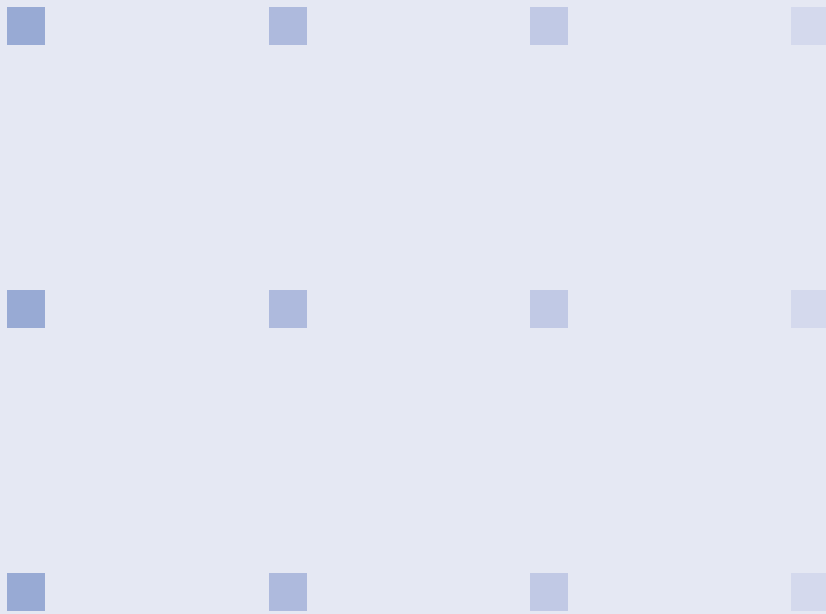


# ASPPL

## A - S China Plumbing Products Limited

(incorporated in the Cayman Islands with limited liability)



**ANNUAL REPORT 2003**

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE "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. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on 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 the GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at [www.hkgem.com](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.**

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

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## Corporate Profile

**Turnover increased 13% to US\$73,733,000**

**Gross profit margin maintained at around 31%.**

**Profit before tax increased 99% to US\$5,659,000.**

**Net profit from ordinary activities attributable to shareholders increased by 661% to US\$4,482,000.**

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

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

Through careful selection of qualified authorised dealers, the Group's distribution system in the PRC has grown over the years from 34 authorised dealers in July 1994 to more than 90 as at the 31 December 2003 with distribution network covering around 283 sales outlets across some 130 cities in the PRC. The Group also exports some of its products to North America and Europe with American Standard Inc. serving as its export distributor.

## Corporate Information

### CHAIRMAN AND EXECUTIVE DIRECTOR

Richard M. Ward

### EXECUTIVE DIRECTOR

Yang Yu-Qing, Cindy

### NON-EXECUTIVE DIRECTORS

Tobias J. Brown

Stephan R. Custer

Edena S. I. Low

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Chang Sze-Ming, Sydney

Ho Tse-Wah, Dean

### COMPANY SECRETARY

Edena S. I. Low, LLB

### QUALIFIED ACCOUNTANT

Wu Wei Lin, AHKSA, ACCA

### COMPLIANCE OFFICER

Richard M. Ward

### AUDIT COMMITTEE

Chang Sze-Ming, Sydney (Chairman)

Ho Tse-Wah, Dean

Stephan R. Custer

### AUTHORISED REPRESENTATIVES

Richard M. Ward

Edena S. I. Low

### SPONSOR

Anglo Chinese Corporate Finance, Limited

### AUDITORS

Ernst & Young

### REGISTERED OFFICE

P.O. Box 309

Ugland House

South Church Street

Grand Cayman

Cayman Islands, B.W.I.

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1, 3/F.

Sun Hung Kai Centre

30 Harbour Road

Wanchai

Hong Kong

### SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17/F.

Hopewell Centre

183 Queen's Road East

Hong Kong

### PRINCIPAL BANKERS

Citibank N.A.

48/F., Citibank Tower

Citibank Plaza

3 Garden Road

Central, Hong Kong

The Hongkong and Shanghai Banking  
Corporation Limited - Shanghai Branch

35/F., HSBC Tower

101 Yin Cheng East Road

Pudong, Shanghai

PRC

### COMPANY WEBSITE ADDRESSES

[www.asppl.com](http://www.asppl.com)

[www.americanstandard.com.cn](http://www.americanstandard.com.cn)

[www.armitageshanks.com.cn](http://www.armitageshanks.com.cn)

### STOCK CODE

8262

# Financial Highlights

## FIVE-YEAR FINANCIAL SUMMARY

### Consolidated Results

For the year ended 31 December

	<b>2003</b>	2002	2001	2000	1999
	<b>US\$'000</b>	US\$'000	US\$'000	US\$'000	US\$'000
Turnover	<b>73,733</b>	65,333	54,918	66,459	62,314
Profit before tax	<b>5,659</b>	2,841	1,213	8,283	3,852
Taxation	<b>(651)</b>	(890)	(545)	(756)	(955)
Profit before minority interests	<b>5,008</b>	1,951	668	7,527	2,897
Minority interests	<b>(526)</b>	(1,362)	(518)	(1,452)	(1,885)
Net profit from ordinary activities attributable to shareholders	<b>4,482</b>	589	150	6,075	1,012

### Consolidated Assets and Liabilities

As at 31 December

	<b>2003</b>	2002	2001	2000	1999
	<b>US\$'000</b>	US\$'000	US\$'000	US\$'000	US\$'000
Total assets	<b>133,881</b>	134,682	131,163	133,744	136,374
Total liabilities	<b>(29,588)</b>	(32,387)	(29,743)	(31,618)	(34,898)
Minority interests	<b>(14,780)</b>	(15,186)	(14,725)	(15,551)	(20,976)
Shareholders' funds	<b>89,513</b>	87,109	86,695	86,575	80,500

## Chairman's Statement

I am pleased to present to you the 2003 annual operating result of the Company together with its subsidiaries (the "Group").

The Group's sales increased by 12.9% to US\$73,733,000 in 2003. Profit before tax increased by 99.2% from US\$2,841,000 in 2002 to US\$5,659,000 in 2003, while net profit from ordinary activities attributable to shareholders has increased by 661.0% from US\$589,000 in 2002 to US\$4,482,000 in 2003. The strong improvement during 2003 is mainly due to the combination of the increased sales volume and commitment to maintaining a low cost and controlled operating environment.

We continue to maintain a healthy financial position. As at 31 December 2003, the net current assets of the Group amounted to US\$24.5 million which comprise of cash and bank deposits of approximately US\$25.5 million. The Group has no bank loans as at the year end date and the reporting date.

During the year, the Group focused on rolling-out new products, continued to upgrade our retail networks, and improved our capability in selling to developers and project customers. Additionally, we strengthened our consumer promotion activities based on the findings from consumer research, which assisted us in respect of sales program formulation and its execution in the field.

I expect a continuing growth in the market of new construction of residential and commercial properties in the coming foreseeable future as a result of rapidly expanding economy in the PRC.

It is the objective of the Group to continue its current strategy and to expand its share in the longer run.

I wish to thank our shareholders, Board of Directors, management, staff, and business partners for their support, contributing to the Group's rapid development and achievement of significant growth in profitability within a short period of time after listing.

**Richard M. Ward**

*Chairman*

Hong Kong, 26 March 2004

## Group's Financial Summary

The following table summarises the audited consolidated results of the Group for the years ended 31 December 2002 and 2003 which are prepared based on the consolidated audited financial statements of the Group. This summary should be read in conjunction with consolidated financial statements of the Group.

	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000
TURNOVER ( <i>Note a</i> )	<b>73,733</b>	65,333
Cost of sales	<b>(50,652)</b>	(44,771)
Gross profit	<b>23,081</b>	20,562
Other revenue/(expenses), net	<b>88</b>	(450)
Distribution costs	<b>(1,980)</b>	(1,732)
Administrative and operating expenses	<b>(15,530)</b>	(15,502)
PROFIT FROM OPERATING ACTIVITIES	<b>5,659</b>	2,878
Finance costs	—	(37)
PROFIT BEFORE TAX	<b>5,659</b>	2,841
Tax	<b>(651)</b>	(890)
PROFIT BEFORE MINORITY INTERESTS	<b>5,008</b>	1,951
Minority interests	<b>(526)</b>	(1,362)
NET PROFIT FROM ORDINARY ACTIVITIES		
ATTRIBUTABLE TO SHAREHOLDERS	<b>4,482</b>	589
Earnings per share (US cents) - Basic ( <i>Note b</i> )	<b>2.96</b>	0.39

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

*Note b:* The calculation of the basic earnings per share is based on the net profit attributable to shareholders for the year of US\$4,482,000 (2002: US\$589,000), and on the assumption that 151,034,000 shares had been in issue throughout the current and prior years, comprising 11,618 shares and 151,022,382 shares issued during 2003 pursuant to the sub-division and capitalisation issue as set out in detail in note 25 to financial statements.



## TURNOVER

The following table shows the Group's turnover by geographical region during the year:

	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000
<i>Group's turnover by geographical region</i>		
PRC	<b>46,295</b>	44,623
North America	<b>17,988</b>	14,096
United Kingdom	<b>4,483</b>	3,519
Others	<b>4,967</b>	3,095
Total	<b>73,733</b>	65,333

# Management's Discussion and Analysis

## OPERATING RESULTS

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

Severe Acute Respiratory Syndrome ("SARS") hit the PRC hard in the second quarter. The impact of SARS on our business was caused by two direct effects: (i) consumers were afraid to go shopping; and (ii) decoration projects were postponed and, in some cities, banned altogether. Fortunately, SARS moved away and our business was back to normal by the third and fourth quarter.

In spite of the outbreak of SARS, the Group reported a higher overall sales, especially export sales to North America during 2003 over 2002.

The Group's overall sales increased by 12.9% to US\$73,733,000 in 2003. PRC sales for the year ended 31 December 2003 attained a growth of about 3.7% over the year which is attributable to the improved product portfolio and distribution network. Export sales to North America has achieved a growth of 27.6% to US\$17,988,000. Gross profit margin was maintained at about 31%.

Profit before tax has increased by 99.2% from US\$2,841,000 in 2002 to US\$5,659,000 in 2003, while net profit from ordinary activities attributable to shareholders has increased by 661.0% from US\$589,000 in 2002 to US\$4,482,000 in 2003. The impressive improvement during 2003 is mainly due to the combination of the increased sales volume and cost reduction initiatives.

While the export sales to North America were significantly higher in 2003 compared to 2002, we noted some slow down in the last three quarters compared to the first quarter.

## **LIQUIDITY AND FINANCIAL RESOURCES**

### ***Net current assets***

As at 31 December 2003, the net current assets of the Group amounted to US\$24.5 million. The current assets comprised of cash and bank deposits of approximately US\$25.5 million, trade receivable of approximately US\$8.9 million, inventories of approximately US\$7.8 million, prepayments, deposits and other receivables of approximately US\$3.8 million and amounts due from companies within the American Standard Group of approximately US\$6.3 million. The current liabilities comprised of trade payables of approximately US\$4.5 million, amounts due to companies within the American Standard group of approximately US\$7.8 million, corporate income tax payable of less than US\$0.1 million, dividend payable of less than US\$0.1 million and other payables, deposits and accrued liabilities of approximately US\$15.3 million. There were no outstanding bank loans or finance lease obligations as at 31 December 2003.

### ***Banking facilities***

As at 31 December 2003, the Group had banking facilities of approximately US\$2,000,000. As at 31 December 2003, approximately US\$1,397,000 was utilised by way of performance bonds and unused banking facilities as at the same date amounted to approximately US\$603,000.

