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

Annual Report 2010

CORPORATE PROFILE

The Group is a manufacturer of plastic pipes and pipe fittings in the PRC. China Liansu was successfully listed on the main board of the Stock Exchange on 23 June 2010 (stock name: China Liansu, stock code: 2128).

China Liansu has 12 operating production bases in Guangdong, Guizhou, Sichuan, Hubei, Jiangsu, Henan, Hebei, Heilongjiang 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, including more than 70 series and more than 7,000 types of products. These products are widely used in areas such as water supply, drainage, power supply, communication, gas supply, floor heating, fire prevention and agriculture.

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, without limitation, statements relating to revenues and earnings. The words "believe", "intend", "expect", "anticipate", "project", "estimate", "predict", "is confident", "has confidence" and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are not historical facts, rather, they are based on the current beliefs, assumptions, expectations, estimates and projections of the directors and management of China Liansu about the business and the industry and markets in which China Liansu operates.

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.

Contents

FINANCIAL HIGHLIGHTS

RESULTS	For the year ended 31 December 2010 RMB' million	2009 RMB' million	Change (%)
Revenue	**7,712**	5,322	44.9
Profit before tax	**1,374**	799	72.0
Profit attributable to owners of the Company	**1,132**	644	75.8
Basic earnings per share[(1)] (expressed in RMB per share)	**0.43**	0.29	48.3
Diluted earnings per share[(1)] (expressed in RMB per share)	**0.42**	N/A	N/A
Proposed final dividend per share (expressed in HK cents)	**12**	—	N/A

FINANCIAL POSITION	As at 31 December 2010 RMB' million	2009 RMB' million	Change (%)
Total assets	**5,629**	3,499	60.9
Total debts[(2)]	**784**	1,310	(40.2)
Shareholders' equity	**4,004**	1,042	284.3
Net assets per share (expressed in RMB per share)	**1.33**	0.46	189.1
Total debts to total assets	**0.14**	0.37	(62.2)
Total debts to shareholders' equity	**0.20**	1.26	(84.1)

- Outstanding performance for 2010 with revenue of RMB7,712 million representing year-on-year growth of 44.9%
- Net profit margin increased from 12.1% for the year ended 31 December 2009 to 14.7% for the year ended 31 December 2010
- Profit attributable to owners of the Company increased to RMB1,132 million, representing an increase of 75.8%
- Solid financial position with net cash (total cash and bank balances less total interest-bearing bank loans) of RMB739 million as at 31 December 2010 to fund future expansion

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 interest-bearing bank loans.

China Liansu was successfully listed on the main board of the Stock Exchange on 23 June 2010. With its international perspective, good corporate governance and leading position in the industry, the Group has devoted to enhancing its quality of business operations in order to deliver value to shareholders.

On behalf of China Liansu, I am pleased to present the first annual report for the year ended 31 December 2010. During 2010, the Group recorded revenue of RMB7,712 million, an increase of 44.9% from RMB5,322 million in 2009. Profit attributable to owners of the Company was RMB1,132 million.

In the No.1 Central Document "Opinions of the Central Committee of the Communist Party of China and the State Council on Exerting Greater Efforts in the Overall Planning of Urban and Rural Development on Further Solidifying the Foundation for Agricultural and Rural Development (中共中央國務院關於加大統籌城鄉發展力度進一步夯實農業農村發展基礎的若干意見)" issued in 2010, the Chinese government has proposed "making the establishment of new villages and the promotion of urbanization as the sustained driving force for maintaining steady and rapid economic development and identifying a new long-term growth point for the economy of China through urbanization". Urbanization will become an important direction for future economic development and structural adjustment.

In 2010, China Liansu firmly grasped the opportunity created by the Chinese government of its effort to speed up the promotion of economic development and structural change, and fully leveraged on the advantage of being pragmatic and keeping abreast of the times of the Group in the industry as the government continued to expand the domestic demand and accelerate the process of urbanization in rural area.

2011 is the first year of the "12th Five-year Plan (十二五規劃)". Increasing investment has been made in national development and a series of policies such as "expanding infrastructure investment" and "increasing support to people's livelihood" have been deployed. This will create prosperous development and growth opportunities for the plastic pipe industry. China Liansu will continue to enrich its product ranges in response to urbanization construction and launch new building material products in a timely manner.

On behalf of the Board, I would like to pay my highest tribute to all employees for their long-term dedication and hard work and express my heartfelt thanks to all customers, business partners, shareholders and friends from all communities for their valuable support to the Group.

Wong Luen Hei
Chairman

Hong Kong, 18 March 2011

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wong Luen Hei (黃聯禧), aged 48, 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 primarily responsible for the Group's overall strategic planning and business management. Mr. Wong has approximately 14 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 38, is the Chief Executive of the Group and was appointed as an executive director of the Company on 27 February 2010. He is primarily responsible for the overall management of the daily business operations and sales of the Group. Mr. Zuo has approximately 11 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 44, is a Vice President of the Group and was appointed as an executive director of the Company on 27 February 2010. She is primarily responsible for procurement control and logistics management of the Group. Ms. Zuo has approximately 14 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 44, is a Vice President of the Group and was appointed as an executive director of the Company on 27 February 2010. He is primarily responsible for the production and technical management of the Group. Mr. Lai has approximately 14 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 45, is a Vice President of the Group and was appointed as an executive director of the Company on 27 February 2010. Mr. Kong is primarily responsible for the sales (excluding southern China) of the Group and has approximately 17 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 43, is a Vice President of the Group and was appointed as an executive director of the Company on 27 February 2010. He is primarily responsible for the management of the quality control of the Group. Mr. Chen has approximately 21 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 35, is a Vice President of the Group and was appointed as an executive director of the Company on 27 February 2010. Dr. Lin is primarily responsible for the research and development and overseas sales of the Group. Dr. Lin has approximately 8 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 35, is a Vice President of the Group and was appointed as an executive director of the Company on 27 February 2010. Mr. Huang is primarily responsible for the overall management of the factories and production facilities of the Group and has approximately 14 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 39, was appointed as an executive director of the Company on 2 April 2010. Mr. Luo has approximately 17 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 50, was appointed as a non-executive director of our Company on 27 February 2010. Mr. Lin has approximately 16 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 47, 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 62, 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) and an independent non-executive director, a member of the audit committee and a member of the remuneration committee of CY Foundation Group Limited (stock code: 1182), both of which are companies 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 37, 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 specializing 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 29, 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. Ong Chi King (王子敬), aged 37, is ordinarily a resident in Hong Kong and is a joint company secretary of the Company. Mr. Ong is responsible for the Group's company secretarial matters. Mr. Ong has more than 14 years of experience in accounting, finance and company secretarial fields. Prior to joining the Group in November 2009, Mr. Ong worked in the assurance and advisory business services department of Ernst & Young, one of the big four international accounting firms, from August 1995 to October 1999 and held senior positions in finance and company secretarial departments in various companies listed on the Stock Exchange. Mr. Ong was an executive director of Deson Development International Holdings Limited (stock code: 262), which is listed on the Stock Exchange, from March 2005 to June 2008. Mr. Ong is currently the company secretary of Yue Da Mining Holdings Limited (stock code: 629), which is listed on the main board of the Stock Exchange, since November 2008. Mr. Ong was admitted as a member of the Hong Kong Institute of Certified Public Accountants in December 1998 and a fellow member of the Association of Chartered Certified Accountants in September 2003. Mr. Ong received a bachelor's degree in business administration from The Hong Kong University of Science and Technology in November 1995 and a master's degree in corporate finance from The Hong Kong Polytechnic University in November 2004.

Mr. Yuan Shuixian (袁水先), aged 31, 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 (廣東省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 (specialized in English) in July 2002.

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").

CORPORATE GOVERNANCE PRACTICES

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. The Company has adopted the Code as set out in Appendix 14 to the Listing Rules since it was listed on the Stock Exchange on 23 June 2010. During the year under review, the Company has complied with the code provisions contained in the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to 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 23 to page 24.

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 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 general meeting or 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 posts of Chairman and chief executive are held by two individuals. 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 Directors

Non-executive directors provide various expertise and experiences and conduct reviews and maintain balance to safeguard the interests of the Group and its shareholders. They participate in Board meetings and committee meetings and make 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 and 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 audit the interim results for the six months ended 30 June 2010 and the annual results for the year ended 31 December 2010. 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 2010, 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 and have continuously prepared the financial statements.

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 32.

Board Meetings

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

The table below sets out the attendance of all members of the Board at the meetings held in 2010:

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

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 guarantee 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 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 audits of the truth and accuracy of the Group's economical 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 2010, the Audit Committee convened two meetings and has reviewed and discussed the audited interim results for the six months ended 30 June 2010 and has reviewed the Group's internal control measures and the internal report issued by the professional consultant. Subsequent to the year end, the Audit Committee reviewed the annual report and annual results announcement for the year ended 31 December 2010 with a recommendation to the Board for approval. The attendance record of the meetings is set out on a named basis on page 10.

External Auditor

For the year ended 31 December 2010, the service fees paid or payable to the Company's external auditors are set out as follows:

	RMB' million
Audit services of the interim and annual results	6.1
Non-audit services (taxation and advisory services)	1.2
Total	7.3

Remuneration Committee

The Remuneration Committee comprises five members, namely Mr. Wong Luen Hei (Chairman of the Remuneration 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 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 2010, the Remuneration Committee convened one 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 2010, the Nomination Committee convened one meeting. The Nomination Committee reviewed the structure, size and composition of the Board 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. The Company has engaged an external consultant ("Internal Control Consultant") to assess the Group's internal control system for the year ended 31 December 2010 and provide opinions in measures that should be taken by the Group to enhance corporate governance practices and the internal control system.

For the year ended 31 December 2010, 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 and with the assistance of the Internal Control Consultant. 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 unauthorized 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 web sites 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 web site of the Stock Exchange (www.hkexnews.hk) and the web site 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. Since its listing in June 2010, the Company has emphasized 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.

BUSINESS REVIEW AND ANALYSIS

The Plastic Pipe Industry is at the High Growth Stage and the Company's Industry Leadership Position Continues to Consolidate

Being confronted with the challenging global economic environment, as well as the complicated and changing economic situation in China, China Liansu accurately grasped the development opportunity in the past years, clarified its development direction and fully leveraged on the advantages of the Group in strategic presence, industry chain, management integration, technology and brands to exert great efforts in developing the target markets, enhance regional resources integration and internal resources restructuring and improve its management and operating efficiency, thus maintaining the steady, fast and healthy development of the Group's operating results with the steady growth of its principal businesses. Since its establishment, China Liansu has made becoming one of the famous Chinese brands as its objective and has now established a very high reputation in the market. In the future, the Group will continue to actively participate in large infrastructure projects, further strengthen cooperation with government agencies, public utility entities and well-known enterprises so as to upgrade the Company's image and enhance customer satisfaction.

