Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement is for information only and does not constitute an offer to sell or the solicitation of an offer to buy any securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. The securities referred to herein will not be registered under the United States Securities Act 1933, as amended. No securities may be offered or sold in the United States absent registration or an exemption from the registration requirements. Any public offering of securities to be made in the United States will be made by means of a prospectus that may be obtained from the Company or the selling security holder. Such prospectus will contain detailed information about the company involved and its management and financial statements. The Company does not intend to make any public offering of securities or register any of the securities in the United States.

联塑
L & S

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)

PROPOSED ISSUE OF SENIOR NOTES

The Company proposes to conduct an international offering of guaranteed senior notes and will commence a series of roadshow presentations and meetings with institutional investors beginning on or around 28 April 2011. In connection with the offering, the Company will provide certain institutional investors with recent corporate and financial information regarding the Group, including but not limited to updated risk factors, management's discussion and analysis of the Group's financial condition and results of operations, description of projects undertaken by the Group, related party transactions and indebtedness information, some of which has not previously been made public. An extract of such information is attached hereto and can also be viewed at the Company's website www.liansu.com at approximately the same time when such information is released to the institutional investors. Completion of the Proposed Notes Issue is subject to market conditions and investor interest. J.P. Morgan and RBS, as the joint bookrunners and the joint lead managers, are managing the Proposed Notes Issue. As of the date of this announcement, the principal amount, the interest rate, the payment date and certain other terms and conditions of the Proposed Notes Issue are yet to be finalized.

Upon finalizing the terms of the Notes, the Company, the Subsidiary Guarantors, J.P. Morgan and RBS will enter into the Purchase Agreement. The Company currently intends to use the proceeds from the Proposed Notes Issue for refinancing of existing indebtedness, for capital expenditures and for other general corporate purposes. The Company may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of the proceeds in accordance with the requirements of the Company.

Approval-in-principle has been received for the listing of the Notes on the SGX-ST. Admission of the Notes to the Official List of the SGX-ST or quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors or the Notes. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this announcement.

As no binding agreement in relation to the Proposed Notes Issue has been entered into as of the date of this announcement, the Proposed Notes Issue may or may not materialise. Investors and shareholders of the Company are urged to exercise caution when dealing in the securities of the Company.

This announcement is made on a voluntary basis. Further announcement in respect of the Proposed Notes Issue will be made by the Company should the Purchase Agreement be executed.

THE PROPOSED NOTES ISSUE

Introduction

The Company proposes to conduct an international offering of guaranteed senior notes and will commence a series of roadshow presentations and meetings with institutional investors beginning on or around 28 April 2011. In connection with the offering, the Company will provide certain institutional investors with recent corporate and financial information regarding the Group, including but not limited to updated risk factors, management's discussion and analysis of the Group's financial condition and results of operations, description of projects undertaken by the Group, related party transactions and indebtedness information, some of which has not previously been made public. An extract of such information is attached hereto and can also be viewed at the Company's website www.liansu.com at approximately the same time when such information is released to the institutional investors.

Completion of the Proposed Notes Issue is subject to market conditions and investor interest. J.P. Morgan and RBS, as the joint bookrunners and the joint lead managers, are managing the Proposed Notes Issue. As of the date of this announcement, the principal amount, the interest rate, the payment date and certain other terms and conditions of the Proposed Notes Issue are yet to be finalized. Upon finalizing the terms of the Notes, the Company, the Subsidiary Guarantors, J.P. Morgan and RBS will enter into the Purchase Agreement.

The Notes will be offered only (i) in the United States, to qualified institutional buyers in reliance on the exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act provided by Rule 144A, or (ii) outside the United States, in compliance with Regulation S under the U.S. Securities Act. The Notes have not been or will not be registered under the U.S. Securities Act. None of the Notes will be offered to the public in Hong Kong and none of the Notes will be placed to any connected persons of the Company.

The Company is a leading PRC manufacturer of plastic pipes and pipe fittings. The Company has 12 operational production facilities for plastic pipes and pipe fittings strategically located in nine provinces across China. Through these facilities, the Company's 30 sales offices and more than 760 independent distributors, the Company serves a broad range of customers across China and captures increased demand for the Company's products in new and existing sales regions.

Use of Proceeds

The Company currently intends to use the proceeds from the Proposed Notes Issue for refinancing of existing indebtedness, for capital expenditures and for other general corporate purposes. The Company may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of the proceeds in accordance with the requirements of the Company.

Listing

Approval-in-principle has been received for the listing of the Notes on the SGX-ST. Admission of the Notes to the Official List of the SGX-ST or quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors or the Notes. No listing of the Notes has been sought in Hong Kong.

GENERAL

As no binding agreement in relation to the Proposed Notes Issue has been entered into as of the date of this announcement, the Proposed Notes Issue may or may not materialise. Investors and shareholders of the Company are urged to exercise caution when dealing in the securities of the Company.

This announcement is made on a voluntary basis. The Company will make further announcement in respect of the Proposed Notes Issue upon the execution of the Purchase Agreement.

DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:-

"Board"	the board of Directors;
"Company"	China Liansu Group Holdings Limited (中國聯塑集團控股有限公司*), an exempted company incorporated under the laws of the Cayman Islands with limited liability, whose Shares are listed on the main board of the Stock Exchange;
"connected person"	shall have the meaning as ascribed to it under the Listing Rules;
"Director(s)"	the director(s) of the Company;
"Group"	the Company and its subsidiaries from time to time;
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"J.P. Morgan"	J.P. Morgan Securities Ltd., one of the joint bookrunners and joint lead managers in respect of the Proposed Notes Issue;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Notes"	the guaranteed senior notes to be issued by the Company;
"PRC" or "China"	the People's Republic of China (excluding, for the purposes of this announcement, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan);
"Proposed Notes Issue"	the proposed issue of the Notes by the Company;

"Purchase Agreement"	the agreement proposed to be entered into among the Company, the Subsidiary Guarantors, J.P. Morgan and RBS in relation to the Proposed Notes Issue;
"RBS"	The Royal Bank of Scotland plc, one of the joint bookrunners and joint lead managers in respect of the Proposed Notes Issue;
"SGX-ST"	Singapore Exchange Securities Trading Limited;
"Share(s)"	ordinary share(s) of HK$0.05 each in the share capital of the Company;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Subsidiary Guarantors"	the subsidiaries of the Company which provide a guarantee for the payment of the Notes provided that the Subsidiary Guarantors will not include any subsidiaries of the Company established under the laws of the PRC; and
"U.S. Securities Act"	the United States Securities Act of 1933, as amended.

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

Hong Kong, 26 April 2011

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

* *For identification purposes only*

Extract of Operating and Financial Data of
China Liansu Group Holdings Limited
(as of 26 April 2011)

Risk factors

An investment in the Notes is subject to significant risks. You should carefully consider all of the information in this offering memorandum and, in particular, the risks described below before deciding to invest in the Notes. The following describes some of the significant risks that could affect us and the value of the Notes. Some risks may be unknown to us and other risks, currently believed to be immaterial, could be material. All of these could materially and adversely affect our business, results of operations, financial condition and prospects. The market price of the Notes could decline due to any of these risks and you may lose all or part of your investment. This offering memorandum also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this offering memorandum.

Risks relating to our business

A substantial portion of our products are used in infrastructure and real estate construction; the PRC government has recently implemented several measures to control the growth of the infrastructure and real estate sectors, which could materially and adversely impact demand for our products.

Sales of our products and the growth of our operations have depended, and will continue to depend, substantially on the growth of the end-user markets for our products in the infrastructure and real estate development sectors. Generally, within the PRC, construction activities in the infrastructure and real estate development sectors are cyclical and dependent upon many factors beyond our control. Some market observers have expressed concern that growth in the infrastructure and real estate sectors has been driven by excess availability of bank lending in the PRC, which has enabled investors to purchase real estate for speculative purposes at inflationary prices. Increased availability of bank lending in the PRC may have also enabled increases in the level of infrastructure development activities. Due to concerns about inflation, the PBOC significantly increased the reserve requirement ratio for PRC commercial banks beginning in February 2010. The reserve requirement ratio refers to the amount of funds that PRC banks must hold in reserve with the PBOC against deposits made by their customers. During the first four months of 2011, the PBOC increased the reserve requirement ratio four times, each by 50 basis points with the last adjustment made on April 21, 2011 to 20.5%. Increases in the reserve requirement ratio may negatively impact the amount of funds available to lend to infrastructure and real estate developers by commercial banks in China.

In addition to these anti-inflationary measures, since late 2009, the Chinese government has promulgated a series of regulatory and fiscal policies targeted specifically towards curbing the level of investment in the real estate sector. These policies include the following:

- With effect from January 2011, transfers of residential properties by individuals who have held them for less than five years are subject to business tax calculated on a gross basis; transfers of non-ordinary residential properties by individuals who have held them for five years or more are subject to business tax calculated on a net basis; and transfers of ordinary residential properties by individuals who have held them for five years or more are exempted from business tax.

- With effect from March 2010, the Ministry of Land and Resources of the PRC began requiring real estate developers acquiring land use rights to pay 50% of the land premiums as down payment within one month of entering into the relevant land grant contracts.

- In January 2011, the State Council of the PRC mandated that banks require at least a 60% down payment from second-home purchasers (at mortgage rates of no less than 1.1 times benchmark rates). The State Council also mandated that banks require a 30% down payment from purchasers of first homes.

- In April 2010, the State Council of the PRC promulgated a notice that provides that, in those areas where property prices have escalated and property supply is tight, commercial banks may, subject to their own risk assessment, refuse to grant mortgage loans to those purchasing their third or more properties, and the granting of mortgage loans shall be suspended to those non-local residents who cannot provide documentation showing payment of local tax or social security for one year or more.

- Since January 2011, many PRC cities have promulgated measures to restrict purchasers from acquiring their second (or more) residential properties and restricting non-residents who cannot provide proof of local tax or social security payments for more than a specified period from purchasing any residential properties.

- The State Council recently approved, on a trial basis, the launch of a new property tax scheme in selected PRC cities, including Shanghai and Chongqing. The detailed measures will be formulated by the local branches of the central governments at the pilot provinces, autonomous regions or municipalities.

Because such macroeconomic and regulatory measures may not have a significant impact on investment and consumption patterns until several months after the measures are implemented, it is too early to determine the extent to which recent monetary, fiscal and other policy measures may have on our business. Nevertheless, the level of investment in infrastructure and real estate construction in China may level off or decrease as a result of these or other measures, which in turn may negatively impact demand for plastic pipes and, hence, have a material and adverse effect on our financial performance.

In addition, our results of operations and financial condition could also be materially and adversely affected by a downturn in construction activities in the PRC, particularly in the Southern China region, resulting from general market conditions, the unavailability of credit to finance investment, fluctuations in housing prices, mortgage and other financing interest rates, unemployment, demographic trends, consumer confidence and other factors beyond our control.

Our financial performance is dependent on the cost and continued availability of plastic resins.

The principal raw materials for the production of our plastic pipe products are plastic resins such as PVC, PE and PP-R. Our cost of raw materials amounted to RMB2,760.6 million, RMB3,627.5 million and RMB5,039.0 million (US$763.5 million), accounting for 88.6%, 88.3% and 88.7% of our cost of sales in 2008, 2009 and 2010, respectively. Our financial performance therefore is dependent to a substantial extent on the price fluctuations and availability of plastic resins. The primary raw material used in a majority of our pipe products is PVC resin manufactured in the PRC from coal and limestone, as opposed to PVC resin manufactured from petrochemical intermediates that are primarily used in many other parts of the world. Prices for PVC resins in the PRC have been affected by various factors, including fluctuations resulting from refinery capacity shortages, changes in PVC manufacturers' electrical and labor costs, changes in coal prices and changes in the price of petrochemical based PVC resins on the Chinese and global markets. In addition to coal and limestone based PVC resins, we also use a significant amount of various petrochemical based plastic resins as raw materials, the prices for which have fluctuated significantly in recent years as a result of changes in natural gas and crude oil prices. The unit costs of the plastic resins we use were affected by these fluctuations. Our average PVC resin unit cost per tonne was approximately RMB6,624, RMB5,572 and RMB6,390 in 2008, 2009 and 2010, respectively, while the average unit cost per tonne of our other plastic resins was approximately RMB11,717, RMB8,441 and RMB10,220 for the same respective periods. Instability in the plastic resin markets could quickly affect the prices and general availability of our raw materials, which could have a material and adverse impact on us. Due to the uncertain extent and rapid nature of these increases, we cannot reasonably estimate our ability to successfully recover any cost increases. To the extent that cost increases cannot be passed on to our customers, or the duration of time lags associated with a pass-through becomes significant, such increases may have a material and adverse effect on our financial performance. In 2010, we increased our gross margins to 26.4% from 22.8% for the prior year in large part due to raw material prices decreasing more than our average selling prices, the continued improvement in production efficiencies and economies of scale. Increases in our raw material costs could lower our gross margin significantly.

In addition, to maintain competitive operations, we must obtain from our suppliers, in a timely manner, sufficient quantities of raw materials at acceptable prices. Our policy is to maintain an inventory level of one to two months' supply of our principal raw materials at all times. We have signed formal framework agreements with our suppliers which generally have a term of one year and provisions regarding the indicative volume to be purchased during the year, but do not contain fixed price provisions. As a consequence of the recent global financial and economic crisis, certain suppliers may be unwilling to continue extending favorable credit terms to us. During 2008, 2009 and 2010, we have been able to obtain raw materials from our suppliers on terms acceptable to us, but as suppliers seek to reduce their own costs in the face of the recent global financial and economic crisis, suppliers may offer materials to us on less favorable terms.

If our suppliers are unable to meet our demand for raw materials on a timely basis and on acceptable terms, our ability to maintain timely and cost-effective production of our products could suffer. In addition, if any of our suppliers were to cease selling to us or to cease operations for any reason, we might experience difficulty in obtaining raw materials from alternative suppliers on a timely, cost-effective basis and on acceptable terms. If our inventories run low, our production activities could be slowed or halted. In the event of any delay or failure in obtaining the necessary raw materials or other component parts from our suppliers on commercially acceptable terms or at all, our business, results of operations, financial condition and prospects may be materially and adversely affected.

We may not be able to effectively manage our planned capacity expansion.

We have grown rapidly over the last few years and intend to further expand our operation in the future. The expansion of our production capacity is a key aspect of our growth strategy. Our planned expansion requires us to identify suitable locations that are in close proximity to our target markets. Even if we successfully identify suitable locations, there can be no assurance that we will be able to secure sufficient financing to fund our expansion plans and we may be unable to acquire land and property on acceptable terms or at all. In addition, we may not have the necessary management or the financial resources to oversee the successful and timely construction of new production facilities or the expansion of existing facilities. Our expansion plans could also be materially affected by construction delays, cost overruns, failures or delays in obtaining government approvals of necessary permits and our inability to secure the necessary production equipment. Furthermore, to effectively manage our planned expansion, we must improve our operational and financial systems and procedures and system of internal control. If we fail to anticipate customer requirements and market demand accurately, in particular regions such as Northern China, Northwestern China, Eastern China, Northeastern China, which have not historically been our major markets (as we had focused on the Southern China market in the past), our expanded production capacity may not be able to operate at optimal levels and we may not be able to capture the target market share as planned. In addition, if demand for our products does not meet our expectations, the utilization rates of our expanded production facilities may be reduced and our revenue, results of operations and financial condition may be materially and adversely affected.

We may make acquisitions or divestitures that may be unsuccessful.

We have made, and may in the future consider, the acquisition of other plastic pipe manufacturers or product lines of other businesses that either complement or expand our existing business, or the divestiture of some of our businesses. We cannot assure you that we will be able to consummate any acquisitions or that any future acquisitions or divestitures will be able to be consummated at acceptable prices and terms. Acquisitions or divestitures involve a number of special risks, including some or all of the following:

- the diversion of management's attention from our core pipe manufacturing businesses;
- the disruption of our ongoing business;
- entry into markets in which we have limited or no experience;
- the ability to integrate our acquisitions without substantial costs, delays or other problems;
- inaccurate assessment of undisclosed liabilities;
- the incorporation of acquired product lines into our business;
- the failure to realize expected synergies and cost savings;
- the loss of key employees or customers of the acquired or divested business;
- increasing demands on our operational systems;
- the integration of information system and internal controls;
- possible adverse effects on our reported operating results, particularly during the first several reporting periods after the acquisition is completed; and
- the amortization of acquired intangible assets.

Additionally, any acquisitions or divestitures we may make could result in significant increases in our outstanding indebtedness and debt service requirements.

We depend on independent distributors for a substantial portion of our revenue. Failure to maintain relationships with our distributors or to otherwise expand our distribution network could materially and adversely affect our business.

We sell a substantial portion of our products to independent distributors, which in turn sell our products to end-users. In 2010, no single distributor contributed, on an individual basis, more than 3.0% of our total revenue. We expect to continue to rely on our distributors for a substantial portion of our sales. As such, the sales performance and ability of our distributors to expand their businesses and sales networks are important to the future growth of our business. Furthermore, rather than enter into long-term agreements with our distributors, we generally enter into distribution agreements with one year terms, renewable annually upon mutual agreement. There is no assurance that we will be able to renew the distribution agreements with our distributors on mutually acceptable terms or at all. If we fail to renew our distribution agreements with them or to attract new distributors, our sales network and our business, results of operations, financial condition and prospects may be materially and adversely affected.

We may not be able to successfully develop our products and new production processes on a timely basis, or at all.

One of our business strategies is to continue to introduce new products to enable us to meet the needs of the end-users of our products. Changes in customer requirements and preferences, frequent product introductions and the emergence of new or substitute technology or evolving industry standards and practices could render our existing products and services obsolete or less attractive. The success of our strategy to introduce new products is dependent on our ability to anticipate customer needs, provide new products and differentiate our products from those of our competitors. The introduction of our new products may be less successful than we expect due to low levels of customer acceptance, costs associated with the introduction of new products, delays in bringing products to market, lower than anticipated prices for new products or quality issues. Our future success will depend upon our ability to successfully identify, develop and market new products that meet customer needs and are accepted in the market. There can be no assurance that we will be able to anticipate and respond to the demand for new products, services and technologies in a timely and cost-effective manner, adapt to technological advances or fulfill customer expectations.

Our operations depend on the stability of our core personnel. If we fail to retain or otherwise lose the services of our core team members or fail to recruit well-qualified and experienced new team members, our business may be materially and adversely affected.

The success of our operations depends to a large extent on the expertise and experience of our core team, which consists of the directors, senior management and key technical and research personnel. Mr. Wong, our founder, chairman and an executive director, has approximately 14 years of experience in the plastic pipe industry. Six out of our other eight executive directors have at least ten years of experience in the plastic pipe industry. Losing the services of our key personnel could materially harm us. Whether we are able to retain and motivate members of our existing core team and attract and recruit additional well-qualified and experienced personnel is one of the key factors that may affect our sustained development.

We expect that our and our competitors' demand for senior management and technical personnel will continue to grow. There can be no assurance that we will not encounter difficulties in retaining and attracting key personnel in the future. We are not insured against the detrimental effects to our business resulting from the loss or dismissal of key personnel. If any of the directors or senior management ceases to participate in our management, or if we fail to retain or attract certain key personnel, the operations and growth of our business may be materially and adversely affected.

Our operations rely on a continuous power supply and the ready availability of utilities, and any shortages or interruptions could significantly disrupt our operations and increase our expenses.

The manufacture of our products relies on the continuous and uninterrupted supply of electric power, water and natural gas, as well as water, waste and emissions discharge facilities. Any shortage, interruption or discharge curtailment could significantly disrupt our operations and increase our expenses. We do not have backup generators or alternate sources of power at any of our manufacturing facilities to support our production in the event of a blackout. We have in the past been subject to occasions of power shortages caused by power supply limits imposed by the PRC government. In addition, our insurance coverage does not extend to any damages resulting from any interruptions to our power supply. Any interruption in our ability to continue operations at our facilities could damage our reputation, harm our ability to retain existing customers or obtain new customers and could result in revenue loss, any of which could have a material adverse effect on our business, financial condition and results of operations.

Our business operations may be materially and adversely affected by a shortage of labor.

The success of our operations relies in part on the availability of manual labor at rates acceptable to us. The competition for such personnel is intense in China, and there have been instances of shortages in the supply of labor in the Guangdong Province and the southern parts of the PRC. In the event of a shortage of labor, we may have difficulties recruiting or retaining labor for our production facilities at costs acceptable to us and our ability to maintain sufficient labor levels to satisfy our production needs may be harmed. In such event, our business and results of operations may be materially and adversely affected.

We may be adversely affected by certain recent adverse developments in the global financial markets and may not be able to obtain adequate financing on terms acceptable to us.

The plastic pipes manufacturing industry in which we operate is capital-intensive. In order to stay competitive and to meet the increasing demand of our products, we need to increase our capacity from time to time which may require, from time to time, substantial capital investment. We made capital expenditures of RMB581.4 million (US$88.1 million) in 2010. Our growth strategy and the capital-intensive nature of our business require significant amounts of financing. The recent adverse developments in the global financial markets have significantly reduced the availability of credit. Continuing global economic turmoil could inhibit our ability to draw on bank borrowings if we are unable to meet our financial obligations when they fall due. Such turmoil could also affect our ability to refinance our obligations or obtain new financing, and in turn may affect the implementation of our business strategies and expansion plans, in particular the construction of new facilities which require substantial capital expenditures. In addition, new developments and unforeseen events may occur that may require us to raise additional capital. We cannot assure you that we will be able to obtain additional financing on acceptable terms or at all. Any of the above-mentioned risks could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our business activities are affected by seasonal fluctuations.

Our products are principally used in infrastructure projects and residential and commercial construction. As such, the demand for these products tends to be seasonal and corresponds with increased construction activities in the late spring, summer and early fall, particularly in the northern part of China where changes in climate are more severe.

We generally experience a reduction in the sales of our products during the first and fourth quarters of the calendar year as a result of seasonal downtimes in Northeastern and Northwestern China due to extreme weather conditions and lower level of construction activities during the winter and the Lunar New Year holiday period in the PRC.

Any significant or prolonged adverse weather conditions that negatively affect the construction activities or slow the growth of new construction activities could also have a material adverse effect on our business, results of operations, financial condition and prospects.

There are title defects relating to certain properties occupied by us in Shunde and Sichuan and there are environmental compliance issues with respect to Sichuan Liansu.

There are title defects relating to certain properties that we currently occupy. These defects relate to properties in Shunde and Sichuan.

Buildings in Shunde. As of the date of this offering memorandum, we had not obtained the construction work planning permit and the building ownership certificate for one of our buildings in Shunde. This building has a total gross floor area of approximately 4,918 sq.m. and is being used by us as a research and development center and general office. We leased the land on which such building is situated from Foshan City Shunde District Longjiang Town Xixi Community Stock Cooperation (佛山市順德區龍江鎮西溪社區股份合作社) ("Xixi Community Stock Cooperation"), an Independent Third Party. Such lease is for a term of nine years and expires on December 31, 2008. As of December 31, 2010, the carrying amount of the such building in Shunde was RMB2.7 million and the construction cost of the building was RMB3.8 million. Our PRC legal adviser, Jun He Law Offices, has advised that such land is an allocated state-owned land and the prior approval of the PRC government is required before Xixi Community Stock Cooperation could lease it to us. Xixi Community Stock Cooperation did not obtain such approval.

As of the date of this offering memorandum, we have not obtained the construction work planning permit and the building ownership certificate for two buildings occupied by us in Shunde. These two buildings are situated on land owned by us, have a total gross floor area of approximately 10,534 sq.m. and are being used by us as warehouses. As of December 31, 2010, the carrying amount of such buildings in Shunde was nil and the total construction cost of the buildings was RMB4.9 million (US$0.7 million). As such buildings have been built for the purpose of temporary use, we did not intend or plan to obtain their title documents. As we plan to demolish these buildings, no remedial actions will be taken in relation thereto.

Our failure to obtain the requisite PRC government approvals, construction work planning permit and building ownership certificates may result in such buildings being considered illegal and unauthorized structures. Our PRC legal adviser, Jun He Law Offices, has advised us that the relevant governmental authorities may order the demolition, forfeiture or rectification of such buildings and/or require us to pay a fine of up to 10% of the construction cost of the buildings. If we are required to vacate these buildings, the research and development as well as warehousing operations carried out by us at such buildings would need to be relocated. Moreover, any restriction on our ability to use our general office could cause us to incur additional administrative expenses. We estimate that the cost of relocation would be approximately RMB60,000 and the relocation time would be around five days.

Land and facilities in Sichuan. We have leased certain property and the facilities thereon in Sichuan from Sichuan Jinlu Group Limited (四川金路集團股份有限公司) (the "Sichuan Lessor") for a term of three years from June 2009. The property has a total gross floor area of approximately 7,338 sq.m. and is used by us as office, factory and warehouse. As the Sichuan Lessor has not obtained the building ownership certificates for the relevant facilities, the implementation of the lease agreement between us and the Sichuan Lessor may be adversely affected if the Sichuan Lessor fails to obtain such ownership certificates due to challenges from relevant governmental authorities or other third parties. In such event, we will not be able to continue to use such building and will need to relocate and incur additional costs and expenses, and our operations in Sichuan may be adversely affected. In addition, we have not been able to complete the construction completion environmental assessment procedures in connection with the leased property and thus is unable to renew the temporary permit for pollutants discharge for Sichuan Liansu when it expired on October 31, 2010. As a result, we may be subject to certain administrative orders and penalties. We are in the process of locating suitable alternative properties in Sichuan and estimate that the cost of relocation would be approximately RMB 150,000 and the relocation time would be around two weeks. These operations had revenue of RMB16.6 million and RMB81.6 million (US$12.4 million), accounting for 0.3% and 1.1% of our total revenue for 2009 and 2010, respectively. A loss of RMB2.4 million was recorded for 2009 and a profit of RMB5.0 million, accounting for 0.4% of our consolidated profit was recorded for 2010. There was no revenue contribution from the Sichuan facilities for 2008.

Our non-compliance with social insurance contribution requirements under national and local laws and regulations may subject us to fines and other penalties.

Under the PRC national laws and regulations, our subsidiaries in the PRC are required to make mandatory contributions to a number of social insurance schemes, such as pension insurance, for their employees who are eligible for such benefits.

We provide social insurance to our employees in accordance with local governmental authorities' implementation policies, and except for Changchun Liansu, we have received confirmation letters from the local governmental authorities indicating that we have made all requisite contributions to the social security insurance funds in a timely manner according to the local regulations, other than the housing provident fund contributions in respect of certain of our subsidiaries. Due to the different levels of development in social benefits in different parts of the PRC, the local policies in some places where we operate are less stringent than the requirements under the PRC housing provident fund laws and regulations. Due to the relatively high mobility of our workers (especially migrant workers), significant administrative resources are needed to properly administer housing provident fund contributions for all of our employees and as a privately-owned company, we did not allocate such resources in the past. According to the Regulations on Management of Housing Provident Fund (住房公積金管理條例), in the event that a company fails to carry out the formalities of opening the requisite housing provident fund accounts, such company will be ordered by the housing provident fund management centre to carry out the requisite formalities within a prescribed time limit, failing which a fine of up to RMB50,000 may be imposed. In the event that a company fails to make the requisite payment and deposit of the housing provident fund on time or underpays it, such company will be ordered by the housing provident fund management centre to make the requisite payment and deposit within a prescribed time limit, failing which an application may be made to the court for compulsory enforcement. In December 2009, we completed registration applications for the payment of housing provident fund contributions at the relevant PRC authorities for the PRC subsidiaries then existing and have commenced payments of housing provident fund contributions in respect of all eligible employees. As of the date of this offering memorandum, 15 of our PRC subsidiaries have opened the requisite housing provident fund accounts., However, Shaanxi Liansu, which was incorporated by Guangdong Liansu Technology on October 26, 2010, is still under application for opening its housing provident fund account. Our PRC legal adviser, Jun He Law Offices, has advised that we would not be subject to any fines in relation to the opening of accounts. As of the date of this offering memorandum, we had not fully repaid all of the outstanding housing provident fund contributions but we have made, as of December 31, 2010, a provision of RMB22.7 million (US$3.4 million) million in respect of the overdue housing provident fund contributions for the three years ended December 31, 2010. We will repay all outstanding housing provident fund contributions as and when requested by the housing provident fund management centre.

If the PRC government or the relevant local authorities implement more stringent laws and regulations, or interpret the existing laws and regulations more strictly, we may be required to incur additional expenses to comply with such laws and regulations, which in turn may materially and affect our results of operations.

We may not be able to adequately protect our intellectual property.

We rely on a combination of patents and trademarks to define and protect our intellectual property. We cannot assure you that any of our registered or unregistered intellectual property rights, or claims to such rights, will now or in the future successfully protect what we consider to be the intellectual property underlying our products in any or all of the jurisdictions in which we do business, or that our registered or unregistered rights subsequently will not be successfully opposed or otherwise challenged. We also cannot assure you that upon expiration of any of our patents, our competitors will not manufacture products or use technologies similar to ours.

To the extent that our innovations and products are not protected by patents, copyrights or other intellectual property rights, third parties (including competitors) may be able to commercialize our innovations or products or use our know-how, which could have a material adverse effect on our business, results of operations, financial condition and prospects.

In addition, legal protection of our intellectual property rights in one jurisdiction may not provide protection in markets in other jurisdictions which we may enter.

Laws and regulations relating to the environmental protection in the PRC could impose significant costs on and require significant efforts from us.

The PRC government has adopted extensive environmental laws and regulations with national and local standards in relation to emission control, discharge of waste water and storage, transportation, treatment and disposal of waste materials. Compliance with environmental laws and regulations which apply to us and to the plastic pipes industry may generally be difficult or impose significant costs. If we are unable to comply with existing and future environmental laws and regulations or have to incur significant costs in complying with them, it could have a material adverse effect on our business, financial condition and results of operations.

Our production activities are subject to environmental protection laws and regulations in China, concerning, among other things, the discharge of waste products in relation to our plastic pipes production. These laws and regulations establish quotas for the discharge of waste products, permit the levy of fines and payments for damages for serious environmental offences, and permit the state or local authorities, at their discretion, to close any facility that fails to comply with orders requiring it to correct or stop operations causing environmental damage. Waste products generated from plastic pipes production such as dust and waste water are hazardous to the environment and must be properly disposed of under applicable environmental laws.

Although we believe we have fully complied with all environmental protection laws and regulations in all material respects, we cannot provide assurance that the state or local authorities will not enact additional environmental protection laws or regulations or enforce in a more rigorous manner current or new environmental protection laws or regulations. In 2008, 2009, 2010 and as of the date of this offering memorandum, we have not been subject to any fines exceeding RMB100,000 for any violation of environmental protection laws. However, there can be no assurance that we will not incur substantially more capital and operating costs for its business as a result of any future changes to environmental protection laws or regulations. We may be required to obtain the requisite environmental approvals for our subsidiaries. We cannot assure you that we will be able to obtain the requisite environmental approvals in time or at all.

We are subject to safety and health laws and regulations in the PRC and our operations carry significant risks of workplace injury or death.

We are required to comply with the applicable PRC national or local laws and regulations in relation to the maintenance of workplace safety and its production processes. Our production facilities are subject to regular inspections by the regulatory authorities for compliance with the Safe Production Law of the PRC. Furthermore, under the PRC Labor Law and the PRC Law on the Prevention and Treatment of Occupational Diseases, we must ensure that its facilities comply with state standards and requirements on occupational safety and health conditions of employees.

We are also required to provide our employees with safety education, necessary protective tools and facilities, and regular health examinations for those who are engaged in work involving risks of occupational hazards. Failure to meet the relevant legal requirements on production safety and labor safety could subject us to warnings from relevant governmental authorities, governmental orders to rectify such non-compliance within a specified time frame and fines of up to RMB0.5 million, and fines imposed on us could be RMB5.0 million where an extraordinary production safety accident takes place and we are liable for such an accident. We may also be required to temporarily suspend our production or permanently cease our operations for significant non-compliance.

The plastic pipes making process by its nature presents inherent dangers of workplace injury or death in spite of safety precautions, training and compliance with state and local safety and health laws and regulations. We have in place and intend to continuously maintain policies and procedures to minimize these risks. However, there can be no assurance that we will not incur any or avoid material liabilities for workplace injuries or deaths, which could have a material adverse effect on our business, financial condition and results of operations.

Any failure to maintain an effective quality control system at our production facilities could have a material adverse effect on our business, results of operations, financial condition and prospects.

The quality of our products is critical to the success of our business. This significantly depends on the effectiveness of our quality control system, which in turn depends on a number of factors, including the design of the system, the quality control training program, and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any significant failure or deterioration of our quality control system could result in the production of defective or substandard products, delays in the delivery of our products, the need to replace defective or substandard products, and damage to our reputation.

