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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012

The Board is pleased to announce the unaudited consolidated financial results of the Group for the six months ended 30 June 2012.

Highlights

Compared to the financial results for the six months ended 30 June 2011:

- Revenue increased by 5.6% to RMB4,819 million
- Gross profit increased by 15.6% to RMB1,248 million
- Profit for the period increased by 11.6% to RMB598 million
- Basic earnings per share was RMB0.20, increased by 11.1%

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 June 2012

		Six months ended 30 June	
	Notes	**2012**	2011
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	*3*	**4,818,683**	4,564,880
Cost of sales		**(3,570,976)**	(3,485,246)
Gross profit		**1,247,707**	1,079,634
Other revenue, income and gains	*3*	**52,795**	36,396
Selling and distribution costs		**(222,830)**	(182,026)
Administrative expenses		**(172,623)**	(142,043)
Other expenses		**(102,774)**	(87,351)
Finance costs	*4*	**(69,220)**	(32,778)
Share of profit of a jointly-controlled entity		**116**	–
PROFIT BEFORE TAX	*5*	**733,171**	671,832
Income tax expense	*6*	**(135,266)**	(136,080)
PROFIT FOR THE PERIOD		**597,905**	535,752
OTHER COMPREHENSIVE INCOME/(LOSS)			
Available-for-sale investments:			
Changes in fair value		**34,732**	–
Reclassification adjustments for gains on disposal		**(14,710)**	–
		20,022	–
Exchange differences on translation of foreign operations		**(5,688)**	(10,463)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**14,334**	(10,463)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**612,239**	525,289

	Note	Six months ended 30 June 2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Profit for the period attributable to			
Owners of the Company		**600,185**	535,752
Non-controlling interests		**(2,280)**	–
		597,905	535,752
Total comprehensive income for the period attributable to			
Owners of the Company		**614,519**	525,289
Non-controlling interests		**(2,280)**	–
		612,239	525,289
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	*8*		
Basic		**RMB0.20**	RMB0.18
Diluted		**RMB0.20**	RMB0.17

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2012

	Notes	**As at 30 June 2012** ***RMB'000*** **(Unaudited)**	As at 31 December 2011 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**2,859,384**	2,470,759
Prepaid land lease payments		**655,827**	356,065
Other intangible assets		**2,926**	2,799
Deposits paid for the purchase of land, property, plant and equipment		**338,052**	291,672
Investment in a jointly-controlled entity		**5,087**	4,971
Held-to-maturity investments	*9*	**58,879**	–
Available-for-sale investments		**–**	156,508
Deferred tax assets		**2,607**	2,112
Total non-current assets		**3,922,762**	3,284,886
CURRENT ASSETS			
Inventories		**1,512,243**	1,294,018
Trade and bills receivables	*10*	**900,970**	748,358
Prepayments, deposits and other receivables		**403,708**	347,632
Cash and bank deposits		**1,724,897**	2,116,641
Total current assets		**4,541,818**	4,506,649
CURRENT LIABILITIES			
Trade and bills payables	*11*	**383,985**	191,314
Other payables and accruals		**622,229**	657,447
Bank loans and other borrowings	*12*	**324,679**	70,004
Tax payable		**62,613**	114,426
Total current liabilities		**1,393,506**	1,033,191
NET CURRENT ASSETS		**3,148,312**	3,473,458
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,071,074**	6,758,344

	Notes	As at 30 June 2012 RMB'000 (Unaudited)	As at 31 December 2011 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	*12*	**1,607,654**	1,674,704
Deferred tax liabilities		**104,465**	72,673
Deferred income		**23,089**	23,602
Total non-current liabilities		**1,735,208**	1,770,979
Net assets		**5,335,866**	4,987,365
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*13*	**131,741**	131,537
Reserves		**5,197,407**	4,855,438
		5,329,148	4,986,975
Non-controlling interests		**6,718**	390
Total equity		**5,335,866**	4,987,365

Notes

1.1 BASIS OF PREPARATION

These unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2012 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. These unaudited condensed consolidated financial statements are presented in Renminbi and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and basis of preparation used in the preparation of these unaudited condensed consolidated financial statements are the same as those used in the Group's annual consolidated financial statements for the year ended 31 December 2011, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) and the accounting policy for held-to-maturity investments as disclosed in note 1.2 below.

These unaudited condensed consolidated financial statements do not include all information and disclosures required in the Group's annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2011.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current period's unaudited condensed consolidated financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets*

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

In addition, the Group has applied the accounting policy for held-to-maturity investments during the period.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. 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 other income in the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income in other expenses.

2. 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 areas 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 interest income, gain on repurchase of senior notes, gain on disposal of available-for-sale investments, exchange differences, finance costs, share of result of a jointly-controlled entity and other unallocated income and expenses are excluded from such measurement.

