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CHINA LIANSU GROUP HOLDINGS LIMITED

中國聯塑集團控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2128)

CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF ENTIRE EQUITY INTEREST OF THE WFOE

THE ACQUISITION

The Board is pleased to announce that on 15 January 2013, the Vendor, the Guarantor and the Purchaser, being an indirect wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement to acquire the entire equity interest of the WFOE at the consideration of RMB116,000,000 (equivalent to approximately HK\$144,928,000), being the Acquisition.

IMPLICATIONS UNDER THE LISTING RULES

As the Vendor is wholly-owned by Mr. Wong, an executive Director and the ultimate controlling Shareholder, the Vendor and the Guarantor are regarded as connected persons of the Company. Accordingly, the Acquisition constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules. As each of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in relation to the Acquisition is less than 5%, the Acquisition is only subject to the reporting and announcement requirements but is exempt from the independent Shareholders' approval requirement under Rule 14.32 of the Listing Rules.

INTRODUCTION

The Board is pleased to announce that on 15 January 2013, the Vendor, the Guarantor and the Purchaser, being an indirect wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement to acquire the entire equity interest of the WFOE at the consideration of RMB116,000,000 (equivalent to approximately HK\$144,928,000), being the Acquisition.

* *for identification purposes only*

THE ACQUISITION

The Sale and Purchase Agreement

Date

15 January 2013

Parties

Purchaser: Liansu Group Company Limited, an indirect wholly-owned subsidiary of the Company as at the date of this announcement.

Vendor: Star Excel Investment Limited. It is principally engaged in investment holding. It is a company wholly-owned by Mr. Wong, an executive Director and the ultimate controlling Shareholder, the Vendor is regarded as a connected person of the Company.

Guarantor: Mr. Wong, being the director and sole shareholder of the Vendor, as guarantor of the obligation of the Vendor.

Assets to be acquired

The entire equity interest of the WFOE.

Consideration

The consideration for the entire equity interest of the WFOE is RMB116,000,000 (equivalent to approximately HK\$144,928,000) (the “**Consideration**”).

The Consideration was agreed between the Vendor and the Purchaser after arm’s length negotiations with reference to the fair value of net assets of the WFOE at approximately RMB116,500,000 as at 31 December 2012, as assessed by Savills Valuation and Professional Services Limited, an independent professional valuer, adopting the following approaches:

- (a) depreciated replacement cost approach for the valuation of property;
- (b) depreciated replacement cost approach and transaction approach for the valuation of plant and equipment;
- (c) in relation to the fair value of the inventories,
 1. for the finished goods, the selling prices less the sum of (i) the costs of disposal and (ii) a reasonable profit allowance for the selling effort of the acquirer based on profit for similar finished goods and merchandise were used;

2. for the work in progress, the selling prices of finished goods less the sum of (i) costs to complete (ii) costs of disposal and (iii) a reasonable profit allowance for the completing and selling effort based on profit for similar finished goods were used;
 3. for the raw materials, the current replacement costs were used; and
- (d) book values adopted for prepayments and other receivables, bank balances and cash, trade payables, accruals and other payables and tax payable.

The Consideration will be financed by the internal resources of the Group.

Payment

The Consideration is to be paid in two instalments:

- (a) as RMB50,000,000 (being the Deposit) payable by the Purchaser within three business days after the signing of the Sale and Purchase Agreement; and
- (b) as to the balance of RMB66,000,000 payable by the Purchaser within three business days upon the issuance of a written confirmation by the Purchaser notifying the Vendor that the Purchaser is satisfied with certain completion documents provided by the Vendor in accordance with the Sale and Purchase Agreement.

As at the date of this announcement, the Deposit has not yet been paid.

In the event the conditions precedent as set out below are not satisfied or waived (as the case may be) or Completion does not take place in accordance with the terms of the Sale and Purchase Agreement, the Vendor shall refund the Deposit to the Purchaser (without interest).

Effectiveness

The Sale and Purchase Agreement shall become effective upon signing by the authorised representatives of the Vendor and the Purchaser and approval of the Relevant Bureau.