Looking back to 2010, the Group's operating and financial performance was steady. Revenue was RMB7,712 million an increase of RMB2,390 million or 44.9% over 2009. Gross profit for the year ended 31 December 2010 was RMB2,034 million, an increase of 67.7% over 2009. Basic earnings per share was RMB0.43, an increase of 48.3% over 2009.

The table below sets out the breakdown of sales volume, revenue and average selling price by product materials for the years ended 31 December 2010 and 31 December 2009:

	2010			2009			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]	**617,156**	**5,070**	**8,215**	431,047	3,415	7,923	43.2	48.5	3.7
– Non-PVC[2]	**172,170**	**2,542**	**14,764**	135,182	1,862	13,774	27.4	36.5	7.2
	789,326	**7,612**	**9,644**	566,229	5,277	9,320	39.4	44.2	3.5
Others[3]	**N/A**	**100**	**N/A**	N/A	45	N/A	N/A	122.2	N/A
Total	**789,326**	**7,712**	**N/A**	566,229	5,322	N/A	N/A	44.9	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 materials such as springs used for connecting plastic pipes. Sales volumes for "Others" are measured in units rather than tonnes and the size of the units between different products may vary.

The strong increase in the Group's revenue was mainly attributable to the increase in sales driven by the increasing market demand and the increased production capacity from the new production bases. Total sales of plastic pipes and pipe fittings for the year was approximately 789,000 tonnes, an increase of approximately 223,000 tonnes or 39.4% over last year.

The average selling prices of plastic pipes and pipe fittings amounted to RMB9,644 per tonne for the year ended 31 December 2010, representing an increase of approximately 3.5% from RMB9,320 per tonne for the year ended 31 December 2009. The average cost of sales of pipes and pipe fittings amounted to RMB7,129 per tonne for the year ended 31 December 2010, representing a decrease of approximately 1.1% from RMB7,207 per tonne for the year ended 31 December 2009.

The table below sets out the details of the revenue from plastic pipes and pipe fittings by product for the years ended 31 December 2010 and 31 December 2009:

	2010		2009	
	RMB'million	**% of total revenue**	RMB'million	% of total revenue
Water supply	**2,998**	**39.4%**	2,139	40.5%
Drainage	**2,825**	**37.1%**	1,921	36.5%
Power supply and telecommunication	**1,402**	**18.4%**	963	18.2%
Gas supply	**87**	**1.1%**	87	1.6%
Others(1)	**300**	**4.0%**	167	3.2%
Total	**7,612**	**100.0%**	5,277	100.0%

Note(1) "Others" include agricultural use, floor heating and fire prevention.

The Group has highly diversified products and manufactures the most comprehensive range of plastic pipes and pipe fittings, covering seven major uses, including wide applications in various areas like water supply, drainage, gas supply, power supply and telecommunication, agriculture, floor heating and fire prevention.

Increased Production Scale and Significantly Improved Production Efficiency

During the year, gross profit of the Group increased by RMB821 million to RMB2,034 million. Gross profit ratio increased by 3.6 percentage points to 26.4% as compared with the last year. Gross profit of the Group's two major types of products, namely PVC products and non-PVC products, both witnessed an increase. The profit level of the two major products continued to increase in 2010, which mainly benefited from the economy of scale of the increased production capacity. The production capacity utilization of the Group has maintained exceeding the industry level. Designed annual production capacity was approximately 1.15 million tonnes.

Strengthening Scientific Innovation and the Recognition of Research and Development of New Materials

Leveraging its scientific strength, China Liansu has put an emphasis on the scientific and technological research of plastic piping system in the course of its production operation and development and actively established the corporate research and development centre. In 2010, Guangdong Liansu Technology Industrial Co., Ltd. gained approval from China Plastics Processing Industry Association to establish China Plastics Pipe Engineering Technology Research and Development Center (中國塑料管道工程技術研究開發中心) (CPPIA (2010) No.132). As at 31 December 2010, the Group held 161 patents and has applied for additional 213 patents.

In addition, research and development of the Group during the year were focused on high-performance, low-energy and environmental friendly products which includes the following:

1. The development of HDPE electric-fusion fittings
2. Same-floor drainage system
3. CPVC cold and hot water pipe system
4. Metal-plastic composite pipe system
5. Solar heat collection pipes
6. Water saving irrigation system

In terms of materials, the Group's products include not only plastic pipes made of commonly used materials like PVC-U and PE, but also those made of special materials such as PVC-M, CPVC,PE-RT and PB and metal-plastic composite. To coordinate with the Chinese government's policy with increasing emphasis on environmental protection, the Group also actively promoted environmental friendly product such as GHP during the year.

Optimized Strategic Presence Upon Completion of New Bases

The nationwide production network of the Group has achieved effective coverage and comprises 12 operating production bases for the manufacture of plastic pipes and pipe fittings which are strategically located across China. The Southern China market continued to be a major market of the Company and accounted for 68.6% of the total sales in 2010, followed by Southwestern China and Central China, which accounted for 8.9% and 7.8% of the total sales respectively.

The table below sets out the details of the revenue by sales region for the years ended 31 December 2010 and 31 December 2009:

	2010		2009	
Region[1]	**RMB' million**	**% of total revenue**	RMB' million	% of total revenue
Southern China	**5,295**	**68.6%**	3,717	69.8%
Southwestern China	**681**	**8.9%**	488	9.2%
Central China	**603**	**7.8%**	483	9.1%
Eastern China	**331**	**4.3%**	168	3.2%
Northern China	**460**	**6.0%**	270	5.1%
Northwestern China	**189**	**2.5%**	91	1.7%
Northeastern China	**104**	**1.3%**	73	1.4%
Outside China	**49**	**0.6%**	32	0.5%
Total	**7,712**	**100.0%**	5,322	100.0%

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

To meet the strong market demand for plastic pipes, the Group had continuously increased its production capacity over the past few years and will continue to construct new production facilities and implement technological reforms in the existing production facilities so as to further improve the nationwide coverage of our production bases and keep in pace with the national development speed with accelerating urbanization in China. At present, the new production bases in Urumqi and Changchun are being set up to meet the growing demand of the northwestern and northeastern regional markets. The first phase of 12,000 tonnes of production capacity in Urumqi was put into operation in the fourth quarter of 2010. Meanwhile, the Group is also adding production lines to the existing production bases. It is anticipated that the designed annual production capacity will be increased by 370,000 tonnes and 330,000 tonnes in 2011 and 2012 respectively. By the end of 2012, the Group's designed annual production capacity will reach 1.85 million tonnes. While maintaining its construction plan, the Group managed to find suitable parcels of land in Shaanxi to further increase the Group's coverage in these regions.

Furthermore, the Group also plans to increase the number of distributors. As at 31 December 2010, the Group has more than 760 independent distributors. The Group will establish more sales offices to expand its sales network, continue to step up efforts in marketing, further expand the customer base, consolidate its market position and enlarge its market share.

REVIEW ON FINANCIAL PERFORMANCE

Other Revenue, Income and Gains

Other revenue, income and gains amounted to RMB44 million for the year ended 31 December 2010, representing an increase of 91.3% from RMB23 million for the last year. The increase was primarily attributable to the increase in interest received from banks, government grants and subsidies.

Selling and Distribution Costs

Selling and distribution costs of the Group rose by 50.3% to RMB299 million as compared with last year due to an increase in marketing related expense and packaging costs resulting from the growth in sales.

Administrative Expenses

Administrative expenses for the year ended 31 December 2010 rose by 43.3% to RMB235 million as compared with last year, primarily as a result of an increase in professional services/consultation fees incurred in connection with the preparation for the public offering of the Company and an increase in recognition of equity-settled share option expense.

Other Expenses

Other expenses for the year ended 31 December 2010 rose by 207.9% to RMB117 million as compared with last year, primarily due to our commitment on research and development.

Finance Costs

Finance costs amounted to RMB53 million, representing an increase of 47.2% as compared with last year, primarily due to our increased average borrowings, which were leveraged for working capital purpose to support the Group's rapid business development.

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 in Hong Kong during the year. The Group's effective tax rate decreased from 19.4% in 2009 to 17.6% in 2010 mainly owing to the decrease in the deferred tax expenses arising from the unremitted earnings of the Company's subsidiaries in the PRC that are subject to withholding taxes.

Profit Attributable to Owners of the Company

The profit attributable to owners of the Company amounted to RMB1,132 million, representing an increase of 75.8% from RMB644 million for the last year.

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

The Company was successfully listed on the main board of the Stock Exchange on 23 June 2010 and issued 750 million shares of HK$0.05 each at HK$2.60 per share by way of placing and public offer (as set out in detail in the Results of Allocation Announcement dated 22 June 2010 (the "Announcement")). The net proceeds of the IPO after deducting the relevant expenses were approximately HK$1,860 million (approximately RMB1,629 million equivalent).

Up to 31 December 2010, approximately HK$752 million of the net proceeds of the IPO has been applied in accordance with 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 2010, 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 RMB750 million on the above expansion plans up to 31 December 2010. The Group plans to spend an additional RMB1,500 million and RMB1,000 million on such expansion plans for the years ending 31 December 2011 and 2012, respectively. The Group intends to use part of the net proceeds from the IPO as disclosed in the Announcement as well as the Group's bank facilities and cash flows from operations to cover such estimated expenditures.

SIGNIFICANT INVESTMENTS

As at 31 December 2010, the Group did not hold any significant investment (2009: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2010, the Group had total bank loans of approximately RMB784 million (2009: RMB1,310 million). Approximately 60.9% of the Group's bank borrowings were denominated in Renminbi and the remaining 39.1% were in Hong Kong dollar. The Group's bank borrowings are subject to floating rates ranging from 1.67% to 5.94% per annum. The Group's bank borrowings have remaining maturity periods ranging from within one year to three years.

As at 31 December 2010, the Group's current assets and current liabilities were approximately RMB3,615 million and RMB1,408 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 2.57 and 1.76 from 1.29 and 0.80 as at 31 December 2009 respectively. Total equity of the Group increased to approximately RMB4,004 million (2009: RMB1,042 million). The gearing ratio of the Group (calculated based on the basis of the total borrowings over total assets) stood at a healthy level of 13.9% as compared to 37.4% in 2009 due to repayment of bank loans during the year.