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

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

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

During the six months ended 30 June 2012 and 2011, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

	Southern China *RMB'000* (Unaudited)	Southwestern China *RMB'000* (Unaudited)	Central China *RMB'000* (Unaudited)	Eastern China *RMB'000* (Unaudited)	Northern China *RMB'000* (Unaudited)	Northwestern China *RMB'000* (Unaudited)	Northeastern China *RMB'000* (Unaudited)	Outside China *RMB'000* (Unaudited)	Eliminations *RMB'000* (Unaudited)	Consolidated *RMB'000* (Unaudited)
Six months ended 30 June 2012										
Segment revenue:										
Sales to external customers	3,086,604	474,372	438,300	242,107	316,794	117,620	79,705	63,181	–	4,818,683
Intersegment sales	444,947	99,982	126,566	27,084	74,876	17,765	39,292	59,319	(889,831)	–
Total	3,531,551	574,354	564,866	269,191	391,670	135,385	118,997	122,500	(889,831)	4,818,683
Segment results	916,361	136,805	174,381	56,313	88,976	23,630	9,938	18,491	(177,188)	1,247,707
Reconciliations:										
Interest income										22,179
Gain on repurchase of senior notes										4,259
Gain on disposal of available-for-sale investments										14,710
Exchange loss										(5,130)
Finance costs										(69,220)
Share of profit of a jointly-controlled entity										116
Unallocated income and expenses										(481,450)
Profit before tax										733,171
Other segment information:										
Depreciation and amortisation	54,105	11,291	16,585	6,111	11,569	5,321	7,069	1,496	–	113,547
Impairment of trade receivables	3,411	–	–	–	–	–	–	–	–	3,411
Capital expenditure*	487,476	60,771	62,116	8,726	22,222	129,856	37,848	10,845	(10,270)	809,590
As at 30 June 2012										
Segment assets	3,583,316	565,613	731,852	290,520	508,598	477,946	450,792	63,992	–	6,672,629

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

	Southern China *RMB'000* (Unaudited)	Southwestern China *RMB'000* (Unaudited)	Central China *RMB'000* (Unaudited)	Eastern China *RMB'000* (Unaudited)	Northern China *RMB'000* (Unaudited)	Northwestern China *RMB'000* (Unaudited)	Northeastern China *RMB'000* (Unaudited)	Outside China *RMB'000* (Unaudited)	Eliminations *RMB'000* (Unaudited)	Consolidated *RMB'000* (Unaudited)
Six months ended 30 June 2011										
Segment revenue:										
Sales to external customers	3,110,957	413,277	368,010	198,485	276,608	93,278	73,541	30,724	–	4,564,880
Intersegment sales	341,249	98,227	110,816	18,932	60,913	6,644	10,632	23,876	(671,289)	–
Total	3,452,206	511,504	478,826	217,417	337,521	99,922	84,173	54,600	(671,289)	4,564,880
Segment results	776,427	111,421	142,771	37,092	60,999	22,268	15,822	8,059	(95,225)	1,079,634
Reconciliations:										
Interest income										5,675
Exchange gain										18,708
Finance costs										(32,778)
Unallocated income and expenses										(399,407)
Profit before tax										671,832
Other segment information:										
Depreciation and amortisation	38,521	7,956	12,632	4,911	8,775	2,566	2,154	1,141	–	78,656
Reversal of impairment of trade receivables	–	–	(713)	–	–	–	–	–	–	(713)
Write-back of inventories to net realisable value	(488)	–	–	–	–	–	–	–	–	(488)
Capital expenditure*	187,828	26,935	45,697	20,702	18,810	29,372	40,281	–	(7,708)	361,917
As at 31 December 2011										
Segment assets (Audited)	3,078,390	409,212	662,071	256,941	449,491	274,408	354,654	26,136	–	5,511,303

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

3. 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 period.

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Sale of goods	**4,818,683**	4,564,880
Other revenue, income and gains		
Bank interest income	**20,909**	5,675
Interest income from held-to-maturity investments	**1,270**	–
Total interest income	**22,179**	5,675
Gain on repurchase of senior notes	**4,259**	–
Gain on disposal of available-for-sale investments	**14,710**	–
Gain on sale of raw materials	**891**	2,342
Income from the provision of utilities	**1,917**	2,079
Government grants and subsidies	**4,496**	4,016
Others	**4,343**	22,284
	52,795	36,396

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.

4. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on:		
Bank loans	**1,479**	11,159
Senior notes	**67,741**	21,619
	69,220	32,778

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**3,570,976**	3,485,734
Depreciation	**107,516**	75,880
Amortisation of prepaid land lease payments	**5,602**	2,407
Amortisation of other intangible assets	**429**	369
Research and development costs*	**93,705**	86,109
Gain on disposal of items of property, plant and equipment	**(822)**	(24)
Equity-settled share option expense	**14,092**	27,072
Impairment/(reversal of impairment) of trade receivables*	**3,411**	(713)
Write-back of inventories to net realisable value	**–**	(488)
Foreign exchange differences, net	**5,130**	(18,708)

* Research and development costs and the impairment/(reversal of impairment) of trade receivables are included in "Other expenses" in the unaudited condensed consolidated statement of comprehensive income.

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current – Hong Kong	**383**	–
Current – PRC		
Charge for the period	**129,660**	108,103
Overprovision in the prior year	**(26,074)**	–
	103,969	108,103
Deferred	**31,297**	27,977
Total tax charge for the period	**135,266**	136,080

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

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period after offsetting the tax loss brought forward.

No provision for Hong Kong profits tax was made in prior period as the Group had not generated any assessable profits arising in Hong Kong during that period.

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 six months ended 30 June 2012 and 2011, based on the existing legislation, interpretations and practices in respect thereof.

7. DIVIDENDS

During the period, a final dividend of HK12 cents per share in respect of the year ended 31 December 2011 (six months ended 30 June 2011: HK12 cents per share in respect of the year ended 31 December 2010) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid during the period amounted to HK$368,180,000 (approximately RMB293,834,000 equivalent) (six months ended 30 June 2011: HK$360,000,000 (approximately RMB303,026,000 equivalent)).

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to owners of the Company used in the basic earnings per share calculation	**600,185**	535,752
	Number of Shares	
Shares		
Weighted average number of ordinary shares of the Company in issue used in the basic earnings per share calculation	**3,008,285,255**	3,000,086,426
Effect of dilution – weighted average number of ordinary shares: share options	**61,013,523**	84,385,327
	3,069,298,778	3,084,471,753

The weighted average number of shares used to calculate the basic earnings per share for the six months ended 30 June 2012 includes ordinary shares of 3,005,906,950 in issue as at 31 December 2011 (six months ended 30 June 2011: 3,000,000,000 ordinary shares in issue as at 31 December 2010) and shares of 2,378,305 (six months ended 30 June 2011: 86,426) derived from the weighted average number of ordinary shares of 5,005,500 (six months ended 30 June 2011: 3,191,450) issued upon the exercise of share options.

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

9. HELD-TO-MATURITY INVESTMENTS

	As at 30 June 2012 *RMB'000* (Unaudited)	As at 31 December 2011 *RMB'000* (Audited)
Listed debt securities	**58,879**	–

The held-to-maturity investments represented debt securities listed on the Singapore Exchange Securities Trading Limited. These securities carry fixed interest at 11.75% to 13.75% per annum, payable semi-annually in arrears, and will mature from May to October 2015.

As at 30 June 2012, the fair value of the debt securities based on the quoted market price provided by a leading global financial market data provider was US$8,975,000 (approximately RMB56,930,000 equivalent).

10. TRADE AND BILLS RECEIVABLES

	As at 30 June 2012 *RMB'000* (Unaudited)	As at 31 December 2011 *RMB'000* (Audited)
Trade receivables	**891,260**	718,856
Bills receivable	**16,429**	32,811
Less: Provision for impairment	**(6,719)**	(3,309)
	900,970	748,358

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

Trade and bills receivables are unsecured and interest-free.

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

	As at 30 June 2012 *RMB'000* (Unaudited)	As at 31 December 2011 *RMB'000* (Audited)
Within 3 months	**752,695**	580,613
4 to 6 months	**48,971**	98,441
7 to 12 months	**71,016**	40,722
1 to 2 years	**26,885**	26,431
2 to 3 years	**1,228**	2,049
Over 3 years	**175**	102
	900,970	748,358

11. TRADE AND BILLS PAYABLES

	As at 30 June 2012 *RMB'000* (Unaudited)	As at 31 December 2011 *RMB'000* (Audited)
Trade payables	**357,277**	179,397
Bills payable	**26,708**	11,917
	383,985	191,314

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

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

	As at 30 June 2012 *RMB'000* (Unaudited)	As at 31 December 2011 *RMB'000* (Audited)
Within 3 months	**378,738**	188,436
4 to 6 months	**2,272**	860
7 to 12 months	**2,496**	1,306
1 to 2 years	**461**	517
2 to 3 years	**13**	21
Over 3 years	**5**	174
	383,985	191,314

