ASPPL

# A-S China Plumbing Products Limited

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

# Interim Report

**For the six months ended 30 June 2004**

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

**The GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on the GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on the GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of the GEM mean that it is a market more suited to professional and other sophisticated investors.**

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

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*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 document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## HIGHLIGHTS

- Turnover for domestic PRC sales for the six months ended 30 June 2004 increased approximately 8% to approximately US$20.3 million compared to the same period last year. Due to the decrease in demand from the United States, the total turnover of the Group decreased 5.7% to approximately US$32.6 million compared to the same period in 2003.
- The Group recorded an operating profit of approximately US$1.96 million and a net profit of approximately US$0.69 million for the six months ended 30 June 2004. During the same period in 2003, the Group recorded an operating profit of approximately US$1.59 million and a net profit of approximately US$0.57 million.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and operations review

— The Group's PRC sales for the six months ended 30 June 2004 (the "Current Period") grew 8% over the same period last year (the "Relevant Periods") attributable to the continuing improvements in product portfolio and distribution network. However, demand in the United States is still soft although we see it starting to recover during second quarter. The overall sales dropped 5.7% during the Relevant Periods. Gross profit margin for the Relevant Periods increased by 3 percentage points to 30.82%. This is mainly due to more new products with higher price sold during the Current Period.

— The Group recorded a net profit of approximately US$0.69 million during the Current Period compared to a net profit of US$0.57 million in the same period last year.

— The Group continues to maintain a healthy financial position. As at 30 June 2004, the net current assets of the Group amounted to US$27.34 million, which comprise cash and bank deposits of approximately US$28.44 million. The Group has no bank loan as at the period end date and the reporting date. As at 30 June 2004, the Group had banking facilities of approximately US$2 million. Approximately US$0.41 million was utilized by way of performance bonds and unused banking facilities as at the same date amounted to approximately US$1.59 million.

— During the Current Period, the Group launched the Project Inspire campaign. Project Inspire includes 3 new lifestyle bathroom suites (Tonic, Acacia and Newson), which are based on the latest fashion designs from Europe.

— Advertising has been developed and launched to communicate the Project Inspire concept to consumers. Major design and lifestyle magazines and newspapers have been carrying our new advertising since May this year. The concept of American Standard being the design leader starting to press on national magazines. As part of the Project Inspire campaign, display in 135 of our leading showrooms across the PRC were upgrade with these Inspire suties.

— Starting from April 2004, we saw a slow down on domestic demand as a result of the macroeconomic measures of the government authorities to control the overheated sectors, including property. The impact of the tightened control on loans to real estate developers has resulted in some developers delaying projects. Despite the challenging operating environment, the Group reported 11.6% and 8% growth in domestic sales for the three months and six months ended 30 June 2004, respectively compared to the same periods last year.

— The Group has seen significant inflation in raw material prices exerting pressure on production costs. In particular copper prices in June 2004 were approximately 53% higher than one year previously.

**Prospect**

— Based on the latest announcements, the measures adopted by the government have made major progress in controlling the property sector. However, there still remain uncertainties on whether the measure will continue and to what extent they will hit the property development sector in the second half of the year.

— The Group anticipates continued inflationary pressure on raw material prices.

— Although the export sales continued to be soft during the 1st half of the year, we believe they turned the corner. The management is confident that the export sales will improve in the second half of the year given the continuing recovery of the global economy.

## FOREIGN CURRENCY EXPOSURE

The Group's reporting currency is in US$. Most of the transactions, assets and liabilities of the Group are denominated in US$ and Renminbi ("RMB"). Since the exchange rate fluctuation between US$ and RMB is minimal, the directors consider that the Group is not significantly exposed to any exchange risk and accordingly, the Group did not utilise any financial instruments in the foreign currency market to hedge against the risk of fluctuation of the RMB in relation to other foreign currencies. The directors believe that, having regard to the working capital position of the Group, the Group is able to meet its future exchange liabilities, if any, as they become due.