If our products do not meet the specifications and requirements agreed with or requested by our customers, or if any of our products are defective, or result in our customers suffering losses as a result of product liability claims, we may be subject to product liability claims, claims for indemnity by our customers, and other claims for compensation. Although we maintain product liability insurance that we consider customary for our industry and our operations, we may still be subject to losses resulting from the risks that are not covered by the insurance we currently carry on. We may be subject to product liability claims and litigation and may incur significant legal costs regardless of the outcome of any claim of alleged defect. Products failure or defects, and any complaints or negative publicity resulting therefrom, could result in decreased sales of these or other products. As a result, if we face claims or litigation regarding the quality of our products, our business, financial condition and results of operations may be materially and adversely affected.

In the event of a material disruption to our operations, our business, results of operations, financial condition and prospects could be materially and adversely affected.

Our business operations, production facilities, information systems and processes are vulnerable to damage or interruption from fires, floods, power loss, telecommunications failures, bomb threats, explosions or other forms of terrorist activity and other natural and man-made disasters. These operations, facilities and systems may also be vulnerable to sabotage, vandalism, theft, security breaches and similar misconduct. Our disaster recovery procedures may not be sufficient to mitigate the harm that may result from any such event or disruption. In addition, our insurance and other safeguards may only partially reimburse us for our losses. Significant interruptions from any of these events could materially and adversely affect our business, results of operations, financial condition or prospects.

Our insurance coverage may not be sufficient to cover the risks related to our operations or any losses.

We may experience major accidents in the course of our operations, which may cause significant losses or damage. Any such accidents, and the consequences resulting from them, may not be covered adequately, or at all, by the insurance policies we carry. In accordance with customary practice in the PRC, we do not carry any business interruption insurance or third party liability insurance for losses or damage arising from accidents on our properties or relating to our operations, other than those relating to our vehicles. In addition, as a result of market conditions, premiums and deductibles for our existing insurance policies could increase substantially and, in some instances, our existing insurance may become unavailable or available only for reduced amounts of coverage. Losses and damage arising from accidents on our properties or relating to our operations may have a material adverse effect on our business, financial condition and/or results of operations if such losses or damage are not fully insured.

We may not be able to continue to enjoy our current preferential tax treatment.

In accordance with the PRC's tax regulations, certain of our subsidiaries in the PRC benefit from preferential tax treatment. Our Group's effective income tax rate, calculated as our Group's income tax expense divided by profit before tax from continuing operations, was 18.1% in 2008, 19.4% in 2009 and 17.6% in 2010. The New Income Tax Law revokes most preferential tax treatment for foreign-invested enterprises and adopts a unified income tax rate of 25% on most domestic enterprises and foreign-invested enterprises. Accordingly, when the preferential tax treatment currently enjoyed by our PRC subsidiaries expires, we will be required to pay a greater amount of taxes, which may materially and adversely affect our results of operations.

Our Chairman may take actions that are not in, or may conflict with, public shareholders' best interests.

Our Chairman held 70.0% of the issued share capital of our Company as of the date of this offering memorandum. Our Chairman will continue to be able to exercise a controlling influence over our business through his ability to control actions which do not require the approval of independent shareholder. Our Chairman will also be able to control the election of our directors, determine the timing and amount of our dividends, if any, and pass resolutions to acquire or merge with another company not connected with our Chairman. Furthermore, our Chairman may cause us to take actions that are not in, or may conflict with, the interests of us or our other security holders, including holders of the Notes.

We may not effectively manage our distributors and, as a result, our reputation, business and brand may be materially and adversely affected by actions taken by our distributors.

We have limited ability to manage the activities of our distributors, which are independent from us. Our distributors could take one or more of the following actions, any of which could have a material adverse effect on our business, prospects and brand:

- sell our products outside their designated areas, possibly in violation of the distribution rights of other distributors;

- fail to adequately promote our products; or

- violate the anti-corruption laws of the PRC or other countries where our products are sold.

Failure to adequately manage our distributors could harm our corporate image among end users of our products and disrupt our sales, resulting in a failure to meet our sales goals. Furthermore, we could be liable for actions taken by our distributors, including any violations of applicable law in connection with the marketing or sale of our products, including the PRC's anti-corruption laws. Recently, the PRC government has increased its anti-corruption measures. Generally, corrupt practices include acceptance of kickbacks, bribes or other illegal gains or benefits. Our distributors may violate these laws or otherwise engage in illegal practices with respect to their sales or marketing of our products. If our distributors violate these laws, we could be required to pay damages or fines, which could materially and adversely affect our financial condition and results of operations.

The construction of our new production facilities may not be completed in the timeframe or at the cost levels originally anticipated and, as a result, we may not be able to realize our expected production capacity increases or any related economic benefits.

We are constructing certain new production facilities. The time involved in the construction of such production facilities could be adversely affected by our failure to receive any regulatory approval or to obtain sufficient funding, by technical difficulties, by human or other resource constraints, or for other reasons. Moreover, these projects may exceed the cost levels originally anticipated. If our plans for constructing new production facilities experience delays or even cancellations, or if the start-up period for any of the new production facilities turns out to be substantially longer than we expected or the production capacity of any of the new production facilities fails to reach the originally designed levels, or if the costs involved in the construction of any of the new production facilities substantially exceed our original plans, we may not be able to attain the desired production capacity or obtain the intended economic benefits, such as economies of scale or the development of a production line for a new type of product, in full or in a timely manner, which may materially and adversely affect our business, results of operations financial condition and prospects.

We had net current liabilities in recent periods and may have net current liabilities in the future.

We had net current liabilities of RMB460.9 million as of December 31, 2008. Our net current liability position as of such date was primarily attributable to amounts due to our related companies and directors as well as bank borrowings to finance our working capital requirements and certain of our capital expenditures and acquisitions.

If we were to have a substantial net current liabilities position in the future, it could expose us to liquidity risk. Our future liquidity and the repayment of our outstanding debt obligations when they become due will primarily depend on our ability to maintain adequate cash inflows from operating activities and our ability to obtain adequate external financing. The net cash generated by our operating activities was RMB650.4 million (US$98.5 million) for 2010. Our future cash flows from operating activities could be adversely affected by many factors beyond our control, including the demand in the plastic pipe and pipe fittings market and the cost of raw materials. Our ability to obtain additional external financing will depend on a number of factors including the economic and industrial policies of the PRC government, our future financial strength and our relationships with the lenders. We may not have sufficient future cash flows or obtain additional external financing in time or on terms acceptable to us and, as a result, we may not be able to refinance our short-term loans as they become due.

Our levels of indebtedness and interest payment obligations may materially and adversely affect our business.

Our current levels of debt and the instability in debt markets may affect our ability to secure funding for current operations and future production expansions. Our total bank borrowings were RMB468.7 million in 2008, RMB1,309.7 million in 2009 and RMB784.3 million (US$118.8 million) in 2010.

We may seek additional financing in the form of loans for planned capital expenditures and future expansion plans. The level of our indebtedness and the amount of our interest payments could limit our ability to obtain the necessary financing or obtaining favorable terms for the financing to fund future capital expenditures and working capital. Such limitations could reduce our competitiveness and increase our exposure and sensitivity to adverse economic and industry conditions, which could have a material and adverse effect on our financial condition and results of operations.

We may be affected by actions of our affiliates to whom we have licensed certain of our patents and trademarks.

We have entered into various trademark licensing agreements and patent licensing agreements with certain affiliates pursuant to which we granted to the licensees non-exclusive licenses to use certain of our trademarks and patents. Although the licensing agreements provide for the scope and limitations of use and provisions for termination and damages in the event of breach by the licensees, there is no assurance that there will not be any breach of the licensing agreements or misuse of our licensed trademarks and patents by the licensees or that the licensees will compensate us as per the terms of such agreements for any breach committed by them. Any such breach or misuse may damage our brand and our business and our results of operations may be materially and adversely affected.

Risks relating to our industry

The industry in which we operate is highly competitive, and a further increase in competition or productivity by our competitors may materially and adversely affect our market share and profit margins.

The plastic pipes industry in China is fragmented and competitive, with a large number of manufacturers throughout the country. We face competition in the sale of our products in the PRC as well as in other regional markets in which we compete. We believe that the principal competitive factors impacting the sale of our products include, depending on the particular product, the nature of the product, the quality and range of product lines and specifications, brand recognition, and the ability to supply products to customers in a timely manner and at competitive prices. Some of our potential competitors, which may consist of other PRC manufacturers of plastic pipes as well as foreign products that have entered into China through joint ventures or subsidiaries, could grow to have larger production capacities, greater brand recognition, greater technical, marketing and public relations resources, and geographical reach than we have. Our market share could be reduced if our competitors develop any new technology or new products, or offer products that are comparable or superior to ours at a lower price. Increased competition in the future could result in price reductions, reduced margins or other strains on our operations. If our competitors offer better quality products, services or better pricing, we may not be able to compete effectively and our revenue, market share and results of operations could be materially and adversely affected.

We are subject to stringent environmental laws and regulations. Failure to comply with these laws and regulations could have a material adverse effect on our business, results of operations, financial condition and prospects.

We are subject to a broad range of increasingly stringent environmental laws and regulations in the PRC. These laws and regulations result in significant compliance costs and could expose our operations to substantial legal liability or place limitations on the development of our operations. In addition, changes to existing laws and regulations could require us to incur additional compliance costs or require costly and time-consuming changes to our operations, either of which could have a material adverse effect on our business, results of operations, financial condition and prospects.

We are unable to predict future changes in environmental laws or enforcement policies or the ultimate cost of compliance with such laws and regulations. The requirements of existing environmental laws and enforcement policies have generally become stricter in recent years, and the trend is likely to continue. The regulatory environment in which we operate frequently changes and has seen significantly increased regulation in recent years. We may be adversely affected as a result of new or revised legislation or regulations or by changes in the interpretation or enforcement of existing laws and regulations. New regulations could require us to acquire costly equipment, refit existing plants, redesign products or incur other significant expenses.

Failure to obtain or maintain permits could have a material adverse effect on our business, results of operations, financial condition and prospects.

We are required to have permits for certain of our operations and products, and these permits and approvals are subject to modification and renewal by issuing authorities. These permits include permits for production and sale of plastic pipes used for water supply, permits for production of pressure pipes for gas supply, and certificates for plastic pipe products used in power supply and telecommunications. See the section headed "Regulation" for additional information regarding our permits. Failure to obtain or maintain these permits may result in the payment of fines or confiscation of products illegally produced and affect our operations. If such an event were to occur, our business and our results of operations may be materially and adversely affected.

Risks relating to the PRC

PRC economic, political and social conditions, as well as government policies, could affect our business.

Substantially all of our assets are located in the PRC, and substantially all of our revenue is derived from within the PRC. Accordingly, our results of operations, financial position and prospects are significantly subject to economic, political and legal developments in the PRC.

The PRC economy differs from the economies of most developed countries in many respects, including:

- its structure;
- the level of governmental involvement;
- the level of development;
- its growth rate;
- the level of capital reinvestment;
- its control of foreign exchange; and
- the allocation of resources.

While the PRC economy has experienced significant growth during the past 20 years, this growth has been uneven, both geographically and among various sectors of the economy. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. A substantial portion of productive assets in the PRC is still owned by the PRC government despite measures implemented by the PRC government since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises. The PRC government exercises significant control over economic growth through the allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary and industrial policies and providing preferential treatment to particular industries or companies.

Recently, the PRC government has implemented a number of measures to prevent the economy and certain industry sectors from overheating. While some of these measures may benefit the overall economy in the PRC, they may have a negative effect on us. See, for example, the measures to control the growth of the infrastructure and real estate sectors discussed above under "A substantial part of our products are used in infrastructure and real estate construction; the PRC government has recently implemented several measures to control the growth of the infrastructure and real estate sectors, which could reduce demand for our products". Stricter lending policies may also impact our ability to obtain financing, which could adversely affect our growth.

Moreover, a decrease in the overall level of economic activities in the PRC, including demand for plastic pipe products, could result from changes in relations between the PRC and Taiwan or other political conditions or potential social instability arising from the increasing income disparity between the rich and poor associated with a rapidly developing economy in major cities and different parts of the PRC. Any such change may have a material adverse effect our business and results of operations.

Governmental control of currency conversion may affect the value of our investment.

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency to jurisdictions outside China. We receive the vast majority of our revenue in Renminbi. Under our current structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us or otherwise satisfy their foreign currency denominated or settled obligations, such as the Notes. Under existing PRC foreign exchange regulations, payments of certain current account items can be made in foreign currencies without prior approval from the local branch of the State Administration of Foreign Exchange ("SAFE"), by complying with certain procedural requirements. However, approval from the appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted to a jurisdiction outside China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. The PRC government may also, at its discretion, restrict access to foreign currencies for current account transactions in the future. If the PRC foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, our PRC subsidiaries may not be able to pay dividends in foreign currencies to us, and we may not be able to service our debt obligations denominated or settled in foreign currencies, such as the Notes.

We rely on dividend payments from our subsidiaries and associated company for funding, and changes to foreign exchange regulations, fluctuations in the value of the RMB, or certain changes to PRC accounting requirements may materially and adversely affect our ability to pay dividends.

Under our current structure, our source of funds primarily consist of dividend payments and repayment of inter-company loans by our subsidiaries in the PRC, whose sales are made in RMB. At present, RMB is not freely convertible to other currencies. Foreign invested enterprises are permitted to remit their net profit or dividends in foreign currencies out of the PRC or repatriate such profit or dividends after converting the same from RMB to foreign currencies through authorized banks. Foreign invested enterprises are also permitted to convert RMB to foreign currencies for items in their current accounts, including trade and service related foreign exchange transactions and payment of dividends to foreign investors. Foreign exchange transactions in their capital accounts, including the foreign currency capital in any foreign investment enterprise in the PRC, the repayment of the principal amount of foreign currency loans and the payment pursuant to foreign currency guarantees, continue to be subject to significant foreign exchange controls and require the prior approval of the SAFE. In the event that future changes in relevant regulations place restrictions on the ability of the subsidiaries to remit dividend payments to us, the subsidiaries are unable to obtain SAFE approval to repay any loans to us or insufficient foreign exchange is available, our liquidity and ability to pay our obligations, and our ability to pay dividends in respect of the Shares, could be materially and adversely affected.

In addition, the value of the RMB against other foreign currencies is subject to changes in the PRC's policies and international economic and political developments. Effective from July 21, 2005, the RMB is no longer pegged solely to the US dollar. Instead, it is pegged against a basket of currencies, determined by the People's Bank of China, against which it can rise or fall by as much as 0.3% each day. On May 18, 2007, the PBOC enlarged the floating band for trading prices in the inter-bank foreign exchange market of the Renminbi against the US dollar from 0.3% to 0.5% around the central parity rate. However, if the exchange rate becomes volatile, if the RMB is be revalued further against the US dollar or other currencies or if the RMB is permitted to enter into a full or limited free float, then there may be an appreciation or depreciation in the value of the RMB against the US dollar or other currencies. In addition, fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars (which are pegged to the US dollar), of our net assets, earnings or any declared dividends. We do not maintain any hedging policy with respect to exchange rate risks.

Furthermore, the ability of our operating subsidiaries in the PRC to make dividend and other payments to us is restricted by PRC laws and regulations. PRC laws and regulations permit payment of dividends only out of accumulated profits, after making up prior year losses and allocations to various non-distributable reserve funds, as determined in accordance with generally accepted accounting principles in the PRC ("PRC GAAP") and applicable regulations. These regulations may restrict the amount of profit available for distribution from the operating subsidiaries, which could affect our liquidity and our ability to pay dividends. Moreover, the calculation of profit available for distribution under PRC GAAP may differ from profit available for distribution calculated under HKFRS. As a result, it is possible that we may not receive distributions from the operating subsidiaries, even if our HKFRS financial statements indicate that our operations have been profitable.

We may be deemed a PRC resident enterprise under the New Income Tax Law and be subject to the PRC taxation on our worldwide income.

We are a Cayman Islands holding company and substantially all of our operations conducted through our operating subsidiaries in China. Under the New Income Tax Law that took effect on January 1, 2008, enterprises established outside China whose "de facto management bodies" are located in China are considered "resident enterprises" for PRC tax law purposes and will generally be subject to the uniform 25% enterprise income tax rate as to their global income. Under the Regulations on the Implementation of Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例), a "de facto management body" is defined as the body that has the significant and overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation promulgated a circular to clarify the definition of "de facto management bodies" for enterprises incorporated overseas with controlling shareholders that are PRC enterprises. It remains unclear, however, how the tax authorities will treat a case such as ours which includes an overseas enterprise invested in or controlled by another overseas enterprise that is ultimately controlled by a PRC individual resident and a Hong Kong permanent resident. Although we are currently not treated as a PRC resident enterprise by the relevant PRC tax authorities, substantially all of our management is currently based in China and will remain in China in the future. We cannot assure you that we will not be considered a PRC resident enterprise for PRC enterprise income tax purposes and be subject to the uniform 25% enterprise income tax on our global income.

PRC regulations relating to the investment in offshore special purpose companies by PRC residents may subject our shareholders that are PRC residents to personal liability, limit our ability to contribute capital into or provide loans to our PRC subsidiaries, limit our subsidiaries' ability to increase their registered capital, pay dividends or otherwise distribute profits to us, or otherwise materially and adversely affect us.

The PRC SAFE has promulgated several regulations that require PRC residents and PRC corporate entities to register with local branches of SAFE in connection with their direct or indirect offshore investment activities. Under these SAFE regulations, PRC residents who make, or have previously made, direct or indirect investments in offshore companies are required to register those investments with the local branch of SAFE. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local branch of SAFE, to reflect any material change involving that offshore company's round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger, division, long-term equity or debt investment or creation of any security interest, and the PRC subsidiaries of the relevant offshore company are required to urge the PRC resident shareholders to do so. If any PRC shareholder fails to make the required initial SAFE registration or update the previously filed registration, the PRC subsidiaries of that offshore parent company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to their offshore parent company, and the offshore parent company may also be prohibited from injecting additional capital into its PRC subsidiaries.

Due to uncertainty concerning the reconciliation of these SAFE rules with other approval or registration requirements, it remains unclear how these rules, and any future legislation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities. We attempt to comply, and attempt to ensure that our shareholders who are subject to these rules comply, with the relevant requirements. However, we cannot assure you that all of our shareholders who are PRC residents will comply with our request to make or update any applicable registrations or comply with other requirements required by these rules or other related rules. The failure or inability of our PRC resident shareholders to make any required registrations or comply with other requirements may subject such shareholders to fines and legal sanctions and may also limit our ability to contribute additional capital into or provide loans to (including using the proceeds from any equity or debt securities offerings) our PRC subsidiaries, limit our PRC subsidiaries' ability to increase their registered capital, pay dividends or otherwise distribute profits to us, or otherwise materially and adversely affect us.

Dividends payable by us to our non-PRC-resident shareholders may become subject to taxes under the PRC tax laws.

The New Income Tax Law and the Regulations on the Implementation of Enterprise Income Tax Law of the PRC provide that (i) if the enterprise that distributes the dividends is domiciled in the PRC, or (ii) if capital gains are realized from the transfer of equity interests of enterprises domiciled in the PRC, then such dividends or capital gains are treated as PRC-sourced income, and PRC income tax at the rate of up to 10% is applicable to such dividends or capital gains payable to overseas investors that are "non-resident enterprises". We have been advised by our PRC legal adviser, Jun He Law Offices, that if our Company is considered a PRC resident enterprise for tax purposes, any dividends distributed by our Company to our

Company's non-resident shareholders as well as gains realized by such shareholders from the transfer of our shares may be regarded as PRC-sourced income. As a result, such dividends and gains may be subject to PRC withholding tax at the rate of up to 10%, depending on the provisions of tax treaty between the PRC and the jurisdiction in which the non-resident shareholder resides.

As the New Income Tax Law and the Regulations on the Implementation of Enterprise Income Tax Law of the PRC have only been in effect from January 1, 2008, we have been advised by our PRC legal adviser, Jun He Law Offices, that it is uncertain as to how these laws and regulations would be implemented by the relevant PRC tax authorities. If our Company's dividend payments to our Company's non-resident shareholders are subject to PRC withholding tax, it may materially and adversely affect our shareholders' return on, and the value of, their investment in our Company.

Interest payable by us to our foreign investors and gains on the sale of our Notes may be subject to taxes under PRC tax laws.

Under the New Income Tax Laws, if we were determined to be a PRC resident enterprise, the interest payable on the Notes will be considered to be sourced within China. In that case, PRC income tax at the rate of 10% will be withheld from interest payable on the Notes to investors that are "non-resident enterprises" so long as such "non-resident enterprise" investors do not have an establishment or place of business in China or, if despite the existence of such establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China. Any gain realized on the transfer of the Notes by such investors will be subject to a 10% PRC income tax if such gain is regarded as income derived from sources within China. It is uncertain whether we will be considered a PRC "resident enterprise," and whether the interest payable to our foreign investors, or the gain our foreign investors may realize from the transfer of our Notes, would be treated as income sourced within China and be subject to PRC tax. We currently do not intend to withhold taxes from interest payments, but there can be no assurance that the PRC income tax authorities will accept our withholding position. If we are required under the New Income Tax Laws to withhold PRC income tax on our interest payable to our non-resident noteholders who are "non-resident enterprises," we will be required, subject to certain exceptions based on the applicable tax treaty, to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Notes, and could have a material adverse effect on our ability to pay interest on, and repay the principal amount of, the Notes, as well as our profitability and cash flow. In addition, if you are required to pay PRC income tax on the transfer of our Notes, the value of your investment in our Notes may be materially and adversely affected. Prospective holders should consult their tax advisers as to whether they may be able to claim the benefit of income tax treaties or agreements entered into between China and other jurisdictions if we are considered a PRC "resident enterprise."

The implementation of the new PRC Labor Contract Law and related regulations and the expected increase in labor costs in the PRC may materially and adversely affect our business and profitability.

The new PRC Labor Contract Law, which became effective on January 1, 2008, imposes more stringent requirements on employers in relation to entering into fixed term employment contracts, hiring of temporary employees and dismissing employees. In addition, under the newly promulgated Regulations on Paid Annual Leave for Employees, which came into effect on the same date, employees who have continuously worked for more than one year are entitled to a paid holiday ranging from 5 to 15 days, depending on their length of service. Employees who agree to waive their holiday time at the request of their employers must be compensated with three times their normal daily salaries for each holiday waived.

As a result of the new law and regulations, our labor costs may increase. We cannot assure you that any disputes, work stoppages or strikes will not arise in the future. Increases in our labor costs and future disputes with our employees could have a material adverse effect on our business, financial condition or results of operations.

We are vulnerable to natural disasters and other events that could severely disrupt our operations.

Our production facilities are located in nine provinces across China. Significant damage or other impediments to any of these facilities, whether as a result of fire, weather, earthquakes or other natural disasters, disease, civil strife, industrial strikes, breakdowns of equipment, difficulties or delays in obtaining materials and equipment, terrorist incidents, industrial accidents or other causes could temporarily disrupt or shut down our operations, which would have a material adverse effect on our business, financial condition and results of operations. In addition, the production facilities of many of our suppliers and customers are located in China. If our customers are affected by such disruptions, it could result in a decline in the demand for our products. Similarly, if our suppliers are affected, our production schedule could be interrupted or delayed. As a result, a major disruptive event in China — even one that does not directly affect us — could severely disrupt the normal operation of our business and have a material adverse effect on our business, financial condition and results of operations.

Interpretation of PRC laws and regulations involves uncertainty that could adversely affect our business, results of operations and the value of our shares and could limit the legal protections available to investors.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which prior court decisions have limited precedential value. Since 1979, the PRC government has promulgated laws and regulations governing economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. This legislation has significantly enhanced the protections generally afforded to various forms of foreign investment in the PRC and, in particular, laws and regulations applicable to wholly foreign-owned enterprises. Many of these laws, regulations and legal requirements are relatively new. Accordingly, due to the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws and regulations involves greater uncertainties than those in jurisdictions operating under common law systems. These uncertainties may limit the legal protections available to us and to our investors.

We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws.

Any recurrence of severe acute respiratory syndrome (SARS), pandemic avian influenza or an increase in the severity of H1N1 flu (swine flu) or another widespread public health problem could materially and adversely affect our business, financial condition and results of operations.

From November 2002 to June 2003, the PRC and certain other countries and regions experienced an outbreak of a new and highly contagious form of atypical pneumonia known as SARS. On July 5, 2003, the World Health Organization declared that the SARS outbreak had been contained. However, a number of isolated cases of SARS were reported in the PRC in 2004. A renewed outbreak of SARS, pandemic avian influenza or an increase in the severity of swine flu or another widespread public health problem in the PRC, particularly at the locations of our operations and headquarters, could have a negative effect on our operations. Our operations may be affected by a number of health-related factors, including quarantines or closures of some of our offices and production facilities (which would severely disrupt our operations), travel restrictions, the sickness or death of our key officers and employees, import and export restrictions and a general slowdown in the PRC's economy. Additionally, the World Health Organization or the PRC government may recommend or impose other measures that could cause significant interruption to our business operations. Any of the foregoing events or other unforeseen consequences of public health problems could materially and adversely affect our business, financial condition and results of operations.

It may be difficult to enforce any judgments obtained from non-PRC courts against us, our directors or our senior management in the PRC.

Substantially all of our assets are located within the PRC. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with many countries, including Japan, the United States and the United Kingdom. Therefore, it may be difficult for you to enforce any judgments obtained from non-PRC courts against us, any of our directors or our senior management in the PRC.

We cannot guarantee the accuracy of facts, forecasts and other statistics derived from official government publications contained in this offering memorandum.

Facts, forecasts and other statistics in this offering memorandum relating to the PRC, the PRC economy and the PRC industries that affect our business have been derived from various official government publications or other public publications generally believed to be reliable. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Initial Purchasers or any of our or their affiliates or advisors and, therefore, none of them makes any representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between official government publications and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. Furthermore, they might not be stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts, forecasts or statistics.

We face PRC regulatory risks relating to our share option schemes.

We may face regulatory risks relating to the share option schemes adopted by us on May 14, 2010. On March 28, 2007, the State Administration for Foreign Exchange issued the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan, or the Stock Option Rules. Under the Stock Option Rules, PRC citizens who are granted stock options and other types of stock-based awards by an overseas publicly listed company are required, through an agent of the overseas publicly listed company, generally its PRC subsidiary or a financial institution, to obtain approval from the local State Administration for Foreign Exchange branch.

If we are unable to comply with these rules, we may be subject to penalties and may become subject to more stringent review and approval processes with respect to our foreign exchange activities, such as our PRC subsidiaries' payment of dividends to us or borrowing of foreign currency loans, which would adversely affect our business and financial condition.

Risks relating to the Notes

We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries that do not guarantee the Notes.

We are a holding company with no material operations. We conduct our operations through our subsidiaries in Hong Kong and the PRC. The Notes will not be guaranteed by any current or future PRC subsidiaries and PRC entities. Our primary assets are ownership interests in our Hong Kong and PRC subsidiaries, which are held through our subsidiaries incorporated outside the PRC. On the date of issue of the Notes, all the Subsidiary Guarantors of the Notes are subsidiaries incorporated outside the PRC. The Subsidiary Guarantors do not have material operations. Accordingly, our ability to pay principal and interest on the Notes and the ability of the Subsidiary Guarantors to satisfy their obligations under their guarantees will depend upon our receipt of principal and interest payments on the distributions of dividends from our subsidiaries.

Creditors, including trade creditors of non-guarantor subsidiaries and any holders of preferred shares in such entities, would have a claim on the assets of the non-guarantor subsidiaries that would be prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of our subsidiaries that do not guarantee the Notes, including their obligations under guarantees they have issued or will issue in connection with our business operations, and all claims of creditors of our non-guarantor subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. The Notes and the indenture permit us, the Subsidiary Guarantors and our non-guarantor subsidiaries to incur additional indebtedness and issue additional guarantees, subject to certain limitations. In addition, our secured creditors or those of any guarantor would have priority as to our assets or the assets of such guarantor securing the related obligations over claims of holders of the Notes, unless the holders of Notes share in such Security on a pro rata basis.

Some of our subsidiaries are subject to restrictions under existing loan agreements or guarantee agreements with banks which may adversely affect their financial health and ability to generate sufficient cash to satisfy our outstanding and future debt obligations.

Some of our PRC subsidiaries are subject to restrictions under existing loans with local banks. Such restrictions limit the PRC subsidiaries' ability to carry out certain actions without the consents of the relevant local bank, including:

- carrying out reorganizations;
- carrying out mergers and acquisitions;
- entering into joint ventures;
- selling or transferring material assets;
- paying dividends or making distributions to shareholders;
- changing share capital structures;
- settling large third party debts;
- taking on any more debt from another financial institution; or
- provide any form of guarantee.

Such restrictions under existing loans could adversely our PRC subsidiaries' financial health and general ability to generate sufficient cash to satisfy our outstanding and future debt obligations including our obligations under the Notes. We are also in violation of some of these restrictions, which could materially and adversely impact our business and our general ability to generate sufficient cash to satisfy our outstanding and future debt obligations, including the obligations under the Notes.

We have substantial indebtedness and may incur substantial additional indebtedness.

Our substantial indebtedness could have important consequences to you. For example, it could:

- limit our ability to satisfy our obligations under the Notes and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and for other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industry in which we operate;
- limit, along with the financial and other restrictive covenants of our indebtedness, our ability to borrow additional funds; and
- increase the cost of additional financing.

We may from time to time incur substantial additional indebtedness and contingent liabilities. Although the indenture restricts us and our restricted subsidiaries from incurring additional debt and contingent liabilities, these restrictions are subject to important exceptions and qualifications. If we or our subsidiaries incur additional debt, the risks that we face as a result of our existing indebtedness and leverage could intensify.

In addition, the indenture governing the Notes prohibits us from incurring additional indebtedness unless (i) we are able to satisfy a certain financial ratio or (ii) we are able to incur such additional indebtedness pursuant to any of the exceptions to the financial ratio requirement, and meet any other applicable restrictions. Our ability to meet our financial ratio requirement may be affected by events beyond our control. We might not be able to meet this ratio. Certain of our financing arrangements also impose operating and financial restrictions on our business. See "Description of other material indebtedness". Such restrictions in the Notes and our other financing arrangements may impair our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund required capital expenditures, or withstand a continuing or future downturn in our business. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Notes and other debt.

To meet our obligations under our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, including these Notes, and to fund planned capital expenditures and project development will depend on our future performance and ability to generate cash. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. As of December 31, 2010, our total liabilities amounted to RMB1,624.3 million (US$246.1 million). Our business might not generate cash flow from operations in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including the Notes, on or before maturity. We might not be able to refinance any of our indebtedness on commercially reasonable terms, or at all. If we are unable to service our indebtedness or obtain refinancing on terms acceptable to us, we may be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

Our subsidiaries are subject to restrictions on the payment of dividends.

We will depend on the receipt of dividends from our subsidiaries, including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Notes. The ability of our subsidiaries to pay dividends is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in the debt instruments of such subsidiaries. For instance, certain of our PRC credit facilities, which governed outstanding indebtedness of RMB250 million (US$37.9 million) as of December 31, 2010, contain various restrictions on the payment of dividends by the relevant borrowers and guarantors under these facilities. These restrictions are of two types. The first type limits the payment of dividends to 50% of net profit. The second type prohibits the payment of dividends in the event that after-tax profit is zero or negative, accumulated losses exceed net profit, scheduled debt service exceeds pre-tax earnings or pre-tax earnings are not sufficient for the scheduled payment of interests, principal and expenses. The 50%-of-net-profit restriction applies to our wholly-owned PRC holding company through which we hold our interests in all our PRC operating company subsidiaries and to two wholly-owned operating company subsidiaries. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to us to make payments on the Notes. These restrictions could reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes and the guarantees for the Notes.

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations, and such profits differ from profits determined in accordance with HKFRS in certain significant respects. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends by the board of directors. In addition, since January 1, 2008, dividends paid by our PRC subsidiaries to their non-PRC parent companies have been subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated that specifically exempts or reduces such withholding tax. In addition, according to PRC regulations issued by SAFE, our PRC subsidiaries are only permitted to declare and distribute dividends after the completion of a financial year. Pursuant to the articles of association of some of our PRC subsidiaries, dividends may only be declared and distributed annually. As a result of such limitations, there could be timing or other limitations on payments from our PRC subsidiaries to make payments required by the Notes or satisfy our obligations under the guarantees for the Notes, and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption. As a result of the foregoing, we might not have sufficient cash flow from dividends to satisfy our obligations under the Notes or the obligations of the Subsidiary Guarantors under the guarantees.

