

# **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 2006**

## 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.

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Operations Review

- Total turnover of the Group for the three months ended 30 September 2006 amounted to approximately US\$22.79 million (2005: US\$21.58 million) and turnover for the nine months ended 30 September 2006 amounted to US\$61.65 million (2005: US\$59.63 million).
- Total turnover for the third quarter ended 30 September 2006 grew 5.6%. At which, Mainland China sales grew 6.2% and export sales grew 5.0% compared to the same quarter last year.
- The Group's domestic sales showed some improvement based on its new product and distribution initiatives. The market in China remains quiet as the Government continues to apply measures to contain the property market.
- Overseas sales continued strong on the back of the Group's good cost position and product quality.
- Material inflation has been a major issue throughout the year. For example the cost of copper, a major component of our fittings products, has risen by more than 80% since the beginning of the year. Energy cost has also shown significant increases of around 20%. The Group has been pursuing an aggressive programme of cost savings in all its manufacturing plants and also announced an increased in its fittings prices in the China market of 15%. Whilst these programmes are showing good results it will take some time for Gross Profit margins to return to normal levels. Gross profit percentage for the nine months ended 30 September 2006 decreased to 33.1% from 38.55% for the same period last year.
- The Group recorded a net profit after minority interests of approximately US\$1.2 million for the third quarter ended 30 September 2006 compared to a net profit after minority interests of approximately US\$2.5 million in the same quarter last year.
- Excluding the restructuring charges associated with the closure of manufacturing facilities in Beijing and Shanghai, the Group recorded a net profit after minority interests for the nine months ended 30 September 2006 of approximately US\$2.5 million compared to a net profit after minority interests of approximately US\$5.2 million in the same period last year.
- The Group continues to maintain a healthy financial position. As at 30 September 2006, the net current assets of the Group amounted to US\$54.3 million, which comprise cash and bank deposits of approximately US\$47.6 million. The Group has no bank loan as at the period end date and the reporting date.

### Prospect

- The Group is seeing continued rises in copper and zinc although energy costs may well have plateaued. It will take some time for the programmes the Group is executing to restore Gross Margins.
- Whilst demand from overseas remains strong the Government announced plans to reduce the VAT rebate on VC products. The impact of this change is not yet clear.

## QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2006

The board of directors is pleased to announce the unaudited consolidated results of the Group for the nine months ended 30 September 2006 together with the comparative unaudited consolidated results for the corresponding period in 2005 (the “Relevant Periods”) as follows:

### Condensed Consolidated Profit and Loss Account

	<i>Notes</i>	Unaudited		(Restated)	
		three months ended		Unaudited	
		30 September		nine months ended	
		2006	2005	2006	2005
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
TURNOVER	3	22,792	21,577	61,648	59,631
Cost of sales		(15,105)	(12,941)	(41,226)	(36,641)
Gross profit		7,687	8,636	20,422	22,990
Other revenues/(expenses), net		(49)	(36)	259	738
Distribution costs		(746)	(774)	(1,999)	(2,070)
Administrative and other operating expenses		(4,464)	(4,286)	(12,744)	(12,776)
Restructuring costs		–	–	(3,431)	(2,247)
PROFIT BEFORE TAX		2,428	3,540	2,507	6,635
Tax	4	(632)	(305)	(1,885)	(1,825)
PROFIT FOR THE PERIOD		1,796	3,235	622	4,810
Attributable to:					
Equity holders of the parent		1,203	2,476	(933)	2,996
Minority interests		593	759	1,555	1,814
		1,796	3,235	622	4,810
EARNING/(LOSS) PER SHARE ATTRIBUTE TO ORDINARY EQUITY HOLDERS OF THE PARENT ( <i>US cents</i> )					
– Basic, for profit/(loss) for the period	5	0.80	1.64	(0.62)	1.98