## COMPARISION OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS OPERATION

The following is a comparison of the actual business progress in the period from 1 January 2004 to 30 June 2004 (the "Review Period") and the business objectives as set out on page 123 of the listing document of the Company dated 19 June 2003 (from 1 January 2004 to 30 June 2004). 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 period from 1 January 2004 to 30 June 2004 as set out in the listing document* | *Actual business progress in the Review Period* |
|---|---|
| **Strategic Development** | |
| — As the market grows, the Directors expect that the Group's geographic expansion within the PRC will continue. Marketing efforts will continue to be made to help the Group improve its brand positioning and remain in the top tier. | — Through careful monitoring and analysis of the performance of the original sales outlets, the Group decided to close under-performing sales outlets in various cities and refocus marketing efforts in strengthening and upgrading the existing outlets. The Group continued to upgrade sales outlets with new models and popular design products in order to improve the brand image during the review period. |

**Sales and Marketing and Product Development**

| | |
|---|---|
| — Sales outlet expansion will continue to be important for the growth of the Group. The Directors expect the number of sales outlets to increase to 320 with city coverage in the PRC extended to125 by 30th June 2004. | — In addition to the continuing assessment carried out on the original sales outlets, the Group continued to expand the number of sales outlets in new cities and locations. The number of sales outlets increased to 286 while cities covered were reduced to 99 respectively during the period ended 30 June 2004. |
| — New distribution centers will be added to cover all major market areas of the Group. | — Based on detailed analysis, the Group considered that the existing three distribution centers are capable of providing the necessary services to the existing sales outlets and the cities covered. |
| — The business-to-business internet platform for the Group's authorized dealers previously initiated will expand to include most of the Group's dealers during this period. | — The Group continued to develop the business-to-business internet platform during the review period. |
| — Product development will continue as the need to be innovative and creative becomes more intense as competition increase. Emphasis will be placed on marketing the Group's leading product position and ability to satisfy a wide range of customers. | — More innovative and creative products continued to roll-out with the utilization of the American Standard's globally standardized design and computer platforms. |

## QUARTERLY RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2004

The board of directors is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June 2004 together with the comparative unaudited consolidated results for the corresponding period in 2003 (the "Relevant Periods") as follows:

**Condensed Consolidated Profit And Loss Account**

| | | Unaudited three months ended 30 June | | Unaudited six months ended 30 June | |
|---|---|---|---|---|---|
| | *Notes* | **2004** | **2003** | **2004** | **2003** |
| | | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| TURNOVER | 3 | 19,621 | 18,486 | 32,632 | 34,588 |
| Cost of sales | | (12,372) | (12,581) | (22,575) | (24,964) |
| Gross profit | | 7,249 | 5,905 | 10,057 | 9,624 |
| Other revenues/ (expenses), net | | 171 | 19 | 356 | (341) |
| Distribution costs | | (512) | (539) | (967) | (939) |
| Administrative and other operating expenses | | (4,402) | (3,293) | (7,486) | (6,759) |
| PROFIT FROM OPERATING ACTIVITES | | 2,506 | 2,092 | 1,960 | 1,585 |
| Finance costs | | — | — | — | — |
| PROFIT BEFORE TAX | 4 | 2,506 | 2,092 | 1,960 | 1,585 |
| Tax | 5 | (439) | (285) | (653) | (446) |
| PROFIT BEFORE MINORITY INTERESTS | | 2,067 | 1,807 | 1,307 | 1,139 |
| Minority interests | | (472) | (374) | (620) | (573) |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | 1,595 | 1,433 | 687 | 566 |
| Dividend | | — | — | — | — |
| Earnings per share (US cents) Basic | 6 | 1.06 | 0.95 | 0.45 | 0.37 |

