# A - S China Plumbing Products Limited

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

## Interim Report

**For the six months ended 30 June 2005**

## 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.**

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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

- Total turnover of the Group for the six months ended 30 June 2005 increased 16.6% to approximately US$38.1 million compared to the same period in 2004.

- The Group recorded an operating profit of approximately US$1.75 million and a net profit of approximately US$0.52 million for the six months ended 30 June 2005. During the same period in 2004, the Group recorded an operating profit of approximately US$1.96 million and a net profit of approximately US$0.69 million.

## MANAGEMENT DISCUSSION AND ANALYSIS

**Business and operations review**

– Total turnover of the Group for the six months ended 30 June 2005 (the "Current Period") grew 16.6%, over same period last year (the "Relevant Periods") attributable to the continuing improvements in product portfolio and distribution network. The increase in overseas' sales are mainly due to the recovery of global economy. Gross profit margin for the Relevant Periods increased by 6.9 percentage points to 37.7%. 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$0.52 million during the Current Period compared to a net profit of US$0.69 million in the same period last year. Net profit during the period decreased by USD0.17 million mainly due to an incorporation of restructuring costs.

– The Group continues to maintain a healthy financial position. As at 30 June 2005, the net current assets of the Group amounted to US$42 million, which comprise cash and bank deposits of approximately US$41.03 million. The Group has no bank loan as at the period end date and the reporting date. The Groups has contingent liabilities of USD0.24 million.

– On 25 May 2005, the Group entered into a letter of intent with a joint venture partner in which the Group agreed to dispose all its equity interests in a subsidiary to the joint venture partner. According to the letter of intent, the Group terminated all employees of the subsidiary and reassessed the carrying value of the assets and liabilities of the subsidiary. Based on the revaluation, the Group charged all restructuring costs to the consolidated profit and loss account during the period ended 30 June 2005. The restructuring costs included assets impairment write-off, termination severance and other restructuring related expenses.

– During the Current Period, the Group launched the Project Inspire II campaign. Project Inspire II includes 3 new lifestyle bathroom suites

– Further to the macroeconomic measures launched in 2004, in current year, we saw much stronger measures including further increase on mortgage borrowing rate, increase down payment percentage and the recently launched business tax and capital gain tax on property transaction on certain cities by government authorities to control the overhead property sector. These measures caused a continue slow down on domestic demand and resulted in some developers delaying projects.

### 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.

– The management is confident that the export sales will continue to be strong 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.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS OPERATION

The following is a comparison of the actual business progress in the period from 1 January 2005 to 30 June 2005 (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 2005 to 30 June 2005). To attain our long-term business goals, the Group reviews its business objectives and strategies on an ongoing basis and makes adjustments as necessary.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS OPERATION *(CONTINUED)*

| ***Business objectives for the period from 1 January 2005 to 30 June 2005 as set out in the listing document*** | ***Actual business progress in the Review Period*** |
|---|---|
| **Strategic Development** | |
| The focus will continue to be the development of the Group's dealers and cost improvements. With new entrants expected over the next few years, it will be important for the Group to continue developing new products, building its brand image through targeted advertising and reducing costs through improved efficiency, use of economics of scale and supply chain programmes. | During the period, the Group continued to upgrade sales outlets with new models and popular design products to improve the brand image during the review period. Three new suites (TownSquare, Moment and Expression) were launched during the period. |
| **Sales and Marketing and Product Development** | |
| The Group will continue developing retail locations and the Directors expect geographical growth to continue into 135 cities with a total of more than 375 outlets by the middle of 2005. Throughout this period, the Group's brand image is expected to improve with the continued efforts on introducing products and product designs from other American Standard Group companies in Europe and the Americas, with particular focus on high-end imported products. | To attain thy long-term business goals, the Group reviewed its original geographic expansion strategies on an ongoing basis. In light of the current state of the property market, the Group has determined to slow down its geographic expansion plan. The number of outlets and cities covered remained in the similar level compared to last review period.<br><br>More innovative and creative products continued to roll-out with the utilization of the American Standard's globally standardized design and computer platforms. |
| **Human resources** | |
| Continued effort will be made to develop and retain key employees to drive the Group towards meeting its strategic objectives. The Group's growth will add opportunities for advancement for staff throughout the organization. Job safety will continue to be a key human resource objective. | Nearly 180 key employees are selected and participated in the Group's employees retention programs.<br><br>Total 1460 employees received 4210 hours product training, covering sales and non sales employees, store promoters and dealers. |