### ***Foreign currency risk***

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

## **CAPITAL STRUCTURE**

A-S (Jiangmen) Fittings Co., Ltd. ("A-S Jiangmen Fittings") increased its total investment and registered capital from US\$7.85 million to US\$10.85 million. After the increase in the total investment and registered capital, Ultrawide Engineering Limited's contribution to the total investment and registered capital increased from US\$7.60 million to US\$10.6 million, representing an increase in shareholding interest from approximately 96.8% to 97.7%, and A-S (China) Co., Ltd.'s ("ASCC") shareholding interest decreased from approximately 3.2% to 2.3%. The increase in the total investment and registered capital of A-S Jiangmen Fittings was completed in late 2003.

## **REVALUATION DEFICIT**

The Group's buildings and land use rights at cost of US\$17,978,000 were revalued at US\$17,965,000 as at 31 March 2003 as stated in the Company's listing document issued on 19 June 2003 in connection with the listing of the Company's shares. Had the Group's buildings and land use rights been included in these financial statements incorporated such valuation amounts, revaluation deficit of US\$13,000 which would have been charged to the consolidated profit and loss account for the year ended 31 December 2003.

## **ABSENCE OF LAND USE RIGHTS**

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

The Company is in the process of negotiation with the PRC investor to obtain the land use right certificate.

## **STRENGTHEN THE DOMESTIC SALES CHANNEL**

Sales and marketing of the Group's products are centralised and co-coordinated through ASCC, which is headquartered in Shanghai and its main sales offices are in Beijing, Chongqing, Chengdu, Shenyang and Qingdao.

Through careful selection of qualified new dealers and periodic analysis of the existing authorised dealers' performance, the Group has built up a strong domestic sales channel.

As at 31 December 2003, the Group has built 283 authorised outlets across 129 cities in the PRC which are operated either by the Group's authorised dealers or sub-dealers. Periodic meetings between the Group and its authorised dealers are held to promote the Group's new products and to communicate new marketing programmes and products ideas.

During the year, the sales outlets were reviewed based on location, sales outlets appearance, and sales representatives' service quality. Outlets in poor locations were closed or relocated, while outlets with poor or outdated appearance were renovated and upgraded with the latest designed products, and newly designed training programmes were put in place to improve sales representatives' service quality.

## **GROWTH IN DOMESTIC SALES IN THE SECOND HALF OF 2003**

SARS hit the PRC hard in the second quarter. Its impact on our business was caused by two direct effects: (i) consumers were afraid to go shopping; and (ii) decoration projects were postponed and in some cities, banned altogether. Fortunately, SARS moved away and our business reverted to normal in the third and fourth quarter.

The continued strengthening of domestic sales channel as mentioned in the previous sections has helped the recovery of sales after SARS. In addition, the following efforts during the year also contributed to the growth in domestic sales in the second half of 2003:

- (1) Over 48 new models including a number of exciting models from Europe were launched in the second half of 2003, which attract some younger home owners.
- (2) Based on a comprehensive consumer research, several promotion programmes were launched throughout the year that began to impact sales during the second half of 2003.
- (3) Through careful monitoring and analysis, certain poor performing sales outlets were closed. 90 of the sales outlets were redesigned and upgraded with new models and popular designed products in order to improve the brand image.

## **EXPORT SALES TO UNITED STATES OF AMERICA (“UNITED STATES”)**

After several years of growing export sales to United States, including the first quarter of 2003, a slow down began from the second to fourth quarters of 2003. The softening demand from United States was due to the slow recovery of the United States' economy. However, management still sees good prospects on exports to United States as the economy of United States continues to recover over the long term.

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

## **IMPROVING PRODUCTIVITIES**

Through continuing technical and management support from the American Standard group, productivity of several factories of the Group has improved significantly during the year. As a result of the improved utilisation of its capacity, the Group has reduced its average production costs.

In spite of the intensive domestic market competition and resulting pricing pressure, the cost savings from improved productivity enabled the Group to maintain a stable gross profit margin of approximately 31%.

## IMPROVING PRODUCTION TECHNOLOGY

In addition, technical experts from the American Standard Group continue to pay visits to the PRC Ventures to help maintaining the Group's latest production technology. For the year ended 31 December 2003, over 86 new bathroom and kitchen fixtures and plumbing fittings products were launched by the Group into the PRC market.

## EMPLOYEE INFORMATION

As at 31 December 2003, the Group had 2,428 full time employees. Employee costs amounted to US\$14,503,000 (2002: US\$12,586,000). The Group is an equal opportunity employer, with the selection and promotion of individual based on suitability for the position offered. The salaries and benefit levels of the Group's employees are kept in competitive level and employees are rewarded on a performance related basis with the general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including medical coverage and retirement plans are also provided to employees.

The table below sets out number of employees at the PRC Ventures and ASCC as at 31 December 2003:

Hua Mei	399
A-S Jiangmen Fittings	765
A-S Shanghai Pottery	426
A-S Guangzhou Bathtubs	167
A-S Shanghai Fittings	118
A-S Tianjin Pottery	298
A-S Beijing Bathtubs	107
ASCC	148
	<hr/>
Total	2,428
	<hr/> <hr/>

## **Prospects**

### **SOPHISTICATION AND AFFLUENCE OF THE PROPERTY MARKET**

The directors expect continued growth in the market of new construction of residential and commercial properties as result of the rapidly expanding economy in the PRC. In addition, customer surveys show that users of residential and commercial properties users will continue to demand higher standards of bath and kitchen products in line with the growing sophistication and affluence of the PRC market. Particularly, the directors expect that the housing reforms introduced by the PRC government encouraging private purchase of homes, will continue to stimulate demand.

Accordingly, the Group will closely monitor the new government policies and will formulate appropriate sales and marketing strategies to adapt to any changes in the mix of distribution channels.

### **DEVELOPING NEW DESIGNS OF PRODUCTS**

The Group will continue to benefit from the product development capability of the American Standard Group to develop new designs of products to meet a board variety of consumer preferences and local plumbing standards in the PRC. The management expects new designs of products to have more appeal to consumers.

Product or mould designs can be transferred, modified and utilised by virtue of American Standard's globally standardised design and computer platforms. This shortens the product development time and gives the Group the ability to draw on a wide range of products to meet a broad variety of consumer preferences.

The Directors expect these latest and new design products will stimulate demand among younger consumers.

### **GEOGRAPHICAL COVERAGE**

Given the continuing growth on economy of the PRC, the Group expects the demand from second tier cities and rural areas will have strong growth in the future, accordingly, the Group will expand its marketing and sales efforts to those potential cities

The Group aims to continue its growth in line with the new construction market as well as the replacement and renovation market in the PRC.

## **Directors' and Senior Management's Profiles**

### **EXECUTIVE DIRECTORS**

Mr. Richard M. Ward, aged 45, joined American Standard Group in April 2003 as Vice-President and General Manager of the Bath and Kitchen Business in the Asia Pacific Region. He was nominated by American Standard Group as a Director in May 2003. Prior to joining American Standard, Mr. Ward served as Vice President and General Manager of Dell Computer's Home Small and Medium business unit in China and Hong Kong. Prior to this, he was the Vice President and Head of Asia Pacific of The Clorox Company. Mr. Ward holds a Bachelor of Arts (Honours) Degree in Economics from the University of Durham in the United Kingdom.

Ms. Yang Yu-Qing, Cindy, aged 31, joined the Group in March 1995. Ms. Yang was nominated by American Standard Group as a Director. She is the financial controller of A-S Shanghai Pottery and is director of finance and operations analysis for the Group's ceramic sanitaryware and vitreous china operations. Ms. Yang started her accounting career in 1995 with the Group and has progressed through the finance and accounting departments both at the Group's headquarters and at the PRC Ventures level. She holds a bachelor's degree in Accounting from Shanghai Architectural Material Industrial Institute.

### **NON-EXECUTIVE DIRECTORS**

Mr. Stephan R. Custer, aged 39, is the Chief Financial Officer of the Bath & Kitchen Business in the Asia Pacific Region. He joined American Standard group in 2001 as Director of Strategic Planning and Analysis for the Global Bath & Kitchen Business. Prior to joining American Standard, Mr. Custer served as Planning Manager of Dell Computer's Enterprise Group in Austin, Texas. Prior to this, he held multiple financial management positions during his 8 years at Procter and Gamble, in Cincinnati, OH. Mr. Custer holds a Masters of Business Administration in Finance from Columbia Business School in New York, and a bachelor of Arts in English literature from Brown University in Providence, RI.

Ms. Low Soong Ing, aged 33, joined American Standard Group in 2001 as the senior legal counsel for the Asia Pacific region. She was nominated by American Standard Group as a Director in February 2002. Ms. Low began her legal career in 1994 as a practising litigation lawyer before joining Allen & Gledhill in Singapore to practise corporate law. She was regional counsel with Iomega Corp. and Ingram Micro. Inc. for three years covering the Asia Pacific region prior to joining American Standard Group. Ms. Low holds a bachelor's degree in law from the University of London.

Mr. Tobias J. Brown, aged 39, was nominated by General Oriental Investments Limited as a Director in April 1994. He currently serves as Managing Director of UCL Asia Limited. Mr. Brown also serves on the Investment Committee of General Oriental Investments Limited, an initial management shareholder of the Company. Prior to joining UCL Asia Limited, Mr. Brown served as Managing Director of General Oriental Investments (HK) Limited. Prior to this, he served as Senior Vice President of Asia Securities Inc. headquartered in Taiwan. Mr. Brown is also a director of a number of other corporations in Asia including Bendigo Mining, Compass Technology and Noble Group Limited. He is also an independent non-executive director of Hsin Chong Construction Group, Limited, whose shares are listed on the Stock Exchange.



## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

Mr. Chang Sze-Ming, Sydney, aged 60, is the General Manager of South Sphere International Ltd. (Hong Kong) and South Sphere Consulting Company Ltd. (Shanghai), which he founded to provide business consultancy on investments in China. He also holds the positions of a director of Government Relationship at American Chamber of Commerce in Shanghai, a senior consultant of Shanghai Foreign Investment Development Board. Prior to his retirement from Armstrong World Industries Inc., a building materials company based in the US in June, 2001, he had worked for 28 years for that company on numerous assignments in Asia and the US.

Mr. Ho Tse-Wah, Dean, aged 65, is a director of Unison Pacific Corporation. Unison Pacific Corporation is based in San Bruno, California, US and has conducted investment and advisory activities in China since 1979. It has been the principal advisor to the formation of 39 equity joint-ventures, principally in manufacturing. Mr. Ho is a member of the board of ex-officio of American Chamber of Commerce in Shanghai. He had served as the Chairman of Manufacturers Business Council, Chairman of Board of Governors and Secretary of American Chamber of Commerce in Shanghai. Mr. Ho has been working in China since 1986. He attended the Advanced Management Programme at Harvard Business School.

## **SENIOR MANAGEMENT**

Apart from the Directors, the senior management of the Group includes:

Mr. David Chapman, aged 60, has been the business leader for the Group's ceramic sanitaryware operations since 2001. He is responsible for coordinating all operations of the Group's three ceramic sanitaryware potteries at Hua Mei, A-S Shanghai Pottery and A-S Tianjin Pottery. Mr. Chapman joined the Group in July 1996 as the general manager of A-S Shanghai Pottery. He joined American Standard Group in 1969. He served several management level positions in the US within American Standard Group before he was appointed as the managing director of American Standard Korea Inc. in 1985. Prior to assuming his current position in China, he served as the managing director of Egyptian American Standard Sanitary Wares Co., S.A.E. from 1989 to 1996.

