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

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

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

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

**CHANGE OF CONNECTED PERSONS IN RESPECT OF  
CERTAIN CONTINUING CONNECTED TRANSACTIONS**

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



CENTURION CORPORATE FINANCE LIMITED

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A letter from the board of directors of the Company is set out on pages 8 to 26 of this circular. A letter from the independent board committee (“Independent Board Committee”) of the Company is set out on page 27 of this circular. A letter from Centurion Corporate Finance Limited, the independent financial adviser to the Independent Board Committee and the independent shareholders of the Company is set out on pages 28 to 54 of this circular.

An extraordinary general meeting (“EGM”) of the Company will be held on 31 August 2009 at 9:00 a.m. at 24 Building, Gems Park, No. 487 Tianlin Road, Shanghai, the People’s Republic of China. A notice convening the EGM is set out at the end of this circular. A form of proxy for use in connection with the EGM is enclosed herewith. Whether or not you are able to attend the EGM in person, please complete, sign and return the form of proxy in accordance with the instructions printed thereon to the Company’s share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you so wish.

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

17 July 2009

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## CHARACTERISTICS OF THE GEM

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### **Characteristics of The Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (The “Stock Exchange”)**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Accordingly, prospective investors should note that they need to have access to the GEM website at [www.hkgem.com](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.**

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## DEFINITIONS

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

“2007 Continuing Connected Transactions Agreements”	means the agreements governing the terms and conditions of the 18 continuing connected transactions set out in paragraph 3.1 of this circular, which include, the Export Distributorship Agreements, the Intellectual Property Agreement, the Management and Administrative Assistance Agreement, the Management Assistance Agreements, the Reimbursement Agreements, the Technical Assistance Agreements and the Trademark Licence Agreements, which were novated by the relevant 2007 Novation Agreements, and each of the agreements is individually referred to as a “2007 Continuing Connected Transaction Agreement”
“2007 Continuing Connected Transactions”	means the transactions set out in the 2007 Continuing Connected Transactions Agreements
“2007 Novation Agreements”	means the agreements entered into by Trane US (or, in relation to the Reimbursement Agreements, Trane), Ideal Standard (UK) and the relevant member(s) of the Group dated 12 October 2007 governing the novation of all rights and obligations under the 2007 Continuing Connected Transactions Agreements from Trane US (or, in relation to the Reimbursement Agreements, Trane) to Ideal Standard (UK), and each of such agreements is individually referred to as a “2007 Novation Agreement”
“A-S Jiangmen Fittings”	means American Standard (Jiangmen) Fittings Co. Ltd., (formerly known as A-S (Jiangmen) Fittings Co., Ltd.), a wholly foreign owned enterprise established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“A-S Shanghai Pottery”	means A-S (Shanghai) Pottery Co., Ltd., a Sino-foreign equity joint venture established under the laws of the PRC and a 82%-owned subsidiary of the Company
“A-S Tianjin Pottery”	means A-S (Tianjin) Pottery Co., Ltd., a wholly foreign owned enterprise established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“Acquisition”	means the acquisition by INAX of the Asia Bath and Kitchen Business from Ideal Standard
“acting in concert”	the meaning ascribed to it in the Takeovers Code

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## DEFINITIONS

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“Affiliates”	means, in relation to any body corporate, any person which is from time to time a subsidiary, subsidiary undertaking, parent company or holding company (as defined in the Companies Act 2006 of the United Kingdom, as amended and in force from time to time) of that body corporate or of such subsidiary, subsidiary undertaking, parent company or holding company as the case may be
“ASFTL”	means American Standard Foreign Trading Limited, a company incorporated in Bermuda and an indirectly wholly-owned subsidiary of Ideal Standard
“Asia Bath and Kitchen Business”	means 100% of the equity interests in certain companies owned by Ideal Standard and/or Affiliates and certain intellectual property rights owned by Ideal Standard and/or its Affiliates in connection with the manufacture and distribution of bathroom and kitchen fixtures and plumbing fittings in Asia
“associates”	the meaning ascribed to it in the GEM Listing Rules
“Board”	means the board of Directors
“Company”	means A-S China Plumbing Products Limited, a company incorporated in the Cayman Islands with limited liability, and listed on GEM (Stock Code: 8262)
“Completion”	means completion of the Acquisition
“Conditions Precedent”	means the conditions precedent to Completion, as set out in the Share and Asset Purchase Agreement and the Joint Announcement
“Director(s)”	means the director(s) of the Company
“EGM”	means the extraordinary general meeting of the shareholders of the Company to be convened to approve the entering into of the New Novation Agreements in respect of the Non-exempt Continuing Connected Transactions and the transactions contemplated thereunder and the annual caps for the Non-exempt Continuing Connected Transactions
“Export Distributorship Agreements”	means the export distributorship agreements and supplemental agreements thereto entered into between Trane US and each of the PRC Ventures, regarding the appointment of Trane US (following the 2007 Novation Agreements, the appointment of Ideal Standard (UK)) as their exclusive distributor outside the PRC, as novated by the relevant 2007 Novation Agreements and to be novated by the relevant New Novation Agreements

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## DEFINITIONS

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“GEM”	means the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
“GEM Listing Rules”	means the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
“Group”	means the Company and its subsidiaries
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong
“Hua Mei	means Hua Mei Sanitary Ware Co., Ltd., a Sino-foreign equity joint venture established under the laws of the PRC and a 67.58%-owned subsidiary of the Company
“Ideal Standard”	means Ideal Standard International Holding Sarl, a company incorporated in Luxembourg and an indirectly wholly-owned subsidiary of Bain Capital Fund VIII-E, L.P., a fund which is advised by Bain Capital Ltd.
“Ideal Standard Group”	means Ideal Standard and its subsidiaries from time to time, excluding the Group
“Ideal Standard (UK)”	means Ideal Standard Global Ltd., a company incorporated in England and Wales and an indirect wholly-owned subsidiary of Ideal Standard
“INAX”	means INAX Corporation, a company incorporated in Japan, the purchaser under the Share and Asset Purchase Agreement, and the offeror under the Offer and a wholly owned subsidiary of JS Group Corporation, a company incorporated in Japan with limited liability and listed on the Tokyo Stock Exchange
“Independent Board Committee”	means the independent committee of the Board, comprising Mr. Chang Sze-Ming, Sydney, Mr. Ho Tse-Wah, Dean and Mr. Wong Kin Chi, the independent non-executive Directors, established for the purpose of reviewing and advising the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions
“Independent Financial Adviser”	means Centurion Corporate Finance Limited, a corporation licensed to carry out Type 1, Type 4, Type 6 and Type 9 regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the Non-exempt Continuing Connected Transactions

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## DEFINITIONS

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“Independent Shareholders”	means Shareholders other than Shareholders (if any) who have a material interest in the matters to be considered and approved at the EGM and their respective associates
“Intellectual Property Agreement”	means the intellectual property agreement dated 1 January 1996 entered into between the Company and Trane US which gives the Company the exclusive right to require Trane US (following the 2007 Novation Agreements, the right to require Ideal Standard (UK)) to grant territorial licences to manufacture and distribute products in the PRC under plumbing products brand names owned by Trane US (following the 2007 Novation Agreements, the brand names owned by Ideal Standard (UK)) to the companies in which the Company holds a direct or indirect majority interest, as novated by the relevant 2007 Novation Agreements and to be novated by the relevant New Novation Agreements
“Joint Announcement”	means the joint announcement by the Company and INAX dated 22 June 2009 in relation to (amongst other things) the sale of the Asia Bath and Kitchen Business by Ideal Standard to INAX involving a possible voluntary conditional cash offer or a possible mandatory unconditional cash offer by Anglo Chinese Corporate Finance, Limited on behalf of INAX to acquire all the Shares
“Latest Practicable Date”	means 15 July 2009, being the latest practicable date for ascertaining certain information contained in this circular
“Management and Administrative Assistance Agreement”	means the management and administrative assistance agreement dated 20 April 1994 and supplemental agreements thereto entered into between Trane US and the Company regarding the provision of management and administrative services by Trane US (following the 2007 Novation Agreements, by Ideal Standard (UK)) to the Company, as novated by the relevant 2007 Novation Agreements and to be novated by the relevant New Novation Agreements
“Management Assistance Agreements”	means the management assistance agreements and supplemental agreements thereto entered into between Trane US and each of Hua Mei and A-S Tianjin Pottery respectively, regarding the provision of management assistance by Trane Group (following the 2007 Novation Agreements, the appointment of Ideal Standard Group) to each of them, as novated by the relevant 2007 Novation Agreements and to be novated by the relevant New Novation Agreements

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## DEFINITIONS

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“New Continuing Connected Transactions”	means the continuing connected transactions entered into among, inter alia, the relevant members of the Group and INAX pursuant to the operations of the New Novation Agreements
“New Novation Agreements”	means the agreements entered into by INAX, Ideal Standard (UK) and the relevant member(s) of the Group on 26 June 2009, which shall become effective subject to the satisfaction of certain conditions (including, where applicable, the approval of the Independent Shareholders), governing the novation of all the rights and obligations under the 2007 Continuing Connected Transaction Agreements from Ideal Standard (UK), and each of such agreements is individually referred to as a “New Novation Agreement”
“Non-exempt Continuing Connected Transactions”	means the continuing connected transactions under the Export Distributorship Agreements, the Intellectual Property Agreement, the Trademark Licence Agreements, the Technical Assistance Agreements, the Management Assistance Agreement and the Reimbursement Agreements which require the approval of the Independent Shareholders under the GEM Listing Rules
“Offer”	means the possible conditional voluntary cash offer for the Shares made by Anglo Chinese Corporate Finance, Limited on behalf of INAX to acquire all of the issued Shares referred to in the Joint Announcement
“PRC”	means the People’s Republic of China
“PRC Venture(s)”	means any one or all of the following subsidiaries of the Company in the PRC, namely A-S Shanghai Pottery, A-S Tianjin Pottery, A-S Jiangmen Fittings and Hua Mei
“Public Documents”	means the following documents issued by the Company: the listing document dated 19 June 2003, the announcement dated 24 November 2005 in relation to certain continuing connected transactions that the Group regularly entered into with Trane Group in the ordinary and usual course of business and on normal commercial terms and the related circular to Shareholders dated 6 December 2005, the announcement dated 12 October 2007 in relation to the change of connected persons in respect of certain continuing connected transactions and the related circular dated 13 October 2007, the announcement dated 25 November 2008 in relation to the renewal of the term and the annual caps of certain continuing connected transactions and the related circular dated 13 December 2008



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## DEFINITIONS

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“Reimbursement Agreements”	means the reimbursement agreements entered into between the Company and Trane regarding the reimbursement of staff costs, insurance payments and other expenses to/from the Group, as novated by the relevant 2007 Novation Agreements and to be novated by the relevant New Novation Agreements
“RMB”	means Renminbi, the lawful currency of the PRC
“Second Amendment Agreement”	means the second amendment to the Share and Asset Purchase Agreement dated 2 July 2009 entered into between INAX and Ideal Standard
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share and Asset Purchase Agreement”	means the Share and Asset Purchase Agreement dated 18 May 2009, as amended by a supplementary agreement dated 21 June 2009 and the Second Amendment Agreement entered into between INAX and Ideal Standard in respect of the Acquisition and the Offer
“Shareholders”	means shareholders of the Company
“Shares”	means shares of US\$0.01 each in the capital of the Company
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it in the GEM Listing Rules
“Takeovers Code”	means the Hong Kong Code on Takeovers and Mergers
“Technical Assistance Agreements”	means the technical assistance agreements and supplemental agreements thereto entered into between each of the PRC Ventures and Trane US and, in the case of Hua Mei, a joint trademark licence and technical assistance agreement signed with Trane US regarding the provision of technical assistance to each of the PRC Ventures (originally by Trane US and, following the 2007 Novation Agreements, by Ideal Standard (UK)), as novated by the relevant 2007 Novation Agreements and to be novated by the relevant New Novation Agreements

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## DEFINITIONS

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“Trademark Licence Agreements”	means the trademark licence agreements entered into between each of the PRC Ventures and Trane US and, in the case of Hua Mei, a joint trademark licence and know-how transfer agreement signed with Trane US regarding the grant of the rights to use certain trademarks owned by Trane US (following the 2007 Novation Agreements, by a member of the Ideal Standard Group) in respect of plumbing products to each of the PRC Ventures, as novated by the relevant 2007 Novation Agreements and to be novated by the relevant New Novation Agreements
“Trane”	means Trane Inc., formerly known as American Standard Companies Inc., a corporation organized under the laws of Delaware, USA
“Trane Group”	means Trane and its subsidiaries from time to time, excluding the Group
“Trane US”	means Trane U.S. Inc., formerly known as American Standard Inc., a wholly-owned subsidiary of Trane and which is the registered owner of patents, trademarks, service marks, copyrights for plumbing products used by the Group in the PRC
“Transfer”	means the transfer of all the Shares held directly and indirectly by Ideal Standard to INAX pursuant to the Offer or, if the Offer Document is not posted by INAX within 10 days after Completion, pursuant to the Share and Asset Purchase Agreement
“US\$”	means United States Dollars, the lawful currency of the United States of America

*Unless otherwise specified, US dollars amounts in this circular have been translated into Hong Kong dollars at an exchange rate of HK\$7.80 = US\$1.00 and amounts in ¥ have been translated into HK\$ at the rate of ¥1.00 = HK\$0.082. Such translation should not be construed as a representation that US dollars have been, could have been or could be converted into HK\$, as the case may be, at this or any other rates or at all.*

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LETTER FROM THE BOARD

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**ASPPL**

**A-S China Plumbing Products Limited**

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

(Stock Code: 8262)

*Executive Directors:*

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

Mr. Gao Jinmin

Ms. Chen Rong Fang

Mr. Wang Gang

Mr. Yang Xiong

*Registered Office:*

P.O. Box 309 GT

Ugland House

South Church Street

Grand Cayman Islands

Cayman Islands, B.W.I.