## QUARTERLY RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

The board of directors is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June 2005 together with the comparative unaudited consolidated results for the corresponding period in 2004 (the "Relevant Periods") as follows:

### Condensed Consolidated Profit And Loss Account

| | | Unaudited three months ended 30 June | | Unaudited six months ended 30 June | |
|---|---|---|---|---|---|
| | | **2005** | **2004** | **2005** | **2004** |
| | *Notes* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| TURNOVER | 3 | 21,015 | 19,621 | 38,054 | 32,632 |
| Cost of sales | | (12,529) | (12,372) | (23,700) | (22,575) |
| Gross profit | | 8,486 | 7,249 | 14,354 | 10,057 |
| Other revenues/(expenses), net | | (2,886) | 171 | (2,823) | 356 |
| Distribution costs | | (720) | (512) | (1,296) | (967) |
| Administrative and other operating expenses | | (4,843) | (4,402) | (8,490) | (7,486) |
| PROFIT FROM OPERATING ACTIVITIES | | 37 | 2,506 | 1,745 | 1,960 |
| Finance costs | | – | – | – | – |
| PROFIT BEFORE TAX | 4 | 37 | 2,506 | 1,745 | 1,960 |
| Tax | 5 | (986) | (439) | (1,520) | (653) |
| PROFIT BEFORE MINORITY INTERESTS | | (949) | 2,067 | 225 | 1,307 |
| Minority interests | | 657 | (472) | 295 | (620) |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | (292) | 1,595 | 520 | 687 |
| Dividend | | – | – | – | – |
| Earnings/(loss) per share (US cents) Basic | 6 | (0.19) | 1.06 | 0.34 | 0.45 |

## Condensed Consolidated Balance Sheet

| | Notes | Unaudited 30 June 2005 US$'000 | Audited 31 December 2004 US$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Fixed assets | 7 | 54,137 | 59,179 |
| Goodwill | 8 | 2,015 | 2,105 |
| Intangible assets | 9 | 15,561 | 15,959 |
| | | 71,713 | 77,243 |
| CURRENT ASSETS | | | |
| Due from group companies | 10 | 7,079 | 9,185 |
| Prepayments, deposits and other receivables | | 4,477 | 4,066 |
| Inventories | 11 | 9,727 | 7,809 |
| Trade receivables | 12 | 8,659 | 8,097 |
| Cash and cash equivalents | 13 | 41,028 | 36,442 |
| | | 70,970 | 65,599 |
| CURRENT LIABILITIES | | | |
| Due to group companies | 14 | 6,624 | 6,827 |
| Dividend payable | | 132 | 132 |
| Trade payables | 15 | 7,789 | 6,926 |
| Corporate income tax payable | | 839 | 452 |
| Other payables, deposits and accrued liabilities | | 13,590 | 14,585 |
| | | 28,974 | 28,922 |
| NET CURRENT ASSETS | | 41,996 | 36,677 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 113,709 | 113,920 |
| NON-CURRENT LIABILITY | | | |
| Due to American Standard Inc. | 16 | (454) | (879) |
| | | 113,255 | 113,041 |
| Minority interests | | (15,134) | (15,429) |
| | | 98,121 | 97,612 |
| CAPITAL AND RESERVES | | | |
| Issued capital | | 1,510 | 1,510 |
| Reserves | 17 | 96,611 | 96,102 |
| | | 98,121 | 97,612 |

## Consolidated Statement of Changes in Equity (Unaudited)

| | 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 2005 | 1,510 | 85,305 | 3,553 | 1,306 | (3,121) | 9,059 | 97,612 |
| Exchange realignment | – | – | – | – | (11) | – | (11) |
| Net gains and losses not recognised in the profit and loss account | – | – | – | – | (11) | – | (11) |
| Net profit for the period | – | – | – | – | – | 520 | 520 |
| At 30 June 2005 | 1,510 | 85,305 | 3,553 | 1,306 | (3,132) | 9,579 | 98,121 |
| 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 |

**Condensed Consolidated Cash Flow Statement**

| | Unaudited six months ended 30 June 2005 *US$'000* | 2004 *US$'000* |
|---|---|---|
| Net cash inflow from operating activities | 4,803 | 2,750 |
| Net cash inflow/(used) in investing activities | 36 | (649) |
| Net cash used in financing activities | (242) | (173) |
| Net increase in cash and cash equivalents | 4,597 | 2,997 |
| Cash and cash equivalents at 1 January | 36,442 | 25,507 |
| Effect of foreign exchange rate changes | (11) | (62) |
| Cash and cash equivalents at 30 June | 41,028 | 28,442 |
| Analysis of balances of cash and cash equivalents: | | |
| Cash and bank balances | 40,786 | 28,442 |
| Pledged deposits | 242 | – |
| | 41,028 | 28,442 |