## Condensed Consolidated Balance Sheet

	Unaudited 30 September 2006 <i>US\$'000</i>	Unaudited 30 June 2006 <i>US\$'000</i>
<b>Non-current assets</b>		
Property, plant and equipment	48,422	47,650
Goodwill	2,105	2,105
Intangible assets	6,998	6,998
Prepaid land lease payments	7,884	7,858
	<hr/>	<hr/>
Total non-current assets	65,409	64,611
	<hr/>	<hr/>
<b>Current assets</b>		
Due from group companies	9,533	8,203
Prepayments, deposits and other receivables	3,396	4,394
Inventories	9,848	9,893
Trade receivables	8,648	9,234
Cash and cash equivalents	47,616	46,601
	<hr/>	<hr/>
Total current assets	79,041	78,325
	<hr/>	<hr/>
<b>Current liabilities</b>		
Due to group companies	4,455	5,337
Dividend payable	132	132
Trade payables	6,160	6,510
Corporate income tax payable	727	677
Other payables, deposits and accrued liabilities	13,295	12,772
	<hr/>	<hr/>
Total current liabilities	24,769	25,428
	<hr/>	<hr/>
<b>Net current assets</b>	54,272	52,897
	<hr/>	<hr/>
<b>Total assets less current liabilities/Net Assets</b>	<u>119,681</u>	<u>117,508</u>
	<hr/>	<hr/>
<b>Equity</b>		
Equity attributable to equity holders of the parent		
Issued share capital	1,510	1,510
Reserves	104,622	102,407
	<hr/>	<hr/>
	106,132	103,917
	<hr/>	<hr/>
Minority interests	13,549	13,591
	<hr/>	<hr/>
Total Equity	<u>119,681</u>	<u>117,508</u>
	<hr/>	<hr/>

## Consolidated Statement of Changes in Equity (Unaudited)

	Attributable to equity holders of the parent							Minority interest	Total equity (Restated)	
	Issued share capital	Share		Exchange			Retained profits			Total
		premium account	Reserve fund	Expansion reserve	fluctuation reserve	US\$'000				
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000		
At 1 January 2006	1,510	85,305	3,957	1,306	(1,328)	14,606	105,356	15,237	120,593	
Exchange realignment	-	-	-	-	1,709	-	1,709	285	1,994	
Net gain not recognised in the profit and loss account	-	-	-	-	1,709	-	1,709	285	1,994	
Net profit/(loss) for the period	-	-	-	-	-	(933)	(933)	1,555	622	
Dividend declared or paid to minority interest shareholders	-	-	-	-	-	-	-	(2,163)	(2,163)	
Liquidation of a subsidiary	-	-	-	-	-	-	-	(1,365)	(1,365)	
At 30 September 2006	<u>1,510</u>	<u>85,305</u>	<u>3,957</u>	<u>1,306</u>	<u>381</u>	<u>13,673</u>	<u>106,132</u>	<u>13,549</u>	<u>119,681</u>	
At 1 January 2005	1,510	85,305	3,553	1,306	(3,121)	9,059	97,612	15,429	113,041	
Exchange realignment	-	-	-	-	1,794	-	1,794	325	2,119	
Net gain not recognised in the profit and loss account	-	-	-	-	1,794	-	1,794	325	2,119	
Net profit for the period	-	-	-	-	-	2,996	2,996	464	3,460	
At 30 September 2005	<u>1,510</u>	<u>85,305</u>	<u>3,553</u>	<u>1,306</u>	<u>(1,327)</u>	<u>12,055</u>	<u>102,402</u>	<u>16,218</u>	<u>118,620</u>	

Notes:

## 1. BASIS OF PRESENTATION

The condensed unaudited consolidated results of the Group have been prepared in accordance with Hong Kong Accounting Standard (“HKSA”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and with the applicable disclosure requirements of Chapter 18 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The Condensed interim financial statements are unaudited, but have been reviewed by the Audit Committee.

The principal accounting policies used in the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s financial statements for the year ended 31 December 2005.

## 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		Nine months ended	
	30 September		30 September	
	2006	2005	2006	2005
	US\$'000	US\$'000	US\$'000	US\$'000
<b>Segment revenue</b>				
Mainland China	11,960	11,258	32,330	31,826
North America	2,776	2,380	6,439	7,384
United Kingdom	2,661	3,454	7,475	8,320
Other European countries	1,678	1,732	6,728	4,409
Others	3,717	2,753	8,676	7,692
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>22,792</u>	<u>21,577</u>	<u>61,648</u>	<u>59,631</u>

#### 4. TAX

	Three months ended		Nine months ended	
	30 September		30 September	
	2006	2005	2006	2005
	<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>632</u>	<u>305</u>	<u>1,885</u>	<u>1,825</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 Mainland China 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").

A Mainland China 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.

A Mainland China subsidiary, A-S (Shanghai) Pottery Co., Ltd., is subject to a CIT rate of 24% as it is located in a Shanghai region and is entitled to a 50% exemption from CIT as it is in its fifth profitable year. The effective CIT is 12% for the year.

A Mainland China subsidiary, A-S (Tianjin) Pottery Co., Ltd., is subject to a CIT rate of 15% as it is located in the Tianjin economic and development zone.

Another Mainland China subsidiary, Hua Mei Sanitary Ware Co., Ltd ("Hua Mei") is subject to a CIT rate of 24% and is entitled to a preferential tax rate of 15% for the period ended 31 December 2006.

