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# China Liansu Group Holdings Limited
# 中國聯塑集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2128

# 2011 Annual Report

# CORPORATE PROFILE

China Liansu is a leading manufacturer of plastic pipes and pipe fittings in the PRC, which is listed on the main board of the Stock Exchange (stock name: China Liansu, stock code: 2128). The Group has 13 operating production bases in Guangdong, Guizhou, Sichuan, Hubei, Jiangsu, Henan, Hebei, Heilongjiang, Jilin and Xinjiang and a sales network covering the whole country. These production bases and the sales network are strategically distributed all over China such that the Group can provide quality products and meticulous services to customers in a timely manner.

China Liansu offers a great variety of products and can provide the most comprehensive plastic pipes and pipe fittings to the market. These products are widely used in areas such as water supply, drainage, power supply, communication, gas supply, floor heating, fire prevention and agriculture. The Group has expanded to new segment of home building material products such as bathroom ware, kitchen, and plastic doors and windows.

China Liansu is an one-stop solution provider, providing consultation, design, implementation and after-sales services. By getting involved in projects at the initial stage, the Group helps its customers identify solutions that achieve the best long-term goal.

Forward-looking statements

This annual report contains forward-looking statements. These forward-looking statements include but not limited to statements related to revenues and earnings. The words "believe", "plan", "expect", "anticipate", "forecast", "estimate", "speculate", "firmly believe", "confident" and similar expressions are also represented forward-looking statements. These forward-looking statements are based on the beliefs, assumptions, expectations, estimates and forecasts of or made by the directors and management of China Liansu in accordance with the operations and the industry and the markets in which China Liansu is operating and are not historical facts.

These forward-looking statements are not guarantee of future performance and are subject to risks, uncertainties and other factors, some of which are beyond control of the Company and are difficult to predict. Consequently, actual results may differ materially from those expressed, implied or forecasted in the forward-looking statements.

Reliance should not be placed on these forward-looking statements, which reflect only the views of the directors and the management of China Liansu as at the date of this annual report. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after publication of this annual report.

* The English text of this annual report shall prevail over the Chinese text in case of any inconsistency.

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# FINANCIAL HIGHLIGHTS

| RESULTS | For the year ended 31 December<br>**2011**<br>**RMB' million** | <br>2010<br>RMB' million | <br>Change<br>(%) |
|---|---|---|---|
| Revenue | **10,143** | 7,712 | 31.5 |
| Profit before tax | **1,557** | 1,374 | 13.3 |
| Profit attributable to owners of the Company | **1,261** | 1,132 | 11.4 |
| Basic earnings per share[(1)] | **RMB0.42** | RMB0.43 | (2.3) |
| Diluted earnings per share[(1)] | **RMB0.41** | RMB0.42 | (2.4) |
| Proposed final dividend per share | **HK12 cents** | HK12 cents | — |

| FINANCIAL POSITION | As at 31 December<br>**2011**<br>**RMB' million** | <br>2010<br>RMB' million | <br>Change<br>(%) |
|---|---|---|---|
| Total assets | **7,792** | 5,629 | 38.4 |
| Total debts[(2)] | **1,745** | 784 | 122.6 |
| Shareholders' equity | **4,987** | 4,004 | 24.6 |
| Net assets per share | **RMB1.66** | RMB1.33 | 24.8 |
| Total debts to total assets | **0.22** | 0.14 | 57.1 |
| Total debts to shareholders' equity | **0.35** | 0.20 | 75.0 |

- Revenue for the year ended 31 December 2011 was RMB10,143 million representing year-on-year growth of 31.5%
- Gross profit increased by 20.6% to RMB2,452 million; EBITDA improved by 18.9% to RMB1,841 million
- Profit attributable to owners of the Company increased to RMB1,261 million, representing an increase of 11.4%

Note [(1)] Details of the calculations of the basic and diluted earnings per share of the Company are set out in note 11 to the financial statements.

Note [(2)] Represented total bank loans and other borrowings.

China Liansu is pleased to present the 2011 annual report. Despite the volatile global economy in the past year, the Company had splendid results and continued to create value for shareholders by meeting challenges, seizing opportunities, and capitalising on the competitive edges attributed to broad international perspectives, leadership in the industry and our strength in research and development.

For the year ended 31 December 2011, the Group recorded revenue of RMB10,143 million, an increase of 31.5% from RMB7,712 million in 2010. Profit attributable to owners of the Company was RMB1,261 million in 2011, an increase of 11.4% from RMB1,132 million in 2010.

Looking back to 2011, the Chinese government implemented a moderately austerity economic policy to control inflation and ensure healthy development of domestic economy. The government still stood firm on regulating the real estate market, bringing challenges to development of plastic pipe industry. Nevertheless, the Group saw new development opportunities driven by the government's policy of boosting domestic demand and striving to improve people's living standard. The government issued a number of favorable policies in "12th Five-year Plan (十二五規劃)" and the No.1 Circular (中央一號文件) for 2011 to support and strengthen development of urbanisation and water conservation, which provided stable and long term demand of the Group's products.

The Group, with its industry leading edge, actively developed its future blueprint basing on market situation to meet its long term development. During the year, in addition to consolidating and strengthening its existing marketing network, the Company expanded internationally and set up overseas branches to seek more development opportunities abroad. Exerting synergies of plastic pipes, the Group gradually expands to the market of home building material products based on product trend in the market.

In the past year when international and domestic economic environment was relatively complicated, the Group actively tackled challenges and made full uses of all its advantages, with its production capacity expansion plan progressed smoothly. In line with market trend, the Group gradually developed a series of new products such as bathroom accessories, kitchen, and plastic doors and windows for home building materials industry, which would drive the Company's future growth. The Group set up a subsidiary in Canada in 2011 and will formally launch home building material business in 2012. In addition, the Group is actively exploring other overseas market with potential for growth.

Looking forward "New Record New Chapter" will be the theme for the Group's future development so become well planned and prepared for long term growth. The Group, with its leading edge in the plastic pipe industry, will stably develop and further define the market, expand and optimise production capacity, strengthen application of the results of scientific and technological research and development achievements, further study and develop the home building materials business and plan for global expansion, so as to wield better reputation with wider geographic coverage of the Group's brand and generate the best return for shareholders.

On behalf of the Board of China Liansu, I would like to express my sincerest gratitude to all employees for their long-term dedication and hard work and also my heartfelt gratitude to all customers, business partners, and shareholders from all communities for their valuable support to the Group.

**Wong Luen Hei**
*Chairman*

Hong Kong, 16 March 2012

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Wong Luen Hei (黃聯禧)**, aged 49, is the founder of the Group, the Chairman of the Company and was appointed as an executive director of the Company on 5 November 2009. He is also a director of various companies in the Group. He is primarily responsible for the Group's overall strategic planning and business management. Mr. Wong has approximately 15 years of experience in plastic pipe operations and management. He served as the chairman in Shunde Liansu Industrial from December 1996 to April 1999 and was awarded "Outstanding Private Entrepreneur of Shunde" (順德優秀民營企業家) by Shunde People's Government of Foshan (佛山市順德區人民政府) in 2003. Mr. Wong has been a member of Shunde District, Foshan City Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議佛山市順德區委員會) since 2003 and a vice president of Foshan Shunde Longjiang Chamber of Commerce (佛山市順德區龍江商會) since 2006. Mr. Wong is the spouse of Ms. Zuo Xiaoping.

**Mr. Zuo Manlun (左滿倫)**, aged 39, is the Chief Executive of the Group and was appointed as an executive director of the Company on 27 February 2010. He is also a director/general manager/supervisor of various companies in the Group. He is primarily responsible for the overall management of the daily business operations and sales of the Group. Mr. Zuo has approximately 12 years of experience in the plastic pipe industry. Mr. Zuo joined the Group in December 1999 and has held various positions in operation management since joining the Group. Mr. Zuo won several awards including "Outstanding Worker of the Plastic Industry in the PRC" (中國塑料行業先進工作者) by China Plastics Processing Industry Association (中國塑料加工工業協會) in 2009. Mr. Zuo is the brother-in-law of Mr. Wong Luen Hei and the younger brother of Ms. Zuo Xiaoping.

**Ms. Zuo Xiaoping (左笑萍)**, aged 45, is a Vice President of the Group and was appointed as an executive director of the Company on 27 February 2010. She is also a director of various companies in the Group. She is primarily responsible for procurement control and logistics management of the Group. Ms. Zuo has approximately 15 years of experience in the plastic pipe industry. Ms. Zuo served as a director of Shunde Liansu Industrial from December 1996. In 1999, upon establishing the Group together with Mr. Wong Luen Hei, she held various positions in procurement. Ms. Zuo is the spouse of Mr. Wong Luen Hei and the elder sister of Mr. Zuo Manlun.

**Mr. Lai Zhiqiang (賴志強)**, aged 45, is a Vice President of the Group and was appointed as an executive director of the Company on 27 February 2010. He is also a director of Foshan Liansu Building Materials Trading Co., Ltd. (佛山市聯塑建材貿易有限公司) in the Group. He is primarily responsible for the production and technical management of the Group. Mr. Lai has approximately 15 years of experience in the plastic pipe industry and served as a workshop manager of Shunde Liansu Industrial from December 1996 to November 1999. Mr. Lai joined the Group in December 1999 and has held various positions in production management since joining the Group.

**Mr. Kong Zhaocong (孔兆聰)**, aged 46, is a Vice President of the Group and was appointed as an executive director of the Company on 27 February 2010. He is also a director of various companies in the Group. Mr. Kong is primarily responsible for the sales (excluding southern China) of the Group and has approximately 18 years of experience in the plastic pipe industry. Mr. Kong joined the Group in December 1999 and has held various positions in production management and sales since joining the Group. Prior to joining the Group, Mr. Kong served as a factory manager at Foshan City Dongjian Plastic Materials Factory (佛山市東建塑料廠) from March 1993 to January 1999 and served as a manager in the production department of Shunde Liansu Industrial from January 1999 to November 1999.

**Mr. Chen Guonan (陳國南)**, aged 44, is a Vice President of the Group and was appointed as an executive director of the Company on 27 February 2010. He is also a director of various companies in the Group. He is primarily responsible for the management of the quality control of the Group. Mr. Chen has approximately 22 years of experience in the plastic pipe industry. Mr. Chen joined the Group in December 1999 and has held various positions in production management and engineering since joining the Group. Prior to joining the Group, Mr. Chen was a manufacturing engineer in the technology department at Guangdong Province Zhaoqing Gaojiang Plastic Products Co., Limited (廣東省肇慶高江塑料製品有限公司) from July 1989 to July 1993. From July 1993 to September 1999, he was a deputy factory manager at Foshan City Dongjian Plastic Materials Factory (佛山市東建塑料廠). Mr. Chen served as a production manager of Shunde Liansu Industrial from September 1999 to November 1999. Mr. Chen has been a deputy secretary general of Plastic Pipe Special Committee of China Plastics Processing Industry Association (中國塑料加工工業協會塑料管道專業委員會) since 2005. Mr. Chen obtained a bachelor's degree in polymer chemical from South China University of Technology (華南理工大學) in July 1989.

**Dr. Lin Shaoquan (林少全)**, aged 36, is a Vice President of the Group and was appointed as an executive director of the Company on 27 February 2010. He is also a director of Foshan Liansu Building Materials Trading Co., Ltd. (佛山市聯塑建材貿易有限公司) in the Group. Dr. Lin is primarily responsible for the research and development and overseas sales of the Group. Dr. Lin has approximately 9 years of experience in the plastic pipe industry. Dr. Lin joined the Group in July 2002 and has held various positions in research and development and overseas sales since joining the Group. Dr. Lin is currently a committee member of Plastic Pipelines and Accessories & Valves Division of China Plastic Products and Standardized Technologies Committee (全國塑料製品標準化技術委員會塑料管材、管件及閥門分技術委員會) and, over the years, has won various awards including "National May First Labor Medal" (全國五一勞動獎章) by All China Federation of Trade Unions (中華全國總工會) in 2006. Dr. Lin received a doctorate degree in polymer chemical and physics from Sun Yat-sen University (中山大學) in June 2002.

**Mr. Huang Guirong (黃貴榮)**, aged 36, is a Vice President of the Group and was appointed as an executive director of the Company on 27 February 2010. He is also a director/general manager/supervisor of various companies in the Group. Mr. Huang is primarily responsible for the overall management of the factories and production facilities of the Group and has approximately 15 years of experience in the plastic pipe industry. Mr. Huang joined the Group in December 1999 and has held various positions in production management since joining the Group. Prior to joining the Group, Mr. Huang served as a deputy factory manager at Foshan City Dongjian Plastic Materials Factory (佛山東建塑料廠) from 1996 until 1999 and served as a deputy manager of the plastic production department of Shunde Liansu Industrial from June 1999 to November 1999. Mr. Huang completed a program of marketing from Hubei University of Technology (湖北工業大學) from September 2001 to July 2005.

**Mr. Luo Jianfeng (羅建峰)**, aged 40, was appointed as an executive director of the Company on 2 April 2010. He is also a supervisor of Hunan Liansu Technology Industrial Co., Ltd. (湖南聯塑科技實業有限公司) in the Group. Mr. Luo has approximately 18 years of experience in accounting and worked at Shunde City Accounting Firm (順德市會計師事務所) from July 1993 to March 1996, Guangdong Dezheng Accounting Firm with Limited Liability (廣東德正有限責任會計師事務所) from April 1996 to December 2001 and Guangdong Gongcheng Accounting Firm (廣東公誠會計師事務所) from January 2002 to December 2007. Since January 2008, Mr. Luo has been working for Foshan City Zhongzhengcheng Accounting Firm Co., Limited (佛山市中正誠會計師事務所有限公司) as a certified public accountant. Mr. Luo is a member of The Chinese Institute of Certified Public Accountants (中國註冊會計師協會) and is currently an independent director of Winowner Group Co., Ltd. (萬鴻集團股份有限公司) (stock code: 600681), which is listed on the Shanghai Stock Exchange. Mr. Luo obtained a bachelor's degree in economics from Guangdong University of Business Studies (廣東商學院) in June 1993.

## NON-EXECUTIVE DIRECTORS

**Mr. Lin Dewei (林德緯)**, aged 51, was appointed as a non-executive director of our Company on 27 February 2010. Mr. Lin has approximately 17 years of experience in the legal field and worked as a part-time lawyer at various PRC law firms between 1995 and 2001. Since 2001, Mr. Lin has been practising as a lawyer at Guangdong Everwin Law Office (廣東法制盛邦律師事務所). He became a partner at the firm in 2004. Mr. Lin was an arbitrator of the Guangzhou City Arbitration Commission (廣州仲裁委員會) in 2003.

Mr. Lin Dewei is currently a director and shareholder of Guangzhou Yuegao Patent Trademark Agency Co., Ltd. (廣州粵高專利商標代理有限公司) ("Yuegao Patent") and Guangzhou Yuegao Trademark Agency Co., Ltd. (廣州粵高商標代理有限公司) (collectively known as "Yuegao"). As disclosed in the section headed "Connected Transactions and Relationship with the Controlling Shareholder" of the Prospectus, the Group has entered into various agency agreements with Yuegao for it to carry out trademark registrations, patent applications and other related matters. Therefore, Mr. Lin is not independent from the Group. The reasons for his appointment as a non-executive director are due to his professional qualifications and knowledge of PRC laws, as well as his practical experience in the legal field. Apart from being a non-executive director of the Company, Mr. Lin is also a member of the audit committee.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Dr. Bai Chongen (白重恩)**, aged 48, was appointed as an independent non-executive director of the Company on 27 February 2010. Dr. Bai is currently a Freeman professor of economics, an associate dean and the department head of economics in the School of Economics and Management of Tsinghua University (清華大學經濟管理學院). Dr. Bai is a director of the National Institute for Fiscal Studies at Tsinghua University (清華大學中國財政稅收研究所). Dr. Bai serves as an independent non-executive director of China CITIC Bank Corporation Limited (stock code: 998), which is listed on the Stock Exchange, and an independent director of China-Singapore Suzhou Industrial Park Development Group Co., Ltd. (中新蘇州工業園區開發集團股份有限公司) and New China Trust Co., Ltd. (新華信託股份有限公司). Dr. Bai obtained a doctorate degree in mathematics from the University of California, San Diego in September 1988 and a doctorate degree in economics from Harvard University, US in June 1993.

**Mr. Fung Pui Cheung (馮培漳)**, aged 63, was appointed as an independent non-executive director of the Company on 27 February 2010. Mr. Fung is currently practising as a sole proprietor in the name of P C Fung & Company (馮培漳會計師事務所), a certified public accountants firm, and is a director in Pan-China (H.K.) CPA Limited (天健(香港)會計師事務所有限公司) (formally known as NCN CPA Limited (德誠會計師事務所有限公司)). Mr. Fung is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Fung is currently an independent non-executive director and a member of the audit committee of Vantage International (Holdings) Limited (stock code: 15), which is listed on the Stock Exchange. He is a member of the Financial Reporting Review Panel and Inland Revenue Department Users Committee. Given that most of Mr. Fung's directorships or positions with other companies or association are not full-time in nature, and Mr. Fung will not be involved in the day-to-day operation and management of the Company, he has confirmed that he would be able to allocate sufficient time to discharge his duties and responsibilities to the Company. Mr. Fung received a master's degree in arts from Antioch University, US in March 1987.

**Mr. Wong Kwok Ho Jonathan (王國豪)**, aged 38, was appointed as an independent non-executive director of the Company on 27 February 2010. Since 2002, Mr. Wong has been practising as a barrister of the High Court in Hong Kong specialising in both civil and criminal litigation. Mr. Wong is a member of The Chartered Institute of Arbitrators. Mr. Wong obtained a bachelor's degree in business administration from Hawaii Pacific University in August 1997 and a bachelor's degree in law from City University of Hong Kong in November 2001. Mr. Wong received a Postgraduate Certificate in laws from City University of Hong Kong in July 2002.

## SENIOR MANAGEMENT

**Mr. Liu Guanggen (劉廣根)**, aged 30, is a Chief Finance Officer of the Group and is responsible for the Group's overall financial and accounting affairs. Mr. Liu joined the Group in November 2008. Prior to this, he worked as a finance manager in The Industrial and Commercial Bank of China, Shunde Branch (中國工商銀行股份有限公司順德支行) from 2004 to 2006, and was a sub-branch manager of The Industrial and Commercial Bank of China, Foshan Shunde Haiqinwan Sub-Branch (中國工商銀行股份有限公司佛山順德海琴灣支行) from 2007 to 2008. Mr. Liu completed a diploma in finance from Southwestern University of Finance and Economics (西南財經大學) in September 2005 as well as a program in laws at Guangdong University of Business Studies (廣東商學院) from March 2007 to January 2010.