*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 Institute of Certified Public 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 2004 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** | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| **Segment revenue** | | | | |
| PRC | 12,511 | 12,457 | 20,568 | 20,254 |
| North America | 2,359 | 2,373 | 5,004 | 4,216 |
| United Kingdom | 2,306 | 1,543 | 4,866 | 2,748 |
| Others | 3,839 | 3,248 | 7,616 | 5,414 |
| Total | 21,015 | 19,621 | 38,054 | 32,632 |

## 4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

| | Three months ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| Cost of inventories sold | 12,417 | 14,719 | 23,560 | 23,985 |
| Amortisation: | | | | |
| Goodwill | 45 | 45 | 90 | 90 |
| Intangible assets | 199 | 217 | 398 | 434 |
| Auditors' remuneration | 59 | 65 | 118 | 139 |
| Depreciation | 1,128 | 1,148 | 2,256 | 2,333 |
| Impairment write off | 2,895 | – | 2,895 | – |
| Termination severance | 240 | – | 240 | – |
| Staff costs (including directors' remuneration): | | | | |
| Wages and salaries | 2,824 | 2,488 | 5,946 | 5,175 |
| Pension scheme contributions | 155 | 217 | 309 | 419 |
| | 2,979 | 2,705 | 6,255 | 5,594 |
| (Gains)/Losses on disposal of fixed assets | (519) | 4 | (521) | 4 |
| Operating lease rentals in respect of land and buildings | 212 | 145 | 424 | 308 |
| Provision for doubtful debts | 1 | 2 | 25 | 26 |
| Provision for slow-moving inventories | 247 | 56 | 331 | 266 |
| Research and development costs | 204 | 176 | 303 | 263 |
| And after crediting: | | | | |
| Interest income | (51) | (28) | (188) | (44) |
| Foreign exchange (gains)/losses, net | 35 | (13) | 59 | (49) |

## 5. TAX

| | Three months ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| Current period provision in respect of: | | | | |
| The PRC | 986 | 439 | 1,520 | 653 |

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 qualified to the 50% exemption from CIT as it qualifies as a "technologically advanced enterprise" pursuant to the PRC tax regulations. As at 30 June 2005, A-S Jiangmen Fittings has not obtained the written approval from the local tax bureau for current year CIT exemption.

A PRC subsidiary, A-S (Shanghai) Pottery Co., Ltd., is subject to a CIT rate of 24% as it is located in Shanghai region and is qualified to the 50% exemption from CIT as it is in its forth profitable year.

A PRC subsidiary, A-S (Tianjin) Pottery Co., Ltd., is subject to a CIT rate of 15% as it is located in Tianjin economic & development zone and is qualified to the 50% exemption from CIT as it is in its fifth profitable year.

Another PRC subsidiary, Hua Mei Sanitary Ware Co., Ltd ("Hua Mei") is subject to a CIT rate of 24% and is qualified to a preferential tax rate of 15%. As at 30 June 2005, Hua Mei has not obtained the written approval of the preferential CIT rate from the local tax bureau for current year.

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

## 6. EARNING PER SHARE

The calculation of basic earnings 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 weighted average number of issued ordinary shares of 151,034,000 (2004:151,034,000) during the Relevant Periods.

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 2005 | 29,467 | 60,989 | 11,999 | 218 | 102,673 |
| Additions | – | 106 | 224 | 392 | 722 |
| Transfer | – | – | 86 | (86) | – |
| Disposals | (619) | (514) | (272) | – | (1,405) |
| At 30 June 2005 | 28,848 | 60,581 | 12,037 | 524 | 101,990 |
| Asset impairment: | | | | | |
| Additions and at 30 June 2005 | 769 | 2,082 | 44 | – | 2,895 |
| Accumulated depreciation: | | | | | |
| At 1 January 2005 | 7,195 | 25,697 | 10,602 | – | 43,494 |
| Provided during the period | 358 | 1,323 | 575 | – | 2,256 |
| Disposals | (154) | (373) | (265) | – | (792) |
| At 30 June 2005 | 7,399 | 26,647 | 10,912 | – | 44,958 |
| Net book value: | | | | | |
| At 30 June 2005 | 20,680 | 31,852 | 1,081 | 524 | 54,137 |
| At 31 December 2004 | 22,272 | 35,292 | 1,397 | 218 | 59,179 |