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

#### 5. EARNING/(LOSS) PER SHARE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earning/(loss) per share amount is based on the net loss for the period attributable to equity holders of the parent of US\$933,000 (2005: net profit US\$2,996,000), and weighted average number of issued ordinary shares of 151,034,000 (2005: 151,034,000) during the period.

A diluted earnings per share amount for the period ended 30 September 2006 and 2005 has not been disclosed as no diluting events existed during the current or prior period.



## **INTERIM DIVIDEND**

The directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2006 (2005: Nil).

The Company will use cash to fund operations and pursue opportunities to fuel future profitability. Any excess funds will be considered for distribution as dividend. The Company is currently considering opportunities which may fully use its cash balances.

## **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.

## DISCLOSURE OF INTERESTS

As at 30 September 2006, 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 2006, 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 51,002 shares in American Standard	Beneficial owner	Personal	0.0296%
Mr. Ye Zhi Mao, Jason	American Standard	Share options to subscribe for 1,500 shares in American Standard	Beneficial owner	Personal	0.0006%
Ms. Yang Yu Qing, Cindy	American Standard	Share options to subscribe for 750 shares in American Standard	Beneficial owner	Personal	0.0003%

*Movement in Directors' interests in options of ASCI during the year*

Name of director	Date of grant	Exercise price US\$	Balance as at 1.1.2006	Granted during the period	Exercised during the period	Balance as at 30.9.2006
Mr. Richard	28.4.2003	23.58	10,002	–	–	10,002
M. Ward	4.2.2004	35.03	21,000	–	–	21,000
	2.2.2005	43.34	10,000	–	–	10,000
	1.2.2006	36.87	–	10,000	–	10,000
			<u>41,002</u>			<u>51,002</u>
Mr. Ye Zhi	2.2.2005	43.34	500	–	–	500
Mao, Jason	1.2.2006	36.87	–	1,000	–	1,000
			<u>500</u>			<u>1,500</u>
Ms. Yang Yu Qing, Cindy	1.3.2001	18.86	<u>750</u>	–	–	<u>750</u>

The above listed directors were granted to subscribe for shares 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 share capital 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 the Model Code for Securities Transactions by Directors of Listed Issuers as refer 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 2006, 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 ( <i>Note 1</i> ) American Standard International Inc. ( <i>Note 1</i> )	93,253,000	Beneficial owner	Corporate	61.74%
American Standard Bermuda Limited ( <i>Note 1</i> )	93,188,000	Beneficial owner	Corporate	61.70%
American Standard Foreign Trading Limited ( <i>Note 1</i> )	93,188,000	Beneficial owner	Corporate	61.70%
Foundation Brunneria ( <i>Note 2</i> ) General Oriental Investments Limited ( <i>Note 2</i> )	16,900,000	Beneficial owner	Corporate	11.19%

*Note 1:* American Standard Companies Inc. owns a 61.74% shareholding interest in the Company through (i) a wholly-owned subsidiary, American Standard International Inc., being a corporation established under the laws of the State of Delaware, USA, which in turn owns a 100% interest in American Standard Bermuda Limited, being a company incorporated in Bermuda with limited liability, which in turn indirectly owns a 100% interest in American Standard Foreign Trading Limited, also being a company incorporated in Bermuda with limited liability, which directly holds a 61.70% shareholding interest in the Company and (ii) another wholly-owned subsidiary of American Standard Companies Inc., American Standard Inc., being a corporation established under the laws of the State of Delaware, USA, directly holds 0.04% shareholding interest in the Company.

*Note 2:* General Oriental Investments Limited is 100% indirectly owned by Foundation Brunneria, a private discretionary trust whose ultimate beneficiaries are independent from the other Shareholders, directors and chief executive of the Company.

Save as disclosed above, as at 30 September 2006, no other person (other than the directors and chief executive of the Company, whose interests are set out in the section “Directors’ and chief executive’s interests and short positions in shares, underlying shares and debentures” above) have registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation that was required to be kept under Section 336 of the SFO.

## **SHARE OPTION SCHEMES**

As at 30 September 2006, the Company did not have any share option scheme in place.

## **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 2006.

## **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 nine months ended 30 September 2006.

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

During the nine months ended 30 September 2006, 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 audit committee has three members comprising three independent non-executive directors, Mr. Chang Sze-Ming, Sydney, Mr. Ho Tse-Wah, Dean and Mr. Wong Kin Chia with Mr. Ho Tse-Wah serving as the chairman of the committee. The audit committee has reviewed the Group's interim report for the period ended 30 September 2006.

By order of the Board of directors  
**A-S China Plumbing Products Limited**  
**Richard M. 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. Ye Zhi Mao, Jason (*Executive Director*)  
Mr. Wu Wei Lin, Patrick (*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, 8 November 2006