**Mr. Kwan Chi Wai Samuel (關志偉)**, aged 34, was appointed as the joint company secretary of the Company on 8 July 2011. Mr. Kwan has more than 10 years of experience in accounting, auditing and finance. Mr. Kwan joined the Group in June 2010 as secretary on a full time basis. Prior to joining the Group, Mr. Kwan worked in CWCC Certified Public Accountants (陳黃鐘蔡會計師事務所) from March 2000 to November 2004, PricewaterhouseCoopers (羅兵咸永道會計師事務所) from November 2004 to October 2007 and Deloitte Touche Tohmatsu (德勤 • 關黃陳方會計師行) from November 2007 to September 2009. The latter two firms are amongst the biggest international accounting firms. Mr. Kwan graduated with a bachelor degree in Commerce from the Deakin University of Australia (澳州迪肯大學) in September 2000. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and member of the CPA Australia (澳州會計師公會).

**Mr. Yuan Shuixian (袁水先)**, aged 32, is a joint company secretary of the Company. Since he joined the Group in August 2005, Mr. Yuan has acted as secretary to the chairman of the Board. Prior joining to the Group, Mr. Yuan was a teacher in Heshun High School located at Nanhai District, Foshan City, Guangdong Province (佛山市南海區和順高中) from July 2002 to July 2005. He graduated from South China Normal University (華南師範大學) with a bachelor's degree in literature (specialised in English) in July 2002.

## CORPORATE GOVERNANCE PRACTICES

China Liansu is always committed to maintaining high standards of corporate governance practices and business ethics of the Group. The Board believes in good corporate governance practices and business ethics which are essential for achieving sustainable development, establishing investors' confidence in the Company and safeguarding and enhancing the interests of shareholders of the Company ("shareholders").

In pursue of good and high standard of corporate governance practices, the Board reviews the corporate governance practices of the Company from time to time so as to meet the expectations of shareholders for continual improvement, comply with increasingly stringent regulatory requirements and fulfill its commitment of pursuing excellent corporate governance. In the opinion of the directors, the Company complied with all the applicable code provisions of the Code as set out in Appendix 14 to the Listing Rules during the year.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code governing securities transactions by directors of the Company. Having made specific enquiry to the directors, all of them confirmed that they have complied with the required standard as set out in the Model Code throughout the year. The Model Code is also applicable to other specific senior management officers of the Company. The directors and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations are disclosed in the Directors' Report on page 26 to page 27.

## BOARD

### The Composition of the Board

The Board currently comprises 13 directors, including 9 executive directors, 1 non-executive director and 3 independent non-executive directors. The term of office of each of the above directors is 3 years. Pursuant to the Articles of Association of the Company, any director appointed to fill a casual vacancy or as an addition to the existing directors shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting. In addition, at every annual general meeting of the Company, not less than one-third of the directors for the time being shall retire from office by rotation provided that every director shall be subject to retirement by rotation at least once every three years. If there exists any relationship among the members of the Board, including financial, business, family or other material/relevant relationship, the disclosure has been published in the section headed "Biographical Details of Directors and Senior Management" and "Directors and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" of the Directors' Report.

### Chairman and Chief Executive

To segregate the management of the Board from the daily management and business operations of the Group effectively, the post of Chairman and the chief executive are held by Mr. Wong Luen Hei and Mr. Zuo Manlun, respectively. One of the important duties of the Chairman is to lead the Board to ensure the Board always acts in the best interests of the Group. The Chairman shall ensure the effective operation of the Board and fully perform his/her duties and ensure all important issues are discussed at Board meetings in a timely manner. All directors will be consulted for any proposed items in the agenda. The Chairman has delegated the drafting of the agenda of each Board meeting to the chief executive and the joint company secretaries. With the assistance of the chief executive and the joint company secretaries, the Chairman aims to ensure all directors are adequately briefed on any issues put forward at a Board meeting and receive sufficient and reliable information in a timely manner.

### Non-executive Director

Non-executive director provides various expertise and experiences and conduct reviews and maintain balance to safeguard the interests of the Group and its shareholders. He participates in Board meetings and committee meetings and makes independent judgements on issues related to the Group's strategies, performance, interest conflicts and management process so as to ensure the interests of all shareholders of the Company are properly considered.

### Independent Non-executive Directors

The Company has received annual confirmations made by each of the independent non-executive directors under Rule 3.13 of the Listing Rules regarding their independence. The Company regarded all independent non-executive directors as independent parties in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules.

### Duties of the Board

The Board shoulders the responsibility of providing effective, responsible and reliable leadership to the Group. The Board exercises its rights in management decision on the aspects of the Company's development strategy, management structure, investment and financing, planning, financial and control and personnel in accordance with the requirements of the Code.

The Company appointed Ernst & Young as the Company's independent auditors to review the interim results for the six months ended 30 June 2011 and to audit the annual results for the year ended 31 December 2011. The directors of the Company confirm they have the responsibility of providing objective, fair, clear and concise assessments in the financial statements of the annual report and the interim report. In preparing the financial statements for the year ended 31 December 2011, the directors have selected the appropriate accounting policy and consistently applied and adopted the Hong Kong Financial Reporting Standards and made prudent and reasonable judgements and estimates.

The declaration of reporting responsibility issued by the external auditors of the Company on the Company's financial statements is set out in the Independent Auditors' Report on page 35.

### Board Meetings

For the year ended 31 December 2011, the Board convened five meetings to review operating performance and funding requirement, recent market conditions, considered and approved the Group's overall strategy, reviewed interim results for the six months ended 30 June 2011 and audited annual results for the year ended 31 December 2010.

The Chairman of the Board and the Chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee, attended the annual general meeting of the Company held on 3 June 2011.

The table below sets out the attendance of all members of the Board at the meetings held in 2011:

| | Meetings attended/eligible to attend[1] | | | |
|---|---|---|---|---|
| Directors | Board | Audit Committee | Nomination Committee | Remuneration Committee |
| **Executive directors** | | | | |
| Wong Luen Hei | 5/5 | — | 1/1 | 3/3 |
| Zuo Manlun | 5/5 | — | 1/1 | 3/3 |
| Zuo Xiaoping | 5/5 | — | — | — |
| Lai Zhiqiang | 5/5 | — | — | — |
| Kong Zhaocong | 5/5 | — | — | — |
| Chen Guonan | 5/5 | — | — | — |
| Lin Shaoquan | 5/5 | — | — | — |
| Huang Guirong | 5/5 | — | — | — |
| Luo Jianfeng | 5/5 | — | — | — |
| **Non-executive directors** | | | | |
| Lin Dewei | 5/5 | 2/2 | — | — |
| **Independent non-executive directors** | | | | |
| Bai Chongen | 5/5 | — | 1/1 | 3/3 |
| Fung Pui Cheung | 5/5 | 2/2 | 1/1 | 3/3 |
| Wong Kwok Ho Jonathan | 4/5 | 2/2 | 1/1 | 2/3 |

*Remarks*[1] Directors may attend meetings in person, by phone or through other means of video conference or by their alternate directors or company secretary in accordance with the Company's Articles of Association.

The Company gives proper notices of Board meeting to directors and the procedure of Board meetings is in compliance with the Articles of the Company and the relevant rules and regulations. The agenda and the relevant documents will be provided to all directors in a timely manner. The Chairman will give a proper briefing to all directors on items to be put forward at a Board meeting. To ensure compliance with the procedure of Board meetings and all applicable rules and regulations, all directors may gain a full understanding of all relevant data in a timely manner and may receive advice and services from the joint company secretaries. The minutes of Board meetings are kept by the joint company secretaries and are available for inspection by directors and the auditors of the Company.

### Responsibility of Joint Company Secretaries

The joint company secretaries report to the Board so as to ensure compliance with the procedure of the Board and ensure the Board is fully briefed on all legislations, regulations and corporate governance development and has considered their opinions when making a decision. The joint company secretaries are also directly responsible for the Group's compliance with its continuing obligations under the Listing Rules, Hong Kong Codes on Takeovers and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations.

## BOARD COMMITTEES

The Board has delegated various responsibilities to certain committees under its supervision, including the Company's audit committee ("Audit Committee"), remuneration committee ("Remuneration Committee") and nomination committee ("Nomination Committee") (collectively known as "Board Committees"). Board Committees can engage intermediaries to provide professional opinions and the reasonable expenses incurred as a result are borne by the Company.

### Audit Committee

The Audit Committee comprises three members, namely Mr. Fung Pui Cheung (Chairman of the Audit Committee and independent non-executive director), Mr. Wong Kwok Ho Jonathan (independent non-executive director) and Mr. Lin Dewei (non-executive director). The major responsibility of the Audit Committee is to conduct independent and objective audit of the truth and accuracy of the Group's economic operation and financial activities, financial policy, financial procedures, internal control, external audit, internal audit, financial information reporting and financial data and assist the Board in discharging its relevant duties.

The Audit Committee convenes at least two meetings each year. In 2011, the Audit Committee convened two meetings. The attendance record of the meetings is set out on a named basis on page 10.

The following is a summary of work performed by the Audit Committee during 2011:

- review of the annual report and the annual results announcement for the year ended 31 December 2010, with a recommendation to the Board for approval;
- review of Ernst & Young's confirmation of independence and its report for the Audit Committee for the year ended 31 December 31, 2010, with a recommendation to the Board for the re-appointment of Ernst & Young at the 2011 annual general meeting;
- review of continuing connected transactions;
- review of the Group internal audit reports;
- review of the interim report and the interim results announcement for the six months ended 30 June 2011, with a recommendation to the Board for approval;
- review and approval of Ernst & Young s' report for the Audit Committee for the six months ended 30 June 2011;
- consideration and approval of audit and non-audit services;
- review of the corporate governance report for the year ended December 31, 2010 and the corporate governance disclosures for the six months ended June 30, 2011, with recommendations to the Board for approval; and
- review of the annual report on effectiveness of internal controls under the Code, with a recommendation to the Board for approval.

Subsequent to the year end, the Audit Committee reviewed the annual report and annual results announcement for the year ended 31 December 2011 with a recommendation to the Board for approval.

### External Auditor

For the year ended 31 December 2011, the service fees paid or payable to the Company's external auditors are set out as follows:

| | RMB' million |
|---|---|
| Annual audit services | 3.7 |
| Non-audit services | 2.9 |
| Total | 6.6 |

### Remuneration Committee

The Remuneration Committee comprises five members, namely Mr. Wong Luen Hei (executive director), Mr. Zuo Manlun (executive director), Mr. Fung Pui Cheung, Dr. Bai Chongen and Mr. Wong Kwok Ho Jonathan (all of them are independent non-executive directors). On 16 March 2012, Mr. Fung Pui Cheung has replaced Mr. Wong Luen Hei as the Chairman of the Remuneration Committee. The Remuneration Committee is mainly responsible for studying and formulating the Company's remuneration policy and incentive mechanism and is responsible for formulating the standards for the appraisal of the Company's directors and senior management and conducting appraisals.

In order to determine the level of remuneration and fees paid to members of the Board, market rates and factors such as each director's work load, responsibility and job complexity are taken into account. The following factors are considered when determining the remuneration packages of directors and senior management:

- business requirements;
- individual performance and contribution to results;
- company performance and profitability;
- retention considerations and the potential of individuals;
- changes in relevant markets, including supply and demand fluctuations and changes in competitive conditions; and
- general economic situation.

During the review process, no individual director is involved in decisions relating to his own remuneration.

The Remuneration Committee shall convene at least one meeting each year. In 2011, the Remuneration Committee convened three meeting and reviewed the remuneration packages for directors and senior management. The attendance record of the meetings is set out on a named basis on page 10.

Details of emoluments of each of the directors for the year are set out in note 8 to the financial statements.

### Nomination Committee

The Nomination Committee comprises five members, namely Mr. Wong Luen Hei (Chairman of the Nomination Committee and executive director), Mr. Zuo Manlun (executive director), Mr. Fung Pui Cheung, Dr. Bai Chongen and Mr. Wong Kwok Ho Jonathan (all of them are independent non-executive directors). The major duty of the Nomination Committee is to study and make recommendations on the candidates, selection criteria and procedure in respect of the Company's directors and senior management.

The Company follows a formal, fair and transparent procedure for the appointment of new directors to the Board. The Nomination Committee reviews the structure, size and composition of the Board, identifies suitable candidates if necessary and makes recommendations to the Board for decisions.

The Nomination Committee shall convene at least one meeting each year. In 2011, the Nomination Committee convened one meeting. The Nomination Committee reviewed the structure, size and composition of the Board, recommendation to the Board for approval the list of retiring directors for re-election at the annual general meeting on 3 June 2011, and reviewed the independence of all independent non-executive directors. The attendance record of the meetings is set out on a named basis on page 10.

## Internal Control

The Board is solely responsible for maintaining sound and effective internal control of the Group. For the year ended 31 December 2011, the Board has reviewed the effectiveness of the internal control system in the aspects of finance, operation, compliance control and risk management functions through the Audit Committee. The Group's internal control includes the establishment of a management structure that defines the authority to help the Group achieve its business targets, protect assets to prevent unauthorised embezzlement or handling, ensuring maintaining proper accounting records as reliable financial data for internal use and publication and ensuring compliance with the relevant laws and regulations. The system aims to provide reasonable (but not absolute) assurance that there are no material misstatements or losses and manage (but not completely eliminate) the risks of the Group's operating system failure and failure to achieve business objectives. Having reviewed the Group's internal control report, the Board considers the internal control system effective and appropriate.

The Group has formulated a "whistleblowing policy" whereby employees can report any matters to the Chairman or the Audit Committee secretly by sending electronic mails to the designated address or by phone. Such matters may include misconduct, irregular conduct or fraud regarding financial matters and accounting practices without fear of being accused. Any shareholder or stakeholder can also report similar concerns in writing or verbally in confidence to the Audit Committee.

## Relationship with Investors and Shareholders

The Company endeavours to maintain a high level of transparency in communication with shareholders and investors in general. Communication between the Company and its shareholders is conducted through various channels, including interim and annual reports, data published on the websites of the Stock Exchange and the Company and general meetings. The Company encourages shareholders to attend the Company's general meetings. The Group's financial and other information is also published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.liansu.com).

The Company's senior management endeavours to maintain an open dialogue channel with the investment sector to ensure they have a thorough understanding of the Company and its operations and strategies. The Company has emphasised the importance of the function of investor relations, engaged a dedicated independent third party to maintain investor relations and conduct investor/analyst meetings irregularly and led investors and analysts to visit its plants.

As regards investor relations, the Group will actively conduct activities related to investor relations in the future to strengthen its corporate responsibility so that global investors can have an adequate knowledge and understanding of the Company's operating strategy, financial performance and development prospects. The Company will actively develop and maintain close relationship with investors, analysts and media to achieve sound investor relations management.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND ANALYSIS

### Overview

As domestic leader of plastic pipes and pipe fittings manufacturers, the Group has been providing customers with a comprehensive range of plastic pipes and pipe fittings from production bases in various provinces of the PRC. The Group's products are widely used in seven major areas namely water supply, drainage, power supply and telecommunications, gas supply, agriculture, floor heating and fire prevention. The Group has expanded to new segment of home building material products to cater the market needs, such as bathroom ware, kitchen, and plastic doors and windows. The Company is headquartered in Shunde, Guangdong Province and its sales and production bases are strategically distributed nationwide, with 13 production plants in 10 provinces of China.

### Analysis on Market Condition

Although the global economy was uncertain, China's economy still performed well in 2011. In order to maintain a steady domestic economy development, the Chinese government adopted macro control measures and carried out credit tightening policies which brought about short term pressure to plastic pipes demand. However, the product demand was stable and presented an increasing trend due to the gradual implementation of affordable housing plan, demand for major infrastructure from Central Government and local governments of all levels. Despite the said challenges and opportunities, the Group as the market leader, achieved steady business growth and spared no effort in developing target markets with successful situations assessments, opportunities capturing and strategic alignment. The Group's strengths have been revealed through its strategic allocation of production and sales resources, advancement in technological research and development, and fruitful brand building work. In the future, the Group will continue to leverage on its leading edges to strengthen and refine sales network, further enhancing its competiveness and consolidating its market position.

Reviewing in 2011, the Group has recorded steady operating and financial performance. Revenue was RMB10,143 million, an increase of RMB2,431 million or 31.5% over 2010. Gross profit for the year ended 31 December 2011 was RMB2,452 million, an increase of 20.6% over 2010. Basic earnings per share was RMB0.42, a decrease of 2.3% over 2010.

The table below sets out the breakdown of sales volume, revenue and average selling price by product material for the years ended 31 December 2011 and 2010:

| | 2011 | | | 2010 | | | Change in | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Sales volume Tonne** | **Revenue RMB' million** | **Average selling price RMB** | Sales volume Tonne | Revenue RMB' million | Average selling price RMB | Sales volume (%) | Revenue (%) | Average selling price (%) |
| Plastic pipes and pipe fittings | | | | | | | | | |
| – PVC(1) | **753,784** | **6,686** | **8,870** | 617,156 | 5,070 | 8,215 | 22.1 | 31.9 | 8.0 |
| – Non-PVC(2) | **207,052** | **3,235** | **15,624** | 172,170 | 2,542 | 14,764 | 20.3 | 27.3 | 5.8 |
| | **960,836** | **9,921** | **10,325** | 789,326 | 7,612 | 9,644 | 21.7 | 30.3 | 7.1 |
| Others(3) | **N/A** | **222** | **N/A** | N/A | 100 | N/A | N/A | 122.0 | N/A |
| Total | **960,836** | **10,143** | **N/A** | 789,326 | 7,712 | N/A | N/A | 31.5 | N/A |

*Note(1)* "PVC", a type of material used in the manufacture of plastic pipes with high mechanical strength and hardness.

*Note(2)* "Non-PVC" plastic pipes and pipe fittings mainly refer to those made of PE and PP-R.

*Note(3)* "Others" include ancillary and other materials, and home building material products. Sales volumes for "Others" are measured in units rather than tonnes and the size of the units between different products may vary.

## Business Development

### Expand Production Scale to Meet Long Term Demand

In 2011, the growth of house building and municipal infrastructure projects, with the government's focus on development of water conservation facilities generated stable domestic demand. At the end of 2011, the State Council issued "the 12th Five-Year Plan of National Environmental Protection", which stated to improve sewage treatment in urban areas. By 2015, the new urban sewage pipe network has to be increased by 160,000 km and the sewage daily treatment capacity has to be increased by 42 million tonnes. The plan would contribute to the growth of plastic pipe market in various aspects in the coming years.

As the leader in plastic pipe industry, the Group possessed diversified product mix and benefited from various demands such as construction of rural drinking water security system, gas supply system and heating consumption, demand for plastic pipes in country sides and the Central Government boosting investment in infrastructure. The Group supplied the market with good products and services, so as to improve its competitiveness and consolidate its market position. The Group's production capacities expansion plan progressed smoothly. The operation of production plant in Changchun commenced in the second quarter of 2011 to meet the demand of the local and neighborhood markets.

