151,034

	2008	2007
	US cents	US cents
Basic loss per share attributable to equity holders of the Company:	**(8.30)**	(1.89)

29. DIVIDENDS

	2008	2007
	US$'000	US$'000
Interim dividend paid of US$Nil (2007: US$16.3 cents) per ordinary share	**–**	24,689

No final dividend was proposed for 2007 and 2008.

30. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	Group	
	2008	2007
	US$'000	US$'000
Fees	**111**	120
Other emoluments:		
– Salaries, allowances and benefits in kind	**572**	350
– Bonuses	**285**	46
– Pension scheme contributions	**22**	9
– Equity-settled share option arrangements	**–**	437
	990	962

2008	**Fees**	**Salaries, allowances and benefits in kind**	**Bonuses**	**Pension scheme contributions**	**Employee share option benefits**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Directors						
Ye Zhi Mao, Jason*	**–**	**–**	**–**	**–**	**–**	**–**
Gao Jin Min	**–**	**299**	**206**	**6**	**–**	**511**
Chen Rong Fang	**–**	**96**	**25**	**6**	**–**	**127**
Wang Gang*	**–**	**67**	**22**	**4**	**–**	**93**
Yang Xiong	**–**	**110**	**32**	**6**	**–**	**148**
Peter James O'Donnell	**15**	**–**	**–**	**–**	**–**	**15**
Chang Sze-Ming, Sydney	**32**	**–**	**–**	**–**	**–**	**32**
Ho Tse-Wah, Dean	**32**	**–**	**–**	**–**	**–**	**32**
Wong Kin Chi	**32**	**–**	**–**	**–**	**–**	**32**
	111	**572**	**285**	**22**	**–**	**990**

30. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

2007	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Bonuses US$'000	Pension scheme contributions US$'000	Employee share option benefits US$'000	Total US$'000
Directors						
Ye Zhi Mao, Jason	–	80	13	5	31	129
Gao Jin Min	–	270	33	4	231	538
Chang Sze-Ming, Sydney	40	–	–	–	–	40
Ho Tse-Wah, Dean	40	–	–	–	–	40
Wong Kin Chi	40	–	–	–	–	40
Richard M. Ward*	–	–	–	–	175	175
Yang Yu Qing, Cindy*	–	–	–	–	–	–
Chen Rong Fang*	–	–	–	–	–	–
Peter James O'Donnell	–	–	–	–	–	–
	120	350	46	9	437	962

* Certain directors of the Company received the emoluments from another Ideal Standards subsidiary, part of which is in respect of their services to the Group. No apportionment has been made as it is impractical to apportion this amount between their services to the Group and their services to that subsidiary.

There was no arrangement under which a director waived or agreed to waive any remuneration for the years ended 31 December 2008 and 2007.

30. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five highest paid employees during the year included three (2007: two) directors, details of whose remuneration are set out in Note 30(a) above. Details of the remuneration of the remaining two (2007: three) highest paid employees for the year are as follows:

	Group	
	2008	2007
	US$'000	US$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**178**	439
Bonuses	**30**	39
Employee share option benefits	**–**	88
Pension scheme contributions	**12**	9
	220	575

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

	Number of employees	
	2008	2007
Nil to US$128,205 (HK$1,000,000)	**2**	2
US$128,206 (HK$1,000,001) to US$192,308 (HK$1,500,000)	**–**	1
US$192,309 (HK$1,500,001) to US$256,410 (HK$2,000,000)	**–**	–
	2	3

During the year, no emoluments were paid by the Group to the directors or the other highest paid employees either as an inducement to join or upon joining the Group, or as compensation for loss of office (2007: Nil).

30. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(c) Shares and equity instruments granted under the Co-investment Plan

In 2007, Bain Capital Ltd. ("Bain Capital"), an investor in Ideal Standard, launched the Co- investment Plan (the "Plan"), to certain directors of the Company, which described that the directors shall own certain equity interests in Ideal Standard and have participated in the co-investment in the worldwide bath and kitchen products business with Bain Capital.

Certain directors of the Company were granted, by Bain Capital, Preferred Equity Certificates ("PEC"), Convertible Preferred Equity Certificates ("CPEC") and ordinary shares of Ideal Standard under the Plan. As at 31 December 2008, the shares and equity instruments granted and held by these directors are as follow:

Shares and equity instruments	**Number of shares and equity instruments**	**Unit subscription price** (Euro)
PEC	1,889,699	0.10
CPEC	333,486	0.10
Ordinary share	1,395,123	0.00238 to 0.04380

Bain Capital's offer of shares and equity instruments of Ideal Standard to the Company's directors is considered as share-based payments within the meaning of HKFRS 2 and should be accounted for as equity-settled share-based payment transaction.

According to HKFRS 2, the shares and equity instruments granted to the directors should be measured at fair value. For market price not available as reference, the shares and equity instrument should be measured using a valuation technique to estimate what the price of those shares and equity instruments would have been on the measurement date in an arm's length transaction between knowledgeable, willing parties. For fair value of the shares and equity instruments not feasible to be measured reliably on the measurement date, intrinsic value should be considered in the valuation.