12. BANK LOANS AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	As at 30 June 2012 *RMB'000* (Unaudited)	Effective interest rate (%)	Maturity	As at 31 December 2011 *RMB'000* (Audited)
Current						
Secured bank loans	**5.40**	**2012-2013**	**31,200**	2.90-5.40	2012	70,004
Unsecured bank loans	**2.45**	**2013**	**293,479**			–
			324,679			70,004
Non-current						
Secured bank loans			**–**	5.40	2013	16,400
Senior notes	**8.63**	**2016**	**1,607,654**	8.63	2016	1,658,304
			1,607,654			1,674,704
			1,932,333			1,744,708

Notes:

(a) As at 30 June 2012, the secured bank loans are secured by the pledge of:

(i) the Group's certain buildings and machinery with an aggregate carrying amount of RMB44,418,000 (31 December 2011: RMB129,561,000); and

(ii) the Group's certain prepaid land lease payments with an aggregate carrying amount of RMB26,628,000 (31 December 2011: RMB26,914,000).

(b) The senior notes are listed on the Singapore Exchange Securities Trading Limited. They carry interest at 7.875% per annum, payable semi-annually in arrears on 13 May and 13 November, and will mature on 13 May 2016 unless redeemed earlier. The Company can at its option redeem all or a portion of the senior notes at any time prior to the maturity date in accordance with the purchase agreement.

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

During the period, the Company repurchased and cancelled US$9,820,000 in aggregate principal amount of the senior notes (approximately RMB62,111,000 equivalent) with a gain of RMB4,259,000 recognised in the unaudited condensed consolidated statement of comprehensive income. The outstanding principal amount of the senior notes was US$258,880,000 as at 30 June 2012 (31 December 2011: US$268,700,000).

As at 30 June 2012, the fair value of the senior notes based on the quoted market price provided by a leading global financial market data provider was US$244,642,000 (approximately RMB1,551,757,000 equivalent) (31 December 2011: US$227,723,000 (approximately RMB1,434,860,000 equivalent)).

13. SHARE CAPITAL

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Authorised:		
20,000,000,000 (31 December 2011: 20,000,000,000) ordinary shares of HK$0.05 each	**HK$1,000,000,000**	HK$1,000,000,000
Issued and fully paid:		
3,010,912,450 (31 December 2011: 3,005,906,950) ordinary shares of HK$0.05 each	**HK$150,545,623**	HK$150,295,348
Equivalent to	**RMB131,741,000**	RMB131,537,000

Pursuant to the exercise of the share options at the exercise price of HK$1.82 each granted by the Company, the Company issued a total of 5,005,500 ordinary shares of HK$0.05 each for a total cash consideration, before expenses, of approximately HK$9,110,000 (approximately RMB7,427,000 equivalent) during the period. The shares issued during the period rank pari passu in all respects with the then existing shares of the Company.

14. COMMITMENTS

The Group's capital expenditure in respect of the acquisition of land, property, plant and equipment is as follows:

	As at 30 June 2012 *RMB'000* (Unaudited)	As at 31 December 2011 *RMB'000* (Audited)
Contracted, but not provided for	**244,908**	417,306

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND ANALYSIS

Overview

As a leading domestic manufacturer of plastic pipes and pipe fittings, the Group has been dedicated to the provision of a full range of plastic pipes and pipe fittings to customers via its extensive sales network throughout the nation. The Group's products are broadly used in seven major sectors, namely, water supply, drainage, power supply and telecommunications, gas supply, agriculture, floor heating and fire prevention. To cater to market demands and realise synergies among different segments, the Group has expanded to new segments of home building material products, such as sanitary products, holistic kitchen, and plastic-steel doors and windows, with a view to forging new drivers for profit growth through product diversification. Headquartered in Shunde, Guangdong Province, the Group has built a strategic network of sales outlets and production bases that covers the entire nation, comprising mainly 14 production bases located in 11 provinces of China.

Analysis of Market Conditions

Global investment sentiments continued to be affected by the sovereignty debt crisis of the Eurozone and the slowdown of US economic recovery during the first half of 2012, hence the PRC Government opted for a prudent target for economic growth expressed as "stabilised growth." Overall demand for plastic pipes was under pressure, as the impact of the credit tightening policy adopted by the PRC Government last year continued to be felt by the market during the first half of 2012. Despite challenges brought about by the general economic environment, there were nevertheless abundant opportunities for the plastic pipe industry: the "urbanisation" process continued to advance in solid strides, with pressing demand for plastic pipes facilitated by increasing construction of affordable housing, investments in water conservancy and revamping of outdated pipe networks. The Group continued to achieve stable business development as it embraced every challenge and seized every opportunity by capitalising fully on its strengths in terms of sales network, research and development of new products and technologies and brand-building, while refining and optimising its target market segments.