Mr. Al Cutshaw, aged 51, is the business leader for the Group's bathtubs operations. He is responsible for the coordination of all bathtub products production at A-S Beijing Bathtubs and A-S Guangzhou Bathtubs. He joined the Group in March 1997. Prior to working in the Group, he was the general manager of the steel products division of Briggs Industries, a bath products manufacturing group in the USA. He obtained a bachelor's degree from East Tennessee State University in Johnson City, Tennessee, USA.

Mr. Lilan Chan, aged 60, is the business leader of the Group's plumbing fittings operations. He is responsible for coordinating all operations of the Group's two plumbing fittings factories, A-S Jiangmen Fittings and A-S Shanghai Fittings. He joined the Group in February 1995 as the general manager of A-S Guangzhou Bathtubs and has progressed through the Group attaining his current position in 2001. Prior to working in the Group, he was the manufacturing manager of Cyanamid (China) Co., a multi-national pharmaceutical company in China.

Mr. Alvin Huang, aged 39, is the plant manager of Hua Mei. He is responsible for all the operations at Hua Mei. He joined the Group in July 1987 as a laboratory technician and has progressed through the Group attaining his current position on 1 April 2001. He received a bachelor's degree from the South China University of Technology.

Mr. Bobby Wang, aged 35, has been appointed as operations leader of VC & Ceramics of the Group in 5 December 2003, he will continue to act as plant manager of A-S Shanghai Pottery. He joined the Group in September 1993 as a technician and has progressed through the Group to attain his current position in 2001. Prior to working in the Group, he was the chief engineer of The Shanghai Building Decoration Material Factory, a tile factory in Shanghai, where he was responsible for technical and new projects. He received his bachelor's degree from Shanghai Technology University (Faculty of Material Technology) in 1989.

Mr. Ryan Qian, aged 31, is the plant manager of A-S Tianjin Pottery. He joined the Group in June 1999 as human resources manager of A-S Shanghai Pottery and has progressed through the Group attaining his current position in 2003. Prior to working in A-S Shanghai Pottery, he was the assistant general manager of Shanghai Fleet Guard Filter Company. He received a degree from Armstrong University of US in 1995.

Mr. Raymond Deng, aged 40, has been appointed as operations leader of Tubs of the Group and he will continue to act as plant manager of A-S Guangzhou Bathtubs. He joined the Group in 1994. Mr. Deng was a process technician in Yifeng Enamel Company, a local bathtubs manufacturer, from 1983 to 1987. He was then promoted to the positions of Managerial Assistant, Production Manager and Deputy General Manager of Yifeng Enamel Company. He was the Deputy General Manager of A-S Guangzhou Bathtubs from 1995, and was appointed as plant manager in 2001. He received his college degree from Guangzhou Economic Management College in 1990.

Mr. Liu Pingxiao, aged 59, is the plant manager of A-S Beijing Bathtubs. He joined the Group in November 1994. Between 1975 and 1994, Mr. Liu was the equipment and workshop supervisor and subsequently the deputy general manager of Beijing Time Apparatus Corp.. He then became the deputy general manager of A-S Beijing Bathtubs. In 1999, he became tool and die engineering manager for A-S Guangzhou Bathtubs. He was promoted to plant manager of A-S Beijing Bathtubs in 2001.

Mr. Jason Tsai, aged 45, is the plant manager of A-S Shanghai Fittings. He joined the Group in January 1996 as an executive assistant and has progressed through the Group attaining his current position in 2001. Prior to working in the Group, he taught at Ching Chung Commercial College in Taiwan on management and business administration and management information systems. He received a master's degree from the Knowledge System Institute in USA.

## Comparison of Business Objectives with Actual Business Progress

The following is a comparison of the actual business progress for the year ended 31 December 2003 and the business objectives as set out on pages 122 of the Company's listing document. To attain our long-term business goals, the Group reviews its business objectives and strategies on an ongoing basis and makes adjustments as necessary.

### Business objectives for the Review Period as set out in the listing document

### Actual business progress in the Review Period

#### *Strategic Development*

1 January to 30 June 2003

- |   |  |
|---|--|
| <ul style="list-style-type: none"><li>— During the period, no facility expansion is contemplated. The directors believe maintaining low costs will be critical in plumbing products market, the Group will continue its drive to improve manufacturing performance through the implementation of Six Sigma programmes. The number of staff members of the Group who will receive training under the Six Sigma programmes at all levels, especially the elementary and intermediary levels, is expected to increase during this period. These efforts will be made in relation to each of the Group's three product lines.</li></ul> | <ul style="list-style-type: none"><li>— As planned, no facility expansion was implemented. 698 employees were trained under the Six Sigma programmes at all levels. A Six Sigma Champion programme which was originally planned to be carried out in the first half of this year was however required to be postponed to July this year because of SARS.</li></ul> |
|---|--|

1 July to 31 December 2003

- |  |   |
|--|---|
| <ul style="list-style-type: none"><li>— The Group will continue its cost improvement programmes.</li><li>— Implementation of new process analysis and control engineering programmes.</li><li>— The expansion of the geographical coverage of the Group's distribution network will continue along with specific programmes to target the distribution channel for interior decoration companies in the PRC.</li></ul> | <ul style="list-style-type: none"><li>— The Group continued to implement six sigma and material management programs to drive cost reduction.</li><li>— A tightened process control was implemented in Group's plumbing fittings operations while the Group's bathroom and kitchen fixture operations implemented a new quality assurance process in the period.</li><li>— 3 new dealers were added in the cities of Hangzhou, Jiaxing and Chengdu in the second half of 2003. A sales manager was appointed to focus on interior decoration to develop the channel.</li></ul> |
|--|---|

**Business objectives for the Review Period  
as set out in the listing document**

**Actual business progress in the Review Period**

*Sales and Marketing and Product Development*

1 January to 30 June 2003

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>— Sales outlet expansion will continue from 260 outlets at the end of 2002 to 280 outlets by 30 June 2003. The number of cities in which the Group is represented by at least one authorized retail outlet will be increase from 110 at the end of 2002 to around 120 by 30 June 2003.</li><li>— The Group plans to review its logistics system as the infrastructure in China improves and opportunities arise for the creation of distribution center in key areas in China.</li><li>— New products in ceramic sanitaryware, plumbing fittings and bathtubs are expected to be launched.</li><li>— Efforts to improve brand awareness and position will be stepped up during this period with programmes aimed at attracting customers to visit the Group's outlets.</li></ul> | <ul style="list-style-type: none"><li>— Number of retail outlets stood at 274 spread over 117 cities by 30 June 2003, slightly below our plan of 280 retail outlets in 120 cities primarily due to the weakened sentiment in the retail market, which was most severely impacted by SARS.</li><li>— The Group added two new distribution centers in Tianjin and Guangdong as planned, which helped to improve our logistics support to our Do-It-Yourself customers in the north and south regions.</li><li>— Over 37 new models were launched in the first half of 2003 and we expect these new products will help to lift our domestic sales in the second half of 2003.</li><li>— As planned, a number of consumer promotion programmes were implemented in the first half of 2003 to attract customers to visit our shops.</li></ul> |
|--|--|

1 July to 31 December 2003

- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>— Sales outlet expansion will continue and outlets are expected to reach 300 by 31 December 2003.</li><li>— Product development will focus on those higher volume products previously imported from Europe. Additional new products will be imported to enhance the Group's image. Introduction of new product offerings will continue.</li></ul> | <ul style="list-style-type: none"><li>— We expanded to 283 sales outlets spreading over 129 cities by the end of 2003.</li><li>— We have launched a total of 48 new models in the second half of 2003 including a number of exciting models from Europe. We also unveiled our super water saving series in a designer's seminar in Beijing on 21 August 2003 attended by over 300 architects and designers from the region.</li></ul> |
|---|---|

**Business objectives for the Review Period  
as set out in the listing document**

**Actual business progress in the Review Period**

*Human Resource*

1 January to 30 June 2003

- The Group will continue its emphasis on providing appropriate training to its authorized dealers and other personnel on product knowledge, sales techniques and other business practices.

- A total of 51,888 man-hours of training were delivered to our employees in the first half of 2003 on the areas of product knowledge, sales, technical, management and other skills.

1 July to 31 December 2003

- The Group will continue to develop appropriate skill sets for its staff members at the managerial level to support its growth over this period.
- Group-wide programmes from American Standard Group will be introduced to develop talents in cultivating customers, innovation and performance.

- A leadership workshop was conducted by a well-respected external consultant in early September 2003 which was attended by 60 managers of the Group from all over China.
- Over 33,280 man-hours of training were committed in the second half of 2003. The training topics included sales, marketing, customer relationship building, Six Sigma, manufacturing and others.

## **Report of the Directors**

The directors hereby present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

### **PRINCIPAL ACTIVITIES**

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

### **RESULTS AND DIVIDENDS**

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the attached audited financial statements on pages 30 to 66.

No dividend was declared for the year ended 31 December 2003.

### **SUMMARY FINANCIAL INFORMATION**

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

### **FIXED ASSETS, GOODWILL AND INTANGIBLE ASSETS**

Details of movements in the fixed assets, goodwill and intangible assets of the Company and the Group during the year are set out in notes 13, 14 and 15 to the financial statements.

### **SHARE CAPITAL AND SHARE OPTION SCHEME**

Details of movements in the Company's share capital during the year are set out in note 25 to the financial statements. As at 31 December 2003, the Company did not have any share option scheme in place.

### **PRE-EMPTIVE RIGHTS**

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

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

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

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 26 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 December 2003, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to US\$14,042,000 (2002: US\$12,134,000). Under the Companies Law of the Cayman Islands, the Company can distribute dividends out of the share premium account in the amount of US\$83,917,000 (2002: US\$87,426,000) provided that the Company will be able to pay its debts as they fall due in the ordinary course of business.

## MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for 43% (2002: 47%) of the total sales for the year and sales to the largest customer included therein amounted to 14% (2002: 19%). Purchases from the Group's five largest suppliers is accounted for less than 30% (2002: less than 30%) of the total purchases for the year.

Except for U.S.P.P. – Sourced Chinaware, World Standard Trade Limited and American Standard Plumbing (UK) Limited which are related parties of the Company (details of which are disclosed in note 29 to the financial statements), none of the directors of the Company nor any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

## DIRECTORS

The directors of the Company during the year were:

### Executive directors:

Richard M. Ward	(appointed on 14 May 2003)
Cindy Yang	
Michael Hui	(resigned on 30 November 2003)

### Non-executive directors:

Stephan R. Custer	(appointed on 30 November 2003)
Tobias J. Brown	
Edena S. I. Low	
Aris Chicles	(resigned on 14 May 2003)

### Independent non-executive directors:

Chang Sze-Ming, Sydney	(appointed on 19 June 2003)
Ho Tse-Wah, Dean	(appointed on 19 June 2003)

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

### **DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES**

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 16 of the annual report.

### **DIRECTORS' SERVICE CONTRACTS**

The Group has entered into a service contract with Ms. Yang Yu-Qing, Cindy, effective from 1 May 2001 to 30 November 2006 unless terminated by mutual consent.