The Group may make significant investments in minority interests.

We may make significant investments in entities engaged in manufacturing of plastic pipes and pipe fittings in which we may have a minority interest. We may use a significant portion of the proceeds of the offering to make these types of investments. Although the indenture governing the Notes restricts us and our restricted subsidiaries from making investments in minority interests, these restrictions are subject to important exceptions and qualifications. See the definition of "Permitted investment" in "Description of the Notes".

We cannot assure you that such minority investments will contribute to the income or cash flow of us and it may suffer partial or complete loss with respect to such investments.

The insolvency laws of the Cayman Islands and other local insolvency laws may differ from U.S. bankruptcy law or those of another jurisdiction with which holders of the Notes are familiar.

Because we and some of the Subsidiary Guarantors are incorporated under the laws of the Cayman Islands, the British Virgin Islands or Hong Kong, an insolvency proceeding relating to us or any such guarantor, even if brought in the United States, would likely involve Cayman Islands, British Virgin Islands or Hong Kong insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of United States federal bankruptcy law or other jurisdictions with which the holders of the Notes are familiar. We conduct substantially all of our business operations through PRC-incorporated subsidiaries in China. The Subsidiary Guarantors, as equity shareholders in our PRC subsidiaries, are necessarily subject to the bankruptcy and insolvency laws of China in a bankruptcy or insolvency proceeding involving any of such PRC subsidiaries. The PRC laws and regulations relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of the United States and other jurisdictions with which the holders of the Notes are familiar. You should analyze the risks and uncertainties carefully before you invest in our Notes.

We may be unable to obtain and remit foreign exchange.

Our ability to satisfy our obligations under the Notes depends solely upon the ability of our PRC subsidiaries to obtain and remit sufficient foreign currency to pay dividends to us and, if applicable, to repay shareholder loans. Our PRC subsidiaries must present certain documents to SAFE, its authorized branch, or the designated foreign exchange bank for approval before they can obtain and remit foreign currencies out of China, including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with SAFE. Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant PRC subsidiaries must also present evidence of payment of the 10% withholding tax or lower tax treaty rate on the interest payable in respect of such shareholder loan. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiaries will be unable to pay us dividends or interest and principal on shareholder loans, which may affect our ability to satisfy our obligations under the Notes.

We may not be able to repurchase the Notes upon a change of control.

We must offer to purchase the Notes upon the occurrence of a Change of Control Triggering Event (as defined under "Description of the Notes — Definitions"), at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See "Description of the Notes". The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have enough available funds at the time of the occurrence of any change of control to make purchases of outstanding Notes. Our failure to make the offer to purchase or purchase the outstanding Notes would constitute an event of default under the Notes. The event of default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Notes and repay the debt.

In addition, the definition of change of control for purposes of the indenture does not necessarily afford protection for the holders of the Notes in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations, although these types of transactions could increase our indebtedness or otherwise affect our capital structure or credit ratings. The definition of change of control for purposes of the indenture also includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or our assets taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the Notes and the ability of a holder of the Notes to require us to purchase its Notes pursuant to the offer as a result of a highly-leveraged transaction or a sale of less than all of our assets may be uncertain.

If we do not comply with the terms of the indenture or our future debt agreements, there could be a default under those agreements, which could cause repayment of our debt to be accelerated.

If we do not comply with the terms in the indenture or our future debt obligations and other agreements, there could be a default under those agreements. If that occurs, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, the indenture contains, and our future debt agreements are likely to contain, cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, or result in a default under our other debt agreements, including the indenture. If any of these events occur, our assets and cash flow might not be sufficient to repay in full all of our indebtedness and we might not be able to find alternative financing. Even if we could obtain alternative financing, it might not be on terms that are favorable or acceptable to us.

Our operations are restricted by the terms of the Notes, which could limit our ability to plan for or to react to market conditions or meet our capital needs, which could increase your credit risk.

The indenture includes a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our restricted subsidiaries, to:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of restricted subsidiaries;
- guarantee indebtedness of restricted subsidiaries;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- engage in any business other than a permitted business;
- enter into agreements that restrict the restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- effect a consolidation or merger.

These covenants could limit our ability to plan for or react to market conditions or to meet our capital needs. Our ability to comply with these covenants may be affected by events beyond our control, and we may have to curtail some of our operations and growth plans to maintain compliance.

A trading market for the Notes may not develop, and there are restrictions on resale of the Notes.

The Notes are a new issue of securities for which there is currently no trading market. We have received approval in-principle of the listing of the Notes on the SGX-ST. We cannot assure you that we will be able to maintain a listing on the SGX-ST. We cannot predict whether an active trading market for the Notes will develop or be sustained. If no active trading market develops, you may not be able to resell your Notes at their fair market value, or at all. Future trading prices of the Notes will depend on many factors, including prevailing interest rates, our operating results and the market for similar securities. We have been advised that the Initial Purchasers intend to make a market in the Notes, but the Initial Purchasers are not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See "Notice to investors".

The ratings assigned to the Notes may be lowered or withdrawn.

The Notes are expected to be assigned a rating of "Ba2" by Moody's and "BB" by Fitch. The ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. A rating might not be maintained for any given period of time and could be lowered or withdrawn entirely by the relevant rating agency. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may materially and adversely affect the market price of the Notes.

We are subject to the applicable corporate disclosure standards for debt securities listed on the SGX-ST, and such standards may be different from those applicable to companies in certain other countries.

We are subject to reporting obligations in respect of the Notes to be listed on the SGX-ST. The disclosure standards imposed by the SGX-ST may be different from those imposed by securities exchanges in other countries or regions such as the United States or Hong Kong. As a result, the level of information that is available may not be correspond to what investors in the Notes are accustomed to.

Certain transactions that constitute "connected transactions" under the Hong Kong listing rules will not be subject to the "Limitation on Transactions with Shareholders and Affiliates" covenant.

Our shares are listed on the Hong Kong Stock Exchange and we are required to comply with its listing rules, which provide, among other things, that a "connected transaction" exceeding the applicable de minimis value thresholds will require prior approval of the independent shareholders of such listed company. However, the "Limitation on Transactions with Shareholders and Affiliates" covenant in the Notes does not capture transactions between the company or any restricted subsidiary, on the one hand, and an affiliate of any restricted subsidiary, on the other hand. As a result, we are not required by the terms of the Notes to ensure that any such transactions are on terms that are fair and reasonable, and we will not need to deliver officer's certificates or procure the delivery of fairness opinions of accounting, appraisal or investment banking firms to the trustee of the Notes for any such transactions.

The liquidity and price of the Notes following the offering may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenues, earnings and cash flows, proposals for new investments, strategic alliances and acquisitions, interest rates, and fluctuations in the prices of debt securities of comparable companies could cause the price and liquidity of the Notes to fluctuate. Any such developments may result in large and sudden changes in the trading volume and price of the Notes.

There may be less publicly available information about us than is available about other companies that are organized in certain other jurisdictions.

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies that are organized in certain other countries. In addition, the financial information in this offering memorandum has been prepared in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions in ways that may be material to the financial information contained in this offering memorandum. We have not prepared a reconciliation of our consolidated financial statements and related footnotes between HKFRS and other generally accepted accounting principles. In making an investment decision, you must rely upon your own examination of us, the terms of the offering and our financial information. You should consult your own professional advisers for an understanding of the differences between HKFRS and other generally accepted accounting principles and how those differences might affect the financial information contained in this offering memorandum.

The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

The Notes will initially only be issued in global certificated form and held through DTC. Interests in the global Notes representing the Notes will trade in book-entry form only, and Notes in definitive registered form will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of Notes for purposes of the indenture. A nominee for DTC will be the sole registered holder of the global Notes. Accordingly, you must rely on the procedures of DTC, and if you are not a participant in DTC, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of Notes under the indenture. Upon the occurrence of an event of default under the indenture, unless and until definitive registered Notes are issued in respect of all book-entry interests, if you own a book-entry interest you will be restricted to acting through DTC. The procedures to be implemented through DTC may not be adequate to ensure the timely exercise of rights under the Notes. See "Description of the Notes — Book-Entry; Delivery and form".

The Notes may be treated as issued with original issue discount for U.S. federal income tax purposes.

The Notes may be treated as being issued with original issue discount ("OID") for U.S. federal income tax purposes if their "issue price" is less than their stated principal amount by more than a de minimis amount. If the Notes are treated as having been issued with OID, a U.S. holder (whether a cash or accrual method taxpayer) will be required to include in gross income (as ordinary income) any OID as it accrues on a constant yield to maturity basis, before the receipt of cash payments attributable to that income. See "Taxation — Certain U.S. Federal Income Tax considerations for U.S. Holders."

We may be able to redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest in the event we are required to pay additional amounts as a result of being treated as a PRC "resident enterprise."

In the event we are treated as a PRC "resident enterprise" under the New EIT Law, we may be required to withhold PRC tax on interest payable to certain of our non-resident noteholders. In such case, we will, subject to certain exceptions, be required to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. As described under "Description of the Notes — Redemption for Tax Reasons," in the event we are required to pay additional amounts as a result of certain changes in or interpretations of tax law, including any change or interpretation that results in our being required to withhold tax on interest payments as a result of our being treated as a PRC "resident enterprise," we may redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

We may be subject to risks presented by fluctuations in exchange rates between the Renminbi and other currencies, particularly the U.S. dollar.

The Notes are denominated in U.S. dollars, while substantially all of our revenues are generated by our PRC operating subsidiaries and are denominated in Renminbi. Pursuant to reforms of the exchange rate system announced by the PBOC on July 21, 2005, Renminbi-to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. From May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. The PBOC announced its intention to proceed with the reform of the Renminbi exchange rate regime to increase the Chinese currency's exchange rate flexibility on June 19, 2010. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by 25.4% from July 21, 2005 to December 31, 2010. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were implemented and resulted in devaluation of the Renminbi against the U.S. dollar, our financial condition could be adversely affected because of our substantial U.S. dollar denominated indebtedness and other obligations. Such a devaluation could also adversely affect the value, translated or converted into U.S. dollars or otherwise, of our earnings.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. In addition, following the offering of the Notes, we may enter into foreign exchange or interest rate hedging agreements in respect of our U.S. dollar-denominated liabilities under the Notes. These hedging agreements may require us to pledge or transfer cash and other collateral to secure our obligations under the agreements, and the amount of collateral required may increase as a result of mark-to-market adjustments.. If we were unable to provide such collateral, it could constitute a default under such agreements. The Initial Purchasers and their affiliates may enter into such hedging agreements permitted under the Indenture governing the Notes.

Any hedging obligation entered into or to be entered into by us or our subsidiaries may contain terms and conditions that may result in the early termination, in whole or in part, of such hedging obligation upon the occurrence of certain termination or analogous events or conditions, including such events relating to us or any of our subsidiaries, and the terms and conditions of such hedging obligation(s) may provide that, in respect of any such early termination, limited or no payments may be due and payable to, or that certain payments may be due and payable by, us or any of our subsidiaries in respect of any such early termination. Any such early termination, in whole or in part, of any such hedging obligations, and the payment and any other consequences and effects of such early terminations, may be material to our financial condition and may be material in relation to the performance of our obligations under the Notes, other indebtedness or any other present or future obligations and commitments.

Risks Relating to the Guarantees and the Collateral

The guarantees of the Notes may be challenged under applicable financial assistance, insolvency or fraudulent transfer laws, which could impair the enforceability of the guarantees.

Under bankruptcy laws, fraudulent transfer laws, insolvency laws in the British Virgin Islands or bankruptcy law, fraudulent transfer laws, insolvency or unfair preference or similar laws in the Cayman Islands, Hong Kong and other jurisdictions where future subsidiary guarantors may be established, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by, or when it gives, its guarantee, it was insolvent or incurred the debt with the intent to defraud creditors. The measure of insolvency for purposes of the foregoing will vary depending on the laws of the applicable jurisdiction. Generally, however, a guarantor would be considered insolvent at a particular time if it were unable to pay its debts as they fell due or if the sum of its debts was then greater than all of its properties at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities in respect of its existing debts as they became absolute and matured.

In an attempt to limit the applicability of insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the Subsidiary Guarantors under the guarantees will be limited to the maximum amount that can be guaranteed by the applicable guarantor without rendering the guarantee, as it relates to such guarantor, voidable under such applicable insolvency or fraudulent transfer laws.

If a court voids a guarantee, subordinates such guarantee to other indebtedness of the guarantor, or holds the guarantee unenforceable for any other reason, holders of the Notes would cease to have a claim against that guarantor based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such guarantor, and would solely be creditors of us and any Subsidiary Guarantors whose guarantees have not been voided or held unenforceable. In such an event, after providing for all prior claims, there might not be sufficient assets to satisfy the claims of the holders of the Notes.

The pledge of certain collateral may in certain circumstances be voidable.

The pledge of the collateral securing the Notes may be voidable as a preference under insolvency or fraudulent transfer or similar laws of Hong Kong, the Cayman Islands and the British Virgin Islands at any time within six months of the perfection of the pledge or, under some circumstances, within a longer period. Pledges of capital stock of future Subsidiary Guarantors may also be voidable as a preference under relevant insolvency or fraudulent transfer or similar laws. In addition, the pledge of certain collateral may be voided based on the analysis set forth under "Risks relating to the guarantees and the collateral—The guarantees of the Notes may be challenged under applicable financial assistance, insolvency or fraudulent transfer laws, which could impair the enforceability of the guarantees." above. If the pledges of the collateral were to be voided for any reason, holders of the Notes would have only an unsecured claim. In addition, if the pledge of certain collateral is voided or changed under such laws, this could impact the enforceability of the Subsidiary Guarantees. Moreover, as the pledge agreements will be governed by the laws of Hong Kong, to the extent a judgment is obtained in a Hong Kong court, there is no guarantee that such judgment can be enforced in the British Virgin Islands, the Cayman Islands, the United States or anywhere else in the world.

The Notes will not be guaranteed by any existing or future PRC subsidiaries, and the collateral securing the Notes will not include the capital stock of these subsidiaries.

None of our current or future PRC subsidiaries, which are or will be our operating subsidiaries, will provide a guarantee for the Notes either upon issuance of the Notes or at any time thereafter. No future subsidiaries that are organized under the laws of the PRC will provide a guarantee for the Notes at any time in the future. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of the PRC subsidiaries and such non-guarantor subsidiaries. Moreover, the collateral securing the Notes will not include the capital stock of our existing or future PRC subsidiaries and certain of our non-guarantor subsidiaries. We cannot assure you that the initial Subsidiary Guarantors or any subsidiaries that may become Subsidiary Guarantors in the future will have the funds necessary to satisfy our financial obligations under the Notes if we are unable to do so.

The realizable value of the collateral is unlikely to be sufficient to satisfy our obligations under the Notes and other parity secured indebtedness.

The collateral will consist only of the capital stock of the Subsidiary Guarantors. The security interest in respect of certain collateral may be released upon the disposition of such collateral and any proceeds from such disposition may be applied, prior to repaying any amounts due under the Notes, to repay other debt or to make investments in properties and assets that will not be pledged as additional collateral. The ability of the trustee, on behalf of the holders of the Notes, to foreclose on the collateral upon the occurrence of an event of default or otherwise will be subject in certain instances to perfection and priority status. Although procedures will be undertaken to support the validity and enforceability of the security interests, the trustee or holders of the Notes might not be able to enforce the security interest.

The realizable value of the collateral in the event of a liquidation will depend upon market and economic conditions, the availability of buyers and similar factors. No independent appraisals of any of the collateral have been prepared by or on behalf of us in connection with this offering of the Notes. Accordingly, the proceeds of any sale of the collateral following an acceleration of the Notes might not be sufficient to satisfy amounts due and payable on the Notes. By its nature, the collateral, which consists solely of the capital stock of privately owned companies, is likely to be illiquid and is unlikely to have a readily ascertainable market value. Likewise, the collateral might not be saleable or, if saleable, there could be substantial delays in its liquidation.

The collateral will be shared on an equal and ratable basis by the holders of the Notes and certain other indebtedness that we may issue in the future. Accordingly, in the event of a default on the Notes or the other secured indebtedness and a foreclosure on the collateral, any foreclosure proceeds would be shared by the holders of secured indebtedness in proportion to the outstanding amounts of each class of such secured indebtedness. The value of the collateral securing the Notes and the guarantees is unlikely to be sufficient to satisfy the full repayment on the Notes and guarantees, and the collateral securing the Notes and the guarantees may be reduced or diluted under certain circumstances, including the issuance of additional Notes or other parity indebtedness and the disposition of assets comprising the collateral, subject to the terms of the indenture.

Holders of the Notes may be required to share recovery proceeds with other secured creditors and have certain limitations on their ability to enforce the security documents.

The security interest over the collateral for our obligations and the obligations of the Subsidiary Guarantors under the Notes, the guarantees and the indenture will not be granted directly to the holders of the Notes but will be granted only in favor of the trustee or the collateral agent, as applicable. As a consequence, holders of the Notes will not have direct security and will not be entitled to take enforcement action in respect of the security for the Notes and the guarantees, except through the trustee and the collateral agent. The indenture as well as the guarantees also permit us to enter into certain future financings, and creditors under those future financings may share the collateral on an equal and ratable basis with the trustee acting on behalf of the noteholders. See "Description of the Notes — Security" for a further discussion on the collateral. If this occurs, a smaller portion of the proceeds from the enforcement of the collateral will be available to satisfy noteholders' claims, which could have a material adverse effect on the ability of the noteholders to recover sufficient proceeds to satisfy their claims under the Notes.

Capitalization and indebtedness

The following table sets forth on an actual basis our consolidated cash and cash equivalents and capitalization as of December 31, 2010 and as adjusted to give effect to the issuance of the Notes. The as-adjusted information is illustrative only and does not take into account any changes in our borrowing and capitalization after December 31, 2010, other than to give effect to the issuance of the Notes.

You should read this information together with "Use of proceeds," "Selected historical consolidated financial information and other data," "Management's discussion and analysis of financial condition and results of operations" and the financial statements and related notes included elsewhere in this offering memorandum.

	As of December 31, 2010			
	Actual		Adjusted	
	RMB	USD	RMB	USD
				(in thousands)
Cash and cash equivalents	1,500,292	227,317		
Short-term borrowings				
Bank loans due within one year	630,326	95,504		
Total short term borrowings	630,326	95,504		
Long-term borrowings				
Bank loans	154,000	23,333		
Notes offered hereby	—	—		
Total long-term borrowings	154,000	23,333		
Total borrowings	784,326	118,837		
Total equity	4,004,451	606,735		
Total capitalization(1)	4,788,777	725,572		

(1) Total capitalization comprises total borrowings and total equity. The "adjusted" total capitalization as of December 31, 2010 is adjusted only for the receipt of proceeds from the issuance of the Notes as described above, and not for any other change in indebtedness, and is consequently not indicative of the Company's actual total capitalization upon completion of the issuance of the Notes.

Selected historical consolidated financial information and other data

We have derived the following selected historical consolidated financial information and other data from our audited consolidated financial statements as of and for the years ended December 31, 2008, 2009 and 2010 which have been audited by E&Y. You should read the following selected historical consolidated financial information and other data together with the section entitled "Management's discussion and analysis of financial condition and results of operations" and the financial statements and related notes included elsewhere in this offering memorandum. We prepare and present our financial statements in accordance with HKFRS.

	Year ended December 31,			
	2008	**2009**	**2010**	**2010**
	RMB	**RMB**	**RMB**	**USD**
				(in thousands)
Consolidated statement of comprehensive income data:				
Continuing operations				
Revenue	3,618,526	5,322,244	7,711,532	1,168,414
Cost of sales	(3,114,419)	(4,109,005)	(5,677,884)	(860,285)
Gross profit	504,107	1,213,239	2,033,648	308,129
Other revenue, income and gains	21,717	22,876	43,515	6,593
Selling and distribution costs	(161,853)	(198,509)	(298,866)	(45,283)
Administrative expenses	(106,571)	(163,554)	(234,581)	(35,543)
Other operating expenses, net	(17,659)	(38,163)	(117,229)	(17,762)
Finance costs	(45,894)	(36,475)	(52,971)	(8,026)
Share of loss of a jointly-controlled entity	(4,969)	—	—	—
Profit before tax from continuing operations	188,878	799,414	1,373,516	208,108
Income tax expense	(34,221)	(155,443)	(241,333)	(36,565)
Profit for the year from continuing operations	154,657	643,971	1,132,183	171,543
Discontinued operations				
Loss for the year from discontinued operations	(18,743)	—	—	—
Profit for the year	135,914	643,971	1,132,183	171,543
Other comprehensive income:				
Exchange differences on translation of foreign operations	14,237	972	(10,160)	(1,540)
Total comprehensive income for the year	150,151	644,943	1,122,023	170,003
Profit for the year attributable to:				
Owners of the Company	135,481	643,971	1,132,183	171,543
Non-controlling interests	433	—	—	—
Total	135,914	643,971	1,132,183	171,543
Total comprehensive income attributable to:				
Owners of the Company	149,718	644,943	1,122,023	170,003
Non-controlling interests	433	—	—	—
Total	150,151	644,943	1,122,023	170,003

	Year ended December 31,			
	2008	2009	2010	2010
	RMB	RMB	RMB	USD
				(in thousands)
Other financial data:				
EBITDA[1]	275,545	910,978	1,549,799	234,818
EBITDA margin[2]	7.0%	17.1%	20.1%	20.1%
EBITDA/Finance costs	6.0x	25.0x	29.3x	29.3x
Total debt/EBITDA	1.7x	1.4x	0.5x	0.5x
Adjusted EBITDA[3]	277,540	888,102	1,506,284	228,225
Adjusted EBITDA margin[4]	7.7%	16.7%	19.5%	19.5%
Adjusted EBITDA/Finance costs	6.0x	24.3x	28.4x	28.4x
Total debt/Adjusted EBITDA	1.7x	1.5x	0.5x	0.5x

Notes:

1. Profit for the year before income tax expense, depreciation and amortization and finance costs (excluding capitalized interest). EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that EBITDA as presented above is calculated differently from "Consolidated EBITDA" as defined and used in the indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which "Consolidated EBITDA" is defined for purposes of the indenture governing the Notes. Set forth below is a reconciliation of EBITDA to the most directly comparable HKFRS measure, profit for the year.

	Year ended December 31,			
	2008	2009	2010	2010
	RMB	RMB	RMB	USD
				(in thousands)
Profit for the year	135,914	643,971	1,132,183	171,543
Add:				
Amortization	3,110	4,292	5,236	793
Depreciation	56,406	70,797	118,076	17,890
Finance costs (excluding capitalized interest)	45,894	36,475	52,971	8,026
Income tax expense	34,221	155,443	241,333	36,566
EBITDA	275,545	910,978	1,549,799	234,818
Adjustments:				
Add: Share of loss of a jointly controlled entity	4,969	—	—	—
Minus: Other revenue, income and gains	(21,717)	(22,876)	(43,515)	(6,593)
Add: Loss for the year from discontinued operations	18,743	—	—	—
Adjusted EBITDA	277,540	888,102	1,506,284	228,225

2. EBITDA divided by revenue arising from both continuing and discontinued operations.

3. EBITDA excluding share of loss of a jointly controlled entity, other revenue, income and gains and loss for the year from discontinued operations.

4. Adjusted EBITDA divided by revenue arising from continuing operations.

	As of December 31,			
	2008	2009	2010	2010
	RMB	RMB	RMB	USD
				(in thousands)
Consolidated statement of financial position data:				
Non-current assets				
Property, plant and equipment	734,844	1,302,735	1,705,918	258,472
Prepaid land lease payments	176,894	205,516	248,612	37,668
Other intangible assets	1,052	1,138	2,281	346
Deposits paid for the purchase of land, property, plant and equipment	34,097	26,248	55,056	8,342
Deferred tax assets	1,535	7,314	2,295	348
Total non-current assets	948,422	1,542,951	2,014,162	305,176
Current assets				
Inventories	584,131	743,507	1,139,452	172,644
Trade and bills receivables	203,247	466,735	681,415	103,245
Prepayments, deposits and other receivables	238,524	257,938	270,435	40,975
Amounts due from related companies	16,304	720	—	—
Restricted cash	2,780	125,133	23,044	3,492
Cash and cash equivalents	135,947	361,767	1,500,292	227,317
Total current assets	1,180,933	1,955,800	3,614,638	547,673
Current liabilities				
Trade and bills payables	39,667	232,702	242,760	36,782
Other payables and accruals	447,630	501,547	439,758	66,630
Interest-bearing bank loans	416,700	427,527	630,326	95,504
Amounts due to directors	492,772	263,798	—	—
Amounts due to related companies	226,045	15,693	—	—
Tax payable	19,034	73,770	94,900	14,379
Total current liabilities	1,641,848	1,515,037	1,407,744	213,295
Net current assets/(liabilities)	(460,915)	440,763	2,206,894	334,378
Total assets less current liabilities	487,507	1,983,714	4,221,056	639,554
Non-current liabilities				
Interest-bearing bank loans	52,000	882,150	154,000	23,333
Deferred tax liabilities	11,393	41,749	44,778	6,785
Deferred income	—	17,827	17,827	2,701
Total non-current liabilities	63,393	941,726	216,605	32,819
Net assets	424,114	1,041,988	4,004,451	606,735
Equity				
Share capital	—	352	131,297	19,893
Reserves	424,114	1,041,636	3,570,128	540,929
Proposed final dividend	—	—	303,026	45,913
Total equity	424,114	1,041,988	4,004,451	606,735

	Year ended December 31,			
	2008	2009	2010	2010
	RMB	RMB	RMB	USD
				(in thousands)
Consolidated statement of cash flows data:				
Net cash flows from operating activities	44,750	608,273	650,415	98,548
Net cash flows used in investing activities	(287,222)	(723,980)	(464,159)	(70,327)
Net cash flows from financing activities	190,663	341,382	971,746	147,234
Net increase(decrease) in cash and cash equivalents....	(51,809)	225,675	1,158,002	175,455

Management's discussion and analysis of financial condition and results of operations

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with "Selected Consolidated Financial Information" and our consolidated financial statements and related notes included elsewhere in this offering memorandum. Our financial statements have been prepared in accordance with HKFRS. The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. Please see the section entitled "Risk Factors" in this offering memorandum.

Overview

We are a leading PRC manufacturer of plastic pipes and pipe fittings. We have 12 operational production facilities for plastic pipes and pipe fittings strategically located in nine provinces across China. Through these facilities, our 30 sales offices and more than 760 independent distributors, we serve a broad range of customers across China and capture increased demand for our products in new and existing sales regions.

We offer a comprehensive range of plastic pipes and pipe fittings. We are able to produce more than 70 series and more than 7,000 specifications of plastic pipes and pipe fittings with dimensions ranging from about 16 mm to 3,000 mm in diameter. We primarily use PVC, PE, PP-R and other plastic resins to manufacture our products. Our plastic pipes and pipe fittings are used in a variety of piping systems, including water supply, drainage, power supply and telecommunications, agriculture, gas supply, floor heating and fire-fighting. We also provide customers with a wide range of support services, including pre-sale consultation, after-sales service, on-site consultations and technical support.

We have expanded our production capacity during the past three years in order to capture the growing demand for our products and to increase our market share. The total effective annual production capacity of our production facilities increased from 426,000 tonnes of plastic pipes and pipe fittings as of December 31, 2008 to 661,800 tonnes as of December 31, 2009 and 1,090,779 tonnes as of December 31, 2010, while our total designed annual production capacity for plastic pipes and pipe fittings increased from 905,700 tonnes as of December 31, 2009 to 1,150,000 tonnes as of December 31, 2010. Our utilization rate was 87.6% in 2008 and 87.5% in 2009. Based upon preliminary data, management estimates that our utilization rate in 2010 was moderately lower than our 2009 utilization rate.

We plan to further expand our existing production facilities and construct production facilities in new markets in China in order to maintain our leading industry position, expand our market share and better meet the demands of our customers. We plan to add designed annual production capacity at all of our production facilities, to better cover our seven geographic sales regions in China (consisting of Southern China, Central China, Northern China, Southwestern China, Eastern China, Northeastern China and Northwestern China). We have budgeted capital expenditures of RMB1,500.0 million and RMB1,000.0 million for our production expansion during 2011 and 2012, respectively, which we may adjust from time to time according to market conditions. We expect to finance our capital expenditures through a combination of the offering of the Notes, the remaining proceeds from our initial public offering, cash flows from operations, cash on hand and banking facilities.

We sell our products both directly to our customers, including government entities, utility companies and real estate developers, and through independent distributors. We have a nationwide sales network of more than 760 independent distributors, supported by regional teams in 30 sales offices across China.

We have achieved significant revenue and earnings growth in recent years. We generated revenue of RMB3,618.5 million in 2008, RMB5,322.2 million in 2009 and RMB7,711.5 million (US$1,168.4 million) in 2010, representing a CAGR of 46.0% from 2008 to 2010. Our EBITDA was RMB275.5 million in 2008, RMB911.0 million in 2009 and RMB1,549.8 million (US$234.8 million) in 2010, representing a CAGR of 137.2% from 2008 to 2010. See "Selected historical consolidated financial information and other data" for a reconciliation of Profit for the Year to EBITDA.

Our shares are listed on The Stock Exchange of Hong Kong Limited under stock code 2128. Our equity market capitalization as of April 15, 2011 was HK$22,770.0 million (US$2,929.3 million).

Factors Affecting Results of Operations and Financial Results of the Group

The Group's financial condition and results of operations have been, and will continue to be, affected by a number of factors, including those set forth below.

Market and economic conditions

Sales of our products and our business development have been driven by the demand in the end-user markets in which our products are principally applied, namely the infrastructure and real estate development sectors. Generally, within the PRC, construction activities are cyclical and dependent upon many factors beyond our control, including general market conditions, the availability of credit to finance investment, development of housing prices, mortgage and other financing interest rates, unemployment, demographic trends, consumer confidence, public investment and spending on infrastructure projects. Construction activities are also impacted by governmental policies that have the effect of encouraging or discouraging residential housing or commercial construction, such as tax policies, policies that encourage labor mobility and migration, subsidies, and health and safety regulations that encourage or discourage use of certain materials and products.

Some market observers have expressed concern that growth in the infrastructure and real estate sectors has been driven by excess availability of bank lending in the PRC, which has enabled investors to purchase real estate for speculative purposes at inflationary prices. Increased availability of bank lending in the PRC may have also enabled increases in the level of infrastructure development activities. Due to concerns about inflation, the PBOC significantly increased the reserve requirement ratio for PRC commercial banks beginning in February 2010. The reserve requirement ratio refers to the amount of funds that PRC banks must hold in reserve with the PBOC against deposits made by their customers. During the first four months of 2011, the PBOC increased the reserve requirement ratio four times, each by 50 basis points with the last adjustment made on April 21, 2011 to 20.5%. Increases in the reserve requirement ratio may negatively impact the amount of funds available to lend to infrastructure and real estate developers by commercial banks in China. In addition to these monetary measures, the PRC government has implemented increased down payment requirements on certain home purchases and new land use grants, business tax on transfers of non-ordinary residential properties held for five years or less, and other measures designed to control inflationary property prices. The level of investment in property construction in China may level off or decrease as a result of these or other measures which in turn may negatively impact the demand for plastic pipes and, hence, have a material adverse impact on our revenue and financial performance. See "Risk factors — Risks relating to our business — A substantial portion of our products are used in infrastructure and real estate construction; the PRC government has recently implemented several measures to control the growth of the infrastructure and real estate sectors, which could materially and adversely impact demand for our products". Furthermore, to the extent that government expenditures on infrastructure programmes are delayed, decreased or terminated as a result of macroeconomic developments or a change in government policies, our revenue and financial performance may be materially and adversely affected.

Pricing of Our Products

Our ability to continue to price our products competitively is important to our financial performance. We determine pricing for our products based on various factors, including our production costs, our market position, our marketing strategy, market supply and demand, market competition, the margin of such products, the age and life cycle of such products and our relationship with the relevant customers. We set different prices for different customers. The prices of our products are affected by a number of factors including:

- supply of and demand for plastic pipe and pipe fittings, which is affected by PRC domestic as well as global economic cycles;
- prices of our principal raw materials, PVC, PE and PP-R, which are affected by the supply of and demand for coal, limestone and petrochemical commodities from which they are derived and subject to PRC domestic as well as global economic cycles;
- our cost of labor, research and development expenses, equipment usage, manufacturing overhead and selling expenses, general and administrative expenses, finance costs and other expenses;
- our product characteristics and quality (as different products are priced differently); and
- the performance of industries that rely on our plastic pipe and pipe fittings, being primarily the infrastructure and real estate industries, which demand in turn is significantly affected by PRC government policies.