The table below sets out the details of the revenue from plastic pipes and pipe fittings with a breakdown by product for the years ended 31 December 2011 and 2010:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **RMB'million** | **% of total revenue** | RMB'million | % of total revenue |
| Water supply | **3,881** | **39.1%** | 2,998 | 39.4% |
| Drainage | **3,590** | **36.2%** | 2,825 | 37.1% |
| Power supply and telecommunication | **1,816** | **18.3%** | 1,402 | 18.4% |
| Gas supply | **99** | **1.0%** | 87 | 1.1% |
| Others[1] | **535** | **5.4%** | 300 | 4.0% |
| Total | **9,921** | **100.0%** | 7,612 | 100.0% |

*Note[1]* "Others" include agricultural use, floor heating and fire prevention.

**Successful Market Assessment and Continual Market Refining**

The Group strategically has 13 plastic pipes and pipe fittings production plants throughout China to get close to target markets and potential customers for reducing transportation costs. The demand for plastic pipes is under short term pressure due to the slowdown in commercial property market. However, the Group assessed the situation, took advantages of its industry leading edge and captured the opportunities to consolidate and strengthen the development of other major markets including Southern China region. With a focus on market refining, the Group continue to improve its sales and distribution network and strengthen market penetration into other regions.

Currently, Southern China region is the Group's major market and accounted for 67.6% of its total sales in 2011, followed by Southwestern China and Central China regions which accounted for 9.0% and 8.2% of its total sales respectively. The sales network was further expanded and improved during the year, which laid down the solid foundation for the Group's long term development.

The table below sets out the details of the revenue by sales region for the years ended 31 December 2011 and 2010:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| Region[1] | RMB' million | % of total revenue | RMB' million | % of total revenue |
| Southern China | **6,852** | **67.6%** | 5,295 | 68.6% |
| Southwestern China | **916** | **9.0%** | 681 | 8.9% |
| Central China | **833** | **8.2%** | 603 | 7.8% |
| Eastern China | **463** | **4.6%** | 331 | 4.3% |
| Northern China | **581** | **5.7%** | 460 | 6.0% |
| Northwestern China | **228** | **2.3%** | 189 | 2.5% |
| Northeastern China | **176** | **1.7%** | 104 | 1.3% |
| Outside China | **94** | **0.9%** | 49 | 0.6% |
| Total | **10,143** | **100.0%** | 7,712 | 100.0% |

*Note*[1] The details of the scope of coverage of each region are set out in note 4 to the financial statements.

**Going Global and Exploring Overseas Markets**

As the domestic leader in China's plastic pipe industry, the Group is committed to gradually developing potential overseas markets. In 2011, the Group successfully established a subsidiary in Canada, which will officially operate home building materials business in 2012. In addition, the Group is exploring and developing more potential international business.

**Significant Economies of Scale and Sustainable Growth of Gross Profit**

Due to our industry-leading position, the Group enjoys economies of scale, which enabled us to maintain our gross profit margin at a healthy and reasonable level during the year in spite of rising raw material prices. In respect of PVC products, the Group successfully passed the increase in raw material costs to customers, thus maintained a stable gross profit margin. In respect of non-PVC products, the Group optimised its pricing strategy pertinently, which enabled us to successfully increase our market share of non-PVC products while maintaining our gross profit margin at a reasonable level.

During the year under review, the Group's gross profit margin maintained at a healthy level of 24.2% (2010: 26.4%). The average selling price of plastic pipes and pipe fittings increased to RMB10,325 per tonne in 2011 from RMB9,644 per tonne in 2010. The average cost of sales of plastic pipes and pipe fittings increased to RMB7,856 per tonne in 2011 from RMB7,129 per tonne in 2010.

The Group has maintained a stable product portfolio. In pursuance of maximum profit, the Group will still focus on offering the most comprehensive product portfolio, and will make appropriate adjustment to it in light of market demand in the future. Key product strategies will be made in light of market demands and relevant national policy directions. In view of future urbanisation process, with old system transformation and rural water conservancy reform as mainstreams, it is believed that water supply, drainage, power supply and telecommunication pipes will still be in a dominant position in the future sales of our products.

# MANAGEMENT DISCUSSION AND ANALYSIS

**Strengthening Scientific Innovation and Active Exploration of New Products**

The Group has always put emphasis on product research and development, and focused on offering various types of full-featured plastic pipe products to the market. Looking back to 2011, the Group focused its R&D efforts on high performance, low energy-consumption and eco-friendly products, such as same-floor drainage system, metal-plastic composite pipe system, solar heat collection pipes and water saving irrigation system. The Group continued to conduct research and development on seven major categories of plastic pipe products, solar heat collection pipes and water saving irrigation system with environmental protection effects, in order to improve production efficiencies, reduce manufacturing costs and enhance product functions.

Moreover, the Group gradually conducted research and development on new composite plastic pipes and other products. In response to the trend of energy saving and reduce consumption, low carbon economy, reducing duplicate or secondary decoration, fitted out properties (精裝房)are becoming the main trend of property development. According to the China Building Decoration Association (中國建築裝飾協會), fitted out properties accounted for 20% of the total housing development throughout the nation in merely a few years. The average percentage of fitted out properties to all commodity properties (商品房) in five major cities, namely, Beijing, Shanghai, Guangzhou, Chengdu and Shenzhen, has reached 41% and this growth trend is to continue. Given this market direction, the Group is proactively focusing on a series of new home building material products research and development, such as bathroom ware, kitchen, plastic doors and windows, to offer high quality home building material products to properties developers and decoration companies, which will be new momentum for the Company's future development. At the same time, the Group will continue to offering comprehensive ancillary services of design, manufacturing, R&D, sales and after-sales services of pipes to consolidate and enhance the Company's overall competitiveness.

## REVIEW ON FINANCIAL PERFORMANCE

### Other Revenue, Income and Gains

Other revenue, income and gains amounted to RMB148 million for the year ended 31 December 2011, representing an increase of 240.9% from last year. The increase was primarily attributable to the increase in exchange gain, gain on repurchase of senior notes, interest received from banks, government grants and subsidies.

### Selling and Distribution Costs

Selling and distribution costs for the year ended 31 December 2011 rose by 51.8% to RMB454 million as compared with last year due to the increase in salaries paid to sales staff, marketing related expense and packaging costs resulting from the growth in sales.

### Administrative Expenses

Administrative expenses for the year ended 31 December 2011 rose by 34.2% to RMB315 million as compared with last year, primarily as a result of the increase in salaries and benefits of administrative staff, increase of depreciation on property, plant and equipment and increase in recognition of equity-settled share option expense.

### Other Expenses

Other expenses for the year ended 31 December 2011 rose by 40.3% to RMB164 million as compared with last year, primarily due to our commitment on research and development.

### Finance Costs

Finance costs amounted to RMB111 million, representing an increase of 108.7% as compared with last year, primarily due to the additional interests incurred by the new senior notes issued during the year.

### Income Tax

Income tax represented amounts of PRC CIT paid by the Group, as the Group is not subject to any profits or income tax in the Cayman Islands and the British Virgin Islands, and did not generate any assessable profits arising from Hong Kong during the year. The Group's effective tax rate increased from 17.6% in 2010 to 19.0% in 2011 mainly due to the fact that the tax holiday of certain subsidiaries of the Group expired during the year.

### Profit Attributable to Owners of the Company

The profit attributable to owners of the Company amounted to RMB1,261 million, representing an increase of 11.4% from RMB1,132 million for the last year.

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING ("IPO")

The net proceeds from the Company's IPO in June 2010 after deducting the relevant expenses were approximately HK$1,860 million (approximately RMB1,629 million equivalent).

Up to 31 December 2011, approximately HK$1,637 million of the net proceeds of the IPO has been applied in accordance with the Results of Allocation Announcement dated 22 June 2010 (the "Announcement"). The unutilised balance has been deposited with financial institutions and will be applied in the manner as stated in the Announcement.

## UPDATES ON THE STATUS OF THE COMPANY'S EXPANSION PLANS

For the year ended 31 December 2011, the status of the Group's production facilities expansion plans remains unchanged from the description in the Prospectus under the section headed "Business – Production Facilities and Production Process". The Group has spent in total RMB1,800 million on the above expansion plans up to 31 December 2011. The Group intends to fund the expansion plans from future operating cash flow, net proceeds from equity and debt issuances and bank facilities.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continued to adopt prudent financial policies. Finance, fund utilisation and fund raising activities are subject to effective centralised management and supervision. The Group maintains reasonable gearing level and adequate liquidity.

As at 31 December 2011, the Group had total debts of approximately RMB1,745 million (31 December 2010: RMB784 million), of which 4.6% was denominated in Renminbi and 95.4% was denominated in US dollars. Other than the approximately US$269 million 7.875% senior notes due in 2016, the Group's borrowings are subject to floating rates ranging from 2.9% to 5.4% per annum with maturity periods ranging from within one year to two years.

As at 31 December 2011, the Group's current assets and current liabilities were approximately RMB4,507 million and RMB1,033 million respectively. The current ratio (that is, the ratio of current assets over current liabilities) and the quick ratio (that is, the ratio of current assets less inventories over current liabilities) of the Group rose to 4.36 and 3.11 from 2.57 and 1.76 as at 31 December 2010 respectively. The Group's total equity increased to approximately RMB4,987 million (31 December 2010: RMB4,004 million). The Group's gearing ratio (calculated based on the basis of the total debts over total assets) stood at a healthy level of 22.4% as compared to 13.9% as at 31 December 2010 due to net effect of issuance of senior notes and repayment of bank loans during the year.

With cash and bank balances, including restricted cash, of approximately RMB2,117 million (2010: RMB1,523 million) as well as unutilised banking facilities, the directors consider that the Group has sufficient working capital for its operation and the future development.

## CHARGE ON ASSETS

As at 31 December 2011, the Group's certain property, plant and equipment and prepaid land lease payments with an aggregate carrying amount of approximately RMB156 million (2010: RMB498 million) were pledged to certain banks to secure bank borrowings granted to the Group. The Company's shares of certain subsidiaries organised outside the PRC were pledged as securities for issuance of senior notes.

## FOREIGN EXCHANGE EXPOSURE

The Group's borrowings are mainly denominated in US dollars but its cash flow is generated from operations whose earnings were denominated principally in Renminbi. As a result, the appreciation of Renminbi contributed to the Group's results for 2011. Save for the aforesaid, the Group has no significant exposure to foreign exchange fluctuation and no hedging has been arranged on the abovementioned exposure.

## CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any significant contingent liabilities (2010: Nil).

## HUMAN RESOURCES

As at 31 December 2011, the Group employed a total of approximately 7,100 employees (2010: 7,400 employees) including directors. The employees are remunerated based on their work performance, professional experiences and the prevailing industry practice. The Group also makes contributions to the statutory mandatory provident fund scheme for its employees in Hong Kong and to the pension scheme for its employees in Mainland China.

## PROSPECTS

Looking forward to the coming year, the slow global economy will be difficult to turn up in short term. Nevertheless, Central Economic Work Conference convened in the middle of December clarified "sudden change in external conditions" , and decided to adopt prudent monetary policy and proactive fiscal policy in order to ensure "China's steady economic growth in 2012". Despite a slowdown in commercial real estate market, the Chinese government has loosened the tightening austerity policy, together with her targets in various aspects (such as urbanisation, water conservancy infrastructure development and improvement on environmental protection) as set out in the "12th Five-year Plan (十二五規劃)" , which will bring about many business opportunities for the industry. The Company believed that "Opportunities and Challenges" will become the mainstream in development of plastic pipe industry in 2012.

With the acceleration of urbanisation ratio, the state will in due course raise the issue of improving the construction of infrastructure in rural and county areas, including power supply, heat supply, drainage and sewage treatment. 2011 No.1 Circular（中央一號文件）states that investment in water conservancy will be doubled in next 10 years with total investment reaching RMB4 trillion. The latest 2012 No.1 Circular states that the construction of water conservancy will be further intensified and new efficient water-saving irrigation technologies and equipment will be vigorously promoted. The policy will also ensure the construction quantity of real estate. Under the 12th Five-year Plan, China is going to build 36 million units of affordable housing in the period between 2011 and 2015. Each of these policies provides long-term and stable product demand for plastic pipe industry and the Group.

Enjoying its industry leading edge, the Company, with a vision in mind, well-planned and well-prepared, will adjust its business strategies according to government policies and market demand. The Company believes that during the period of the 12th Five-year Plan, the Group will capture the opportunities brought about by the plan and urbanisation development, hence further consolidate and enhance the Group's overall competiveness and market position.

The Group will propel its on-going business growth by adopting the following three major development strategies:

(1) Expanding and refining the nationwide sales network, and international market development: As of 31 December 2011, the Group had a total of 1,200 independent distributors. The Group is maintaining its absolute advantage in Southern China with steady growth and highly focusing on exploring new markets. With efforts made in past years, the Group has established its sales network/customer base throughout China as well as gradually improved its deployment of production plants. The Group will continue to apply its successful development experiences gained in Southern China to the rest of China, thereby enable the Group to achieve sufficient development in a wider market region. In 2012, being a year of opportunities and challenges coexisting in the plastic pipe industry, the Group will further consolidate and refine its existing market. However, new markets exploration and nationwide sales network expansion are also important agenda for the Group. In 2011, the Group successfully established a subsidiary in Canada which will officially operate home building materials business in 2012. This was an important milestone for the brand of the Group to go globally. China Liansu, enjoying its leading edge in the industry, will set off to the world by developing overseas potential market to expand its business boundary.

(2) Expanding and optimising production capacities to meet increasing market demands: Various policies in the 12th Five-year Plan, including promotion on the urbanisation, water conservancy infrastructure and affordable housing, will bring abundant and long-term business opportunities for the plastic pipe market. In responding to the ever-rising market demands, the Group is implementing the second phase production plant construction plan, which deliver the Group's products and services to a more extensive area. According to the plan, the Group's Shaanxi production plant is going to operate in the third quarter of 2012. In 2012, the total production capacities of the Group is expected to increase by 330 thousand tonnes.

(3) Enhancement of R&D to introduce new products: In addition to continue its research and development on seven major categories of plastic pipe products, the Group will research and develop high-end plastic pipe products with great market potential, such as new composite plastic pipes. With increasing percentage of fitted out properties against shell properties（毛坯房）, it is expected that demands for home building material products, such as high quality bathroom ware, kitchen, and plastic doors and windows, will keep rising. The Company will research and develop relevant products in line of market trend and make them a new drive for future profit growth. Moreover, the Group is committed to offering comprehensive ancillary services of design, manufacturing, R&D, sales and after-sales services of pipes to consolidate and enhance the Company's overall competitiveness.

Set out below are the annual report presented by the Board together with the Group's audited consolidated financial statements for the year ended 31 December 2011.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries and jointly-controlled entity are set out in notes 14 and 15 respectively to the financial statements.

## RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 37 to 96.

The Board recommended the payment of a final dividend of HK12 cents per share for the year ended 31 December 2011 (the "Proposed Final Dividend") (2010: HK12 cents per share), which will be paid out of profits and/or share premium of the Company, to shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on Tuesday, 12 June 2012, subject to the Shareholders' approval at the forthcoming annual general meeting of the Company to be held on Thursday, 31 May 2012 (the "2012 AGM"). It is expected that the Proposed Final Dividend will be paid on Wednesday, 20 June 2012.

## CLOSURE OF REGISTER OF MEMBERS

### (i) For determining the entitlement to attend and vote at the 2012 AGM

The register of members of the Company will be closed from Monday, 28 May 2012 to Thursday, 31 May 2012, both dates inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2012 AGM, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Friday, 25 May 2012.

### (ii) For determining the entitlement to the Proposed Final Dividend

The register of members of the Company will be closed from Thursday, 7 June 2012 to Tuesday, 12 June 2012, both dates inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to receive the Proposed Final Dividend, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 6 June 2012.

## FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the past five financial years, as extracted from audited consolidated financial statements and restated/reclassified as appropriate, is set out on page 97. The summary does not form part of the audited consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

The details of the movements in the Group's property, plant and equipment during the year are set out in note 12 to the financial statements.

## BORROWINGS

The details of the Group's borrowings are set out in note 23 to the financial statements.

## SHARE CAPITAL

The details of the changes in the Company's share capital during the year are set out in note 27 to the financial statements.

## DISTRIBUTABLE RESERVE

At 31 December 2011, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB2,052 million (2010: RMB2,021 million). The amount of RMB1,684 million (2010: RMB1,674 million) represented the Company's share premium which may be distributable provided that immediately following the date on which the divided is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2011, the total turnover attributable to the Group's five largest customers was less than 30% of the Group's total turnover. The total purchase attributable to the Group's five largest suppliers was less than 30% of the Group's total purchases.

At no time during the year did the directors, their associates or any shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's issued share capital) have any beneficial interests in these suppliers or customers referred to above.

## DIRECTORS

Directors in office during the year and up to the date of this report are as follows:

**Executive directors**

Mr. Wong Luen Hei *(Chairman)*
Mr. Zuo Manlun *(Chief Executive)*
Ms. Zuo Xiaoping
Mr. Lai Zhiqiang
Mr. Kong Zhaocong
Mr. Chen Guonan
Dr. Lin Shaoquan
Mr. Huang Guirong
Mr. Luo Jianfeng

**Non-executive director**

Mr. Lin Dewei

**Independent non-executive directors**

Dr. Bai Chongen
Mr. Fung Pui Cheung
Mr. Wong Kwok Ho Jonathan

Pursuant to Article 16.18 of the Articles of Association of the Company, Mr. Chen Guonan, Dr. Lin Shaoquan, Mr. Huang Guirong, Mr. Luo Jianfeng and Mr. Lin Dewei are subject to retirement by rotation at the 2012 AGM and, being eligible, offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the 2012 AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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

As at 31 December 2011, the interests and short positions of the directors and the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) as recorded in the register to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

**Long Positions**

**(a) Ordinary shares of HK$0.05 each of the Company**

| Name | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| **Directors** | | | |
| Mr. Wong Luen Hei | Held by controlled corporation[(1)(2)] | 2,106,090,000 | 70.07% |
| Ms. Zuo Xiaoping | Held by spouse [(3)] | 2,106,090,000 | 70.07% |

**(b) Share options**

| Name | Capacity | Number of underlying shares held under share options | Percentage of the issued capital of the Company |
|---|---|---|---|
| **Directors** | | | |
| Mr. Wong Luen Hei | Held by spouse [(1)] | 2,308,000 | 0.08% |
| Ms. Zuo Xiaoping | Beneficial owner [(2)] | 2,308,000 | 0.08% |
| Mr. Kong Zhaocong | Beneficial owner [(3)] | 2,308,000 | 0.08% |
| Mr. Lai Zhiqiang | Beneficial owner [(3)] | 2,008,000 | 0.07% |
| Dr. Lin Shaoquan | Beneficial owner [(3)] | 1,927,000 | 0.06% |
| Mr. Chen Guonan | Beneficial owner [(3)] | 1,927,000 | 0.06% |
| Mr. Huang Guirong | Beneficial owner [(3)] | 1,927,000 | 0.06% |
| Mr. Luo Jianfeng | Beneficial owner [(3)] | 1,927,000 | 0.06% |
| Mr. Lin Dewei | Beneficial owner [(3)] | 692,000 | 0.02% |
| **Chief executive** | | | |
| Mr. Zuo Manlun | Beneficial owner [(3)] | 3,842,000 | 0.13% |

*Notes:*

1. Mr. Wong Luen Hei, an executive director of the Company, is the sole shareholder of New Fortune, which in turn owned 70.07% of the Company's issued shares as at 31 December 2011. Accordingly, Mr. Wong Luen Hei was indirectly interested in 2,106,090,000 shares of the Company as at 31 December 2011. Ms. Zuo Xiaoping was granted with 2,308,000 options with an exercise price of HK$1.82 per share under the Pre-IPO share option scheme ("Pre-IPO Share Option Scheme") adopted by the Company with effect from 14 May 2010. Mr. Wong Luen Hei is also the spouse of Ms. Zuo Xiaoping, and therefore Mr. Wong Luen Hei is deemed to be interested in all the shares of the Company in which Ms. Zuo Xiaoping is interested by virtue of the SFO.