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

### **DIRECTORS' INTERESTS IN CONTRACTS**

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



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

At 31 December 2003, the interests and short positions of the directors and chief executive in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rule, were as follows:

### *Interests in the shares of associated corporations*

<b>Name of director/ chief executive</b>	<b>Name of company</b>	<b>Number and description of equity derivatives</b>	<b>Capacity</b>	<b>Type of interest</b>	<b>Approximate percentage of holding</b>
Ms. Low Soong Ing	American Standard	share options to subscribe for 2,167 shares in American Standard ( <i>Note 1</i> )	Beneficial owner	Personal	0.0030%
Mr. Richard M. Ward	American Standard	share options to subscribe for 10,000 shares in American Standard ( <i>Note 2</i> )	Beneficial owner	Personal	0.014%
Mr. Stephan R. Custer	American Standard	share options to subscribe for 2,400 Shares in American Standard ( <i>Note 3</i> )	Beneficial owner	Personal	0.0034%

*Note 1:* On 11 February 2002 and 6 February 2003, Ms. Low Soong Ing was granted options to subscribe for 1,000 and 1,500 shares, respectively, at prices of US\$59.69 and US\$68.06 per share, respectively, in American Standard Companies Inc., being an associated corporation of the Company (within the meaning of Part XV of the SFO). The options were granted free of consideration. The exercise period is for 10 years from each relevant date of grant. Options to subscribe for 1/3 of the shares under each relevant grant may be exercised on or after the first anniversary of the relevant date of grant; options to subscribe for another 1/3 of the shares may be exercised on or after the second anniversary of the relevant date of grant; and options to subscribe for the remaining shares may be exercised on or after the third anniversary of the relevant date of grant. During the year ended 31 December 2003, 333 share options were exercised.

*Note 2:* On 28 April 2003, Mr. Richard M. Ward was granted options to subscribe for 10,000 shares at a price of US\$70.725 per share in American Standard, being an associated corporation of the Company (within the meaning of Part XV of the SFO). The options were granted free of consideration. The exercise period is for 10 years from the date of grant. Options to subscribe for 3,333 shares may be exercised on or after 28 April 2004; options to subscribe for another 3,333 shares may be exercised on or after 28 April 2005, and options to subscribe for the remaining 3,334 shares may be exercised on or after 28 April 2006.

*Note 3:* On 11 February 2002 and 6 February 2003, Mr. Stephan R. Custer was granted options to subscribe for 1,000 and 1,400 shares, respectively, at prices of US\$59.69 and US\$68.06 per share, respectively, in American Standard Companies Inc., being an associated corporation of the Company (within the meaning of Part XV of the SFO). The options were granted free of consideration. The exercise period is for 10 years from each relevant date of grant. Options to subscribe for 1/3 of the shares under each relevant grant may be exercised on or after the first anniversary of the relevant date of grant; options to subscribe for another 1/3 of the shares may be exercised on or after the second anniversary of the relevant date of grant; and options to subscribe for the remaining shares may be exercised on or after the third anniversary of the relevant date of grant.

Save as disclosed above, none of the directors and chief executive had registered an interest or short position in the shares and underlying shares of the Company and its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

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

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

At 31 December 2003, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

<b>Name of shareholders</b>	<b>Number of ordinary shares held</b>	<b>Capacity and nature of interest</b>	<b>Percentage of the Company's issued share capital</b>
American Standard (Note 4)	82,771,000	Corporate beneficial owner	54.80%
American Standard International Inc. (Note 4)	82,706,000	Corporate beneficial owner	54.76%
American Standard Foreign Sales Limited (Note 4)	82,706,000	Corporate beneficial owner	54.76%
American Standard Foreign Trading Limited (Note 4)	82,706,000	Corporate beneficial owner	54.76%

Note 4: American Standard owns a 54.80% shareholding interest in the Company through (i) a wholly-owned subsidiary, American Standard International Inc., being a corporation organised under the laws of the State of Delaware, USA, which in turn owns a 100% interest in American Standard Foreign Sales Limited, being a company incorporated in Bermuda with limited liability, which in turn owns a 100% interest in American Standard Foreign Trading Limited, also being a company incorporated in Bermuda with limited liability, which directly holds a 54.76% shareholding interest in the Company and (ii) another wholly-owned subsidiary of American Standard, ASI, which is one of the beneficiaries under the A-S Executive Trust and is entitled to the transfer of 65,000 shares by the trustees as and when the trustees decide. The 65,000 shares represent approximately 0.04% shareholding interest in the Company.

<b>Name of shareholders</b>	<b>Number of ordinary shares held</b>	<b>Capacity and nature of interest</b>	<b>Percentage of the Company's issued share capital</b>
Foundation Brunneria (Note 5)	16,900,000	Corporate beneficial owner	11.19%
General Oriental Investments Limited (Note 5)	16,900,000	Corporate beneficial owner	11.19%

Note 5: General Oriental Investments Limited is 100% indirectly owned by Foundation Brunneria, a private discretionary trust whose ultimate beneficiaries are independent from the other shareholders, directors and chief executive of the Company.

Save as disclosed, no person, other than the directors and chief executive of the Company, whose interests are set out in the Section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## CONNECTED TRANSACTIONS

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

	Notes	US\$'000
Sales of finished goods	(a)	25,298
Purchases of raw materials	(a)	(2,085)
Management fee expenses	(b)	(300)
Trademark licence, technical assistance and management assistance fees	(c)	(1,874)

*Notes:*

- (a) The sales and purchases transactions were conducted with reference to the standard price lists and will continue in the future on the same basis.
- (b) The management fee was charged in accordance with the terms of the relevant agreement with American Standard Inc.
- (c) The trademark licence, technical assistance and management assistance fees were related to the sales of products bearing American Standard brands by the Group's subsidiaries in the PRC, which were charged at basis as stated in the respective joint venture agreements, net of amounts credited to the Group pursuant to the Intellectual Property Agreement (as defined in note 29(2) to the financial statements) with American Standard Inc.

During the year, in addition to the above Connected Transactions, the American Standard group paid expenses on behalf of the Group. Reimbursements of such payments on behalf were based on the actual amounts incurred. The Group reimbursed the American Standard group an aggregate amount of US\$2,327,000 (2002: US\$2,444,000) for the year ended 31 December 2003.

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

The auditors of the Company have also confirmed that the Connected Transactions (a) have received the approval of the Company's board of directors; (b) have been entered into in accordance with relevant agreements governing the transactions; and (c) have not exceeded the relevant cap amounts as described in the paragraph headed "Non-exempted continuing connected transactions" of the Subsection "Continuing connected transactions" of the Section headed "Business" of the Company's listing document dated 19 June 2003.

## **DIRECTORS' INTERESTS IN A COMPETING BUSINESS**

During the year, Ms. Low Soong Ing, a director of the Company, is also a director of American Standard Vietnam Inc. and Sanitary Wares Manufacturing Corp. These two companies are members of the American Standard group, which are engaged in the plumbing products business, and potentially compete with the Group in relation to its export sales to independent third parties. On 16 March 2004, Ms. Low Soong Ing was resigned as director of Sanitary Wares Manufacturing Corp.

## **SPONSOR'S INTERESTS**

At 31 December 2003, neither Anglo Chinese Corporate Finance, Limited (the "Sponsor"), nor any of its respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the shares of the Company or of any member of the Group, or had any right to subscribe for, or to nominate persons to subscribe for the share of the Company, or of any member of the Group.

Pursuant to the agreement dated 19 June 2003 between the Company and the Sponsor, the Sponsor is entitled to receive a fee for professional services rendered as the Company's sponsor for the period from the date of listing and ending on 31 December 2003 and the Company shall pay an agreed advisory fee per financial quarter to the Sponsor for its provision of such services.

## **COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES**

The Company complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year ended 31 December 2003.

## **AUDIT COMMITTEE**

The Company established an audit committee on 16 June 2003 with written terms of reference in compliance with Rules 5.23 to 5.27 of GEM Listing Rules. The audit committee has three members comprising the two independent non-executive directors, Mr. Chang Sze-Ming, Sydney, and Mr. Ho Tse-Wah, Dean and one executive director, Mr. Michael Hui. Mr. Hui resigned on 30 November 2003 and was replaced by Mr. Stephan R. Custer on 30 November 2003.

One audit committee meeting was held on 5 November 2003 for discussion of the operating results, statements of affairs and accounting policies with respect to the unaudited quarterly report of the Group for the nine months ended 30 September 2003.

The audit committee has reviewed the Group's audited consolidated results for the year ended 31 December 2003.

**AUDITORS**

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

On behalf of the Board

**Richard M. Ward**

*Chairman*

Hong Kong

26 March 2004

## Report of the Auditors



To the members

### **A-S China Plumbing Products Limited**

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

We have audited the financial statements on pages 30 to 66 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

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

### **BASIS OF OPINION**

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

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

### **OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Hong Kong  
26 March 2004

## Consolidated Profit and Loss Account

YEAR ENDED 31 DECEMBER 2003

	<i>Notes</i>	<b>2003</b> <b>US\$'000</b>	2002 US\$'000
TURNOVER	5	<b>73,733</b>	65,333
Cost of sales		<b>(50,652)</b>	(44,771)
Gross profit		<b>23,081</b>	20,562
Other revenue/(expenses), net		<b>88</b>	(450)
Distribution costs		<b>(1,980)</b>	(1,732)
Administrative and operating expenses		<b>(15,530)</b>	(15,502)
PROFIT FROM OPERATING ACTIVITIES	6	<b>5,659</b>	2,878
Finance costs	7	—	(37)
PROFIT BEFORE TAX		<b>5,659</b>	2,841
Tax	10	<b>(651)</b>	(890)
PROFIT BEFORE MINORITY INTERESTS		<b>5,008</b>	1,951
Minority interests		<b>(526)</b>	(1,362)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	<b>4,482</b>	589
EARNINGS PER SHARE (US cents) - Basic	12	<b>2.96</b>	0.39



# Consolidated Balance Sheet

31 DECEMBER 2003

	<i>Notes</i>	<b>2003</b> <b>US\$'000</b>	2002 US\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	13	<b>62,482</b>	63,580
Goodwill	14	<b>2,286</b>	2,467
Intangible assets	15	<b>16,839</b>	17,626
		<u><b>81,607</b></u>	<u>83,673</u>
<b>CURRENT ASSETS</b>			
Due from group companies	17	<b>6,266</b>	8,710
Prepayments, deposits and other receivables	18	<b>3,796</b>	4,345
Inventories	19	<b>7,806</b>	7,491
Trade receivables	20	<b>8,899</b>	7,407
Pledged time deposits	21	—	834
Cash and cash equivalents	21	<b>25,507</b>	22,222
		<u><b>52,274</b></u>	<u>51,009</u>
<b>CURRENT LIABILITIES</b>			
Due to group companies	22	<b>7,776</b>	9,956
Dividend payable		<b>132</b>	132
Trade payables	23	<b>4,516</b>	6,068
Corporate income tax payable		<b>48</b>	399
Other payables, deposits and accrued liabilities		<b>15,331</b>	13,180
		<u><b>27,803</b></u>	<u>29,735</u>
<b>NET CURRENT ASSETS</b>		<u><b>24,471</b></u>	<u>21,274</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>106,078</b>	104,947
<b>NON-CURRENT LIABILITY</b>			
Due to the holding company	24	<b>(1,785)</b>	(2,652)
		<u><b>104,293</b></u>	<u>102,295</u>
<b>MINORITY INTERESTS</b>		<u><b>(14,780)</b></u>	<u>(15,186)</u>
		<u><b>89,513</b></u>	<u>87,109</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	25	<b>1,510</b>	11
Reserves	26(a)	<b>88,003</b>	87,098
		<u><b>89,513</b></u>	<u>87,109</u>

*Director*  
**Richard M. Ward**

*Director*  
**Stephan R. Custer**

## Consolidated Statement of Changes in Equity

YEAR ENDED 31 DECEMBER 2003

	Issued share capital	Share premium account	Reserve fund	Expansion reserve	Exchange fluctuation reserve	Retained Profits/ (accumu- lated losses)	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January 2002	11	88,814	2,558	908	(2,831)	(2,765)	86,695
Exchange realignment	—	—	—	—	(175)	—	(175)
Net gains and losses not recognised in the profit and loss account	—	—	—	—	(175)	—	(175)
Net profit for the year	—	—	—	—	—	589	589
Appropriation to reserve fund and expansion reserve	—	—	285	—	—	(285)	—
At 31 December 2002 and 1 January 2003	11	88,814	2,843	908	(3,006)	(2,461)	87,109
Capitalisation of share premium - (note 25(d))	1,499	(1,499)	—	—	—	—	—
Expenses arising from the listing of the Company's shares	—	(2,010)	—	—	—	—	(2,010)
Exchange realignment	—	—	—	—	(68)	—	(68)
Net gains and losses not recognised in the profit and loss account	1,499	(3,509)	—	—	(68)	—	(2,078)
Net profit for the year	—	—	—	—	—	4,482	4,482
Appropriation to reserve fund and expansion reserve	—	—	245	81	—	(326)	—
At 31 December 2003	1,510	85,305*	3,088*	989*	(3,074)*	1,695*	89,513

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

Pursuant to Section 34(2) in Chapter 22 of the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the Company can distribute dividends out of the share premium account in the amount of US\$83,917,000 (2002: US\$87,426,000) provided that the Company will be able to pay its debts as they fall due in the ordinary course of business.