## Condensed Consolidated Balance Sheet

| | Notes | Unaudited 30 June 2004 US$'000 | Audited 31 December 2003 US$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Fixed assets | 7 | 60,846 | 62,482 |
| Goodwill | 8 | 2,196 | 2,286 |
| Intangible assets | 9 | 16,405 | 16,839 |
| | | 79,447 | 81,607 |
| CURRENT ASSETS | | | |
| Due from group companies | 10 | 6,999 | 6,266 |
| Prepayments, deposits and other receivables | | 4,030 | 3,796 |
| Inventories | 11 | 8,092 | 7,806 |
| Trade receivables | 12 | 7,600 | 8,899 |
| Cash and cash equivalents | 13 | 28,442 | 25,507 |
| | | 55,163 | 52,274 |
| CURRENT LIABILITIES | | | |
| Due to group companies | 14 | 7,670 | 7,776 |
| Dividend payable | | 132 | 132 |
| Trade payables | 15 | 6,508 | 4,516 |
| Corporate income tax payable | | 143 | 48 |
| Other payables, deposits and accrued liabilities | | 13,372 | 15,331 |
| | | 27,825 | 27,803 |
| NET CURRENT ASSETS | | 27,338 | 24,471 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 106,785 | 106,078 |
| NON-CURRENT LIABILITY | | | |
| Due to holding company | 16 | (1,420) | (1,785) |
| | | 105,365 | 104,293 |
| Minority interests | | (15,227) | (14,780) |
| | | 90,138 | 89,513 |
| CAPITAL AND RESERVES | | | |
| Issued capital | | 1,510 | 1,510 |
| Reserves | 17 | 88,628 | 88,003 |
| | | 90,138 | 89,513 |

## Consolidated Statement of Changes in Equity (Unaudited)

| | Issued share capital US$'000 | Share premium account US$'000 | Reserve fund US$'000 | Expansion reserve US$'000 | Exchange fluctuation reserve US$'000 | Retained profits/ (accumu-lated losses) US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2004 | 1,510 | 85,305 | 3,088 | 989 | (3,074) | 1,695 | 89,513 |
| Exchange realignment | – | – | – | – | (62) | – | (62) |
| Net gains and losses not recognised in the profit and loss account | – | – | – | – | (62) | – | (62) |
| Net profit for the period | – | – | – | – | – | 687 | 687 |
| At 30 June 2004 | 1,510 | 85,305 | 3,088 | 989 | (3,136) | 2,382 | 90,138 |
| At 1 January 2003 | 11 | 88,814 | 2,843 | 908 | (3,006) | (2,461) | 87,109 |
| Exchange realignment | – | – | – | – | (27) | – | (27) |
| Net gains and losses not recognised in the profit and loss account | – | – | – | – | (27) | – | (27) |
| Net profit for the period | – | – | – | – | – | 566 | 566 |
| At 30 June 2003 | 11 | 88,814 | 2,843 | 908 | (3,033) | (1,895) | 87,648 |

## Condensed Consolidated Cash Flow Statement

| | Unaudited six months ended 30 June 2004 US$'000 | 2003 US$'000 |
|---|---|---|
| Net cash inflow from operating activities | 3,819 | 238 |
| Net cash used in investing activities | (649) | (833) |
| Net cash used in financing activities | (173) | (300) |
| Decrease in cash and cash equivalents | 2,997 | (895) |
| Cash and cash equivalents at 1 January | 25,507 | 22,222 |
| Effect of foreign exchange rate changes | (62) | — |
| Cash and cash equivalents at 30 June | 28,442 | 21,327 |
| Analysis of balances of cash and cash equivalents: | | |
| Cash and bank balances | 28,442 | 16,223 |
| Unpledged time deposits with original maturity of less than three months when acquired | — | 5,104 |
| | 28,442 | 21,327 |

*Notes:*

## 1. BASIS OF PRESENTATION

These condensed unaudited consolidated results of the Group have been prepared in accordance with Statements of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong.

These financial statements also comply with the applicable disclosure provisions of the Rules governing the Listing of Securities on the GEM of the Stock Exchange. The same accounting policies adopted in the 2003 annual accounts have been applied to the interim financial report.

## 2. PRINCIPAL ACTIVITIES

The Group manufactures and distributes in the People°¶s Republic of China (the "PRC") a broad range of bathroom and kitchen fixtures and plumbing fittings under the plumbing product brand names of American Standard Inc. ("ASI"), including the "American Standard" and "Armitage Shanks" brands. The Group has 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 Companies Inc. to ensure the quality of its products.