With cash and bank balances, including restricted cash, of approximately RMB1,523 million (2009: RMB487 million) as well as existing 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 2010, certain leasehold land, property, plant and equipment of the Group with net carrying amount of approximately RMB498 million were pledged to certain banks to secure bank borrowings granted to the Group.

FOREIGN EXCHANGE EXPOSURE

Most of the Group's transactions are denominated in Renminbi. During the year, the Group did not have any material foreign exchange exposure and did not use any financial instruments for hedging purposes.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group did not have any significant contingent liabilities (2009: Nil).

HUMAN RESOURCES

As at 31 December 2010, the Group employed a total of approximately 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 the employees of the Group in Hong Kong and to the pension scheme for the employees of the Group in China.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK12 cents per share for the year ended 31 December 2010 (2009: Final dividend – Nil) but is still subject to approval by the Company's shareholders at the forthcoming annual general meeting. The Board did not declare any interim dividend for the six months ended 30 June 2010 (2009: Interim dividend – Nil).

PROSPECTS

China is during a critical period of expanding the domestic demand and promoting the economic growth. The Group believes with gradual urbanization in China, the inflow of rural population into cities will accelerate the development of ancillary public facilities and infrastructure in these cities. As the water supply pipe market is large, drainage pipes in cities will see rapid development. The gas supply pipe market will grow with the support of government policies. Drinking water safety protection in rural areas will stimulate the development of the water supply pipe market. The Group anticipates in a larger market for pipes to be used in water supply, drainage, gas supply and heat supply.

The real estate industry of China was developing rapidly during the 11th Five-year Plan, which satisfied the demand from residents in cities for improved housings and the demand from a large population moving from rural areas to cities for housings. At present, the government is stepping up its efforts in developing the "Urban Housing Construction Programme and Medium-to-long-term Construction Program for the 12th Five-year Plan" ("十二五"城鎮住房建設規劃和中長期建設規劃). It is estimated that construction and investment efforts will be intensified for commercial housings and affordable housing projects each year. The government would work to increase housing supplies, with 36 million affordable homes planned by 2015. In 2010 saw the building of 5.9 million affordable homes started. The central government had mandated with provincial governments to guarantee the construction of 10 million subsidized apartments in 2011. The government would also step up efforts to develop low-rent public housing, with 2 million of low-rent public housing to be built in 2011, which is 6 times more than 2010's supply. The Group believes either commercial housings or affordable housings construction will stimulate the plastic construction material industry in which the Group is engaged, thereby driving the development of the Group in areas such as environmental friendly water supply pipes, buried and community drainage pipes and gas pipe network construction.

The No.1 Central Document "The Decision on Accelerating the Development of the Water Conservancy Reform" (關於加快水利改革發展的決定) issued by the State Council proposes speeding up the construction of water conservancy infrastructure in an all-round manner and establishing a mechanism for the steady growth of investment in water conservancy. Water saving and irrigation in rural areas, water safety in rural areas, urban water supply and sewage treatment system construction and water pollution prevention and control construction are all key areas of support under the water conservancy program during the 12th Five-year Plan. China plans to invest RMB4 trillion in water conservancy works over the next 10 years. 10% of the proceeds from land sales will be invested in rural water conservancy projects. Being driven by the policy, market demand for various types of pipe products will increase, and provide continuous momentum for the long-term development of the Group.

Because of the rapid development of the economy in China, market demand for various consumer products has kept rising. Besides, the Chinese government began to implement the 12th Five-year Plan in 2011 to actively expand the domestic demand and promote green economy. Accordingly, new materials have become one of the key industries for development, bringing unlimited business opportunities for plastic pipes manufactured by the Group. China Liansu will continue to provide safe and environmental friendly pipes for water transmission, drainage, gas, hot water and value-added products through the Group's sales network in the future. Meanwhile, with our solid manufacturing foundation and outstanding innovation, research and development capabilities, the Group believes it will continue to maintain strong market 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 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 14 to the financial statements.

RESULTS AND DISTRIBUTION

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 34.

The Board has not declared an interim dividend for the six months ended 30 June 2010 (2009: Interim dividend - Nil).

The Board recommended the payment of a final dividend of HK12 cents per share (2009: Final dividend - Nil) for the year ended 31 December 2010 to shareholders whose names appear on the Company's register on Friday, 3 June 2011 and payable on or around Monday, 20 June 2011 subject to approval of the Company's shareholders at the forthcoming annual general meeting. The register of members will be closed from Tuesday, 31 May 2011 to Friday, 3 June 2011 (both days inclusive), during which period no transfer of shares will be effected.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the past four 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.

SUBSIDIARIES

The details of the Company's principal subsidiaries are set out in note 14 to the 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 21 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 24 to the financial statements.

CORPORATE ORGANISATION AND LISTING OF SHARES

Pursuant to a group reorganisation to rationalise the Group's structure for the Company's shares listed on the Stock Exchange, the Company became the holding company of the Group. Details of the reorganisation are set out in the Prospectus. The Company's shares were listed on the Stock Exchange on 23 June 2010.

DISTRIBUTABLE RESERVE

At 31 December 2010, 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 RMB2,021 million (2009: Nil), of which RMB303 million has been proposed as a final dividend for the year. The amount of 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 2010, 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)*	(appointed on 27 February 2010)
Ms. Zuo Xiaoping	(appointed on 27 February 2010)
Mr. Lai Zhiqiang	(appointed on 27 February 2010)
Mr. Kong Zhaocong	(appointed on 27 February 2010)
Mr. Chen Guonan	(appointed on 27 February 2010)
Dr. Lin Shaoquan	(appointed on 27 February 2010)
Mr. Huang Guirong	(appointed on 27 February 2010)
Mr. Luo Jianfeng	(appointed on 2 April 2010)
Non-executive director	
Mr. Lin Dewei	(appointed on 27 February 2010)
Independent non-executive directors	
Dr. Bai Chongen	(appointed on 27 February 2010)
Mr. Fung Pui Cheung	(appointed on 27 February 2010)
Mr. Wong Kwok Ho Jonathan	(appointed on 27 February 2010)

Pursuant to Article 16.18 of the Articles of the Company, Mr. Wong Luen Hei, Mr. Zuo Manlun, Ms. Zuo Xiaoping, Mr. Lai Zhiqiang and Mr. Kong Zhaocong are subject to retirement by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting 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 2010, 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 its associated corporations as recorded in the register maintained 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)	2,250,000,000	75.00%
Ms. Zuo Xiaoping	Held by spouse (3)	2,250,000,000	75.00%

(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)	2,308,000	0.08%
Ms. Zuo Xiaoping	Beneficial owner (3)	2,308,000	0.08%
Mr. Kong Zhaocong	Beneficial owner (4)	2,308,000	0.08%
Mr. Lai Zhiqiang	Beneficial owner (4)	2,308,000	0.08%
Dr. Lin Shaoquan	Beneficial owner (4)	1,927,000	0.06%
Mr. Chen Guonan	Beneficial owner (4)	1,927,000	0.06%
Mr. Huang Guirong	Beneficial owner (4)	1,927,000	0.06%
Mr. Luo Jianfeng	Beneficial owner (4)	1,927,000	0.06%
Mr. Lin Dewei	Beneficial owner (4)	692,000	0.02%
Chief executive			
Mr. Zuo Manlun	Beneficial owner (4)	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 75% of the Company's issued shares as at 31 December 2010. Accordingly, Mr. Wong Luen Hei was indirectly interested in 2,250,000,000 shares of the Company as at 31 December 2010. 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. Subsequent to 31 December 2010, Mr. Wong Luen Hei is indirectly interested in 2,100,000,000 shares of the Company as New Fortune reduced its holding of ordinary shares of the Company to 2,100,000,000 shares, representing 70% of the issued capital of the Company through placing (as set out in detail in the Placing of Existing Shares by Controlling Shareholder Announcement dated 6 January 2011).

3. 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.

4. 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 2010 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 2010, so far as is known to any director or chief executive of the Company, the following corporation (other than a director or chief executive of the Company) who had interests and 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)	2,250,000,000	75.00%

Notes:

1. Mr. Wong Luen Hei is the sole shareholder of New Fortune, which in turn owned 75% of the issued shares of the Company as at 31 December 2010. Accordingly Mr. Wong Luen Hei was indirectly interested in 2,250,000,000 shares of the Company as at 31 December 2010.

2. Subsequent to 31 December 2010, Mr. Wong Luen Hei is indirectly interested in 2,100,000,000 shares of the Company as New Fortune reduced its holding of ordinary shares of the Company to 2,100,000,000 shares, representing 70% of the issued capital of the Company through placing (as set out in detail in the Placing of Existing Shares by Controlling Shareholder Announcement dated 6 January 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 2010, 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 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 2010.

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 optimize 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:

i. the subscription price per share under the Pre-IPO Share Option Scheme shall be at a 30% discount to the Company's listing offer price (being HK$2.60); and

ii. all options granted under the Pre-IPO Share Option Scheme will only be vested in the manner as set out in note 27 to the financial statements.

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

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 shares of the Company. Save for the options granted to the directors, no options under the Pre-IPO Share Option Scheme were granted to any of our connected persons. Save for the options which have been granted before the Listing Date, no further options were granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

(b) Outstanding Options Granted

As of 31 December 2010, options to subscribe for all of the Company's shares under the Pre-IPO Share Option Scheme as described above were conditionally granted to 224 participants by the Company. 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, 115,378,000 share options were granted under the Pre-IPO Share Option Scheme, while no share options were exercised, lapsed or cancelled other than those were forfeited as mentioned below.

Details of the movement in the Company's Pre-IPO Share Options during the year ended 31 December 2010 were as follows:

				Number of options			
Name or category of participant	Date of grant[1]	Option period[1]	Exercise price HK$	Outstanding at 01/01/2010	Granted during the year	Forfeited during the year	Outstanding at 31/12/2010
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	—	2,308,000
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 at 01/01/2010	Granted during the year	Forfeited during the year	Outstanding at 31/12/2010
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	—	15,324,000
Subtotal directors and chief executive				—	19,166,000	—	19,166,000
Employees[2]							
In aggregate	21/05/2010	23/06/2011 to 22/06/2014[3]	1.82	—	96,212,000	(577,000)	95,635,000
Total				—	115,378,000	(577,000)	114,801,000

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.