\* These reserve accounts comprise the consolidated reserve of US\$88,003,000 (2002: US\$87,098,000) in the consolidated balance sheet.

# Consolidated Cash Flow Statement

YEAR ENDED 31 DECEMBER 2003

	<i>Notes</i>	<b>2003</b> <b>US\$'000</b>	2002 US\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>5,659</b>	2,841
Adjustments for:			
Interest income	6	<b>(110)</b>	(157)
Depreciation	6	<b>4,706</b>	5,122
Amortisation of goodwill	6	<b>181</b>	181
Amortisation of intangible assets	6	<b>887</b>	876
Loss on disposal of fixed assets	6	<b>365</b>	423
Operating profit before working capital changes		<b>11,688</b>	9,286
Decrease in balances with group companies		<b>(603)</b>	(5,007)
Decrease/(increase) in prepayments, deposits and other receivables		<b>549</b>	(226)
Increase in inventories		<b>(315)</b>	(837)
Increase in trade receivables		<b>(1,492)</b>	(265)
Decrease in trade payables		<b>(1,552)</b>	(197)
Increase in other payables, deposits and accrued liabilities		<b>2,151</b>	1,807
Cash generated from operations		<b>10,426</b>	4,561
Income taxes paid		<b>(1,002)</b>	(770)
Net cash inflow from operating activities		<b>9,424</b>	3,791
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to fixed assets and intangible assets	13, 15	<b>(4,080)</b>	(1,734)
Proceeds from disposal of fixed assets		<b>7</b>	6
Interest received		<b>110</b>	157
Net cash outflow from investing activities		<b>(3,963)</b>	(1,571)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Expenses arising from the listing of the Company's shares	25	<b>(2,010)</b>	—
Decrease/(increase) in pledged time deposits	21	<b>834</b>	(834)
Dividends paid to minority shareholders		<b>(932)</b>	(604)
Net cash outflow from financing activities		<b>(2,108)</b>	(1,438)
NET INCREASE IN CASH AND CASH EQUIVALENTS		<b>3,353</b>	782
Cash and cash equivalents at beginning of year		<b>22,222</b>	21,440
Effect of foreign exchange rate changes, net		<b>(68)</b>	—
CASH AND CASH EQUIVALENTS AT END OF YEAR		<b>25,507</b>	22,222

Consolidated Cash Flow Statement (*continued*)

YEAR ENDED 31 DECEMBER 2003

	<i>Notes</i>	<b>2003</b> <b>US\$'000</b>	2002 US\$'000
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	21	<b>19,007</b>	16,931
Non-pledged time deposits with original maturity of less than three months when acquired	21	<b>6,500</b>	5,291
		<b><u>25,507</u></b>	<u>22,222</u>

# Balance Sheet

31 DECEMBER 2003

	<i>Notes</i>	<b>2003</b> <b>US\$'000</b>	2002 US\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	13	<b>648</b>	810
Intangible assets	15	<b>7,561</b>	8,124
Interests in subsidiaries	16	<b>93,529</b>	92,292
		<u><b>101,738</b></u>	<u>101,226</u>
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables	18	<b>342</b>	1,533
Pledged time deposits	21	—	834
Cash and cash equivalents	21	<b>3,911</b>	4,395
		<u><b>4,253</b></u>	<u>6,762</u>
<b>CURRENT LIABILITIES</b>			
Due to group companies	22	<b>3,857</b>	5,165
Dividend payable		<b>132</b>	132
Other payables, deposits and accrued liabilities		<b>748</b>	468
		<u><b>4,737</b></u>	<u>5,765</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u><b>(484)</b></u>	<u>997</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>101,254</b>	102,223
<b>NON-CURRENT LIABILITY</b>			
Due to the holding company	24	<b>(1,785)</b>	(2,652)
		<u><b>99,469</b></u>	<u>99,571</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	25	<b>1,510</b>	11
Reserves	26(b)	<b>97,959</b>	99,560
		<u><b>99,469</b></u>	<u>99,571</u>

*Director*  
**Richard M. Ward**

*Director*  
**Stephan R. Custer**

# Notes to Financial Statements

31 DECEMBER 2003

## 1. CORPORATE INFORMATION

A-S China Plumbing Products Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 14 December 1993 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares have been listed on the Growth Enterprises Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 11 July 2003. The Company's registered office is located at P.O. Box 309 Ugland House, South Church Street, Grand Cayman, the Cayman Islands and its principal place of business is located at 22nd floor, Lansheng Building, 8 Huai Hai Zhong Lu, Shanghai, the PRC.

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

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

## 2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised): "Income taxes" is effective for the first time for the current year's financial statements.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 10 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

#### **Subsidiaries**

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

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

#### **Goodwill**

Goodwill arising on acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of the acquisition.

Goodwill arising on consolidation is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary.

#### **Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

#### **Fixed assets and depreciation**

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Intangible assets**

(i) Intellectual property rights

Intellectual property rights represent present and future exclusive territorial rights to manufacture and distribute products under the plumbing product trademarks owned by American Standard Inc. in the PRC and are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis over its estimated useful life of 20 years.

(ii) Land use rights

Land use rights are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is calculated on the straight-line basis to write off the costs of the land use rights over the respective period of land use rights.

(iii) Trademark licence fees

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

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

#### **Inventories**

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

#### **Cash and cash equivalents**

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

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Provisions**

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

#### **Income tax**

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

- (i) except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of taxable temporary differences associated with investments in subsidiaries except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- (i) except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

#### **Revenue recognition**

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

- (i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (ii) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

#### **Operating leases**

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

#### **Research and development costs**

All research and development costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed as incurred.

#### **Pension scheme**

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Foreign currencies

The books and records of the Company are maintained in United States dollars ("US\$"). The books and records of the Company's subsidiaries in the PRC and Hong Kong are maintained and their statutory financial statements are stated in Renminbi ("RMB") and Hong Kong dollars ("HK\$"), respectively.

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of subsidiaries are translated into US\$ using the net investment method. The profit and loss accounts of subsidiaries are translated into US\$ at the weighted average exchange rates for the year, and their balance sheets are translated into US\$ at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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

### 4. SEGMENT INFORMATION

The Group's revenue is principally derived from the manufacture, sale and distribution of plumbing products with focus in the PRC.

Over 90% of the Group's assets are located in the PRC.

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

	<b>Segment revenue</b>	
	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000
PRC	<b>46,295</b>	44,623
North America	<b>17,988</b>	14,096
United Kingdom	<b>4,483</b>	3,519
Others	<b>4,967</b>	3,095
	<hr/>	<hr/>
Total	<b>73,733</b>	65,333
	<hr/> <hr/>	<hr/> <hr/>

## 5. TURNOVER

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

## 6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

		<b>Group</b>	
	<i>Notes</i>	<b>2003</b>	2002
		<b>US\$'000</b>	US\$'000
Cost of inventories sold		<b>48,896</b>	43,399
Depreciation	13	<b>4,706</b>	5,122
Amortisation:			
Goodwill	14	<b>181</b>	181
Intangible assets	15	<b>887</b>	876
Auditors' remuneration		<b>209</b>	204
Staff costs (including directors' remuneration) (note 8)			
Wages and salaries		<b>13,534</b>	11,660
Pension scheme contributions		<b>969</b>	926
		<b>14,503</b>	12,586
Loss on disposal of fixed assets		<b>365</b>	423
Operating lease rentals in respect of land and buildings		<b>556</b>	546
Provision for doubtful debts		<b>230</b>	1,359
Provision for slow-moving inventories		<b>745</b>	669
Research and development costs		<b>305</b>	492
Interest income		<b>(110)</b>	(157)
Foreign exchange losses/(gains), net		<b>68</b>	(12)

## 7. FINANCE COSTS

The prior year's finance costs arose from other loan which was wholly repayable within one year (note 29(1)(e)).

## 8. DIRECTORS' REMUNERATION

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

	<b>Group</b>	
	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000
Fees	<b>13</b>	—
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	<b>351</b>	238
Bonuses	<b>102</b>	34
Pension scheme contributions	<b>15</b>	14
	<u><b>481</b></u>	<u>286</u>

The number of directors whose remuneration fell within the following bands is as follows:

	<b>Number of directors</b>	
	<b>2003</b>	2002
Nil to US\$128,205 (HK\$1,000,000)	<b>8</b>	12
US\$128,206 (HK\$1,000,001) to US\$320,512 (HK\$2,500,000)	—	1
US\$320,513 (HK\$2,500,001) to US\$448,718 (HK\$3,500,000)	<b>1</b>	—
	<u><b>9</b></u>	<u>13</u>

The remuneration paid by the Group to three (2002: two) executive directors of the Company for the year ended 31 December 2003 analysed on an individual basis was approximately US\$481,000 (2002: US\$286,000). The remuneration paid by the Group to two (2002: Nil) independent non-executive directors of the Company for the year ended 31 December 2003 analysed on an individual basis was approximately US\$13,000 (2002: Nil). There were no remuneration paid by the Group to four (2002: three) remaining directors of the Company for the year ended 31 December 2003 (2002: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the years.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2002: one) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2002: four) highest paid employees for the year are as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	<b>571</b>	659
Bonuses	<b>93</b>	97
Pension scheme contributions	<b>39</b>	44
	<u><b>703</b></u>	<u>800</u>

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

	<b>Number of employees</b>	
	<b>2003</b>	2002
Nil to US\$128,205 (HK\$1,000,000)	<b>1</b>	1
US\$128,206 (HK\$1,000,001) to US\$192,308 (HK\$1,500,000)	<b>2</b>	—
US\$192,309 (HK\$1,500,001) to US\$256,410 (HK\$2,000,000)	<b>1</b>	3
	<u><b>4</b></u>	<u>4</u>

During the year, no emoluments were paid by the Group to the directors or the other highest paid employees either as an inducement to join or upon joining the Group, or as compensation for loss of office (2002: Nil).

During the year, no share options (2002: Nil) were granted to the above non-director, highest paid employees in respect of their services to the Group.