## 3. 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.

| | **Three months ended 30 June** | | **Six months ended 30 June** | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| **Segment revenue** | | | | |
| PRC | 12,457 | 11,158 | 20,254 | 18,746 |
| North America | 2,373 | 4,716 | 4,216 | 11,326 |
| United Kingdom | 1,543 | 1,070 | 2,748 | 1,966 |
| Others | 3,248 | 1,542 | 5,414 | 2,550 |
| Total | 19,621 | 18,486 | 32,632 | 34,588 |

## 4. PROFIT FROM OPERATING ACTIVITIES

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

| | Three months ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| Cost of inventories sold | 14,719 | 12,581 | 23,985 | 24,964 |
| Amortisation: | | | | |
| Goodwill | 45 | 45 | 90 | 90 |
| Intangible assets | 217 | 287 | 434 | 466 |
| Auditors' remuneration | 65 | 52 | 139 | 103 |
| Depreciation | 1,148 | 1,099 | 2,333 | 2,367 |
| Staff costs (including directors' remuneration): | | | | |
| Wages and salaries | 2,488 | 2,248 | 5,175 | 4,574 |
| Pension scheme contributions | 217 | 275 | 419 | 536 |
| | 2,705 | 2,523 | 5,594 | 5,110 |
| Loss on disposal of fixed assets | 4 | 215 | 4 | 353 |
| Operating lease rentals in respect of land and buildings | 145 | 210 | 308 | 353 |
| Provision/(write-back) for doubtful debts | 2 | (174) | 26 | (182) |
| Provision/(write-back) for slow-moving inventories | 56 | (4) | 266 | 61 |
| Research and development costs | 176 | 133 | 263 | 275 |
| And after crediting: | | | | |
| Interest income | (28) | (23) | (44) | (34) |
| Foreign exchange (gains)/losses, net | (13) | (6) | (49) | (30) |

## 5. TAX

| | Three months ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| Current period provision in respect of: | | | | |
| The PRC | 439 | 285 | 653 | 446 |

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

Hong Kong profits tax has not been provided during the Relevant Periods as the Group had no assessable profits attributable to its operations in Hong Kong during the Relevant Periods.

The PRC subsidiaries were granted or have a right to apply for 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 for the three years starting from 1 January 2002 as it qualifies as a "technologically advanced enterprise" pursuant to the PRC tax regulations. As of 30 June 2004, A-S Jiangmen Fittings has not obtained the written approval from the local tax bureau for current year CIT exemption.

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 2004 to 31 December 2005 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.

## 6. EARNING PER SHARE

The calculation of basic earning per share for the Relevant Periods is based on the net profit from ordinary activities attributable to shareholders for each of the Relevant Periods and on the assumption that 151,034,000 shares had been in issue throughout the Relevant Periods, comprising 11,618 shares issued and 151,022,382 shares issued pursuant to the subdivision and capitalisation issue, as described more fully in the paragraph headed "Capital reorganisation" in appendix IV to the listing document.

No diluted earning per share is presented for each of the Relevant Periods as no diluting events existed.

## 7. FIXED ASSETS

| | Buildings | Plant and machinery | Furniture, equipment and motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| Cost: | | | | | |
| At 1 January 2004 | 29,446 | 60,168 | 12,036 | 252 | 101,902 |
| Additions | — | 430 | 114 | 208 | 752 |
| Transfer | — | 90 | — | (90) | — |
| Disposals | — | (40) | (256) | — | (296) |
| At 30 June 2004 | 29,446 | 60,648 | 11,894 | 370 | 102,358 |
| Accumulated depreciation: | | | | | |
| At 1 January 2004 | 6,402 | 23,037 | 9,981 | — | 39,420 |
| Provided during the period | 399 | 1,413 | 521 | — | 2,333 |
| Disposals | — | (15) | (226) | — | (241) |
| At 30 June 2004 | 6,801 | 24,435 | 10,276 | — | 41,512 |
| Net book value: | | | | | |
| At 30 June 2004 | 22,645 | 36,213 | 1,618 | 370 | 60,846 |
| At 31 December 2003 | 23,044 | 37,131 | 2,055 | 252 | 62,482 |

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 are stated at cost.