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. As disclosed in the paragraph headed "Deed of Non-Competition" in the section headed "Connected Transactions and Relationship with the Controlling Shareholder" of the Prospectus, 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 RMB1,450,000 (2009: RMB289,000).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2010, 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 2010.

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 33 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 summarized 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. Particulars of the Framework Agreement together with the total consideration for the year ended 31 December 2010 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:	RMB50 million
Total consideration for the year:	RMB40 million

(b) Utilities costs

Background:	On 20 December 2009, 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. The related utilities costs are charged by the relevant government authorities on the Group. Accordingly, the Lessees will reimburse the Group for the same amount of utilities costs paid by the Group on their behalf. On 31 December 2009, the Group entered into two supplementary agreements (the "Utilities Agreements") with the Lessees to formalize such arrangement regarding the reimbursement of utilities costs. The Utilities Agreements are for a term of one year commencing on 1 January 2010 and expiring on 31 December 2010. Particulars of the Utilities Agreements together with the total consideration for the year ended 31 December 2010 are disclosed below as required under the Listing Rules:
Nature of transactions:	Reimbursement of utilities costs charged by the relevant government authorities on the Group from the Lessees
Terms:	The reimbursable amount of utilities costs to be equal to the amount charged by the relevant government authorities on the Group
Annual Cap:	RMB8 million
Total consideration for the year:	RMB5 million

(c) Renewal of continuing connected transactions

On 31 December 2010, the Group entered into new lease agreements (the "New Leases") with 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.

The terms of the New Leases are 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.

Under the New 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").

The proposed annual cap under the New Leases and the Utilities Arrangements for the year ending 31 December 2011 are RMB854,400 and RMB8,000,000 respectively. For further details, please refer to the announcement made by the Company on 31 December 2010.

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 2010 as set out in the Prospectus.

RELATED PARTY TRANSACTIONS

The details of the related party transactions are set out in note 33 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, 18 March 2011

INDEPENDENT AUDITORS' REPORT

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 34 to 96, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 these 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.

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 2010, 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
18/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong
18 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	5	**7,711,532**	5,322,244
Cost of sales		**(5,677,884)**	(4,109,005)
Gross profit		**2,033,648**	1,213,239
Other revenue, income and gains	5	**43,515**	22,876
Selling and distribution costs		**(298,866)**	(198,509)
Administrative expenses		**(234,581)**	(163,554)
Other expenses		**(117,229)**	(38,163)
Finance costs	6	**(52,971)**	(36,475)
PROFIT BEFORE TAX	7	**1,373,516**	799,414
Income tax expense	9	**(241,333)**	(155,443)
PROFIT FOR THE YEAR		**1,132,183**	643,971
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**(10,160)**	972
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,122,023**	644,943
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	11		
Basic		**RMB0.43**	RMB0.29
Diluted		**RMB0.42**	N/A

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	**2010** **RMB'000**	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**1,705,918**	1,302,735
Prepaid land lease payments	13	**248,612**	205,516
Other intangible assets		**2,281**	1,138
Deposits paid for the purchase of land, property, plant and equipment		**55,056**	26,248
Deferred tax assets	22	**2,295**	7,314
Total non-current assets		**2,014,162**	1,542,951
CURRENT ASSETS			
Inventories	15	**1,139,452**	743,507
Trade and bills receivables	16	**681,415**	466,735
Prepayments, deposits and other receivables	17	**270,435**	257,938
Amount due from a related company	33(a)	—	720
Restricted cash	18	**23,044**	125,133
Cash and cash equivalents	18	**1,500,292**	361,767
Total current assets		**3,614,638**	1,955,800
CURRENT LIABILITIES			
Trade and bills payables	19	**242,760**	232,702
Other payables and accruals	20	**439,758**	501,547
Interest-bearing bank loans	21	**630,326**	427,527
Amount due to a director	33(c)	**—**	263,798
Amounts due to related companies	33(b)	**—**	15,693
Tax payable		**94,900**	73,770
Total current liabilities		**1,407,744**	1,515,037
NET CURRENT ASSETS		**2,206,894**	440,763
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,221,056**	1,983,714

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	**2010**	2009
		RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	21	**154,000**	882,150
Deferred tax liabilities	22	**44,778**	41,749
Deferred income	23	**17,827**	17,827
Total non-current liabilities		**216,605**	941,726
Net assets		**4,004,451**	1,041,988
EQUITY			
Issued capital	24	**131,297**	352
Reserves	25(a)	**3,570,128**	1,041,636
Proposed final dividend	10	**303,026**	—
Total equity		**4,004,451**	1,041,988

Wong Luen Hei
Director

Luo Jianfeng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Issued capital RMB'000	Share premium RMB'000	Statutory reserve[1] RMB'000	Capital reserve[2] RMB'000	Share option reserve RMB'000	Merger reserve[3] RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2010	352	–	129,667	31,645	–	5,515	33,080	841,729	–	1,041,988
Profit for the year	–	–	–	–	–	–	–	1,132,183	–	1,132,183
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(10,160)	–	–	(10,160)
Total comprehensive income for the year	–	–	–	–	–	–	(10,160)	1,132,183	–	1,122,023
Issue of shares (notes 24 and 25)	130,945	1,673,604	–	–	–	–	–	–	–	1,804,549
Equity-settled share option arrangements (note 27)	–	–	–	–	35,891	–	–	–	–	35,891
Proposed final 2010 dividend (note 10)	–	–	–	–	–	–	–	(303,026)	303,026	–
Appropriation to statutory reserve	–	–	144,753	–	–	–	–	(144,753)	–	–
At 31 December 2010	131,297	1,673,604*	274,420*	31,645*	35,891*	5,515*	22,920*	1,526,133*	303,026	4,004,451
At 1 January 2009	–	–	50,394	31,645	–	32,455	32,108	277,512	–	424,114
Profit for the year	–	–	–	–	–	–	–	643,971	–	643,971
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	–	972	–	–	972
Total comprehensive income for the year	–	–	–	–	–	–	972	643,971	–	644,943
Issue of shares (note 24(a))	352	–	–	–	–	–	–	–	–	352
Deemed distributions[3]	–	–	–	–	–	481	–	(481)	–	–
Dividend payable to the then shareholder of a subsidiary	–	–	–	–	–	(8,041)	–	–	–	(8,041)
Distribution to the then sole beneficial shareholder	–	–	–	–	–	(19,380)	–	–	–	(19,380)
Appropriation to statutory reserve	–	–	79,273	–	–	–	–	(79,273)	–	–
At 31 December 2009	352	–	129,667*	31,645*	–	5,515*	33,080*	841,729*	–	1,041,988

* These reserve accounts comprise the consolidated reserves of RMB3,570,128,000 (2009: RMB1,041,636,000) in the consolidated statement of financial position.

Notes:

(1) 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 (''PRC GAAP'') 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.

(2) 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.

(3) Pursuant to a sale and purchase agreement dated 26 October 2009 (the "S&P Agreement"), Guangdong Liansu Technology acquired a 100% equity interest in Zhongshan Walton from Guangdong Liansu Electric at a cash consideration of RMB19,380,000. As Guangdong Liansu Electric is indirectly wholly-owned by Mr. Wong Luen Hei ("Mr. Wong"), the then sole beneficial shareholder of the Group, Zhongshan Walton is indirectly controlled by Mr. Wong before and after the said acquisition by Guangdong Liansu Technology. Accordingly, the acquisition has been accounted for as a common control transaction in accordance with Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

    According to the S&P Agreement, Zhongshan Walton is required to make a distribution of RMB8,041,000 (the "Distribution") to Guangdong Liansu Electric which was equal to its retained profits as of 31 May 2009, as determined in accordance with PRC GAAP, within one year after the acquisition. Accordingly, net profits of Zhongshan Walton generated for the period from 15 April 2008, the date on which Guangdong Liansu Electric obtained control over Zhongshan Walton, to 31 May 2009 were set aside and accounted for in the merger reserve as deemed distributions by the Group. As of the date of the S&P Agreement, the Distribution was deducted from the merger reserve and recognised as a current liability on the face of the consolidated statement of financial position as at 31 December 2009. The Distribution was fully paid in May 2010.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	**2010**	2009
		RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,373,516**	799,414
Adjustments for:			
Bank interest income	5	**(9,828)**	(2,706)
Finance costs	6	**52,971**	36,475
Loss on disposal of items of property, plant and equipment	7	**1,500**	828
Depreciation	7	**118,076**	70,797
Amortisation of prepaid land lease payments	7	**4,819**	4,031
Amortisation of other intangible assets	7	**417**	261
Write-back of inventories to net realisable value	7	**(370)**	(1,522)
Impairment of trade receivables, net	7	**7,156**	7,172
Equity-settled share option expense	7	**35,891**	—
		1,584,148	914,750
Increase in inventories		**(395,575)**	(157,829)
Increase in trade and bills receivables		**(221,836)**	(268,036)
Increase in prepayments, deposits and other receivables		**(12,047)**	(16,752)
Decrease in amounts due from related companies		**720**	15,584
Increase in trade and bills payables		**10,058**	192,992
Decrease in other payables and accruals		**(97,033)**	(15,923)
Receipt of government grants		**—**	17,827
Decrease in amounts due to related companies		**(15,693)**	(916)
Cash generated from operations		**852,742**	681,697
Bank interest received		**9,828**	2,706
Corporate income tax paid		**(212,155)**	(76,130)
Net cash flows from operating activities		**650,415**	608,273

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of land, property, plant and equipment		**(525,030)**	(586,848)
Proceeds from disposal of items of property, plant and equipment		**8,707**	17,529
Additions to prepaid land lease payments		**(48,365)**	(31,971)
Additions to other intangible assets		**(1,560)**	(347)
Acquisition of a subsidiary	26	**—**	10
Decrease/(increase) in restricted cash		**102,089**	(122,353)
Net cash flows used in investing activities		**(464,159)**	(723,980)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans raised		**685,096**	1,663,177
Repayment of bank loans		**(1,201,567)**	(822,200)
Decrease in amounts due to related companies		**—**	(217,026)
Decrease in an amount due to a director		**(88,651)**	(228,209)
Interest paid		**(52,971)**	(35,332)
Proceeds from issue of shares, net of expenses		**1,629,839**	352
Distribution to the then sole beneficial shareholder		**—**	(19,380)
Net cash flows from financing activities		**971,746**	341,382
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,158,002**	225,675
Cash and cash equivalents at beginning of the year		**361,767**	135,947
Effect of foreign exchange rate changes, net		**(19,477)**	145
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**1,500,292**	361,767
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	**1,090,849**	361,767
Time deposits with original maturity of less than three months	18	**409,443**	—
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	18	**1,500,292**	361,767

COMPANY STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSET			
Investments in subsidiaries	14	**2,255,852**	694,194
CURRENT ASSETS			
Other receivables		**13**	3,165
Cash and cash equivalents	18	**131,773**	3,962
Total current assets		**131,786**	7,127
CURRENT LIABILITIES			
Other payables and accruals		**3,806**	7,298
Interest-bearing bank loan	21	**255,270**	176,100
Amount due to a director		**—**	263,798
Total current liabilities		**259,076**	447,196
NET CURRENT LIABILITIES		**(127,290)**	(440,069)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,128,562**	254,125
NON-CURRENT LIABILITY			
Interest-bearing bank loan	21	**—**	264,150
Net assets/(liabilities)		**2,128,562**	(10,025)
EQUITY			
Issued capital	24	**131,297**	352
Reserves	25(b)	**1,694,239**	(10,377)
Proposed final dividend	10	**303,026**	—
Total equity/(deficiency in assets)		**2,128,562**	(10,025)

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 Group is principally engaged in the manufacture and sale of plastic pipes and pipe fittings.