The Group reported stable operating and financial performance for the period under review. Revenue amounted to RMB4,819 million, an increase of RMB254 million or 5.6% over the same period in 2011. Gross profit for the six months ended 30 June 2012 amounted to RMB1,248 million, an increase of 15.6% over the same period in 2011. Basic earnings per share for the first half of 2012 amounted to RMB0.20.

The table below sets out the breakdown of sales volume, revenue and average selling price by product material for the six months ended 30 June 2012 and 2011:

	2012			2011			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]	**372,092**	**3,090**	**8,304**	336,006	2,946	8,768	10.7	4.9	(5.3)
– Non-PVC[2]	**98,341**	**1,539**	**15,650**	95,187	1,465	15,391	3.3	5.1	1.7
	470,433	**4,629**	**9,840**	431,193	4,411	10,230	9.1	4.9	(3.8)
Others[3]	**N/A**	**190**	**N/A**	N/A	154	N/A	N/A	23.4	N/A
Total	**470,433**	**4,819**	**N/A**	431,193	4,565	N/A	N/A	5.6	N/A

Note[1] "PVC" refers to 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, home building material products and other materials. Sales volumes for "Others" are measured in units rather than tonnes and the size of the units between different products may vary.

Business Development

China's "12th Five-Year Plan" ("12th FYP") emphasises urbanisation as an important direction for development of the nation, with plans to raise its urbanisation ratio to 51.5% by 2015. During the first half of 2012, the PRC Government had refrained from further tightening its domestic housing control policy. Instead, policies to encourage the development of affordable housing and commodity housing were announced, such as the vigorous construction of affordable housing and increased supply of commodity housing. As a result, the demand for self-use residential housing eased during the past six months, with improvements in the demand and supply scenario of the market. The government's target is to build 36 million affordable housing units during the "12th FYP." As such, total investments in affordable housing are expected to exceed RMB4 trillion by 2015. According to figures announced by the Ministry of Housing and Urban-Rural Development of the PRC, 2.28 million affordable housing units in cities were under construction nationwide as at the end of April 2012. To ensure the construction of affordable housing, the PRC Government even approved local governments to increase the size of their bond issues this year to a level of RMB250 billion, as compared to RMB200 billion for the period from 2009 to 2011, provided that the proceeds should be applied to the construction of affordable housing. Accordingly, local governments would have more stable funding arrangements for this project.

Orderly capacity expansion in tandem with market developments

With China's ongoing economic growth and advancement in urbanisation, the plastic pipe industry is expected to sustain sound and stable growth. Based on an optimistic view of the demand for plastic pipes in the long run, the Group has continued to increase its production capacity according to actual developments in the market and in anticipation of future demand.

Against the backdrop of a complex, volatile and challenging market environment in the first half of 2012, the Group has continued to engage in orderly capacity expansion, domestic and international sales network development, refinement and optimisation of target market segments and optimisation of product portfolio, resulting in enhanced core competitiveness for the Company.

The new production base in Shaanxi will commence production this year as scheduled to meet demands from local markets and further increase the market share.

Refining the sales network in a move to reinforce industry leadership

The Group has been focused on business development in the plastic pipe industry on the back of its proven technologies and products. As a first-mover in the market, the Group has been able to achieve economies of scale and gain market leadership over a relatively short span of time. Over the years, the Group has been actively refining and optimising its sales network, as well as fortifying and strengthening market penetration in various targeted regional markets including Southern China, on the back of its strengths as an industry leader and its brand name advantage. As a result, an extensive sales network has been built to provide a solid foundation for the Group's long-term development.

The Group's extensive sales network constitutes one of its competitive advantages. The Group had 1,300 independent distributors as at the end of June 2012. On the back of its existing marketing ability, the Group has continued to make strong efforts in expanding its domestic sales network, while starting to develop the overseas market.

The table below sets out the breakdown of sales revenue by region for the six months ended 30 June 2012 and 2011:

Region[1]	**2012** RMB million	**2012** % of total revenue	2011 RMB million	2011 % of total revenue
Southern China	**3,087**	**64.1%**	3,111	68.1%
Southwestern China	**474**	**9.8%**	413	9.0%
Central China	**438**	**9.1%**	368	8.1%
Eastern China	**242**	**5.0%**	198	4.3%
Northern China	**317**	**6.6%**	277	6.1%
Northwestern China	**118**	**2.4%**	93	2.1%
Northeastern China	**80**	**1.7%**	74	1.6%
Outside China	**63**	**1.3%**	31	0.7%
Total	**4,819**	**100.0%**	4,565	100.0%

Note[1] Details of the scope of coverage of each region are set out in note 2 to this announcement.