## 8. GOODWILL

| | *US$'000* |
|---|---|
| Cost: | |
| At 1 January 2004 and at 30 June 2004 | 3,361 |
| Accumulated amortisation: | |
| At 1 January 2004 | 1,075 |
| Provided during the period | 90 |
| At 30 June 2004 | 1,165 |
| Net book value: | |
| At 30 June 2004 | 2,196 |
| At 31 December 2003 | 2,286 |

## 9. INTANGIBLE ASSETS

| | Intellectual property rights *US$'000* | Land use rights *US$'000* | Trademark licence fees *US$'000* | Total *US$'000* |
|---|---|---|---|---|
| Cost: | | | | |
| At 1 January 2004 | 10,000 | 11,506 | 1,650 | 23,156 |
| Additions | — | — | — | — |
| At 30 June 2004 | 10,000 | 11,506 | 1,650 | 23,156 |
| Accumulated amortisation: | | | | |
| At 1 January 2004 | 2,439 | 2,301 | 1,577 | 6,317 |
| Provided during the period | 281 | 116 | 37 | 434 |
| At 30 June 2004 | 2,720 | 2,417 | 1,614 | 6,751 |
| Net book value: | | | | |
| At 30 June 2004 | 7,280 | 9,089 | 36 | 16,405 |
| At 31 December 2003 | 7,561 | 9,205 | 73 | 16,839 |

Included in land use rights were net book values of approximately US$321,000 and US$325,000 as at 30 June 2004 and 31 December 2003, respectively, for which the official land use right certificate is pending approval from the relevant PRC bureau. The directors are of the opinion that they will continue to pursue such actions as they consider commercially practicable and in the interests of the Group to obtain the official title 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$89,000 as at 30 June 2004 (2003: US$90000), which is held on a long term lease, the remaining land use rights are held on medium term leases.

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

## 10. DUE FROM GROUP COMPANIES

All amounts arose from trading transactions.

The balances due from group companies represented amounts due from subsidiaries of American Standard Companies Inc. and its subsidiaries excluding the Group ("American Standard Group") and are unsecured, interest-free and repayable in accordance with trade terms.

## 11. INVENTORIES

| | 30 June 2004 *US$'000* | 31 December 2003 *US$'000* |
|---|---|---|
| Raw materials | 2,492 | 3,740 |
| Work in progress | 883 | 952 |
| Finished goods | 4,717 | 3,114 |
| | 8,092 | 7,806 |

## 12. TRADE RECEIVABLES

The aged analysis of net trade receivables at the balance sheet dates is as follows:

| | 30 June 2004 *US$'000* | 31 December 2003 *US$'000* |
|---|---|---|
| Within 1 month | 5,883 | 6,892 |
| 1 to 2 months | 1,271 | 1,818 |
| 2 to 3 months | 446 | 189 |
| | 7,600 | 8,899 |

The Group generally grants a credit term of 45 days to its customers.

## 13. CASH AND CASH EQUIVALENTS

| | 30 June 2004 *US$'000* | 31 December 2003 *US$'000* |
|---|---|---|
| Cash and bank balances | 20,117 | 19,007 |
| Time deposits | 8,325 | 6,500 |
| | 28,442 | 25,507 |

## 14. DUE TO GROUP COMPANIES

The balances due to group companies represented amounts due to subsidiaries of American Standard Group and are unsecured, interest-free and repayable in accordance with the trade terms.

## 15. TRADE PAYABLES

The aged analysis of trade payables at the balance sheet dates is as follows:

| | **30 June 2004** *US$'000* | **31 December 2003** *US$'000* |
|---|---|---|
| Within 1 month | 5,047 | 3,381 |
| 1 to 2 months | 931 | 479 |
| 2 to 3 months | 314 | 179 |
| Over 3 months | 216 | 477 |
| | 6,508 | 4,516 |

## 16. DUE TO HOLDING COMPANY

The balance represented the remaining consideration for the intellectual property rights granted by ASI. (note 20(2)).

## 17. RESERVES

The amounts of the Group's reserves and the movements therein for the six months ended 30 June 2004 with the last corresponding period are presented in the consolidated statement of changes in equity.