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

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 HKICPA, 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. These financial statements are presented in Renminbi ("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 2010. 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, transaction, unrealised gains and losses resulting from intercompany transactions and dividends are eliminated on consolidation in full.

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 financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
HK Interpretation 4 Amendment	Amendments to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009

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

HKFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRSs, the amendments did not have any financial impact on the Group.

HKFRS 1 Amendments address the retrospective application of HKFRSs to particular situations (such as exempt entities using the full cost method from the retrospective application of HKFRSs for oil and gas assets or existing leasing contracts from reassessing the classification of those contracts in accordance with HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* when the application of their other accounting requirement produced the same result) and are aimed at ensuring that entities applying HKFRSs will not face undue cost or effort in the transition process. The amendments did not have any financial impact on the Group.

HKFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when an entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in HK(IFRIC)-Int 8 *Scope of HKFRS 2* and HK(IFRIC)-Int 11 *HKFRS 2 - Group and Treasury Share Transactions*. The amendments did not have any significant implications on the Group's accounting for share-based payments.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. While the adoption of the revised standard may result in changes in certain accounting policies, the revised standard did not have any financial impact on the Group.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will not have any impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*. As the Group has not undertaken such transactions, the adoption of the revised standard did not have any financial impact on the Group.

The HKAS 39 Amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. As the Group has not entered into any such hedges, the amendment did not have any financial impact on the Group.

HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 *Events after the Reporting Period* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation did not have any material financial impact on the Group.

The amendments to HKFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. As the Group currently has no such sale plan, the amendment did not have any financial impact on the Group.

HK Interpretation 4 was revised in December 2009 as a consequence of amendment to HKAS 17 made by Improvements to HKFRSs issued in May 2009. The amendment to HKAS 17 removes the specific guidance which states that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. The new guidance, paragraph 15A, indicates that entities should use judgment to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. A lease of land is therefore classified as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership to the lessee. Following this amendment, the scope of this interpretation has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of properties accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40. As the Group has no land held under finance lease, the interpretation did not have any financial impact on the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HK Interpretation 5 requires a term loan that contains a clause that gives the lender the unconditional right to call the loan at any time shall be classified in total by the borrower as current in the statement of financial position. This is irrespective of whether a default event has occurred and notwithstanding any other terms and maturity stated in the loan agreement. As the Group's term loans contain no such a clause, the interpretation did not have any financial impact on the Group.

Improvements to HKFRSs

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes to accounting policies, none of these amendments had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follow:

(a) HKFRS 2 *Share-based Payment*: Clarifies that a contribution of a business on the formation of a joint venture and a combination of entities or businesses under common control is not within the scope of HKFRS 2 even though it is outside the scope of HKFRS 3.

(b) HKAS 1 *Presentation of Financial Statements*: States that the terms of a liability that could result, at any time, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

(c) HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

(d) HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

(e) HKAS 36 *Impairment of Assets*: Clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in HKFRS 8 *Operating Segments* before aggregation for financial reporting purposes.

(f) HKAS 38 *Intangible Assets*: Clarifies that (i) if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of assets as a single asset provided that the individual assets have similar useful lives; and (ii) the valuation techniques presented in the standard for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

(g) Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement*: Clarifies that (i) a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (ii) the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts and not derivative contracts, where further actions by either party are still to be taken; and (iii) gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards - Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures - Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes - Deferred Tax: Recovery of Underlying Assets* [5]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation - Classification of Rights issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011. While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKFRS 3 *Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

    In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

    The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

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.

Business combinations

Business combinations from 1 January 2010

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 acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. 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.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

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, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a member of the key management personnel of the Group or its parent;

(c) the party is a close member of the family of any individual referred to in (a) or (b);

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or

(e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

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 depreciation.

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 year 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. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value.

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 trade and bills receivables, other receivables, amount due from a related company, restricted cash and cash and cash equivalents, which are classified as loans and receivables.

Subsequent measurement

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 other expenses.

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, and 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)

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 has 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 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 either directly or 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 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 and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other financial liabilities included in other payables and accruals, interest-bearing bank loans, amount due to a director and amounts due to related companies.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate 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 method 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.

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.

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, 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:

- where 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, where 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, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where 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, 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; and

(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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Pension obligations

The Group operates a defined contribution retirement benefit scheme, Mandatory Provident Fund (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 Group 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, further details of which are given in note 27 to the financial statements, 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 Company's perspective, 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 Group and the Company revise their estimates of the number of options that are expected to ultimately vest. They recognise the impact of the revision of original estimates, if any, in the statement of comprehensive income of the Group and in the "investments in subsidiaries" of the Company, and make 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. Other borrowing costs are recognised as expenses in the statement of comprehensive income 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

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The Company's functional currency is Hong Kong dollar ("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 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.

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 revenues, 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 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 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 discussed 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 2010, impairment losses of RMB4,531,000 (31 December 2009: RMB8,506,000) have been recognised for trade receivables.

Provision for obsolete inventories

Management reviews the aged analysis of inventories of the Group 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 2010, the Group had inventories that were measured at net realisable value (where lower than cost) of RMB3,096,000 (31 December 2009: 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, finance costs and other unallocated income and expenses are excluded from such measurement.

Segment assets exclude 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 revenues are 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 2010 and 2009, 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 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:										
Unallocated income and expenses										(616,989)
Bank interest income										9,828
Finance costs										(52,971)
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.

4. OPERATING SEGMENT INFORMATION (continued)

Operating segment information for the year ended 31 December 2009

	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	3,717,188	487,509	483,259	168,423	270,033	91,053	72,606	32,173	—	5,322,244
Intersegment sales	294,925	135,695	153,187	17,267	50,063	—	7,801	—	(658,938)	—
Total	4,012,113	623,204	636,446	185,690	320,096	91,053	80,407	32,173	(658,938)	5,322,244
Segment results	881,540	126,973	125,990	43,686	58,650	20,491	19,559	7,331	(70,981)	1,213,239
Reconciliations:										
Unallocated income and expenses										(380,056)
Bank interest income										2,706
Finance costs										(36,475)
Profit before tax										799,414
Segment assets	1,754,553	244,622	292,690	209,382	285,978	69,777	130,030	7,871	—	2,994,903
Reconciliations:										
Deferred tax assets										7,314
Restricted cash										125,133
Cash and cash equivalents										361,767
Other unallocated assets										9,634
Total assets										3,498,751
Other segment information:										
Depreciation and amortisation	46,019	5,965	7,811	2,103	9,801	397	2,103	890	—	75,089
Impairment of trade receivables, net	6,921	739	(488)	—	—	—	—	—	—	7,172
Write-back of inventories to net realisable value	(293)	—	—	—	(1,229)	—	—	—	—	(1,522)
Capital expenditure*	340,189	71,076	57,122	67,515	56,178	45,598	54,961	6,348	(8,340)	690,647

* 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:

	2010	2009
	RMB'000	RMB'000
Revenue		
Sale of goods	**7,711,532**	5,322,244
Other revenue, income and gains		
Gross rental income from leasing of properties	**2,013**	2,442
Gain on sale of raw materials	**3,503**	6,124
Income from the provision of utilities	**6,489**	8,262
Bank interest income	**9,828**	2,706
Government grants and subsidies	**4,540**	2,106
Others	**17,142**	1,236
	43,515	22,876

Government grants and subsidies 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

	2010	2009
	RMB'000	RMB'000
Interest on bank loans	**52,971**	36,475

7. PROFIT BEFORE TAX

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

	Notes	2010 RMB'000	2009 RMB'000
Cost of inventories sold		**5,678,254**	4,110,527
Depreciation	12	**118,076**	70,797
Amortisation of prepaid land lease payments	13	**4,819**	4,031
Amortisation of other intangible assets		**417**	261
Research and development costs*		**99,734**	20,801
Loss on disposal of items of property, plant and equipment		**1,500**	828
Minimum lease payments under operating leases in respect of land and buildings		**10,700**	10,336
Auditors' remuneration		**6,055**	2,731
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		**205,597**	188,606
Pension scheme contributions		**29,292**	25,681
Staff welfare and other expenses		**7,061**	9,522
Equity-settled share option expense	27	**35,891**	—
		277,841	223,809
Impairment of trade receivables, net*	16	**7,156**	7,172
Write-back of inventories to net realisable value		**(370)**	(1,522)
Net rental income		**(1,979)**	(1,065)

* Research and development costs and the 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:

	2010 RMB'000	2009 RMB'000
Fees	**1,341**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**3,381**	2,147
Performance related bonuses	**1,633**	1,900
Equity-settled share option expense	**5,937**	—
Pension scheme contributions	**208**	211
	12,500	4,258

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

(a) Directors' remuneration (continued)

During the year, certain directors were granted share options, in respect of their services to the Group, under the Company's share option scheme, further details of which are set out in note 27 to the financial statements. 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.

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

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 2009 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	—	336	330	—	29	695
Mr. Zuo Manlun	—	336	280	—	33	649
Ms. Zuo Xiaoping	—	336	280	—	33	649
Mr. Lai Zhiqiang	—	240	220	—	29	489
Mr. Kong Zhaocong	—	240	220	—	29	489
Mr. Chen Guonan	—	240	220	—	25	485
Dr. Lin Shaoquan	—	239	200	—	22	461
Mr. Huang Guirong	—	180	150	—	11	341
Mr. Luo Jianfeng	—	—	—	—	—	—
	—	2,147	1,900	—	211	4,258
Non-executive director:						
Mr. Lin Dewei	—	—	—	—	—	—
Independent non-executive directors:						
Dr. Bai Chongen	—	—	—	—	—	—
Mr. Fung Pui Cheung	—	—	—	—	—	—
Mr. Wong Kwok Ho, Jonathan	—	—	—	—	—	—
	—	—	—	—	—	—
	—	2,147	1,900	—	211	4,258

Except for Mr. Wong Luen Hei who was appointed by the Company in November 2009, other directors were appointed by the Company in 2010.