2. Ms. Zuo Xiaoping is also the spouse of Mr. Wong Luen Hei, and therefore Ms. Zuo Xiaoping is deemed to be interested in all the shares of the Company in which Mr. Wong Luen Hei is interested by virtue of the SFO. Ms. Zuo Xiaoping was granted with 2,308,000 options with an exercise price of HK$1.82 per share under the Pre-IPO Share Option Scheme.

3. All other directors' interests represent the number of options granted to them with an exercise price of HK$1.82 per share under the Pre-IPO Share Option Scheme.

Save as disclosed above, as at 31 December 2011 none of the directors, chief executive of the Company nor their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of 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.

## INTERESTS AND SHORTS POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the following persons (other than a director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or as otherwise notified to the Company were as follows:

**Long position interests in the Company**

| Name of shareholder | Capacity | Number of issued ordinary shares/ underlying shares held | Percentage of the issued capital of the Company |
|---|---|---|---|
| New Fortune | Beneficial owner [(1)] | 2,106,090,000 | 70.07% |

*Notes:*

1. Mr. Wong Luen Hei is the sole shareholder of New Fortune, which in turn owned 70.07% of the issued shares of the Company as at 31 December 2011. Accordingly Mr. Wong Luen Hei was indirectly interested in 2,106,090,000 shares of the Company as at 31 December 2011.

The above shares were the same shares as set out under the section headed "Directors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures" above. Save as disclosed above, as at 31 December 2011, the directors of the Company were not aware of any person or corporation (other than the directors and chief executive of the Company) who had any interests or short positions in any shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or as otherwise notified to the Company.

## SHARE OPTION SCHEMES

The Company has adopted two share option schemes on 14 May 2010, pursuant to which the Company is entitled to grant options prior to and after the IPO. The details of both share option schemes are as follows:

### 1. Share option scheme

A share option scheme (the "Share Option Scheme") was conditionally approved by resolutions of the Company's shareholders on 14 May 2010 and the summary of terms of such Share Option Scheme are disclosed in the Prospectus. No share options were granted, exercised or cancelled by the Company under the Share Option Scheme during the year and there were no outstanding share options under the Share Option Scheme as at 31 December 2011.

### 2. Pre-IPO Share Option Scheme

**(a) Summary of terms**

The purpose of the Pre-IPO Share Option Scheme, approved by the shareholders pursuant to the written resolutions of the shareholders dated 14 May 2010, is to give employees an opportunity to have a personal stake in the Company and help motivate them to optimise their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such employees who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

The principal terms of the Pre-IPO Share Option Scheme are set out in note 29 to the financial statements.

**(b) Outstanding options granted**

All the options under the Pre-IPO Share Option Scheme were granted on 21 May 2010 at a consideration of HK$1 paid by each grantee. During the year, no share options were granted, lapsed or cancelled under the Pre-IPO Share Option Scheme other than those exercised and forfeited as mentioned below.

Details of the movement of the Pre-IPO Share Options during the year ended 31 December 2011 were as follows:

| Name or category of participant | Date of grant[(1)] | Option period[(1)] | Exercise price HK$ | Number of options: Outstanding as at 01/01/2011 | Exercised during the year[(4)] | Forfeited during the year | Outstanding as at 31/12/2011 |
|---|---|---|---|---|---|---|---|
| **Chief Executive** | | | | | | | |
| Mr. Zuo Manlun | 21/05/2010 | 23/06/2011 to 22/06/2014[(3)] | 1.82 | 3,842,000 | — | — | 3,842,000 |
| **Directors** | | | | | | | |
| Ms. Zuo Xiaoping | 21/05/2010 | 23/06/2011 to 22/06/2014[(3)] | 1.82 | 2,308,000 | — | — | 2,308,000 |
| Mr. Kong Zhaocong | 21/05/2010 | 23/06/2011 to 22/06/2014[(3)] | 1.82 | 2,308,000 | — | — | 2,308,000 |
| Mr. Lai Zhiqiang | 21/05/2010 | 23/06/2011 to 22/06/2014[(3)] | 1.82 | 2,308,000 | (300,000) | — | 2,008,000 |
| Dr. Lin Shaoquan | 21/05/2010 | 23/06/2011 to 22/06/2014[(3)] | 1.82 | 1,927,000 | — | — | 1,927,000 |
| Mr. Chen Guonan | 21/05/2010 | 23/06/2011 to 22/06/2014[(3)] | 1.82 | 1,927,000 | — | — | 1,927,000 |
| Mr. Huang Guirong | 21/05/2010 | 23/06/2011 to 22/06/2014[(3)] | 1.82 | 1,927,000 | — | — | 1,927,000 |
| Mr. Luo Jianfeng | 21/05/2010 | 23/06/2011 to 22/06/2014[(3)] | 1.82 | 1,927,000 | — | — | 1,927,000 |

| Name or category of participant | Date of grant[1] | Option period[1] | Exercise price HK$ | Number of options: Outstanding as at 01/01/2011 | Exercised during the year[4] | Forfeited during the year | Outstanding as at 31/12/2011 |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Mr. Lin Dewei | 21/05/2010 | 23/06/2011 to 22/06/2014[3] | 1.82 | 692,000 | — | — | 692,000 |
| **Subtotal directors** | | | | 15,324,000 | (300,000) | — | 15,024,000 |
| **Subtotal directors and chief executive** | | | | 19,166,000 | (300,000) | — | 18,866,000 |
| **Employees[2]** | | | | | | | |
| In aggregate | 21/05/2010 | 23/06/2011 to 22/06/2014[3] | 1.82 | 95,635,000 | (5,606,950) | (1,670,250) | 88,357,800 |
| **Total** | | | | 114,801,000 | (5,906,950) | (1,670,250) | 107,223,800 |

*Notes:*

1. All dates are shown in the format of day/month/year.

2. None of such grantees is a connected person of the Company.

3. The options are exercisable from 23 June 2011 to 22 June 2014 (both days inclusive) subject to the following vesting periods:

   (i) up to 25% of the options commencing on 23 June 2011.

   (ii) up to 60% of the options (including the options not exercised under the limit prescribed for in the previous period) commencing on 23 June 2012; and

   (iii) up to 100% of the options (including the options not exercised under the limit prescribed for in the previous periods) commencing on 23 June 2013.

4. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK$6.42.

## DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under paragraph headed "Connected Transactions", no contract of significance to which the Company, its holding company and any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## COMPLIANCE AND ENFORCEMENT OF THE NON-COMPETE UNDERTAKINGS FROM CONTROLLING SHAREHOLDER

None of the directors or substantial shareholder of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group. The controlling shareholder being New Fortune and Mr. Wong Luen Hei (the "Controlling Shareholder") has entered into a deed of non-competition in favour of the Group dated 14 May 2010 (the "Deed of Non-Competition").

The directors are of the view that the Group's measures adopted by the Company in respect of the enforceability of the Deed of Non-Competition are adequate to safeguard the effectiveness of the non-competition undertakings.

The independent non-executive directors have reviewed the compliance of the Deed of Non-Competition, including any potential conflicts of interest and competition arising from the taking up by the Controlling Shareholder of opportunities rejected by the Group pursuant to the Deed of Non-Competition. Based on the confirmation from the Controlling Shareholder, the independent non-executive directors are of the view that the Deed of Non-Competition has been complied with and has been effectively enforced.

## CHARITABLE DONATIONS

During the year, the Group's charitable donations were approximately RMB1,665,000 (2010: RMB1,450,000).

## SENIOR NOTES

On 13 May 2011, the Company issued senior notes with an aggregate principal amount of US$300,000,000. The net proceeds, after deducting the issuance costs, amounted to approximately US$292,000,000. The Company intended to use the net proceeds for financing of the then existing indebtedness, for capital expenditures and for other general corporate purposes. The details of the Company's senior notes are set out in note 24 to the financial statements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2011, save for the Company's repurchase and cancellation of senior notes in the principal amount of US$31,300,000 at the aggregate consideration of US$27,052,000 (including accrued interest) on the Singapore Exchange in December 2011, the Company or any of its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

## EVENTS AFTER THE REPORTING PERIOD

No significant event took place subsequent to 31 December 2011.

## CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 35 to the financial statements also constitute continuing connected transactions within the meaning of the Listing Rules. Details of such non-exempt continuing connected transactions are summarised below:

### (a) Purchase of equipment for plastic pipe manufacturing

| | |
|---|---|
| Background: | On 20 December 2009, the Group entered into a framework equipment purchase agreement (the "Framework Agreement") with Guangdong Liansu Machinery for the three years commencing on 1 January 2010 and expiring on 31 December 2012.<br><br>Particulars of the Framework Agreement together with the total consideration for the year ended 31 December 2011 are disclosed below as required under the Listing Rules: |
| Nature of transactions: | Purchase of equipment for plastic pipe manufacturing from Guangdong Liansu Machinery |
| Terms: | The purchase price to be agreed between the parties which shall not exceed the prevailing market price |
| Annual Cap: | RMB60 million |
| Total consideration for the year: | RMB51 million |

### (b) Rental and utilities incomes

| | |
|---|---|
| Background: | On 31 December 2010, the Group entered into lease agreements (the "Leases") with Guangdong Liansu Machinery and Guangdong Liansu Electric (collectively known as the "Lessees") whereby the Group leased part of its property located in the east of Dengdong Road, Longjiang Town Community, Shunde District, Foshan City, Guangdong Province, the PRC to the Lessees for use as their production facilities.<br><br>Under the Leases, the Lessees shall bear all the third party costs, including electricity and water charges. Since the related utilities costs are charged by the relevant government authorities on the Group, the Lessees will reimburse the Group for the same amount of utilities costs paid by the Group (the "Utilities Arrangements"). For further details, please refer to the announcement made by the Company on 31 December 2010. |

Particulars of the agreements together with the total consideration for the year ended 31 December 2011 are disclosed below as required under the Listing Rules:

| | |
|---|---|
| Nature of transactions: | Rental incomes received from the Lessees<br>Reimbursement of utilities costs charged by the relevant government authorities on the Group from the Lessees |
| Terms: | The Leases are for one year commencing on 1 January 2011 and expiring on 31 December 2011. The related rents payable by Guangdong Liansu Machinery and Guangdong Liansu Electric to the Group are RMB374,400 per annum and RMB480,000 per annum respectively.<br>The reimbursable amount of utilities costs was equal to the amount charged by the relevant government authorities on the Group |
| Annual Cap: | RMB854,400 (Leasing agreements)<br>RMB8 million (Utilities agreements) |
| Total consideration for the year: | RMB854,400 (Leasing agreements)<br>RMB5 million (Utilities agreements) |

The independent non-executive directors have, for the purpose of Rule 14A.37 of the Listing Rules, reviewed all continuing connected transactions and have confirmed that all continuing connected transactions have been entered into by the Group (i) in the ordinary and usual course of its business; (ii) on normal commercial terms; and (iii) and in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company's auditors have provided a letter to the Board confirming that the above continuing connected transactions (i) have received approval of the Board; (ii) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (iii) have not exceeded the respective cap amounts for the year ended 31 December 2011.

## RELATED PARTY TRANSACTIONS

The details of the related party transactions are set out in note 35 to the financial statements.

## TAX RELIEF AND EXEMPTION

The directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding the Company's securities.

## PRE-EMPTIVE RIGHTS

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

## PUBLIC FLOAT

Based on the publicly available information obtained by the Company and to the best knowledge of the directors, as at the date of this report, the Company has maintained the public float stipulated in the Listing Rules.

## AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Ernst & Young as auditors of the Company.

By order of the Board

**Zuo Manlun**
*Chief Executive*

Hong Kong, 16 March 2012

ERNST & YOUNG
安 永

**To the shareholders of China Liansu Group Holdings Limited**
*(Incorporated in Cayman Islands with limited liability)*

We have audited the consolidated financial statements of China Liansu Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 37 to 96, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# INDEPENDENT AUDITORS' REPORT

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**ERNST & YOUNG**
*Certified Public Accountants*
22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
16 March 2012

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

| | Notes | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|---|
| **REVENUE** | 5 | **10,143,296** | 7,711,532 |
| Cost of sales | | **(7,691,274)** | (5,677,884) |
| Gross profit | | **2,452,022** | 2,033,648 |
| Other revenue, income and gains | 5 | **148,321** | 43,515 |
| Selling and distribution costs | | **(453,596)** | (298,866) |
| Administrative expenses | | **(314,782)** | (234,581) |
| Other expenses | | **(164,467)** | (117,229) |
| Finance costs | 6 | **(110,536)** | (52,971) |
| Share of loss of a jointly-controlled entity | | **(29)** | — |
| **PROFIT BEFORE TAX** | 7 | **1,556,933** | 1,373,516 |
| Income tax expense | 9 | **(296,237)** | (241,333) |
| **PROFIT FOR THE YEAR** | | **1,260,696** | 1,132,183 |
| **OTHER COMPREHENSIVE LOSS** | | | |
| Available-for-sale investments: | | | |
| Changes in fair value | | **(20,022)** | — |
| Exchange differences on translation of foreign operations | | **(2,325)** | (10,160) |
| | | **(22,347)** | (10,160) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **1,238,349** | 1,122,023 |
| Profit attributable to | | | |
| Owners of the Company | | **1,260,758** | 1,132,183 |
| Non-controlling interests | | **(62)** | — |
| | | **1,260,696** | 1,132,183 |
| Total comprehensive income attributable to | | | |
| Owners of the Company | | **1,238,411** | 1,122,023 |
| Non-controlling interests | | **(62)** | — |
| | | **1,238,349** | 1,122,023 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY** | 11 | | |
| Basic | | **RMB0.42** | RMB0.43 |
| Diluted | | **RMB0.41** | RMB0.42 |

Details of the dividends proposed for the year are disclosed in note 10 to the financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

| | Notes | **2011**<br>**RMB'000** | 2010<br>RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 12 | **2,470,759** | 1,705,918 |
| Prepaid land lease payments | 13 | **356,065** | 248,612 |
| Other intangible assets | | **2,799** | 2,281 |
| Deposits paid for the purchase of land, property, plant and equipment | | **291,672** | 55,056 |
| Investment in a jointly-controlled entity | 15 | **4,971** | — |
| Available-for-sale investments | 16 | **156,508** | — |
| Deferred tax assets | 25 | **2,112** | 2,295 |
| Total non-current assets | | **3,284,886** | 2,014,162 |
| **CURRENT ASSETS** | | | |
| Inventories | 17 | **1,294,018** | 1,139,452 |
| Trade and bills receivables | 18 | **748,358** | 681,415 |
| Prepayments, deposits and other receivables | 19 | **347,632** | 270,435 |
| Restricted cash | 20 | **1,689** | 23,044 |
| Cash and cash equivalents | 20 | **2,114,952** | 1,500,292 |
| Total current assets | | **4,506,649** | 3,614,638 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 21 | **191,314** | 242,760 |
| Other payables and accruals | 22 | **657,447** | 439,758 |
| Bank loans and other borrowings | 23 | **70,004** | 630,326 |
| Tax payable | | **114,426** | 94,900 |
| Total current liabilities | | **1,033,191** | 1,407,744 |
| **NET CURRENT ASSETS** | | **3,473,458** | 2,206,894 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **6,758,344** | 4,221,056 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Bank loans and other borrowings | 23 | **1,674,704** | 154,000 |
| Deferred tax liabilities | 25 | **72,673** | 44,778 |
| Deferred income | 26 | **23,602** | 17,827 |
| Total non-current liabilities | | **1,770,979** | 216,605 |
| Net assets | | **4,987,365** | 4,004,451 |
| **EQUITY** | | | |
| Equity attributable to owners of the Company | | | |
| Issued capital | 27 | **131,537** | 131,297 |
| Reserves | 28(a) | **4,855,438** | 3,873,154 |
| | | **4,986,975** | 4,004,451 |
| Non-controlling interests | | **390** | — |
| Total equity | | **4,987,365** | 4,004,451 |

**Wong Luen Hei**
*Director*

**Luo Jianfeng**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital | Share premium | Statutory reserve[a] | Capital reserve[b] | Share option reserve | Merger reserve | Available-for-sale investment revaluation reserve | Exchange fluctuation reserve | Retained profits | Total | Non-controlling interests | Total equity |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2010 | 352 | — | 129,667 | 31,645 | — | 5,515 | — | 33,080 | 841,729 | 1,041,988 | — | 1,041,988 |
| Profit for the year | — | — | — | — | — | — | — | — | 1,132,183 | 1,132,183 | — | 1,132,183 |
| Other comprehensive loss for the year | — | — | — | — | — | — | — | (10,160) | — | (10,160) | — | (10,160) |
| Total comprehensive income for the year | — | — | — | — | — | — | — | (10,160) | 1,132,183 | 1,122,023 | — | 1,122,023 |
| Issue of shares | 130,945 | 1,673,604 | — | — | — | — | — | — | — | 1,804,549 | — | 1,804,549 |
| Equity-settled share option arrangements | — | — | — | — | 35,891 | — | — | — | — | 35,891 | — | 35,891 |
| Appropriation to statutory reserve | — | — | 144,753 | — | — | — | — | — | (144,753) | — | — | — |
| At 31 December 2010 and 1 January 2011 | 131,297 | 1,673,604* | 274,420* | 31,645* | 35,891* | 5,515* | — | 22,920* | 1,829,159* | 4,004,451 | — | 4,004,451 |
| Profit for the year | — | — | — | — | — | — | — | — | 1,260,758 | 1,260,758 | (62) | 1,260,696 |
| Other comprehensive loss for the year | — | — | — | — | — | — | (20,022) | (2,325) | — | (22,347) | — | (22,347) |
| Total comprehensive income for the year | — | — | — | — | — | — | (20,022) | (2,325) | 1,260,758 | 1,238,411 | (62) | 1,238,349 |
| Issue of shares | 240 | 13,645 | — | — | (5,169) | — | — | — | — | 8,716 | — | 8,716 |
| Additional listing expenses | — | (3,259) | — | — | — | — | — | — | — | (3,259) | — | (3,259) |
| Equity-settled share option arrangements | — | — | — | — | 41,682 | — | — | — | — | 41,682 | — | 41,682 |
| Dividends recognised as distributions to owners (note 10) | — | — | — | — | — | — | — | — | (303,026) | (303,026) | — | (303,026) |
| Appropriation to statutory reserve | — | — | 138,542 | — | — | — | — | — | (138,542) | — | — | — |
| Capital contribution from non-controlling interests | — | — | — | — | — | — | — | — | — | — | 452 | 452 |
| At 31 December 2011 | **131,537** | **1,683,990*** | **412,962*** | **31,645*** | **72,404*** | **5,515*** | **(20,022)*** | **20,595*** | **2,648,349*** | **4,986,975** | **390** | **4,987,365** |

* These reserve accounts comprise the consolidated reserves of RMB4,855,438,000 (2010: RMB3,873,154,000) in the consolidated statement of financial position.