## 18. CONTINGENT LIABILITIES

On 21 May 2003, the Group obtained a bank credit facility of US$2,000,000, which is secured by the irrevocable and unconditional corporate guarantee of the Company. The credit facility is obtained for the issuance of performance bonds.

As at 30 June 2004, the Group had contingent liabilities for performance bonds totalling approximately US$410,000 (31 December 2003: US$1,397,000).

## 19. COMMITMENTS

(i) The Group had not capital commitments at the balance sheet dates.

(ii) On entering into the joint venture agreements of the Company's PRC subsidiaries, ASI undertook to provide the technical knowhow and to allow trademarks under license from ASI 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) Enamel Steel Sanitaryware Co., Ltd.: | |
| Technical assistance fee | 2% of net sales<br>Lump sum start up fee of US$100,000 |
| Trademark licence fee | 3% of net sales of the plumbing products in the PRC under licence from ASI and its affiliates ("AS Products") |
| Management assistance fee | 1.5% of net sales |
| A-S (Guangzhou) Enamelware Company Limited: | |
| Technical assistance fee | 2.5% of net sales |
| Trademark licence fee | 2.5% of net sales of AS products |
| A-S (Shanghai) Fittings Co., Ltd.: | |
| Technical assistance fee | 1.5% of net sales |
| Trademark licence fee | 3.5% of net sales of AS products |
| A-S (Shanghai) Pottery Co., Ltd.: | |
| Technical assistance fee | 2.5% of net sales for years 1 to 5 and 2.0% of net sales for years 6 to 10 |
| Trademark licence fee | 3.0% of net sales of AS products |
| A-S (Tianjin) Pottery Co., Ltd.: | |
| Technical assistance fee | 2% of net sales |
| Trademark licence fee | 3% of net sales |
| Management assistance fee | 2% of net sales |
| Hua Mei: | |
| Technical assistance fee | 1.5% of net sales |
| Trademark licence fee | 1.8% of net sales |
| Management assistance fee | 0.5% of net sales |
| A-S Jiangmen Fittings: | |
| Technical assistance fee | 2% of net sales of AS products owned by ASI for year 1 to 2 and 2% of net sales for subsequent years |
| Trademark licence fee | 3% of net sales of AS products |

ASI agreed to treat one-half of the technical assistance, trademark licence and management assistance fees receivable from the PRC subsidiaries to ASI as settlements by the Company for the purchase of the intellectual property rights (note 21(2)).

(iii) Operating lease commitments

At the respective balance sheet dates, the Group had the following total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 30 June 2004 | 31 December 2003 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Within one year | 527 | 250 |
| In the second to fifth years, inclusive | 310 | 94 |
| Total | 837 | 344 |

**20. RELATED PARTY TRANSACTIONS**

(1) The Group had the following material transactions with American Standard Group, during the Relevant Periods:

| | | Three months ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | *Notes* | 2004 | 2003 | 2004 | 2003 |
| | | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| Sales of finished goods | (a) | 6,528 | 6,611 | 11,013 | 14,751 |
| Purchases of raw materials | (a) | (571) | (366) | (1,138) | (630) |
| Management fee expenses | (b) | (75) | (75) | (150) | (150) |
| Trademark licence, technical assistance and management assistance fees | (c) | (450) | (276) | (676) | (462) |

*Notes:*

(a) The sales and purchases transactions were conducted on normal commercial terms determined between the Group and American Standard Group.

(b) The management fee was charged in accordance with the terms of the relevant agreement with ASI.

(c) 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 the bases as stated in the respective joint venture agreements, net of amounts credited to the Group pursuant to the Intellectual Property Agreement made as at 1 January 1996 (the "Intellectual Property Agreement") with ASI.

During the Relevant Periods, 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 American Standard Group an aggregate amount of US$582,000, US$305,000, US$877,000 and US$995,000 for the three months ended 30 June 2004 and 2003 and six months ended 30 June 2004 and 2003, respectively.