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 2005 and at 30 June 2005 | 3,361 |
| Accumulated amortisation: | |
| At 1 January 2005 | 1,256 |
| Provided during the period | 90 |
| At 30 June 2005 | 1,346 |
| Net book value: | |
| At 30 June 2005 | 2,015 |
| At 31 December 2004 | 2,105 |

## 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 2005 | 10,000 | 11,506 | 1,650 | 23,156 |
| Additions | – | – | – | – |
| At 30 June 2005 | 10,000 | 11,506 | 1,650 | 23,156 |
| Accumulated amortisation: | | | | |
| At 1 January 2005 | 3,002 | 2,545 | 1650 | 7,197 |
| Provided during the period | 281 | 117 | – | 398 |
| At 30 June 2005 | 3,283 | 2,662 | 1,650 | 7,595 |
| Net book value: | | | | |
| At 30 June 2005 | 6,717 | 8,844 | – | 15,561 |
| At 31 December 2004 | 6,998 | 8,961 | – | 15,959 |

Included in land use rights were net book values of approximately US$309,000 and US$317,000 as at 30 June 2005 and 31 December 2004, 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.

## 9. INTANGIBLE ASSETS *(CONTINUED)*

All land use rights are for land located in the PRC. Apart from a land use right at a net book value of US$88,000 as at 30 June 2005 (2004: US$89,000), 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 2005** | **31 December 2004** |
|---|---|---|
| | *US$'000* | *US$'000* |
| Raw materials | 4,317 | 2,323 |
| Work in progress | 1,177 | 992 |
| Finished goods | 4,233 | 4,494 |
| | 9,727 | 7,809 |

None of the inventories is carried at net realizable value in both balance sheet dates.

## 12. 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 in invoice date, is as follows:

| | **30 June 2005** | **31 December 2004** |
|---|---|---|
| | *US$'000* | *US$'000* |
| Within 1 month | 6,576 | 6,253 |
| 1 to 2 months | 1,396 | 1,478 |
| 2 to 3 months | 687 | 366 |
| | 8,659 | 8,097 |

## 13. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

| | **30 June 2005** *US$'000* | **31 December 2004** *US$'000* |
|---|---|---|
| Cash and bank balances | 31,028 | 25,942 |
| Time deposits | 10,000 | 10,500 |
| | 41,028 | 36,442 |
| Pledged time deposits for a guarantee | 242 | – |
| | 40,786 | 36,442 |

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to US$18,645,000 (2004: US$15,380,000). The RMB is not freely convertible into other currencies. However, under PRC Foreign Exchange Control Regulations and Administration of Settlement and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct exchange business.

The pledged time deposit is to secure a guarantee issued by a bank amounted to USD242,000.

## 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

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

| | **30 June 2005** *US$'000* | **31 December 2004** *US$'000* |
|---|---|---|
| Within 30 days | 6,059 | 4,449 |
| Within 31-90 days | 988 | 1,848 |
| Within 91-180 days | 242 | 419 |
| Over 180 days | 500 | 210 |
| | 7,789 | 6,926 |

## 16. DUE TO AMERICAN STANDARD INC.

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 2005 with the last corresponding period are presented in the consolidated statement of changes in equity.

## 18. CONTINGENT LIABILITIES

As at 30 June 2005, the Group had contingent liabilities for a guarantee issued by a bank amounting to USD242,000 (2004: nil). The guarantee was secured by same amount of time deposits.

## 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 |

## 19. COMMITMENTS *(CONTINUED)*

(ii) *(Continued)*

| | |
|---|---|
| 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 20(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 2005** | **31 December 2004** |
|---|---:|---:|
| | *US$'000* | *US$'000* |
| Within one year | 524 | 844 |
| In the second to fifth years, inclusive | 202 | 521 |
| Total | 726 | 1,365 |

## 20. RELATED PARTY TRANSACTIONS

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

| | Notes | Three months ended 30 June 2005 US$'000 | Three months ended 30 June 2004 US$'000 | Six months ended 30 June 2005 US$'000 | Six months ended 30 June 2004 US$'000 |
|---|---|---|---|---|---|
| Sales of finished goods | (a) | 7,239 | 6,528 | 14,820 | 11,013 |
| Purchases of raw materials | (a) | (764) | (571) | (1,232) | (1,138) |
| Management fee expenses | (b) | (75) | (75) | (150) | (150) |
| Trademark licence, technical assistance and management assistance fees | (c) | (482) | (450) | (845) | (676) |

*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$268,000, US$295,000, US$568,000 and US$877,000 for the three months ended 30 June 2005 and 2004 and six months ended 30 June 2005 and 2004, respectively.