Sound gross profit margin assured by optimised pricing strategy

The Group sought to fortify its existing customer base in response to changes in the market environment without compromising stringent cost control. Moreover, the Group also succeeded in developing new customers on the back of its integrated competitive advantages, which contributed to a total sales volume of plastic pipes and pipe fittings of more than 470,000 tonnes for the first half of 2012, representing a growth of 39,000 tonnes or 9.1% as compared to the first half of 2011. Against intense market competition, the Group optimised its pricing strategy in a situation-specific manner and succeeded in sustaining sound and reasonable gross profit margin for both its PVC and non-PVC products during the first half of 2012.

The average selling price of the Group's plastic pipes and pipe fittings decreased to RMB9,840 per tonne from RMB10,230 per tonne. The average cost of sales of plastic pipes and pipe fittings decreased to RMB7,281 per tonne from RMB7,898 per tonne.

Expansion of product portfolio underpinned by active new product development

During the period under review, the Group made dedicated efforts to optimise its product portfolio and sought to improve its profitability through product upgrades. The Group boasted a strongly diversified product portfolio and manufactured plastic pipes and pipe fittings with a most extensive scope of applications. Products used in water supply, drainage and power supply and telecommunications constituted the Group's major sources of revenue and accounted for 95.2% of its total revenue from plastic pipes and pipe fittings.

Early in the year, the PRC Government expressly stated its strong intention to stimulate the development of the eco-friendly water conservancy sector in future. According to the "12th FYP of National Environmental Protection" issued by the State Council, it is planned to invest as much as RMB3.4 trillion in environmental projects during the 12th FYP, while the No.1 Circular (中央一號文件) calls for the acceleration of water conservancy reforms on all fronts, supported by an estimated total investment of RMB4 trillion over 10 years. The use of plastics as a substitute for steel will also be further encouraged. The government policies aiming at expanding domestic demand and improving people's livelihood have suggested that China will have very pressing needs for plastic building materials in the coming years, giving rise to stable demand for the Group's products. With a plentiful product portfolio, the Group was well-positioned to supply the market with comprehensive pipeline products and services. The Group also benefited from increased demand for plastic pipes facilitated by the construction of rural drinking water security system and central gas supply system, together with heating demand and the requirement for building materials in rural areas, as well as demands from various sources stimulated by the PRC Government's major infrastructure investments.

The table below sets out the breakdown of revenue from plastic pipes and pipe fittings by product for the six months ended 30 June 2012 and 2011:

	2012		2011	
	RMB million	***% of total revenue***	*RMB million*	*% of total revenue*
Water supply	**1,806**	**39.0%**	1,735	39.3%
Drainage	**1,755**	**37.9%**	1,595	36.2%
Power supply and telecommunication	**845**	**18.3%**	813	18.4%
Gas supply	**55**	**1.2%**	49	1.1%
Others[1]	**168**	**3.6%**	219	5.0%
Total	**4,629**	**100%**	4,411	100.0%

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

Driven by the call for energy conservation and reduction of consumption, a low carbon economy and the avoidance of duplicate or secondary decoration of housing, fitted-out properties (精裝房) are gradually becoming a mainstay house-building format in property development. In response to this trend, the Group is actively developing a range of novel home building material products with a view to meeting the requirements of property developers and decoration work contractors for quality home building material products. These new products have already been launched during the first half of 2012. Meanwhile, the Group will continue to offer a full range of ancillary services covering the design, manufacture, research and development, sales and after-sales services of plastic pipes, so as to fortify and enhance the Group's overall competitiveness.

REVIEW OF FINANCIAL PERFORMANCE

Other Revenue, Income and Gains

Other revenue, income and gains amounted to RMB53 million for the first half of 2012, representing an increase of 45.1% over the first half of 2011. The increase was primarily attributable to gain on disposal of available-for-sales investments.

Selling and Distribution Costs

Selling and distribution costs for the first half of 2012 rose by 22.4% to RMB223 million as compared with the first half of 2011 due to an increase in salaries and benefits paid to sales staff, marketing related expenses and packaging costs from the growth in sales.

Administrative Expenses

Administrative expenses for the first half of 2012 rose by 21.5% to RMB173 million as compared with the first half of 2011, primarily due to increase in salaries and benefits of administrative staff and depreciation on property, plant and equipment.

Other Expenses

Other expenses for the first half of 2012 rose by 17.7% to RMB103 million as compared with the first half of 2011, primarily due to increase in exchange loss and research and development expenditures.

Finance Costs

Finance costs amounted to RMB69 million, representing an increase of 111.2% as compared with the first half of 2011, primarily due to increase in interest on senior notes.