*Non-executive Director:*

Mr. Peter James O'Donnell

*Principal place of*

*business in Hong Kong:*

Suite 3703, Office Tower

Langham Place, 8 Argyle Street

Mongkok, Kowloon

Hong Kong

*Independent non-executive Directors:*

Mr. Chang Sze-Ming, Sydney

Mr. Ho Tse-Wah, Dean

Mr. Wong Kin Chi

*To the Shareholders*

Hong Kong, 17 July 2009

Dear Sir or Madam,

**CHANGE OF CONNECTED PERSONS IN RESPECT OF  
CERTAIN CONTINUING CONNECTED TRANSACTIONS**

**1. INTRODUCTION**

Reference is made to (a) the Public Documents and (b) the Joint Announcement.

As at the Latest Practicable Date, Ideal Standard and its associates, owned an aggregate of 96,375,500 Shares, representing approximately 63.81% of the issued share capital of the Company, and is therefore a substantial shareholder of the Company. Accordingly, as at the Latest Practicable Date, Ideal Standard and its associates (which include ASFTL and other members of the Ideal Standard Group) are connected persons of the Company.

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## LETTER FROM THE BOARD

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### 2. POSSIBLE CHANGE IN SHAREHOLDING

Reference is also made to the Joint Announcement, the Acquisition and the Offer.

#### 2.1 Sale of the Asia Bath and Kitchen Business by Ideal Standard

On 22 June 2009, the Company and INAX announced in the Joint Announcement that INAX had entered into the Share and Asset Purchase Agreement with Ideal Standard pursuant to which INAX agreed to acquire the Asia Bath and Kitchen Business from Ideal Standard according to the terms and conditions of the Share and Asset Purchase Agreement. Completion of the Acquisition is conditional upon the Conditions Precedent being fulfilled (or, if applicable, waived) at or prior to Completion. Subject to the fulfillment (or if applicable, waiver) of such conditions, Completion took place on 2 July 2009.

As disclosed in the Joint Announcement, INAX has undertaken under the Share and Asset Purchase Agreement that as soon as practicable after satisfaction or waiver of the Conditions Precedent, and in any case not later than 10 days after Completion, it will make the Offer to acquire all the issued Shares. Ideal Standard has agreed to cause all Shares directly or indirectly held by it or any of its Affiliates (including ASFTL) to be tendered in the Offer forthwith.

To the extent that INAX does not post (or procure the posting of) the offer document in respect of the Offer within 10 days after Completion, INAX shall forthwith acquire all of the Shares held directly or indirectly by Ideal Standard or any of its Affiliates. In that event, INAX would be obliged to make a mandatory unconditional cash offer for all the Shares not then owned by INAX and persons acting in concert with it.

Further details of the Offer, which was made within 10 days after Completion, and the possible mandatory unconditional cash offer are set out in the Joint Announcement and the offer document in respect of the Offer dated 10 July 2009.

#### 2.2 Change of Connected Persons of the Company

As at the Latest Practicable Date, Ideal Standard directly held 508,500 Shares, and indirectly, through ASFTL, held 95,867,000 Shares, representing in aggregate 96,375,500 Shares, or approximately 63.81% of the issued share capital of the Company and Ideal Standard and its associates are therefore connected persons of the Company. Immediately following the Transfer, Ideal Standard and its associates will cease to be connected persons of the Company and INAX and its associates will become connected persons of the Company.

#### 2.3 Novation of the 2007 Continuing Connected Transactions Agreements

In connection with the Acquisition, Ideal Standard (UK), INAX and the relevant member(s) of the Group entered into fifteen (15) New Novation Agreements on 26 June 2009, which shall become effective when each of the following conditions is satisfied: (i) closing of the Share and Asset Purchase Agreement; (ii) receipt of the approval of the novation of the relevant New Novation Agreements by the Independent Shareholders; (iii) in relation to the Management and Administrative Assistance Agreement, the Intellectual Property Agreement and the Reimbursement Agreements, the approval of the Board; and (iv) in relation to the Export Distributorship Agreements, Trademark Licence Agreements, Technical Assistance Agreements and Management

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## LETTER FROM THE BOARD

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Assistance Agreements, the approval of the board of directors of the relevant PRC Ventures, pursuant to which Ideal Standard (UK) will assign and novate its rights and obligations under the 2007 Continuing Connected Transactions Agreements to INAX with no amendment to the operating provisions of the existing terms and conditions of the 2007 Continuing Connected Transactions Agreements. Reference is made to the announcement of the Company dated 28 June 2009 in relation to the entering into of the New Novation Agreements.

The entering into of the New Novation Agreements in respect of the 2007 Continuing Connected Transactions Agreements and the transactions contemplated thereunder constitute the New Continuing Connected Transactions of the Company, some of which require the approval of the Independent Shareholders. Details of the New Continuing Connected Transactions are set out below.

### 3. THE NEW CONTINUING CONNECTED TRANSACTIONS

#### 3.1 The agreements governing the New Continuing Connected Transactions

The terms of the New Continuing Connected Transactions are governed by the 2007 Continuing Connected Transactions Agreements which will be novated and amended by the New Novation Agreements, the key terms and conditions of which are summarised below:

No.	The Agreement	Date	Parties	Nature of Transaction	Revenue (R)/ Expenditure (E)
1.	Four Export Distributorship Agreements	various dates, all expiring on 31 December 2009 (except the agreement between Hua Mei and Ideal Standard (UK) which expires on 4 June 2015)	the PRC Ventures and INAX	sales of sanitaryware, bathtubs and plumbing fittings products to and for exclusive distribution by INAX outside of PRC	R
2.	Management and Administrative Assistance Agreement	the relevant extension agreement dated 25 November 2008, expiring on 31 December 2009	the Company and INAX	provision of management and administrative services to the Company by INAX for the Company's plumbing products operations	E

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**LETTER FROM THE BOARD**

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No.	The Agreement	Date	Parties	Nature of Transaction	Revenue (R)/ Expenditure (E)
3.	Intellectual Property Agreement	1 January 1996, no specific termination date	the Company and INAX	agreement wherein INAX agrees to grant territorial licences to the PRC Ventures upon request to enable the manufacture and distribution of plumbing products in the PRC under the plumbing product brand names of “American Standard”	E
4.	Four Trademark Licence Agreements <i>(Note 1)</i>	various dates, with various expiring dates ranging from 4 June 2015 to 16 June 2044	the PRC Ventures and INAX	territorial licences to the PRC Ventures to manufacture and distribute plumbing products in the PRC under the plumbing product brand names of “American Standard”	E
5.	Four Technical Assistance Agreements <i>(Note 1)</i>	various dates, with various expiring dates ending on 4 June 2015 or 31 December 2009	the PRC Ventures and INAX	provision of technical know-how to the Company and the PRC Ventures	E

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## LETTER FROM THE BOARD

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No.	The Agreement	Date	Parties	Nature of Transaction	Revenue (R)/ Expenditure (E)
6.	Two Management Assistance Agreements	23 February 1994 and 5 June 1985, with expiry dates of 22 February 2010 and 4 June 2015 respectively	A-S Tianjin Pottery and INAX  Hua Mei and INAX	provision of management assistance to A-S Tianjin Pottery and Hua Mei	E
7.	Reimbursement Agreement (from the Group to INAX)	the relevant extension agreement dated 25 November 2008, expiring on 31 December 2009	the Company and INAX	reimbursement of staff costs, insurance payments and other expenses from the Group to INAX	E
8.	Reimbursement Agreement (from INAX to the Group)	the relevant extension agreement dated 25 November 2008, expiring on 31 December 2009	the Company and INAX	reimbursement of regional staff costs, travelling costs, office rentals, expatriate apartment rental and other expenses from INAX to the Group	R

*Note:*

1. A joint trademark licence agreement and know-how transfer agreement was entered into between Hua Mei and Trane US (then novated to Ideal Standard (UK)) on 5 June 1985.

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## LETTER FROM THE BOARD

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### 3.2. Summaries of the terms and conditions of the New Continuing Connected Transactions

#### 3.2.1 Sales of sanitaryware, bathtubs and plumbing fittings products to INAX

Pursuant to the four (4) Export Distributorship Agreements as extended by the relevant agreements and novated by the relevant New Novation Agreements, INAX will be appointed the exclusive distributor of each of the PRC Ventures for the distribution and sales of the Group's sanitaryware, bathtubs and plumbing fittings products outside the PRC. The key terms and conditions of such supplies of sanitaryware, bathtubs and plumbing fittings products to INAX are as follows:

- such sales shall be on normal commercial terms and on a contract basis, with each contract specifying the quantity to be sold, the date of delivery and the selling price to be fixed at the time of shipment with reference to the actual costs of the raw materials and the quality of the products, unless otherwise expressly agreed by the parties;
- such products shall be delivered from 45 to 60 days after orders are placed and subject to availability and source; and
- payments for such products are usually within 120 days from invoice date.

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

Original commencement and expiry date of the Export Distributorship Agreements	Date of first extension agreements to Export Distributorship Agreements and extended expiry date	Date of second extension agreements to Export Distributorship Agreements and extended expiry date	Date of third extension agreements to Export Distributorship Agreements and extended expiry date	Parties
14 January 1994 & 13 January 2004	16 June 2003 & 31 December 2005	1 January 2006 & 31 December 2008	25 November 2008 & 31 December 2009	A-S Jiangmen Fittings and Ideal Standard (UK)
29 April 1994 & 28 April 2004	16 June 2003 & 31 December 2005	1 January 2006 & 31 December 2008	25 November 2008 & 31 December 2009	A-S Shanghai Pottery and Ideal Standard (UK)



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## LETTER FROM THE BOARD

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Original commencement and expiry date of the Export Distributorship Agreements	Date of first extension agreements to Export Distributorship Agreements and extended expiry date	Date of second extension agreements to Export Distributorship Agreements and extended expiry date	Date of third extension agreements to Export Distributorship Agreements and extended expiry date	Parties
31 January 1994 & 30 January 2004	16 June 2003 & 31 December 2005	1 January 2006 & 31 December 2008	25 November 2008 & 31 December 2009	A-S Tianjin Pottery and Ideal Standard (UK)
5 June 1985 & 4 June 2015 <i>(Note 1)</i>	N/A	N/A	N/A	Hua Mei and Ideal Standard (UK)

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

Pursuant to relevant extension agreement(s) entered into on 25 November 2008, the Group renewed three (3) Export Distributorship Agreements entered into between Ideal Standard (UK) and each of A-S Jiangmen Fittings, A-S Shanghai Pottery and A-S Tianjin Pottery to further extend the term for another period of one year until 31 December 2009 upon the same terms and conditions as the respective preceding extension agreements. Each of the four (4) Export Distributorship Agreements will be novated to INAX.

### *3.2.2 Management and administrative fee paid to INAX*

Pursuant to the Management and Administrative Assistance Agreement as extended by the relevant extension agreement and which will be novated by the relevant New Novation Agreement, INAX will provide the Company with management and administrative services, including financial and administrative assistance, management information services and assistance with strategic planning for the Company's plumbing products operations. The services provided under the Management and Administrative Assistance Agreement relate to non-production line and are administrative in nature solely for the Company. The annual management and administrative fee of the Group for the two years ended 31 December 2008 were US\$450,000 and US\$500,000, respectively, which were the annual caps for the two years ended 31 December 2008. These fees are calculated based on historical expense figures incurred by the regional Asia-Pacific office, which include staff remuneration and office expenses with no mark-up element. Payments in respect of the management and administrative fee will be made to INAX 45 days following the end of each quarter. Payment of the annual management and administrative fee for the year 2008 by the Company did not exceed the annual cap for the year ended 31 December 2008.

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## LETTER FROM THE BOARD

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Pursuant to relevant extension agreement(s) entered into on 25 November 2008, the Company renewed the Management and Administrative Assistance Agreement entered into between Ideal Standard (UK) and the Company, to further extend the term for another period of one year until 31 December 2009 upon the same terms and conditions as the previous extension agreement, with the amount of the annual fee to be paid to Ideal Standard (UK) to be US\$550,000 for the year 2009. The Management and Administrative Assistance Agreement will be novated to INAX.

### *3.2.3 Intellectual property royalty payments, trademark licence fees, technical assistance and management assistance service fees paid to INAX*

Pursuant to the Intellectual Property Agreement, the Trademark Licence Agreements, Technical Assistance Agreements and Management Assistance Agreements which will be novated by the relevant New Novation Agreements, INAX agrees, among other things, to:

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

The Trademark Licence Agreements, Technical Assistance Agreements and Management Assistance Agreements relate to the Intellectual Property Agreement, and are for the production operations of the PRC Ventures concerned.

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

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## LETTER FROM THE BOARD

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Technical Assistance Agreements and Management Assistance Agreements, the Intellectual Property Agreement is grouped together even though payment of such Royalty Amounts will no longer be required under the Intellectual Property Agreement.