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 (2009: 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

	2010 RMB'000	2009 RMB'000
Current - PRC		
Charge for the year	**238,558**	130,866
Overprovision in prior year	**(5,273)**	—
	233,285	130,866
Deferred (note 22)	**8,048**	24,577
Total tax charge for the year	**241,333**	155,443

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 (2009: 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 2010 and 2009, 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 Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2010 RMB'000	2009 RMB'000
Profit before tax	**1,373,516**	799,414
Tax at the PRC corporate income tax rate	**343,379**	199,854
Overseas tax differential	**10,690**	776
Effect of tax concessions for certain subsidiaries	**(149,070)**	(85,779)
Income not subject to tax	**—**	(318)
Expenses not deductible for tax	**12,970**	8,432
Tax losses utilised from previous years	**(346)**	(140)
Tax losses not recognised	**1,983**	2,157
Adjustments in respect of current tax of previous year	**(5,273)**	—
Effect of withholding tax at 5% on the distributable profits of the Company's subsidiaries in the PRC	**27,000**	30,461
Tax charge at the Group's effective rate	**241,333**	155,443

10. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Proposed final - HK12 cents (2009: Nil) per ordinary share	**303,026**	—

The proposed final dividend for the year is subject to the approval of the Company's 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:

	2010 RMB'000	2009 RMB'000
Earnings		
Profit attributable to owners of the Company used in the basic earnings per share calculation	**1,132,183**	643,971

	Number of Shares 2010	2009
Shares		
Weighted average number of ordinary shares of the Company in issue used in the basic earnings per share calculation	**2,642,465,753**	2,250,000,000
Effect of dilution - weighted average number of ordinary shares: share options	**32,948,863**	—
	2,675,414,616	2,250,000,000

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2009 represented the pro forma issued share capital of the Company of 2,250,000,000 shares, which comprised the following:

(i) 8,000,000 shares issued to New Fortune (notes 24(a) and (b)); and

(ii) 2,242,000,000 shares issued to New Fortune as a result of the capitalisation of an amount due to Mr. Wong (note 24(c)).

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2010 includes the weighted average of 750,000,000 shares issued upon the listing of the Company's shares on the Stock Exchange on 23 June 2010, namely 392,465,753 shares and the above-mentioned 2,250,000,000 ordinary shares.

No adjustment had been made to the basic earnings per share amount presented for the year ended 31 December 2009 in respect of a dilution as the Group had no potential dilutive ordinary shares in issue during that year.

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 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 book value:							
At 31 December 2010	**606,795**	**786,934**	**17,921**	**34,346**	**2,196**	**257,726**	**1,705,918**
Cost:							
At 1 January 2009	361,870	384,035	14,579	38,395	1,783	75,513	876,175
Acquisition of a subsidiary (note 26)	—	17	63	—	—	—	80
Additions	5,761	268,183	6,791	17,784	1,111	357,335	656,965
Transfers	76,217	65,643	573	122	932	(143,487)	—
Disposals	(6,606)	(18,892)	(1,482)	(1,346)	—	—	(28,326)
At 31 December 2009	437,242	698,986	20,524	54,955	3,826	289,361	1,504,894
Accumulated depreciation:							
At 1 January 2009	(33,896)	(81,782)	(5,669)	(19,541)	(443)	—	(141,331)
Depreciation provided during the year	(16,569)	(44,748)	(2,623)	(6,423)	(434)	—	(70,797)
Disposals	1,530	6,381	1,193	865	—	—	9,969
At 31 December 2009	(48,935)	(120,149)	(7,099)	(25,099)	(877)	—	(202,159)
Net book value:							
At 31 December 2009	388,307	578,837	13,425	29,856	2,949	289,361	1,302,735

12. PROPERTY, PLANT AND EQUIPMENT (continued)

Certain of the Group's interest-bearing bank loans were secured by certain of the Group's buildings and machinery, which had an aggregate net carrying amount of approximately RMB475,064,000 (2009: RMB303,841,000) as at 31 December 2010 (note 30).

The Group's buildings, included above at cost, were valued at RMB561,350,000 as at 31 March 2010 in the Prospectus in connection with the listing of the Company's shares on 23 June 2010. Had the Group's buildings been included in these financial statements at such valuation amount throughout the year ended 31 December 2010, an additional depreciation charge of RMB7,901,000 would have been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2010.

13. PREPAID LAND LEASE PAYMENTS

	Notes	**2010**	2009
		RMB'000	RMB'000
At 1 January		**210,115**	180,811
Additions		**48,365**	33,335
Recognised during the year	7	**(4,819)**	(4,031)
Carrying amount at 31 December		**253,661**	210,115
Current portion included in prepayments, deposits and other receivables	17	**(5,049)**	(4,599)
Non-current portion		**248,612**	205,516

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

Certain of the Group's interest-bearing bank loans were secured by certain of the Group's prepaid land lease payments, which had an aggregate carrying amount of approximately RMB23,144,000 (2009: RMB53,513,000) as at 31 December 2010 (note 30).

14. INVESTMENTS IN SUBSIDIARIES

	2010	2009
	RMB'000	RMB'000
Unlisted shares, at cost	**—**	—
Loans to subsidiaries	**2,226,907**	694,194
Capital contribution in respect of employee share-based compensation	**28,945**	—
	2,255,852	694,194

The amounts advanced to the subsidiaries included in the investments in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment.

14. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Starcorp Investment Holdings Ltd.	British Virgin Islands	US$1	100%	—	Investment holding
Great China International Holdings Ltd.	British Virgin Islands	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 since April 2010
Guangdong Liansu Technology Industrial Co., Ltd.*	PRC	HK$1,300,000,000	—	100%	Manufacture and sale of plastic pipes and pipe fittings
Guangdong Liansu Municipal Engineering Pipe Co., Ltd.**	PRC	HK$200,000,000	—	100%	Manufacture and sale of plastic pipes and pipe fittings
Heshan Liansu Industrial Development Co., Ltd.**	PRC	HK$174,000,000	—	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 PRC laws.

** Registered as equity joint ventures under the PRC laws.

\# Registered as a limited liability company under the PRC laws.

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. INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials	**629,734**	384,619
Work in progress	**35,972**	17,917
Finished goods	**473,746**	340,971
	1,139,452	743,507

16. TRADE AND BILLS RECEIVABLES

	2010 RMB'000	2009 RMB'000
Trade receivables	**675,099**	468,355
Bills receivable	**10,847**	6,886
Less: Provision for impairment	**(4,531)**	(8,506)
	681,415	466,735

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

	2010 RMB'000	2009 RMB'000
Within 3 months	**592,908**	396,252
4 to 6 months	**51,072**	42,160
7 to 12 months	**19,926**	15,837
1 to 2 years	**16,029**	10,144
2 to 3 years	**1,480**	1,942
Over 3 years	**—**	400
	681,415	466,735

16. TRADE AND BILLS RECEIVABLES (continued)

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

	2010 RMB'000	2009 RMB'000
At 1 January	**8,506**	8,530
Impairment losses recognised (note 7)	**7,156**	7,172
Amount written off as uncollectible	**(11,131)**	(7,196)
At 31 December	**4,531**	8,506

The above provision of RMB4,531,000 (2009: RMB8,506,000) as at 31 December 2010 is for individually impaired trade receivables with their carrying amount before provision of RMB4,581,000 (2009: RMB8,506,000). The individually impaired trade receivables relate to customers that were in default or delinquency in payments. The Group does not hold any collateral or other credit enhancements over these balances.

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

	2010 RMB'000	2009 RMB'000
Neither past due nor impaired	**505,825**	398,432
Past due but not impaired:		
Less than 3 months past due	**141,767**	41,023
4 to 6 months past due	**13,702**	16,215
7 to 12 months past due	**12,806**	6,551
1 to 2 years past due	**7,276**	3,657
2 to 3 years past due	**39**	457
Over 3 years past due	**—**	400
	681,415	466,735

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. The Group does not hold any collateral or other credit enhancements over these balances.

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2010 RMB'000	2009 RMB'000
Prepayments		**216,238**	207,482
Current portion of prepaid land lease payments	13	**5,049**	4,599
Value-added tax recoverable		**31,750**	27,151
Deposits		**7,818**	5,173
Other receivables		**9,580**	13,533
		270,435	257,938

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

18. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	Group	
	2010 RMB'000	2009 RMB'000
Cash and bank balances	**1,113,893**	486,900
Time deposits	**409,443**	—
	1,523,336	486,900
Less: Restricted cash:		
Guarantee deposits as performance bonds	**1,638**	357
Guarantee deposits for issuance of bank acceptance notes	**21,406**	124,523
Guarantee deposits for issuance of letters of credit	**—**	253
	23,044	125,133
Cash and cash equivalents	**1,500,292**	361,767
Denominated in RMB (note)	**1,269,848**	452,419
Denominated in other currencies	**253,488**	34,481
	1,523,336	486,900

	Company	
	2010 RMB'000	2009 RMB'000
Cash and bank balances	**4,084**	3,962
Time deposits	**127,689**	—
Cash and cash equivalents	**131,773**	3,962
Denominated in other currencies	**131,773**	3,962

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. The bank balances and restricted cash are deposited with creditworthy banks with no recent history of default.