Our sales are typically conducted on the basis of purchase orders received from time to time, which set out the specific terms for a particular sale. Prices with respect to purchases are generally determined at the time of sale. We price our products based on production costs with reference to the prevailing market prices. We review these costs periodically with our customers in order to reflect changing market and operational conditions. Due to our market position and the quality and range of our products, we believe we have had a level of bargaining power in pricing, especially in regions such as Southern China where the purchasing power and demand for our products has been high.

The following table sets forth the average selling price of each of our plastic pipe product categories for the periods indicated:

	Year ended December 31,			
	2008	2009	2010	2010
	Average selling price (1)	Average selling price (1)	Average selling price (1)	Average selling price (1)
	(RMB)	(RMB)	(RMB)	(USD)
Water supply	16,190.8	13,665.3	14,782.5	2,239.8
Drainage	8,754.0	7,600.5	7,934.7	1,202.2
Power supply and telecommunications	7,779.8	7,475.9	7,605.3	1,152.3
Gas supply	20,447.7	17,361.8	15,216.6	2,305.5
Others(2)	8,149.9	7,232.6	7,411.2	1,122.9
Total	10,661.2	9,320.1	9,643.3	1,461.1

Note:

1. Average selling price represents revenue for the product category divided by volume in tonnes of products sold for that category during the year.
2. "Others" comprises agriculture, floor heating and fire-fighting.

Seasonality

Our products are principally used in infrastructure projects and residential and commercial construction. As such, the demand for these products tends to be seasonal and corresponds with increased construction activities in the late spring, summer and early fall, particularly in the northern part of China where changes in climate are more severe.

We generally experience a reduction in the sales of our products during the first and fourth quarters of the calendar year as a result of seasonal downtimes in Northeastern and Northwestern China due to extreme weather conditions and lower level of construction activities during the winter and the Lunar New Year holiday period in the PRC. Any significant or prolonged adverse weather conditions that negatively affect the construction activities or slow the growth of new construction activities could have a material adverse effect on our business, results of operations, financial condition and prospects.

Cost of raw materials

Our financial performance is dependent on the cost and continued availability of plastic resins. The principal raw materials for the production of our plastic pipe products are plastic resins such as PVC, PE and PP-R. Our cost of raw materials amounted to RMB2,760.6 million, RMB3,627.5 million and RMB5,039.0 million (US$763.5 million), accounting for 88.6%, 88.3% and 88.7% of our cost of sales in 2008, 2009 and 2010, respectively. Our financial performance is therefore dependent to a substantial extent on the price fluctuations and the availability of plastic resins. The primary raw material used in a majority of our pipe products is PVC resin manufactured in the PRC from coal and limestone, as opposed to PVC resin manufactured from petrochemical intermediates that are primarily used in many other parts of the world. Prices for PVC resins in the PRC have been affected by various factors, including fluctuations resulting from refinery capacity shortages, changes in PVC manufacturers' electrical and labor costs, changes in coal prices and changes in the price of petrochemical based PVC resins on the Chinese and global markets. In addition to coal and limestone based PVC resins, we also use a significant amount of various petrochemical based plastic resins in our production, prices of which have fluctuated significantly in recent years as a result of changes in natural gas and crude oil prices. The unit costs of the plastic resins we use were affected by these fluctuations. Our average PVC resin unit cost per tonne was approximately RMB6,624.0, RMB5,572.0 and RMB6,390.0 in 2008, 2009 and 2010, respectively, while the average unit cost per tonne of our other plastic resins was approximately RMB11,717.0, RMB8,441.0 and RMB10,220.0 for the same respective periods. Instability in the plastic resin markets in China could quickly affect the prices and general availability of our raw materials, which could have a material and adverse impact on us.

Historically, we have generally been able to pass on a significant portion of any increases in polymer prices to our customers over a period of time. Nevertheless, there have been negative short-term impacts on our financial performance due to changes in plastic resin prices. To the extent that cost increases cannot be passed on to our customers, or the duration of time lags associated with a pass-through becomes significant, such increases may have a material and adverse effect on our financial performance. See "Risk factors — Risks relating to our business — Our financial performance is dependent on the cost and continued availability of plastic resins".

Sales volume and production capacity

Our sales volume is primarily driven by the demand of our customers as well as our production capacity and utilization rate. Growth in demand for plastic pipe products in China has been driven by various factors including the growth of the infrastructure and real estate development sectors, increasing urbanization and increasing replacement of traditional piping systems with plastic piping systems. We also believe that our growth in sales volume has resulted from our expansion in production capacity and the increasing recognition of our Liansu brand.

We have expanded our production capacity significantly in recent years through the launch of new production facilities. The effective annual production capacity of our production facilities was approximately 426,000 tonnes, 661,800 tonnes and 1,090,779 tonnes of plastic pipes and pipe fittings in 2008, 2009 and 2010, respectively.

Level of income tax and preferential tax treatment

Our 16 subsidiaries incorporated in the PRC are subject to income tax in China. Our profit attributable to equity shareholders is affected by the level of income tax that we pay and the preferential tax treatment to which we are entitled.

Prior to January 1, 2008, the income tax rate that was generally applicable to domestic companies in China was 33% and the foreign-invested companies may enjoy tax exemptions and preferential tax rates. On March 16, 2007, the National People's Congress of China promulgated the New Income Tax Law, which came into effect on January 1, 2008. The New Income Tax Law adopts a unified income tax rate of 25% on most domestic enterprises and foreign-invested enterprises. Under the New Income Tax Law, enterprises that enjoyed a preferential tax rate prior to the promulgation of the New Income Tax Law are given a five-year grace period from the effective date of the New Income Tax Law to gradually transition to the new tax rate.

Under the New Income Tax Law and its implementing rules, enterprises established outside China with their de facto management bodies located within China may be considered a resident enterprise and subject to China enterprise income tax on their global income at the rate of 25%. Since most of our management is currently located in China, we may be subject to PRC income tax at the rate of 25% on our global income. In certain circumstances, dividends received by one resident enterprise from another resident enterprise may be exempt from this tax, but there is no guarantee that we will qualify for this exemption.

Some of our subsidiaries in China enjoyed preferential tax rates in 2008, 2009 and 2010. Guangdong Liansu Technology was recognized as a "High and New Technology Enterprise" in 2008 and was subject to corporate income tax at a reduced rate of 15% during 2008, 2009 and 2010. In addition, certain of our subsidiaries that are foreign invested companies are wholly exempt from corporate income tax for two years from its first profitable year and are entitled to a 50% tax reduction for the subsequent three years. Our effective income tax rate, calculated as our Group's income tax expense divided by profit before tax from continuing operations, was 18.1% in 2008, 19.4% in 2009 and 17.6% in 2010. We will not be able to obtain the same preferential income tax treatment for the foreign invested companies, see "Risk factors — Risks relating to our business — We may not be able to continue to enjoy our current preferential tax treatment".

We were not subject to Cayman Islands tax in 2008, 2009 and 2010. We have not provided for Hong Kong Profits Tax in respect of 2008, 2009 and 2010 because we did not derive any assessable profits in Hong Kong during those years.

Critical accounting policies and estimates

We prepare our consolidated financial statements in conformity with HKFRS issued by the HKICPA, which requires us to make subjective judgments in selecting the appropriate estimates and assumptions that affect the amounts reported in our financial statements. Actual results may differ from these estimates under different assumptions and conditions. The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our audited consolidated financial statements. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, terms of existing contracts, our observance of trends in the industry, information provided by our customers and information available from outside sources, as appropriate.

There can be no assurance that our judgments will prove correct or that actual results reported in future periods will not differ from our expectations reflected in our accounting treatment of certain items. We have identified the policies below as critical to our business operations and the understanding of our financial condition and results of operations.

We review our estimates and underlying assumptions on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Revenue recognition

We recognize revenue 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.

Revenue is recognized when the end-user customers or distributors, as appropriate, acknowledge receipt for our products either when they pick up their orders at our facilities or when we deliver their orders to them.

Impairment of non-financial assets

An impairment loss is recognized 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.

An assessment is made at the end of each reporting periods as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized 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/amortization) had no impairment loss been recognized 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.

Impairment provision of trade and other receivables

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of the collectability and aging analysis of the outstanding receivables and on the management's judgment.

A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Impairment of non-financial assets

The Group assesses whether there are any indications of impairment for all non-financial assets at the end of each reporting periods. Non-financial assets are tested for impairment when there are indications that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

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.

Inventories

Our inventories primarily consist of raw materials, work-in-progress and finished goods. Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises raw materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred prior to completion and disposal. We review the ageing analysis of inventories of the Group at the end of each reporting date, and make provision for obsolete and slow moving inventory items identified that are no longer suitable for sale. We estimate the net realizable value for such inventories based primarily on the latest invoice prices and current market conditions.

In 2008, we had a write-down of inventories to net realizable value of RMB2.0 million, while we had a write-back of inventories to net realizable value of RMB1.5 million in 2009. In 2010, we had a write-back of inventories to net realizable value of RMB0.4 million (US$0.1 million).

Principal income statement components

Revenue

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts (net of value-added tax). Substantially all of our revenue is derived from the sales of plastic pipes and pipe fittings. We also derive a small portion of our revenue from the sale of a small amount of ancillary materials such as springs for connecting plastic pipes. Our revenue in any given period is determined by our sales volume and average selling prices of our products.

The following table sets forth a breakdown of our sales volume and revenue by products for the periods indicated:

	Year ended December 31,								
	2008			2009			2010		
	Sales Volume (tonnes)	Revenue (RMB million)	% of total revenue	Sales Volume (tonnes)	Revenue (RMB million)	% of total revenue	Sales Volume (tonnes)	Revenue (RMB million)	% of total revenue
Plastic pipes and pipe fittings	334,802	3,569.4	98.6%	566,229	5,277.3	99.2%	789,326	7,611.7	98.7%
Others[1]	N/A	49.1	1.4%	N/A	44.9	0.8%	N/A	99.8	1.3%
Total	334,802	3,618.5	100.0%	566,229	5,322.2	100.0%	789,326	7,711.5	100.0%

Note:

1. "Others" consists of ancillary materials such as springs for connecting plastic pipes. Sales volume for "others" is measured in units and not tonnes, and the size of the units between different products may differ.

The following table sets forth a breakdown of our sales volume, revenue and average selling price for plastic pipes and pipe fittings by product category for the periods indicated:

	Year ended December 31,											
	2008				2009				2010			
	Sales Volume (tonnes)	Revenue (RMB million)	% of total revenue	Average selling price[1] (RMB)	Sales Volume (tonnes)	Revenue (RMB million)	% of total revenue	Average selling price[1] (RMB)	Sales Volume (tonnes)	Revenue (RMB million)	% of total revenue	Average selling price[1] (RMB)
Water supply	93,522	1,514.2	42.4%	16,190.8	156,528	2,139.0	40.5%	13,665.3	202,814	2,998.1	39.4%	14,782.5
Drainage	136,337	1,193.5	33.4%	8,754.0	252,812	1,921.5	36.5%	7,600.5	356,031	2,825.0	37.1%	7,934.7
Power supply and Telecommunications	82,097	638.7	17.9%	7,779.8	128,788	962.8	18.2%	7,475.9	184,372	1,402.2	18.4%	7,605.3
Gas supply	2,993	61.2	1.7%	20,447.7	5,011	87.0	1.6%	17,361.8	5,724	87.1	1.1%	15,216.6
Others[2]	19,853	161.8	4.6%	8,149.9	23,090	167.0	3.2%	7,232.6	40,385	299.3	4.0%	7,411.2
Total[3]	334,802	3,569.4	100.0%	10,661.2	566,229	5,277.3	100.0%	9,320.1	789,326	7,611.7	100%	9,643.3

Notes:

1. Average selling price represents revenue for the product category divided by volume in tonnes of products sold for that category during the year.
2. "Others" comprises agriculture, floor heating and fire-fighting. We did not produce products in the floor heating and fire-fighting categories until 2008.
3. The total amount does not include revenue generated by the sale of ancillary products such as springs for connecting plastic pipes.

For financial reporting purposes, we organize our business operations into the following eight segments:

Segment	Provinces/Regions
Southern China	Guangdong Province, Guangxi Zhuang Autonomous Region, Hunan Province, Fujian Province and Hainan Province
Southwestern China	Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province and Xizang (Tibet) Autonomous Region
Central China	Hubei Province, Jiangxi Province and Henan Province
Eastern China	Shanghai Municipality, Jiangsu Province, Zhejiang Province and Anhui Province
Northern China	Beijing Municipality, Tianjin Municipality, Hebei Province, Shandong Province, Inner Mongolia Autonomous Region and Shanxi Province
Northwestern China	Shaanxi Province, Ningxia Hui Autonomous Region, Qinghai Province, Gansu Province and Xinjiang Uygur Autonomous Region
Northeastern China	Liaoning Province, Jilin Province and Heilongjiang Province
Outside China	Includes sales to Hong Kong, Macau and Taiwan and all international sales outside of China.

The following table sets forth a breakdown of our revenue and sales volume of plastic pipes and pipe fittings by sales region for the periods indicated:

	Year ended December 31,											
	2008				2009				2010			
	Sales Volume (tonnes)	Revenue (RMB million)	% of total revenue	Average selling price[1] (RMB)	Sales Volume (tonnes)	Revenue (RMB million)	% of total revenue	Average selling price[1] (RMB)	Sales Volume (tonnes)	Revenue (RMB million)	% of total revenue	Average selling price[1] (RMB)
Southern China....................	223,242	2,371.9	66.5%	10,624.8	395,270	3,682.9	69.8%	9,317.4	559,919	5,218.6	68.6%	9,320.3
Southwestern China	38,009	396.5	11.1%	10,431.7	53,831	487.5	9.2%	9,056.1	66,153	675.1	8.9%	10,205.1
Central China	31,685	310.0	8.7%	9,783.8	56,508	482.5	9.1%	8,538.6	59,519	597.0	7.7%	10,030.4
Northern China....................	18,307	193.9	5.4%	10,591.6	26,380	268.6	5.1%	10,182.0	41,292	454.4	6.0%	11,004.6
Eastern China	13,266	141.5	4.0%	10,666.4	17,363	167.9	3.2%	9,670.0	33,737	329.3	4.3%	9,760.8
Northwestern China	4,511	58.5	1.6%	12,968.3	8,728	89.5	1.7%	10,254.4	16,468	188.1	2.5%	11,422.2
Northeastern China	3,208	52.5	1.5%	16,365.3	6,036	72.2	1.4%	11,961.6	8,671	103.5	1.4%	11,936.3
Outside China......................	2,574	44.6	1.2%	17,327.1	2,113	26.2	0.5%	12,399.4	3,567	45.7	0.6%	12,811.9
Total[2]................................	334,802	3,569.4	100.0%	10,661.2	566,229	5,277.3	100.0%	9,320.1	789,326	7,611.7	100%	9,643.3

Notes:

1. Average selling price represents revenue from sales to customers in the specified geographic region divided by volume in tonnes of products sold in that region during the year.
2. The total amount does not include revenue generated by the sale of ancillary products such as springs for connecting plastic pipes.

Cost of sales

Our cost of sales consists of raw materials, labor costs and manufacturing costs. Manufacturing costs include depreciation and amortization, electricity and fuel, repair and maintenance and other manufacturing costs. See "Business — Raw materials" for additional information on our cost of raw materials.

The following table sets forth a breakdown of our cost of sales during the three years ended December 31, 2010:

	Year ended December 31,					
	2008		2009		2010	
	RMB (million)	% of total cost of sales	RMB (million)	% of total cost of sales	RMB (million)	% of total cost of sales
Cost of sales						
Raw materials	2,760.6	88.6%	3,627.5	88.3%	5,039.0	88.7%
Labor costs.	123.3	4.0%	192.0	4.7%	272.3	4.8%
Manufacturing costs:						
Depreciation and amortization...............	39.9	1.3%	51.0	1.2%	94.1	1.7%
Electricity and fuel..........	160.0	5.1%	185.0	4.5%	215.1	3.8%
Repair and maintenance	18.5	0.6%	35.8	0.9%	44.9	0.8%
Other manufacturing costs...........................	12.1	0.4%	17.7	0.4%	12.5	0.2%
Total cost of sales	3,114.4	100.0%	4,109.0	100.0%	5,677.9	100%

Other revenue, income and gains

Our other revenue, income and gains primarily consist of gross rental income from leasing of properties, gains on disposal of one jointly-controlled entity and one subsidiary, gain on sale of raw materials, income from the provision of utilities, bank interest income, and government grants and subsidies. Gain on sale of raw materials comprised mainly sale of raw materials to related parties and provision of utilities represented mainly reimbursement by related parties of their portion of the utilities costs paid by us on their behalf arising from the sharing of utilities meters. The sale of raw materials to related parties related to certain raw materials used by the related parties in their productions which are also used by us in our production. Historically, when we or our related parties experienced urgent need of certain raw materials, we sourced such materials from each other.

Selling and distribution costs

Selling and distribution costs primarily consist of salaries and benefits of sales and marketing staff, transportation cost associated with shipping our products to distributors and customers, packaging cost, advertising cost and others such as travelling expenses, depreciation and business development expenses. Our total selling and distribution costs accounted for 4.5%, 3.7% and 3.9% of our total revenue from continuing operations in 2008, 2009 and 2010, respectively. Transportation and packaging costs accounted for the majority of our selling and distribution costs, representing 58.7%, 58.7% and 43.6% of our total selling and distribution costs in 2008, 2009 and 2010, respectively.

Administrative expenses

Administrative expenses primarily consist of salaries and benefits of administrative and management staff, business development expenses, utility expenses, professional services/consultation fees, taxes (other than corporate income tax), office expenses, and other expenses. Taxes (other than corporate income tax) primarily consists of flood prevention tax, land use tax, property tax, stamp duty and vehicle and vessel usage tax. Our administrative expenses accounted for 2.9%, 3.1% and 3.0% of our total revenue from continuing operations for 2008, 2009 and 2010, respectively. Salaries and benefits of administrative and management staff represented the largest component of our administrative expenses, representing 42.1%, 36.7% and 59.7% of our administrative expenses in 2008, 2009 and 2010, respectively. Salaries increased 25.9% from RMB24.7 million in 2008 to RMB31.1 million in 2009 and RMB46.9 million (US$7.1 million) in 2010.

Other operating expenses, net

Our other operating expenses, net consist primarily of our research and development expenses.

Finance costs

Our finance costs consist principally of interest payments on bank loans wholly repayable within five years.

Income tax expense

Income tax expense represents amounts of PRC corporate income tax paid by our Group. We were not subject to any Hong Kong profits tax or any income tax in the Cayman Islands and the BVI during the three years ended December 31, 2010. A number of our PRC subsidiaries enjoyed preferential tax treatment during the three years ended December 31, 2010. See also "Factors affecting results of operations and financial condition of the Group — Level of income tax and preferential tax treatment" in this section.

Pursuant to the New 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 became effective on January 1, 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. Liansu HK, being a company incorporated in Hong Kong, is eligible to a 5% lower withholding tax rate for the dividends received from its subsidiaries established in China, according to the avoidance of double taxation arrangement between China and Hong Kong. Therefore, the withholding tax is calculated at 5% on the distributable profits generated from subsidiaries established in China from January 1, 2008.

Our directors have confirmed that we did not have any disputes, and they were not aware of us having any potential disputes, with any tax authorities as of the date of this offering memorandum. We recognized certain expenses during the three years ended December 31, 2010 that were not deductible for income tax purposes. These non-deductible expenses primarily consisted of:

- *Loss on disposal of subsidiaries.* We disposed of equity interests in certain subsidiaries during the year ended December 31, 2008. Losses arising from the disposal of these subsidiaries were not deductible for tax purposes.

- *Business development expenses.* Pursuant to the Regulations on the Implementation of Enterprise Income Tax Law of the PRC, business development expenses incurred in connection with an enterprise's production and operational activities are deductible for tax purposes at 60% of the actual amounts incurred, provided that the amount of expenses deducted cannot exceed 0.5% of the enterprise's revenue for that taxable year.

- *Accrued expenses with the respective invoices not yet received.* According to the relevant PRC tax regulations and practices, expenses accrued during a year or period for which the related invoice was not received prior to the annual tax filing for that year may not be deducted for purposes of calculating taxable income for that year.

Results of operations

The following table shows the line items of our consolidated statements of comprehensive income data for 2008, 2009 and 2010 expressed as a percentage of revenue.

	Year ended December 31,		
	2008	**2009**	**2010**
			(%)
Revenue	100%	100%	100%
Cost of sales	(86.1%)	(77.2%)	(73.6%)
Gross profit	13.9%	22.8%	26.4%
Other revenue, income and gains	0.6%	0.4%	0.5%
Selling and distribution costs	(4.5%)	(3.7%)	(3.9%)
Administrative expenses	(2.9%)	(3.1%)	(3.0%)
Other operating expenses, net	(0.5%)	(0.7%)	(1.5%)
Finance costs	(1.3%)	(0.7%)	(0.7%)
Share of loss of a jointly-controlled entity	(0.1%)	—	—
Profit before tax from continuing operations	5.2%	15.0%	17.8%
Income tax expense	(0.9%)	(2.9%)	(3.1%)
Profit for the year from continuing operations	4.3%	12.1%	14.7%
Discontinued operations			
Loss for the year from discontinued operations	(0.5%)	—	—
Profit for the year	3.8%	12.1%	14.7%
Other comprehensive income			
Exchange differences on translation of foreign operations	0.4%	—	(0.1%)
Total comprehensive income for the year	4.2%	12.1%	14.6%

Discontinued operations as set out above consisted of certain property development and investment, plastic extrusion equipment manufacturing and plastic polymers trading businesses that we had disposed of in 2008.

Period to period comparison of results of operations

Year ended December 31, 2010 compared to year ended December 31, 2009

Revenue

Revenue increased 44.9% from RMB5,322.2 million in 2009 to RMB7,711.5 million (US$1,168.4 million) in 2010, primarily as a result of a 39.4% increase in total sales volume from 566,229 tonnes in 2009 to 789,326 tonnes in 2010. This increase in sales volume in 2010 was principally attributable to increases in the sales volumes of water supply products (29.6%), drainage products (40.8%), power supply and telecommunications products (43.2%) and gas supply products (14.2%). We attribute the increase in sales volume to an increase in market demand and an increase in our production volume.

During 2010, we experienced increased demand for a variety of products used in PRC infrastructure projects and commercial real estate construction. We believe market demand was positively influenced by China's continuing economic development, urbanization and public investment in infrastructure. An increase in the number of our distributors from about 600 to more than 760 by the end of 2010 also contributed to increased sales.

We were able to handle the increase in market demand by increasing our effective annual production capacity of 64.8% from 661,800 tonnes in 2009 to 1,090,779 tonnes in 2010. We increased our annual effective production capacity during 2010 at our Guangdong Liansu Technology, Wuhan Liansu, Guiyang Liansu, Hebei Liansu, Heshan Liansu, Wuhan Liansu Mold, Sichuan Liansu and Nanjing Liansu facilities and commenced operations at our Urumqi facility.

Revenue increased in all of our sales regions in China during 2010. Southern China remained our top sales region, accounting for 68.7% of total revenue for 2010. Revenue generated in Southern China increased 42.4% from RMB3,717.2 million in 2009 to RMB5,294.9 million in 2010.

The average selling price of our products increased 3.5% from RMB9,320.1 per tonne in 2009 to RMB9,643.3 per tonne in 2010, primarily because we were able to raise prices in response to increases in the cost of PVC resins and other resins during 2010.

Cost of sales

Cost of sales increased 38.2% from RMB4,109.0 million in 2009 to RMB5,677.9 million (US$860.3 million) in 2010, primarily due to a 38.9% increase in expenditures for raw materials from RMB3,627.5 million to RMB5,039.0 million (US$763.5 million). Our expenditures for raw materials increased primarily because of our expanded production volume during 2010 and increased price for raw materials. Our cost of sales also increased as a result of a 41.8% increase in labor costs from RMB192.0 million in 2009 to RMB272.3 million (US$41.3 million) in 2010 due primarily to an increase in headcount related to our expanded operations. Cost of electricity and fuel increased 16.3% from RMB185.0 million in 2009 to RMB215.1 million (US$32.6 million) in 2010 as a result of the increase in our production volume and an increase in electricity tariffs, particularly in Southern China. A 84.5% increase in depreciation and amortization from RMB51.0 million in 2009 to RMB94.1 million (US$14.3 million) in 2010 and a 25.4% increase in repair and maintenance from RMB35.8 million in 2009 to RMB44.9 million (US$6.8 million) in 2010 both related primarily to the expansion of our production facilities.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased 67.6% from RMB1,213.2 million in 2009 to RMB 2,033.6 million (US$308.1 million) in 2010 and our gross profit margin increased from 22.8% to 26.4% as a result of our revenue growth outpacing the increase in cost of sales growth. The gross profit margin of our PVC plastic pipes and pipe fittings business increased from 21.3% in 2009 to 24.6% in 2010, while the gross profit margin of our other plastic pipes and pipe fittings business increased from 25.2% to 29.0% in 2010. The gross profit margin growth for our PVC plastic pipes and pipe fittings business and our other plastic pipes and pipe fittings business is in line with our overall gross profit margin growth. The expansion of our production capacity and the related increase in our market share enhanced our bargaining power during negotiations of both our purchase prices for raw materials and the sales prices of our products, improving our gross margins.

Other revenue, income and gains

Other revenue, income and gains increased 90.0% from RMB22.9 million in 2009 to RMB43.5 million (US$6.6 million) in 2010, primarily as a result of a 263.2% increase in bank interest income, a 115.6% increase in government grants and subsidies and the write back of aged receipt in advance from customers of RMB8.2 million.

Selling and distribution costs

Selling and distribution costs increased 50.6% from RMB198.5 million in 2009 to RMB298.9 million (US$45.3 million) in 2010. This increase was primarily due to an increase in advertising costs related to the expansion of our scale. Packaging costs increased due to increased sales and the use of more costly packaging materials to better protect our products during transportation. The increase in selling and distribution costs was partially offset by a decrease in transportation costs relating to more of our customers collecting our products at the point of sale in lieu of our handling delivery.

Administrative expenses

Administrative expenses increased 43.4% from RMB163.6 million in 2009 to RMB234.6 million (US$35.5 million) in 2010, primarily as a result of an increase in professional services fees relating to our initial public offering, an increase in depreciation and amortization of non-production related tangible and intangible assets and increases in telecommunications expense, travel expense, bank charges and utility costs.

Other operating expenses, net

Other operating expenses, net, increased 206.8% from RMB38.2 million in 2009 to RMB117.2 million (US$17.8 million) in 2010, primarily due to a 379.3% increase in research and development costs from RMB20.8 million to RMB99.7 million (US$15.1 million).

Finance costs

Finance costs increased 45.2% from RMB36.5 million in 2009 to RMB53.0 million (US$8.0 million) in 2010 primarily due to increased working capital borrowings relating to our expansion.

Profit before tax

As a result of the foregoing, profit before tax from continuing operations increased 71.8%, from RMB799.4 million in 2009 to RMB1,373.5 million in 2010.

Income tax expense

Income tax expense increased 55.3% from RMB155.4 million in 2009 to RMB241.3 million (US$36.6 million) in 2010 due to the increase in our profit before tax. Our effective income tax rate, calculated as our consolidated income tax expense divided by profit before tax, decreased from 19.4% in 2009 to 17.6% in 2010 primarily as a result of the decrease in the deferred tax expenses arising from the distributable earnings of our subsidiaries in the PRC that are subject to withholding taxes. Due to the significant improvement in our operating results in 2010 and the expansion plans, we expect that only a portion of the profit in 2010 will be distributed as dividends in the foreseeable future. As such, deferred tax income liabilities in 2010 have only been established for withholding tax that would be payable on the portion of the profit for 2010 that is expected to be repatriated and distributed by way of dividend in the foreseeable future.

Profit for the year

As a result of the foregoing, net profit increased 75.8% from RMB644.0 million in 2009 to RMB1,132.2 million (US$171.5 million) in 2010. Our net profit margin increased from 12.1% in 2009 to 14.7% in 2010.

Year ended December 31, 2009 compared to year ended December 31, 2008

Revenue

Revenue increased 47.1% from RMB3,618.5 million in 2008 to RMB5,322.2 million in 2009, primarily as a result of a 69.1% increase in total sales volume from 334,802 tonnes in 2008 to 566,229 tonnes in 2009, while partially offset by a decrease in average selling prices . The increase in sales volume in 2009 was principally attributable to increases in sales volume of water supply products (67.4%), drainage products (85.4%), power supply and telecommunications products (56.9%) and gas supply products (67.4%), arising from increasing market demand for such products from construction activities in the PRC infrastructure and real estate sectors. We believe market demand was positively affected by China's continuing economic development and urbanization and increase in public expenditure and investment in infrastructure. The increase in production volume was due to an increase in effective annual production capacity from 426,000 tonnes in 2008 to 661,800 tonnes in 2009.

We were able to increase our sales volume in part due to the commencement of operations in 2009 of our new production lines in Guangdong Liansu Technology's existing production facilities in Shunde, which contributed an additional 156,500 tonnes of effective annual production capacity in 2009 as compared to 2008. Due to an improvement in productivity and the establishment of new production lines, the production volume of Guangdong Liansu Technology increased approximately 135,292 tonnes in 2009 as compared to 2008. Such new production lines are used for production of various plastic pipes and pipe fittings for all kinds of product categories from mainly PVC and PE materials. The full year operations of our production facilities in Hebei and Henan, both of which commenced operations during 2008, and the commencement of operations of our new production facilities in Sichuan and Nanjing in 2009 also contributed to an increase in revenue from Northern, Central, Southwestern and Eastern China as we were able to increase our sales volume as well as attract new customers in these regions.

Revenue from plastic pipes and pipe fittings in each of our sales regions in China increased in 2009 compared to 2008. Southern China remained our top sales region, accounting for 69.8% of our total revenue for 2009, as compared to 66.5% of our total revenue for 2008. Revenue generated in Southern China increased 55.3% from RMB2,371.9 million for 2008 to RMB3,682.9 million for 2009 primarily due to increased production volume arising from the additional production lines in Shunde supported by market demand arising from an increase in infrastructure and real estate construction activities in this region.

The average selling price of our products decreased 12.6% from RMB10,661.2 per tonne in 2008 (when price of raw materials were at a peak) to RMB9,320.1 per tonne in 2009 primarily as a result of a decrease in the average prices of raw materials. In particular, the average selling price of water supply, which contributed 40.2% of total revenue in 2009, dropped from RMB16,190.8 per tonne in 2009 to RMB13,665.3 per tonne in 2008, or 15.6%.

Cost of sales

Cost of sales increased 31.9% from RMB3,114.4 million for the year ended December 31, 2008 to RMB4,109.0 million for the year ended December 31, 2009, primarily due to an increase in the cost of raw materials from RMB2,760.6 million for the year ended December 31, 2008 to RMB3,627.5 million for the year ended December 31, 2009, which in turn was due to the increased amount of raw material that we purchased to support our corresponding increase in production volume partially offset by the decrease in the average prices of raw materials. Our cost of sales also increased as a result of an increase in labor costs from RMB123.3 million for the year ended December 31, 2008 to RMB192.0 million for the year ended December 31, 2009 due to an increase in the number of staff required for our expanded operations, and to a lesser extent, an increase in the average salary and benefits of our employees. Costs of electricity and fuel increased from RMB160.0 million for the year ended December 31, 2008 to RMB185.0 million for the year ended December 31, 2009 as a result of the increase in our production volume and an increase in the average per unit price of electricity, in particular in Southern China. The increase in depreciation and amortization from RMB39.9 million for the year ended December 31, 2008 to RMB51.0 million for the year ended December 31, 2009 related primarily to the operations of our new facilities and new production lines in existing facilities. The increase in repair and maintenance from RMB18.5 million for the year ended December 31, 2008 to RMB35.8 million was primarily due to maintenance in relation to our expanded operations.

Gross profit and gross profit margin

As a result of the foregoing, gross profit increased 140.7% from RMB504.1 million for 2008 to RMB1,213.2 million for 2009. Our overall gross profit margin increased from 13.9% in 2008 to 22.8% in 2009 as a result of raw material prices decreasing more than our average selling price in 2009, the continuing improvement in our production efficiency and economies of scale. The gross profit margin of our PVC plastic pipes and pipe fittings increased from 12.5% in 2008 to 21.3% in 2009, and the gross profit margin of our other plastic pipes and pipe fittings increased from 16.9% in 2008 to 25.2% in 2009 in line with the increase in our overall gross profit margin. Due to the continuous expansion of our scale of production and market share, we were able to maintain a certain level of bargaining power in negotiating the sales prices of our products and the purchase prices for our raw materials.