**10. TAX**

	<b>Group</b>	
	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000
Current year provision in respect of:		
The PRC	<b>651</b>	890
	<u>          </u>	<u>          </u>

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

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

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

For a PRC subsidiary, A-S (Jiangmen) Fittings Co., Ltd ("A-S Jiangmen Fittings"), is subject to a CIT rate of 24% as it is located in a coastal economic development region and is entitled to the 50% exemption from CIT as it qualifies as a "technologically advanced enterprise" pursuant to the PRC tax regulations. A-S Jiangmen Fittings has obtained written approvals from the local tax bureau for the 50% exemption from the CIT rate for the years ended 31 December 2002 and 2003.

Another PRC subsidiary, Hua Mei Sanitary Ware Co., Ltd ("Hua Mei") is subject to a CIT rate of 24% and has obtained a written approval for a preferential tax rate of 15% from 1 January 2002 to 31 December 2003 from the local tax bureau as it qualifies as a "high and new technology enterprise".

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



**10. TAX** (continued)

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

	<b>Group</b>			
	<b>2003</b>	<b>2003</b>	2002	2002
	<b>US\$'000</b>	<b>%</b>	US\$'000	%
Profit before tax	<u><b>5,659</b></u>		<u>2,841</u>	
Tax at the statutory rate	<b>1,867</b>	<b>33.0</b>	938	33.0
Expenses not deductible for tax purpose	<b>936</b>	<b>16.5</b>	1,553	54.7
Tax losses of subsidiaries	<b>(253)</b>	<b>(4.5)</b>	1,935	68.1
Tax exemptions/deductions	<u><b>(1,899)</b></u>	<u><b>(33.5)</b></u>	<u>(3,536)</u>	<u>(124.5)</u>
Actual tax expense	<u><b>651</b></u>	<u><b>11.5</b></u>	<u>890</u>	<u>31.3</u>

**11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was US\$1,908,000 (2002: US\$2,578,000) (note 26(b)).

**12. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of US\$4,482,000 (2002: US\$589,000), and on the assumption that 151,034,000 shares had been in issue throughout the current and prior years, comprising 11,618 shares, and 151,022,382 shares issued during 2003 pursuant to the sub-division and capitalisation issue as set out in detail in note 25.

No diluted earnings per share amount is presented for the current and prior years as no diluting events existed during these years.

**13. FIXED ASSETS****Group**

	<b>Buildings</b>	<b>Plant and machinery</b>	<b>Furniture, equipment and motor vehicles</b>	<b>Construction in progress</b>	<b>Total</b>
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cost:					
At beginning of year	29,446	57,662	11,843	521	99,472
Additions	—	3,342	359	279	3,980
Transfer	—	427	121	(548)	—
Disposals	—	(1,263)	(287)	—	(1,550)
<b>At 31 December 2003</b>	<b>29,446</b>	<b>60,168</b>	<b>12,036</b>	<b>252</b>	<b>101,902</b>
Accumulated depreciation:					
At beginning of year	5,561	21,383	8,948	—	35,892
Provided during the year	841	2,557	1,308	—	4,706
Disposals	—	(903)	(275)	—	(1,178)
<b>At 31 December 2003</b>	<b>6,402</b>	<b>23,037</b>	<b>9,981</b>	<b>—</b>	<b>39,420</b>
Net book value:					
<b>At 31 December 2003</b>	<b>23,044</b>	<b>37,131</b>	<b>2,055</b>	<b>252</b>	<b>62,482</b>
At 31 December 2002	23,885	36,279	2,895	521	63,580

The Group's buildings are all situated in the PRC.

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

**13. FIXED ASSETS** *(continued)***Company**

	<b>Furniture, equipment and motor vehicles</b>
	US\$'000
Cost:	
At beginning of year	2,382
Disposals	(94)
	<hr/>
<b>At 31 December 2003</b>	<b>2,288</b>
	<hr/>
Accumulated depreciation:	
At beginning of year	1,572
Provided during the year	162
Write off on disposals	(94)
	<hr/>
<b>At 31 December 2003</b>	<b>1,640</b>
	<hr/>
Net book value:	
<b>At 31 December 2003</b>	<b>648</b>
	<hr/> <hr/>
At 31 December 2002	810
	<hr/> <hr/>

**14. GOODWILL**

	<b>Group</b> US\$'000
Cost:	
<b>At beginning of year and at 31 December 2003</b>	<b>3,361</b>
Accumulated amortisation:	
At beginning of year	894
Provided during the year	181
<b>At 31 December 2003</b>	<b>1,075</b>
Net book value:	
<b>At 31 December 2003</b>	<b>2,286</b>
At 31 December 2002	2,467

**15. INTANGIBLE ASSETS****Group**

	<b>Intellectual property rights</b> US\$'000	<b>Land use rights</b> US\$'000	<b>Trademark licence fees</b> US\$'000	<b>Total</b> US\$'000
Cost:				
At beginning of year	10,000	11,406	1,650	23,056
Additions	—	100	—	100
<b>At 31 December 2003</b>	<b>10,000</b>	<b>11,506</b>	<b>1,650</b>	<b>23,156</b>
Accumulated amortisation:				
At beginning of year	1,876	2,053	1,501	5,430
Provided during the year	563	248	76	887
<b>At 31 December 2003</b>	<b>2,439</b>	<b>2,301</b>	<b>1,577</b>	<b>6,317</b>
Net book value:				
<b>At 31 December 2003</b>	<b>7,561</b>	<b>9,205</b>	<b>73</b>	<b>16,839</b>
At 31 December 2002	8,124	9,353	149	17,626

**15. INTANGIBLE ASSETS** *(continued)***Company**

	<b>Intellectual property rights</b>
	US\$'000
Cost:	
<b>At beginning of year and at 31 December 2003</b>	<b>10,000</b>
Accumulated amortisation:	
At beginning of year	1,876
Provided during the year	563
<b>At 31 December 2003</b>	<b>2,439</b>
Net book value:	
<b>At 31 December 2003</b>	<b>7,561</b>
At 31 December 2002	8,124

Included in land use rights is a net book value of approximately US\$325,000 (2002: US\$334,000) of a PRC subsidiary, for which the official land use right certificate is pending from the relevant PRC bureau. The directors are of the opinion that they would continue to pursue necessary actions to obtain the official certificate.

All land use rights are for land located in the PRC. Apart from a land use right at a net book value of US\$90,000 as at 31 December 2003 (2002: US\$92,000) which is held on a long term lease, the remaining land use rights are held on medium term leases.

The trademark licence fees solely represented the value of two brands contributed by the PRC joint venture partners at the formation of the respective PRC subsidiaries.

**16. INTERESTS IN SUBSIDIARIES**

	<b>Company</b>	
	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000
Unlisted shares, at cost	<b>85,549</b>	85,549
Due from subsidiaries	<b>10,880</b>	7,884
Due to a subsidiary	<b>(2,900)</b>	(1,141)
	<b>93,529</b>	92,292

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

<b>Name</b>	<b>Place of incorporation/ registration and operations</b>	<b>Nominal value of issued/ registered capital*</b>	<b>Percentage of equity attributable to the Company</b>		<b>Principal activities</b>
			<b>Direct</b>	<b>Indirect</b>	
A-S (Beijing) Enamel Steel Sanitaryware Co., Ltd. ("A-S Beijing Bathtubs")	PRC	US\$9,920,000	50.00	18.50	Manufacturing of enamelled steel bathtubs
A-S (China) Company, Ltd. ("ASCC")	PRC	US\$30,000,000	—	100	Investment holding and marketing of the Group's products
A-S (Guangzhou) Enamelware Company Limited ("A-S Guangzhou Bathtubs")	PRC	US\$18,000,000	41.40	40.60	Manufacturing of enamelled steel bathtubs
A-S (Jiangmen) Fittings Co., Ltd. ("A-S Jiangmen Fittings") (Note a)	PRC	US\$10,850,000	—	100	Manufacturing of brass fittings
A-S (Shanghai) Fittings Co., Ltd. ("A-S Shanghai Fittings")	PRC	US\$11,000,000	36.40	27.60	Manufacturing of brass fittings

**16. INTERESTS IN SUBSIDIARIES** *(continued)*

Name	Place of incorporation/ registration and operation	Nominal value of issued/ registered capital*	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
A-S (Shanghai) Pottery Co., Ltd. ("A-S Shanghai Pottery")	PRC	US\$24,725,000	57.73	24.27	Manufacturing of vitreous china sanitary ware
A-S (Tianjin) Pottery Co., Ltd. ("A-S Tianjin Pottery")	PRC	US\$17,500,000	50.30	49.70	Manufacturing of vitreous china sanitary ware
Central Hope (China) Limited	Hong Kong	HK\$100	100	—	Investment holding
Hua Mei Sanitary Ware Co., Ltd. ("Hua Mei")	PRC	US\$12,000,000	67.58	—	Manufacturing of vitreous china sanitary ware
Ultrawide Engineering Limited ("Ultrawide HK")	Hong Kong	HK\$54,600,000	100	—	Investment holding

\* The registered capital of all PRC subsidiaries had been fully paid up in the prior years.

Note:

- (a) A-S Jiangmen Fittings underwent relevant arrangements to increase its total investment and registered capital from US\$7,850,000 (or RMB47,267,516) to US\$10,850,000 (or RMB72,099,897) which were completed by 28 October 2003.

**17. DUE FROM GROUP COMPANIES**

	<b>2003</b>	<b>Group</b>
	<b>US\$'000</b>	2002 US\$'000
American Standard - Canada	<b>14</b>	120
American Standard Europe	<b>609</b>	—
American Standard Inc. - Paintsville Fittings Factory	<b>287</b>	25
American Standard Inc. - USPPL	<b>56</b>	5
American Standard Korea Inc.	<b>13</b>	55
American Standard Plumbing (UK) Ltd.	<b>1,367</b>	1,187
American Standard Vietnam Inc.	<b>72</b>	70
American Standard - Japan	<b>51</b>	—
Bath & Kitchen - Global Group	<b>137</b>	—
Corporate Units - Corporate St	<b>2</b>	—
Ideal Standard (Thailand) Limited	<b>22</b>	37
Ideal Standard S.A De C.V.	<b>714</b>	665
Ideal Standard S.A.	<b>122</b>	152
Ideal Standard S.L.	<b>16</b>	14
Ideal Standard S.R.L.	—	307
Ideal Standard Wittlich GmbH	<b>2</b>	—
LaCrosse Business Svcs.	<b>5</b>	—
PT American Standard Indonesia	<b>28</b>	48
Salem metal based plant	<b>67</b>	601
Sanitaryware Manufacturing Corporation - Philippines	<b>73</b>	85
U.S.P.P. - Sourced Chinaware	<b>2,609</b>	—
World Standard Trade Limited	—	5,339
	<b>6,266</b>	8,710

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

The balances due from group companies are unsecured, interest-free and are repayable in accordance with trade terms.



**18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

Included in the prepayments, deposits and other receivables as at 31 December 2002 were amounts due from directors, particulars of which as required for disclosure by Section 161 (B) of the Hong Kong Companies Ordinance are as follows:

**Group and Company**

<b>Name</b>	<b>Balance at 1 January 2002</b> US\$'000	<b>Maximum amount outstanding during 2002</b> US\$'000	<b>Balance at 31 December 2002</b> US\$'000
Gary Brogoch	80	84	84
Michael Capparis	35	37	37
	<u>115</u>	<u>121</u>	<u>121</u>

The amounts due were secured by their beneficial interests in the A-S Executive Trust and bear interest at an average interest rate of 8.67% per annum.

On 6 February 2002, Gary Brogoch and Michael Capparis resigned as directors of the Company.