Ideal Standard's shares and equity instruments are not quoted in an open market as it is an unlisted company, which holds the worldwide bath and kitchen products ("B&K") business. Management of the Company considered the cash consideration paid by Ideal Standard for the acquisition of the worldwide B&K products business as the fair value of Ideal Standard's shares and equity instruments. As the fair value of the shares and equity instruments of Ideal Standard approximates the subscription price paid by the directors for these shares and equity instruments, the share-based payment transactions have no significant impact to the Company's financial statements.

31. CASH GENERATED FROM OPERATIONS

	2008 US$'000	2007 US$'000
Profit before income tax including discontinued operations	**(8,888)**	2,189
Adjustments for:		
– Amortisation of land use rights *(Note 7)*	**247**	216
– Depreciation *(Note 8)*	**4,689**	4,222
– Amortisation of intellectual property rights *(Note 9)*	**–**	6,998
– Amortisation of other non-current assets *(Note 10)*	**1,167**	815
– Assets impairment for the liquidation of a subsidiary *(Note 25)*	**7,341**	–
– Loss on disposal of property, plant and equipment (see below)	**165**	138
– Employee share option benefits	**–**	604
– Interest received	**(342)**	(916)
Changes in working capital:		
– Balances with related parties	**(4,966)**	(4,383)
– Deposits, prepayments and other receivables	**(1,230)**	(1,843)
– Inventories	**(1,122)**	(2,721)
– Trade receivables	**1,912**	282
– Trade payables	**1,065**	2,856
– Other payables and accruals	**349**	7,822
Cash generated from operations	**387**	16,279

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2008 US$'000	2007 US$'000
Net book amount *(Note 8)*	**307**	335
Loss on disposal of property, plant and equipment	**(165)**	(138)
Proceeds from disposal of property, plant and equipment	**142**	197

32. RELATED-PARTY TRANSACTIONS

(1) ASCI, ASD and Ideal Standard International entered into certain stock and assets purchase agreements, pursuant to which ASD and Ideal Standard International agreed to acquire the worldwide bath and kitchen products business of ASCI. On 31 October 2007, ASCI completed the sale of its worldwide bath and kitchen products business to Ideal Standard International. Therefore, the related party transactions for the period from 1 January to 31 October 2007 were within the American Standard Group, and the related party transactions for the period from 1 November to 31 December 2007 and for the year ended 31 December 2008 were within the Ideal Standard Group.

Related parties since 1 November 2007 are entities in which Ideal Standard is a major beneficial shareholder and is able to exercise control. Where necessary, prior year amounts have been reclassified to conform with changes in presentation in the current year.

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

From 1 January 2008 to 31 December 2008 (Within the Ideal Standard Group)

	US$'000
Sales of finished goods	41,486
Purchases of raw materials	1,156
Management fee expenses	500
Trademark license, technical assistance and management assistance fees	2,830

From 1 January to 31 October 2007 (Within the American Standard Group)

	US$'000
Sales of finished goods	40,473
Purchases of raw materials	1,836
Management fee expenses	375
Trademark license, technical assistance and management assistance fees	1,866

From 1 November to 31 December 2007 (Within the Ideal Standard Group)

	US$'000
Sales of finished goods	9,493
Purchases of raw materials	1,224
Management fee expenses	75
Trademark license, technical assistance and management assistance fees	775

32. RELATED-PARTY TRANSACTIONS *(Continued)*

(2) Year-end balances arising from related party transactions

	2008	2007
	US$'000	US$'000
Receivables from related parties *(Note 15)*:		
– Fellow subsidiaries	**17,420**	10,919
Payables to related parties *(Note 21)*:		
– Fellow subsidiaries	**7,383**	5,848

The receivables from related parties arise mainly from sale transactions and are due 60 to 120 days after the date of sales. The receivables are unsecured in nature and bear no interest. There are no provisions made against receivables from related parties (2007: nil).

The payables to related parties arise mainly from trademark license, technical assistance and management assistance fees and purchase transactions. Trademark license fees payments are subject to completion of legal registration. The payables bear no interest.

(3) Details of the compensation of key management personnel of the Group are disclosed in Note 30.

33. COMMITMENTS

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

(2) After being novated to the joint venture agreements of the Company's Mainland China subsidiaries, Ideal Standard International undertakes to provide the technical know-how and to allow trademarks under licenses from Ideal Standard International and its affiliates used for the plumbing products manufactured and sold by the Company's Mainland China subsidiaries in return for the following fees:

A-S Shanghai Pottery:	
Technical assistance fee	2% of net sales of products
Trademark license fee	3% of net sales of products
A-S Tianjin Pottery:	
Technical assistance fee	2% of net sales
Trademark license fee	3% of net sales
Management assistance fee	2% of net sales
Hua Mei:	
Technical assistance fee	1.5% of net sales
Trademark license fee	1.8% of net sales
Management assistance fee	0.5% of net sales
A-S Jiangmen Fittings:	
Technical assistance fee	2% of net sales of products
Trademark license fee	3% of net sales of products

33. COMMITMENTS *(Continued)*

(3) Operating lease commitments

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

	2008	2007
	US$'000	US$'000
Within one year	**2,540**	1,487
In the second to fifth years, inclusive	**3,434**	1,496
Over five years	**312**	–
	6,286	2,983

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

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2009.