(2) Pursuant to the Intellectual Property Agreement, ASI agreed to grant the Company and its PRC subsidiaries, upon the fulfillment of certain conditions contained in the Shareholders' Agreement dated 20 April 1994, as amended on 24 December 1996, the exclusive territorial rights to use its present and future trademarks, and to have access to its present and future technology knowhow to manufacture, market, distribute and sell plumbing products of the Group in the PRC (the "intellectual property rights") for a consideration of US$10,000,000. In 1997, ASI purchased an aggregate of 3,000 "B" shares from certain "B" shareholders and increased its shareholding in the Company from 28.9% to 54.8%, and thereby fulfilled the conditions required for the granting of the intellectual property rights. Accordingly, the intellectual property rights were granted by ASI to the Company on 21 October 1997.

ASI agreed to treat one-half of the technical assistance, trademark licence and management assistance fees receivable from the PRC subsidiaries to ASI as settlement by the Company for the purchase of the intellectual property rights (note 16).

(3) The Group had the following material transactions with a minority shareholder of a PRC subsidiary during the Relevant Periods:

| | | **Three months ended 30 June** | | **Six months ended 30 June** | |
|---|---|---|---|---|---|
| | *Note* | **2004** | **2003** | **2004** | **2003** |
| | | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| Service fee paid | (a) | (11) | (17) | (26) | (32) |

*Note:*

(a) The service fee was paid by Hua Mei to Qing Yuan Jianbei Enterprises Group Corporation, a minority shareholder of Hua Mei for the provision of administrative services, and was charged based on 0.5% of net sales of Hua Mei during the Relevant Periods.

## INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: Nil).

## DISCLOSURE OF INTERESTS

As at 30 June 2004, the interests of the Directors and the chief executive in the securities of the Company and its associated corporations as required to be recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance were as follows:

### (a) Directors' and chief executive's interests in the Company and in associated corporations

So far as was known to any director of the Company, as at 30 June 2004, the interests and short positions of the directors and chief executive in the shares, underlying share or debentures 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 Exchange pursuant to the minimum standards of dealing by the directors of a listed issuer as referred to in rule 5.46, were as follows:

**Interests in associated corporations**

| Name of Director/ chief executive | Name of company | Number and description of equity derivatives | Capacity | Type of interest | Approximate percentage of holding |
|---|---|---|---|---|---|
| Ms. Low Soong Ing | American Standard | Share options to subscribe for 10,401 shares in American Standard *(Note 1)* | Beneficial owner | Personal | 0.0048% |
| Mr. Richard M. Ward | American Standard | Share options to subscribe for 51,000 shares in American Standard *(Note 2)* | Beneficial owner | Personal | 0.0238% |
| Mr. Stephan R. Custer | American Standard | Share options to subscribe for 11,700 Shares in American Standard *(Note 3)* | Beneficial owner | Personal | 0.0055% |

*Note 1:* On 11 February 2002, 6 February 2003 and 4 February 2004, Ms. Low Soong Ing was granted options to subscribe for 1,000, 1,500 and 1,300 shares, respectively, at US$59.69, US$68.06 and US$105.08 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. On 4 May 2004, the shareholders of American Standard Companies Inc. approved a three-for-one stock split entitling all shareholders of record as at 18 May 2004, to receive two additional shares for each share held on that date. The stock spilt applies to all common stock and stock options. Therefore, following the stock split. Ms. Low has options to subscribe for 2,001, 4,500 and 3,900 shares respectively at US$19.90, US$22.69 and US$35.03 per shares.

*Note 2:* On 28 April 2003 and 4 February 2004, Mr. Richard M. Ward was granted options to subscribe for 10,000 and 7,000 shares, respectively, at US$70.725 and US$105.08 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. On 4 May 2004, the shareholders of American Standard Companies Inc. approved a three-for-one stock split entitling all shareholders of record as at 18 May 2004, to receive two additional shares for each share held on that date. The stock split applies to all common stock and stock options. Therefore, following the stock split, Mr. Ward has options to subscribe for 30,000 and 21,000 shares respectively at US$23.58 and US$35.03 per share.