Other revenue, income and gains

Other revenue, income and gains increased 5.5% from RMB21.7 million for 2008 to RMB22.9 million for 2009, primarily as a result of an increase in income from the provision of utilities of RMB4.3 million and an increase in bank interest income of RMB2.0 million, offset in part by the lack of gain on disposal of entities (which had amounted to RMB5.0 million in 2008). The provision of utilities was due to the sharing of utilities meters with other parties (mainly related parties) and the reimbursement by such parties of their portion of the utilities costs paid by us on their behalf. In 2009, there was an increase in the use of utilities by the parties with whom we shared the utilities meters.

Selling and distribution costs

Selling and distribution costs increased 22.6% from RMB161.9 million for 2008 to RMB198.5 million for 2009. This increase was primarily due to an increase in packaging cost resulting from our increased sales and the use of more costly packaging materials to better protect our products during transportation. This increase was offset by a decrease in transportation cost, primarily as a result of a decrease in average oil prices and a shift to have customers pick up their orders so that we could focus more on production and less on delivery.

Administrative expenses

Administrative expenses increased 53.5% from RMB106.6 million for 2008 to RMB163.6 million for 2009, primarily as a result of an increase of 251.8% in professional services/consultation fees incurred in connection with our initial public offering, and an increase in salaries and benefits of administrative and management staff primarily due to an increase of approximately 15% in the number of administrative employees who were recruited for our expanded operations, mainly at our newly operational facilities in Sichuan, Nanjing and Hebei. The increase in other taxes (other than corporate income tax) resulted primarily from our increase in sales, purchases, and purchase of equipment for our facilities under construction.

Other operating expenses, net

Other operating expenses, net, increased 115.8% from RMB17.7 million for 2008 to RMB38.2 million for 2009, primarily due to an increase of RMB9.6 million in research and development costs and an increase of RMB5.1 million in impairment of trade receivables, net.

Finance costs

Finance costs decreased 20.5% from RMB45.9 million for 2008 to RMB36.5 million for 2009, primarily due to decreases in interest rates.

Profit before tax from continuing operations

Profit before tax increased 323.2% from RMB188.9 million for 2008 to RMB799.4 million for 2009, primarily as a result of the factors described above.

Income tax

Income tax increased 354.4% from RMB34.2 million for 2008 to RMB155.4 million for 2009. Our effective income tax rate, calculated as our Group's income tax expense divided by profit before tax from continuing operations, increased from 18.1% in 2008 to 19.4% in 2009. The increase in income tax expense was mainly due to the increase in profit and the increase in effective income tax rate, due primarily to the cessation of the tax reduction period of Wuhan Liansu and the tax exemption period of Heshan Liansu.

Profit for the year

Due to the factors described above, our net profit increased 373.9% from RMB135.9 million for 2008 to RMB644.0 million for 2009. Our net profit margin increased from 3.8% for 2008 to 12.1% for 2009.

Liquidity and capital resources

We have historically funded our operations primarily from cash flows from operating activities and short-term and long-term borrowings from banks and related parties. We require cash primarily for:

- our working capital requirements, such as product manufacturing and development; and
- capital expenditures related to the development of new production facilities and the purchases of property, plant and equipment.

The following table is a summary of our cash flow data for the periods indicated:

	Year ended December 31,			
	2008	**2009**	**2010**	**2010**
	RMB	**RMB**	**RMB**	**USD**
				(in thousands)
Net cash flows from operating activities	44,750	608,273	650,415	98,548
Net cash flows used in investing activities	(287,222)	(723,980)	(464,159)	(70,327)
Net cash flows from financing activities	190,663	341,382	971,746	147,234
Net increase/(decrease) in cash and cash equivalents...	(51,809)	225,675	1,158,002	175,455

Cash flows from operating activities

We derive our cash inflow from operating activities principally from the receipt of payments for the sale of our products. Our cash outflow from operating activities is principally for purchases of raw materials.

In 2010, we had net cash flows from operating activities of RMB650.4 million (US$98.5 million). This was primarily due to the cash flows from operating activities before working capital adjustments of RMB1,584.1 million (US$240.0 million), as a result of increase in our production and sales volume, partially offset by an increase in inventories of RMB395.6 million (US$59.9 million) due to the increase in finished goods to meet increasing sales demand and an increase in trade and bills receivables of RMB221.8 million (US$33.6 million) which was in line with the increased sales in 2010.

In 2009, we had net cash flows from operating activities of RMB608.2 million. This was primarily due to the cash flows from operating activities before working capital adjustments of RMB914.8 million and an increase in trade and bills payables of RMB193.0 million due to an increase in purchases, partially offset by an increase in trade and bills receivables of RMB268.0 million in line with an increase in sales, and an increase in inventories of RMB157.8 million due to the increase in finished goods to meet increasing sales demand.

In 2008, we had net cash flows from operating activities of RMB44.8 million. This was primarily due to the cash flows from operating activities before working capital adjustments of RMB305.5 million and an increase in other payables and accruals of RMB76.1 million due to an increase in advance payments from customers. These cash inflows were partially offset by an increase in inventories of RMB139.2 million due to the increase in finished goods to meet escalating sales demand and a decrease in trade and bills payables of RMB153.3 million due to quicker settlements being demanded as a result of the global financial crisis.

Cash flows from investing activities

Our cash outflow from investing activities is principally for the purchase of property, plant and equipment and the payment of prepaid land lease premiums. Our cash inflow from investing activities is principally from the disposals of subsidiaries and property, plant and equipment.

In 2010, we had net cash flows used in investing activities of RMB464.2 million (US$70.3 million), which was primarily due to purchases of property, plant and equipment amounting to RMB525.0 million (US$79.5 million) which principally consists expenditures of RMB148.2 million for our Guangdong facilities, RMB114.5 million for our Henan facilities, RMB54.3 million for our Wuhan facilities, RMB46.9 million for our Hebei facilities and RMB32.6 million for our Guiyang facilities and expenditures of RMB20.0 million on building production facilities at our Urumqi facility and an increase of RMB16.4 million (US$2.5 million) in prepaid land lease payments.

In 2009, we had net cash flows used in investing activities of RMB723.9 million, which was primarily due to purchases of property, plant and equipment amounting to RMB586.8 million (which principally consisted of RMB274.8 million for our Guangdong facilities, RMB56.5 million for our Nanjing facilities, RMB52.7 million for our Guiyang facilities, RMB53.7 million for our Hebei facilities, RMB28.5 million for our Wuhan facilities and RMB34.4 million for our Urumqi facilities) and an increase of RMB122.4 million in restricted cash, comprising mainly guarantee deposits for issuance of bank acceptance notes.

In 2008, we had net cash flows used in investing activities of RMB287.2 million, which was primarily due to purchases of property, plant and equipment amounting to RMB251.1 million (which principally consisted of RMB113.2 million for our Guangdong facilities, RMB73.8 million for our Hebei facilities, RMB34.3

million for our Nanjing facilities and RMB14.1 million for our Urumqi facilities) and additions of prepaid land lease payments of RMB79.1 million in relation mainly to our Changchun and Heshan facilities. We also had net inflow of cash and cash equivalents of RMB1.9 million in respect of the acquisition of Zhongshan Walton and cash inflow of RMB23.7 million from our disposal of subsidiaries during the year ended December 31, 2008.

Cash flows from financing activities

We derive our cash inflow from financing activities principally from bank borrowings, and from the net proceeds from our initial public offering. Our cash outflow from financing activities relates primarily to our repayment of bank loans.

In 2010, we had net cashflows from financing activities of RMB971.7 million (US$147.2 million), which primarily consisted of the RMB1,629.8 million in net proceeds of our initial public offering and new bank loans of RMB685.1 million. The cash inflow was partially offset by the repayment of bank loans amounting to RMB1,201.6 million (US$182.1 million).

In 2009, we had net cash flows from financing activities of RMB341.4 million, which was primarily contributed by new bank loans of RMB1,663.2 million. These cash inflows were partially offset by the repayment of bank loans of RMB822.2 million, a decrease in amounts due to related companies of RMB217.0 million and a decrease in amounts due to directors of RMB228.2 million.

In 2008, we had net cash flows from financing activities of RMB190.6 million, which was primarily contributed by new bank loans of RMB802.8 million, an increase in the amounts due to related companies of RMB153.9 million relating mostly to fundings from related companies and an increase in amounts due to directors of RMB125.1 million, principally fundings from our Chairman. These cash inflows were partially offset by our repayment of bank loans of RMB842.5 million.

Contractual and capital commitments

Contractual commitments

As of December 31, 2008, 2009 and 2010, we had commitments for future minimum lease payments under non-cancellable operating leases for production plants, warehouses and equipment, which become due as follows:

	As of December 31,			
	2008	**2009**	**2010**	**2010**
	RMB	**RMB**	**RMB**	**USD**
				(in millions)
Minimum lease payments under non-cancellable operating leases				
Within one year	8.4	8.8	5.8	0.9
In the second to fifth years, inclusive	0.3	3.9	14.3	2.1
After five years	—	0.1	9.7	1.5
Total	8.7	12.8	29.8	4.5

Capital commitments

We had the following capital commitments as of December 31, 2008, 2009 and 2010:

	As of December 31,			
	2008	**2009**	**2010**	**2010**
	RMB	**RMB**	**RMB**	**USD**
				(in millions)
Capital commitments				
Contracted, but not provided for:				
Property, plant and equipment	103.2	109.7	138.5	21.0
Prepaid land lease payments	9.3	—	—	—
Total	112.5	109.7	138.5	21.0

The capital commitments as of December 31, 2010 mainly comprised commitments for property, plant and equipment of RMB56.8 million for buildings at our Changchun facilities, RMB29.6 million for buildings at our Guangdong facilities, RMB11.1 million for buildings, plant and machinery for our Urumqi facilities and RMB10.0 million for buildings, plant and machinery for our Zhongshan Walton facilities. Such capital commitments will be funded by the proceeds from our initial public offering, cash generated from our operating activities and proceeds from bank loans.

The capital commitments as of December 31, 2009 mainly comprised commitments for property, plant and equipment of RMB36.4 million for buildings at our Guangdong facilities, RMB19.5 million for buildings at our Hebei facilities, RMB17.7 million for buildings, plant and machinery for our Urumqi facilities and RMB18.4 million for buildings, plant and machinery for our Wuhan facilities. Such capital commitments were funded by cash generated from our operating activities and proceeds from bank loans.

The capital commitments as of December 31, 2008 mainly comprised commitments for property, plant and equipment of RMB23.2 million for construction of our Guiyang facilities, RMB13.7 million for construction of our Daqing facilities, RMB8.4 million for construction of our Nanjing facilities and RMB8.2 million for expansion of our Guangdong facilities; and prepaid land lease payments of RMB9.3 million for our Nanjing facilities. Such capital commitments were funded by cash generated from our operating activities and proceeds from bank loans.

Capital expenditures

The Group's capital expenditures in 2008, 2009 and 2010 amounted to RMB357.7 million, RMB690.6 million and RMB581.4 million (US$88.1 million), respectively, principally consisting of expenditures on plant construction, purchases of machinery and equipment, purchases of land use rights for either the construction of our new production facilities or the expansion of our existing facilities.

We plan to further expand our existing production facilities and construct production facilities in new markets in China in order to maintain our leading industry position, expand our market share and better meet the demands of our customers. With the expansion of our production facilities, we expect to be able to better cover our seven geographic sales regions in China (consisting of Southern China, Central China, Northern China, Southwestern China, Eastern China, Northeastern China and Northwestern China). We have budgeted capital expenditures of RMB1,500.0 million and RMB1,000.0 million for our production expansion during 2011 and 2012, respectively, which we may adjust according to market conditions. We expect to finance our capital expenditures through a combination of the offering of the Notes, the remaining proceeds from our initial public offering, cash flows from operations, cash on hand and banking facilities.

Our capital expenditure plans may be adjusted according to the market conditions. For a discussion of expected capital expenditures with respect to our expansion plan for production facilities up to 2012, see "Business — Production facilities and production process — Production facilities".

Receivables analysis

Our trade and bills receivables increased 46.0% from RMB466.7 million in 2009 to RMB681.4 million in 2010, generally in line with our increased sales in 2010.

The following table sets out our average trade and bills receivables turnover days:

	Year ended December 31,		
	2008	**2009**	**2010**
Average trade and bills receivables turnover days(1)	22	23	27

Note:

1. Average trade and bills receivables turnover days is equal to the average trade and bills receivables divided by sales revenue and multiplied by 365 days. Average trade and bills receivables is equal to trade and bills receivables at the beginning of the year plus trade and bills receivables at the end of the year and divided by two.

Inventory analysis

Our inventories increased 53.3% from RMB743.5 million in 2009 to RMB 1,139.4 million in 2010 primarily as a result of our increase in production capacity and increase in demand for our products.

	As of December 31,			
	2008	**2009**	**2010**	**2010**
	RMB	**RMB**	**RMB**	**USD**
				(in millions)
Raw materials	373.4	384.6	629.7	95.4
Work in progress	10.4	17.9	36.0	5.5
Finished goods	200.3	341.0	473.7	71.8
	584.1	743.5	1,139.4	172.7

The following table sets out our average inventory turnover days:

	Year ended December 31,		
	2008	2009	2010
Average inventory turnover days(1)	61	59	61

Note:

1 Average inventory turnover days is equal to the average inventory divided by cost of sales and multiplied by 365 days. Average inventory equals inventory at the beginning of the year plus inventory at the end of the year end divided by two.

Indebtedness

Borrowings

The following table sets out our borrowings as of the dates indicated by maturity date:

	As of December 31,			
	2008	2009	2010	2010
	RMB	RMB	RMB	USD
				(in millions)
Bank loans repayable:				
Within one year or on demand	416.7	427.5	630.3	95.5
In the second year	52.0	868.5	104.0	15.7
In the third year	—	13.7	50.0	7.6
Total	468.7	1,309.7	784.3	118.8

Setforth below are the details of our bank loans and their respective interest rates:

	Contractual interest rate	Maturity	As of December 31, 2008	Contractual interest rate	Maturity	As of December 31, 2009	Contractual interest rate	Maturity	As of December 31, 2010	
	(%)		RMB (million)	(%)		RMB (million)	(%)		RMB (million)	USD (million)
Current										
Bank loans										
— secured	5.67 - 8.22	2009	334.2	1.67 - 5.31	2010	229.1	5.30 - 5.94	2011	178.0	27.0
— unsecured	6.12 - 8.22	2009	82.5	2.77 - 5.84	2010	198.4	1.67 - 5.40	2011	452.3	68.5
			416.7			427.5			630.3	95.5
Non-current										
Bank loans										
— secured	7.56	2010	20.2	1.67 - 5.84	2011 - 2012	662.2	5.40	2012	104.0	15.7
— unsecured	7.56	2010	31.8	5.4	2011	220.0	5.40	2013	50.0	7.6
			52.0			882.2			154.0	23.3
			468.7			1,309.7			784.3	118.8

As of December 31, 2009 and 2010, all of our bank loans were denominated in RMB, except for unsecured bank loans of HK$530.0 million and HK$360.0 million (RMB306.3 million and RMB466.7 million, respectively). For further details, please see "Description of other material indebtedness".

As of December 31, 2008 and 2009, and 2010, the following of our assets were pledged to certain banks for securing the loans granted to the Group:

	As of December 31,			
	2008	2009	2010	2010
	RMB	RMB	RMB	USD
				(in millions)
Land	24.2	53.5	23.1	3.5
Buildings	134.4	232.2	354.1	53.7
Machinery and equipment	30.8	71.6	121.0	18.3
Inventories	102.6	—	—	—
Total	292.0	357.3	498.2	75.5

We have not defaulted in our repayment of bank and other borrowings during the three years ended December 31, 2010 and we did not receive any notices regarding withdrawal or early repayment of banking facilities during the three years ended December 31, 2010. Our borrowings did not contain any cross-default provisions related to borrowings of our Group companies.

Our bank borrowings decreased 40.1% from RMB1,309.7 million as of December 31, 2009 to RMB784.3 million (US$118.8 million) as of December 31, 2010. The decrease was primarily attributable to a RMB728.2 million reduction in long term loans, which was partially offset by an increase of RMB202.8 million in short term loans for working capital purposes as we increased our purchase of raw materials. Except as disclosed above, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees outstanding as of December 31, 2010.

Contingent liabilities

As of December 31, 2010, we had no material contingent liabilities. We are not involved in any current material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we were involved in such material legal proceedings, we would record any loss contingencies when, based on information then available, it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated.

As of December 31, 2010, the Company has provided a guarantee, amounting to RMB51.1 million, to a bank in connection with a loan granted to a subsidiary.

Quantitative and qualitative information about market risks

Commodity price risk

We are exposed to fluctuations in the prices of raw materials, and in particular, PVC, PE and PP-R, as well as fluctuations in the prevailing prices of our products. We generally purchase our raw materials at prevailing market prices as we do not have fixed-price, long-term supply contracts. Our products are also generally sold at prevailing market prices as we do not have long-term sales contracts. Market prices may fluctuate and are beyond our control and may have a significant effect on our results of operations.

Our policy is to maintain up to one to two months' supply of our key raw materials, being PVC, PE and PP-R, at our production facilities. We believe the use of this reserve helps us to reduce the risk associated with an unexpected sharp rise in the prices of such raw materials. During 2008, our directors took the view that prices for certain raw materials would increase significantly in the short-term and we purchased additional quantities of such raw materials beyond the one-month inventory back-up amounts, and when prices of such raw materials went up, we were able to benefit from the lower prices that we paid a few months earlier. The risk of obsolescence is insignificant given that PVC, PE and PP-R are basic raw materials that we use to manufacture plastic pipes. Through the regular monitoring of market prices for our raw materials, we are able to take advantage of our directors' and senior management's assessment of movements in raw materials prices. During the three years ended December 31, 2010, we did not enter into any long-term forward purchase or hedging contracts for our raw materials. We seek to mitigate the market risk related to commodity pricing by passing the increases in raw material costs through to our customers in the form of price increases.

Interest rate risk

Our exposure to interest rate risks relates to our bank borrowings. Our net profit is affected by changes in interest rates due to the impact such changes have on interest income and interest expense from short-term deposits and other interest-bearing financial assets and liabilities. In addition, an increase in interest rates would adversely affect our ability to service loans and our ability to raise and service long-term debt and to finance our developments, all of which in turn would adversely affect our results of operations. We have not entered into any interest rate hedging contracts or any other derivative financial instruments.

Foreign currency risk

Our businesses are located in the PRC and most of our transactions are conducted in RMB. With the exception of our obligations under the Notes and certain bank loans, the majority of our assets and liabilities are also denominated in RMB. Accordingly, fluctuations of the exchange rates of RMB against foreign currencies have not had significant effects on our results. We have not hedged our exposure to foreign exchange rate risk.

Notwithstanding the above, a depreciation of the Renminbi would negatively affect the value of dividends paid by our PRC subsidiaries, which may in turn affect our ability to service foreign-currency denominated debts, including the Notes. After the issuance of the Notes, fluctuations in foreign exchange rates will have an impact on our business, financial condition and results of operations. See "Risk factors — Risks relating to the Notes — We may be subject to risks presented by fluctuations in exchange rates between the Renminbi and other currencies, particularly the U.S. dollar".

Liquidity risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. Our management aims to maintain sufficient cash and cash equivalents and have available funding through an adequate amount of committed credit facilities to meet our commitments. Please also refer to the section headed "Risk factors — Risks relating to our business — We had net current liabilities in recent periods and may have net current liabilities in the future".

Industry

The information in the section below has been derived, in part, from various government publications unless otherwise indicated. We have endeavored to obtain the most recent sources available. This information has not been independently verified by us or the Initial Purchasers or any of our and its affiliates or advisors. The information may not be consistent with other information compiled within or outside the PRC.

The characteristics and application of plastic pipe products

Traditionally, piping systems, including both pipes and fittings, for applications such as water supply, drainage, power supply and telecommunications and gas supply, were primarily made of concrete or metal. More recently, plastic pipes and fittings began to replace traditional piping systems in the PRC as plastic piping systems offer many qualities and performance characteristics that are superior to those of concrete or metal piping systems, including:

- *Lightweight and easy and safe to install.* Plastic pipes weigh less and can be installed faster than metal and concrete pipes. This feature means lower freight charges, less manpower and simpler handling equipment for installation and transportation. Assembling plastic pipes does not require the use of the traditional lead pot and torch used for the production of metal pipes. As a result, plastic pipe installation procedures save time and resources as well as reduce workplace hazards.

- *Low-energy manufacturing and low environmental impact.* Compared with metal and concrete alternatives, a significant benefit of plastic pipes is their low environmental impact. The manufacturing of plastic pipes used in the construction and transportation industries consumes less energy and causes less pollution than that of traditional concrete or metal pipes. Unlikely to leak and corrode, plastic pipes are used to contain and deliver water, waste, or chemicals without contamination by or of surrounding materials.

- *Chemical resistant and low maintenance.* Due to their chemical and corrosion resistant nature, interior and exterior surfaces of plastic pipes are not subject to chemical corrosion or electrolysis. A properly designed and installed plastic pipe and fitting system requires very little maintenance because there is no rust, pitting, or scaling to contend with, and the entire system can be buried in acidic, alkaline, wet or dry soils without protective coatings.

- *Durable and flexible.* Plastic pipes endure electric shocks and pressure, are resistant to corrosion and do not break or split easily. They are relatively flexible and can be bent to a greater degree than concrete or metal pipes. Due to these characteristics, plastic pipes are often chosen for building and construction applications in earthquake-prone areas or high pressure conditions.

- *No electric conductivity and low thermal conductivity.* Plastic pipes and fittings are non-conductive and immune to galvanic or electrolytic erosion, and therefore are often used as safe electrical conduit and power duct pipes. In addition, plastic pipes have low thermal conductance properties and can maintain more uniform temperatures when transporting fluids than metal or concrete pipes.

- *High flow capacity and low friction loss.* Because the interior surface of plastic pipes is generally smooth, less power may be required to transmit fluids in plastic pipes compared with concrete or metal pipes of the same diameter. Furthermore, the corrosion resistant nature of plastic pipes helps to maintain low friction loss over time.

- *Non-toxic and biological resistance.* Plastic pipes and fittings are generally non-toxic in nature and resistant to fungi, bacteria, or termite attacks.

Plastic pipes are made from a variety of plastic materials which have different characteristics suitable for different usages and in different environment. The most commonly used materials in the production of plastic pipes include PVC, PE and PP-R. Generally, HDPE (high density PE), LDPE (low density PE) and other PE pipes are collectively classified as PE pipes, while PVC-C and PVC-U pipes are collectively referred to as PVC pipes. The characteristics and applications of these plastic types are as follows:

Type	**General properties**	**Principal applications**
PVC	Resistant to most corrosive fluids. Has greater strength and rigidity than most other plastic pipes.	Residential and industrial drainage, waste and sewage systems, potable water systems, industrial and chemical process piping and cable conduits.
PE	Relatively high mechanical strength, chemical resistance and flexibility.	Potable water systems, irrigation and sprinkler systems, drainage, corrosive chemical transport, gas transport and cable conduits.
PP-R	Good high and low temperature properties.	Hot and cold water supply systems.

In China, plastic pipes are principally used in the following application categories: water supply, drainage, power supply and telecommunications, agriculture, gas supply, floor heating and fire-fighting. The following table sets out the main types of plastic pipes used in each application category:

Application category	**Sub-categories**	**Usages and types of pipes used**
1. Water supply	Indoor water supply pipes	Includes cold and hot water pipes for daily use, e.g. PVC-U, PP-R pipes and aluminium-plastic composite pipes
	Outdoor water supply pipes	Includes urban and rural water supply pipes, e.g. PVC-U, PE and GRP pipes
2. Drainage	Indoor drainage pipes	Includes waste and sewage discharge pipes. PVC-U pipes are mainly used
	Outdoor drainage pipes	Includes urban and rural sewage pipes, storm water and industrial sewage pipes. e.g. structural wall and solid wall pipes from PVC or PE
3. Power supply and telecommunications	Shield ducts	Includes various protective ducts used for electric cables and optical cables in the power supply and telecommunications sectors, e.g. HDPE silicon core ducts, PVC or PE structural wall and solid wall pipes
4. Agriculture	Irrigation pipes	Includes various PVC hoses, PVC and PE solid wall or structural wall pipes for irrigation purpose
5. Gas supply	Gas supply pipes	Mainly used in urban gas transportation and distribution pipe networks. PE gas pipes are mainly used

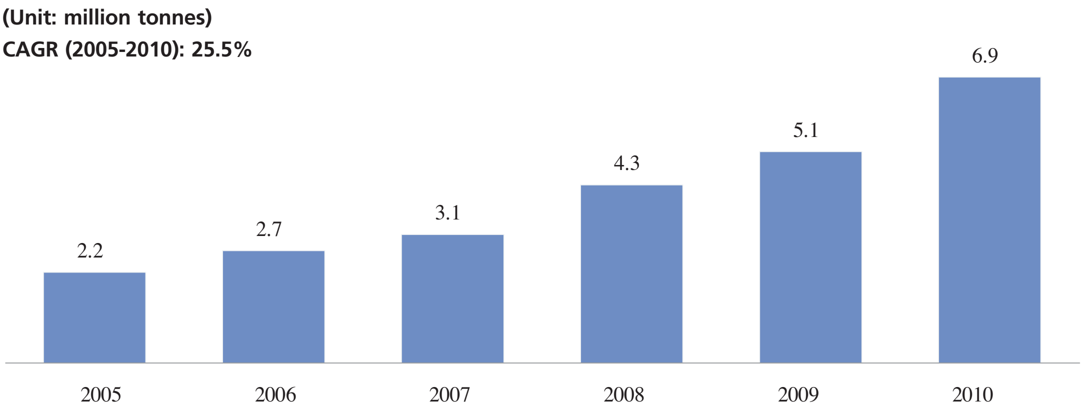
Application category	Sub-categories	Usages and types of pipes used
6. Floor heating	Heating pipes	PE-RT, PEX, PB pipes are mainly used
7. Fire-fighting	Fire-fighting pipes	Includes pipes with high compression resistance requirements, e.g. PVC-C and EP coated steel composite pipes
8. Others	Industrial pipes	Includes pipes used to transport liquid, gas and mixture of liquid and gas in industrial production

China's plastic pipe market and industry

Overview

In 2010, the total demand for plastic pipes in China reached 6.9 million tonnes as compared to 2.2 million tonnes in 2005. The CAGR for China's demand for plastic pipes from 2005 to 2010 was approximately 25.5% according to data provided by Market Avenue.

China's demand for plastic pipes, 2005-2010



Source: Market Avenue

Market Avenue projects that China's demand for plastic pipes will grow steadily through 2015.

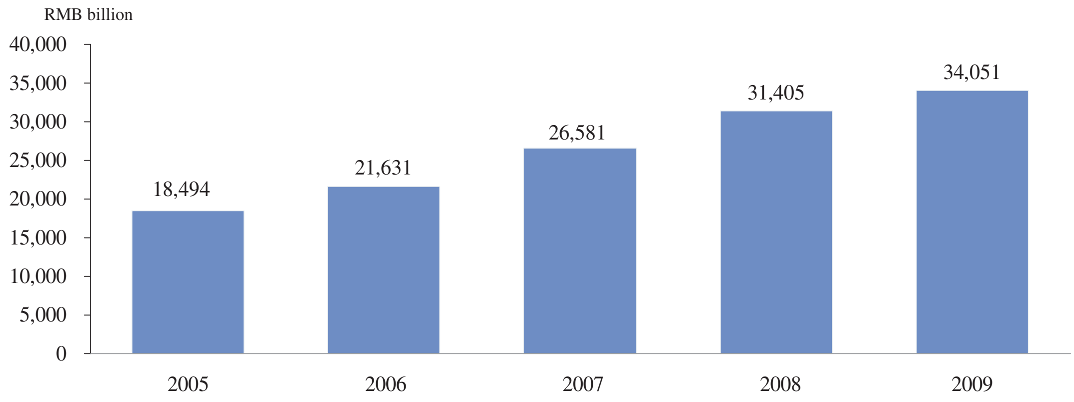
Growth drivers for China's plastic pipe industry

According to Market Avenue, fast economic growth, increased infrastructure projects and real estate construction activities, supportive government investments and policies and advanced technological developments are the key drivers for the growth of the plastic pipe industry in China.

Fast economic growth and increased urbanization in China drive demand for plastic pipes

In 2009 China's gross domestic product amounted to approximately RMB34 trillion, increasing from RMB31 trillion in 2008. According to the National Bureau of Statistics, China's economy in 2009 displayed a rallying of product prices and improvement in residents' living standards. We believe China's economic development has laid a foundation for expansion of infrastructure construction which we expect to facilitate the continued development of China's plastic pipe market.

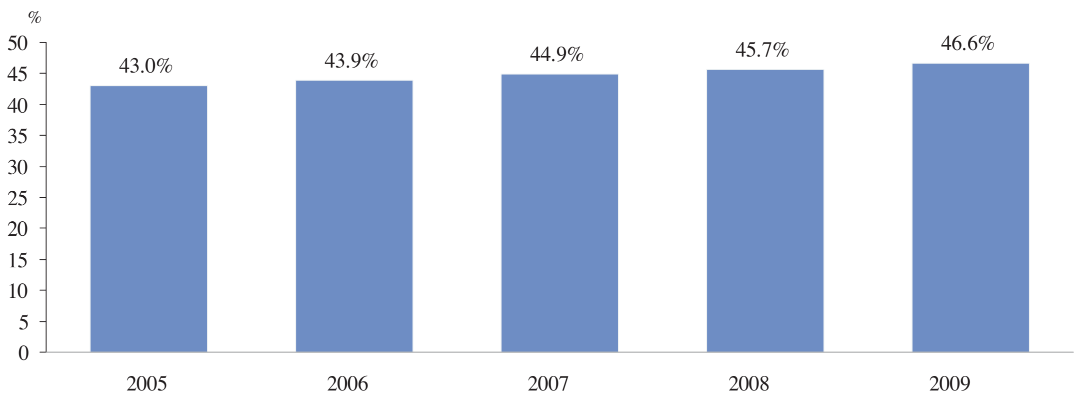
China's Gross Domestic Product, 2005-2009



Source: National Bureau of Statistics

The urbanization rate in China was 46.6% for 2009. China's recent increase in urbanization has resulted in, among other things, increased urban infrastructure construction, expansion of cities, an increase in urban population, and a general improvement in the economies of many of China's cities. Urbanization has also helped to further the development of China's construction and real estate industries, as indicated by the rapid increase of investment in real estate development in recent years, which has in turn helped to increase the demand for plastic pipes as part of the construction materials used.

Urbanization Rate in China, 2005-2009



Source: National Bureau of Statistics

Increased infrastructure and real estate activities spur the growth of consumption of plastic pipes in China

According to Market Avenue, the increased infrastructure and real estate activities have helped to boost the consumption of plastic pipes in China. According to National Bureau of Statistics data, during the period between 2005 and 2009, China's total investment in fixed assets increased to RMB22,460 billion from RMB8,877 billion, representing a CAGR of approximately 26.1%. China's investment in real estate development in 2009 was approximately RMB3,624 billion, representing a CAGR of approximately 22.9% from 2005. During the same period, demand for plastic pipes in China was growing at a CAGR of 23.4% according to data provided by Market Avenue.

The table below sets out year-on-year growth of China's fixed asset investment and its real estate development for the period between 2005 and 2009.