**19. INVENTORIES**

	<b>2003</b> <b>US\$'000</b>	<b>Group</b> 2002 US\$'000
Raw materials	<b>3,740</b>	3,182
Work in progress	<b>952</b>	977
Finished goods	<b>3,114</b>	3,332
	<u><b>7,806</b></u>	<u>7,491</u>

**20. TRADE RECEIVABLES**

The Group generally grants a credit term of 45 days to its customers. An aged analysis of the net trade receivables at the balance sheet dates, based on invoice date, is as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000
Within 1 month	<b>6,892</b>	6,127
1 to 2 months	<b>1,818</b>	1,112
2 to 3 months	<b>189</b>	168
	<u><b>8,899</b></u>	<u>7,407</u>

**21. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS**

	<b>Group</b>		<b>Company</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000	<b>US\$'000</b>	US\$'000
Cash and bank balances	<b>19,007</b>	16,931	<b>411</b>	312
Time deposits	<b>6,500</b>	6,125	<b>3,500</b>	4,917
	<u><b>25,507</b></u>	<u>23,056</u>	<u><b>3,911</b></u>	<u>5,229</u>
Less: Pledged time deposits for a credit facility	—	(834)	—	(834)
	<u><b>25,507</b></u>	<u>22,222</u>	<u><b>3,911</b></u>	<u>4,395</u>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to US\$9,909,000 (2002: US\$7,615,000). The RMB is not freely convertible into other currencies. However, under PRC's foreign exchange control regulations and administration of settlement, sale and payment of foreign exchange regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

**22. DUE TO GROUP COMPANIES**

	<b>Group</b>		<b>Company</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000	<b>US\$'000</b>	US\$'000
American Standard Europe	<b>658</b>	—	—	—
American Standard Inc.	<b>6,816</b>	9,507	<b>3,857</b>	5,165
American Standard Korea Inc.	<b>126</b>	77	—	—
American Standard Plumbing (UK) Ltd.	<b>39</b>	—	—	—
Edwards of Hull	<b>2</b>	—	—	—
Ideal Standard (Thailand) Limited	—	2	—	—
Ideal Standard Fittings - Mexico	<b>22</b>	6	—	—
Ideal Standard S.R.L.	<b>5</b>	5	—	—
Ideal Standard Sanitaryware (Thailand) Ltd.	—	76	—	—
Ideal Standard Wittlich GmbH	<b>68</b>	111	—	—
Jado Aktiengesellschaft	—	28	—	—
Meloh Armaturen GmbH	<b>4</b>	21	—	—
The US Plumbing Products division - Paintsville	<b>3</b>	10	—	—
The US Plumbing Products division - Staff	<b>14</b>	95	—	—
The US Plumbing Products division - Tiffin, Ohio plant of the American Standard group	—	16	—	—
Trane Thailand Manufacturing	<b>3</b>	—	—	—
VIDIMA AD	<b>16</b>	2	—	—
	<b>7,776</b>	9,956	<b>3,857</b>	5,165

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

The balances due to group companies are unsecured, interest-free and are repayable in accordance with trade terms.

**23. TRADE PAYABLES**

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

	<b>2003</b>	<b>Group</b>
	<b>US\$'000</b>	2002 US\$'000
Within 1 month	<b>3,381</b>	4,082
1 to 2 months	<b>479</b>	999
2 to 3 months	<b>179</b>	353
Over 3 months	<b>477</b>	634
	<u><b>4,516</b></u>	<u>6,068</u>

**24. DUE TO THE HOLDING COMPANY**

The balance represents the remaining consideration for the intellectual property rights granted by American Standard Inc. (see notes 29(1)(d) and 29(2)).

**25. SHARE CAPITAL**

	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000
Authorised:		
300,000,000 ordinary shares of US\$0.01 each	<b>3,000</b>	—
(2002: 459,000 A shares of US\$1 each	—	459
and 441,000 B shares of US\$1 each)	—	441
	<u>3,000</u>	<u>900</u>
Issued and fully paid:		
151,034,000 ordinary shares of US\$0.01 each	<b>1,510</b>	—
(2002: 3,362 A shares of US\$1 each	—	3
and 8,256 B shares of US\$1 each)	—	8
	<u>1,510</u>	<u>11</u>

During the year ended 31 December 2003, the Company underwent the following capital reorganisation for the listing of its shares on the GEM of the Stock Exchange pursuant to the resolution passed in a shareholders' meeting on 16 July 2002 in the anticipation of the listing:

- (a) the authorised share capital of the Company was increased from US\$900,000 to US\$3,000,000 by the creation of an additional 1,041,000 A shares and 1,059,000 B shares;
- (b) each of the A shares was sub-divided into 100 A shares of US\$0.01 each and each of the B shares was sub-divided into 100 B shares of US\$0.01 each, thereby resulting in 150,000,000 A shares and 150,000,000 B shares in the authorised capital of the Company;
- (c) all A shares of US\$0.01 each and B shares of US\$0.01 each were reclassified and converted into ordinary shares of US\$0.01 each in the capital of the Company each ranking pari passu in all respects and having the same rights and privileges set out in the articles of association; and

**25. SHARE CAPITAL** (continued)

- (d) an amount of US\$1,498,722 standing to the credit of the share premium account of the Company was capitalised and applied in paying up in full at par an aggregate of 149,872,200 shares for allotment and issue to the shareholders of the Company whose names appeared on the register of the members of the Company on 18 June 2003, the date immediately preceding the date on which the Company's listing document dated 19 June 2003 was delivered to the Stock Exchange in proportion to their then existing respective shareholding in the Company.

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	<b>Number of shares in issue</b>	<b>Issued share capital</b>	<b>Share premium account</b>	<b>Total</b>
		US\$'000	US\$'000	US\$'000
At 1 January 2002, 31 December 2002 and 1 January 2003				
- A shares of US\$1 each	3,362	3	24,222	24,225
- B shares of US\$1 each	8,256	8	64,592	64,600
	<u>11,618</u>	<u>11</u>	<u>88,814</u>	<u>88,825</u>
Sub-division of each share into 100 shares of US\$0.01 each				
- (note 25(b))	1,161,800	—	—	—
Capitalisation of share premium				
- (note 25(d))	149,872,200	1,499	(1,499)	—
Expenses arising from the listing of the Company's shares	—	—	(2,010)	(2,010)
<b>At 31 December 2003</b>	<b><u>151,034,000</u></b>	<b><u>1,510</u></b>	<b><u>85,305</u></b>	<b><u>86,815</u></b>

**26. RESERVES****(a) Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 32 of this report.

**(b) Company**

	<b>Share premium account</b>	<b>Retained profits</b>	<b>Total</b>
	US\$'000	US\$'000	US\$'000
At 1 January 2002	87,426	9,556	96,982
Net profit for the year	—	2,578	2,578
	<hr/>	<hr/>	<hr/>
At 31 December 2002 and 1 January 2003	87,426	12,134	99,560
Capitalisation of share premium - <i>(note 25(d))</i>	(1,499)	—	(1,499)
Expenses arising from the listing of the Company's shares	(2,010)	—	(2,010)
Net profit for the year	—	1,908	1,908
	<hr/>	<hr/>	<hr/>
<b>At 31 December 2003</b>	<b>83,917</b>	<b>14,042</b>	<b>97,959</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT****Major non-cash transactions**

During the year, the Group had the following major non-cash transactions:

- (i) As detailed in note 16 to the financial statements, the registered and paid up capital of A-S Jiangmen Fittings was increased from US\$7,850,000 to US\$10,850,000 by capitalisation of dividend payable to an investor.
- (ii) As detailed in note 25(d) to the financial statements, the increase of the Company's issued share capital of approximately US\$1,499,000 is satisfied by capitalisation of the Company's share premium.

**28. CONTINGENT LIABILITIES**

	<b>Group</b>		<b>Company</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000	<b>US\$'000</b>	US\$'000
In respect of performance bonds issued by banks to the Group's customers	<b>1,397</b>	834	<b>1,397</b>	—

The performance bonds as at 31 December 2003 were secured by the Company's corporate guarantee to the amount of the performance bonds issued. The performance bonds as at 31 December 2002 were secured by the Group's time deposits.

Details of the Group's credit facility for the prior year are disclosed in note 29(1), the credit facility expired on 21 May 2003 and the Group obtained another credit facility of US\$2,000,000 from another bank which was secured by an irrevocable and unconditional corporate guarantee provided by the Company up to the amount of the credit facility utilised. At 31 December 2003, approximately US\$1,397,000 was utilised by way of performance bonds (2002: US\$834,000).

**29. RELATED PARTY TRANSACTIONS**

- (1) The Group had the following material continuing transactions with group companies of the Company's holding company, American Standard Companies Inc., during the year:

	<i>Notes</i>	<b>Group</b>	
		<b>2003</b>	2002
		<b>US\$'000</b>	US\$'000
Sales of finished goods	(a)	<b>25,298</b>	20,003
Purchases of raw materials	(a)	<b>(2,085)</b>	(1,467)
Commission income	(b)	—	50
Management fee expenses	(c)	<b>(300)</b>	(332)
Trademark licence, technical assistance and management assistance fees	(d)	<b>(1,874)</b>	(873)
Interest expense	(e)	—	(37)



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

(1) *(continued)*

Notes:

- (a) The sales and purchases transactions were conducted with reference to the standard price lists and will continue in the future on the same basis.
- (b) The commission income was related to the sales by American Standard Companies Inc., the Company's ultimate holding company, and its subsidiaries, excluding the Group (collectively the "American Standard group") of PRC plumbing products under licence from American Standard Inc. and its affiliates ("AS products") which was charged at a rate of 2.5% on the sales of products.
- (c) The management fee was charged in accordance with the terms of the relevant agreement with American Standard Inc.
- (d) The trademark licence, technical assistance and management assistance fees were related to the sales of AS products by the Group's subsidiaries in the PRC, which were charged on basis as stated in the respective joint venture agreements, net of amounts credited to the Group pursuant to the Intellectual Property Agreement (as defined in note 29(2) below) with American Standard Inc.
- (e) The interest expense was charged at a rate of 5.85% per annum on an advance from Shandong Weiming Automotive Products Co., Ltd., an American Standard group company, all of which had been fully repaid in the prior year (note 7).

During the year, in addition to the above continuing transactions, the American Standard group paid expenses on behalf of the Group. Reimbursements of such payments on behalf were based on the actual amounts incurred. The Group reimbursed the American Standard group an aggregate amount of US\$2,327,000 (2002: US\$2,444,000) for the year ended 31 December 2003.

For the year ended 31 December 2003, the Company settled with American Standard Inc. an amount of US\$867,000 (2002: US\$873,000) in respect of the consideration for the intellectual property rights.

The Group obtained a revolving credit facility of up to US\$5,000,000 from a bank which was secured by either the joint and several corporate guarantees by American Standard International Inc. and American Standard Inc. or the Company's time deposits in US\$ to the amount of the credit facility utilised. Upon the expiry of this credit facility on 21 May 2003, it was replaced by another credit facility from another bank (see note 28).

**29. RELATED PARTY TRANSACTIONS** (continued)

- (2) Pursuant to the Intellectual Property Agreement made as of 1 January 1996 (the "Intellectual Property Agreement"), American Standard Inc. agreed to grant the Company and its PRC subsidiaries, upon the fulfillment of certain conditions contained in the Shareholders' Agreement dated 20 April 1994, and as amended on 24 December 1996, the exclusive territorial rights to use its present and future trademark, and to have access to its present and future technology knowhow to manufacture, market, distribute and sell AS plumbing products in the PRC (the "intellectual property rights") for a consideration of US\$10,000,000. In 1997, American Standard Inc. purchased an aggregate of 3,000 B shares from certain B shareholders and increased its shareholding in the Company from 28.94% to 54.8%, thereby fulfilled the conditions required for the granting of the intellectual property rights. Accordingly, the intellectual property rights were granted by American Standard Inc. to the Company on 21 October 1997 (note 29(1)(d)).
- (3) During the year, a service fee amounting to US\$64,000 (2002: US\$63,000) was paid to Qing Yuan, a minority shareholder of a PRC subsidiary, by a PRC subsidiary for the provision of administrative services, and was charged based on 0.5% (2002: 0.5%) of net sales of that PRC subsidiary.