19. TRADE AND BILLS PAYABLES

	2010 RMB'000	2009 RMB'000
Trade payables	**221,355**	102,338
Bills payable	**21,405**	130,364
	242,760	232,702

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

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

	2010 RMB'000	2009 RMB'000
Within 3 months	**240,190**	176,086
4 to 6 months	**1,473**	55,996
7 to 12 months	**596**	91
1 to 2 years	**327**	304
2 to 3 years	**11**	—
Over 3 years	**163**	225
	242,760	232,702

20. OTHER PAYABLES AND ACCRUALS

	2010 RMB'000	2009 RMB'000
Advances from customers	**254,376**	233,687
Accruals	**22,316**	21,275
Salaries and welfare payables	**25,511**	39,836
Other payables	**137,555**	206,749
	439,758	501,547

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

21. INTEREST-BEARING BANK LOANS

	2010			2009		
Group	Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- secured (note 30)	**5.3 - 5.94**	**2011**	**178,000**	1.67-5.31	2010	229,100
- unsecured	**1.67 - 5.4**	**2011**	**452,326**	2.77-5.84	2010	198,427
			630,326			427,527
Non-current						
Bank loans						
- secured (note 30)	**5.4**	**2012**	**104,000**	1.67-5.84	2011-2012	662,150
- unsecured	**5.4**	**2013**	**50,000**	5.4	2011	220,000
			154,000			882,150
			784,326			1,309,677

	2010 RMB'000	2009 RMB'000
Analysed into bank loans repayable:		
Within one year or on demand	**630,326**	427,527
In the second year	**104,000**	868,460
In the third year	**50,000**	13,690
	784,326	1,309,677

21. INTEREST-BEARING BANK LOANS (continued)

	2010			2009		
Company	**Contractual interest rate (%)**	**Maturity**	**RMB'000**	Contractual interest rate (%)	Maturity	RMB'000
Current						
Bank loan						
– secured			—	1.67	2010	176,100
– unsecured	**1.67**	**2011**	**255,270**			—
Non-current						
Bank loan						
– secured			—	1.67	2011	264,150
			255,270			440,250

	2010 RMB'000	2009 RMB'000
Analysed into bank loans repayable:		
Within one year or on demand	**255,270**	176,100
In the second year	**—**	264,150
	255,270	440,250

As at 31 December 2010, all the Group's bank loans are denominated in RMB, except for unsecured bank loans of HK$360,000,000 (approximately RMB306,326,000 equivalent) (2009: HK$530,000,000, equivalent to approximately RMB466,677,000), which were denominated in HK$.

Certain of the Group's bank loans are secured by pledges over certain of the Group's assets, details of which are set out in note 30.

22. DEFERRED TAX

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

	Provision for impairment of assets RMB'000	Accelerated tax depreciation RMB'000	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Withholding tax on distributable profits of subsidiaries in the PRC RMB'000	Deferred government grants RMB'000	Total 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	**694**	**—**	**(3,495)**	**(41,283)**	**1,601**	**(42,483)**
At 1 January 2009	1,346	189	(3,705)	(7,688)	—	(9,858)
(Charged)/credited to the consolidated statement of comprehensive income for the year (note 9)	(88)	(189)	105	(30,461)	6,056	(24,577)
At 31 December 2009	1,258	—	(3,600)	(38,149)	6,056	(34,435)

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

	2010 RMB'000	2009 RMB'000
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December	**2,295**	7,314
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December	**(44,778)**	(41,749)
	(42,483)	(34,435)

22. DEFERRED TAX (continued)

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 2010, the Group has not recognised deferred tax liabilities of RMB25,475,000 (2009: Nil) in respect of temporary differences relating to the undistributed profits of subsidiaries, amounting to RMB509,508,000 (2009: Nil), 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.

23. DEFERRED INCOME

Deferred income represented government grants received by the Group as financial subsidies for its construction of new factory premises in Changchun. 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. As the related assets were not ready for use as of 31 December 2010, no deferred income was released to the consolidated statement of comprehensive income for the year ended 31 December 2010.

24. SHARE CAPITAL

	2010	2009
Authorised:		
20,000,000,000 ordinary shares of HK$0.05 each (2009: 10,000,000,000 shares of HK$0.1 each)	**HK$1,000,000,000**	HK$1,000,000,000
Issued and fully paid:		
3,000,000,000 ordinary shares of HK$0.05 each (2009: 4,000,000 shares of HK$0.1 each)	**HK$150,000,000**	HK$400,000
Equivalent to	**RMB131,297,000**	RMB352,000

24. SHARE CAPITAL (continued)

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

	Notes	Number of ordinary shares	Nominal value of ordinary shares HK$'000	RMB'000
Authorised:				
As at 31 December 2009 and 1 January 2010	(a)	10,000,000,000	1,000,000	880,500
Issuance of new shares for sub-division of each share	(b)	10,000,000,000	–	–
As at 31 December 2010		**20,000,000,000**	**1,000,000**	**880,500**
Issued and fully paid:				
As at 31 December 2009 and 1 January 2010	(a)	4,000,000	400	352
Issuance of new shares for sub-division of each share	(b)	4,000,000	–	–
Issuance of new shares for capitalisation issue	(c)	2,242,000,000	112,100	98,121
Issuance of new shares for the initial public offering	(d)	750,000,000	37,500	32,824
As at 31 December 2010		**3,000,000,000**	**150,000**	**131,297**

Notes:

(a) As of the date of incorporation of the Company, the Company's authorised share capital was US$50,000 divided into 50,000 shares of US$1 each. On the same date, one share of US$1 each was allotted and issued nil paid to the initial subscriber and was then transferred to New Fortune. On 10 November 2009, 49,999 shares of US$1 each were allotted and issued fully paid to New Fortune. On 20 November 2009, the authorised share capital of the Company was increased by HK$1,000,000,000 by creating an additional 10,000,000,000 shares of HK$0.1 each. On the same date, the Company issued 4,000,000 shares of HK$0.1 each to New Fortune and repurchased 50,000 issued shares of US$1 each from New Fortune, and reduced its authorised share capital by the cancellation of 50,000 shares of US$1each.

(b) Pursuant to the written resolution of the shareholder of the Company dated 19 May 2010, the par value of each ordinary share was sub-divided from HK$0.1 each to HK$0.05 each. The numbers of ordinary shares for authorised and issued capital increased accordingly.

(c) Pursuant to the resolution passed on 14 May 2010 and in connection with the Company's initial public offering, an aggregate of 2,242,000,000 ordinary shares of HK$0.05 each of the Company were allotted and issued, credited as fully paid at par, to New Fortune by way of capitalisation of an amount due to Mr. Wong of HK$199,600,000 (approximately RMB174,710,000 equivalent).

(d) In connection with the Company's initial public offering, 750,000,000 shares of HK$0.05 each were issued at a price of HK$2.60 per share for a total cash consideration, before listing expenses, of HK$1,950,000,000. Dealings in these shares on the Stock Exchange commenced on 23 June 2010.

25. 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

	Notes	Share premium RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
Balance at 1 January 2009		—	—	—	—	—	—
Total comprehensive income for the year		—	—	1	(10,378)	—	(10,377)
At 31 December 2009 and 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	27	—	35,891	—	—	—	35,891
Proposed final 2010 dividend	10	—	—	—	(303,026)	303,026	—
At 31 December 2010		**1,673,604**	**35,891**	**(59,488)**	**44,232**	**303,026**	**1,997,265**

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 option schemes in note 2.4 to the financial statements. The amount will either be transferred to the share premium when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

26. BUSINESS COMBINATION

On 8 November 2009, Guangdong Liansu Technology acquired a 100% equity interest in Foshan Liansu from Foshan Xingzhan, an independent third party, at a cash consideration of RMB5,000,000. Foshan Liansu is principally engaged in trading of plastic pipes and pipe fittings.

The fair values of the identifiable assets and liabilities of Foshan Liansu as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Note	RMB'000
Property, plant and equipment	12	80
Inventories		25
Trade receivables		2,624
Prepayments, deposits and other receivables		3,344
Cash and bank balances		5,010
Trade payables		(43)
Other payables and accruals		(6,040)
		5,000
Satisfied by cash		5,000

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of Foshan Liansu is as follows:

	RMB'000
Cash consideration	(5,000)
Cash and bank balances acquired	5,010
Net inflow of cash and cash equivalents in respect of the acquisition of Foshan Liansu	10

Since the acquisition, Foshan Liansu contributed RMB8,941,000 to the Group's revenue and RMB703,000 to the consolidated profit for the year ended 31 December 2009.

Had the acquisition taken place at the beginning of 2009, the Group's revenue and profit for the year ended 31 December 2009 would have been RMB5,323,931,000 and RMB643,630,000 respectively.

27. 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 of directors 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.

As at 31 December 2010, no share options have been granted under the Share Option Scheme.

27. SHARE OPTION SCHEMES (continued)

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:

(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

27. SHARE OPTION SCHEMES (continued)

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

	2010	
	Exercise price HK$ per share	Number of options '000
Granted during the year	1.82	115,378
Forfeited during the year	1.82	(577)
At 31 December	1.82	114,801

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

2010

Number of options '000	**Exercise price*** HK$ per share	**Exercise period**
28,700	1.82	23 June 2011 to 22 June 2014
40,180	1.82	23 June 2012 to 22 June 2014
45,921	1.82	23 June 2013 to 22 June 2014
114,801		

* 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.

27. SHARE OPTION SCHEMES (continued)

Pre-IPO Share Option Scheme (continued)

The fair value of the Pre-IPO Share Options granted during the year ended 31 December 2010 was estimated at approximately HK$128,071,000 of which the Group recognised a share option expense of RMB35,891,000 during the year ended 31 December 2010.

The fair value of the Pre-IPO Share Options granted during the year was estimated as at the date of grant, 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

At the end of the reporting period, the Company had 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 114,801,000 additional ordinary shares of the Company and additional share capital of approximately HK$5,740,000 and share premium of approximately HK$203,198,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 114,801,000 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 3.8% of the Company's shares in issue as at that date.

28. MAJOR NON-CASH TRANSACTION

As disclosed in note 24(c), the Company capitalised HK$199,600,000 (approximately RMB174,710,000 equivalent), a portion of an amount due to Mr. Wong, by allotting and issuing an aggregate of 2,242,000,000 ordinary shares to New Fortune, the then sole beneficial shareholder of the Group, credited as fully paid at par during the year ended 31 December 2010.

29. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

At the end of the reporting period, the Company has provided a guarantee, amounting to RMB51,056,000, to a bank in connection with a loan granted to a subsidiary (2009: Nil).

30. PLEDGE OF ASSETS

At the end of the reporting period, the following assets of the Group were pledged to certain banks for securing the bank loans granted to the Group:

	2010 RMB'000	2009 RMB'000
Land	**23,144**	53,513
Buildings	**354,074**	232,193
Machinery and equipment	**120,990**	71,648
	498,208	357,354

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

As at 31 December 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2010 RMB'000	2009 RMB'000
Within one year	**855**	1,890
In the second to fifth years, inclusive	**—**	2,880
After five years	**—**	540
	855	5,310

(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.