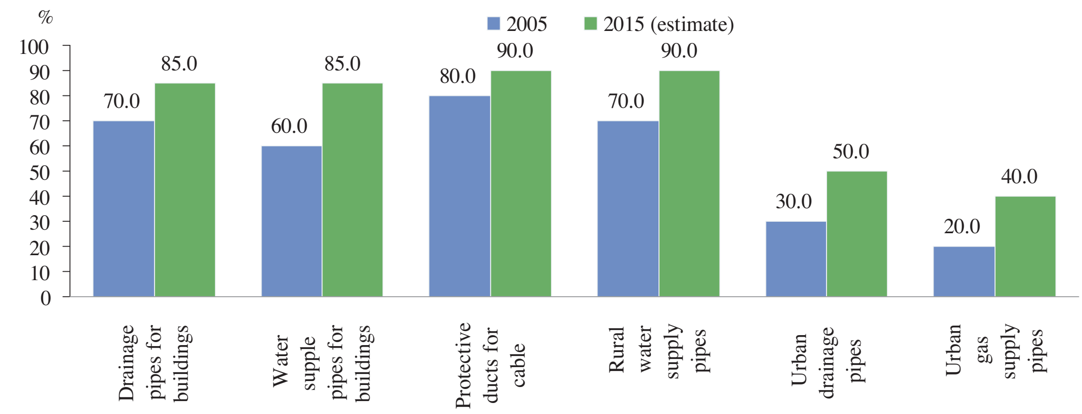
	2005	2006	2007	2008	2009	2005-2009 CAGR
	(RMB billion)	(RMB billion)	(RMB billion)	(RMB billion)	(RMB billion)	
Fixed asset investment	8,877	11,000	13,732	17,283	22,460	26.1%
Investment in real estate development	1,591	1,942	2,529	3,120	3,624	22.9%

Source: National Bureau of Statistics

Supportive government investments and policies help to stimulate the use of plastic pipes

Plastic pipes have been favored by the Chinese government in recent years due to their attractiveness as compared to pipes made from traditional materials. According to "(First Batch) Notice for "11th Five-Year Plan" of the Construction Industry Regarding Popularized Application and Prohibited-To-Use Technologies (《建設事業『十一五』推廣應用和限制禁止使用技術(第一批)公告》)" promulgated by the Ministry of Construction in 2007, plastic pipes for certain applications are classified as recommended technologies while pipes made from certain traditional materials are classified as limited-to-use or prohibited-to-use technologies. The relevant regulatory departments of the Chinese government also promulgated documents such as "Several Suggestions on Strengthening Technical Innovation and Advancing Chemical Building Material Industrialization (《關於加強技術創新推進化學建材產業化的若干意見》)" and "The 10th Five Year Plan and 2015 Development Planning Outline for The State Industry of Chemical Materials for Construction (《國家化學建材產業『十五』計劃和2015年發展規劃綱要》)", which stipulated the application areas and development objectives for different kinds of plastic pipes. The recent 12th Five-Year Plan also stated that it will support the "Alternative materials" and "Environmental friendly" industries. We believe that these policies may have helped to promote the use of plastic pipes.

Plastic pipes as a percentage of all pipes used in China for new construction, renovation and expansion projects in 2005 and 2015 (estimate)



Source: *The 10th Five Year Plan and 2015 Development Planning Outline for the State Industry of Chemical Materials of Construction (《國家化學建材產業「十五」計劃和2015年 發展規劃綱要》)*

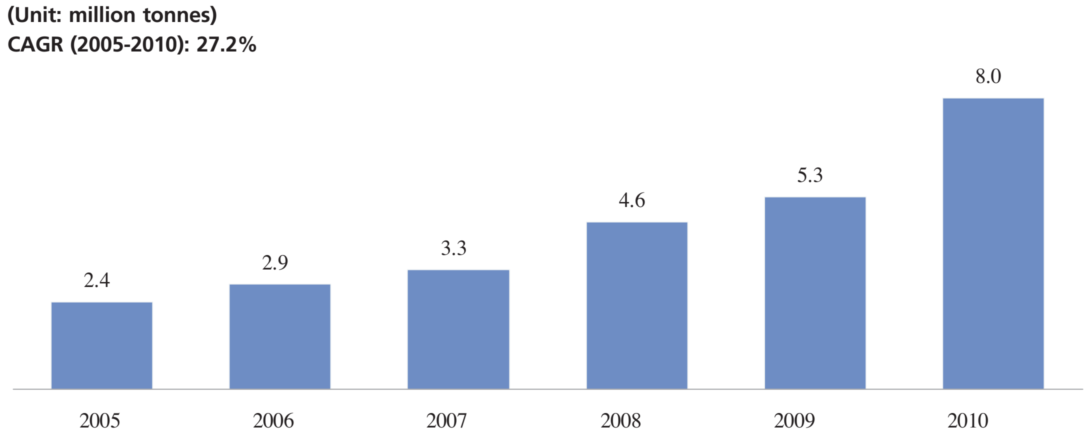
Advanced technological development allows better performance and widening applications of plastic pipes

According to Market Avenue, there have been significant developments in plastic pipe technologies in China in recent years. A number of Chinese enterprises have begun using more advanced production equipment, and many Chinese enterprises now attach importance to the research and development of new products and the introduction of new production technologies. According to Market Avenue, such technological improvements may have helped some Chinese companies to produce plastic pipes with different functionality and diameters, including eco-friendly products (such as GHPs), large scale products (such as large water drainage pipes of up to 3,000 mm in diameter), and products with physical and chemical modifications offering superior impact resistance while maintaining strength and flexibility (such as PVC-M pipes and PVC-U pipes). We believe such developments can help to enhance the performance of plastic pipes and expand their applications.

China's plastic pipe supply

In 2010, the total production volume of plastic pipes in China reached 8.0 million tonnes as compared to 2.4 million tonnes in 2005. The CAGR for China's supply from 2005 to 2010 was approximately 27.2% according to data provided by Market Avenue.

China's production of plastics pipes, 2005-2010

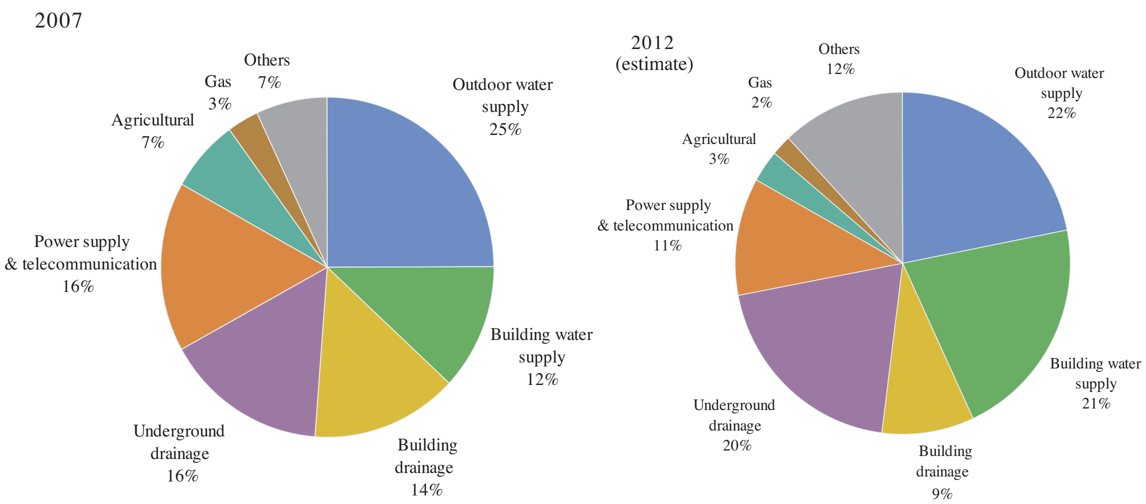


Source: Market Avenue

China's plastic pipe supply by application

According to Market Avenue, China's production of plastic pipes was 3.3 million tonnes in 2007, among which pipes used for water supply accounted for the highest volume, contributing approximately 37% of the total production volume. Market Avenue projects that at the end of 2012, pipes used for water supply will remain the largest contributor to China's total production of plastic pipes.

China's production volume of plastic pipes by application in 2007 and 2012 (estimate)



Source: Market Avenue

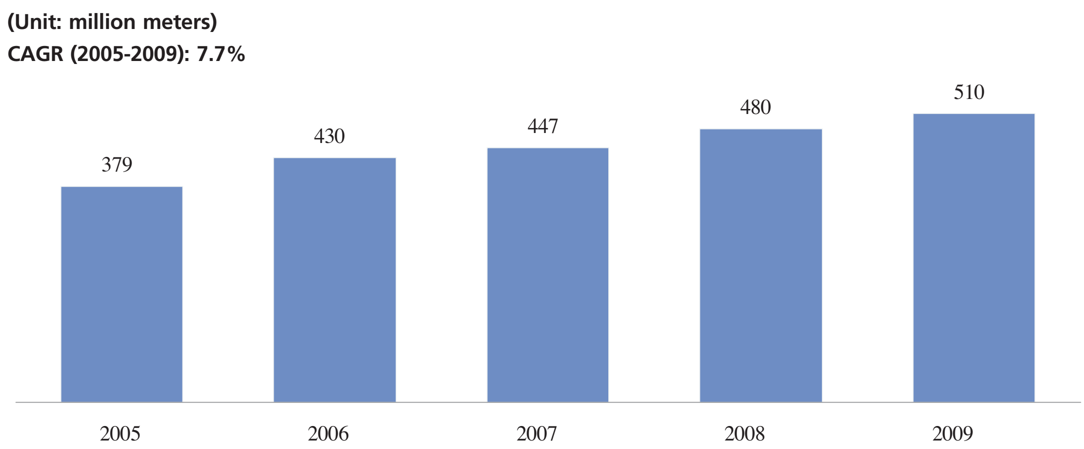
Water supply

China's large population, rapid urbanization and limited water resources have helped to drive demand for the expansion and upgrading of its urban water supply networks. Accordingly, due to the attractive qualities of plastic pipes and supportive government policies, we expect that demand for plastic pipes for use in China's water supply systems will continue to increase in the next few years.

Under The 10th Five Year Plan and 2015 Development Planning Outline for The State Industry of Chemical Materials for Construction (《國家化學建材產業『十五』計劃和2015年發展規劃綱要》) issued in 2005, plastic pipes accounted for approximately 60% of China's building water supply pipes in 2005 and approximately 70% of China's rural water supply pipes that year. Under this Development Planning Outline, Chinese government authorities had set as a goal that by the end of 2015 approximately 85% of China's building water supply pipes and 90% of rural water supply pipes would be plastic pipes.

The Decision on Accelerating the Development of the Water Conservancy Reform" (關於加快水利改革發展的決定) was issued by the State Council in the PRC on December 31, 2010, under which the State Council highlighted the importance of water conservancy and outlined the principles and implementation measures for accelerating the development of water conservancy infrastructure in China and increasing related investment. According to this decision by the State Council, the goals and tasks of the water conservancy development in China is to, among other things, ensure drinking water supply safety in urban and rural areas and improve irrigation system in agricultural areas during the period from 2011 to 2015. We believe that the demand for plastic pipe products will grow in the next few years in line with the increased investment in and the development of water supply and irrigation system in China.

Length of urban water pipe networks in China, 2005-2009

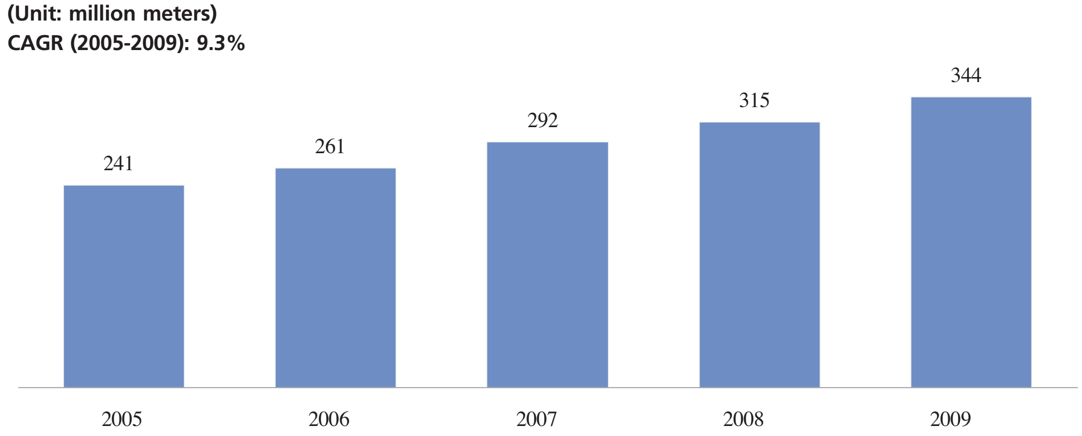


Source: National Bureau of Statistics

Drainage

We believe that demand for plastic pipes in drainage application will continue to increase during the next few years. As set out in The 10th Five-Year Plan and 2015 Development Planning Outline for The State Industry of Chemical Materials for Construction (《國家化學建材產業『十五』計劃和2015年發展規劃綱要》), plastic pipes accounted for approximately 30%, and are expected to account for approximately 50%, of China's urban water drainage pipes in 2005 and 2015, respectively.

Length of uban drainage pipe networks in China, 2005-2009



Source: National Bureau of Statistics

Power supply and telecommunication

Protective pipes are used to protect power supply and telecommunication cables. Protective pipes for power supply and telecommunications cables are often made of plastic due in part to their flexibility, light weight, small diameter, and the fact that they can be made to a variety of specifications. According to Market Avenue, China has been upgrading old electric power and telecommunications cable systems. At the same time, many new cities and towns, residential areas, industrial areas and roads are being built, which requires the laying of new power supply cable systems and telecommunications cable systems, creating further market demand for plastic protective pipes.

According to The 10th Five Year Plan and 2015 Development Planning Outline for The State Industry of Chemical Materials for Construction (《國家化學建材產業『十五』計劃和2015年發展規劃綱要》), government authorities have set as a goal that by 2015 plastic pipes are to account for approximately 90% of all pipes used to protect electrical wiring in building applications.

Agriculture

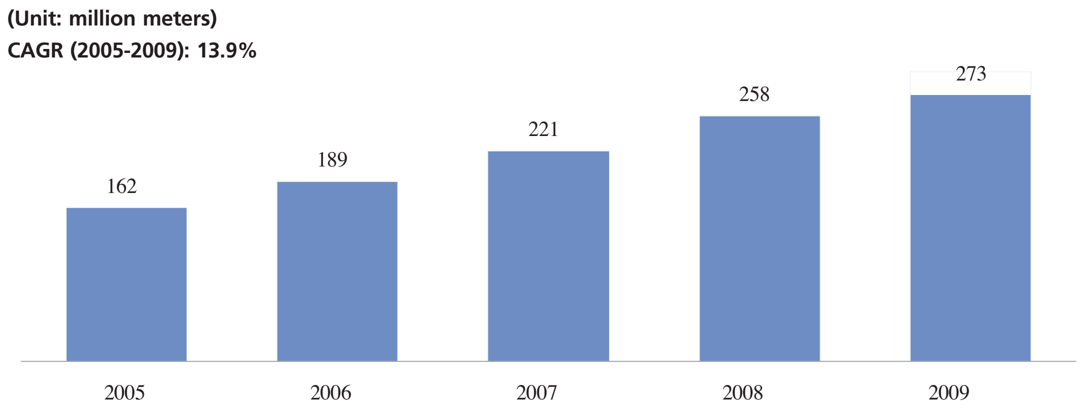
According to Market Avenue, the use of plastic pipes for agricultural purposes in China should grow over the long term due to the government's increasing concerns regarding the hygiene of water supply in agricultural areas and its motivation to develop rural water-saving irrigation systems and agricultural drainage. Under the 11th Five Year Plan, an additional 150 million mu of arable land in China was expected to begin using water-saving irrigation systems by the end of 2010. According to Water Saving Irrigation (節水灌溉), a publication of China's Ministry of Water Resources, these water-saving irrigation areas are expected to include (i) over 30 million mu of land that use low-pressure pipe irrigation systems, which may require 100,000 to 150,000 tonnes of plastic pipes; (ii) over 20 million mu of land that use spray irrigation systems, which may require 40,000 to 60,000 tonnes of plastic pipes; and (iii) over 9 million mu of land that use micro-irrigation systems, which may require 100,000 to 150,000 tonnes of plastic pipes.

Gas supply

Gas plastic pipes are gradually replacing traditional iron and steel pipes in low pressure and medium pressure (for pipes with diameters less than 250 mm) pipe networks. According to The 10th Five Year Plan and 2015 Outline for The State Industry of Chemical Materials for Construction (《國家化學建材產業『十五』計劃和2015年發展規劃綱要》), the use of plastic pipes in urban gas supply is expected to reach approximately 40% in 2015 as compared to approximately 20% in 2005.

The following chart shows the length of gas pipes in China from 2005 to 2009.

Length of urban gas pipe networks in China, 2005-2009



Source: National Bureau of Statistics

Floor heating

According to Market Avenue, floor heating systems using high temperature resistant plastic pipes have undergone rapid development and have gained in popularity throughout China, especially in the northern part of China. Plastic pipe floor heating systems deliver certain advantages over traditional heating systems. One notable advantage of floor heating systems is that, instead of just heating air to a certain temperature, floor heating systems also distribute heat evenly by circulating warm liquid or gas through a series of pipes installed beneath the floor.

The development of high-performance polymer materials has allowed some plastic pipe manufacturers to produce pipes with enhanced pressure resistance, reduced pipe thickness, increased gas flow and reduced material and production costs of plastic floor heating pipes. According to Market Avenue, these characteristics have helped to contribute to increased usage of plastic pipes for floor heating.

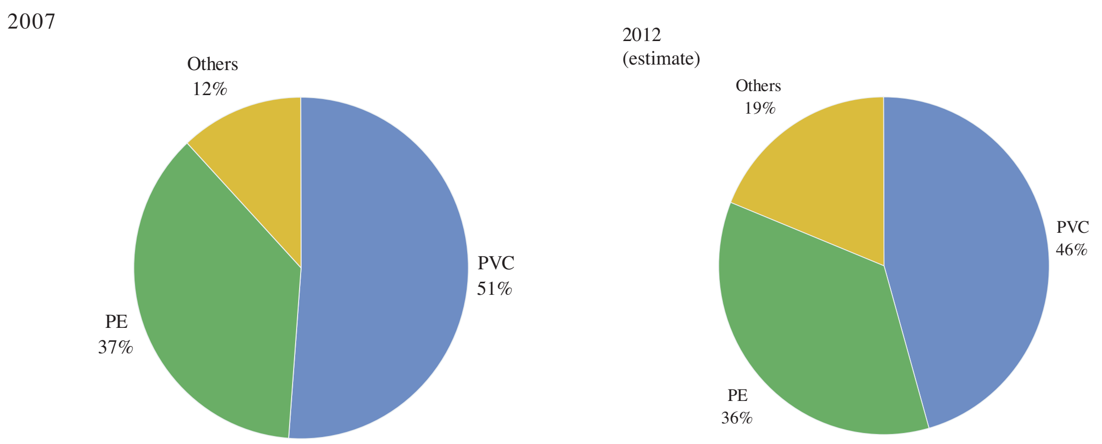
Fire-fighting

We believe the use of plastic pipes in the fire-fighting sector in China has potential for growth. Fire-fighting products are critical to the safety of property and personal safety. As such, the PRC government has been refining its fire-fighting policies and regulations and reinforcing the implementation of such regulations in the fire-fighting industry.

China plastic pipe supply by resin

According to Market Avenue, PVC has been the most popular resin in use for plastic pipe manufacturing, which, according to Market Avenue, accounted for approximately 51% of total plastic pipe production volume in China in 2007, followed by PE, which accounted for approximately 37% during the same period. Going forward, PVC is expected to continue to be the dominant resin in use for plastic pipe manufacturing.

Percentage of production volume of China's plastic pipes by type of raw materials used in 2007 and 2012 (estimate)

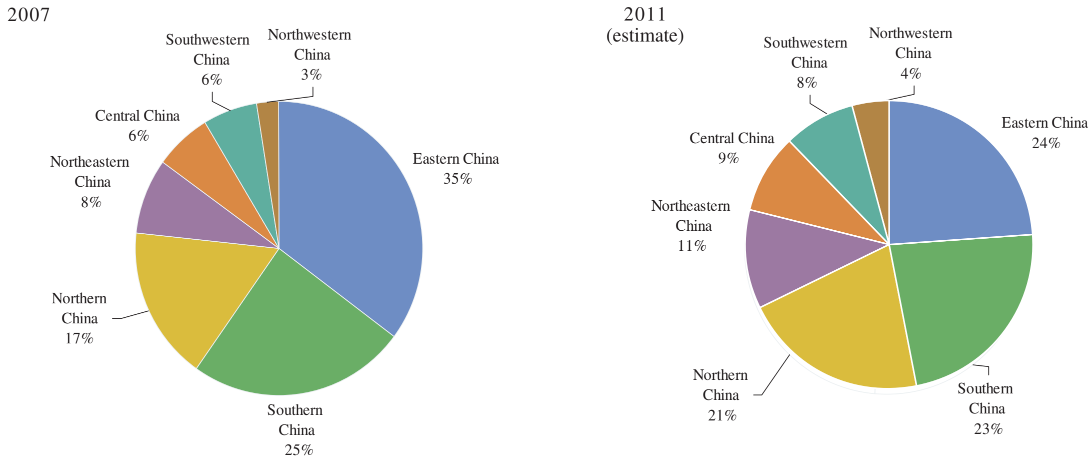


Source: Market Avenue

China plastic pipe supply by region

According to Market Avenue, the production volume of plastic pipes in Eastern China in 2007 accounted for approximately 35% of the total production volume of plastic pipes in China that year, exceeding the 25% share of China's production volume attributable to Southern China, the second largest region in terms of volume. Market Avenue projects that, by 2011, the gap between production volume of plastic pipes in Eastern China and Southern China will gradually narrow. By 2011, the proportion of the production volume of plastic pipes in Eastern China is expected to decline to approximately 24%, while the proportion of the production volume of plastic pipes in Southern China is expected to be approximately 23%. Due to the effect of national policies and the shift of regional development focus, Market Avenue expects that the proportion of production volume in Northern, Northwestern and Northeastern China will increase gradually over the next few years.

Regional production volume of plastic pipes in China in 2007 and 2011 (estimate)



Source: *Market Avenue*

Competition and challenges in China's plastic pipe industry

According to Market Avenue, the plastic pipe industry in China is fragmented and highly competitive with a large number of manufacturers throughout the country. Chinese manufacturers face competition from both domestic competitors as well as foreign competitors who have entered into the China market through joint ventures or subsidiaries. According to Market Avenue, plastic pipe manufacturers in China compete primarily on the nature and quality of products, range of product offerings, brand recognition, and the ability to supply products to customers in a timely manner and at competitive prices. According to Market Avenue, in order to maintain and capture market share and improve profitability, Chinese plastic pipe manufacturers may seek to expand their production scale, product offerings and extend their geographical reach, as well as improve their product quality, brand recognition, technology and increase their marketing efforts.

According to Market Avenue, the barriers to entry in the plastic pipe industry have been generally increasing in recent years and this increase is primarily driven by the following factors:

- *Development of industry standards.* To help improve the quality of plastic pipe products in China in order for them to keep up with international standards, the Chinese government and the relevant plastic pipe industry associations have introduced more than 100 industry standards in recent years. These industry standards have put more stringent requirements on the design, production process and quality control of plastic pipe products and therefore put pressure on the plastic pipe manufacturers to further invest in production facilities and improve their technical capabilities in order to comply with these standards.

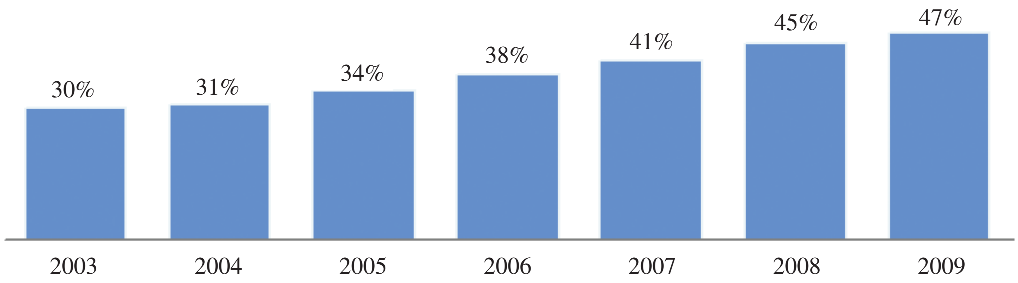
- *Economies of scale.* To better fulfill customers' project requirements and needs, many plastic pipe manufacturers seek to provide a more comprehensive range of plastic pipes and pipe fittings. According to Market Avenue, given the large variety of types of plastic pipe products in the market, only those players whose size and offerings are large enough can achieve economies of scale by offering a comprehensive range of plastic pipes.

- *Customer requirements.* As plastic pipes are typically embedded inside of buildings and infrastructure structures during construction, it is often difficult and costly to replace them once construction is completed. Therefore customers such as large real estate developers and local governments may prefer to procure plastic pipes from manufacturers with an established reputation. It often takes years for a plastic pipes manufacturer to build up a reputation in the industry.

In recent months, the Chinese plastic pipe industry's end-users in the infrastructure and real estate construction sectors have been impacted by a series of anti-inflationary measures implemented by the Chinese government. To the extent these plastic pipe end users are impacted by these measures, the plastic pipe industry in China may also be impacted. See "Risk factors — Risks relating to our business — A substantial portion of our products are used in infrastructure and real estate construction; the PRC government has recently implemented several measures to control the growth of the infrastructure and real estate sectors, which could materially and adversely impact demand for our products".

Structure of China's plastic pipe industry

Combined market share of top 20 plastic pipes players in China, 2003 - 2009
(by production volume)



Source: Market Avenue

According to Market Avenue, the plastic pipe industry in China has become more concentrated in recent years; while the top 20 plastic pipe manufacturers by production volume only had a 30% share of China's plastic pipes market in 2003, the top 20 plastic pipe manufacturers by production volume had a 47% share of the plastic pipes market in 2009.

The table below shows the rankings of China's top five plastic pipe manufactures by sales revenue from pipe products in 2009, based on data collected by Market Avenue.

Rankings of China's top five plastic pipe manufacturers by sales revenue from pipes products in 2009

Plastic pipe manufacturer	2009 Sales revenue (RMB million)
1. The Company	5,322
2. Player A (Zhejiang)	931
3. Player B (Fujian)	795
4. Player C (Hubei)	737
5. Player D (Hebei)	709

Source: Market Avenue

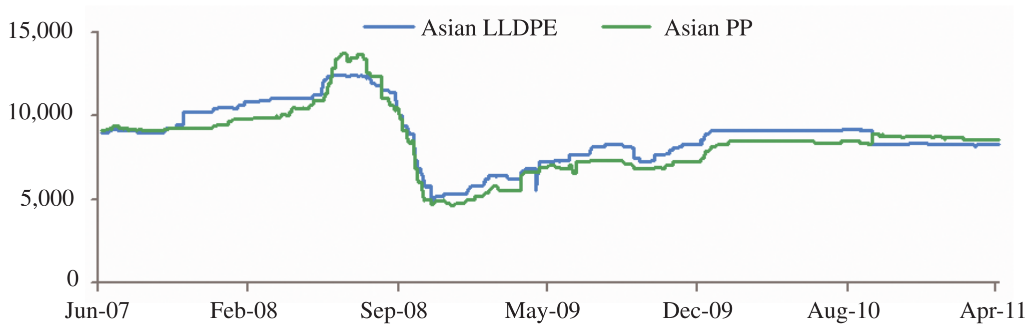
Pricing of plastic pipe products and raw materials

In China's plastic pipe industry, product pricing is typically determined either through competitive bidding process (in the case of large-scale civil or municipal projects) or individual negotiations with the distributors or direct customers, and product pricing is dependent upon, among others, production costs and the prevailing market prices for similar products. Given that raw material costs generally form the largest component of plastic pipes producers' cost of sales, fluctuations in raw material prices can have a significant effect on the pricing policies of pipe producers.

The principal raw materials for plastic pipes and pipe fittings are plastic resins such as PVC, PE and PP-R. Prices for plastic resins are generally subject to cyclical fluctuations and other market disturbances, including shortage of refinery capacity. Prices for petrochemical based plastic resins have in recent years been significantly impacted by changes in natural and crude oil prices. In China, where PVC resins are primarily manufactured using coal and limestone, as opposed to petrochemicals that are primarily used in other parts of the world, PVC prices have been impacted by changes in PVC manufacturers' electrical and labor costs, changes in coal prices and fluctuations in the price of petrochemical based PVC resins on the global market. See "Risk factors — Risks relating to our business — Our financial performance is dependent on the cost and continued availability of plastic resins".

Below is the chart shows the price movement of Asian LLDPE and Asian PP at the London Metal Exchange since June 2007.

Asian LLDPE and PP 1-month future settlement price on the London Metal Exchange (RMB/tonne)



Source: Bloomberg

Business

Overview

We are a leading PRC manufacturer of plastic pipes and pipe fittings. We have 12 operational production facilities for plastic pipes and pipe fittings strategically located in nine provinces across China. Through these facilities, our 30 sales offices and more than 760 independent distributors, we serve a broad range of customers across China and capture increased demand for our products in new and existing sales regions.

We offer a comprehensive range of plastic pipes and pipe fittings. We are able to produce more than 70 series and more than 7,000 specifications of plastic pipes and pipe fittings with dimensions ranging from about 16 mm to 3,000 mm in diameter. We primarily use PVC, PE, PP-R and other plastic resins to manufacture our products. Our plastic pipes and pipe fittings are used in a variety of piping systems, including water supply, drainage, power supply and telecommunications, agriculture, gas supply, floor heating and fire-fighting. We also provide customers with a wide range of support services, including pre-sale consultation, after-sales service, on-site consultations and technical support.

We have expanded our production capacity during the past three years in order to capture the growing demand for our products and to increase our market share. Our total effective annual production capacity of our production facilities increased from 426,000 tonnes of plastic pipes and pipe fittings as of December 31, 2008 to 661,800 tonnes as of December 31, 2009 and 1,090,779 tonnes as of December 31, 2010, while our total designed annual production capacity for plastic pipes and pipe fittings increased from 905,700 tonnes as of December 31, 2009 to 1,150,000 tonnes as of December 31, 2010. Our utilization rate was 87.6% in 2008 and 87.5% in 2009. Based upon preliminary data, management estimates that our utilization rate in 2010 was moderately lower than our 2009 utilization rate.

We plan to further expand our existing production facilities and construct production facilities in new markets in China in order to maintain our leading industry position, expand our market share and better meet the demands of our customers. We plan to add designed annual production capacity at all of our production facilities, to better cover our seven geographic sales regions in China (consisting of Southern China, Central China, Northern China, Southwestern China, Eastern China, Northeastern China and Northwestern China). We have budgeted capital expenditures of RMB1,500.0 million and RMB1,000.0 million for our production expansion during 2011 and 2012, respectively, which we may adjust from time to time according to market conditions. We expect to finance our capital expenditures through a combination of the offering of the Notes, the remaining proceeds from our initial public offering, cash flows from operations, cash on hand and banking facilities.

We sell our products both directly to our customers, including government entities, utility companies and real estate developers, and through independent distributors. We have a nationwide sales network of more than 760 independent distributors, supported by regional teams in 30 sales offices across China.

In 2005, our Liansu brand was recognized as a "China Well-known Trademark" (中國馳名商標) by the Trademark Office of the State Administration for Industry and Commerce of the People's Republic of China (中華人民共和國國家工商行政管理總局商標局). We believe our research and development capabilities have been one of our primary competitive strengths. Our research and development team consists of more than 660 experienced engineers and other technical and professional staff. In addition, we have an advanced research and development center at our Shunde facility.

We have achieved significant revenue and earnings growth in recent years. We generated revenue of RMB3,618.5 million in 2008, RMB5,322.2 million in 2009 and RMB7,711.5 million (US$1,168.4 million) in

2010, representing a CAGR of 46.0% from 2008 to 2010. Our EBITDA was RMB275.5 million in 2008, RMB911.0 million in 2009 and RMB1,549.8 million (US$234.8 million) in 2010, representing a CAGR of 137.2% from 2008 to 2010. See "Selected historical consolidated financial information and other data" for a reconciliation of Profit for the Year to EBITDA .

Our shares are listed on The Stock Exchange of Hong Kong Limited under stock code 2128. Our equity market capitalization as of April 15, 2011 was HK$22,770.0 million (US$2,929.3 million).

Competitive strengths

We attribute our success to the following key competitive strengths:

We are an established market leader with large-scale operations and are able to cover our customers across China through our extensive production and sales networks

We were the largest manufacturer of plastic pipes and pipe fittings in China in 2009, in terms of sales revenue, according to Market Avenue. Our total effective annual production capacity of our production facilities increased from 426,000 tonnes of plastic pipes and pipe fittings as of December 31, 2008 to 661,800 tonnes as of December 31, 2009 and 1,090,779 tonnes as of December 31, 2010. As of December 31, 2010, we had a designed annual production capacity of approximately 1,150,000 tonnes of plastic pipes and pipe fittings from our 12 operational production facilities for plastic pipes and pipe fittings, which are located in nine provinces across China.

We believe our ability to promptly and efficiently meet our customers' needs is an important competitive strength. Our production facilities are strategically located to capture our target markets and are generally close to our customers, which reduces transportation costs and enables us to offer competitive pricing and timely delivery and services to our customers. We also have a wide sales and distribution network with more than 760 independent distributors located nationwide and an in-house sales team of over 600 sales representatives located at 30 sales offices across China as of December 31, 2010. We believe our extensive sales and distribution network gives us a competitive edge in broadening our customer base and enhancing our brand recognition as well as further strengthening our market position. With our leading industry position, which is primarily achieved through our large-scale operations and our ability to cover our customers nationwide, we believe we are well-positioned to capture the growing market for plastic pipes and pipe fittings in China.