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

INAX will have the right to terminate the above agreements entered into with the relevant PRC Venture upon the occurrence of the termination events specified therein. Some of the termination events are set out below:

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

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## LETTER FROM THE BOARD

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

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

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

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

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## LETTER FROM THE BOARD

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

### Intellectual Property Agreement

Commencement Date	Expiry Date	Parties
1 January 1996	no specific termination date	the Company and Ideal Standard (UK)

### Trademark Licence Agreements

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

### Technical Assistance Agreements

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

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## LETTER FROM THE BOARD

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### Management Assistance Agreements

Commencement Date	Expiry Date	Parties
5 June 1985	4 June 2015	Hua Mei and Ideal Standard (UK)
23 February 1994	22 February 2010	A-S Tianjin Pottery and Ideal Standard (UK)

*Note 1:* In the case of Hua Mei, a joint trademark licence agreement and know-how transfer agreement was entered into between Hua Mei and Trane US (then novated to Ideal Standard (UK)) on 5 June 1985.

Pursuant to the relevant New Novation Agreements, which shall become effective until each of the following conditions is satisfied: (i) closing of the Share and Asset Purchase Agreement; (ii) receipt of the approval of the novation of the relevant New Novation Agreements by the Independent Shareholders; (iii) in relation to the Management and Administrative Assistance Agreement, the Intellectual Property Agreement and the Reimbursement Agreements, the approval of the Board; and (iv) in relation to the Export Distributorship Agreements, Trademark Licence Agreements, Technical Assistance Agreements and Management Assistance Agreements, the approval of the board of directors of the relevant PRC Ventures, Ideal Standard (UK) will assign and novate its rights and obligations under the Intellectual Property Agreement, the Trademark Licence Agreements, the Technical Assistance Agreements and the Management Assistance Agreements to INAX.

#### *3.2.4 Reimbursement of expenses from the Group to INAX*

Pursuant to the Reimbursement Agreement dated 16 June 2003 as extended by the extension agreements dated 1 January 2006 and 25 November 2008 and which will be novated by the relevant New Novation Agreement, the Group will reimburse INAX for certain expenses based on actual costs paid by INAX on behalf of the Group. The extension agreement dated 25 November 2008 will expire on 31 December 2009. These expenses comprise mainly staff costs relating to expatriate employees seconded to the Group from INAX, insurance payments under insurance policies adopted by INAX, legal fees and other amounts paid by INAX on behalf of the Group. These expenses incurred by INAX on behalf of the Group will be charged to and paid by the Group to INAX on a dollar-for-dollar basis with reference to the actual cost incurred and the Group will reimburse these expenses to INAX within 60 days of these expenses falling due.

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## LETTER FROM THE BOARD

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### *3.2.5 Reimbursement of expenses from INAX to the Group*

Pursuant to the Reimbursement Agreement dated 1 January 2006 as extended by an extension agreement dated 25 November 2008 and which will be novated by the relevant New Novation Agreement, INAX will reimburse to the Group certain expenses based on actual costs paid by the Group on behalf of INAX. These expenses comprise mainly regional staff costs, travelling costs, office rentals, expatriate apartment rental and other amounts incurred in the PRC and paid by the Group on behalf of INAX. These expenses incurred by the Group on behalf of INAX will be charged to and paid by INAX to the Group on a dollar-for-dollar basis with reference to the actual cost incurred and INAX will reimburse these expenses to the Group within 60 days of these expenses falling due.

#### **4. PROPOSED ANNUAL CAPS FOR THE NEW CONTINUING CONNECTED TRANSACTIONS FOR THE YEAR ENDING 2009**

Based on the following, the annual caps of the New Continuing Connected Transactions for the financial year ending 31 December 2009 remain the same as those of the 2007 Continuing Connected Transactions:

- (1) the New Continuing Connected Transactions entered into between the Company and INAX upon the terms and conditions set out in the 2007 Continuing Connected Transactions Agreements will be novated by the New Novation Agreements;
- (2) such New Continuing Connected Transactions will continue to be entered into in the ordinary course of business of the Company and upon normal commercial terms;
- (3) the annual caps are based on the historical amounts of the 2007 Continuing Connected Transactions and the renewal of the annual caps contained in the announcement of the Company dated 25 November 2008 and the related circular dated 13 December 2008; and
- (4) as at the Latest Practicable Date, none of the value of the 2007 Continuing Connected Transactions has exceeded the existing annual caps for the year ending 31 December 2009.

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## LETTER FROM THE BOARD

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The annual caps for the 2007 Continuing Connected Transactions for the financial year ending 31 December 2009 are as follows:

<b>Agreements</b>	<b>Transactions</b>	<b>For the year ending</b>
	<b><i>Revenue</i></b>	<b>31 December 2009</b>
		<i>(in million)</i>
1. Export Distributorship Agreements  <i>(Please refer to paragraph 3.2.1 for a summary of the terms and conditions)</i>	Sales of ceramic sanitaryware, bathtubs and plumbing fittings products <i>(Note 1)</i>	US\$124.00 (approximately HK\$967.20)
2. Reimbursement Agreement  <i>(Please refer to paragraph 3.2.5 for a summary of the terms and conditions)</i>	Reimbursement to the Group from Ideal Standard (UK) for regional staff costs, traveling costs, office rentals, expatriate apartment rental and other amounts incurred in the PRC on behalf of Ideal Standard (UK) <i>(Note 2)</i>	US\$2.00 (approximately HK\$15.60)
	<b><i>Expenditure</i></b>	
3. Intellectual Property Agreement, Trademark Licence Agreements, Technical Assistance Agreements and Management Assistance Agreements  <i>(Please refer to paragraph 3.2.3 for a summary of the terms and conditions)</i>	Total intellectual property royalty payments, including:  (a) Territorial licences to manufacture and distribute plumbing products <i>(Note 3)</i>  (b) Provision of technical know-how <i>(Note 3)</i>  (c) Provision of management assistance <i>(Note 3)</i>	US\$6.01 (approximately HK\$46.85)  US\$2.86 (approximately HK\$22.31)  US\$2.29 (approximately HK\$17.85)  US\$0.86 (approximately HK\$6.69)



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## LETTER FROM THE BOARD

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<b>Agreements</b>	<b>Transactions Expenditure</b>	<b>For the year ending 31 December 2009 (in million)</b>
4. Reimbursement Agreement  <i>(Please refer to paragraph 3.2.4 for a summary of the terms and conditions)</i>	Reimbursement to Ideal Standard (UK) from the Group for staff costs, legal fees and other amounts paid by Ideal Standard (UK) on the Group's behalf  <i>(Note 4)</i>	US\$2.00 (approximately HK\$15.60)

*Notes:*

Bases for the annual caps:

1. The annual caps were determined based on the projected growth in the Group's sales in the year ending 31 December 2009.
2. The annual caps were determined based on the Company's management's estimation. These items may include travelling expenses, office rental and salary of regional employees in the PRC.
3. The annual caps were determined based on the terms of the relevant agreements and the projected sales of the relevant PRC Ventures in the year ending 31 December 2009.
4. The annual caps were determined based on historical reimbursement expenses made between the Group and Ideal Standard (UK). On the basis that the operating mechanism between the Group and INAX will be similar to that of Ideal Standard (UK) after the novation, the Board considers that the annual caps are fair and reasonable.

## **5. REASONS FOR AND BENEFITS OF THE NEW CONTINUING CONNECTED TRANSACTIONS**

### **5.1 Reasons for the New Continuing Connected Transactions**

As at the date of the Announcement, Ideal Standard and its Affiliates are connected persons of the Company. Immediately following the Transfer, Ideal Standard and its Affiliates will cease to be connected persons of the Company and INAX and its associates will become connected persons of the Company.

Upon Completion, Ideal Standard (UK) will be entitled to terminate the following agreements pursuant to the terms and conditions of such agreements:

- (i) the Export Distributorship Agreements (except those entered into between Ideal Standard (UK) and Hua Mei and A-S Jiangmen Fittings, respectively);
- (ii) the Management Assistance Agreements;
- (iii) the Technical Assistance Agreements; and
- (iv) the Trademark Licence Agreements.

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## LETTER FROM THE BOARD

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Further, the Company understands that INAX will upon Completion own substantially all of the intellectual property rights which are used by the Group and will also be the exclusive licensee in the PRC of any other material intellectual property rights used by the Group that are not subject to transfer. Since INAX will be given exclusive rights to use the licensed intellectual property rights in the Asian jurisdiction, the Directors do not anticipate any adverse impact on the business operation of the Group. In order to ensure a smooth transition of the operation of the Group following Completion and in connection with the Acquisition, Ideal Standard (UK), INAX and the relevant member(s) of the Group entered into the New Novation Agreements on 26 June 2009.

### **5.2 Benefits of the New Continuing Connected Transactions**

INAX has an extensive history in the manufacture of tiling, building materials and sanitary fixtures for residential, commercial and public buildings and facilities. The Board (including the non-executive Directors) considers that by entering into the New Novation Agreements, INAX will become a strategic partner of the Group and the Non-exempt Continuing Connected Transactions will enable the Group to continue to leverage on the international sales network and to enhance its expertise of staff, technical know-how and management assistance in connection with the Asia Bath and Kitchen Business after the Completion.

The Board, having taken into account all facts available, considers that the entering into of the New Novation Agreements in respect of the New Continuing Connected Transactions and the terms of the transactions contemplated thereunder are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

## **6. GEM LISTING RULES IMPLICATIONS**

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

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

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

The New Novation Agreement in respect of the Management and Administrative Assistance Agreement is entered into in the usual and ordinary course of business of the Group, on normal commercial terms and in the opinion of the Directors is on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### 6.2 Non-exempt Continuing Connected Transactions

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

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

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

The Company will seek Independent Shareholders' approval at the EGM by way of a poll for the entering into of the New Novation Agreements in respect of the Non-exempt Continuing Connected Transactions and the transactions contemplated thereunder and the annual caps for the Non-exempt Continuing Connected Transactions and upon the terms that:

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

The Independent Board Committee (comprising Mr. Chang Sze-Ming, Sydney, Mr. Ho Tse-Wah, Dean and Mr. Wong Kin Chi) has been appointed to advise the Independent Shareholders on whether or not the entering into of the New Novation Agreements in respect of the Non-exempt Continuing Connected Transactions and the transactions contemplated thereunder and the annual caps for the Non-exempt Continuing Connected Transactions are in the interest of the Company and are fair and reasonable so far as the Independent Shareholders are concerned. The Independent Financial Adviser was appointed to advise the Independent Board Committee regarding the terms of the New Novation Agreements in respect of the Non-exempt Continuing Connected Transactions and the transactions contemplated thereunder and the annual caps for the Non-exempt Continuing Connected Transactions.

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## LETTER FROM THE BOARD

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As the term of some of the Non-exempt Continuing Connected Transactions exceed the maximum period of 3 years, the Independent Financial Adviser has been appointed to consider the expiry dates as required under Rule 20.35 of the GEM Listing Rules. Please refer to the Letter from the Independent Financial Adviser on pages 28 to 54 in which the Independent Financial Adviser advises on, among other things, whether the longer term for the Non-exempt Continuing Connected Transactions is of normal business practice for agreements of this type.

### 7. EGM

A notice convening the EGM is set out on pages 63 to 68 of this circular, at which a resolution to approve the entering into of the New Novation Agreements in respect of the Non-exempt Continuing Connected Transactions and the transactions contemplated thereunder and the annual caps for the Non-exempt Continuing Connected Transactions, will if deemed appropriate, be passed. Immediately following the Transfer, Ideal Standard and its associates will cease to be connected persons of the Company and INAX and its associates will become connected persons of the Company. In view of the interests of INAX in the Non-exempt Continuing Connected Transactions, INAX and its associates will abstain from voting in respect of the resolutions to be approved at the EGM to approve the New Novation Agreements in respect of the Non-exempt Continuing Connected Transactions and the transactions contemplated thereunder and the annual caps for the Non-exempt Continuing Connected Transactions.

A form of proxy is enclosed for use at the EGM. Whether or not you are able to attend the EGM, you are requested to complete and sign the form of proxy as instructed thereon and deposit at the share registrar of the Company, Computershare Hong Kong Investor Services Limited at 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for holding of the EGM. Delivery of the form of proxy will not preclude you from attending and voting in person at the EGM and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

Pursuant to Rule 17.47(4) of the GEM Listing Rules, any vote of shareholders at a general meeting must be taken by poll. The result of the poll will be published on the "Latest Company Announcements" page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of its posting and on the website of the Company at [www.aspl.com](http://www.aspl.com).

### 8. GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 14 December 1993 and its Shares have been listed on GEM since 11 July 2003.

The Group manufactures and distributes in the PRC a broad range of bathroom and kitchen fixtures and plumbing fittings under plumbing product brand names, including the "American Standard" and "Armitage Shanks" brands.

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## LETTER FROM THE BOARD

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INAX is incorporated in Japan, and has an extensive history in the manufacture of tiling, building materials and sanitary fixtures for residential, commercial and public buildings and facilities. It currently has operations in Asia, Europe and the United States of America and is a wholly owned subsidiary of the JS Group Corporation, a company listed in Tokyo and which currently has a market capitalization of approximately US\$4,500 million.

### 9. RECOMMENDATION

The Directors are of the opinion that the Non-exempt Continuing Connected Transactions and the annual caps for the Non-exempt Continuing Connected Transactions as set out in the Notice of EGM are on normal commercial terms in the ordinary and usual course of business of the Company and are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant resolution. Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 27 of this circular which contains its recommendation to the Independent Shareholders concerning the Non-exempt Continuing Connected Transactions; and (ii) the letter from the Independent Financial Adviser set out on pages 28 to 54 of this circular which contains their advice to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions and the principal factors and reasons considered by them in formulating their advice.