Conditions precedent

Completion of the transactions contemplated under the Sale and Purchase Agreement is conditional upon:

1. the obtaining of a PRC legal opinion (in form and substance satisfactory to the Purchaser) issued by legal advisers qualified to practise PRC law in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder including but not limited to (a) the WFOE was legally incorporated and is in valid existence under the laws of the PRC; (b) the power and authority of the WFOE to carry out its current business; (c) the Vendor lawfully owns the equity interest of the WFOE; and (d) any other matter as may be required by the Purchaser;

2. the making of such enquiries, investigations and due diligence reviews of the business, affairs, operations and financial position of the WFOE by the Purchaser and any of its officers, employees, agents, professional advisers or other persons authorised by the Purchaser which the Purchaser in its reasonable discretion deems necessary, desirable or appropriate and the Purchaser, acting reasonably, being satisfied with the results of such due diligence reviews;
3. the approval of the Acquisition and the amendment of the memorandum of association of the WFOE by relevant authority of the WFOE;
4. the issue of documents approving the Acquisition by the Relevant Bureau;
5. the issue of the notice approving the change of registration by the Relevant Administration (or documents with similar effects);
6. the Vendor having obtained all relevant consents, authority, permits and approvals in relation to the Sale and Purchase Agreement and the transaction contemplated thereunder;
7. the Purchaser having paid the Deposit; and
8. the representations, warranties and undertakings given by the Vendor and the Guarantor under the Sale and Purchase Agreement being true and correct and not misleading and remaining so from the date of the Sale and Purchase Agreement until Completion.

The Purchaser can waive any of the above conditions (save for conditions set out in item 6, which cannot be waived) by notice in writing to the Vendor. In the event the above conditions are not satisfied (or waived) on or before the expiry of 90 days after the date of the Sale and Purchase Agreement or in the event the conditions precedent are not satisfied or waived (as the case may be) on or prior to the aforesaid date, the Sale and Purchase Agreement will lapse and be of no further effect.

Completion

Completion will take place after the fulfilment of the conditions precedent as set out in items 1-8 in the paragraph headed “Conditions precedent” upon delivery of the completion documents by the Vendor and payment of the balance of the Consideration by the Purchaser.

Termination

The Sale and Purchase Agreement shall terminate upon the parties to the Sale and Purchase Agreement unanimously agreeing in writing or in accordance with other provisions in the Sales and Purchase Agreement.

Information of the WFOE

The WFOE is a company established in the PRC in 2006 with a registered capital of HK\$100,000,000 and an investment amount of HK\$100,000,000. The WFOE produces more than 300 types of main valve products including flange soft, hard seal gate valves coated with epoxy, flange, opposite joint valves, signal butterfly valves, flange silencing valves, rubber check valves, various couplings, PVC and PE socket type soft seal gate valves and flange strainers.

Located in Yunan County, Yunfu in the pan-Pearl River Delta and spanning approximately 134,000 square metres the WFOE owns a factory with a floor area of more than approximately 15,000 square metres and has over 100 employees. The factory, with an annual production capacity of 800,000 sets of valve products is equipped with 100 sets of large professional processing equipments, automatic epoxy coating production lines, electric sandblasting machines and hydraulic testing systems. The WFOE's products are in compliance with various national and international standards such as GB, ISO and QEO, as well as are used in a number of national main projects in the PRC.

The WFOE has obtained the ISO9001 quality management system certification and the ISO14001 environmental management system certification. Having been named the Yunfu's Outstanding Private Enterprise (雲浮市優秀民營企業) and the Yunan's Outstanding Private Enterprise (鬱南縣優秀企業), the WFOE was also awarded the "Guangdong Province Enterprise of Observing Contract and Valuing Credit" (廣東省守合同重信用企業) for five consecutive years from 2007 to 2011 and labeled as an A grade taxpayer.

The original purchase cost of the WFOE to the Vendor is HK\$100,000,000.

Set out below is a summary of the financial information of the WFOE for each of the two years ended 31 December 2012 which was prepared in accordance with PRC accounting standard:

	For the year ended 31 December 2012 RMB (audited)	For the year ended 31 December 2011 RMB (audited)
Net assets	95,325,624 <i>(Note)</i>	115,206,506
Profit before taxation	3,513,859	3,262,929
Profit after taxation	3,256,248	2,896,981

Note: The decrease in net assets value of the WFOE from approximately RMB115 million as at 31 December 2011 to approximately RMB95 million as at 31 December 2012 was due to the dividends of approximately RMB23 million distributed in 2012.

Reasons for and benefits of the Acquisition

The Group is principally engaged in the manufacture and sale of plastic pipes and pipe fittings, as well as home building material products.

The Directors are of the view that with the extensive sales and distribution networks of the Group and the quality products of the WFOE, the Acquisition may bring long-term commercial synergies to the Group. The Group can thereby expand its production lines and meet the increasing demand on the valve supply for the Group's water supply-related municipal engineering pipe projects and residential construction projects.