We offer a comprehensive range of quality plastic pipes and pipe fittings

We focus our efforts on, and dedicate our resources to, among other things, improving our technology, which enables us to provide a wide range of high quality products to meet our customers' needs and specific requirements. We currently produce over 70 series and over 7,000 specifications of plastic pipes and pipe fittings. In addition to common types of PVC-U, PE and PP-R products, we also produce PVC-M, PVC-C, PE-RT, PB and composite plastic pipes and pipe fittings with various special properties suitable for use in different applications. Our product range covers a broad spectrum of sizes, measured in diameters, generally ranging from 16mm to 3,000mm. In order to address the Chinese government's increasing emphasis on environmental protection, we are also actively expanding our eco-friendly product range to include products such as GHPs.

We have strong brand recognition

Over the course of our operations, we have developed the Liansu brand into a well-known plastic pipe brand in China. We have received various awards and recognitions in relation to our brand, including:

- a "China Well-known Trademark" (中國馳名商標) by the Trademark Office of the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局商局) in 2005; and

- one of the "Commodity Trademarks with Highest Competitiveness in 2009" (2009最具競爭力的商品商標) by the Organizing Committee for 2009 (the Third) China Trademark Festival (2009 (第三屆)中國商標節組委會) and China Trademark Association (中華商標協會) in 2009.

- "Top 10 Enterprises of Processing Industry in China Light Industries" (中國輕工業塑料加工行業十強企業) by China National Light Industry Council (中國輕工業聯合會) in 2009.

In addition, our plastic pipes and pipe fittings have been certified as a "China Top Brand Product" (中國名牌產品) by the General Administration of Quality Supervision, Inspection of Quarantine of the PRC (國家質量監督檢驗檢疫總局) since 2006. We believe our established brand name provides us with an appealing platform to introduce new products and increase our market share. Our market position and the strength of our brand also help to make us an attractive business partner for distributors and customers and facilitate the expansion of our customer base.

We sell our products through our sales team directly to large-scale and strategically important customers, including government entities, infrastructure companies and property companies, which have, by themselves or through representatives acting on their behalf, signed framework agreements with us for the supply of our plastic pipes and pipe fittings, and major water and gas supply companies or their subsidiaries in China. As of December 31, 2010, our plastic pipes and pipe fittings were sold to more than 300 water supply companies and water treatment companies and more than 80 power supply companies, telecommunications companies and gas companies. We were also one of the designated plastic pipe suppliers for infrastructure projects such as the construction of the Laoshan Velodrome (老山自行車館) for the 2008 Beijing Olympic Games and are one of the designated plastic pipe suppliers for the construction of the Guangzhou Asian Games City (廣州亞運城) for the 16th Asian Games (第十六屆亞洲運動會) held in Guangzhou in 2010.

We have customer-oriented research and development capabilities

Our strong research and development capabilities provide us with competitive advantages in the plastic pipe industry in China. Our research and development team comprised 660 employees as of December 31, 2010. In addition, we have engineers from different departments and field engineers located in our production facilities and sales offices across China participating in our research and technology development projects. The close collaboration between our research and development technical team, field engineers and engineers in different departments enables us to design and develop products that are tailored to the specific needs and practical applications of our customers. We believe the combination of our engineers' experience and our customer-oriented research and development approach distinguishes us from many of our competitors.

We believe our ability to introduce new products from time to time that cater to the needs of our customers helps to increase our competitiveness. New products we developed in 2009 include plastic-steel composite pipes used for water supply, gas supply and fire-fighting; PB eco-friendly cold and hot water pipes; same-floor drainage pipes; and GHPs. As of December 31, 2010, we held 161 patents and have applied for an additional 213 patents in China and have nine patents outside of China that are pending. In addition, we have participated in drafting or revising seven national and industrial standards for the plastic pipe industry in China. We believe this is a recognition of our strong position in research and development capabilities and product technology and standards.

In recognition of our research and development efforts, Guangdong Liansu Technology was accredited as a "Key High-tech Enterprise" in the "National Torch Program" (國家火炬計劃重點高新 技術企業) by the Torch High Technology Industry Development Centre of the Ministry of Science and Technology of the People's Republic of China (中華人民共和國科學技術部火炬高技術產業開發中心) in 2005. Guangdong Liansu Technology and Wuhan Liansu were also recognized as "High and New Technology Enterprises" (高新技術企業) by the respective provincial science and technology department (科學技術廳), finance bureau (財政廳), office of state administration of taxation (國家税務局) and local taxation bureau (地方税務局) in Guangdong and Hubei in 2008 and 2009, respectively.

We have an experienced, professional and dedicated management team

Our management team has extensive experience in, and in-depth knowledge of, the plastic pipe industry. They have on average industry experience of approximately ten years and most of them have spent more than ten years with us. In particular, our chairman has approximately 14 years of experience in plastic pipe operations and management. Our experienced, professional and dedicated management team brings a strong base of knowledge to our day-to-day operations and provides strategic direction to our Company. Over the years, our management team has also played a key role in integrating and improving the operations of the entities that we acquired. With such extensive industry-related experience and operation management skills among our senior management, we believe that we are well-positioned to identify market opportunities as they arise. We have adopted compensation incentive programs with an objective of motivating and retaining our existing management team and core employees and attracting qualified candidates.

We have maintained a prudent capital structure and strong liquidity position

Our initial public offering in June 2010 strengthened our equity base and provided us access to diversified funding channels. Our gearing ratio, measured by dividing our total debt (i.e. bank borrowings) by our total debt and equity, was 16.4% as of December 31, 2010. In addition, the significant growth of our operating cash flows over the last three years has helped us maintain a prudent capital structure. Our liquidity position has been bolstered by the strength of our cash flows from operating activities which increased from RMB44.8 million in 2008 to RMB650.4 million in 2010. During the same period, cash and cash equivalents increased from RMB135.9 million in 2008 to RMB1,500.3 million in 2010. We have continued to actively manage our accounts receivable and inventory positions to enhance our liquidity and limit our reliance on working capital indebtedness.

Business strategies

Our objectives are to further expand our market share and strengthen our leading position in China's plastic pipe industry. We aim to accomplish this through the following strategies:

Continue to expand our market share by increasing our production scale and enhancing our marketing efforts

We intend to continue to expand our market share by increasing our production scale and enhancing our marketing efforts. Our sales volume has been increasing in line with the growth of our production capacity during 2008, 2009 and 2010. Accordingly, we believe that the expansion of our production capacity should enable us to increase our sales volume and expand our market share.

To support the expansion of our production facilities, we also intend to expand our sales network by engaging additional distributors and establishing more sales offices. We also intend to continue to enhance our marketing efforts to further expand our customer base. In addition to growing organically, we may consider expanding our business by selective acquisitions of companies or businesses which can create synergistic value with our existing business. We have implemented procedures to help us execute our acquisition strategy more systematically, including procedures for the preliminary identification of targets, feasibility assessment, due diligence, budget and negotiations. When identifying an acquisition target, we generally consider whether there is sufficient market demand for the potential target's products and whether its business is supporting our core business.

Continue to refine our product portfolio and improve our production efficiency through our research and development capabilities

We believe that our long-term success and growth will largely depend on our ability to continue to refine our product portfolio and improve our production efficiency. We plan to use our strong research and development capabilities to continue to improve our product functionality, production efficiency and quality control systems.

We will also continue to devote resources to research and development activities and strengthen our cooperation with universities and research institutes. Our research and development team will continue to work on their existing projects, such as the development of spray and drip irrigation piping systems and solar water heater piping systems, and will seek to further develop new products and technologies in relation to the plastic pipe industry, including various products tailored to meet local requirements of different geographical regions in China. We also plan to invest in research and development facilities and equipment and expand our team by recruiting more professionals with industry knowledge. See "Business - Research and development" for additional information on our latest research and development activities.

Continue to strengthen our brand recognition

We intend to increase our Company's profile by actively taking part in large-scale infrastructure projects and real estate development projects and by further strengthening our relationships with government entities, utility companies, large-scale real estate developers, plastic pipe industrial associations and design institutes in China. We also plan to continue to market our Liansu brand in China through targeted marketing campaigns. Specifically, we plan to increase our advertising budget to further promote a consistent brand image through media advertising and participation in trade fairs. We also plan to apply for more intellectual property registrations to establish a stronger brand image and to prevent infringement of our intellectual property rights. We will also continue to strengthen our efforts in combating infringement of our trademarks and production of counterfeit products.

Continue to recruit and retain employees experienced in management, technology, sales and marketing

We recognize that our employees are one of our most important assets. Our future success is dependent on our ability to attract, retain and motivate highly skilled and experienced management, engineering and marketing personnel. We have focused on the training and professional development of our management and personnel at all levels. We plan to recruit experienced management, technical, sales and marketing personnel to facilitate our expansion. We also intend to continue to use our compensation incentive programs, to motivate our management team and core employees and to attract talented individuals in the industry to meet the needs of our expansion. We strive to further cultivate a corporate culture that rewards performance.

Products

We produce and supply a comprehensive range of high quality plastic pipes and pipe fittings in the following principal categories of application: water supply, drainage, power supply and telecommunications, gas supply, agriculture, floor heating and fire-fighting. Our products include plastic pipes made from a variety of plastic resins, such as PVC, PE and PP-R, as well as pipes for special use made from a combination of plastic and other materials, such as aluminum or steel. We are able to produce over 70 series and over 7,000 specifications of plastic pipes and pipe fittings. While we occasionally make products that are customized to client specifications, customized products account for a relatively small portion of our sales and substantially all of our sales are of products within our standard product range.

Water supply

Plastic pipes used for water supply constitute our largest product category, representing 42.4%, 40.5% and 39.4% of our total revenue of plastic pipes and pipe fittings for 2008, 2009 and 2010, respectively. Our water supply products are commonly used in residential and commercial buildings to transport fresh water to individual units. Our water supply products are also widely used in new, large-scale infrastructure projects and renovations of existing water pipe networks, where our products are used as replacements for traditional materials, such as cement, iron and copper. We offer a broad range of plastic water supply pipes made from a variety of plastic resin materials, such as PVC-U water supply pipes, PE water supply pipes, PP-R water supply pipes, PVC-M water supply pipes, PVC-C water supply pipes, PB water supply pipes and plastic-steel composite pipes, among others.

Our PVC water supply pipes are produced from high-quality PVC resin and supplementary materials in order to ensure compliance with applicable environmental and safety standards. Our PE water supply pipes are made from quality graded PE100 resin. Our PP-R water supply pipes are made by processing high-quality PP-R raw materials. All of our water supply pipe products comply with China's national standards and hygiene requirements regarding water supply products. Our plastic-steel composite pipes for water supply include two major categories — plastic-lined composite pipes and plastic-coated composite pipes, each of which combines the strength and rigidity of steel pipes and the flexibility and endurance of plastic pipes.

We also produce PVC-M water supply pipes, which are high impact resistant products with superior mechanical properties. This product was developed based on the improvement of PVC-U water supply pipes. They are primarily used for the transportation of water at room temperature (below 40 degrees) and are particularly designed for use under environmental conditions requiring high impact resistance.

Drainage

Plastic pipes and pipe fittings used for drainage constitute our second largest product category, representing 33.4%, 36.5% and 37.1% of our total revenue of plastic pipes and pipe fittings for 2008, 2009 and 2010, respectively. Products in this category are used in residential and municipal drainage systems.

We offer a broad range of plastic drainage pipes and pipe fittings, including PVC-U drainage pipes, PVC-U spiral muffler pipes, high density PE drainage pipes, and PE same-floor drainage pipes. These pipe products are characterized by strong noise reduction and are generally used as indoor drainage pipes inside buildings. We also manufacture metal reinforced PE spirally corrugated pipes and HDPE and PVC-U double-wall corrugated pipes, which have a large diameter with low flow resistance, good pipe seal connection and strong resistance to corrosion. These pipe products also offer strong resistance to uneven ground settlement and earthquakes and are generally used as outdoor drainage pipes. With rising social consciousness regarding environmental protection, we believe products in this category have attractive market opportunities and long-term growth potential.

We also offer a comprehensive range of fittings for drainage pipes, such as PVC-U drainage pipe fittings, HDPE drainage pipe fittings and rubber rings for double-wall corrugated pipes. We have adopted simple designs for these products to facilitate quick and easy assembly. We believe the market for plastic pipes and pipe fittings used for drainage will continue to grow. Because of their low installation cost, strong leak resistance and relatively long service life, the MOHURD has issued guidelines in recent years to encourage the use of plastic drainage pipes in new civil and municipal projects in place of pipes made from traditional materials, such as cement, iron and copper.

Power supply and telecommunications

Sales of plastic pipes and pipe fittings used in power supply and telecommunications represented 17.9%, 18.2% and 18.4% of our total revenue of plastic pipes and pipe fittings for 2008, 2009 and 2010, respectively. These products are used to guide and protect power and telecommunication cables and cable bundles.

Our principal products include PVC-C industrial power cable ducts pipes, PVC-U household power cable ducts pipes, PVC-U telecommunication cable ducts pipes and PE telecommunication cable ducts pipes. Plastic pipes used in telecommunication cable ducting include multi-hole pipes, corrugated pipes, communication tube and silicon pipes.

We believe that the market for plastic pipes and pipe fittings used in power supply and telecommunications has significant growth potential in China in the context of replacing existing, traditional telecommunication networks with fiber optic networks used to fulfill the increasing demand for more bandwidth. We believe we are well-positioned to benefit from the growth in this market due to our geographical presence in China and research and development capabilities.

Gas supply

Plastic pipes and pipe fittings used for gas supply contributed 1.7%, 1.6% and 1.1% of our total revenue of plastic pipes and pipe fittings for 2008, 2009 and 2010, respectively. Our gas pipe products are mainly used for distribution of natural gas to local networks and household connections. Our products for gas supply include, among others, PE plastic pipes, PE plastic-steel mesh skeleton-plastic composite pipes, aluminum-plastic composite pipes and plastic-steel composite pipes.

Our PE plastic-steel mesh skeleton-plastic composite pipes are five-layer plastic-steel composite pipes that offer strong resistance to corrosion and abrasion, long service life, quality joint functionality and strong leak resistance. Plastic-coated composite pipes are produced by combining the buckle design of zinc-plated steel pipes and the smooth internal layer of plastic pipes and are characterized by rust resistance, low thermal conductivity, easy installation and reliable and safety-oriented connections.

Our gas pipe products are widely used in infrastructure projects for the distribution of gas. Our customers include major listed gas companies in China and/or their subsidiaries.

Others

Sales of others consist of agriculture, floor heating and fire-fighting products, representing 4.6%, 3.2% and 4.0% of our total revenue of plastic pipes and pipe fittings for 2008, 2009 and 2010, respectively.

Agriculture

Our agriculture products are used in irrigation systems in the agriculture, gardening and forestation industries. These products are mainly made from PVC. In addition to the spraying and irrigation pipes that we are currently producing, we also intend to invest in the development of drip irrigation and automatic spraying irrigation pipes.

Floor heating

Our floor heating products are primarily used in heating systems of buildings and the exploitation of geothermal heat energy. Our principal products in this category include PE-RT heat resistant pipes, and PB underground heating pipes. In addition, we offer a wide range of fittings and manifolds required for central and floor heating applications.

Fire-fighting

We expanded our product offerings to include plastic-steel composite pipes and pipe fittings used in fire-fighting in 2008. These products are primarily used in fire-fighting systems in buildings. Our principal products in this category are plastic-coated plastic-steel composite pipes and pipe fittings, which are made from epoxy resin, a high-temperature tolerant material specially used in fire safety products. Epoxy resin is coated on the surface and internal layer of steel pipes. Based on our management's industry knowledge, we believe our fire-fighting pipe is a recognized fire-resistant product in China. We have registered our fire-fighting pipe for a number of patents and intellectual property rights. We believe this product offers superior resistance to corrosion and high temperature, strong mechanical function and greater flow capacity with less friction.

For traditional fire-fighting pipes, typically a layer of paint will only be applied on the surface of steel pipes with the internal wall unpainted. The potential rusting and blockage of the pipes and spraying system may result in a considerable loss in the event of fire. Our products, however, are coated with epoxy on the surface and internal layer, which can prevent any blockage as a result of rusting, and are therefore more durable.

Plastic housing products

We plan to expand our products offerings to include certain plastic housing products, such as plastic window frames, doors and flooring for residential houses. We have not commenced production of such products and do not expect the related capital expenditure to be significant.

Production facilities and production process

Production facilities

We are headquartered in Shunde, Guangdong Province, China, and produce our plastic pipes and pipe fittings in 12 operational production facilities located in nine provinces in China. We have established a geographically diverse production base with extensive coverage in China. Our production facilities for plastic pipes and pipe fittings are strategically located in Shunde, Heshan and Zhongshan in Guangdong Province, Guiyang in Guizhou Province, Deyang in Sichuan Province, Wuhan in Hubei Province, Nanjing in

Jiangsu Province, Zhoukou in Henan Province, Renqiu in Hebei Province and Daqing in Heilongjiang Province and Urumqi in Xinjiang. The strategic locations of our production facilities in different regions across China put us in close proximity to our customers, thereby enabling efficient delivery, or reducing customers' transportation costs in the case of customers who arrange for their own product delivery. In addition to our 12 operational production facilities for plastic pipes and pipe fittings, we also have a production facility in Wuhan that produces plastic pipe moulds for use in our operations. We plan to further expand our existing production facilities and construct production facilities in new markets in China in order to maintain our leading industry position, expand our market share and better meet the demands of our customers. We plan to add the designed annual production capacity of our production facilities to better cover our seven geographic sales regions in China (consisting of Southern China, Central China, Northern China, Southwestern China, Eastern China, Northeastern China and Northwestern China). We have budgeted capital expenditures of RMB1,500.0 million and RMB1,000.0 million for our production expansion during 2011 and 2012, respectively, which we may adjust according to market conditions. We expect to finance our capital expenditures through a combination of the offering of the Notes, the remaining proceeds from our initial public offering, cash flows from operations, cash on hand and banking facilities.

The production lines at our production facilities generally operate 24 hours a day, seven days a week, with stoppages for repairs and maintenance, seasonal downtimes in Northeastern and Northwestern China due to weather conditions, and occasional power blackouts. Factory employees generally work eight hours a day, and there are three shifts per day at our production facilities. As of December 31, 2010, the designed annual production capacity of our production facilities was approximately 1,150,000 tonnes of plastic pipes and pipe fittings in the aggregate.

All of our additional production facilities will produce our existing products as well as new products which may be produced by us, subject to market conditions and demand for our products at the relevant times. See "Business - Research and development" for details on our product development process and examples of our recently developed products. The production capacities which we plan to add to our current operational production facilities, are expected to serve the demands of our existing customers and our potential new customers in the markets where we operate. New production facilities which we plan to construct are expected to serve the needs of newly-identified target markets. We will use our existing as well as newly-developed production technologies and will source most of the requisite production machines and equipment, mainly injection and extrusion machines, from domestic suppliers.

As detailed in the "Industry" section, Market Avenue expects the demand for plastic pipes in China to continue to grow in the next few years. Being a leading player in the industry, and with our experienced management team, research and development capabilities, well-established relationship with our major suppliers and customers, and quality of our products, our directors believe that we are well-positioned to capture such potential growth. The directors are of the view that our expansion plans will further strengthen our market position and enhance our ability to further increase market share, particularly in regions where we have not yet obtained significant market shares. Prior to investing in new production facilities in such regions, we will establish sales offices, sales teams and distributor networks in these regions, and rely on relationships with some direct customers to generate initial demand for our products in these regions. Additional capacity will then be added when our management sees growth in demand in the target regional markets.

Our management team is experienced in managing rapid business growth as we increased the effective annual production capacity of our production facilities from 426,000 tonnes in 2008 to 1,090,779 tonnes in 2010. Each of our current operational production facilities has its own separate management team for daily operation. To support our expansion, we have recruited and will continue to recruit and train appropriate management and operational staff.

As we have established relationships with our major suppliers of raw materials, we will continue to coordinate our raw materials purchases on a group-wide basis to increase our bargaining power and reduce the risk of a shortage. As the concentration of raw materials suppliers in China is relatively low, we do not believe we will encounter any difficulties in sourcing additional raw materials for our expanded capacity.

Our current information system connects all of our production bases and sales offices across China and enables us to share operational and financial data. To support our future expansion, we will implement the system in each newly established production facility and sales offices and continue to enhance our information management platform to assist us to effectively control and manage our production and sales networks.

The Chinese government has placed increased focus on the application of plastic pipes. We believe this increasing focus is due to the attractive qualities of plastic pipes as compared to pipes made from traditional materials such as concrete and metal. As advised by our PRC legal adviser, Jun He Law Offices, our business is not within a restricted industry under the Foreign Investment Industry Guidance Catalog jointly issued by the Ministry of Commerce of the People's Republic of China and National Development and Reform Commission of the People's Republic of China in 2007. We have not encountered any material difficulty in the expansion of our production facilities during 2008, 2009 and 2010, and to the best of our knowledge based on the prevailing facts and circumstances, we are not aware of any material difficulties for our future expansion under current PRC rules and regulations.

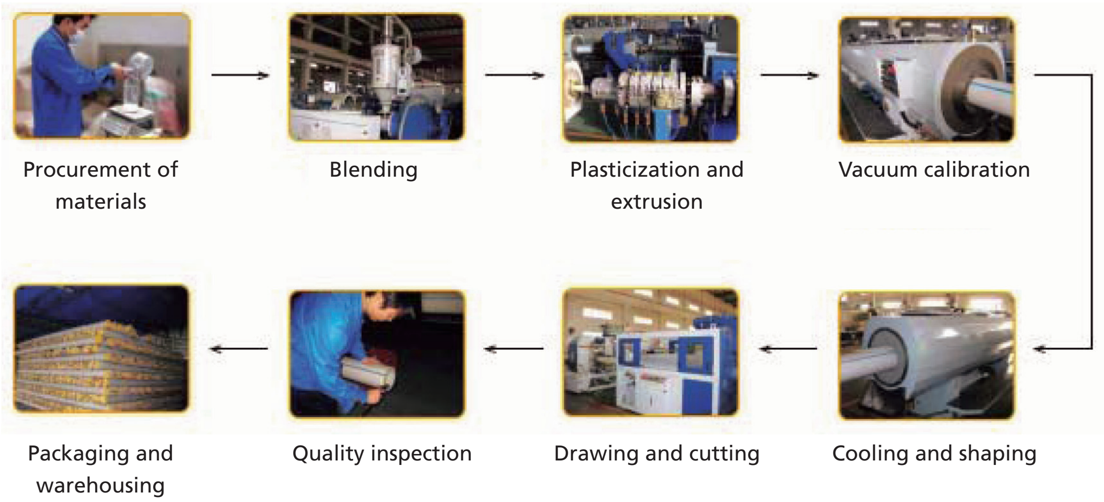
We have been expanding our production capacity throughout 2008 to 2010 and will continue to do so to capture the growing demand for our products and to enlarge our market share in various geographical areas. See "Business — Business strategies — Continue to expand our market share by increasing our production scale and enhancing our marketing efforts" for further details. With the exception of our production facilities in Sichuan and Henan which are being leased by us, we own all of our production facilities. We believe that our production facilities are generally in good operating conditions, are functioning at optimal utilization rates, are generally adequate to meet our current requirements and, with respect to those facilities currently under construction and for future development, our anticipated requirements in the near future. We commenced trial production at Urumqi in 2010 without completing the construction completion inspection and the filing and recording procedures. We are in the process of obtaining the relevant filing and recording for the manufacturing properties we constructed at Urumqi and believe that it will not result in any material adverse impact on our business or financial conditions.

Since July 2007, Guangdong Liansu Technology, Wuhan Liansu, Guiyang Liansu, Hebei Liansu, Henan Liansu, Heshan Liansu, Zhongshan Walton, Wuhan Liansu Mold, Sichuan Liansu, Nanjing Liansu and Urumqi Liansu, were accredited to meet ISO 9001 standards. See also "Quality Control" below for further details. We believe such accreditation is a recognition of the quality of our management systems.

Production process

The production process of plastic pipes and pipe fittings is a typical process of polymer processing.

The extrusion processing technique is used in the production of plastic pipes. The following diagram outlines the general manufacturing process for the extrusion processing technique:



The injection molding process is used in the production of pipe fittings. The following diagram outlines the general manufacturing process for the injection molding process:

Sales, marketing and distribution

Our products are either sold through direct sales by our regional sales teams or via our network of independent distributors who in turn sell the products to a wide range of end-users. Our regional sales teams work closely with our distributors and our large-scale and strategically important customers with a view to obtaining valuable regional market feedback and strengthening customer relations. We leverage on our distributors' network to promote our products and brand name. We generally give priority to our distributors to sell our products unless particular customers require us to sell to them directly, for example, for certain large projects where distributors may not have sufficient financial resources to fund the procurement from us, and in respect of customers with whom we have entered into strategic partnership agreements. Accordingly, although we retain the right to sell our products directly so as to cater to the requirements of such customers, we believe there is no competition or incentive issue with our distributors as our distributors are unable to sell to such customers due to the customers' own requirements or preference.

Our top five customers (in terms of revenue amount) accounted for RMB259.8 million, RMB373.8 million and RMB559.2 million (US$84.7 million) in revenue or 7.2%, 7.0% and 7.3% of our revenue for 2008, 2009 and 2010, respectively. As of December 31, 2010, our relationships with our top five customers for the year ended December 31, 2010 ranged from 1 to 9 years. The principal businesses of our top five customers as of December 31, 2010 included wholesale, retail and trading of plastic pipes and pipe fittings, electrical appliances, chemical products, metal products and construction materials. Four of our top five customers as of December 31, 2010 were distributors. Our largest customers accounted for 1.8%, 2.1% and 2.9% of our revenue for 2008, 2009 and 2010, respectively.

Our sales team

As of December 31, 2010, our regional sales teams consist of over 600 employees located at 30 sales offices across China. Our sales teams are managed by our sales department which is located at our headquarters. Our sales department, together with our local sales teams, are primarily responsible for the selection and supervision of our distributors, marketing directly to large-scale or strategically important customers, collecting market information from distributors and customers, and marketing our products and promoting our brand in local markets.

Our regional representative offices foster strong working ties with our end customers and distributors by maintaining regular contact with them and conducting on-site discussions and inspections on a regular basis. Through such contacts, we are able to better understand the latest market developments and our customers' businesses, working cultures and requirements. This helps us to serve them better and to provide solutions to meet their requirements. This close working relationship ensures that our customers' needs are fulfilled effectively and efficiently. Furthermore, from our managements' perspective, the on-going communication with distributors and the periodic on-site inspections allow us to ensure that our distributors are complying with the terms set out in the distribution agreements, our standardized pricing policies and operating procedures. We believe that working and interacting closely with our distributors allows us to manage our production and inventory more efficiently. Our distributors are required to follow our pricing policies and adopt our standard terms and conditions, both of which are set by our sales department. We believe this requirement helps to build a consistent brand image and strengthens managements' control over the distribution of our products.

Our distributors

Our distributors are generally trading companies engaged in the sourcing and trading of plastic materials and other materials used in construction. Products are purchased by the distributors from us and then resold to their own customers, which include, among others, sub-distributors, civil contractors, utility companies, local municipalities and real estate developers. As of December 31, 2010, we sold our products to more than 760 independent distributors. We aim to keep the number of distributors at an appropriate level and not grant exclusive rights for a geographic market to any one distributor. We currently sign non-exclusive agreements with all of our distributors because we believe that a certain level of competition encourages our distributors to maintain a higher quality of service. At the same time, we also try to inhibit the potential adverse effects of intra-brand competition by limiting the number of distributorships we grant.

The cessation of distributorships during 2008, 2009 and 2010 were mainly due to the relevant distributor's failure to meet our sales targets, unsatisfactory service or other breaches of distribution agreements, and the relevant distributor's own business decision. Some former distributors of ours may continue to purchase our products through other distributors after cessation of their distributorship. We do not keep records on the sales and inventory levels of our distributors. We believe the establishment and maintenance of a broad distribution network is important to the profitability and growth of our business. We believe our close cooperation with distributors enables us to achieve growth by leveraging the financial and management resources of our distributors as well as their expertise in local markets. This cooperation enables us to better manage our growing business and cater to increased market demand for plastic pipes and pipe fittings in China by allowing us to focus on designing and developing new products and focus our resources on developing our Liansu brand. We believe that the distributorship model has been instrumental in enabling us to increase our sales and profitability during the years ended 2008, 2009 and 2010.

Selection of distributors

The selection and management of our distributors is carried out by our sales department in our headquarters in Shunde, Guangdong Province, China, in consultation with sales representatives in our local sales offices. We generally select our distributors based on the following criteria:

- experience in the distribution/retailing of plastic pipe and fitting systems;
- ability to develop and operate a distribution network in a designated geographical region;
- strength of relationships with local architects, project developers and others who have influence over the choice of products by potential end-users; and
- creditworthiness and adequacy of financial resources.

Distribution agreements

We enter into agreements with our distributors, whereby we generally grant each of them a non-exclusive right to distribute certain types of our products in a specified geographical area for a specified period of time. These distribution agreements are on substantially the same terms for each distributor, except for annual sales targets which may be different for different distributors and the relevant specified geographical areas. As the right granted to the distributors are non-exclusive, we retain the flexibility to appoint additional distributors in each specified geographical area. Our distribution agreements typically contain the following principal terms:

- Term — One year subject to renewal by mutual agreement.

- Geographic territory — Distributors are authorized to sell certain of our products on a non-exclusive basis within a defined geographical area. Our distributors are not permitted to sell or distribute outside of the specified territories.

- Sales targets — We set applicable annual sales targets for each distributor. There are typically no monetary penalties for failing to meet sales targets under our distribution agreements. However, we will generally take into consideration a distributor's sales amount and track record when deciding whether or not to renew their distributorship or appoint additional distributors in the same area.

- Payment terms — It is our general practice to require each of our distributors to make payment on or before delivery of products in accordance with the order. However, in certain circumstances in which distributors encounter difficulties making full payment in advance, such as when they purchase a significant amount of our products for a large-scale project, a credit period of up to one month may be granted to distributors in our sole discretion.

- Undertakings — Each distributor is required to undertake to comply with our terms and conditions as set out in the distribution agreement, to adhere to our pricing policies, and to refrain from selling any products that compete with our products. Each of our distributors must also undertake, among other things, not to distribute products of our competitors similar to ours, distribute our products outside the relevant authorized regions, distribute counterfeit products or do anything which harms our brand.

- Return of products — Return of products is only allowed in the case of defective products or by mutual agreement.

- Pricing — The factors we take into account in determining the pricing of our products are the same for both distributors and direct customers. We also set a minimum resale price for each product in the distribution agreement and reserve the right to adjust the price by taking into consideration the prevailing competition and market conditions. Our sales department monitors the compliance by our distributors of the minimum resale price requirement through feedback from customers and mutual monitoring and reporting by distributors. To the best of our knowledge, there has not been any material non-compliance by our distributors with our minimum resale price requirement during the three years ended December 31, 2010. We do not grant sales rebates to our distributors.

- Termination rights — We are entitled to terminate distribution agreements in certain circumstances, including for breach of the agreement by the distributors, sale by the distributors of counterfeit products and failure to meet relevant sales targets as specified in the agreements. Our distributors do not have termination rights under the agreements except for breach by us of the terms of such agreements.

Our sales team monitors compliance and potential breach by our distributors of the terms of the distribution agreements through regular site visits and review of our distributors' performance from time to time. There is also an obligation under the distribution agreements on the part of the distributors to assist in our efforts to combat counterfeit products. In the event a distributor breaches its agreement with us, including, for example, by misappropriating our brand and selling counterfeit products, we may, depending on the circumstances, suspend sales to the distributor or terminate its distributorship. Since 2008, we have not experienced any material losses or claims resulting from misconduct or illegal practices by our distributors, and we have not experienced any material cancellation of orders or bankruptcy or default of any customer which materially adversely affected our business.

Support to distributors

We regularly support our distributors in various bidding/tender processes organized by end-users, including, among others, government entities for large-scale civil and municipal projects, utility companies and real estate developers. We work closely with our distributors and end-users to better understand their particular needs and preferences. In cooperation with us, our distributors are able to offer a wide selection of plastic pipes and pipe fittings on attractive terms, thereby enhancing their chance of winning tenders for large-scale projects, and enabling us to leverage their financial resources and their expertise in specific product categories and/or markets.