### 10. ADDITIONAL INFORMATION

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

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

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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**ASPPL**

**A-S China Plumbing Products Limited**

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

(Stock Code: 8262)

*To the Independent Shareholders*

17 July 2009

Dear Sir or Madam,

**CHANGE OF CONNECTED PERSONS IN RESPECT OF  
CERTAIN CONTINUING CONNECTED TRANSACTIONS**

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

We have been appointed by the Board as the Independent Board Committee to advise you as to whether, in our opinion, the entering into of the New Novation Agreements in respect of the Non-exempt Continuing Connected Transactions and the transactions contemplated thereunder and the annual caps for the Non-exempt Continuing Connected Transactions are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Centurion Corporate Finance Limited has been appointed by the Company as the independent financial adviser to advise you and us in this regard. Details of its recommendation, together with the principal factors and reasons it has taken into consideration in arriving at its recommendation are set out in its letter set out on pages 28 to 54 of the Circular.

Your attention is drawn to the letter from the Board set out on pages 8 to 26 of the Circular and the general information set out in the Appendix to the Circular.

Having considered the advice from Centurion Corporate Finance and in particular the principal factors and reasons set out in the letter of advice from Centurion Corporate Finance, we are of the view that entering into of the New Novation Agreements in respect of the Non-exempt Continuing Connected Transaction Agreements and the transactions contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Company and the annual caps and the transactions under the Non-exempt Continuing Connected Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the entering into of the New Novation Agreements in respect of the Non-exempt Continuing Connected Transactions and the transactions contemplated thereunder and the annual caps for the Non-exempt Continuing Connected Transactions at the EGM.

Yours faithfully,  
Independent Board Committee

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

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

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Centurion Corporate Finance Limited dated 17 July 2009 for incorporation in this Circular:*



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

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7th Floor, Duke Wellington House  
14 -24 Wellington Street  
Central, Hong Kong

香港中環  
威靈頓街14 - 24號  
威靈頓公爵大廈7樓

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

17 July 2009

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

Dear Sirs,

### **CHANGE OF CONNECTED PERSONS IN RESPECT OF CERTAIN CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We have been engaged to advise the Independent Board Committee and the Independent Shareholders with respect to the terms of the New Novation Agreements in respect of the Non-exempt Continuing Connected Transactions and the transactions contemplated thereunder, details of which are outlined in the “Letter from the Board” set out from pages 8 to 26 of the circular dated 17 July 2009 to the Shareholders (“Circular”) of which this letter forms a part.

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

The Company announced on 26 June 2009 the entering into of the New Novation Agreements in respect of the Non-exempt Continuing Connected Transactions and their respective annual caps contemplated thereunder. The entering into of the New Novation Agreements in respect of the Intellectual Property Agreement, the Trademark Licence Agreements, the Technical Assistance Agreements, the Management Assistance Agreements, the Export Distributorship Agreements and the Reimbursement Agreements, and the transactions contemplated thereunder constitute Non-exempt Continuing Connected Transactions for the Company, and are subject to the reporting, announcement and Independent Shareholders’ approval requirements under Rules 20.45 to 20.54 of the GEM Listing Rules and the requirements of annual review of continuing connected transactions under Rules 20.37 to 20.40 of the GEM Listing Rules.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Immediately following the Transfer, Ideal Standard and its associates will cease to be connected persons of the Company and INAX and its associates will become connected persons of the Company. In view of the interests of INAX in the Non-exempt Continuing Connected Transactions, INAX and its associates will abstain from voting in respect of the resolutions to be approved at the EGM to approve the New Novation Agreements in respect of the Non-exempt Continuing Connected Transactions and the transactions contemplated thereunder and the annual caps for the Non-exempt Continuing Connected Transactions. In so far as the ordinary resolution approving the Non-exempt Continuing Connected Transactions and the annual caps as contemplated thereunder are concerned, such resolutions must be taken by way of poll. In this regard, please refer to the section headed “EGM” as set out in the “Letter From The Board” for further details.

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

### **BASIS OF OUR OPINION**

In formulating our opinion and recommendation, we have relied on the accuracy of the information, opinions and representation contained in the Public Documents issued by the Company from time to time in relation to the Non-exempt Continuing Connected Transactions, which have been provided to us by the Directors and for which they take full responsibility. We have also assumed that all statements, information, opinions and representations made or referred to in the Circular and in the circulars and prospectus of the company were true at the time they were made and continued to be true at the date of this Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular are reasonably made after due and careful enquiry.

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

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



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

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

#### 1. BACKGROUND

##### 1.1 The Group's business

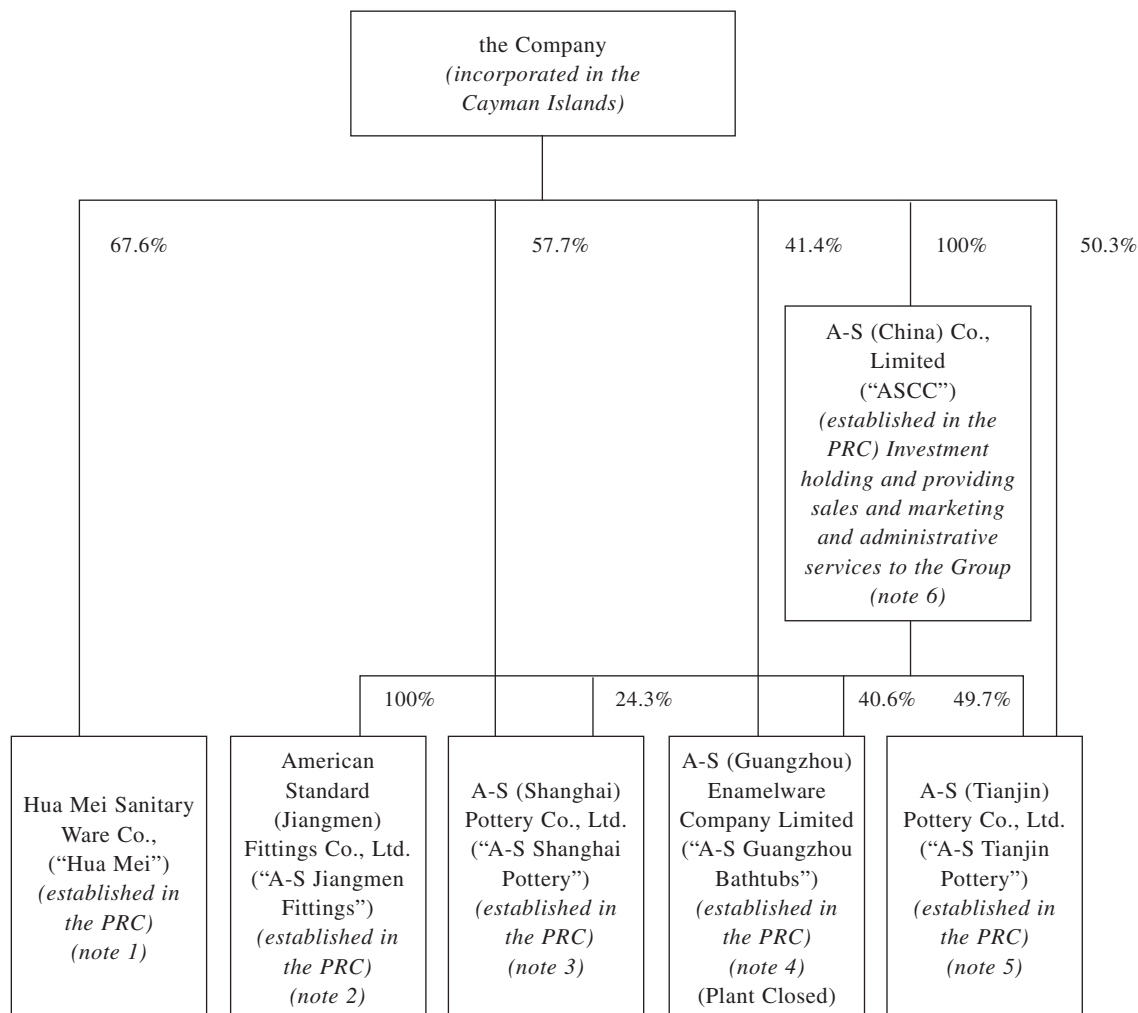
The Group manufactures and distributes in the PRC (excluding Hong Kong) a broad range of bathroom and kitchen fixtures and plumbing fittings under the plumbing product brand names of American Standard Inc., including the "American Standard" and "Armitage Shanks" brands. As the Group's major product lines are ceramic sanitaryware, bathtubs and plumbing fittings and the raw materials for such product lines are steel, copper, zinc and clay.

The Group and its PRC Ventures have established a manufacturing base for the production of bathroom and kitchen fixtures and plumbing fittings in Shanghai, Tianjin and Guangdong province, using the manufacturing equipment and technologies developed by the then American Standard to ensure the quality of its products.

The Group's products are sold domestically through a network of authorized dealers and the sub-dealers via their sales outlets throughout the PRC. The Group also exports its products to North America and Europe with Ideal Standard (UK) serving as its export distributor. Hong Kong is not part of the Group's business, but is part of the Asia Bath and Kitchen Business. The following is a structure chart of the Group as extracted from the Company's prospectus dated 19 June 2003 (and amended where necessary):

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### Structure chart of the Group



#### Notes:

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

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6. ASCC, a wholly-foreign-owned enterprise established in the PRC on 19 October 1995 for a term of 50 years, is principally engaged in investment in companies in the sanitaryware industry. It also provides services to such investee companies relating to the training of staff, marketing and market development, consultation, the obtaining of loans and provision of guarantees. It is a subsidiary of the Company.

From time to time, the Group conducted business with its then controlling shareholders, namely the American Standard group and subsequently, the Ideal Standard Group. Following the change in control of the Company and after the Transfer, INAX shall become the new controlling Shareholder.

As set out in the prospectus of the Company dated 19 June 2003, the Company had in place with the then American Standard Inc. the Intellectual Property Agreement, which enables the Company to require American Standard Inc. to grant to the companies in which the Company holds a majority interest territorial licences to manufacture and distribute products in the PRC under the various plumbing products brand names of American Standard. Individual PRC Ventures as set out above have entered into certain trademark licence agreements, technical assistance agreements and some have entered into management assistance agreements with the then American Standard Inc.. Individual PRC Ventures have also entered into the Export Distributorship Agreements whereby American Standard Inc. had been appointed as the exclusive distributor of each of such PRC ventures for the distribution and sales of the Group's sanitaryware, bathtubs and plumbing fittings products outside the PRC. All the abovementioned agreements had been novated and assigned to Ideal Standard (UK) in late 2007 and following the Completion, it is now proposed that such agreements be novated to INAX.

Whilst it is true that the PRC market is a market with 1.3 billion people, it is also a market in which competition for plumbing products is fierce and there is no one dominant player. This competitive market is described by the Company's management as fragmented, with close to some 1,000 competitors in the manufacturing and sales of plumbing products, a large number of which are in the ceramic sanitary ware products, with others in bathtubs and plumbing fittings. This large number of players generally have surplus production capacity.

The PRC market for sanitary ware products can be divided into four market sectors, being the premium grade, high-end, mid-end and low-end. In the high-end sector, the Group's major competitors are TOTO and Kohler, of Japan and the U.S. respectively and none of them, as estimated by the management of the Company, has dominated the market share in such sector. The Company's management believes the Group is probably rank as the third largest market leader in the high-end plumbing products market right behind these two competitors. Unlike TOTO and Kohler, the Group's products are not perceived as premium grade. The Group's products are also not regarded as low-end. For the mid-end sector, the Group has a much smaller market share than its competitors, namely Arrow, Kohler and a dozen other major brands (there are about 100 competing brands in this sector).

In general, it is probably correct to state that the ranking of the Group's brands is behind Arrow, Kohler, TOTO, in that order. Other competitors of the Group which rank behind the Group include HCG, Roca, Appollo, Huida, Dongpeng and other local brands owned by state-owned or private enterprises in the PRC. Increasingly, the Group's competitors are diversifying into other manufacturing products like kitchen, tiles and faucets, which are complimentary to their sanitary ware products.

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### **1.2 Change in control of the Company following the sale of the Asia Bath and Kitchen Business**

On 22 June 2009, the Company and INAX announced in the Joint Announcement that INAX had entered into the Share and Asset Purchase Agreement with Ideal Standard pursuant to which INAX agreed to acquire the Asia Bath and Kitchen Business from Ideal Standard according to the terms and conditions of the Share and Asset Purchase Agreement. Completion of the Acquisition is conditional upon the Conditions Precedent being fulfilled (or, if applicable, waived) at or prior to Completion. Subject to the fulfillment (or if applicable, waiver) of such conditions, Completion took place on 2 July 2009.

As disclosed in the Joint Announcement, INAX has undertaken under the Share and Asset Purchase Agreement that as soon as practicable after satisfaction or waiver of the Conditions Precedent, and in any case not later than 10 days after Completion, it will make the Offer to acquire all the issued Shares. Ideal Standard has agreed to cause all Shares directly or indirectly held by it or any of its Affiliates (including ASFTL) to be tendered in the Offer forthwith.

To the extent that INAX does not post (or procure the posting of) the offer document in respect of the Offer within 10 days after Completion, INAX shall forthwith acquire all of the Shares held directly or indirectly by Ideal Standard or any of its Affiliates. In that event, INAX would be obliged to make a mandatory unconditional cash offer for all the Shares not then owned by INAX and persons acting in concert with it.

Further details of the Offer, which was made within 10 days after Completion, and the possible mandatory unconditional cash offer are set out in the Joint Announcement and in the offer document in respect of the Offer dated 10 July 2009.