Income Tax Expense

The Group's effective tax rate decreased from 20.3% in the first half of 2011 to 18.4% in the first half of 2012 mainly because the PRC CIT was over provided in 2011. It was mainly attributable to an additional subsidiary being later confirmed as a "High and New Technology Enterprise" and subject to a reduced CIT rate of 15% from 25%.

Profit Attributable to Owners of the Company

The profit attributable to owners of the Company amounted to RMB600 million, representing an increase of 11.9% from RMB536 million for the first half of 2011.

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

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

Up to 30 June 2012, approximately HK$1,642 million of the net proceeds from the IPO has been applied in accordance with the Results of Allocation Announcement dated 22 June 2010 (the "Announcement"). The unutilised balance has been deposited with financial institutions and will be applied in the manner as stated in the Announcement.

UPDATES ON THE STATUS OF THE COMPANY'S EXPANSION PLANS

Up to 30 June 2012, the Group has totally spent RMB2,610 million on its expansion plans, as described in the Prospectus under the section headed "Business – Production Facilities and Production Process". The Group intends to fund the expansion plans from future operating cash flow, net proceeds from equity and debt issuances and banking facilities. The design annual production capacity is expected to be within a range of 1.65 million tonnes to 1.75 million tonnes by the end of December 2012. It is not expected to have material impact on the Group.

NEW CONTINUING CONNECTED TRANSACTIONS

During the period, the Group entered into a lease agreement with Guangdong Liansu Machinery in relation to the lease of a property by the Group. The principal terms of the lease are set out in detail in the Company's announcement dated 27 April 2012 in relation to the continuing connected transactions.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continued to adopt prudent financial policies. Finance, fund utilisation and fund raising activities are subject to effective centralised management and supervision.

The Group maintains reasonable gearing level and adequate liquidity. As at 30 June 2012, the Group had total debts of approximately RMB1,932 million (31 December 2011: RMB1,745 million), of which 1.6% was denominated in Renminbi, 83.2% was denominated in US dollars and 15.2% was denominated in HK dollars. Other than the approximately US$259 million of 7.875% senior notes due in 2016, the Group's borrowings are subject to floating rates ranging from 2.5% to 5.4% per annum with maturity periods within one year.

As at 30 June 2012, the Group's current assets and current liabilities were approximately RMB4,542 million and RMB1,394 million respectively. The Group's 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) reduced to 3.26 and 2.17 from 4.36 and 3.11 as at 31 December 2011, respectively. The Group's total equity increased to approximately RMB5,336 million (31 December 2011: RMB4,987 million). The Group's gearing ratio (calculated based on the basis of the total debts divided by the sum of total debts and total equity) stood at a healthy level of 26.6% as compared to 25.9% as at 31 December 2011 due to the drawing of new bank loan during the period.

With cash and bank deposits, including restricted cash, of approximately RMB1,725 million (31 December 2011: RMB2,117 million) as well as unutilised banking facilities, the directors consider that the Group has sufficient working capital for its operation and future development.

CHARGE ON ASSETS

As at 30 June 2012, certain of the Group's property, plant and equipment and prepaid land lease payments with an aggregate carrying amount of approximately RMB71 million (31 December 2011: RMB156 million) were pledged to certain banks to secure bank borrowings granted to the Group. The shares of certain subsidiaries of the Company incorporated outside the PRC were pledged as securities for issuance of senior notes.

FOREIGN EXCHANGE EXPOSURE

The Group's borrowings are mainly denominated in US dollars but its cash flow is generated from operations whose earnings were denominated principally in Renminbi. As a result, the depreciation of Renminbi affected to the Group's results for the six months ended 30 June 2012. Save for the aforesaid, the Group has no significant exposure to foreign exchange fluctuation and no hedging has been arranged on the abovementioned exposure.

CONTINGENT LIABILITIES

As at 30 June 2012, the Group did not have any significant contingent liabilities.

EVENTS AFTER THE REPORTING PERIOD

No significant event took place subsequent to 30 June 2012.

HUMAN RESOURCES

As at 30 June 2012, the Group employed a total of approximately 7,000 employees including directors. Total staff costs were RMB159 million for the period. Employees are remunerated based on their work performance, professional experience and the prevailing industry practice. The Group also makes contributions to the statutory pension scheme for its employees in accordance with the relevant laws and regulations.

PROSPECTS

While the overall demand for plastic pipes has been affected by the sovereignty debt crisis of the Eurozone and the economic slowdown of China and the United States, but stable growth in the demand for plastic pipes is still expected given further advancement of China's industrialisation, urbanisation and informatisation, further expansion of domestic demand and ongoing implementation of major construction projects in affordable housing, urban infrastructure and new agricultural villages, etc. The Group is fully confident that it will enjoy sound and stable business development in the second half of 2012. The Group will look for further reinforcement and enhancement of its market position and value by capitalising fully on its inherent strengths and sound capability to consolidate as it continues to augment its integrated competitive strengths in a resolute manner, while seeking improvements in areas such as marketing planning.