Notes:

(a) In accordance with the Company Law of the PRC, each of the Company's subsidiaries registered in the PRC is required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses) determined in accordance with generally accepted accounting principles in the PRC to the statutory reserve until the balance of the reserve fund reaches 50% of its registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided that the remaining balance of the statutory reserve is not less than 25% of the registered capital.

(b) Capital reserve mainly represented the difference between the consideration and the book value of the share of the net assets acquired in respect of the acquisition of non-controlling interests.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

| | Notes | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit before tax: | | **1,556,933** | 1,373,516 |
| Adjustments for: | | | |
| Bank interest income | 5 | **(27,219)** | (9,828) |
| Gain on repurchase of senior notes | 5 | **(24,662)** | — |
| Finance costs | 6 | **110,536** | 52,971 |
| Share of loss of a jointly-controlled entity | | **29** | — |
| Loss on disposal of items of property, plant and equipment | 7 | **642** | 1,500 |
| Depreciation | 7 | **166,947** | 118,076 |
| Amortisation of prepaid land lease payments | 7 | **6,184** | 4,819 |
| Amortisation of other intangible assets | 7 | **774** | 417 |
| Government grants released | | **(1,425)** | — |
| Write-back of inventories to net realisable value | 7 | **(522)** | (370) |
| (Reversal of impairment)/impairment of trade receivables, net | 7 | **(1,222)** | 7,156 |
| Equity-settled share option expense | 7 | **41,682** | 35,891 |
| | | **1,828,677** | 1,584,148 |
| Increase in inventories | | **(154,044)** | (395,575) |
| Increase in trade and bills receivables | | **(65,721)** | (221,836) |
| Increase in prepayments, deposits and other receivables | | **(74,149)** | (12,047) |
| Decrease in amounts due from related companies | | **—** | 720 |
| (Decrease)/increase in trade and bills payables | | **(51,446)** | 10,058 |
| Increase/(decrease) in other payables and accruals | | **128,972** | (97,033) |
| Decrease in amounts due to related companies | | **—** | (15,693) |
| Cash generated from operations | | **1,612,289** | 852,742 |
| Bank interest received | | **27,219** | 9,828 |
| Corporate income tax paid | | **(248,633)** | (212,155) |
| Net cash flows from operating activities | | **1,390,875** | 650,415 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

| | Notes | **2011** **RMB'000** | 2010 RMB'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Purchases of items of property, plant and equipment | | **(990,732)** | (525,030) |
| Proceeds from disposal of items of property, plant and equipment | | **2,629** | 8,707 |
| Additions to prepaid land lease payments | | **(226,312)** | (48,365) |
| Additions to other intangible assets | | **(1,292)** | (1,560) |
| Investment in a jointly-controlled entity | | **(5,000)** | — |
| Purchase of available-for-sale investments | | **(176,530)** | — |
| Decrease in restricted cash | | **21,355** | 102,089 |
| Net cash flows used in investing activities | | **(1,375,882)** | (464,159) |
| **FINANCING ACTIVITIES** | | | |
| New bank loans and other borrowings | | **2,189,763** | 685,096 |
| Repayment of bank loans | | **(995,960)** | (1,201,567) |
| Repurchase of senior notes | | **(173,163)** | — |
| Decrease in an amount due to a director | | **—** | (88,651) |
| Proceeds from issue of shares, net of expenses | | **5,457** | 1,629,839 |
| Capital contribution from non-controlling interests | | **452** | — |
| Interest paid | | **(94,491)** | (52,971) |
| Dividends paid | | **(303,026)** | — |
| Net cash flows from financing activities | | **629,032** | 971,746 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **644,025** | 1,158,002 |
| Cash and cash equivalents at beginning of the year | | **1,500,292** | 361,767 |
| Effect of foreign exchange rate changes, net | | **(29,365)** | (19,477) |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | | **2,114,952** | 1,500,292 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | 20 | **1,375,036** | 1,090,849 |
| Time deposits with original maturity of less than three months | 20 | **739,916** | 409,443 |
| | 20 | **2,114,952** | 1,500,292 |

# COMPANY STATEMENT OF FINANCIAL POSITION

31 December 2011

| | Notes | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investments in subsidiaries | 14 | **2,193,197** | 2,255,852 |
| Loans to a subsidiary | 14 | **1,365,073** | — |
| Total non-current assets | | **3,558,270** | 2,255,852 |
| **CURRENT ASSETS** | | | |
| Prepayment, deposits and other receivables | | **350** | 13 |
| Amounts due from a subsidiary | 14 | **184,938** | — |
| Cash and cash equivalents | 20 | **16,651** | 131,773 |
| Total current assets | | **201,939** | 131,786 |
| **CURRENT LIABILITIES** | | | |
| Other payables and accruals | | **2,703** | 3,806 |
| Bank loans and other borrowings | 23 | **—** | 255,270 |
| Total current liabilities | | **2,703** | 259,076 |
| **NET CURRENT ASSETS/(LIABILITIES)** | | **199,236** | (127,290) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **3,757,506** | 2,128,562 |
| **NON-CURRENT LIABILITY** | | | |
| Bank loans and other borrowings | 23 | **1,658,304** | — |
| Net assets | | **2,099,202** | 2,128,562 |
| **EQUITY** | | | |
| Issued capital | 27 | **131,537** | 131,297 |
| Reserves | 28(b) | **1,967,665** | 1,997,265 |
| Total equity | | **2,099,202** | 2,128,562 |

**Wong Luen Hei**
*Director*

**Luo Jianfeng**
*Director*

## 1. CORPORATE INFORMATION

China Liansu is a limited liability company incorporated in the Cayman Islands. The addresses of its registered office and principal place of business are disclosed in the section headed "Corporate Information" of this annual report.

The Company is an investment holding company. Particulars of the Company's principal subsidiaries and its jointly-controlled entity are set out in notes 14 and 15 to the financial statements, respectively.

In the opinion of the directors, the Company's ultimate holding company is New Fortune, a limited liability company incorporated in the BVI.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

The total comprehensive income within a subsidiary is attributed to the non-controlling interests even if that results in a deficit balance.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's consolidated financial statements.

| | |
|---|---|
| HKFRS 1 Amendment | Amendment to HKFRS 1 *Limited Exemption from Comparative - HKFRS 7 Disclosures for First-time Adopters* |
| HKAS 24 (as revised in 2009) | *Related Party Disclosures* |
| HKAS 32 Amendment | Amendment to HKAS 32 *Classification of Rights Issues* |
| HK(IFRIC)-Int 14 Amendments | Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* |
| HK(IFRIC)-Int 19 | *Extinguishing Financial Liabilities with Equity Instruments* |
| HKFRSs (Amendments) | *Improvements to HKFRSs 2010* |

The adoption of these new and revised HKFRSs has had no significant financial effect on these consolidated financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not early applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

| | |
|---|---|
| HKFRS 1 Amendments | Amendments to HKFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1] |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Disclosures – Transfers of Financial Assets*[1] |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities*[4] |
| HKFRS 9 | *Financial Instruments*[6] |
| HKFRS 10 | *Consolidated Financial Statements*[4] |
| HKFRS 11 | *Joint Arrangements*[4] |
| HKFRS 12 | *Disclosure of Interests in Other Entities*[4] |
| HKFRS 13 | *Fair Value Measurement*[4] |
| HKAS 1 Amendments | Amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*[3] |
| HKAS 12 Amendments | Amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets* [2] |
| HKAS 19 (as revised in 2011) | *Employee Benefits*[4] |
| HKAS 27 (as revised in 2011) | *Separate Financial Statements*[4] |
| HKAS 28 (as revised in 2011) | *Investments in Associates and Joint Ventures*[4] |
| HKAS 32 Amendments | Amendments to HKAS 32: *Presentation – Offsetting Financial Assets and Financial Liabilities*[5] |
| HK(IFRIC)-Int 20 | *Stripping Costs in the Production Phase of a Surface Mine*[4] |

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

## 2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (continued)

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application, but is not in a position to state whether these new and revised HKFRSs will have a significant impact on the Group's results of operations and financial position.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

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

The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

### Jointly-controlled entity

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investment in a jointly-controlled entity is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of the jointly-controlled entity is included in the consolidated statement of comprehensive income and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's investment in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred.

### Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of comprehensive income in the period in which it arises.

### Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) the person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Land and buildings | 4.5% to 5% |
| Plant and machinery | 9% to 19% |
| Furniture, fixtures and office equipment | 9.5% to 32.3% |
| Motor vehicles | 9.5% to 32.3% |
| Leasehold improvements | Over the shorter of the lease terms and 20% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of comprehensive income in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and other assets under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost represents the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

*Computer software*

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

*Research and development costs*

All research costs are charged to the statement of comprehensive income as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial assets

**Initial recognition and measurement**

Financial assets within the scope of HKAS 39 are classified as loans and receivables and available-for-sale financial investments. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include available-for-sale investments, trade and bills receivables, other receivables, restricted cash and cash and cash equivalents.

**Subsequent measurement**

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest income in the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income in finance costs for loans and in other expenses for receivables.

*Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed equity investments which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of comprehensive income in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of comprehensive income in other expenses. Dividends earned whilst holding the available-for-sale financial investments are reported as dividend income and are recognised in the statement of comprehensive income as other income in accordance with the policies set out for "Revenue recognition" below.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial assets** (continued)

**Subsequent measurement *(continued)***

*Available-for-sale financial investments (continued)*

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets.

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial assets (continued)

**Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the statement of comprehensive income.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial assets (continued)

**Impairment of financial assets** (continued)

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognised in the statement of comprehensive income, is removed from other comprehensive income and recognised in the statement of comprehensive income.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or ''prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of comprehensive income. Increases in their fair value after impairment are recognised directly in other comprehensive income.

### Financial liabilities

**Initial recognition and measurement**

Financial liabilities within the scope of HKAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals and bank loans and other borrowings.

**Subsequent measurement**

After initial recognition, bank loans and other borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial liabilities (continued)

**Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of comprehensive income.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

### Inventories

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

### Cash and cash equivalents

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

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and a joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

### Revenue recognition

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

(a) income from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employee benefits

*Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme"), under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

*Share option schemes*

The Company adopted two share option schemes. The fair value of the employee services received in exchange for the grant of options is recognised as an expense and credited to share option reserve under equity. For grant of share options, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options at the date on which they are granted by using a binomial model, excluding the impact of any service condition and non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become vested. From the perspective of the Company, the Company grants the share options to its subsidiaries' employees to exchange for their services provided to the subsidiaries. Accordingly, in the Company's statement of financial position, the equity-settled share option expenses, which are recognised in the consolidated financial statements, are treated as part of the "investments in subsidiaries".

At the end of the reporting period, the Company revises its estimates of the number of options that are expected to ultimately vest. It recognises the impact of the revision of original estimates, if any, in the Group's statement of comprehensive income and in the Company's "investments in subsidiaries", and makes a corresponding adjustment to equity over the remaining vesting period. When the options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (at nominal value) and share premium.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Dividends

Dividends are recognised as a liability and deducted from equity when they are declared and approved by the Company's shareholders in general meetings. Interim dividends are deducted from equity when they are declared and approved, and no longer at the discretion of the Company.

### Foreign currencies

The Company's functional currency is HK$ while the Company's presentation currency for the financial statements is RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgement

*Deferred tax liabilities*

Deferred income tax liabilities have not been established for income tax and withholding tax that would be payable on certain profits of the subsidiaries in the PRC to be repatriated and distributed by way of dividends as the directors consider that the timing of the reversal of the related temporary differences can be controlled and such temporary differences will not be reversed in the foreseeable future.

If these undistributed earnings of the subsidiaries in the PRC are considered to be repatriated and distributed by way of dividends, the deferred income tax charge and deferred income tax liability would have been increased by the same amount of approximately RMB45,276,000 (2010: RMB25,475,000).

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

*Impairment of trade and other receivables*

The Group's provision policy for doubtful debts is based on the ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of the Group's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required. As at 31 December 2011, impairment losses of RMB3,309,000 (2010: RMB4,531,000) have been recognised for trade receivables.

*Provision for obsolete inventories*

Management reviews the aged analysis of the Group's inventories at the end of each reporting period, and makes provision for obsolete and slow moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. As at 31 December 2011, the Group had inventories that were measured at net realisable value (where lower than cost) of RMB2,574,000 (2010: RMB3,096,000).

## 4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of plastic pipes and pipe fittings. For management purposes, the Group's businesses are organised by geographical area based on the location of the customers and assets are attributable to the geographical unit based on the location of the assets. The Group has eight reportable operating segments as follows:

(a) Southern China, including Guangdong Province, Guangxi Zhuang Autonomous Region, Hunan Province, Fujian Province and Hainan Province;

(b) Southwestern China, including Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province and Xizang (Tibet) Autonomous Region;

(c) Central China, including Hubei Province, Jiangxi Province and Henan Province;

(d) Eastern China, including Shanghai Municipality, Jiangsu Province, Zhejiang Province and Anhui Province;

(e) Northern China, including Beijing Municipality, Tianjin Municipality, Hebei Province, Shandong Province, Inner Mongolia Autonomous Region and Shanxi Province;

(f) Northwestern China, including Shaanxi Province, Ningxia Hui Autonomous Region, Qinghai Province, Gansu Province and Xinjiang Uygur Autonomous Region;

(g) Northeastern China, including Liaoning Province, Jilin Province and Heilongjiang Province; and

(h) Outside China.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, gain on repurchase of senior notes, exchange difference, finance costs, share of result of a jointly-controlled entity and other unallocated income and expenses are excluded from such measurement.

Segment assets exclude investment in a jointly-controlled entity, available-for-sale investments, deferred tax assets, restricted cash, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Intersegment revenue is eliminated on consolidation. Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The Group's revenue from external customers is derived from its operations both in the PRC and foreign countries.

During the years ended 31 December 2011 and 2010, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

## 4. OPERATING SEGMENT INFORMATION (continued)

### Operating segment information for the year ended 31 December 2011

| | Southern China RMB'000 | Southwestern China RMB'000 | Central China RMB'000 | Eastern China RMB'000 | Northern China RMB'000 | Northwestern China RMB'000 | Northeastern China RMB'000 | Outside China RMB'000 | Eliminations RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Segment revenue:** | | | | | | | | | | |
| Sales to external customers | 6,852,183 | 915,905 | 832,613 | 463,153 | 581,519 | 227,725 | 176,327 | 93,871 | – | 10,143,296 |
| Intersegment sales | 886,056 | 172,638 | 228,854 | 48,625 | 115,916 | 14,459 | 52,218 | 47,855 | (1,566,621) | – |
| Total | 7,738,239 | 1,088,543 | 1,061,467 | 511,778 | 697,435 | 242,184 | 228,545 | 141,726 | (1,566,621) | 10,143,296 |
| **Segment results** | 1,913,282 | 208,258 | 292,762 | 80,534 | 112,481 | 48,444 | 39,525 | 17,636 | (260,900) | 2,452,022 |
| Reconciliations: | | | | | | | | | | |
| Bank interest income | | | | | | | | | | 27,219 |
| Gain on repurchase of senior notes | | | | | | | | | | 24,662 |
| Exchange gain | | | | | | | | | | 52,491 |
| Finance costs | | | | | | | | | | (110,536) |
| Share of loss of a jointly-controlled entity | | | | | | | | | | (29) |
| Unallocated income and expenses | | | | | | | | | | (888,896) |
| Profit before tax | | | | | | | | | | 1,556,933 |
| **Segment assets** | 3,078,390 | 409,212 | 662,071 | 256,941 | 449,491 | 274,408 | 354,654 | 26,136 | – | 5,511,303 |
| Reconciliations: | | | | | | | | | | |
| Investment in a jointly-controlled entity | | | | | | | | | | 4,971 |
| Available-for-sale investments | | | | | | | | | | 156,508 |
| Deferred tax assets | | | | | | | | | | 2,112 |
| Restricted cash | | | | | | | | | | 1,689 |
| Cash and cash equivalents | | | | | | | | | | 2,114,952 |
| **Total assets** | | | | | | | | | | 7,791,535 |
| **Other segment information:** | | | | | | | | | | |
| Depreciation and amortisation | 83,878 | 17,455 | 27,367 | 10,422 | 19,071 | 6,209 | 7,251 | 2,252 | – | 173,905 |
| Reversal of impairment of trade receivables, net | (1,222) | – | – | – | – | – | – | – | – | (1,222) |
| Write-back of inventories to net realisable value | – | – | – | – | (522) | – | – | – | – | (522) |
| Capital expenditure* | 487,618 | 106,734 | 154,736 | 48,928 | 55,065 | 78,334 | 138,251 | 40 | (16,024) | 1,053,682 |

* Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments and other intangible assets.