### **1.3 Change of Connected Persons of the Company**

As at the Latest Practicable Date, Ideal Standard directly held 508,500 Shares, and indirectly, through ASFTL, held 95,867,000 Shares, representing in aggregate 96,375,500 Shares, or approximately 63.81% of the issued share capital of the Company and Ideal Standard and its associates are therefore connected persons of the Company. Immediately following the Transfer, Ideal Standard and its associates will cease to be connected persons of the Company and INAX and its associates will become connected persons of the Company.

### **1.4 Novation of the 2007 Continuing Connected Transactions Agreements**

In connection with the Acquisition, Ideal Standard (UK), INAX and the relevant member(s) of the Group entered into fifteen (15) New Novation Agreements on 26 June 2009, which shall become effective when each of the following conditions is satisfied: (i) closing of the Share and Asset Purchase Agreement; (ii) receipt of the approval of the novation of the relevant New Novation Agreements by the Independent Shareholders; (iii) in relation to the Management and Administrative Assistance Agreement, the Intellectual Property Agreement and the Reimbursement Agreements, the approval of the Board; and (iv) in relation to the Export Distributorship Agreements, Trademark Licence Agreements, Technical Assistance Agreements and Management Assistance Agreements, the approval of the board of directors of the relevant PRC Ventures,

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pursuant to which Ideal Standard (UK) will assign and novate its rights and obligations under the 2007 Continuing Connected Transactions Agreements to INAX with no amendment to the operating provisions of the existing terms and conditions of the 2007 Continuing Connected Transactions Agreements. Reference is made to the announcement of the Company dated 28 June 2009 in relation to the entering into of the New Novation Agreements.

The entering into of the New Novation Agreements in respect of the 2007 Continuing Connected Transactions Agreements and the transactions contemplated thereunder constitute the New Continuing Connected Transactions of the Company and of which, the Non-exempt Continuing Connected Transactions require the approval of the Independent Shareholders. Details of the Non-exempt Continuing Connected Transactions are set out hereinafter.

### **1.5 The Group's profitability**

For the two years ended 31 December 2008, total turnovers of the Group were approximately US\$106.7 million and US\$115.6 million respectively whereas gross profits were approximately US\$34.7 million and US\$35.0 million respectively. As set out below, a large portion of these turnovers and gross profits were the results of, and will continue to be supported by, the Non-exempt Continuing Connected Transactions.

## **2. REASONS FOR AND BENEFITS OF THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

The following reasons for and benefits of the Non-exempt Continuing Connected Transactions are set out in the "Letter From The Board".

### **2.1 Reasons for the Non-exempt Continuing Connected Transactions**

Ideal Standard and its Affiliates are connected persons of the Company. Immediately following the Transfer, Ideal Standard and its Affiliates will cease to be connected persons of the Company and INAX and its associates will become connected persons of the Company.

Upon Completion, Ideal Standard (UK) will be entitled to terminate the following agreements pursuant to the terms and conditions of such agreements:

- (i) the Export Distributorship Agreements (except those entered into between Ideal Standard (UK) and Hua Mei and A-S Jiangmen Fittings, respectively);
- (ii) the Management Assistance Agreements;
- (iii) the Technical Assistance Agreements; and
- (iv) the Trademark Licence Agreements.

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Further, the Company understands that INAX will upon Completion own substantially all of the intellectual property rights which are used by the Group and will also be the exclusive licensee in the PRC of any other material intellectual property rights used by the Group that are not subject to transfer. Since INAX will be given exclusive rights to use the licensed intellectual property rights in the Asian jurisdiction, the executive Directors do not anticipate any adverse impact on the business operation of the Group. In order to ensure a smooth transition of the operation of the Group following Completion and in connection with the Acquisition, Ideal Standard (UK), INAX and the relevant member(s) of the Group entered into the New Novation Agreements on 26 June 2009.

### **2.2 Benefits of the Non-exempt Continuing Connected Transactions**

INAX has an extensive history in the manufacture of tiling, building materials and sanitary fixtures for residential, commercial and public buildings and facilities. The Board (including the non-executive Directors) considers that by entering into the New Novation Agreements, INAX will become a strategic partner of the Group and the Non-exempt Continuing Connected Transactions will enable the Group to continue to leverage on the international sales network and to enhance its expertise of staff, technical know-how and management assistance in connection with the Asia Bath and Kitchen Business after the Completion.

The Board, having taken into account all facts available, considers that the entering into of the New Novation Agreements in respect of the New Continuing Connected Transactions and the terms of the transactions contemplated thereunder are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

### **2.3 Our findings and opinion**

As set out in the Form 10-K filed in the U.S. on 26 February 2007 by American Standard Companies Inc., the Company was part of the global bath and kitchen business of American Standard Companies Inc. being acquired by Ideal Standard in late 2007 and such bath and kitchen business has one of the longest histories in the industry, dating back to 1875 as the then Standard Sanitary Manufacturing Company in the U.S.. The Group manufactures and distributes in the PRC (excluding Hong Kong) a broad range of bathroom and kitchen fixtures and plumbing fittings under the plumbing product brand names which include the “American Standard” and “Armitage Shanks” brands. The Group was, is and will be, using the manufacturing equipment and technologies developed by American Standard Companies Inc., Ideal Standard (UK) and after the Transfer, INAX, to ensure the quality of its products.

As set out in its offer document in respect of the Offer dated 10 July 2009, INAX is incorporated in Japan and has an extensive history in the manufacture of tiling, building materials and sanitary fixtures for residential, commercial and public buildings and facilities. It currently has operations in Asia, Europe and the United States of America and is a wholly-owned subsidiary of JS Group Corporation, a company listed on the Tokyo Stock Exchange and as at 7 July 2009, had a market capitalization of approximately ¥401,978 million (approximately HK\$32,962.2 million).

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As set out in JS Group Corporation's 2008 annual report, JS Group Corporation consists of integrated operating companies that offer sashes, doors, exteriors, bathrooms, kitchens, sanitary ware, building materials for commercial buildings and other products. The sanitary ware products under INAX generated total sales of ¥97,700 million (approximately HK\$8,011 million) for the year ended 31 March 2008, which ranked second in Japan, after TOTO. INAX and TOTO dominate the Japanese market for sanitary ware products and have a combined market share of approximately 30%.

In the PRC, total sales for INAX amounted to ¥1,200 million (approximately HK\$118 million) for the year ended 31 March 2008, which was approximately 1.2% of its total sales only. In the PRC marketplace, INAX Corporation's presence is very small whereas its major Japanese competitor, TOTO, is considered one of the two leading high end brands (the other being Kohler).

As set out in its offer document in respect of the Offer dated 10 July 2009, INAX is acquiring the Asia Bath and Kitchen Business with a view to, amongst other things, expanding its operations and presence in Asia. INAX intends to integrate the Asia Bath and Kitchen Business with its existing operations, and to continue to grow the business globally, leveraging on the global manufacturing capability footprint of the Asia Bath and Kitchen Business as a whole.

In particular, it is the intention of INAX that the Company will continue to carry on its existing business and will maintain its existing business to the extent where it is in the interest of the Company and the Shareholders as a whole to do so. The acquisition of the Company offers an opportunity for INAX to participate in the PRC bath and kitchen products market and the Company's existing manufacturing capacity in the PRC can continue to serve as an export base. Further, as mentioned above, increasingly, the Group's competitors are diversifying into other manufacturing products like kitchen, tiles and faucets, which are complimentary to their sanitary ware products. The diversified products manufactured by other members of the JS Group Corporation as set out above are likely to close such products gap of the Company, when faced with the competitive threat arising from increasingly diversified product lines of its competitors.

In light of the above, we are of the opinion that JS Group Corporation, through INAX, is a reputable regional player in the sanitary ware business, with depth and breadth in both finance and know-how. We are therefore in concurrence with the aforesaid reasons for and benefits of the Non-exempt Continuing Connected Transactions.

### **3. PRINCIPAL TERMS, TRANSACTION VALUES AND CAP AMOUNTS OF THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

The Non-exempt Continuing Connected Transactions which are proposed to be novated by the relevant New Novation Agreements include the Intellectual Property Agreement, the Trademark Licence Agreements, the Technical Assistance Agreements, the Management Assistance Agreements, the Export Distributorship Agreements and the Reimbursement Agreements, and the transactions contemplated thereunder. Pursuant to the relevant New Novation Agreements, Ideal Standard (UK) will assign and novate its rights and obligations under the 2007 Continuing Connected Transactions Agreements to INAX with no amendment to the operating provisions of the existing terms, transaction values and cap amounts of their respective Non-exempt Continuing Connected Transactions.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 3.1 The agreements governing the Non-exempt Continuing Connected Transactions

The terms of the Non-exempt Continuing Connected Transactions are governed by the relevant 2007 Continuing Connected Transactions Agreements, the key terms and conditions of which are summarised below:

No.	The Agreement	Date	Parties	Nature of Transaction	Revenue (R)/ Expenditure (E)
1.	Four Export Distributorship Agreements	various dates, all expiring on 31 December 2009 (except the agreement between Hua Mei and Ideal Standard (UK) which expires on 4 June 2015)	the PRC Ventures and INAX	sales of sanitaryware, bathtubs and plumbing fittings products to and for exclusive distribution by INAX outside of PRC	R
2.	Intellectual Property Agreement	1 January 1996, no specific termination date	the Company and INAX	agreement wherein INAX agrees to grant territorial licences to the PRC Ventures upon request to enable the manufacture and distribution of plumbing products in the PRC under the plumbing product brand names of "American Standard"	E
3.	Four Trademark Licence Agreements (Note 1)	various dates, with various expiring dates ranging from 4 June 2015 to 16 June 2044	the PRC Ventures and INAX	territorial licences to the PRC Ventures to manufacture and distribute plumbing products in the PRC under the plumbing product brand names of "American Standard"	E
4.	Four Technical Assistance Agreements (Note 1)	various dates, with various expiring dates ending on 4 June 2015 or 31 December 2009	the PRC Ventures and INAX	provision of technical know-how to the Company and the PRC Ventures	E



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No.	The Agreement	Date	Parties	Nature of Transaction	Revenue (R)/ Expenditure (E)
5.	Two Management Assistance Agreements	23 February 1994 and 5 June 1985, with expiry dates of 22 February 2010 and 4 June 2015 respectively	A-S Tianjin Pottery and INAX Hua Mei and INAX	provision of management assistance to A-S Tianjin Pottery and Hua Mei	E
6.	Reimbursement Agreement (from the Group to INAX)	the relevant extension agreement dated 25 November 2008, expiring on 31 December 2009	the Company and INAX	reimbursement of staff costs, insurance payments and other expenses from the Group to INAX	E
7.	Reimbursement Agreement (from INAX to the Group)	the relevant extension agreement dated 25 November 2008, expiring on 31 December 2009	the Company and INAX	reimbursement of regional staff costs, travelling costs, office rentals, expatriate apartment rental and other expenses from INAX to the Group	R

*Note:*

1. A joint trademark licence agreement and know-how transfer agreement was entered into between Hua Mei and Trane US (then novated to Ideal Standard (UK)) on 5 June 1985.

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### 3.2 Export Distributorship Agreements

Pursuant to the four (4) Export Distributorship Agreements as extended by the relevant agreements and novated by the relevant New Novation Agreements, INAX will be appointed the exclusive distributor of each of the PRC Ventures for the distribution and sales of the Group's sanitaryware, bathtubs and plumbing fittings products outside the PRC. The key terms and conditions of such supplies of sanitaryware, bathtubs and plumbing fittings products to INAX are as follows:

- such sales shall be on normal commercial terms and on a contract basis, with each contract specifying the quantity to be sold, the date of delivery and the selling price to be fixed at the time of shipment with reference to the actual costs of the raw materials and the quality of the products, unless otherwise expressly agreed by the parties;
- such products shall be delivered from 45 to 60 days after orders are placed and subject to availability and source; and
- payments for such products are usually within 120 days from invoice date.

Pursuant to relevant extension agreement(s) entered into on 25 November 2008, the Group renewed three (3) Export Distributorship Agreements entered into between Ideal Standard (UK) and each of A-S Jiangmen Fittings, A-S Shanghai Pottery and A-S Tianjin Pottery to further extend the term for another period of one year until 31 December 2009 upon the same terms and conditions as the respective preceding extension agreements. Each of the four (4) Export Distributorship Agreements will be novated to INAX.

We understand from the Board that due to ongoing global economic downturn, demand for the Group's products under the Export Distributorship Agreements, in particular demand from Europe, has begun to show signs of weakness. This is further complicated by the rising manufacturing costs in the PRC and the appreciation in RMB, which all resulted in making the Group's products less competitive, compared to certain East European manufacturers. In order to make the Group's products more competitive, the Board believes the 120 days payment term is a competitive advantage that the Group could leverage on, given its relatively strong cash position and in so doing, better protect its position as a main sourcing center under the Export Distributorship Agreements.

In light of the current global economic downturn and financial markets' turmoil, the scale of which are un-precedent in recent history, we find the Board's decision to extend such payment term a commercial one and accordingly, we are in concurrence with the Board's view on the payment terms of 120 days.

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

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

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

For the original commencement and expiry dates of the original Export Distributorship Agreements and the respective extension agreements, please refer to the sub-section 3.2.1 headed “*Sales of sanitaryware, bathtubs and plumbing fittings products to INAX*” in the “Letter From The Board”.

