

# ASPPL

**A-S China Plumbing Products Limited**

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

## **Third Quarterly Report**

**For the nine months ended 30 September 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.

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

*The Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this report.*

*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**

- PRC sales for the nine months ended 30 September 2004 increased approximately 4.5% to approximately US\$34.21 million compared to the same period last year. The total turnover of the Group increased 3.5% to approximately US\$55.69 million compared to the same period in 2003.
- The Group recorded an operating profit of approximately US\$7.61 million and a net profit of approximately US\$4.89 million for the nine months ended 30 September 2004. During the same period in 2003, the Group recorded an operating profit of approximately US\$3.32 million and a net profit of approximately US\$1.64 million.
- The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2004 (2003: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business and operations review**

- Total turnover of the Group during the quarter ended 30 September 2004 amounted to approximately US\$23.06 million, represents an increase of 20% compared to the same quarter last year. Net profit from the quarter ended 30 September 2004 reached US\$4.20 million. This represents an increase of 290% compared to the same quarter last year.
- The Group's PRC sales for the nine months ended 30 September 2004 (the "Current Period") grew 4.5% over same period last year (the "Relevant Periods") attributable to the continuing improvements in product portfolio and distribution network.
- In addition, demand from overseas continues to recover in the third quarter. As a result, the overall sales grew 3.5% during the Relevant Periods. Gross profit margin for the Relevant Periods increased by 5.9 percentage points to 35.1% compared to last year.
- The Group recorded a net profit of approximately US\$4.89 million (approximately HK\$38.14 million) during the Current Period compared to a net profit of US\$1.64 million (approximately HK\$12.79 million) in the same period last year. The impressive improvement during the year is mainly due to the combination of cost reduction initiatives, and at the same time, more new products with higher price sold during the Current Period.

### **Prospects**

- Based on the latest announcements, the measures adopted by the government have made major progress in controlling the overheating of the property sector. However, there still remain uncertainties on whether the measures will continue and to what extent they will impact the property development sector in the foreseeable future.
- The Group anticipates continued inflationary pressure on raw material prices.
- The management is confident that export sales will continue to improve in the last quarter 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.

## QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2004

The board of directors is pleased to announce the unaudited consolidated results of the Group for the nine months ended 30 September 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

	Notes	Unaudited three months ended 30 September		Unaudited nine months ended 30 September	
		2004 US\$'000	2003 US\$'000	2004 US\$'000	2003 US\$'000
TURNOVER	3	23,057	19,215	55,689	53,803
Cost of sales		(13,565)	(13,107)	(36,140)	(38,071)
Gross profit		9,492	6,108	19,549	15,732
Other revenues/(expenses), net		207	(23)	563	(364)
Distribution costs		(701)	(448)	(1,668)	(1,387)
Administrative and other operating expenses		(3,347)	(3,907)	(10,833)	(10,666)
PROFIT FROM OPERATING ACTIVITIES		5,651	1,730	7,611	3,315
Finance costs		—	—	—	—
PROFIT BEFORE TAX		5,651	1,730	7,611	3,315
Tax	4	(634)	(272)	(1,287)	(718)
PROFIT BEFORE MINORITY INTERESTS		5,017	1,458	6,324	2,597
Minority interests		(818)	(380)	(1,438)	(953)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		4,199	1,078	4,886	1,644
Dividend		—	—	—	—
Earnings per share (US cents) Basic	5	2.78	0.71	3.24	1.09

## Consolidated Statement of Changes in Equity (Unaudited)

	Issued share capital <i>US\$'000</i>	Share premium account <i>US\$'000</i>	Reserve fund <i>US\$'000</i>	Expansion reserve <i>US\$'000</i>	Exchange fluctuation reserve <i>US\$'000</i>	Retained profits/ (accumu- lated losses) <i>US\$'000</i>	Total <i>US\$'000</i>
At 1 January 2004	1,510	85,305	3,088	989	(3,074)	1,695	89,513
Exchange realignment	—	—	—	—	402	—	402
Net gains not recognised in the profit and loss account	—	—	—	—	402	—	402
Net profit for the period	—	—	—	—	—	4,886	4,886
At 30 September 2004	<u>1,510</u>	<u>85,305</u>	<u>3,088</u>	<u>989</u>	<u>(2,672)</u>	<u>6,581</u>	<u>94,801</u>
At 1 January 2003	11	88,814	2,843	908	(3,006)	(2,461)	87,109
Listing costs	—	(2,010)	—	—	—	—	(2,010)
Share capital reorganization	1,499	(1,499)	—	—	—	—	—
Exchange realignment	—	—	—	—	(69)	—	(69)
Net gains and losses not recognised in the profit and loss account	1,499	(3,509)	—	—	(69)	—	(2,079)
Net profit for the period	—	—	—	—	—	1,644	1,644
At 30 September 2003	<u>1,510</u>	<u>85,305</u>	<u>2,843</u>	<u>908</u>	<u>(3,075)</u>	<u>(817)</u>	<u>86,674</u>

### 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 third quarterly results.

#### 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.

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Segment revenue</b>				
PRC	13,956	14,006	34,210	32,752
North America	3,295	3,005	7,511	14,331
United Kingdom	2,543	952	5,291	2,918
Others	3,263	1,252	8,677	3,802
	<u>23,057</u>	<u>19,215</u>	<u>55,689</u>	<u>53,803</u>

### 4. TAX

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Current period provision in respect of:				
The PRC	<u>634</u>	<u>272</u>	<u>1,287</u>	<u>718</u>

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 September 2004, A-S Jiangmen Fittings has not obtained the written approval from the local tax bureau for current year CIT exemption.

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

## 5. 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.

## INTERIM DIVIDEND

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

## DISCLOSURE OF INTERESTS

As at 30 September 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 September 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 ( <i>Note 1</i> )	Beneficial owner	Personal	0.0048%
Mr. Richard M. Ward	American Standard	Share options to subscribe for 51,000 shares in American Standard ( <i>Note 2</i> )	Beneficial owner	Personal	0.0238%
Mr. Stephan R. Custer	American Standard	Share options to subscribe for 11,700 Shares in American Standard ( <i>Note 3</i> )	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 split 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 share.

*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 September 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)	16,900,000	Beneficial owner	Corporate	11.19%
General Oriental Investments Limited (Note 5)	16,900,000	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 nine months ended 30 September 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 September 2004, the Company did not have any share option scheme in place.

## **SPONSOR’S INTERESTS**

As at 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2004.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

During the nine months ended 30 September 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 four members comprising three independent non-executive directors, Mr. Chang Sze-Ming, Sydney, Mr. Ho Tse-Wah, Dean and Mr. Wong Kin Chi (appointed on 30 September 2004) and a non-executive director, Mr. Stephan R. Custer. The chairmanship of the audit committee is rotated on an annual basis and that Mr. Ho Tse-Wah, Dean serving as the chairman of the committee with effect on 11 August 2004 in place of Mr. Chang Sze-Ming, Sydney. The audit committee has reviewed the Group's third quarterly results for the period ended 30 September 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. Ng Chan Choy (*Executive Director, appointed on 10 September 2004*)

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-Ming, Sydney (*Independent Non-executive Director*)

Mr. Ho Tse-Ming, Dean (*Independent Non-executive Director*)

Mr. Wong Kin Chi (*Independent Non-executive Director, appointed on 30 September 2004*)

Hong Kong, 9 November 2004