*Note 3:* On 11 February 2002, 6 February 2003 and 4 February 2004, Mr. Stephan R. Custer was granted options to subscribe for 1,000, 1,400 and 1,500 shares, respectively, at US$59.69, US$68.06 and US$105.08 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. On 4 May 2004, the shareholders of American Standard Companies Inc. approved a three-for-one stock split entitling all shareholders of record as at 18 May 2004, to receive two additional shares for each share held on that date. The stock split applies to all common stock and stock options. Therefore, following the stock split, Mr. Custer has options to subscribe for 3,000, 4,200 and 4,500 shares respectively at US$19.90, US$22.69 and US$35.03 per share.

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 5.46 of the GEM Listing Rules.

## (b) Interests of substantial shareholders in the Company

So far as was known to any director of the Company, as at 30 June 2004, the persons or companies (not being a director or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO and, or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

| Name of shareholders | Number of shares held | Capacity Company's issued Capital | Type of interest | Approximate percentage of holding |
|---|---|---|---|---|
| American Standard *(Note 4)* | 82,771,000 | Beneficial owner | Corporate | 54.80% |
| American Standard International Inc. *(Note 4)* | 82,706,000 | Beneficial owner | Corporate | 54.76% |
| American Standard Foreign Sales Limited *(Note 4)* | 82,706,000 | Beneficial owner | Corporate | 54.76% |
| American Standard Foreign Trading Limited *(Note 4)* | 82,706,000 | Beneficial owner | Corporate | 54.76% |
| Foundation Brunneria *(Note 5)* | 13,000,000 | Beneficial owner | Corporate | 11.19% |
| General Oriental Investments Limited *(Note 5)* | 13,000,000 | Beneficial owner | Corporate | 11.19% |

*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 organized 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 holds 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, that 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 a 0.04% shareholding interest in the Company.

*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 executives of the Company.

Save as disclosed, no person, other than the directors or chief executives of the Company whose interests are set out in the Section "DISCLOSURE OF INTERESTS" above, had registered an interest or short positions in the share or underlying shares of the Company and its associated corporations that was required to be recorded pursuant to Section 336 of the SFO.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Directors' and chief executive's interests in the Company and in associated corporations" above and "Share Option Schemes" below, at no time during the six months ended 30 June 2004 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Group granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or the Group, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SHARE OPTION SCHEMES

As at 30 June 2004, the Company did not have any share option scheme in place.

## SPONSOR'S INTERESTS

As at 30 June 2004, 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 share capital of the Company or of any members of the Group, or had any right to subscribe for, or to nominate persons to subscribe for the share capital of the Company, or of any members 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 2005 and the Company shall pay an agreed advisory fee per financial quarter to the Sponsor for its provision of such services.

## COMPETING INTERESTS

During the period under review, 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 is engaged in the plumbing products business, and potentially competes with the Group in relation to its export sales to independent third parties. On 16 March 2004, Ms. Low Soong Ing resigned as director of Sanitary Wares Manufacturing Corp.

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2004.

## COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules during the six months ended 30 June 2004.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2004, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

## AUDIT COMMITTEE

The Company established an audit committee on 16 June 2003 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The audit committee has three members comprising two independent non-executive directors, Mr. Chang Sze-Ming, Sydney, and Mr. Ho Tse-Wah, Dean and a non-executive director, Mr. Stephan R. Custer, with Mr. Chang Sze-Ming, Sydney serving as the chairman of the committee. The audit committee has reviewed the Group's interim report for the period ended 30 June 2004.

By order of the Board of directors
**A-S China Plumbing Products Limited**
**Richard Ward**
*Chairman*

As at the date of this report, the Board comprises the following directors:

Mr. Richard M. Ward *(Executive Director)*
Ms. Cindy Yang *(Executive Director)*
Mr. Stephan R. Custer *(Non-executive Director)*
Mr. Tobias J. Brown *(Non-executive Director)*
Ms. Edena S. I. Low *(Non-executive Director)*
Mr. Chang Sze-Wah, Sydney *(Independent Non-executive Director)*
Mr. Ho Tse-Wah, Dean *(Independent Non-executive Director)*

Hong Kong, 11 August 2004