The Group intends to drive sustainable business development with three major strategies as follows:

(i) Expanding the nationwide sales network and tapping the international market: In future, the Group will continue to expand its sales network in a vigorous manner, seeking to refine its target market segments and determine the strategic distribution of sales channels for the next phase to cater to market changes. In addition to consolidating its position in Southern China, the major geographic market, the Group will also make aggressive moves to increase market share elsewhere. While pursuing organic growth of the network of sales outlets, the Group will also increase its marketing efforts in order to further enhance its brand recognition and customer base, with a view to new gains in market share.

(ii) Ongoing orderly expansion of production capacity to meet market demands: Given China's ongoing urbanisation and the implementation of various policies in agricultural development and water conservancy, China's plastic pipe industry is expected to sustain ongoing growth in future. The Group will implement the new phase of capacity expansion plan to ensure that the market demands are being met. The Group has acquired sites in Maoming, Hainan, Yunnan and Shandong for the construction of new production bases in addition to the scheduled commission of its new production base in Shaanxi later this year.

(iii) New product development: The Group will continue to emphasise its research and development with a view to increasing production efficiency, lowering production costs and improving the functional aspects of products. The Group will continue to launch, at opportune times, novel home building material products such as sanitary products, holistic kitchen and plastic-steel doors and windows, so as to create future new drivers for profit growth and strengthen the overall competitiveness through further product diversification.

On the back of the leadership built up over the years in China's plastic pipe industry, the Group will continue to strive for new market share and position itself strongly in the market to develop greater shareholders' value, underpinned by its solid business philosophy and outstanding abilities in product innovation and development.

SENIOR NOTES

As at 30 June 2012, the outstanding principal amount of the senior notes is US$258,880,000. The Company intended to use the net proceeds for financing of the then existing indebtedness, for capital expenditures and for other general corporate purposes. The details of the Company's senior notes are set out in note 12 to this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the six month ended 30 June 2012, save for the Company's repurchase and cancellation of senior notes in the principal amount of US$9,820,000 at the aggregate consideration of US$8,880,000 (including accrued interest) on the Singapore Exchange Securities Trading Limited in June 2012, the Company or any of its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed the accounting policies adopted by the Group and the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2012. Such condensed consolidated financial statements have not been audited but have been reviewed by the Company's independent auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining and ensuring high standards of corporate governance practices. The Board emphasises on maintaining a Board with balance of skill sets of directors, better transparency and effective accountability system in order to enhance shareholders' value. In the opinion of the directors, the Company complied with all the applicable code provisions of the Code as set out in Appendix 14 to the Listing Rules during the period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code governing securities transactions by the 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 period.

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

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

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

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

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of the Stock Exchange (www.hkex.com.hk) and the Company (www.liansu.com). The 2012 interim report will be dispatched to Company's shareholders and available on the above websites in due course.

By order of the Board
China Liansu Group Holdings Limited
Zuo Manlun
Chief Executive Officer

Hong Kong, 20 August 2012

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

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)
"Group"	The Company and its subsidiaries
"Guangdong Liansu Machinery"	Guangdong Liansu Machinery Manufacturing Co., Ltd. (廣東聯塑機器製造有限公司), a company indirectly wholly-owned by Mr. Wong Luen Hei and a connected person of the Company as defined under the Listing Rules
"Hong Kong"/"HK"	Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Listing Rules"	The Rules Governing of the Listing of Securities on the Stock Exchange
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers
"New Fortune"	New Fortune Star Limited
"PE"	Polyethylene
"PP-R"	Polypropylene random
"PRC"	The People's Republic of China
"Prospectus"	The Company's prospectus dated 9 June 2010
"PVC"	Polyvinyl chloride
"RMB"	Renminbi, the lawful currency of the PRC
"State Council"	The State Council of the PRC

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US”	The United States of America
“US$”	US dollar, the lawful currency of US

FORWARD-LOOKING STATEMENTS

This announcement contains forward-looking statements. These forward-looking statements include but not limited to statements related to gains and earnings, and “believe”, “plan”, “expect”, “anticipate”, “forecast”, “estimate”, “speculate”, “firmly believe”, “confident” and similar terms also represent forward-looking statements. Forward-looking statements are based on the beliefs, assumptions, expectations, estimates and forecasts of or made by the directors and management of China Liansu in accordance with the operations and the industry and the markets in which China Liansu is operating and are not historical facts.

The English text of this announcement shall prevail over the Chinese text in case of any inconsistency.

* *For identification purposes only*