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

	<b>Segment revenue</b>		
	<b>For the year ended 31 December</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
PRC	46,354	54,892	60,276
European countries	17,875	24,965	26,677
North America	10,367	13,282	11,045
Others	12,217	13,535	17,554
Total	<u>86,813</u>	<u>106,674</u>	<u>115,552</u>

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

Export sales of the Group are mainly made to connected parties and such related party sales amounted to approximately US\$41.49 million for the year ended 31 December 2008. In view of the Group’s sales to Europe, North America and others for the year ended 31 December 2008 totaling US\$55.28 million and the US\$41.49 million sales to connected parties, thus sales to independent third parties amounted to approximately US\$13.79 million for the corresponding period. As there are no marketing or other administrative and operating expenses associated with the Group’s export

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sales and no trademark licence fees for export sales to connected parties, the operating profit margins for the Group's export business are generally higher compared to the Group's domestic sales.

As mentioned above, the Group does supply independent third parties outside the PRC with certain of its products, albeit in much smaller scale and generally in slightly different product specifications. Based on sample invoices supplied by the Company and reviewed by us, which set out certain export sales of the Group to related parties and to independent third parties, and having considered the terms of such sales, the product specifications, and the difference in shipping costs, we are of the opinion that the terms and conditions of the Group's export sales to related parties under the Export Distributorship Agreements are generally in line with those export sales to independent third parties. The related party sales made to Ideal Standard (UK) (and after the Transfer, INAX), which are classified as part of the sales to North America, European countries and others referred to in the table above, amounted to US\$41.49 million, or approximately 36% of the total sales of the Group for the year ended 31 December 2008. These sales are thus of primary importance to the Group's overall business.

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

### 3.3 Annual caps under the Export Distributorship Agreements

The total export sales of the Group under the Export Distributorship Agreements for the years ended 31 December 2006, 2007 and 2008 were at US\$39.16 million, US\$49.97 million and US\$41.49 million respectively. The table below sets out the historical annual caps sought and approved:

	31 December 2006	For the year ended 31 December 2007	31 December 2008
Annual caps sought and approved	US\$40 million (HK\$312 million)	US\$82 million (HK\$639.6 million)	US\$124 million (HK\$967.2 million)

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As set out in the Company's circular dated 13 December 2008, it estimated cap amount for the total export sales of the Group under the Export Distributorship Agreements would need the same cap amount as sought in 2008, as follows:

**For the year ending  
31 December 2009**

Annual cap under the Export Distribution Agreements	US\$124 million
as novated by the relevant New Novation Agreements	(HK\$967.2 million)

We have earlier enquired with the Company that given the actual amounts of the relevant export sales of US\$41.49 million for 2008 were substantially lower than the annual caps approved, the need of maintaining the same annual cap amount for 2009.

The Company is of the view that (such view is based on existing business needs of the Group prior to the Transfer):

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

We have reviewed the projections prepared by the Company and the assumptions therein. Whilst it is clear that any increase in export sales under the Company's "best case" projection would potentially increase the cap amount materially, we are of the view that export sales under such scenario may not necessarily materialize. That said, given the importance of the export sales under the Export Distributorship Agreements to the Group, and that considerable expenditure has been incurred to increase the manufacturing capacity of Hua Mei for raising the export sales, we consider the executive Directors' view for maintaining the approved larger cap amount fair and reasonable based on the Company's best case scenario, notwithstanding that such cap amount appears to exceed the Group's needs for related party sales under Ideal Standard (UK) prior to the Transfer. Going forward, for the remaining year ending 31 December 2009, INAX has not shown any export sales plan which would deviates from that of Ideal Standard (UK) though the precise needs for related party sales under INAX cannot be ascertained at present.

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### 3.4 Intellectual Property Agreement, Trademark Licence Agreements, Technical Assistance Agreements and Management Assistance Agreements

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

Pursuant to the Intellectual Property Agreement, the Trademark Licence Agreements, Technical Assistance Agreements and Management Assistance Agreements which will be novated by the relevant New Novation Agreements, INAX agrees, among other things, to:

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

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

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

INAX will have the right to terminate the above agreements entered into with the relevant PRC Venture upon the occurrence of the termination events specified therein. Some of the termination events are set out in the sub-section 3.2.3 headed “Intellectual property royalty payments, trademark licence fees, technical assistance and management assistance service fees paid to INAX” in the “Letter From The Board”.

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

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

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Intellectual Property Agreement was entered into between the Company and American Standard Inc. on 1 January 1996 and contains no specified termination date. Details of the Intellectual Property Agreement are set out in the Company's (i) circular dated 13 October 2007; (ii) composite offer documents dated 7 November 2007 and the offer document in respect of the Offer dated 10 July 2009; and (iii) 2007 annual report dated 15 May 2008. The table below sets out the commencement and expiry dates of the Intellectual Property Agreement, the Trademark Licence Agreements, the Technical Assistance Agreements, and the Management Assistance Agreements:

### *Intellectual Property Agreement*

<b>Commencement Date</b>	<b>Expiry Date</b>	<b>Parties</b>
1 January 1996	no specific termination date	the Company and Ideal Standard (UK)

### *Trademark Licence Agreements*

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

### *Technical Assistance Agreements*

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



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Management Assistance Agreements*

<b>Commencement Date</b>	<b>Expiry Date</b>	<b>Parties</b>
5 June 1985	4 June 2015	Hua Mei and Ideal Standard (UK)
23 February 1994	22 February 2010	A-S Tianjin Pottery and Ideal Standard (UK)

*Note 1:* In the case of Hua Mei, a joint trademark licence agreement and know-how transfer agreement was entered into between Hua Mei and Trane US (then novated to Ideal Standard (UK)) on 5 June 1985.

Pursuant to the relevant New Novation Agreements, which shall become effective until each of the following conditions is satisfied: (i) closing of the Share and Asset Purchase Agreement; (ii) receipt of the approval of the novation of the relevant New Novation Agreements by the Independent Shareholders; (iii) in relation to the Management and Administrative Assistance Agreement, the Intellectual Property Agreement and the Reimbursement Agreements, the approval of the Board; and (iv) in relation to the Export Distributorship Agreements, Trademark Licence Agreements, Technical Assistance Agreements and Management Assistance Agreements, the approval of the board of directors of the relevant PRC Ventures, Ideal Standard (UK) will assign and novate its rights and obligations under the Intellectual Property Agreement, the Trademark Licence Agreements, the Technical Assistance Agreements and the Management Assistance Agreements to INAX.

### **3.5 Annual caps for the Trademark Licence Agreements, Technical Assistance Agreements and Management Assistance Agreements**

For each of the three years ended 31 December 2008, the Group paid an aggregate of trademark licence fees, technical and management assistance fees as follows:

	<b>For the year ended</b>		
	<b>31 Dec. 2006</b> <i>(US\$'000)</i>	<b>31 Dec. 2007</b> <i>(US\$'000)</i>	<b>31 Dec. 2008</b> <i>(US\$'000)</i>
Trademark licence fees	970	1,280	1,370
Technical assistance fees	826	1,057	1,157
Management assistance fees	280	304	303
	<hr/>	<hr/>	<hr/>
Total	<u>2,076</u>	<u>2,641</u>	<u>2,830</u>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

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

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

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

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

	<b>For the year ending 31 December 2009</b>
Annual caps for trademark licence fees	US\$2.860 million
Annual caps for technical assistance fees	US\$2.288 million
Annual caps for management assistance fees	US\$0.858 million
	US\$6.006 million
<b>Total annual cap to be sought</b>	<b>US\$6.006 million</b> <b>(HK\$46.847 million)</b>

As set out in the Company's circular dated 13 December 2008, the above estimates are based on the terms of the relevant agreements and the projected sales of the PRC Ventures in 2009, having considered the historical sales trends of the Group under Ideal Standard (UK). We have

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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enquired with the Company the need for such annual cap amount for 2009, given the corresponding maximum aggregate amount as estimated by the executive Directors as set out above is US\$4.307 million (or approximately HK\$33,594,600).

We understand from the Company that notwithstanding such estimated amount for the year ending 31 December 2009, the executive Directors are of the view that under a “best case” scenario, domestic sales could rise as much as another 35%, the effect of which has not been included in the said US\$4.307 million estimate. This “best case” scenario assumes favorable PRC government policy and regulations in favor of property market and the advantages arise from major international events to be hosted in the PRC and the PRC government’s investment and stimulus plan in response to the current global economic downturn. The executive Directors therefore are of the view that under the “best case” scenario, a larger cap amount would be required. Apart from reviewing the assumptions and bases adopted by the executive Directors for the cap amount sought, we have also reviewed the historical calculation of each of the trademark licence, technical and management assistance fees for the two years ended 31 December 2007.

Whilst we are of the view that such cap appears to be higher than the Group’s present requirements, in view of the domestic sales nature of such cap amount (i.e. the trademark licence, technical and management assistance fees are payable by the PRC Ventures based on a percentage of their net sales bearing licensed trademarks, details of which are set out in the table in sub-section 3.4 above), the still relative robust PRC economy in the midst of a global recession, the considerable increase in marketing and market research expenditures in the PRC in 2008, the purpose of which was to generate domestic demand of the Group’s products and the fact that future sale prospects under INAX cannot be ascertained at present (i.e. the synergistic effect on domestic sales in the PRC under INAX), we concur with the executive Directors’ view that such cap amount is considered fair and reasonable.

It should be noted that the abovementioned agreements, which were entered into at the time the relevant PRC Ventures were established, were determined by negotiation between the Company and the investors of the relevant PRC Ventures with consideration of local rules and the then prevailing market conditions in the PRC at the time of establishment of the PRC Ventures. In order to confirm that the terms of the abovementioned agreements are in line with the general market practice but in view of the lack of precise industry comparables, we have reviewed a number of sample agreements involving technical assistance, trademark license, management service and intellectual property, all provided by the Company which were entered into by the Ideal Standard Group’s joint venture parties in other Asian countries. As a result of our review, we are of the opinion that the rates set out in the table above for the calculation of the trademark licence fees, technical assistance fees and management assistance fees payable by the PRC Ventures to INAX are in line with market practice in general.

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

### **3.6 Reimbursement of expenses from the Group to INAX under the Reimbursement Agreement**

Pursuant to the Reimbursement Agreement dated 16 June 2003 as extended by extension agreements dated 1 January 2006 and 25 November 2008 and which will be novated by the relevant New Novation Agreement, the Group will reimburse INAX for certain expenses based on actual costs paid by INAX on behalf of the Group. The extension agreement dated 25 November 2008 will expire on 31 December 2009. These expenses comprise mainly staff costs relating to expatriate employees seconded to the Group from INAX, insurance payments under insurance policies adopted by INAX, legal fees and other amounts paid by INAX on behalf of the Group. These expenses incurred by INAX on behalf of the Group will be charged to and paid by the Group to INAX on a dollar-to-dollar basis with reference to the actual cost incurred and the Group will reimburse these expenses to INAX within 60 days of these expenses falling due.

### **3.7 Annual caps for reimbursement of expenses from the Group to Ideal Standard (UK)/ INAX**

For the two years ended 31 December 2008, the Group's reimbursement of expenses made to Ideal Standard (UK) were approximately US\$703,000 (or approximately HK\$5,483,400) and US\$113,000 (or approximately HK\$881,400) respectively, representing approximately 0.7% and 0.1% of the Group's turnover for the corresponding periods. The executive Directors estimate the aggregate amounts of the Group's reimbursement of expenses made to Ideal Standard (UK) and after the Transfer, to INAX for the year ending 31 December 2009 to be US\$386,000 (or approximately HK\$3,010,800) respectively.

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

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

**For the year ending  
31 December 2009**

Annual cap to be sought for 2009	US\$2.0 million (HK\$15.6 million)
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As set out in the Company's circular dated 13 December 2008, we have enquired with the Company about the need for such cap amount for 2009. In light of the executive Directors' estimate of the aggregate amounts of the Group's reimbursement of expenses made to Ideal Standard (UK)/INAX for the year ending 31 December 2009 of approximately US\$386,000 (or approximately HK\$3,010,800). The Company is of the view that:

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

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

We have taken the view that the change in control of the Company to INAX could have a possible impact on further increased liaison between the Group and INAX (in particular, during the early stage of integration of the two operations after the Transfer). We further noted the absolute dollar amount of such excess cap amount when compared to the executive Directors' estimate of the aggregate amounts of the Group's reimbursement of expenses made to Ideal Standard (UK)/INAX for the year ending 31 December 2009 is relatively small.

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 3.8 Reimbursement of expenses from INAX to the Group under the Reimbursement Agreement

Pursuant to the Reimbursement Agreement dated 1 January 2006 as extended by an extension agreement dated 25 November 2008 and which will be novated by the relevant New Novation Agreement, INAX will reimburse to the Group certain expenses based on actual costs paid by the Group on behalf of INAX. These expenses comprise mainly regional staff costs, travelling costs, office rentals, expatriate apartment rental and other amounts incurred in the PRC and paid by the Group on behalf of INAX. These expenses incurred by the Group on behalf of INAX will be charged to and paid by INAX to the Group on a dollar-for-dollar basis with reference to the actual cost incurred and INAX will reimburse these expenses to the Group within 60 days of these expenses falling due.