## 4. OPERATING SEGMENT INFORMATION (continued)

Operating segment information for the year ended 31 December 2010

| | Southern China RMB'000 | Southwestern China RMB'000 | Central China RMB'000 | Eastern China RMB'000 | Northern China RMB'000 | Northwestern China RMB'000 | Northeastern China RMB'000 | Outside China RMB'000 | Eliminations RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Segment revenue:** | | | | | | | | | | |
| Sales to external customers | 5,294,866 | 681,300 | 602,539 | 331,144 | 459,728 | 188,712 | 104,045 | 49,198 | — | 7,711,532 |
| Intersegment sales | 668,251 | 147,894 | 218,041 | 25,825 | 99,524 | 9,298 | 11,125 | 17,069 | (1,197,027) | — |
| Total | 5,963,117 | 829,194 | 820,580 | 356,969 | 559,252 | 198,010 | 115,170 | 66,267 | (1,197,027) | 7,711,532 |
| **Segment results** | 1,554,019 | 190,484 | 242,875 | 57,939 | 95,059 | 42,295 | 24,882 | 8,340 | (182,245) | 2,033,648 |
| Reconciliations: | | | | | | | | | | |
| Bank interest income | | | | | | | | | | 9,828 |
| Finance costs | | | | | | | | | | (52,971) |
| Unallocated income and expenses | | | | | | | | | | (616,989) |
| Profit before tax | | | | | | | | | | 1,373,516 |
| **Segment assets** | 2,399,681 | 284,771 | 523,583 | 196,153 | 330,929 | 164,553 | 184,994 | 3,706 | — | 4,088,370 |
| Reconciliations: | | | | | | | | | | |
| Deferred tax assets | | | | | | | | | | 2,295 |
| Restricted cash | | | | | | | | | | 23,044 |
| Cash and cash equivalents | | | | | | | | | | 1,500,292 |
| Other unallocated assets | | | | | | | | | | 14,799 |
| **Total assets** | | | | | | | | | | 5,628,800 |
| **Other segment information:** | | | | | | | | | | |
| Depreciation and amortisation | 63,429 | 12,238 | 16,627 | 8,645 | 14,169 | 3,112 | 3,280 | 1,812 | — | 123,312 |
| Impairment of trade receivables, net | 7,186 | (741) | 711 | — | — | — | — | — | — | 7,156 |
| Write-back of inventories to net realisable value | (370) | — | — | — | — | — | — | — | — | (370) |
| Capital expenditure* | 193,924 | 26,942 | 181,794 | 15,453 | 45,112 | 77,759 | 36,955 | 11,431 | (7,979) | 581,391 |

* Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments and other intangible assets.

## 5. REVENUE, OTHER REVENUE, INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts (net of value-added tax) during the year.

An analysis of the Group's revenue, other revenue, income and gains is as follows:

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| ***Revenue*** | | |
| Sale of goods | **10,143,296** | 7,711,532 |
| ***Other revenue, income and gains*** | | |
| Gain on sale of raw materials | **6,314** | 3,503 |
| Income from the provision of utilities | **5,138** | 6,489 |
| Bank interest income | **27,219** | 9,828 |
| Government grants and subsidies | **28,281** | 4,540 |
| Gain on repurchase of senior notes | **24,662** | — |
| Exchange gain | **52,491** | — |
| Others | **4,216** | 19,155 |
| | **148,321** | 43,515 |

Government grants and subsidies mainly represented funding received from government authorities to support certain of the Group's research and development activities. There are no unfulfilled conditions or contingencies related to these grants and subsidies.

## 6. FINANCE COSTS

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Interest on: | | |
| Bank loans | **17,175** | 52,971 |
| Senior notes | **93,361** | — |
| | **110,536** | 52,971 |

## 7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| Cost of inventories sold | | **7,691,796** | 5,678,254 |
| Depreciation | 12 | **166,947** | 118,076 |
| Amortisation of prepaid land lease payments | 13 | **6,184** | 4,819 |
| Amortisation of other intangible assets | | **774** | 417 |
| Research and development costs* | | **158,213** | 99,734 |
| Loss on disposal of items of property, plant and equipment | | **642** | 1,500 |
| Minimum lease payments under operating leases in respect of land, buildings, plants and machinery | | **6,465** | 10,700 |
| Auditors' remuneration | | **3,654** | 6,055 |
| Employee benefit expense (including directors' remuneration (note 8)): | | | |
| Wages and salaries | | **242,975** | 205,597 |
| Equity-settled share option expense | | **41,682** | 35,891 |
| Pension scheme contributions | | **34,955** | 29,292 |
| Staff welfare and other expenses | | **27,639** | 7,061 |
| | | **347,251** | 277,841 |
| Write-back of inventories to net realisable value | | **(522)** | (370) |
| (Reversal of impairment)/impairment of trade receivables, net* | 18 | **(1,222)** | 7,156 |
| Net rental income | | **(1,060)** | (1,979) |

* Research and development costs and the reversal of impairment /impairment of trade receivables, net are included in "Other expenses" in the consolidated statement of comprehensive income.

## 8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

### (a) Directors' remuneration

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

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Fees | **1,786** | 1,341 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **3,294** | 3,381 |
| Performance related bonuses | **325** | 1,633 |
| Equity-settled share option expense | **7,154** | 5,937 |
| Pension scheme contributions | **186** | 208 |
| | **10,959** | 11,159 |
| | **12,745** | 12,500 |

In the prior year, certain directors were granted share options, in respect of their services to the Group, under the Company's share option scheme. The fair value of such options, which has been recognised in the consolidated statement of comprehensive income over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

## 8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

### (a) Directors' remuneration (continued)

The remuneration of each of the directors for the year ended 31 December 2011 is set out below:

| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Performance related bonuses RMB'000 | Equity-settled share option expense RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| Mr. Wong Luen Hei | — | 598 | 50 | — | 10 | 658 |
| Mr. Zuo Manlun | — | 598 | 50 | 1,434 | 10 | 2,092 |
| Ms. Zuo Xiaoping | — | 598 | 50 | 862 | 10 | 1,520 |
| Mr. Lai Zhiqiang | — | 300 | 25 | 862 | 31 | 1,218 |
| Mr. Kong Zhaocong | — | 300 | 25 | 862 | 31 | 1,218 |
| Mr. Chen Guonan | — | 300 | 25 | 719 | 31 | 1,075 |
| Dr. Lin Shaoquan | — | 300 | 25 | 719 | 7 | 1,051 |
| Mr. Huang Guirong | — | 300 | 25 | 719 | 46 | 1,090 |
| Mr. Luo Jianfeng | 598 | — | 50 | 719 | 10 | 1,377 |
| | 598 | 3,294 | 325 | 6,896 | 186 | 11,299 |
| **Non-executive director** | | | | | | |
| Mr. Lin Dewei | 378 | — | — | 258 | — | 636 |
| ***Independent non-executive directors*** | | | | | | |
| Dr. Bai Chongen | 270 | — | — | — | — | 270 |
| Mr. Fung Pui Cheung | 270 | — | — | — | — | 270 |
| Mr. Wong Kwok Ho, Jonathan | 270 | — | — | — | — | 270 |
| | 810 | — | — | — | — | 810 |
| | 1,786 | 3,294 | 325 | 7,154 | 186 | 12,745 |

## 8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

### (a) Directors' remuneration (continued)

The remuneration of each of the directors for the year ended 31 December 2010 is set out below:

| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Performance related bonuses RMB'000 | Equity-settled share option expense RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| Mr. Wong Luen Hei | — | 627 | 52 | — | 10 | 689 |
| Mr. Zuo Manlun | — | 627 | 52 | 1,190 | 10 | 1,879 |
| Ms. Zuo Xiaoping | — | 627 | 52 | 715 | 10 | 1,404 |
| Mr. Lai Zhiqiang | — | 300 | 300 | 715 | 30 | 1,345 |
| Mr. Kong Zhaocong | — | 300 | 300 | 715 | 27 | 1,342 |
| Mr. Chen Guonan | — | 300 | 300 | 597 | 33 | 1,230 |
| Dr. Lin Shaoquan | — | 300 | 300 | 597 | 33 | 1,230 |
| Mr. Huang Guirong | — | 300 | 225 | 597 | 55 | 1,177 |
| Mr. Luo Jianfeng | 575 | — | 52 | 597 | — | 1,224 |
| | 575 | 3,381 | 1,633 | 5,723 | 208 | 11,520 |
| **Non-executive director** | | | | | | |
| Mr. Lin Dewei | 244 | — | — | 214 | — | 458 |
| ***Independent non-executive directors*** | | | | | | |
| Dr. Bai Chongen | 174 | — | — | — | — | 174 |
| Mr. Fung Pui Cheung | 174 | — | — | — | — | 174 |
| Mr. Wong Kwok Ho, Jonathan | 174 | — | — | — | — | 174 |
| | 522 | — | — | — | — | 522 |
| | 1,341 | 3,381 | 1,633 | 5,937 | 208 | 12,500 |

No director waived or agreed to waive any emolument and no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

There were no other emoluments paid or payable to the independent non-executive directors during the year (2010: Nil).

### (b) Five highest paid employees

The Group's five highest paid employees during the year were all directors. Details of the remuneration of the directors during the year are set out in note 8(a) above.

## 9. INCOME TAX EXPENSE

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Current - PRC | | |
| Charge for the year | **276,989** | 238,558 |
| Overprovision in prior years | **(8,830)** | (5,273) |
| | **268,159** | 233,285 |
| Deferred (note 25) | **28,078** | 8,048 |
| Total tax charge for the year | **296,237** | 241,333 |

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

### Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2010: Nil).

### PRC corporate income tax

The Group's income tax provision in respect of its operations in Mainland China has been calculated at the applicable tax rates on the taxable profits for the years ended 31 December 2011 and 2010, based on the existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the majority of the Company's subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Profit before tax | **1,556,933** | 1,373,516 |
| Tax at the PRC corporate income tax rate of 25% | **389,233** | 343,379 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **—** | 10,690 |
| Effect of tax concessions for certain subsidiaries | **(152,900)** | (149,070) |
| Share of loss of a jointly-controlled entity | **7** | — |
| Income not subject to tax | **(17,808)** | — |
| Expenses not deductible for tax | **16,008** | 12,970 |
| Tax losses utilised from previous years | **—** | (346) |
| Tax losses not recognised | **29,726** | 1,983 |
| Adjustments in respect of current tax of previous years | **(8,830)** | (5,273) |
| Effect of withholding tax at 5% on the distributable profits of the Company's subsidiaries in the PRC | **40,801** | 27,000 |
| Tax charge at the Group's effective rate | **296,237** | 241,333 |

## 10. DIVIDENDS

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Dividends recognised as distribution during the year: | | |
| 2010 final – HK12 cents (2010: 2009 final dividend nil) per ordinary share | **303,026** | — |

The final dividend of HK12 cents in respect of the year ended 31 December 2011 (2010: final dividend of HK12 cents in respect of the year ended 31 December 2010) per ordinary share has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

## 11. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculations of basic and diluted earnings per share are based on:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| **Earnings** | | |
| Profit attributable to owners of the Company used in the basic earnings per share calculation | **1,260,758** | 1,132,183 |

| | Number of Shares 2011 | 2010 |
|---|---|---|
| **Shares** | | |
| Weighted average number of ordinary shares of the Company in issue used in the basic earnings per share calculation | **3,002,907,794** | 2,642,465,753 |
| Effect of dilution - weighted average number of ordinary shares: share options | **73,937,711** | 32,948,863 |
| | **3,076,845,505** | 2,675,414,616 |

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2011 includes 3,000,000,000 ordinary shares in issue as at 31 December 2010 and 2,907,794 shares derived from the weighted average of 5,906,950 ordinary shares issued upon the exercise of share options.

The calculation of the diluted earnings per share amount for the year ended 31 December 2011 is based on the profit for the year attributable to owners of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year ended 31 December 2011, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings RMB'000 | Plant and machinery RMB'000 | Furniture, fixtures and office equipment RMB'000 | Motor vehicles RMB'000 | Leasehold improvements RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2011 | 680,240 | 986,073 | 29,022 | 65,373 | 3,179 | 257,726 | 2,021,613 |
| Additions | 57,472 | 361,089 | 12,885 | 17,588 | 243 | 486,428 | 935,705 |
| Transfers | 101,439 | 114,313 | — | — | — | (215,752) | — |
| Disposals | (587) | (1,547) | (2,203) | (633) | — | — | (4,970) |
| Exchange realignment | (471) | — | (3) | (340) | — | — | (814) |
| At 31 December 2011 | **838,093** | **1,459,928** | **39,701** | **81,988** | **3,422** | **528,402** | **2,951,534** |
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2011 | (73,445) | (199,139) | (11,101) | (31,027) | (983) | — | (315,695) |
| Depreciation provided during the year | (33,646) | (115,310) | (5,496) | (10,687) | (1,808) | — | (166,947) |
| Disposals | 179 | 774 | 578 | 168 | — | — | 1,699 |
| Exchange realignment | 15 | — | — | 153 | — | — | 168 |
| At 31 December 2011 | **(106,897)** | **(313,675)** | **(16,019)** | **(41,393)** | **(2,791)** | **—** | **(480,775)** |
| **Net carrying amount** | | | | | | | |
| At 31 December 2011 | **731,196** | **1,146,253** | **23,682** | **40,595** | **631** | **528,402** | **2,470,759** |
| **Cost** | | | | | | | |
| At 1 January 2010 | 437,242 | 698,986 | 20,524 | 54,955 | 3,826 | 289,361 | 1,504,894 |
| Additions | 43,661 | 229,309 | 8,726 | 14,292 | 633 | 234,845 | 531,466 |
| Transfers | 200,384 | 65,777 | — | — | 319 | (266,480) | — |
| Disposals | (1,047) | (7,999) | (228) | (3,874) | (1,599) | — | (14,747) |
| At 31 December 2010 | 680,240 | 986,073 | 29,022 | 65,373 | 3,179 | 257,726 | 2,021,613 |
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2010 | (48,935) | (120,149) | (7,099) | (25,099) | (877) | — | (202,159) |
| Depreciation provided during the year | (24,668) | (79,409) | (4,137) | (9,013) | (849) | — | (118,076) |
| Disposals | 158 | 419 | 135 | 3,085 | 743 | — | 4,540 |
| At 31 December 2010 | (73,445) | (199,139) | (11,101) | (31,027) | (983) | — | (315,695) |
| **Net carrying amount** | | | | | | | |
| At 31 December 2010 | 606,795 | 786,934 | 17,921 | 34,346 | 2,196 | 257,726 | 1,705,918 |

The Group's secured bank loans were secured by certain of the Group's buildings and machinery, which had an aggregate net carrying amount of approximately RMB129,561,000 (2010: RMB475,064,000) as at 31 December 2011.

## 13. PREPAID LAND LEASE PAYMENTS

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| At 1 January | | **253,661** | 210,115 |
| Additions | | **116,685** | 48,365 |
| Recognised during the year | 7 | **(6,184)** | (4,819) |
| Carrying amount at 31 December | | **364,162** | 253,661 |
| Current portion included in prepayments, deposits and other receivables | 19 | **(8,097)** | (5,049) |
| Non-current portion | | **356,065** | 248,612 |

The leasehold land is situated in Mainland China and is held under a medium-term lease.

The Group's secured bank loans were secured by certain of the Group's prepaid land lease payments, which had an aggregate net carrying amount of approximately RMB26,914,000 (2010: RMB23,144,000) as at 31 December 2011.

## 14. INVESTMENTS IN SUBSIDIARIES AND BALANCES WITH SUBSIDIARIES

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Unlisted shares, at cost | **—** | — |
| Advances to subsidiaries | **2,131,878** | 2,226,907 |
| Capital contribution in respect of employee share-based compensation | **61,319** | 28,945 |
| | **2,193,197** | 2,255,852 |

The advances to subsidiaries of RMB2,131,878,000 (2010: RMB2,226,907,000) included in the investments in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment.

The loans to a subsidiary of RMB1,365,073,000 (2010: Nil) are unsecured, bear interest at 0.81% below the applicable benchmark lending rates announced by the People's Bank of China and are repayable in 2016.

The amounts due from a subsidiary included in the Company's current assets of RMB184,938,000 (2010: Nil) are unsecured, repayable on demand and bearing interest at a fixed rate of 5.75% per annum except for the amount of RMB2,556,000 (2010: Nil) which is interest-free.

## 14. INVESTMENTS IN SUBSIDIARIES AND BALANCES WITH SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary share capital/ registered capital | Percentage of equity attributable to the Company Direct | Percentage of equity attributable to the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| Starcorp Investment Holdings Ltd. | BVI | US$1 | 100% | — | Investment holding |
| Great China International Holdings Ltd. | BVI | US$1 | 100% | — | Investment holding |
| China Liansu Investment Limited | BVI | US$1 | 100% | — | Investment holding |
| China Liansu Development Limited | BVI | US$1 | 100% | — | Investment holding |
| Liansu Group Company Limited | Hong Kong | HK$13,000,000 | — | 100% | Investment holding and engaged in the sale of plastic pipes and pipe fittings |
| Guangdong Liansu Technology Industrial Co., Ltd. * | PRC | HK$1,903,760,000 | — | 100% | Manufacture and sale of plastic pipes and pipe fittings |
| Heshan Liansu Industrial Development Co., Ltd. ** | PRC | HK$269,930,000 | — | 100% | Manufacture and sale of plastic pipes and pipe fittings |
| Liansu Technology Development (Wuhan) Co., Ltd. ** | PRC | HK$111,000,000 | — | 100% | Manufacture and sale of plastic pipes and pipe fittings |
| Liansu Technology Development (Guiyang) Co., Ltd. ** | PRC | HK$115,000,000 | — | 100% | Manufacture and sale of plastic pipes and pipe fittings |
| Nanjing Liansu Technology Industrial Co., Ltd. ** | PRC | US$26,750,000 | — | 100% | Manufacture and sale of plastic pipes and pipe fittings |
| Liansu Municipal Pipe (Hebei) Co., Ltd. ** | PRC | US$27,790,000 | — | 100% | Manufacture and sale of plastic pipes and pipe fittings |
| Henan Liansu Industrial Co., Ltd. # | PRC | RMB200,000,000 | — | 100% | Manufacture and sale of plastic pipes and pipe fittings |

* Registered as a wholly-foreign-owned enterprise under the laws of the PRC.
** Registered as equity joint ventures under the laws of the PRC.
# Registered as a limited liability company under the laws of the PRC.

The above table lists the Company's subsidiaries which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the Group's net assets. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 15. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

| | **2011 RMB'000** | 2010 RMB'000 |
|---|---|---|
| Share of net assets | **4,971** | — |

Particulars of the jointly-controlled entity are as follows:

| Name | Registered capital | Place of registration | Percentage of Ownership interest | Percentage of Voting power | Percentage of Profit sharing | Principal activities |
|---|---|---|---|---|---|---|
| Guangdong Liansu & Epco Residential Design Service Co., Ltd. | RMB10,000,000 | PRC | 50 | 50 | 50 | Provision of household decoration design work and maintenance services |

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

| | **2011 RMB'000** |
|---|---|
| Share of the jointly-controlled entity's assets and liabilities: | |
| Current assets | **4,975** |
| Current liabilities | **(4)** |
| Net assets | **4,971** |
| Share of the jointly-controlled entity's results: | |
| Total income | **1** |
| Total expenses | **(30)** |
| Net loss | **(29)** |

## 16. AVAILABLE-FOR-SALE INVESTMENTS

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Listed equity investments in Hong Kong, at fair value | **156,508** | — |

During the year, the loss in respect of the Group's available-for-sale investments recognised in other comprehensive loss amounted to RMB20,022,000 (2010: Nil).