As at 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2010 RMB'000	2009 RMB'000
Within one year	**5,816**	8,808
In the second to fifth years, inclusive	**14,323**	3,896
After five years	**9,693**	76
	29,832	12,780

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31(b) above, the Group had the following capital commitments at the end of the reporting period:

	2010 **RMB'000**	2009 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**138,459**	109,650

33. RELATED PARTY BALANCES AND TRANSACTIONS

The Group had the following material balances and transactions with related parties during the year:

(a) Amount due from a related company

	2010 **RMB'000**	2009 RMB'000
Other receivable from a company under the common control of Mr. Wong	**—**	720

The Group's non-trade receivable from a related company was unsecured, interest-free and had no fixed terms of repayment.

(b) Amounts due to related companies

	2010 **RMB'000**	2009 RMB'000
Other payables to companies under the common control of Mr. Wong	**—**	15,693

The Group's non-trade payables to related companies were unsecured, interest-free and had no fixed terms of repayment.

(c) Amount due to a director

	2010 **RMB'000**	2009 RMB'000
Mr. Wong	**—**	263,798

The amount due to a director was unsecured, interest-free and had no fixed terms of repayment.

33. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

(d) Related party transactions

	Notes	2010 RMB'000	2009 RMB'000
Companies under the common control of Mr. Wong:			
Sales of goods	(i)	**735**	3,076
Sales of raw materials	(ii)	**512**	32,029
Sales of equipment	(iii)	**—**	10,023
Sale of buildings	(iii)	**—**	4,792
Provision of utilities	(iv)	**5,096**	4,606
Rental income	(v)	**854**	1,351
Purchases of materials	(vi)	**2,718**	12,856
Purchases of equipment	(vii)	**41,188**	130,440
Licensing trademarks	(viii)	**850**	450
Licensing patents	(viii)	**43**	43
A company under the significant influence of a director:			
Sale of goods	(i)	**—**	8,258
Sale of raw materials	(i)	**—**	1,299
Purchase of materials	(vi)	**—**	3,926
Agency services from companies under the control of a director	(ix)	**256**	425
Lease of properties owned by Mr. Wong	(x)	**3,420**	—

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) Equipment and buildings were sold to related companies based on mutually agreed terms.

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

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

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

(vii) 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.

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

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

(x) The properties including an office, a cafeteria, workshops and warehouses were leased to the Group based on mutually agreed terms commencing on 1 January 2010. Prior to that date, such properties were used by the Group at nil consideration.

33. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

(e) Pledges over certain assets of a related party of the Group

As at 31 December 2009, certain of the Group's bank loans, amounting to RMB440,250,000, were secured by the time deposits of a related company under the common control of Mr. Wong.

(f) Compensation of key management personnel of the Group

In addition to the amounts paid to the Company's directors as disclosed in note 8(a), compensation of other key management personnel of the Group is set out as follows:

	2010	2009
	RMB'000	RMB'000
Short-term employee benefits	**2,797**	1,469
Post-employment benefits	**167**	117
Equity-settled share option expense	**3,044**	—
Total compensation paid to other key management personnel	**6,008**	1,586

34. FINANCIAL INSTRUMENTS

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

Financial assets – loans and receivables

		Group	
	Notes	**2010**	2009
		RMB'000	RMB'000
Trade and bills receivables	16	**681,415**	466,735
Other receivables	17	**9,580**	13,533
Amount due from a related company	33(a)	**—**	720
Restricted cash	18	**23,044**	125,133
Cash and cash equivalents	18	**1,500,292**	361,767
		2,214,331	967,888

		Company	
	Note	**2010**	2009
		RMB'000	RMB'000
Other receivables		**13**	3,165
Cash and cash equivalents	18	**131,773**	3,962
		131,786	7,127

34. FINANCIAL INSTRUMENTS (continued)

Financial liabilities at amortised cost

	Notes	Group 2010 RMB'000	Group 2009 RMB'000
Trade and bills payables	19	**242,760**	232,702
Financial liabilities included in other payables and accruals	20	**163,066**	246,585
Interest-bearing bank loans	21	**784,326**	1,309,677
Amount due to a director	33(c)	**—**	263,798
Amounts due to related companies	33(b)	**—**	15,693
		1,190,152	2,068,455

	Note	Company 2010 RMB'000	Company 2009 RMB'000
Financial liabilities included in other payables and accruals		**—**	7,298
Interest-bearing bank loan	21	**255,270**	440,250
Amount due to a director		**—**	263,798
		255,270	711,346

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. 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:

- Trade and bills receivables, other receivables, restricted cash, cash and cash equivalents, amounts due from/to related companies, trade and bills payables, financial liabilities included in other payables and accruals and an amount due to a director approximate to their carrying amounts largely due to the short-term maturities of these instruments.

- The fair values of the non-current portion of interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans, amounts due to a director and related companies 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 Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk means the risk on the fluctuation of fair value on future cash flows of financial instruments which arise from changes in interest rates. In respect of the floating interest rate instruments, the Group is subject to the risk of changes in market interest rate, while for the fixed interest rate instruments, the Group is subject to the 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 (through the impact on the weighted average balances of floating rate borrowings).

	Increase/ (decrease) in basis points	**(Decrease)/ increase in profit before tax RMB'000**
Year ended 31 December 2010	**50**	**(4,911)**
Year ended 31 December 2010	**(50)**	**4,911**
Year ended 31 December 2009	50	(3,306)
Year ended 31 December 2009	(50)	3,306

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group's 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 interest-bearing bank loans which denominated in HK$. 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 HK$ exchange rate, 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$ rate %	Increase/ (decrease) in profit before tax RMB'000
2010		
If the RMB weakens against the HK$	**5**	**2,971**
If the RMB strengthens against the HK$	**(5)**	**(2,971)**

A reasonably possible change of 5% in the exchange rate between the HK$ and RMB would have no material impact on the Group's profit for the year ended 31 December 2009.

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, prepayments, deposits 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.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

Management aims to maintain sufficient cash and cash equivalents and available funding through an adequate amount of committed credit facilities to meet the Group's commitments.

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

Group

	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**
Interest-bearing bank loans	**654,983**	**107,520**	**50,354**	**812,857**
	1,060,809	**107,520**	**50,354**	**1,218,683**

	2009			
	Within 1 year RMB'000	1 to 2 years RMB'000	More than 2 years RMB'000	Total RMB'000
Trade and bills payables	232,702	—	—	232,702
Financial liabilities included in other payables and accruals	246,585	—	—	246,585
Interest-bearing bank loans	476,766	894,547	14,034	1,385,347
Amount due to a director	263,798	—	—	263,798
Amounts due to related companies	15,693	—	—	15,693
	1,235,544	894,547	14,034	2,144,125

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company

		2010	
	Within 1 year RMB '000	**1 to 2 years RMB '000**	**Total RMB '000**
Interest-bearing bank loan	**257,319**	**—**	**257,319**

		2009	
	Within 1 year RMB'000	1 to 2 years RMB'000	Total RMB'000
Financial liabilities included in other payables and accruals	7,298	—	7,298
Interest-bearing bank loan	181,981	266,270	448,251
Amount due to a director	263,798	—	263,798
	453,077	266,270	719,347

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 total equity. Net borrowings include interest-bearing bank loans, amounts due to a director and related companies less cash and cash equivalents and restricted cash. Capital represents the total equity.

35. 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 ends of the reporting periods were as follows:

	2010 **RMB'000**	2009 RMB'000
Interest-bearing bank loans	**784,326**	1,309,677
Amount due to a director	**—**	263,798
Amounts due to related companies	**—**	15,693
Less: Cash and cash equivalents	**(1,500,292)**	(361,767)
Restricted cash	**(23,044)**	(125,133)
Net (cash)/borrowings	**(739,010)**	1,102,268
Total equity	**4,004,451**	1,041,988
Net borrowings to equity ratio	**N/A**	106%

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 March 2011.

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

	At 31 December			
	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets	**2,014,162**	1,542,951	948,422	836,594
Current assets	**3,614,638**	1,955,800	1,180,933	1,211,573
Total assets	**5,628,800**	3,498,751	2,129,355	2,048,167
LIABILITIES AND EQUITY				
Current liabilities	**1,407,744**	1,515,037	1,641,848	1,710,889
Non-current liabilities	**216,605**	941,726	63,393	88,000
Total liabilities	**1,624,349**	2,456,763	1,705,241	1,798,889
Total equity	**4,004,451**	1,041,988	424,114	249,278

Note:

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

(2) No financial information of the Group for the year ended 31 December 2006 has been published.

* The effect of discontinued operations was considered.

GLOSSARY

"Board"	The Board of Directors of the Company
"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)
"CPVC"	Chlorinated PVC
"Foshan Liansu"	Foshan Liansu Import & Export Trading Co., Ltd. (佛山市聯塑進出口貿易有限公司)
"Foshan Xingzhan"	Foshan Xingzhan Investment Co., Ltd. (佛山市星展投資有限公司)
"GHP"	Geothermal heat pumps
"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
"Guangdong Liansu Technology"	Guangdong Liansu Technology Industrial Co., Ltd. (廣東聯塑科技實業有限公司)
"HDPE"	High density PE
"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
"PB"	Polybutylene
"PE"	Polyethylene
"PE-RT"	PE of raised temperature resistance
"PP-R"	Polypropylene random
"PRC"	The People's Republic of China
"Prospectus"	The Company's prospectus dated 9 June 2010
"PVC"	Polyvinyl chloride
"PVC-M"	Modified high-resistance PVC
"PVC-U"	Unplasticized PVC
"SFO"	Securities and Futures Ordinance
"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
"Zhongshan Walton"	Zhongshan Walton Coating Steel Plastic Pipe Co., Ltd. (中山華通鋼塑管有限公司)

Financial Timetable

Announcement of 2010 annual results	18 March 2011
Closure of the register of members	31 May 2011 – 3 June 2011 (both days inclusive)
Payment of 2010 final dividend	on or around 20 June 2011
2011 annual general meeting	3 June 2011

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. Wong Luen Hei *(Chairman)*
Mr. Zuo Manlun
Dr. Bai Chongen
Mr. Fung Pui Cheung
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. Ong Chi King
Mr. Yuan Shuixian

Authorized Representatives

Mr. Zuo Manlun
Mr. Ong Chi King

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

Listing Information

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

CORPORATE INFORMATION

Share Information

Board lot size: 1,000 shares

Share issued as
at 31 December 2010: 3,000,000,000 shares

Market Capitalization
as at 31 December 2010: HK$18,780 million

Dividend

Final dividend per share for the year ended 31 December 2010: 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

Auditors

Ernst & Young
Certified Public Accountants, Hong Kong

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