## 20. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(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** | |
|---|---|---|---|---|---|
| | *Notes* | **2005** | **2004** | **2005** | **2004** |
| | | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| Service fee paid | (a) | (20) | (11) | (36) | (32) |

*Notes:*

(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 2005 (2004: Nil).

## DISCLOSURE OF INTERESTS

As at 30 June 2005, 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 2005, 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 |
|---|---|---|---|---|---|
| Mr. Richard M. Ward | American Standard | Share options to subscribe for 51,001 shares in American Standard *(Note 1)* | Beneficial owner | Personal | 0.0238% |
| Mr. Ng Chan Choy | American Standard | Share options to subscribe for 9,000 Shares in American Standard *(Note 2)* | Beneficial owner | Personal | 0.0028% |

## DISCLOSURE OF INTERESTS *(CONTINUED)*

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

**Interests in associated corporations** *(Continued)*

*Note 1:* On 28 April 2003, 4 February 2004 and 2 February 2005, Mr. Richard M. Ward was granted options to subscribe for 10,000, 7,000 and 10,000 shares, respectively, at US$70.725, US$105.08 and US$43.34per 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. Before 30 June 2005, 9,999 share options were exercised. Therefore, following the stock split and the exercise of the share options, Mr. Ward has options to subscribe for 20,001, 21,000 and 10,000 shares respectively at US$23.58, US$35.03 and US$43.34per share.

*Note 2:* On 2 August 2004 and 2 February 2005, Mr. Ng Chan Choy was granted options to subscribe for 6,000 and 3,000 shares, respectively, at US$37.78 and US$43.34 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 5.46 of the GEM Listing Rules.

## DISCLOSURE OF INTERESTS *(CONTINUED)*

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

So far as was known to any director of the Company, as at 30 June 2005, 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 3)* | 82,771,000 | Beneficial owner | Corporate | 59.10% |
| American Standard International Inc. *(Note 3)* | 82,706,000 | Beneficial owner | Corporate | 59.06% |
| American Standard Foreign Sales Limited *(Note 3)* | 82,706,000 | Beneficial owner | Corporate | 59.06% |
| American Standard Foreign Trading Limited *(Note 3)* | 82,706,000 | Beneficial owner | Corporate | 59.06% |
| Foundation Brunneria *(Note 4)* | 13,000,000 | Beneficial owner | Corporate | 11.19% |
| General Oriental Investments Limited *(Note 4)* | 13,000,000 | Beneficial owner | Corporate | 11.19% |

*Note 3:* American Standard owns a 59.10% 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 59.06% 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 4:* 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.

## DISCLOSURE OF INTERESTS *(CONTINUED)*

**(b) Interests of substantial shareholders in the Company** *(Continued)*

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 2005 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 2005, the Company did not have any share option scheme in place.

## SPONSOR'S INTERESTS

As at 30 June 2005, 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 and upto 19 January 2005, Ms. Low Soong Ing (resigned on 19 January 2005), a director of the Company, is also a director of American Standard Vietnam Inc. American Standard Vietnam Inc. is a member 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.

## 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 2005.

## BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in rules 5.34 of the GEM Listing Rules during the six months ended 30 June 2005.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2005, 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 three independent non-executive directors, Mr. Chang Sze-Ming, Sydney, and Mr. Ho Tse-Wah, Dean and Mr. Wong Kin Chi with Mr. Ho serving as the chairman of the committee. The audit committee has reviewed the Group's interim report for the period ended 30 June 2005.

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

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

Mr. Richard M. Ward *(Executive Director)*
Ms. Cindy Yang *(Executive Director)*
Mr. Ng Chan Choy *(Executive Director)*
Mr. Ye Zhi Mao, Jason *(Executive Director)*
Mr. Wu Wei Lin, Patrick Wu *(Executive Director)*
Mr. Peter James O'Donnell *(Non-executive Director)*
Mr. Chang Sze-Wah, Sydney *(Independent Non-executive Director)*
Mr. Ho Tse-Wah, Dean *(Independent Non-executive Director)*
Mr. Wong Kin Chi *(Independent Non-executive Director)*

Hong Kong, 10 August 2005