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets. All these investments were disposed of at a cash consideration of approximately RMB191,430,000 subsequent to the end of the reporting period.

## 17. INVENTORIES

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Raw materials | **639,363** | 629,734 |
| Work in progress | **48,691** | 35,972 |
| Finished goods | **605,964** | 473,746 |
| | **1,294,018** | 1,139,452 |

## 18. TRADE AND BILLS RECEIVABLES

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Trade receivables | **718,856** | 675,099 |
| Bills receivable | **32,811** | 10,847 |
| Less: Provision for impairment | **(3,309)** | (4,531) |
| | **748,358** | 681,415 |

The Group's major customers are independent distributors, civil contractors, property developers, utility companies and municipalities in Mainland China. Depending on the market condition, marketing tactics and relationships with the customers, the Group's trading terms with its independent distributors may change from settlement on an advance receipt basis to giving a credit period of generally one month or more, if appropriate. The Group does not have a standardised and universal credit period granted to the non-distributor customers. The credit period of an individual non-distributor customer is considered on a case-by-case basis and is set out in the sales contracts, as appropriate. Sales to small, new, or short-term customers are normally expected to be settled on an advance receipt basis or shortly after the goods delivery. No credit term period is set by the Group for small, new and short-term customers.

Trade and bills receivables are unsecured and interest-free.

An aged analysis of the Group's trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Within 3 months | **580,613** | 592,908 |
| 4 to 6 months | **98,441** | 51,072 |
| 7 to 12 months | **40,722** | 19,926 |
| 1 to 2 years | **26,431** | 16,029 |
| 2 to 3 years | **2,049** | 1,480 |
| Over 3 years | **102** | — |
| | **748,358** | 681,415 |

The movements in the provision for impairment of the Group's trade receivables are as follows:

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| At 1 January | **4,531** | 8,506 |
| Impairment losses (reversed)/recognised (note 7) | **(1,222)** | 7,156 |
| Amount written off as uncollectible | **—** | (11,131) |
| At 31 December | **3,309** | 4,531 |

## 18. TRADE AND BILLS RECEIVABLES (continued)

The above provision of RMB3,309,000 (2010: RMB4,531,000) as at 31 December 2011 is for individually impaired trade receivables with their carrying amount before provision of RMB3,309,000 (2010: RMB4,581,000). The individually impaired trade receivables relate to customers that were in default or delinquency in payments.

The aged analysis of the Group's trade and bills receivables that are neither individually nor collectively considered to be impaired is as follows:

| | **2011** **RMB'000** | 2010 RMB'000 |
|---|---|---|
| Neither past due nor impaired | **559,037** | 505,825 |
| Past due but not impaired: | | |
| Less than 3 months past due | **141,545** | 141,767 |
| 4 to 6 months past due | **15,834** | 13,702 |
| 7 to 12 months past due | **22,714** | 12,806 |
| 1 to 2 years past due | **9,123** | 7,276 |
| 2 to 3 years past due | **105** | 39 |
| | **748,358** | 681,415 |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors believe that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

## 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Note | **2011** **RMB'000** | 2010 RMB'000 |
|---|---|---|---|
| Prepayments | | **273,385** | 216,238 |
| Current portion of prepaid land lease payments | 13 | **8,097** | 5,049 |
| Value-added tax recoverable | | **52,245** | 31,750 |
| Deposits | | **9,413** | 7,818 |
| Other receivables | | **4,492** | 9,580 |
| | | **347,632** | 270,435 |

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

## 20. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

| | Group 2011 RMB'000 | Group 2010 RMB'000 |
|---|---|---|
| Cash and bank balances | **1,376,725** | 1,113,893 |
| Time deposits | **739,916** | 409,443 |
| | **2,116,641** | 1,523,336 |
| Less: Restricted cash: | | |
| Guarantee deposits as performance bonds | **450** | 1,638 |
| Guarantee deposits for issuance of bank acceptance notes | **—** | 21,406 |
| Guarantee deposits for issuance of letters of credit | **1,239** | — |
| | **1,689** | 23,044 |
| Cash and cash equivalents | **2,114,952** | 1,500,292 |
| Denominated in RMB (note) | **2,079,069** | 1,269,848 |
| Denominated in other currencies | **37,572** | 253,488 |
| | **2,116,641** | 1,523,336 |

| | Company 2011 RMB'000 | Company 2010 RMB'000 |
|---|---|---|
| Cash and bank balances | **16,651** | 4,084 |
| Time deposits | **—** | 127,689 |
| Cash and cash equivalents | **16,651** | 131,773 |
| Denominated in RMB (note) | **14,981** | — |
| Denominated in other currencies | **1,670** | 131,773 |
| | **16,651** | 131,773 |

Note:

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods between one day and three months and earn interest at the respective short-term time deposit rates. The bank balances and restricted cash are deposited with creditworthy banks with no recent history of default.

## 21. TRADE AND BILLS PAYABLES

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Trade payables | **179,397** | 221,355 |
| Bills payable | **11,917** | 21,405 |
| | **191,314** | 242,760 |

The trade payables are interest-free. The average credit period for trade purchases is 30 to 90 days.

An aged analysis of the Group's trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Within 3 months | **188,436** | 240,190 |
| 4 to 6 months | **860** | 1,473 |
| 7 to 12 months | **1,306** | 596 |
| 1 to 2 years | **517** | 327 |
| 2 to 3 years | **21** | 11 |
| Over 3 years | **174** | 163 |
| | **191,314** | 242,760 |

## 22. OTHER PAYABLES AND ACCRUALS

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Advances from customers | **289,735** | 254,376 |
| Accruals | **24,707** | 22,316 |
| Salaries and welfare payables | **57,042** | 25,511 |
| Other payables | **285,963** | 137,555 |
| | **657,447** | 439,758 |

The above balances are interest-free and have no fixed terms of repayment.

## 23. BANK LOANS AND OTHER BORROWINGS

| Group | 2011 Effective interest rate (%) | 2011 Maturity | 2011 RMB'000 | 2010 Effective interest rate (%) | 2010 Maturity | 2010 RMB'000 |
|---|---|---|---|---|---|---|
| **Current** | | | | | | |
| Secured bank loans | **2.90-5.40** | **2012** | **70,004** | 5.30-5.94 | 2011 | 178,000 |
| Unsecured bank loans | | | **—** | 1.67-5.40 | 2011 | 452,326 |
| | | | **70,004** | | | 630,326 |
| **Non-current** | | | | | | |
| Secured bank loans | **5.40** | **2013** | **16,400** | 5.40 | 2012 | 104,000 |
| Unsecured bank loans | | | **—** | 5.40 | 2013 | 50,000 |
| Senior notes (note 24) | **8.63** | **2016** | **1,658,304** | | | — |
| | | | **1,674,704** | | | 154,000 |
| | | | **1,744,708** | | | 784,326 |

| | **2011 RMB'000** | 2010 RMB'000 |
|---|---|---|
| Analysed into bank loans repayable: | | |
| Within one year or on demand | **70,004** | 630,326 |
| In the second year | **16,400** | 104,000 |
| In the third to fifth years, inclusive | **—** | 50,000 |
| | **86,404** | 784,326 |
| Analysed into other borrowings repayable: | | |
| In the third to fifth years, inclusive | **1,658,304** | — |
| | **1,744,708** | 784,326 |

## 23. BANK LOANS AND OTHER BORROWINGS (continued)

| Company | 2011 Effective interest rate (%) | 2011 Maturity | 2011 RMB'000 | 2010 Effective interest rate (%) | 2010 Maturity | 2010 RMB'000 |
|---|---|---|---|---|---|---|
| **Current** | | | | | | |
| Unsecured bank loans | | | — | 1.67 | 2011 | 255,270 |
| **Non-current** | | | | | | |
| Senior notes (note 24) | **8.63** | **2016** | **1,658,304** | | | — |
| | | | **1,658,304** | | | 255,270 |

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Analysed into bank loans repayable: | | |
| Within one year or on demand | — | 255,270 |
| Analysed into other borrowings repayable: | | |
| In the third to fifth years, inclusive | **1,658,304** | — |
| | **1,658,304** | 255,270 |

As at 31 December 2011, all the Group's bank loans are denominated in RMB except for the aggregate amount of RMB6,004,000 which is denominated in US$ (2010: RMB306,326,000 which is denominated in HK$).

As at 31 December 2011, the secured bank loans are secured by the pledge of:

(i) the Group's certain buildings and machinery with an aggregate net carrying amount of RMB129,561,000 (2010: RMB475,064,000); and

(ii) the Group's certain prepaid land lease payments with an aggregate net carrying amount of RMB26,914,000 (2010: RMB23,144,000).

## 24. SENIOR NOTES

On 13 May 2011, the Company issued senior notes with an aggregate principal amount of US$300,000,000 (approximately RMB1,950,022,000 equivalent). The senior notes are listed on the Singapore Exchange Securities Trading Limited. The senior notes carry interest at 7.875% per annum, payable semi-annually in arrears on 13 May and 13 November, and will mature on 13 May 2016 unless redeemed earlier. The Company can at its option redeem all or a portion of the senior notes at any time prior to the maturity date in accordance with the purchase agreement.

The senior notes are guaranteed by certain of the Company's subsidiaries and secured by a first-priority fixed charge over the shares of those subsidiaries providing such guarantee.

During the year, the Company repurchased and cancelled US$31,300,000 in aggregate principal amount of the senior notes (approximately RMB197,825,000 equivalent) with a gain of RMB24,662,000 recognised in the consolidated statement of comprehensive income. The outstanding aggregate principal amount of the senior notes was US$268,700,000 as at 31 December 2011.

The senior notes recognised in the statements of financial position are calculated as follows:

| | Note | **2011**<br>**RMB'000** |
|---|---|---|
| Senior notes issued on 13 May 2011 | | **1,891,725** |
| Repurchase of senior notes | | **(197,825)** |
| Interest expense | 6 | **93,361** |
| Interest paid | | **(77,316)** |
| Exchange realignment | | **(51,641)** |
| Carrying amount at 31 December | | **1,658,304** |

As at 31 December 2011, the fair value of the senior notes based on the quoted market price provided by a leading global financial market data provider was US$227,723,000 (approximately RMB1,434,860,000 equivalent).

## 25. DEFERRED TAX

The following are the major deferred tax assets/(liabilities) recognised and their movements during the year:

| | Provision for impairment of assets | Fair value adjustments arising from acquisition of a subsidiary | Withholding tax on distributable profits of subsidiaries in the PRC | Deferred government grants | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2010 | 1,258 | (3,600) | (38,149) | 6,056 | (34,435) |
| (Charged) / credited to the consolidated statement of comprehensive income for the year (note 9) | (564) | 105 | (3,134)* | (4,455) | (8,048) |
| At 31 December 2010 and 1 January 2011 | 694 | (3,495) | (41,283) | 1,601 | (42,483) |
| (Charged) / credited to the consolidated statement of comprehensive income for the year (note 9) | (183) | 105 | (28,000)* | — | (28,078) |
| At 31 December 2011 | **511** | **(3,390)** | **(69,283)** | **1,601** | **(70,561)** |

* The amount represented the current year deferred tax provision of RMB40,801,000 (2010: RMB27,000,000) on the distributable profits of the Company's subsidiaries in the PRC after offsetting the realised deferred tax liabilities of RMB12,801,000 (2010: RMB23,866,000) arising from dividends declared by these subsidiaries to their foreign investors during the year.

| | 2011 | 2010 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December | **2,112** | 2,295 |
| Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December | **(72,673)** | (44,778) |
| | **(70,561)** | (42,483) |

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The applicable rate for the Group is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of their earnings generated from 1 January 2008.

As at 31 December 2011, the Group has not recognised deferred tax liabilities of RMB45,276,000 (2010: RMB25,475,000) in respect of temporary differences relating to the undistributed profits of subsidiaries, amounting to RMB905,534,000 (2010: RMB509,508,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

## 26. DEFERRED INCOME

Deferred income represented government grants received by the Group as financial subsidies for its construction of new factory premises in Changchun and Daqing. The grants received are released to the consolidated statement of comprehensive income over the expected useful lives of the relevant properties by equal annual instalments.

## 27. SHARE CAPITAL

### Shares

| | **2011** | 2010 |
|---|---|---|
| **Authorised:** | | |
| 20,000,000,000 (2010: 20,000,000,000) ordinary shares of HK$0.05 each | **HK$1,000,000,000** | HK$1,000,000,000 |
| **Issued and fully paid:** | | |
| 3,005,906,950 (2010: 3,000,000,000) ordinary shares of HK$0.05 each | **HK$150,295,348** | HK$150,000,000 |
| Equivalent to | **RMB131,537,000** | RMB131,297,000 |

The following changes in the Company's issued and fully paid share capital took place during the year:

| | **Number of ordinary shares of HK$0.05 each** | **Nominal value of ordinary shares** | |
|---|---|---|---|
| | | HK$'000 | RMB'000 |
| As at 31 December 2010 and 1 January 2011 | 3,000,000,000 | 150,000 | 131,297 |
| Share options exercised (note) | 5,906,950 | 295 | 240 |
| As at 31 December 2011 | **3,005,906,950** | **150,295** | **131,537** |

Note:

Pursuant to the exercise of the share options at the exercise price of HK$1.82 each granted by the Company, the Company issued a total of 5,906,950 ordinary shares of HK$0.05 each for a total cash consideration, before expenses, of approximately HK$10,751,000 (approximately RMB8,716,000 equivalent) during the year. The shares issued during the year rank pari passu in all respects with the then existing shares of the Company.

## 28. RESERVES

### (a) Group

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

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries which are established in the PRC has been transferred to reserve funds which are restricted as to use.

### (b) Company

| | Note | Share premium RMB'000 | Share option reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2010 | | — | — | 1 | (10,378) | (10,377) |
| Total comprehensive income for the year | | — | — | (59,489) | 357,636 | 298,147 |
| Issue of shares | | 1,673,604 | — | — | — | 1,673,604 |
| Equity-settled share option arrangements | | — | 35,891 | — | — | 35,891 |
| At 31 December 2010 and 1 January 2011 | | 1,673,604 | 35,891 | (59,488) | 347,258 | 1,997,265 |
| Total comprehensive income for the year | | — | — | (97,744) | 324,271 | 226,527 |
| Issue of shares | | 13,645 | (5,169) | — | — | 8,476 |
| Additional listing expenses | | (3,259) | — | — | — | (3,259) |
| Equity-settled share option arrangements | | — | 41,682 | — | — | 41,682 |
| Dividends recognised as distributions to owners | 10 | — | — | — | (303,026) | (303,026) |
| At 31 December 2011 | | **1,683,990** | **72,404** | **(157,232)** | **368,503** | **1,967,665** |

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

## 29. SHARE OPTION SCHEMES

On 14 May 2010 (the "Adoption Date"), the Company adopted a share option scheme (the "Share Option Scheme") and a pre-initial public offering share option scheme (the "Pre-IPO Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

### Share Option Scheme

Eligible participants of the Share Option Scheme ("Eligible Persons") include (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group ("Executive"), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group; (b) a director or proposed director (including an independent non-executive director) of any member of the Group; (c) a direct or indirect shareholder of any member of the Group; (d) a supplier of goods or services to any member of the Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and (g) an associate of any of the persons referred to in paragraphs (a) to (c) above.

The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date. An offer of the grant of a share option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the date of the Board approving the grant of the share options (the "Offer Date") provided that no such grant of an option may be accepted after the expiry of the effective period of the Share Option Scheme. An option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favour of the Company of HK$1 by way of consideration for the grant thereof is received by the Company on or before the date upon which an offer of an option must be accepted by the relevant Eligible Person, being a date not later than 28 days after the Offer Date. Such remittance shall in no circumstances be refundable.

No share options have been granted under the Share Option Scheme as at 31 December 2011 (2010: Nil).

### Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to give the employees an opportunity to have a personal stake in the Company and help motivate them to optimise their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such employees who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. The principal terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Share Option Scheme except that:

## 29. SHARE OPTION SCHEMES (continued)

### Pre-IPO Share Option Scheme (continued)

(i) the subscription price per share under the Pre-IPO Share Option Scheme shall be at a 30% discount to the offer price of HK$2.6; and

(ii) all options granted under the Pre-IPO Share Option Scheme will only be vested in the following manner:

| Vesting period | Maximum percentage of options exercisable |
|---|---|
| From the 1st anniversary of the Listing Date until the day immediately before the 2nd anniversary of the Listing Date | 25% of the total number of the shares under options |
| From the 2nd anniversary of the Listing Date until the day immediately before the 3rd anniversary of the Listing Date | 35% of the total number of the shares under options |
| From the 3rd anniversary of the Listing Date until the day immediately before the 4th anniversary of the Listing Date | 40% of the total number of the shares under options |

The option period shall be expired on the fourth anniversary of the Listing Date.

All the options under the Pre-IPO Share Option Scheme were granted on 21 May 2010 at a consideration of HK$1 paid by each grantee. The total number of shares of the Company which may be issued upon the exercise of all options granted under the Pre-IPO Share Option Scheme is 115,378,000.

Pre-IPO Share Options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The fair value of the Pre-IPO Share Options granted on 21 May 2010 was estimated at approximately HK$128,071,000, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| Batch | 1 | 2 | 3 |
|---|---|---|---|
| Dividend yield (%) | 3.169 | 3.169 | 3.169 |
| Expected volatility (%) | 56.58 | 56.58 | 56.58 |
| Risk-free rate (%) | 0.794 | 0.956 | 1.126 |
| Expected option period (Years) | 2.59 | 3.09 | 3.59 |

## 29. SHARE OPTION SCHEMES (continued)

### Pre-IPO Share Option Scheme (continued)

The following share options were outstanding under the Pre-IPO Share Option Scheme during the year:

| | Exercise price HK$ per share | Number of options '000 |
|---|---|---|
| At 1 January 2011 | 1.82 | 114,801 |
| Exercised during the year | 1.82 | (5,907) |
| Forfeited during the year | 1.82 | (1,670) |
| At 31 December 2011 | **1.82** | **107,224** |

The weighted average share price at the date of exercise for share options exercised during the year was HK$6.52 per share (2010: No share options were exercised).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

**2011**

| Number of options | Exercise price* HK$ per share | Exercise period |
|---|---|---|
| 22,736 | 1.82 | 23 June 2011 to 22 June 2014 |
| 39,428 | 1.82 | 23 June 2012 to 22 June 2014 |
| 45,060 | 1.82 | 23 June 2013 to 22 June 2014 |
| 107,224 | | |

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

The Group recognised a share option expense of RMB41,682,000 for the year ended 31 December 2011 (2010: RMB35,891,000) in relation to the Pre-IPO Share Options granted by the Company.