### 3.9 Annual caps for reimbursement of expenses from Ideal Standard (UK)/INAX to the Group

The total amount of such reimbursement was US\$118,000 and US\$1,281,000 for the two years ended 31 December 2007 and 2008 respectively. The annual caps approved in respect of the aggregate amounts of the reimbursement of expenses made to the Group by Ideal Standard (UK) for the two years ended 31 December 2007 and 2008 respectively are as follows:

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

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

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

As set out in the Company's circular dated 13 December 2008, the Company believes the need to maintain the 2009 annual cap amount as set out above, in view of the following:

- (i) the current estimates of total reimbursement of expenses made to the Group by Ideal Standard (UK) for 2008 and 2009 are approximately US\$1.113 million and US\$1.224 million respectively; and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (ii) The Company anticipated that the increase in transactions under the Export Distributorship Agreement and the establishment of the International Designing Center in Shanghai in 2008 will increase the liaison activities between the Ideal Standard Group and the Group and as a result, will likely increase expenses related to regional staff costs, traveling expenses and expatriate apartment rental,

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

We have taken the view that the change in control of the Company to INAX could have a possible impact on further increased liaison between the Group and INAX (in particular, during the early stage of integration of the two operations after the Transfer). We further noted the absolute dollar amount of such excess cap amount when compared to the executive Directors' estimate of the aggregate amounts of the total reimbursement of expenses made to the Group by Ideal Standard (UK)/INAX for 2009 is relatively small.

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

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

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

#### **4. AGREEMENTS WITH AN EXPIRY DATE IN EXCESS OF THREE YEARS**

As each of the (i) Intellectual Property Agreement; (ii) Trademark Licence Agreements; (iii) Technical Assistance Agreement between Hua Mei and Ideal Standard (UK); (iv) Management Assistance Agreement between Hua Mei and Ideal Standard (UK); and (v) Export Distributorship Agreement between Hua Mei and Ideal Standard (UK), has an expiry date in excess of three years, we have considered such expiry dates as required under Rule 20.35(1) of the GEM Listing Rules.

We have considered the following factors and information:

- Insofar as the Intellectual Property Agreement is concerned, it contains no specified termination date. Details of the Intellectual Property Agreement and whether or not it could be terminated or revoked are set out in the prospectus and the composite offer document of the Company dated 19 June 2003 and 7 November 2007 respectively. The perpetual term

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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of the Intellectual Property Agreement is definitely in the best interests of the Company and its Independent Shareholders as the granting of the relevant territorial licences to the Group to manufacture and distribute products in the PRC under the plumbing product brand names owned by Trane US (Ideal Standard (UK) at present and going forward, INAX) cannot be arbitrarily terminated or revoked by the relevant grantor as the case may be. This perpetual term was thus an important commercial consideration for prospective investors and shareholders during the listing of the Shares as it featured prominently in the Company's prospectus dated 19 June 2003.

- The abovementioned Trademark Licence Agreements; Technical Assistance Agreement; Management Assistance Agreement and Export Distributorship Agreement were mostly entered into around the time the relevant PRC Ventures were established and prior to the listing of the Shares on the GEM board of the Stock Exchange in June 2003. As set out in the Company's prospectus dated 19 June 2003, it would not be in the interest of the Group to shorten such terms to beyond three years. We have reviewed circulars of other listed issuers with arrangements last more than three years in between the year 2004 and 2008. In light of the past relevant PRC regulation and the similar arrangements entered into by certain issuers in Hong Kong as referred to below, we are of the view that it was also then market practice in the PRC for similar agreements to last more than three years and the relevant joint venture partners of the PRC Ventures would also prefer such longer terms.
- We have further been advised by the Company that certain previous relevant PRC regulation about agreements stipulating technology import to last up to ten years and whilst such regulation has since been abolished, it is still considered normal business practice for agreements of this type to last more than three years. We are in concurrence with such explanation. We have further noted that from a commercial perspective, a longer term technical assistance or management assistance agreement or export distributorship agreement is likely to be more receptive to a minority joint-venture partner in the PRC, whose investment in such joint venture may be better protected.
- We have also reviewed similar agreements entered into by certain other joint ventures within the Ideal Standard Group, coupled with similar arrangements entered into and circulars published in between the year 2004 and 2008 by the following issuers whose shares are listed on the Stock Exchange, albeit these issuers are conducting different manufacturing businesses, which have terms longer than 3 years:
  - China Everbright International Limited (stock code: 0257)'s circular dated 8 July 2004 with respect to continuing connected transactions involving water treatment agreement, operation and maintenance agreement and technical assistance agreements.
  - Qingling Motors Co. Ltd. (stock code: 1122)'s circular dated 21 April 2006 with respect to continuing connected transactions involving technology transfer agreements.
  - Qingling Motors Co. Ltd. (stock code: 1122)'s circular dated 18 June 2008 with respect to continuing connected transactions involving technology transfer agreements.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- AviChina Industry & Technology Company Limited (stock code: 2357)'s circular dated 10 November 2008 with respect to continuing connected transactions involving, among others, technology transfer agreement, technology cooperation agreement, mutual supply agreement joint development agreement etc.
- USI Holdings Limited (stock code: 369)'s announcement dated 30 April 2008 with respect to continuing connected transaction involving the certain licence agreement and supplemental operating agreement.

In light of the above, we are of the view that the longer-than-three year term of each of the aforesaid Intellectual Property Agreement; Trademark Licence Agreements; Technical Assistance Agreements; Management Assistance Agreements and Export Distributorship Agreements is of normal business practice for agreements of this type to be of such duration in the PRC.

### RECOMMENDATION

Having considered the principal factors and reasons set out above, and in particular, (i) other than the proposed novation to INAX, none of the existing terms, transaction values and cap amounts of the Non-exempt Continuing Connected Transactions will be changed; and (ii) Non-exempt Continuing Connected Transactions will be entered into in the usual and ordinary course of business of the Group, we consider that the terms of the Non-exempt Continuing Connected Transactions under the relevant New Novation Agreements and their respective relevant annual caps are on normal commercial terms, are fair and reasonable so far as the Company and the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

We therefore, advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to be approved at the EGM to approve the New Novation Agreements in respect of the Non-exempt Continuing Connected Transactions, the transactions contemplated thereunder and the annual caps for the Non-exempt Continuing Connected Transactions.

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

## 1. RESPONSIBILITY STATEMENT

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

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

## 2. DISCLOSURE OF INTERESTS

### (i) Interests of Directors and chief executive in the Shares, underlying Shares

- (a) As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange (a) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange, were as follows:

#### *Interest in shares of associated corporations of the Company*

Name of Director	Name of associated corporation	Number and description of equity derivatives	Capacity	Type of interest	Approximate percentage of holding in the associated corporation
Mr. Ye Zhi Mao, Jason	Ideal Standard International TopCo (BC) Luxco S.C.A.	244,505	directly beneficially owned	Personal	0.97%
		177,456 PEC	directly beneficially owned	Personal	not applicable
		31,316 CPEC (note a)	directly beneficially owned	Personal	not applicable

Name of Director	Name of associated corporation	Number and description of equity derivatives	Capacity	Type of interest	Approximate percentage of holding in the associated corporation
Mr. Gao Jinmin	Ideal Standard International TopCo (BC) Luxco S.C.A.	719,134 Ordinary shares	directly beneficially owned	Personal	2.86%
		831,556 PEC	directly beneficially owned	Personal	not applicable
		146,754 CPEC (note a)	directly beneficially owned	Personal	not applicable
Chen Rong Fang	Ideal Standard International TopCo (BC) Luxco S.C.A.	143,828	directly beneficially owned	Personal	0.57%
		154,381 PEC	directly beneficially owned	Personal	not applicable
		27,244 CPEC (note a)	directly beneficially owned	Personal	not applicable
Wang Gang	Ideal Standard International TopCo (BC) Luxco S.C.A.	143,828	directly beneficially owned	Personal	0.57%
		214,030 PEC	directly beneficially owned	Personal	not applicable
		37,770 CPEC (note a)	directly beneficially owned	Personal	not applicable
Yang Xiong	Ideal Standard International TopCo (BC) Luxco S.C.A.	143,828	directly beneficially owned	Personal	0.57%
		512,276 PEC	directly beneficially owned	Personal	not applicable
		90,402 CPEC (note a)	directly beneficially owned	Personal	not applicable

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

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

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

**(ii) Interests of Substantial Shareholders**

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

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

Name of Shareholders	Number of shares held in the issued share capital of the Company	Capacity	Type of interest	Approximate percentage of holding
Bain Capital Partners VIII-E L.P. (Note 1)	96,375,500	Interest in controlled corporation	Corporate	63.81%
Ideal Standard International Topco SCA (Note 1)	96,375,500	Interest in controlled corporation	Corporate	63.81%
INAX Corporation (Note 2)	96,375,500	Beneficial Owner	Corporate	63.81%
JS Group Corporation (Note 2)	96,375,500	Interest in controlled corporation	Corporate	63.81%
Ideal Standard International Holding SARL (Note 1)	95,867,000	Interest in controlled corporation	Corporate	63.47%
Foundation Brunneria (Note 3)	16,900,000	Interest in controlled corporation	Corporate	11.19%
Clearwater Capital GP (III), Ltd. (Note 4)	15,088,297	Interest in controlled corporation	Corporate	9.99%
Clearwater Capital Partners Holdings, LLC (Note 4)	15,088,297	Interest in controlled corporation	Corporate	9.99%
Clearwater Capital Partners, LLC (Note 4)	15,088,297	Investment manager	Corporate	9.99%
Petty Robert Dean (Note 4)	15,088,297	Interest in controlled corporation	Personal	9.99%
RDP Holdings, LLC (Note 4)	15,088,297	Interest in controlled corporation	Corporate	9.99%
General Oriental Investments Limited (Note 3)	13,000,000	Beneficial owner	Corporate	8.61%

*Note 1:* As at the Latest Practicable Date, Bain Capital Fund IX LP, Bain Capital Fund VIII-E L.P., Bain Capital Investors LLC, Bain Capital Partners IX LP, Bain Capital Partners VIII-E L.P. and Ideal Standard International Topco SCA are taken to have an interest in the Shares held by Ideal Standard International Holding SARL which holds 95,867,000 Shares, representing approximately 63.47% shareholding due to its direct control over American Standard Foreign Trading Limited, being a company incorporated in Bermuda with limited liability, which directly holds 63.47% shareholding interest in the Company, and are therefore deemed under Part XV of the SFO to be interested in the interests of American Standard Foreign Trading Limited.

*Note 2:* As at the Latest Practicable Date, INAX Corporation was 100% directly owned by JS Group Corporation. JS Group Corporation is therefore deemed under Part XV of the SFO to be interested in the interests of INAX Corporation.

*Note 3:* As at the Latest Practicable Date, General Oriental Investments Limited was 100% indirectly owned by Foundation Brunneria, a private discretionary trust. Foundation Brunneria is therefore deemed under Part XV of the SFO to be interested in the interests of General Oriental Investments Limited in the Company.

*Note 4:* As at the Latest Practicable Date, Petty Robert Dean, RDP Holdings, LLC, Clearwater Capital GP (III), Ltd. and Clearwater Capital Partners Holdings, LLC SCA are taken to have an interest in the Shares held by Clearwater Capital Partners, LLC due to their direct or indirect control over, and therefore are deemed under Part XV of the SFO to be interested in the interests of Clearwater Capital Partners, LLC in the Company.

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

### 3. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

None of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company, or any of its subsidiaries during the period since 31 December 2008, the date to which the latest published audited financial statements of the Group were made up, up to and including the Latest Practicable Date.

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

#### 4. DIRECTORS' SERVICE CONTRACTS

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

#### 5. LITIGATION

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

#### 6. QUALIFICATION AND CONSENT OF EXPERT

- (a) The following is the qualification of the expert who has given opinion or advice contained in this circular:

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

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

#### 7. EXPERT'S INTERESTS

As at the Latest Practicable Date,

- (a) Centurion Corporate Finance Limited did not have any direct or indirect interest in any asset which had since 31 December 2008, being the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by, or leased to, any member of the Group, or was proposed to be acquired or disposed of by, or leased to, any member of the Group; and

- (b) Centurion Corporate Finance Limited was not beneficially interested in the share capital of any member of the Group or did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

## 8. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2008, being the date to which the latest published audited financial statements of the Group was made up.

## 9. MISCELLANEOUS

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



**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the office of Deacons, 5th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong for a period of 14 days (except public holidays) from the date of this circular:

- (a) the memorandum and articles of association of the Company;
- (b) the letter from the Board, the text of which is set out on pages 8 to 26 of this circular;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 27 of this circular;
- (d) the letter from Centurion Corporate Finance Limited, the Independent Financial Adviser, the text of which is set out on pages 28 to 54 of this circular;
- (e) the written consent referred to in the paragraph headed “Qualification and Consent of Expert” in this Appendix;
- (f) this circular;
- (g) the 2007 Continuing Connected Transactions Agreements; and
- (h) the New Novation Agreements.