The Directors (including the independent non-executive Directors), having received the opinion on the fairness in relation to the Acquisition from Investec Capital Asia Limited, an independent financial adviser to the Company appointed pursuant to the indenture dated 13 May 2011 entered into between, among others, the Company and the Bank of New York Mellon in relation to the Notes, are of the view that the terms of the Sale and Purchase Agreement are fair and reasonable and the entering into of the Sale and Purchase Agreement is in the interests of the Group and the Shareholders (other than Mr. Wong and his associates) as a whole.

The Vendor is wholly-owned by Mr. Wong. Mr. Zuo Manlun, an executive Director and the chief executive officer of the Group, and Ms. Zuo Xiaoping, an executive Director, are the brother-in-law and the wife of Mr. Wong respectively. All of Mr. Wong, Mr. Zuo Manlan and Ms. Zuo Xiaoping are considered to have a material interest in the Acquisition and have abstained from voting at the board meeting approving the Acquisition. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, save as disclosed above, no other Director has a material interest in the Acquisition and therefore no other Director is required to abstain from voting on the board resolution in relation to the Acquisition.

Listing Rules implications

As each of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in relation to the Acquisition is less than 5%, the Acquisition is only subject to the reporting and announcement requirements but is exempt from the independent Shareholders' approval requirement under Rule 14.32 of the Listing Rules.

DEFINITIONS

In this announcement, unless the content otherwise requires, the following expressions have the following meanings:

“Acquisition”	the acquisition of the entire equity interest in the WFOE pursuant to the Sale and Purchase Agreement
“associate”	has the meaning ascribed to it in Rule 1.01 of the Listing Rules
“Board”	the board of Directors

“Company”	China Liansu Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange
“Completion”	completion of the Acquisition
“connected person(s)”	has the meaning ascribed to it in Rule 1.01 of the Listing Rules and as extended by Rule 14A.11 of the Listing Rules
“Deposit”	RMB50,000,000 (amounting to 43.1% of the Consideration)
“Director(s)”	the director(s) of the Company
“GB”	China national standards
“Group”	the Company and its subsidiaries
“Guarantor”	Mr. Wong, being the director and sole shareholder of the Vendor
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“ISO”	International Organisation for Standardisation
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Wong”	Mr. Wong Luen Hei, the chairman of the Company, an executive Director and the controlling Shareholder
“Notes”	US\$300 million 7.875% senior notes due 2016 issued by the Company
“PE”	Polyethylene
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“Purchaser”	Liansu Group Company Limited, a company incorporated in Hong Kong and an indirectly wholly-owned subsidiary of the Company
“PVC”	Polyvinyl chloride

“QEO”	Quality, environment, as well as occupation health and safety policy
“Relevant Administration”	Yunfu Administration for Industry and Commerce (雲浮市工商行政管理局) or its authorised branch offices
“Relevant Bureau”	Yunfu Foreign Trade and Economic Cooperation Bureau (雲浮市對外貿易經濟合作局) or its authorised branch offices
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 15 January 2013 entered into between the Vendor, the Guarantor and the Purchaser in relation to the acquisition of the entire equity interest in the WFOE
“Shareholder(s)”	holder(s) of the Share(s)
“Shares”	the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US”	The United States of America
“US\$”	US dollar, the lawful currency of US
“Vendor”	Star Excel Investment Limited, a company incorporated in Hong Kong and wholly-owned by Mr. Wong as at the date of this announcement
“WFOE”	廣東聯塑閥門有限公司 (Guangdong Liansu Valve Co., Ltd.*), a company established in the PRC
“%”	per cent.

By Order of the Board
China Liansu Group Holdings Limited
Wong Luen Hei
Chairman

Shunde, the PRC, 15 January 2013

As at the date of this announcement, the executive directors of the Company are Mr. Wong Luen Hei, Mr. Zuo Manlun, Ms. Zuo Xiaoping, Mr. Lai Zhiqiang, Mr. Kong Zhaocong, Mr. Chen Guonan, Dr. Lin Shaoquan, Mr. Huang Guirong, Mr. Luo Jianfeng; the non-executive director of the Company is Mr. Lin Dewei; and the independent non-executive directors of the Company are Mr. Cheung Man Yu, Mr. Gao Lixin, Dr. Bai Chongen, Mr. Fung Pui Cheung and Mr. Wong Kwok Ho Jonathan.