At the end of the reporting period, the Company had 107,223,800 (2010: 114,801,000) Pre-IPO Share Options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of the outstanding Pre-IPO Share Options would, under the Company's present capital structure, result in the issue of additional 107,223,800 (2010: 114,801,000) ordinary shares of the Company, representing 3.57% (2010: 3.80%) of the Company's shares in issue as at that date and additional share capital of approximately HK$5,361,000 (2010: HK$5,740,000) and share premium of approximately HK$189,786,000 (2010: HK$203,198,000) (before issue expenses).

## 30. MAJOR NON-CASH TRANSACTION

Pursuant to the resolution passed on 14 May 2010 and in connection with the Company's initial public offering, the Company capitalised HK$199,600,000 (approximately RMB174,710,000 equivalent), a portion of an amount due to Mr. Wong Luen Hei, by allotting and issuing an aggregate of 2,242,000,000 ordinary shares to New Fortune, a company wholly-owned by Mr. Wong Luen Hei and the then sole beneficial shareholder of the Group, credited as fully paid at par during the year ended 31 December 2010.

## 31. CONTINGENT LIABILITIES

As at 31 December 2011, the Group and the Company did not have any significant contingent liabilities.

As at 31 December 2010, the Company has provided a guarantee, amounting to RMB51,056,000, to a bank in connection with a loan granted to a subsidiary.

## 32. PLEDGE OF ASSETS

Details of the Group's bank loans and other borrowings which are secured by the Group's assets are included in note 23 to the financial statements.

## 33. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases certain production plants under operating lease arrangements, with leases negotiated for a term of one year.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | **2011**<br>**RMB'000** | 2010<br>RMB'000 |
|---|---|---|
| Within one year | **641** | 855 |

## 33. OPERATING LEASE ARRANGEMENTS (continued)

### (b) As lessee

The Group leases certain of its production plants, warehouses and equipment under operating lease arrangements. Leases are negotiated for terms ranging from one to eight years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **2011 RMB'000** | 2010 RMB'000 |
|---|---|---|
| Within one year | **4,606** | 5,816 |
| In the second to fifth years, inclusive | **13,274** | 14,323 |
| After five years | **6,462** | 9,693 |
| | **24,342** | 29,832 |

## 34. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

| | **2011 RMB'000** | 2010 RMB'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| Land, property, plant and equipment | **417,306** | 138,459 |

## 35. RELATED PARTY TRANSACTIONS

### (a) The Group had the following material transactions with related parties during the year:

| | Notes | **2011 RMB'000** | 2010 RMB'000 |
|---|---|---|---|
| Companies under the common control of a director: | | | |
| Sales of goods | (i) | **—** | 735 |
| Sales of raw materials | (ii) | **—** | 512 |
| Provision of utilities | (iii) | **5,138** | 5,096 |
| Rental income | (iv) | **854** | 854 |
| Purchases of materials | (v) | **1,689** | 2,718 |
| Purchases of equipment | (vi) | **50,849** | 41,188 |
| Licensing trademarks | (vii) | **583** | 850 |
| Licensing patents | (vii) | **40** | 43 |
| Agency services from companies under the control of a director | (viii) | **2,314** | 256 |
| Rental expense paid to directors | (ix) | **3,410** | 3,420 |

## 35. RELATED PARTY TRANSACTIONS (continued)

### (a) The Group had the following material transactions with related parties during the year: (continued)

Notes:

(i) The sales of goods to related companies were conducted in accordance with terms agreed between the Group and its related companies, determined with reference to similar transactions with third party customers.

(ii) Raw materials were sold to related companies at cost plus mark-up.

(iii) Utilities were provided to related companies at cost.

(iv) Rental income was based on mutually agreed terms.

(v) Purchases of materials from related companies were made based on mutually agreed terms.

(vi) Purchases of equipment from related companies were made with reference to the prices and conditions offered by the related companies to their third party customers.

(vii) Licensing trademarks and patents to related companies were conducted based on mutually agreed terms.

(viii) Agency services were provided by related companies based on mutually agreed terms.

(ix) Properties including office premises, cafeteria, workshops and warehouses were leased to the Group based on mutually agreed terms.

The related party transactions in respect of the above items also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

### (b) Commitments with related parties

Certain of the Group's subsidiaries have entered into lease agreements with directors to lease properties for operations. The operating lease commitments of RMB23,142,000 (2010: RMB25,847,000) with lease terms of three to nine years have been included in note 33(b) to the financial statements.

### (c) Compensation of the Group's key management personnel (including directors' remuneration (note 8))

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Short-term employee benefits | **6,025** | 7,211 |
| Post-employment benefits | **208** | 246 |
| Equity-settled share option expense | **7,840** | 6,687 |
| Total compensation paid to key management personnel | **14,073** | 14,144 |

## 36. FINANCIAL INSTRUMENTS AND FAIR VALUE

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

| Financial assets | Notes | Group 2011 RMB'000 | Group 2010 RMB'000 |
|---|---|---|---|
| **Available-for-sale investments** | | | |
| Available-for-sale investments | 16 | **156,508** | — |
| **Loans and receivables** | | | |
| Trade and bills receivables | 18 | **748,358** | 681,415 |
| Other receivables | 19 | **4,492** | 9,580 |
| Restricted cash | 20 | **1,689** | 23,044 |
| Cash and cash equivalents | 20 | **2,114,952** | 1,500,292 |
| | | **2,869,491** | 2,214,331 |
| | | **3,025,999** | 2,214,331 |

| Financial liabilities | Notes | Group 2011 RMB'000 | Group 2010 RMB'000 |
|---|---|---|---|
| **Financial liabilities at amortised cost** | | | |
| Trade and bills payables | 21 | **191,314** | 242,760 |
| Financial liabilities included in other payables and accruals | 22 | **285,963** | 163,066 |
| Bank loans and other borrowings | 23 | **1,744,708** | 784,326 |
| | | **2,221,985** | 1,190,152 |

| Financial assets | Notes | Company 2011 RMB'000 | Company 2010 RMB'000 |
|---|---|---|---|
| **Loans and receivables** | | | |
| Loans to a subsidiary | | **1,365,073** | — |
| Prepayment, deposits and other receivables | | **350** | 13 |
| Amounts due from a subsidiary | 14 | **184,938** | — |
| Cash and cash equivalents | 20 | **16,651** | 131,773 |
| | | **1,567,012** | 131,786 |

| Financial liabilities | Notes | Company 2011 RMB'000 | Company 2010 RMB'000 |
|---|---|---|---|
| **Financial liabilities at amortised cost** | | | |
| Bank loans and other borrowings | 23 | **1,658,304** | 255,270 |

## 36. FINANCIAL INSTRUMENTS AND FAIR VALUE (continued)

Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments. The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- The fair values of available-for-sale investments are derived from quoted prices in active market for identified assets, i.e. level 1 fair value hierarchy in accordance with HKFRS 7.
- The fair values of trade and bills receivables, other receivables, restricted cash, cash and cash equivalents, trade and bills payables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.
- The fair values of the bank loans and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

Except for the senior notes disclosed in note 24 to the financial statements, the carrying amounts of the Group's financial instruments recorded at amortised cost in the financial statements approximated to their fair values as at the end of the reporting period.

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and other borrowings and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The Broad reviews and agrees policies for managing each of these risks and they are summarised below.

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Interest rate risk

In respect of the floating interest rate instruments, the Group is subject to cash flow interest rate risk, while for the fixed interest rate instruments, the Group is subject to fair value interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's profit before tax by assuming the floating rate borrowings outstanding at the end of the reporting period were outstanding for the whole year.

| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax RMB'000 |
|---|---|---|
| Year ended 31 December 2011 | **50** | **(432)** |
| Year ended 31 December 2011 | **(50)** | **432** |
| Year ended 31 December 2010 | 50 | (3,922) |
| Year ended 31 December 2010 | (50) | 3,922 |

### Foreign currency risk

The Group's main businesses are located in Mainland China and most of the transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB, except for certain bank balances and bank loans and other borrowings denominated in HK$ and US$. The Group has not hedged its foreign exchange rate risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB against the relevant currencies, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and loans).

| | Increase/ (decrease) in HK$ or US$ rate % | Increase/ (decrease) in profit before tax RMB'000 |
|---|---|---|
| **2011** | | |
| If the RMB weakens against the HK$ | **5** | **1,419** |
| If the RMB strengthens against the HK$ | **(5)** | **(1,419)** |
| If the RMB weakens against the US$ | **5** | **(82,697)** |
| If the RMB strengthens against the US$ | **(5)** | **82,697** |
| 2010 | | |
| If the RMB weakens against the HK$ | 5 | 2,971 |
| If the RMB strengthens against the HK$ | (5) | (2,971) |

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

### Liquidity risk

Management aims to maintain sufficient cash and cash equivalents and available funding through various sources of finances to meet the Group's commitments.

The maturity profile of the Group's financial liabilities as at the end of each of the reporting periods, based on the contractual undiscounted payments, is as follows:

**Group**

| | **2011** | | | |
|---|---|---|---|---|
| | **Within 1 year RMB'000** | **1 to 2 years RMB'000** | **More than 2 years RMB'000** | **Total RMB'000** |
| Trade and bills payables | **191,314** | **—** | **—** | **191,314** |
| Financial liabilities included in other payables and accruals | **285,963** | **—** | **—** | **285,963** |
| Bank loans and other borrowings | **205,517** | **149,774** | **2,026,371** | **2,381,662** |
| | **682,794** | **149,774** | **2,026,371** | **2,858,939** |

| | 2010 | | | |
|---|---|---|---|---|
| | Within 1 year RMB'000 | 1 to 2 years RMB'000 | More than 2 years RMB'000 | Total RMB'000 |
| Trade and bills payables | 242,760 | — | — | 242,760 |
| Financial liabilities included in other payables and accruals | 163,066 | — | — | 163,066 |
| Bank loans and other borrowings | 654,983 | 107,520 | 50,354 | 812,857 |
| | 1,060,809 | 107,520 | 50,354 | 1,218,683 |

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Liquidity risk (continued)

**Company**

| | | 2011 | | |
|---|---|---|---|---|
| | **Within 1 year RMB'000** | **1 to 2 years RMB'000** | **More than 2 years RMB'000** | **Total RMB'000** |
| Bank loans and other borrowings | **133,328** | **133,328** | **2,026,371** | **2,293,027** |

| | | 2010 | | |
|---|---|---|---|---|
| | Within 1 year RMB'000 | 1 to 2 years RMB'000 | More than 2 years RMB'000 | Total RMB'000 |
| Bank loans and other borrowings | 257,319 | — | — | 257,319 |

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as going concern and to maintain reasonable capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a net borrowings to equity ratio, which is net borrowings divided by capital. Net borrowings include bank loans and other borrowings less cash and cash equivalents and restricted cash. Capital represents the total equity.

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Capital management (continued)

At the end of the reporting period, the Group's strategy was to maintain the net borrowings to equity ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The net borrowings to equity ratios at the end of the reporting periods were as follows:

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Bank loans and other borrowings | **1,744,708** | 784,326 |
| Less: Cash and cash equivalents | **(2,114,952)** | (1,500,292) |
| Restricted cash | **(1,689)** | (23,044) |
| Net cash | **(371,933)** | (739,010) |
| Total equity | **4,987,365** | 4,004,451 |
| Net borrowings to equity ratio | **N/A** | N/A |

## 38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 16 March 2012.

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue | **10,143,296** | 7,711,532 | 5,322,244 | 3,618,526 | 2,618,248 |
| Profit before tax | **1,556,933** | 1,373,516 | 799,414 | 170,741* | 98,774 * |
| Income tax expense | **(296,237)** | (241,333) | (155,443) | (34,827)* | (17,294 )* |
| Profit for the year | **1,260,696** | 1,132,183 | 643,971 | 135,914 | 81,480 |
| Attributable to: | | | | | |
| Owners of the Company | **1,260,758** | 1,132,183 | 643,971 | 135,481 | 75,360 |
| Non-controlling interests | **(62)** | – | – | 433 | 6,120 |
| | **1,260,696** | 1,132,183 | 643,971 | 135,914 | 81,480 |

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| ASSETS | | | | | |
| Non-current assets | **3,284,886** | 2,014,162 | 1,542,951 | 948,422 | 836,594 |
| Current assets | **4,506,649** | 3,614,638 | 1,955,800 | 1,180,933 | 1,211,573 |
| Total assets | **7,791,535** | 5,628,800 | 3,498,751 | 2,129,355 | 2,048,167 |
| LIABILITIES | | | | | |
| Current liabilities | **1,033,191** | 1,407,744 | 1,515,037 | 1,641,848 | 1,710,889 |
| Non-current liabilities | **1,770,979** | 216,605 | 941,726 | 63,393 | 88,000 |
| Total liabilities | **2,804,170** | 1,624,349 | 2,456,763 | 1,705,241 | 1,798,889 |
| EQUITY | | | | | |
| Equity attributable to owners of the Company | **4,986,975** | 4,004,451 | 1,041,988 | 424,114 | 244,075 |
| Non-controlling interests | **390** | — | — | — | 5,203 |
| Total equity | **4,987,365** | 4,004,451 | 1,041,988 | 424,114 | 249,278 |

Note:

The historical financial information of the Group for the years ended 31 December 2007, 2008 and 2009 was extracted from the Prospectus.

* The effect of discontinued operations was considered.

# GLOSSARY

| | |
|---|---|
| "Board" | The Board of Directors of the Company |
| "BVI" | The British Virgin Islands |
| "CIT" | Corporate income tax |
| "Code" | The Code on Corporate Governance Practices |
| "Company" or "China Liansu" | China Liansu Group Holdings Limited (中國聯塑集團控股有限公司) |
| "EBITDA" | Earnings before interest, taxes, depreciation and amortisation |
| "Group" | The Company and its subsidiaries |
| "Guangdong Liansu Electric" | Guangdong Liansu Electric Co., Ltd. (廣東聯塑電氣有限公司), a company indirectly wholly-owned by Mr. Wong Luen Hei and a connected person of the Company as defined under the Listing Rules |
| "Guangdong Liansu Machinery" | Guangdong Liansu Machinery Manufacturing Co., Ltd. (廣東聯塑機器製造有限公司), a company indirectly wholly-owned by Mr. Wong Luen Hei and a connected person of the Company as defined under the Listing Rules |
| "Hong Kong"/"HK" | Hong Kong Special Administrative Region of the PRC |
| "HK$" | Hong Kong dollar, the lawful currency of Hong Kong |
| "Listing Date" | 23 June 2010 |
| "Listing Rules" | The Rules Governing of the Listing of Securities on the Stock Exchange |
| "Model Code" | The Model Code for Securities Transactions by Directors of Listed Issuers |
| "New Fortune" | New Fortune Star Limited |
| "PE" | Polyethylene |
| "PP-R" | Polypropylene random |
| "PRC" | The People's Republic of China |
| "Prospectus" | The Company's prospectus dated 9 June 2010 |
| "PVC" | Polyvinyl chloride |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "SFO" | Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong |
| "Shunde Liansu Industrial" | Foshan Shunde Liansu Industrial Co., Ltd. (佛山市順德區聯塑實業有限公司) |
| "State Council" | The State Council of the PRC |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "US" | The United States of America |
| "US$" | US dollar, the lawful currency of US |

## Financial Timetable

| | |
|---|---|
| Announcement of 2011 annual results | 16 March 2012 |
| Closure of the register of members | |
| - for determining the entitlement to attend and vote at annual general meeting | 28 – 31 May 2012 (both dates inclusive) |
| - for determining the entitlement to proposed final dividends | 7 – 12 June 2012 (both dates inclusive) |
| Payment of 2011 final dividend | on or around 20 June 2012 |
| 2012 annual general meeting | 31 May 2012 |

## Board of Directors

**Executive Directors**

Mr. Wong Luen Hei *(Chairman)*
Mr. Zuo Manlun *(Chief Executive)*
Ms. Zuo Xiaoping
Mr. Lai Zhiqiang
Mr. Kong Zhaocong
Mr. Chen Guonan
Dr. Lin Shaoquan
Mr. Huang Guirong
Mr. Luo Jianfeng

**Non-Executive Director**

Mr. Lin Dewei

**Independent Non-Executive Directors**

Dr. Bai Chongen
Mr. Fung Pui Cheung
Mr. Wong Kwok Ho Jonathan

## Audit Committee

Mr. Fung Pui Cheung *(Chairman)*
Mr. Wong Kwok Ho Jonathan
Mr. Lin Dewei

## Remuneration Committee

Mr. Fung Pui Cheung *(Chairman)*
Mr. Wong Luen Hei
Mr. Zuo Manlun
Dr. Bai Chongen
Mr. Wong Kwok Ho Jonathan

## Nomination Committee

Mr. Wong Luen Hei *(Chairman)*
Mr. Zuo Manlun
Dr. Bai Chongen
Mr. Fung Pui Cheung
Mr. Wong Kwok Ho Jonathan

## Joint Company Secretaries

Mr. Kwan Chi Wai Samuel
Mr. Yuan Shuixian

## Authorised Representatives

Mr. Zuo Manlun
Mr. Kwan Chi Wai Samuel

## Registered Office

PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

## Headquarters and Principal Place of Business in China

Liansu Industrial Estate
Longjiang Town
Shunde District
Foshan City
Guangdong Province
PRC

## Principal Place of Business in Hong Kong

Unit 3, 12th Floor, Tower 2
South Seas Centre
No. 75 Mody Road
Tsim Sha Tsui East
Kowloon, Hong Kong

# CORPORATE INFORMATION

## Listing Information
Listing: The Stock Exchange of Hong Kong Limited
Stock code: 2128

## Share Information
Board lot size: 1,000 shares

Share issued as
at 31 December 2011: 3,005,906,950 shares

Market Capitalisation
as at 31 December 2011: HK$10,130 million

## Dividend
Final dividend per share for the year ended 31 December 2011: HK12 cents per ordinary share

## Share Registrar and Transfer office
Maples Finance Limited
PO Box 1093
Queensgate House
Grand Cayman, KY1-1102
Cayman Islands

## Hong Kong Branch Share Registrar and Transfer Office
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

## Investor Relations and Media Relations Consultant
Porda Havas International Finance Communications Group
Units 2009-2018, 20th Floor, Shui On Centre
6-8 Harbour Road, Wanchai, Hong Kong
Tel: (852) 3150-6788
Fax: (852) 3150-6728
Email: liansu@pordahavas.com

## Auditor
Ernst & Young
Certified Public Accountants, Hong Kong

## Solicitor
K&L Gates

## Principal Bankers
Agricultural Bank of China Limited
Foshan Shunde Rural Commercial Bank Company Limited
The Hongkong and Shanghai Banking Corporation Limited

## Website
http://www.liansu.com