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## NOTICE OF EGM

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# ASPPL

## A-S China Plumbing Products Limited

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

(Stock Code: 8262)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of the shareholders of A-S China Plumbing Products Limited (the “**Company**” or “**ASPPL**”) will be held at No. 24 Building, Gems Park, No. 487 Tianlin Road, Shanghai, the People’s Republic of China on 31 August 2009 at 9:00 a.m. for the purpose of considering and, if thought fit, pass with or without amendments, the following resolution of the Company which will be proposed as an ordinary resolution:

### ORDINARY RESOLUTION

“**THAT**

- (i) the entering into of and the terms and conditions of and the transactions contemplated under the following agreements:
  - (a) the second instrument of novation, amendment, joinder and release (the “**New Novation Agreement regarding the A-S Jiangmen EDA**”) dated 26 June 2009 entered into amongst INAX Corporation (“**INAX**”), American Standard (Jiangmen) Fittings Co., Ltd. (“**A-S Jiangmen Fittings**”) and Ideal Standard Global Ltd. (“**Ideal Standard (UK)**”) for the purpose of transferring and novating the benefits, rights, obligations of Ideal Standard (UK) to INAX under the export distributorship agreement entered into between A-S Jiangmen Fittings and Trane US Inc. (“**Trane US**”) on 14 January 1994 and novated by Trane US to Ideal Standard (UK) on 12 October 2007 pursuant to the instrument of novation, amendment, joinder and release of even date (the term of which was extended by three extension agreements entered into between the relevant parties on 16 June 2003, 1 January 2006 and 25 November 2008 respectively) (a copy of the New Novation Agreement regarding the A-S Jiangmen EDA marked “**A**” has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification);
  - (b) the second instrument of novation, amendment, joinder and release (the “**New Novation Agreement regarding the A-S Shanghai EDA**”) dated 26 June 2009 entered into amongst INAX, A-S Shanghai Pottery Co., Ltd. (“**A-S Shanghai Pottery**”) and Ideal Standard (UK) for the purpose of transferring and novating the benefits, rights, obligations of Ideal Standard (UK) to INAX under the export distributorship agreement entered into between A-S Shanghai Pottery and Trane US on 29 April 1994 and novated by Trane US to Ideal Standard (UK) on 12 October 2007 pursuant to the instrument of novation, amendment, joinder and release of even date (the term of which was extended by three extension agreements entered into

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between the relevant parties on 16 June 2003, 1 January 2006 and 25 November 2008 respectively) (a copy of the New Novation Agreement regarding the A-S Shanghai EDA marked “B” has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification);

- (c) the second instrument of novation, amendment, joinder and release (the “**New Novation Agreement regarding the A-S Tianjin EDA**”) dated 26 June 2009 entered into amongst INAX, A-S Tianjin Pottery Co., Ltd. (“**A-S Tianjin Pottery**”) and Ideal Standard (UK) for the purpose of transferring and novating the benefits, rights, obligations of Ideal Standard (UK) to INAX under the export distributorship agreement entered into between A-S Tianjin Pottery and Trane US on 31 January 1994 and novated by Trane US to Ideal Standard (UK) on 12 October 2007 pursuant to the instrument of novation, amendment, joinder and release of even date (the term of which was extended by three extension agreements entered into between the relevant parties on 16 June 2003, 1 January 2006 and 25 November 2008 respectively) (a copy of the New Novation Agreement regarding the A-S Tianjin EDA marked “C” has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification);
- (d) the second instrument of novation, amendment, joinder and release (the “**New Novation Agreement regarding the Hua Mei EDA**”) dated 26 June 2009 entered into amongst INAX, Hua Mei Sanitary Ware Co., Ltd. (“**Hua Mei**”) and Ideal Standard (UK) for the purpose of transferring and novating the benefits, rights and obligations of Ideal Standard (UK) to INEX under the export distributorship agreement entered into between Hua Mei and Trane US on 5 June 1985 and novated by Trane US to Ideal Standard (UK) on 12 October 2007 pursuant to the instrument of novation, amendment, joinder and release of even date (a copy of the New Novation Agreement regarding the Hua Mei EDA marked “D” has been produced in the meeting and signed by the Chairman of the meeting for the purpose of identification);
- (e) the second instrument of novation, amendment, joinder and release (the “**New Novation Agreement regarding the ASPPL MAA and IPA**”) dated 26 June 2009 entered into amongst INAX, Ideal Standard (UK) and the Company for the purpose of transferring and novating the benefits, rights and obligations of Ideal Standard (UK) under, amongst other things, (i) the Management and Administrative Assistance Agreement between Trane US and the Company dated 20 April 1994 and novated by Trane US to Ideal Standard (UK) on 12 October 2007 pursuant to the instrument of novation, amendment, joinder and release of even date (the term of which was extended by three extension agreements entered into between relevant parties on 16 June 2003, 1 January 2006 and 25 November 2008 respectively); and (ii) the Intellectual Property Agreement between Trane US and the Company dated 1 January 1996 and novated by Trane US to Ideal Standard (UK) on 12 October 2007 pursuant to the instrument of novation, amendment, joinder and release of even date (a copy of the New Novation Agreement regarding the ASPPL MAA and IPA marked “E” has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification);

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- (f) the second instrument of novation, amendment, joinder and release (the “**New Novation Agreement regarding the A-S Shanghai TLA**”) dated 26 June 2009 entered into amongst INAX, Ideal Standard (UK) and A-S Shanghai Pottery for the purpose of transferring and novating the benefits, rights and obligations of Ideal Standard (UK) under the trademark licence agreement entered into between A-S Shanghai Pottery and Trane US on 29 April 1994 and novated by Trane US to Ideal Standard (UK) on 12 October 2007 pursuant to the instrument of novation, amendment, joinder and release of even date (a copy of the New Novation Agreement regarding the A-S Shanghai TLA marked “F” has been produced in the meeting and signed by the Chairman of the meeting for the purpose of identification);
- (g) the second instrument of novation, amendment, joinder and release (the “**New Novation Agreement regarding the A-S Tianjin TLA**”) dated 26 June 2009 entered into amongst INAX, Ideal Standard (UK) and A-S Tianjin Pottery for the purpose of transferring, novating the benefits, rights and obligations of Ideal Standard (UK) under the trademark licence agreement entered into between A-S Tianjin Pottery and Trane US on 23 February 1994 and novated by Trane US to Ideal Standard (UK) on 12 October 2007 pursuant to the instrument of novation, amendment, joinder and release of even date (a copy of the New Novation Agreement regarding the A-S Tianjin TLA marked “G” has been produced in the meeting and signed by the Chairman of the meeting for the purpose of identification);
- (h) the second instrument of novation, amendment, joinder and release (the “**New Novation Agreement regarding the A-S Jiangmen TLA**”) dated 26 June 2009 entered into amongst INAX, Ideal Standard (UK) and A-S Jiangmen Fittings for the purpose of transferring, novating the benefits, rights and obligations of Ideal Standard (UK) under the trademark licence agreement entered into between A-S Jiangmen TLA and Trane US on 14 January 1994 and novated by Trane US to Ideal Standard (UK) on 12 October 2007 pursuant to the instrument of novation, amendment, joinder and release of even date (a copy of the New Novation Agreement regarding the A-S Jiangmen TLA marked “H” has been produced in the meeting and signed by the Chairman of the meeting for the purpose of identification);
- (i) the second instrument of novation, amendment, joinder and release (the “**New Novation Agreement regarding the Hua Mei TLA**”) dated 26 June 2009 entered into amongst INAX, Ideal Standard (UK) and Hua Mei for the purpose of transferring, novating the benefits, rights and obligations of Ideal Standard (UK) under the trademark licence and know-how transfer agreement entered into between Hua Mei and Trane US on 5 June 1985 and novated by Trane US to Ideal Standard (UK) on 12 October 2007 pursuant to the instrument of novation, amendment, joinder and release of even date (a copy of the New Novation Agreement regarding the A-S Hua Mei TLA marked “I” has been produced in the meeting and signed by the Chairman of the meeting for the purpose of identification);

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- (j) the second instrument of novation, amendment, joinder and release (the “**New Novation Agreement regarding A-S Shanghai TAA**”) dated 26 June 2009 entered into amongst INAX, Ideal Standard (UK) and A-S Shanghai Pottery for the purpose of transferring, novating the benefits, rights and obligations of Ideal Standard (UK) under the technical assistance agreement entered into between A-S Shanghai Pottery and Trane US on 29 April 1994 and novated by Trane US to Ideal Standard (UK) on 12 October 2007 pursuant to the instrument of novation, amendment, joinder and release of even date (the term of which was extended by three extension agreements entered into between the relevant parties on 16 June 2003, 1 January 2006 and 25 November 2008 respectively) (a copy of the New Novation Agreement regarding the A-S Shanghai TAA marked “J” has been produced in the meeting and signed by the Chairman of the meeting for the purpose of identification);
- (k) the second instrument of novation, amendment, joinder and release (the “**New Novation Agreement regarding A-S Tianjin TAA**”) dated 26 June 2009 entered into amongst INAX, Ideal Standard (UK) and A-S Tianjin Pottery for the purpose of transferring, novating the benefits, rights and obligations of Ideal Standard (UK) under the technical assistance agreement entered into between A-S Tianjin Pottery and Trane US on 23 February 1994 and novated by Trane US to Ideal Standard (UK) on 12 October 2007 pursuant to the instrument of novation, amendment, joinder and release of even date (the term of which was extended by two extension agreements entered into between relevant parties on 1 January 2006 and 25 November 2008 respectively) (a copy of the New Novation Agreement regarding the A-S Tianjin TAA marked “K” has been produced in the meeting and signed by the Chairman of the meeting for the purpose of identification);
- (l) the second instrument of novation, amendment, joinder and release (the “**New Novation Agreement regarding A-S Jiangmen TAA**”) dated 26 June 2009 entered into amongst INAX, Ideal Standard (UK) and A-S Jiangmen Fittings for the purpose of transferring, novating the benefits, rights and obligations of Ideal Standard (UK) under the technical assistance agreement entered into between A-S Jiangmen Fittings and Trane US on 14 January 1994 and novated by Trane US to Ideal Standard (UK) on 12 October 2007 pursuant to the instrument of novation, amendment, joinder and release of even date (the term of which was extended by an extension agreement entered into between Ideal Standard (UK) and A-S Jiangmen Fittings on 25 November 2008) (a copy of the New Novation Agreement regarding the A-S Jiangmen TAA marked “L” has been produced in the meeting and signed by the Chairman of the meeting for the purpose of identification);
- (m) the second instrument of novation, amendment, joinder and release (the “**New Novation Agreement regarding A-S Tianjin MAA**”) dated 26 June 2009 entered into amongst INAX, Ideal Standard (UK) and A-S Tianjin Pottery for the purpose of transferring, novating the benefits, rights and obligations of Ideal Standard (UK) under the management assistance agreement entered into between A-S Tianjin Pottery and Trane US on 23 February 1994 and novated by Trane US to Ideal Standard (UK) on 12 October 2007 pursuant to the instrument of novation, amendment, joinder and release of even date (the term of which was extended by an extension agreement entered

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into between Ideal Standard (UK) and A-S Tianjin Pottery on 25 November 2008) (a copy of the New Novation Agreement regarding the A-S Tianjin MAA marked “M”) has been produced in the meeting and signed by the Chairman of the meeting for the purpose of identification);

- (n) the second instrument of novation, amendment, joinder and release (the “**New Novation Agreement regarding Hua Mei MAA**”) dated 26 June 2009 entered into amongst INAX, Ideal Standard (UK) and Hua Mei for the purpose of transferring, novating the benefits, rights and obligations of Ideal Standard (UK) under the management assistance agreement entered into between Hua Mei and Trane US on 5 June 1985 and novated by Trane US to Ideal Standard (UK) on 12 October 2007 pursuant to the instrument of novation, amendment, joinder and release of even date (a copy of the New Novation Agreement regarding the Hua Mei MAA marked “N” has been produced in the meeting and signed by the Chairman of the meeting for the purpose of identification);
- (o) the second instrument of novation, amendment, joinder and release (the “**New Novation Agreement regarding reimbursement between ASPPL and INAX**”) dated 26 June 2009 entered into amongst INAX, Ideal Standard (UK) and the Company for the purpose of transferring, novating the benefits, rights and obligations of Ideal Standard (UK) under (i) the reimbursement agreement entered into between the Company and Trane on 1 January 2006 and novated by Trane to Ideal Standard (UK) on 12 October 2007 pursuant to the instrument of novation, amendment, joinder and release of even date (the term of which was extended by an extension agreement entered into between the Company and Ideal Standard (UK) on 25 November 2008); and (ii) the reimbursement agreement entered into between the Company and Trane on 16 June 2003 and novated by Trane to Ideal Standard (UK) on 12 October 2007 pursuant to the instrument of novation, amendment, joinder and release of even date (the term of which was extended by two extension agreements entered into between the relevant parties on 1 January 2006 and 25 November 2008 respectively) (a copy of the New Novation Agreement regarding reimbursement between ASPPL and INAX marked “O” has been produced in the meeting and signed by the Chairman of the meeting for the purpose of identification);

((1) the New Novation Agreement regarding the A-S Jiangmen EDA, (2) the New Novation Agreement regarding the A-S Shanghai EDA, (3) the New Novation Agreement regarding the A-S Tianjin EDA, (4) the New Novation Agreement regarding the Hua Mei EDA, (5) the New Novation Agreement regarding the ASPPL MAA and IPA; (6) the New Novation Agreement regarding the A-S Shanghai TLA, (7) the New Novation Agreement regarding the A-S Tianjin TLA, (8) the New Novation Agreement regarding the A-S Jiangmen TLA, (9) the New Novation Agreement regarding the Hua Mei TLA, (10) the New Novation Agreement regarding A-S Shanghai TAA, (11) the New Novation Agreement regarding A-S Tianjin TAA, (12) New Novation Agreement regarding A-S Jiangmen MAA, (13) the New Novation Agreement regarding Tianjin MAA, (14) the New Novation Agreement regarding Hua Mei MAA, (15) New Novation Agreement regarding reimbursement between ASPPL and INAX shall be referred to as the “**New Continuing Connected Transactions**”) be and are hereby approved, ratified and confirmed;

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- (ii) the annual caps of the respective New Continuing Connected Transactions for the financial year ending 31 December 2009 as set forth in the circular of the Company dated 17 July 2009 (a copy of which marked “P” has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification) be and are hereby approved; and
- (iii) the directors of the Company be and are hereby authorised to execute all such documents and/or do all such acts and things on behalf of the Company as they may deem necessary, desirable or expedient for the purposes of giving effect to, or in connection with the New Novation Agreements and the New Continuing Connected Transactions.”

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

Shanghai, the PRC, 17 July 2009

*Notes:*

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