**30. COMMITMENTS**

- (1) The Company had no capital commitments at the balance sheet dates. The Group's capital commitments are as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000
Capital commitments		
- authorised, but not contracted for,		
in respect of the purchases of fixed assets	—	131
- contracted, but not provided for,		
in respect of the purchases of fixed assets	—	61
	<hr/>	<hr/>
Total	—	192
	<hr/> <hr/>	<hr/> <hr/>

**30. COMMITMENTS** (continued)

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

## A-S Beijing Bathtubs:

Trademark licence fee	3% of net sales of AS products
Technical assistance fee	2% of net sales
	lump sum start up fee of US\$100,000
Management assistance fee	1.5% of net sales

## A-S Guangzhou Bathtubs:

Trademark licence fee	2.5% of net sales of AS products
Technical assistance fee	2.5% of net sales

## A-S Shanghai Fittings:

Trademark licence fee	3.5% of net sales of AS products
Technical assistance fee	1.5% of net sales

## A-S Shanghai Pottery:

Trademark licence fee	3% of net sales of AS products
Technical assistance fee	2.5% of net sales for years 1 to 5 and 2% of net sales for years 6 to 10

## A-S Tianjin Pottery:

Trademark licence fee	3% of net sales
Technical assistance fee	2% of net sales
Management assistance fee	2% of net sales

## Hua Mei:

Trademark licence fee	1.8% of net sales
Technical assistance fee	1.5% of net sales
Management assistance fee	0.5% of net sales

## A-S Jiangmen Fittings:

Trademark licence fee	3% of net sales of AS products
Technical assistance fee	2% of net sales of AS products for year 1 to 2 and 2% of net sales for subsequent years

American Standard Inc. agreed to treat one-half of the trademark licence, technical assistance and management assistance fees receivable from the PRC subsidiaries to American Standard Inc. as settlements by the Company for the purchase of the intellectual property rights (note 29(2)).

**30. COMMITMENTS** (continued)**(3) Operating leases commitments**

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

	<b>Group</b>	
	<b>2003</b>	2002
	<b>US\$'000</b>	US\$'000
Within one year	<b>250</b>	358
In the second to fifth years, inclusive	<b>94</b>	108
	<u>          </u>	<u>          </u>
	<b>344</b>	466
	<u>          </u>	<u>          </u>

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

**31. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 26 March 2004.

## Definitions

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

“A Shareholder(s)”	holder(s) of A Shares
“A Share(s)”	Class A share(s) of US\$1.00 each in the share capital of the Company that have been converted with B Shares on the same basis into the Shares immediately upon the delivery of this document to the Stock Exchange in accordance with Rule 12.24(2) of the GEM listing rules
“American Standard”	American Standard Companies Inc., a corporation organised under the laws of the State of Delaware, USA. The shares of American Standard Companies Inc. are listed on the New York Stock Exchange
“American Standard Group”	American Standard and its subsidiaries from time to time, excluding the Group
“American Standard Inc.” or “ASI”	a wholly-owned subsidiary of American Standard and which is the registered owner of patents, trademarks, service marks, copyrights for plumbing products used by the Group in the PRC
“Anglo Chinese” or “sponsor”	Anglo Chinese Corporate Finance, Limited, the sponsor of the Introduction, and a corporation licensed to carry on regulated Type 1 (dealing in securities) and Type 4 (advising on securities) activities under the Securities and Futures Ordinance
“Articles”	the Memorandum and Articles of Association of the Company
“A-S Beijing Bathtubs”	A-S (Beijing) Enamel Steel Sanitaryware Co., Ltd., a sino-foreign equity joint venture established under the laws of the PRC and a 68.5%-owned subsidiary of the Company
“ASCC”	A-S (China) Company, Ltd., a wholly foreign-owned enterprise established under the laws of the PRC and a subsidiary of the Company

## Definitions

“A-S Executive Trust”	<p>a trust formed in accordance with the laws of the State of New York, USA, the beneficiaries of which include American Standard Inc., a wholly-owned subsidiary of American Standard</p> <p>The trust is a fixed trust and was established to acquire and hold and sell or distribute certain interests in the Company for the beneficiaries of the trust. Each of the beneficiaries has to make a capital contribution to the trust consisting of cash set forth in the schedule to the trust agreement. The trustees may from time to time direct distribution to the beneficiaries in cash or securities, or a combination of cash and securities in proportion to their respective capital contribution</p> <p>The trustees are Emanuel A. Kampouris, George H. Kerckhove and Fred A. Allardyce. The trustees are themselves beneficiaries of the trust</p>
“A-S Guangzhou Bathtubs”	A-S (Guangzhou) Enamelware Company Limited, a sino-foreign equity joint venture established under the laws of the PRC and an 82%-owned subsidiary of the Company
“A-S Jiangmen Fittings”	A-S (Jiangmen) Fittings Co. Ltd., a wholly foreign-owned enterprise established under the laws of the PRC and an indirectly wholly-owned subsidiary of the Company
“A-S Shanghai Fittings”	A-S (Shanghai) Fittings Co., Ltd., a sino-foreign equity joint venture established under the laws of the PRC and a 64%-owned subsidiary of the Company
“A-S Shanghai Pottery”	A-S (Shanghai) Pottery Co., Ltd., a sino-foreign equity joint venture established under the laws of the PRC and an 82%-owned subsidiary of the Company
“A-S Tianjin Pottery”	A-S (Tianjin) Pottery Co., Ltd., a wholly foreign-owned enterprise established under the laws of the PRC and an indirectly wholly-owned subsidiary of the Company
“associate(s)”	has the same meaning as defined in the GEM listing rules
“B Shareholder(s)”	holder(s) of B Shares

## Definitions

“B Share(s)”	Class B share(s) of US\$1.00 each in the share capital of the Company that have been converted with A Shares on the same basis into the Shares immediately upon delivery of this document to the Stock Exchange in accordance with Rule 12.24(2) of the GEM listing rules
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Law”	the Companies Law (2002 Revision) of the Cayman Islands (as amended)
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (as amended)
“Company”	A-S China Plumbing Products Limited, an exempted company incorporated in the Cayman Islands with limited liability on 14 December 1993
“Director(s)”	the director(s) of the Company
“Export Distributorship Agreement(s)”	the export distributorship agreements and supplemental agreements thereto, if any, entered into between American Standard Inc. and each of the PRC Ventures, regarding the appointment of American Standard Inc. as their exclusive distributor outside the PRC
“GAAP”	Generally Accepted Accounting Principles
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM listing committee”	the listing committee of the Stock Exchange with responsibility for GEM
“GEM listing rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited
“Group”	the Company together with its subsidiaries, and where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were the Company’s subsidiaries at that time
“HK\$” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong

## Definitions

“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hua Mei”	Hua Mei Sanitary Ware Co., Ltd., a sino-foreign equity joint venture established under the laws of the PRC and a 67.6%-owned subsidiary of the Company
“independent third party”	a third party who is independent of, and not connected with, any Director, chief executive, substantial or management shareholders of the Company or its subsidiaries, or any of their respective associates
“initial management shareholders”	have the meaning as ascribed thereto under the GEM listing rules, which in the case of the Company are American Standard, American Standard International Inc., American Standard Foreign Sales Limited, American Standard Foreign Trading Limited, American Standard Inc., General Oriental Investments Limited, Mr. David Chapman, Mr. Al Cutshaw and Mr. Lilan Chan
“Intellectual Property Agreement”	the intellectual property agreement dated 1 January 1996 entered into between the Company and American Standard Inc. which gives the Company the exclusive right to require American Standard Inc. to grant to the companies in which the Company holds directly or indirectly a majority interest territorial licences to manufacture and distribute plumbing products in the PRC under the plumbing products brand names owned by American Standard Inc.
“listing date”	the date trading in the Shares on GEM commences
“Listing document”	the Company’s listing document dated 19 June 2003
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“Management and Administrative Assistance Agreement”	the agreement dated 20 April 1994 entered into between American Standard Inc. and the Company regarding the provision of management and administrative assistance by American Standard Inc. to the Company, together with the supplemental agreement thereto dated 16 June 2003



## Definitions

“Management Assistance Agreement(s)”	the management assistance contracts and supplemental agreements thereto, if any, entered into between American Standard Inc. and each of Hua Mei, A-S Beijing Bathtubs and A-S Tianjin Pottery respectively, regarding the provision of management assistance by American Standard Group to each of them
“New York Stock Exchange”	New York Stock Exchange, Inc.
“PRC” or “China”	the People’s Republic of China which, for the purposes of this document, does not include Hong Kong, Macau and Taiwan
“PRC Venture” or “PRC Ventures”	any one of or all of A-S Beijing Bathtubs, A-S Guangzhou Bathtubs, A-S Shanghai Pottery, A-S Shanghai Fittings, A-S Tianjin Pottery, Hua Mei and A-S Jiangmen Fittings
“relevant securities”	has the meaning ascribed thereto in Rule 13.15 of the GEM listing rules
“RMB”	Renminbi, the lawful currency of the PRC
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“SFC”	the Securities and Futures Commission of Hong Kong
“Share(s)”	share(s) of US\$0.01 each in the share capital of the Company resulting from the sub-division and conversion of the A Shares and the B Shares
“Shareholders’ Agreement”	the shareholders’ agreement dated 20 April 1994, as amended on 24 December 1996, entered into amongst American Standard Inc. and other shareholders of the Company referred to in note (2) under the subsection headed “Group structure” in the “Business” section of this document together with supplemental agreements thereto and terminated on the date of this document

## Definitions

“Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchange and Clearing Limited
“Technical Assistance Agreement(s)”	the technical assistance agreements and supplemental agreements thereto, if any, entered into between each of the PRC Ventures and American Standard Inc. and, in the case of Hua Mei, a joint trademark licence and technical assistance agreement signed with American Standard Inc. regarding the provision of technical assistance by American Standard Group to each of the PRC Ventures
“Trademark Licence Agreement(s)”	the trademark licence agreements entered into between each of the PRC Ventures and American Standard Inc. and, in the case of Hua Mei, a joint trademark licence and technical assistance agreement signed with American Standard Inc. regarding the grant of the rights to use certain trademarks in respect of plumbing products owned by American Standard Inc. to each of the PRC Ventures, particulars of which are set out in the sub-section headed “Intellectual property” in the “Business” section and the paragraph headed “Intellectual property rights” in appendix IV to the listing document
“Ultrawide HK”	Ultrawide Engineering Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“United States”, “USA” or “US”	the United States of America
“US dollars” or “US\$” and “US cents”	United States dollars and cents respectively, the lawfulcurrency of the United States of America

*For the purposes of this report, unless otherwise specified, conversions of Hong Kong dollars and RMB into US dollars are based on the approximate exchange rates of HK\$7.80 to US\$1.00 and RMB8.28 to US\$1.00 respectively.*

*No representation is made that any amounts in US dollars or RMB, as the case may be, could have been or could be converted at the stated rates or at any other rates.*

*If there is any inconsistency between the Chinese names of the PRC entities mentioned in this document and their English translations, the Chinese versions shall prevail.*