We have an online ordering system which enables our distributors to make timely and paperless orders via the Internet. In order to familiarize our distributors with the system, we provide specific training for them. We believe this system also reduces the chance of errors made by our distributors due to any miscommunications in the ordering process.

We offer training several times a year through physical meetings and online resources to assist our distributors to improve their operational and management skills and to enhance their knowledge about our products.

Direct customers

We target certain large-scale or strategically important customers (such as government entities, utility companies and real estate developers) as our direct customers and work directly with them through our own local sales teams. Our local sales teams have extensive knowledge about their local markets and seek to actively develop relationships with current and potential customers. We usually develop and maintain direct customers through bidding/tender processes or by way of individual negotiations. Sales contributions from the bidding/tender process accounted for approximately 10% to 15% of our revenue during 2008, 2009 and 2010. The bidding/tender process may vary for each customer or project and but generally involves an invitation by the customer for a bid/tender, which may be an open invitation or a closed invitation under which only selected suppliers would be invited. We would then submit a bid/tender with our offer or proposal containing the information required under the invitation. If we are successful in the bid/tender, we will then enter into a formal agreement with the customer. The strategic partnership agreements we enter into with select direct customers generally have a one-year term, subject to renewal by mutual agreement. Other major terms in such agreements include product pricing, delivery terms, payment terms, compliance with applicable national and industry standards and termination and liabilities in the event of breach. Pursuant to these strategic partnership agreements or supply agreements, we provide plastic pipes and pipe fittings to our direct customers at competitive prices. We provide credit periods of varying lengths ranging from 30 to 180 days for our direct customers depending on our relationship and agreement with them. In determining our relationship with them, we generally take into account their creditworthiness, adequacy of financial resources and their reputation.

Overseas sales

We also sell a small amount of our products overseas to countries and regions primarily in Africa, Asia and North and South America. These sales are primarily made through orders we receive from our overseas distributors or directly in trade shows, such as the China Import and Export Fair which we attend every year. The terms of our overseas sales are generally similar to those for our local sales in China. Products sold to overseas customers are inspected and picked up by the customers' representatives in China. The customers then arrange their own transportation and installation overseas. Any quality issues are dealt with during the customers' inspection of the products in China. Products may not be returned after the customers have acknowledged receipt and inspection and removed them from our premises. We do not provide after-sales services to overseas customers. Sales to customers located outside of China accounted for 1.4%, 0.6% and 0.6% of our revenue in 2008, 2009 and 2010, respectively. We plan to increase our international sales and the number of our distributors in overseas markets such as North and South America and Southeast Asia.

Marketing and promotion

Our marketing and promotion strategies have been important to our success and have focused on developing our uniform Liansu brand that customers can easily identify and associate with high-quality plastic pipe products. This has been promoted through consistent use of our Liansu brand and logo, our media advertising and participation in trade fairs. Our advertising expenses were RMB16.0 million in 2008, RMB25.4 million in 2009 and RMB70.2 million (US$10.6 million) in 2010, which represented 0.4%, 0.5% and 0.9% of our total revenue, respectively, for the corresponding periods.

Pricing

We determine pricing for our products based on various factors, including our production costs, our market position, our marketing strategy, market supply and demand, market competition, the margin of such products, the age and life cycle of such products and our relationship with the relevant customers. We set different prices for different customers. Our price quotations generally incorporate an amount to cover raw materials costs, which we base on current prices of raw materials as quoted to us by our suppliers, and our labor and manufacturing costs. We review these prices periodically with our customers in order to reflect changing market and operational conditions.

Customer service

We offer our customers, directly or through third-party contractors, a number of support services, including pre-sale consultation services, engineering services, training for installation contractors on jointing techniques, site supervision and guidance and after-sales services. We believe the range and efficiency of the services we provide are major factors that attract our customers to our business.

Our product return policy only allows products to be returned due to product defects as assessed and agreed upon by our quality control department or by mutual agreement. Such assessment is based on sample testing against the applicable national or industry standards. If a particular product does not satisfy the applicable standards, it may be returned to us. In most situations, we agree to bear the transportation costs for such product returns, which we believe has helped us to build stronger customer relationships. Given the low level of returned products, we do not have any provisioning policy for product warranty service.

Customer service department

Our customer service department, located in our headquarters in Shunde and our other production facilities in China, serves as the principal contact for our customers throughout the product order life-cycle. The department acts as a liaison between our company and customers to provide updates of contract and project status. In addition to handling contract and project inquiries, the customer service department also coordinates timelines and schedules for production, site services and engineering activities through integrated project plans.

Our customer service department works closely with other divisions and personnel located in our production facilities and sales offices across China to ensure that our products and services are delivered in accordance with the relevant contractual terms and agreed schedules.

Pre-sale consultation services

We offer a large number of different plastic pipes and pipe fittings made from a variety of different materials and built according to different designs and specifications. It is sometimes difficult for our customers and potential customers to choose products most suitable to their requirements. In order to facilitate their selection, we provide our customers and potential customers with pre-sale consultation services and advise them on which of our plastic pipes and pipe fittings are cost-effective and appear to be most suitable to their needs.

After-sales services

Our customer service department, in cooperation with our construction project service division in each production facility, also provides on-site supervision and guidance services to our customers in accordance with the terms of the customers' contracts. These services include training installation contractors on jointing techniques, sending on-site engineers to oversee pipe-laying and sending on-site work crews to perform complicated jointing tasks. For projects requiring complicated and advanced technology or large-scale projects, we also assist customers by introducing work crews or outsourcing service providers who are familiar with our products to perform the required tasks. These outsourcing service providers are independent third parties and we did not receive any fees or commissions from them during the three years ended December 31, 2010.

We provide product warranties for certain of our direct customers for periods of generally one year. Under such warranties, we agree to replace or repair products with quality defects caused during production or transportation (if we were responsible for the delivery) and provide technical consultation or spare parts within the warranty period.

Branding and brand recognition

Our plastic pipe products are sold under our Liansu brand which was recognized as a "China Well-known Trademark" in 2005. We had an independent advertising department in our headquarters, consisting of 23 full-time employees as of December 31, 2010, which is responsible for promoting our brand in various regional markets. As of December 31 2010, we owned 144 trademarks and had applied for an additional 22 trademarks in China. In addition, we have registered our Liansu brand in 18 other countries and regions.

The success of our brand building activities is reflected in the various recognitions and awards we have received, including:

2005	Our Liansu brand was recognized by the Trademark Office of the State Administration for Industry and Commerce of the People's Republic of China (中華人民共和國國家工商行政管理總局商標局) as a "China Well-known Trademark" (中國馳名商標). Guangdong Liansu Technology was registered as a "United Nations Supplier" with the United Nations Procurement Service of the United Nations.
2006	Our plastic pipes and pipe fittings produced under the brand "Liansu" were certified as a "China Top Brand Product" (中國名牌產品) by the General Administration of Quality Supervision, Inspection of Quarantine of the People's Republic of China (中華人民共和國國家質量監督檢驗檢疫總局).
2009	Our Liansu brand was recognized as one of the "Commodity Trademarks with Highest Competitiveness in 2009" (2009最具競爭力的商品商標) by the Organizing Committee for 2009 (the Third) China Trademark Festival (2009(第三屆)中國商標節組委會) and China Trademark Association (中華商標協會).

Research and development

The plastic pipe industry in China is characterized by rapid development and increasing demand for quality products. Research and development has been an important factor in our success. We believe that we must keep abreast of new technological developments in the plastic pipe industry in order to fulfill our customers' needs and requirements and stay competitive in the rapidly changing environment. We continually seek to develop new products, manufacturing processes and technology while constantly improving the functionality of our existing products. We spent RMB11.2 million, RMB20.8 million and RMB99.7 million (US$15.1 million) on research and development in 2008, 2009 and 2010, respectively. Such costs are included under "Other operating expenses, net" in our consolidated statements of comprehensive income.

We have an experienced research and development team responsible for designing and engineering our products and processes. Our research and development team is specialized in the following areas in relation to our products and processes: polymer chemistry, plastic technics, plastic mould and manufacture, and water supply and drainage engineering. As of December 31, 2010, our research and development team consisted of 660 employees. These employees accounted for approximately 8.9% of our total number of employees as of the same date. We also have field engineers located in our production facilities and sales offices across China. Due to frequent interactions with our customers, our field engineers have developed a deep understanding of our customers' needs and requirements. The close collaboration of our research and development team with our field engineers and engineers in different departments enables us to design and develop products that are tailored to the specific needs and practical applications of our customers. We believe the combination of our engineers' experience and our customer-oriented research and development approach distinguishes us from many of our competitors.

Examples of products, which our research and development team has recently developed or is currently working on, include:

Product	Application
Spray and drip irrigation piping system.............	Used in Agriculture water-saving irrigation
Polyethylene electrofusion fittings.....................	Used in the connection of polyethylene pipe system
Same floor drainage piping system...................	Used in urban drainage system
Solar water heater piping system......................	Used in the solar hot water pipe
CPVC cold and hot water piping system	Used in buildings hot water pipe
Plastic-steel composite piping system................	Used in fire-fighting systems

As of December 31, 2010, we held 161 patents and have applied for an additional 213 patents in China and had nine patents outside of China that are pending. Recognizing our leading position and expertise in the industry, we have been invited to participate in drafting or revising seven national industrial standards for the plastic pipe industry in China.

We believe that research and development is essential to our success. We have been recognized by several national and provincial government entities for our research and development capabilities, which we believe may help to enhance our reputation in the plastic pipe industry and build up confidence in our products. We have obtained numerous rewards and recognitions in our industry, which reflect our success in research and development, including:

- Our research and development center was recognized as a "Guangdong Provincial Plastics Pipe Engineering Technology Research and Development Center" (廣東省塑料管道工程技術研究開發中心) by the Science and Technology Department of Guangdong Province (廣東省科學技術廳), Development and Reform Commission of Guangdong Province (廣東省發展和改革委員會) and The Economic and Trade Commission of Guangdong Province (廣東省經濟貿易委員會) in 2004;

- Guangdong Liansu Technology was recognized as a "Key High-tech Enterprise" in the "National Torch Program" (國家火炬計劃重點高新技術企業) by the Torch High Technology Industry Development Centre of the Ministry of Science and Technology of the People's Republic of China (中華人民共和國科學技術部火炬高技術產業開發中心) in 2005;

- Guangdong Liansu Technology was recognized as a "Plastic Pipe New-tech Industrialization Demonstration Base" (建設部塑料管新技術產業化示範建設基地) by the Ministry of Development of the People's Republic of China (中華人民共和國建設部) in 2006;

- Our research and development center was designated by the Ministry of Human Resources and Social Security of the People's Republic of China (中華人民共和國人力資源和社會保障部) and National Post-doctoral Development Administration Committee (全國博士後管委會) in 2008 as a Post-Doctoral Work Station (博士後科研工作站) in the plastic pipe industry in China to date; and

- Guangdong Liansu Technology was recognized as a "High and New Technology Enterprise" (高新技術企業) by Guangdong Provincial Science and Technology Department (廣東省科學技術廳), Guangdong Provincial Finance Bureau (廣東省財政廳), Guangdong Provincial Office of State Administration of Taxation (廣東省國家稅務局) and Guangdong Provincial Local Taxation Bureau (廣東省地方稅務局) in 2008.

- Wuhan Liansu was recognized as a "High and New Technology Enterprise" (高新技術企業) by Hubei Provincial Science and Technology Department (湖北省科學技術廳), Hubei Provincial Finance Bureau (湖北省財政廳), Hubei Provincial Office of State Administration of Taxation (湖北省國家稅務局) and Hubei Provincial Local Taxation Bureau (湖北省地方稅務局) in 2009.

- "Top 10 Enterprises of Plastic Processing Industry in China Light Industries" (中國輕工業塑料加工行業十強企業) by China National Light Industry Council (中國輕工業聯合會) in 2009.

Raw materials

The principal raw materials for the production of our plastic pipes and fittings are plastic resins such as PVC, PE and PP-R. We acquire substantially all of our PVC resins in China, which include PVC resins manufactured in China using coal and limestone and PVC resins manufactured overseas using petrochemicals. The other plastic resins such as PE and PP that we use are manufactured using petrochemical intermediates. Our cost of raw materials amounted to RMB2,760.6 million, RMB3,627.5 million and RMB5,039.0 million (US$763.5 million), accounting for 88.6%, 88.3% and 88.7% of our cost of sales for 2008, 2009 and 2010, respectively. The following table sets out the cost of our major raw materials for the three years ended December 31, 2010:

	Year ended December 31,			
	2008	2009	2010	2010
	RMB	RMB	RMB	USD
				(in millions)
PVC resins	1,370.6	1,909.9	2,636.9	399.5
Other resins	683.7	805.1	1,226.6	185.9
Plastic resin subtotal	2,054.3	2,715.0	3,863.5	585.4
Other raw materials	706.3	912.5	1,175.5	178.1
Raw materials total	2,760.6	3,627.5	5,039.0	763.5

The primary raw materials used in a majority of our pipe products is PVC resin manufactured in the PRC from coal and limestone. Prices for PVC resins from the PRC have been affected by various factors, including fluctuations as a result of shortages in refinery capacity, changes in PVC manufacturers' electrical and labor costs, changes in coal prices and changes in the price of petrochemical based PVC resins on the global market. In addition to coal and limestone based PVC resins, we also use a significant amount of various petrochemical based plastic resins in our production, prices of which have fluctuated significantly in recent years as a result of changes in natural gas and crude oil prices. The unit costs of the plastic resins we use were affected by these fluctuations. Our average PVC resin unit cost per tonne was approximately RMB6,624.0, RMB5,572.0 and RMB6,390.0 in 2008, 2009 and 2010, respectively, while the average unit cost per tonne of our other plastic resins was approximately RMB11,717.0, RMB8,441.0 and RMB 10,220.0 for the same respective periods. See "Management's discussion and analysis of financial condition and results of operations — Cost of raw materials" and "Risk factors — Risks relating to our business — Our financial performance is dependent on the cost and continued availability of plastic resins" for additional information on factors affecting the prices of our raw materials.

It is our policy to purchase raw materials only from high-quality, reliable suppliers, who can ensure that their raw materials are up to the standards required for our products. Our policy is to maintain an inventory level of one to two months' supply of our principal raw materials at all times. We have signed formal framework agreements with our suppliers which generally have a term of one year and provisions regarding the indicative volumes to be purchased during the year but do not have fixed price provisions. The indicative volumes under the agreements are not minimum purchase requirements, and there is no penalty for failing to purchase up to such indicative volumes. Settlement is generally by payment before delivery. Disputes are generally resolved amongst the parties and there are generally no express termination provision under the framework agreements. We believe we have strong relationships with our key suppliers, allowing us to obtain greater uniformity with regard to quality and logistics to an extent that would not be possible if we bought our raw materials on the spot market.

We believe we are one of the largest customers of most of our key suppliers, which provides us with additional bargaining power. We centrally coordinate our raw material purchases on a company-wide basis to increase our bargaining power, maximize volume discounts and decrease availability risks. As the concentration of raw material suppliers in China is relatively low, we believe, with our market position and purchasing power, alternative suppliers with comparable quality and prices are readily available to us if any of our existing suppliers cease to supply raw materials to us. We have not entered into any long-term forward purchase contracts or hedges with respect to our raw material costs. We seek to mitigate the market risk related to commodity pricing by passing the increases in raw material costs through to our customers in the form of price increases. See "Inventory management" in this section and "Management's discussion and analysis of financial condition and results of operation — Quantitative and qualitative information about market risk — Commodity price risk."

We negotiate with our suppliers to deliver raw materials directly to our production facilities, which substantially reduces our transportation costs for the raw material delivery. Our top five raw material suppliers accounted for 30.5%, 32.8% and 18.6% of our total purchases for 2008, 2009 and 2010, respectively. Our relationship with our top five suppliers for the year ended December 31, 2010 ranged from one to 11 years. The principal businesses of our top five suppliers as of December 31, 2010 included manufacture, sales, import and export, wholesale and trading of chemical industrial raw materials. We sourced mainly PVC from these suppliers. As of the date of this offering memorandum, we had 51 suppliers of PVC. Our largest raw material supplier accounted for 11.5%, 13.2% and 4.4% of our total purchases for 2008, 2009 and 2010, respectively. None of the directors, or their respective associates, or any shareholder who or which (to the knowledge of the directors) holds more than 5% of the issued shares or had any interests in any of our five largest suppliers throughout the three years ended December 31, 2010.

We have not experienced any material difficulties in sourcing raw materials for our requirements and have not encountered any material disruption to our business as a result of any shortage of raw materials or bankruptcy or default of our suppliers during the three years ended December 31, 2010.

Energy supply

Production of plastic pipes is heavily dependent on a reliable supply of electricity. Our costs of electricity and fuel amounted to RMB160.0 million, RMB185.0 million and RMB215.1 million (US$32.6 million), accounting for 5.1%, 4.5% and 3.8%, of our cost of sales for 2008, 2009 and 2010, respectively. We have a relatively stable and reliable supply of electricity from the State Grid Corporation of China (國家電網公司) and China Southern Power Grid Co., Ltd. (中國南方電網有限責任公司). We have experienced occasional interruptions in the supply of electricity to one or more of our production facilities due to routine checks and maintenance of the grid and power generation facilities and occasional regional power shortages. In such cases, we were given prior written notice of the interruptions, and these interruptions did not have a material adverse effect on our production. See the section headed "Risk factors — Risks relating to our business — Our operations rely on a continuous power supply and the ready availability of utilities, and any shortages or interruptions could significantly disrupt our operations and increase our expenses". We do not believe that the historical interruptions to our power supply warrants the expense of providing for back-up generators or other alternative sources of power.

Inventory management

We monitor and control the inventory levels of raw materials and finished products to maintain the efficiency of our operations. Our policy is to maintain an inventory level of one to two months' supply of our principal raw materials and finished goods at all times. We adjust the volume of our raw material purchases and arrange production based on our estimation of market demand for our products and, to a lesser extent, changes in the market prices of the raw materials. We use an in-house inventory management system to monitor, plan and allocate warehouse space, and manage raw materials and finished products to meet delivery requirements and schedules. Our inventory management system provides access to various records, including usage of warehouse space, volume of raw materials and finished products in inventory. This allows our management and sales and production teams to monitor closely the implementation of our inventory policy and to adjust our production schedules and raw material purchases accordingly.

Our inventory of raw materials primarily consists of PVC, PE and PP-R. Our inventory of finished products primarily consists of products awaiting delivery to customers. We put different categories of products into different warehouses to facilitate our inventory management. See the section headed "Management's discussion and analysis of financial condition and results of operation — Inventory analysis" in this offering memorandum for further information about our turnover days for raw materials and finished products.

We have not made any provisions for inventory obsolescence during the three years ended December 31, 2010. Our primary raw materials are not generally susceptible to obsolescence by passage of time. We did not experience any shortage of inventory during the three years ended December 31, 2010.

Quality control

As of December 31, 2010, our quality control division employed over 295 quality control employees located in our corporate headquarters in Shunde and in our production facilities. Guangdong Liansu Technology, Wuhan Liansu, Guiyang Liansu, Hebei Liansu, Henan Liansu, Heshan Liansu, Zhongshan Walton, Wuhan Liansu Mold, Sichuan Liansu, Nanjing Liansu and Urumqi Liansu have received ISO9001 accreditation. Our quality control process can be divided into three main aspects:

- Development of new products — Newly-developed products undergo a series of testing procedures before they are commercially produced to ensure that the product complies with all applicable industry standards and meets the functions and specifications required.

- Procurement of materials — Materials supplied by suppliers are inspected and sample-tested on delivery to ensure that they meet the requisite quality standards before they are used in our production.

- Production — We have formulated and implemented standard operating procedures, including but not limited to having quality control personnel monitor and perform sample testing with respect to every stage of the production process to ensure our products are produced in accordance with the required standards. Final products are sample tested prior to delivery to our customers to ensure that internal and China's national and other applicable quality standards have been met.

Employees

As of December 31, 2010, we had a total of 7,433 full-time employees. The following table shows a breakdown of our employees by department as of December 31, 2010:

	Number of Employees
Production	3,919
Warehouse	889
Quality control and research and development	955
Sales and marketing	677
Management and administration	316
Back office and security	233
Customer services	213
Finance and accounting	176
Purchase and supply	31
Information technology	24
Total	7,433

We believe that we maintain satisfactory working relationships with our employees. We have not experienced significant problems with our employees or disruptions in our operations due to labor disputes. In order to minimize the risk of labor shortages, we continuously aim to further improve our management skills and maintain a stable labor force by providing what we believe to be attractive compensation packages and career advancement opportunities. During the three years ended 2010, we did not suffer any material losses resulting from a shortage of labor. Please refer to the section headed "Risk factors — Risks relating to the PRC — The implementation of the new PRC Labor Contract Law and related regulations and the expected increase in labor costs in the PRC may materially and adversely affect our business and profitability".

We are committed to employee development and have implemented various programs for this purpose, including various training programs designed to enhance our employees' industrial and technical skills and to increase their knowledge of work safety standards.

The remuneration payable to our employees includes salaries and allowances. We determine our staff's remuneration based on factors such as qualifications and years of experience. Our staff costs were RMB215.4 million, RMB223.8 million and RMB277.8 million (US$42.1 million) for 2008, 2009 and 2010, respectively.

We reward our senior management with annual bonuses based on various performance criteria. As part of our remuneration policies for our senior management, we have in place two share-based remuneration schemes — the Pre-IPO Share Option Scheme and the Share Option Scheme. These schemes are designed to provide incentives and rewards to our employees. For further details on the principal terms of the Pre-IPO Share Option Scheme and the Share Option Scheme, please see "Management — Pre-IPO share option scheme" and "— Share option scheme". We believe that by offering our key employees a shareholding stake in our Company, we are aligning their interests with ours, thereby providing our key employees with more incentive to improve our performance.

Under PRC national laws and regulations, our subsidiaries in the PRC are required to make mandatory contributions to a number of social insurance schemes, such as pension insurance, for their employees who are eligible for such benefits. We provide social insurance to our employees in accordance with the implementation policies of local government authorities, and except for Changchun Liansu, we have received confirmation letters from the local governmental authorities indicating that we have made all requisite contributions to the social security insurance funds in a timely manner according to the local regulations, other than the housing provident fund contributions in respect of certain of our subsidiaries. We are also subject to various labor laws and regulations in the PRC, including PRC Labor Law (中華人民共和國勞動法) and the PRC Labor Contract Law (中華人民共和國勞動合同法).

Pursuant to these laws, we are required to enter into labor contracts if we are to establish labor relationships with our employees. We must provide wages, which are not lower than the local minimum wage standards, to such employees. We are required to establish labor safety and sanitation systems, strictly abide by PRC rules and standards and provide relevant training to our employees. We must also provide our employees with working conditions that meet PRC rules and standards for safety and sanitation and we must regularly examine the health of our employees engaged in hazardous occupations. The PRC Labor Contract Law also imposes more stringent requirements on employers in relation to entering into fixed term employment contracts, hiring of temporary employees and dismissing employees. Our directors have confirmed that, save for the outstanding contributions to the housing provident fund mentioned above, which have however been provided for and were reflected in the consolidated financial statements of our Group, our Group has complied with, and has made the relevant contributions in accordance with, the relevant labor and social security laws and regulations as of December 31, 2010.

Intellectual property

We use a combination of our patents, trademarks, trade names, confidentiality agreements and design rights to define and protect our rights to the intellectual property in our products. However, we do not rely on patents, trademarks, trade names and design rights from third parties to produce our products.

As of December 31, 2010, we owned 161 patents and have applied for an additional 213 patents in China and had nine patents outside of China that are pending. A number of these patents are important to our business. Our patents are currently used in our business or are held for use in our business as and when appropriate. In China, a patent for an invention is valid for 20 years from the date of application and a patent for a utility model or design is valid for 10 years from the date of application. As of the date of this offering memorandum, we have not received any rejection notices from the relevant authorities for any of our pending patent applications. We believe that even if some applications are rejected, the rejections will not adversely affect our operation and business because most of our products are produced using publicly known technologies and not technologies for which patents are pending registration. For patents that are about to expire, as PRC laws and regulations are silent on the renewal process, we cannot renew our ownership of those patents after their respective expiration dates. However, we believe that such expiration of patents will not adversely affect our operation and business because we are still able to use the technology underlying such patents even after their expiration dates.

As of December 31, 2010, we owned 144 trademarks and had applied for an additional 22 trademarks in China. In addition, we have registered our Liansu brand in 18 other countries and regions. Other than the trademarks we currently use in our business, the trademarks we own also include (i) those in categories which we do not use but do not want others to use; (ii) those in names which we do not want others to use; and (iii) those which we do not currently use but which we may use in the future. In China, a trademark is valid for 10 years from the date of registration and renewable by application. We intend to renew such trademarks prior to their expiration.

We take the following steps to protect and prevent infringement of our intellectual property rights:

- produce in-house products with proprietary designs to minimize counterfeit products;
- obtain various intellectual property registrations;
- set up a specialized team under the legal department to be responsible for preventing infringement — this team cooperates closely with our sales and marketing teams, and upon notification by our sales and marketing teams of counterfeit products or other infringements of our intellectual property, it will verify the facts and take appropriate action, including issuing warnings and taking legal actions;
- prohibit our distributors from selling counterfeit products; and
- require our distributors to report instances of counterfeit products in the market.

We have encountered instances of counterfeit products sold in certain locations in China. None of these instances, however, materially affected our business and operations. We filed 11 claims in China and five in Hong Kong in 2008, one in China and one in Hong Kong in 2009 and two in China and nil in Hong Kong in 2010, in which we made claims against third parties in relation to such infringements for approximately RMB3.3 million, RMB1.0 million and RMB1.0 million, respectively.

We did not suffer any material financial loss as a result of these infringements during 2008, 2009 and 2010. We have not been involved in any material intellectual property rights infringement claims or litigation during the three years ended December 31, 2010.

We entered into various trademark licensing agreements and patent licensing agreements with certain related parties pursuant to which we granted to such parties non-exclusive licenses to use certain of our trademarks and patents. See "Related party transactions — Trademark licensing agreements", "Related party transactions — Patent licensing agreements" and "Risk factors — Risks relating to our business — We may be affected by actions of our affiliates to whom we have licensed certain of our patents and trademarks".

Environmental and safety matters

Environmental

We are subject to the national environment laws of the PRC, the regulations of the State Council issued thereunder, and environmental rules promulgated by various ministries and local governments in jurisdictions in which our production facilities are located. These include regulations regarding air pollution, noise emission and solid waste discharge. The Ministry of Environmental Protection sets national discharge standards for various pollutants and local environmental protection bureaus may set stricter local standards. Enterprises are required to comply with the stricter of the two applicable standards. If these requirements are violated, the polluting entity will be required to pay excess discharge fees as set by the PRC government.

In addition to general environmental protection laws and regulations, our business is subject to various laws and regulations in the production and operation process, including: the Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法); the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法); the Law of the PRC on the Prevention and Control of Pollution from Solid Wastes (中華人民共和國固體廢物污染環境防治法); the Law of the PRC on Prevention and Control of Pollution From Environmental Noise (中華人民共和國環境噪聲污染防治法); the Water Law of the PRC (中華人民共和國水法); and the Provisional Measures on Administration of License for the Discharge of Water Pollutants (水污染排放許可證管理暫行辦法).

We aim to develop our business without compromising environmental protection. The primary waste produced in our production process are plastic pellets, most of which can be recycled and reused in the production process. In addition, our production facilities have water-recycling systems which recycle the water used for cooling in our production process to minimize waste water discharge. We are in compliance with the environmental laws and regulations for our production plants in all material respects. We have not been punished or reprimanded or required to pay any excess discharge fees for any violation of environmental laws or regulations during 2008, 2009 and 2010.

Urumqi Liansu, Guangdong Liansu Technology, Wuhan Liansu, Guiyang Liansu, Hebei Liansu, Henan Liansu, Heshan Liansu, Zhongshan Walton, Wuhan Liansu Mold, Sichuan Liansu and Nanjing Liansu have received ISO14001 "Environmental Certification" with a term of three years, with expiry dates ranging from January 2012 to December 2012. Our facilities are subject to regular checks by the relevant authority.

Safety

During 2008, 2009 and 2010, we complied with all applicable safety laws and regulations in all material respects and strictly implemented internal safety guidelines and operating procedures. Since the commencement of our business, none of our employees has been involved in any major accident in the course of their employment and we have not been subject to disciplinary actions with respect to the labor protection issues discussed below.

We have occasionally been brought in front of labor arbitration tribunals regarding the amount we should pay to our employees or ex-employees for work-related injuries. It is our policy to settle these claims pursuant to the arbitration tribunals' orders in order to avoid any further disputes. We have paid all such compensation according to the orders or the settlement agreements that we have reached with our employees or ex-employees. The total amount we have paid with respect to these cases was nil, RMB0.4 million and RMB0.4 million (US$0.1 million), for 2008, 2009 and 2010, respectively. Urumqi Liansu, Guangdong Liansu Technology, Wuhan Liansu, Guiyang Liansu, Hebei Liansu, Henan Liansu, Heshan Liansu, Zhongshan Walton, Wuhan Liansu Mold, Sichuan Liansu and Nanjing Liansu have received OHSMS18001 "Occupational Health and Safety Management System Certification" with a term of three years and are subject to regular checks by the relevant authority.

Information system

We have a separate department, comprising 24 staff as of December 31, 2010, in charge of the establishment and maintenance of our information system. Our information system was established by our internal team with the help of external vendors. Our information system connects all of our production bases and sales offices across China and enables us to share operational and financial data, such as our inventory levels, sales volumes and order amounts. As our business continues to expand, we will continue to enhance our information management platform to assist us in effectively controlling and managing our production and sales offices across China.

Legal proceedings and other matters

Other than Guiyang Liansu, which is in the process of renewing its Permit for Production of Special Equipment, we have obtained all material licenses, permits or certificates necessary to conduct our operations from the relevant government authorities in China. The material licenses and permits in relation to our business operations include the Permit for Hygiene and Safety Products related to Potable Water (涉及飲用水衛生安全產品衛生許可批件), the Certificate of Labeling Application for Fire Resistant Products (阻燃製品標識使用證書), and the Permit for Production of Special Equipments (特種設備製造許可證). The term of the Permit for Hygiene and Safety Products related to Potable Water and the Permit for Production of Special Equipments is four years, and the term of the Certificate of Labeling Application for Fire Resistant Products is three years. We have not failed to renew these licenses and permits during 2008, 2009 and 2010, and to the best of our knowledge, we have no reason to believe that there will be any legal impediment to our renewal of such licenses and permits.

We are involved from time to time in litigation arising in the ordinary course of business, including lawsuits and proceedings before various courts and arbitration tribunals involving contractual, labor, intellectual property and other matters. Although it is difficult to estimate our potential exposure in connection with these matters, we do not believe that these matters have had or will have a material adverse effect on our financial position, results of operations or liquidity. To the best of our knowledge, we are not and have not been subject to any government, legal or arbitration proceedings, nor are we aware of any threatened or pending proceedings, which may have or have had a material adverse effect on our financial position or profitability during the three years ended December 31, 2010. Our PRC legal adviser, Jun He Law Offices, has confirmed that, to the best of its knowledge, save as disclosed in this offering memorandum, there has been no material non-compliance by us with applicable PRC laws and regulations during 2008, 2009 and 2010. We have also taken relevant measures to ensure ongoing compliance with relevant laws and regulations.

Insurance

We have purchased product liability insurance policies from multiple insurance companies in China that cover our major products against losses and damages that are caused by the use of our products. Our insurance also covers many of our products against loss of raw materials in transit from overseas and loss of products in delivery. We have also purchased insurance policies to cover our production facilities (including buildings, machinery, equipment and vehicles) against losses and damage to such facilities (excluding business interruption losses) caused by natural disasters. Most of our operations-related insurance policies are subject to deductibles and are renewed annually. Some of our insurance coverage does not extend to wars or acts of terrorism. We believe that we maintain adequate insurance coverage for our assets and that our insurance coverage is in line with industry practice in China.

Consistent with what we believe to be customary practice within the industry in China, we do not carry any third-party liability insurance to cover claims in respect of personal injury or property or environmental damage arising from accidents on our property or relating to our operations (other than our automobiles), nor do we carry any business interruption insurance or key-man life insurance on our key employees. There is a risk that we do not have sufficient insurance coverage for losses, damages and liabilities that may arise in our business operations. See the section headed "Risk factors — Risks relating to our business — Our insurance coverage may not be sufficient to cover the risks related to our operations or any losses".

Competition

The plastic pipes industry is highly competitive. According to Market Avenue, the top 20 plastic pipe manufacturers accounted for approximately 47% of the total production volume in the industry in 2009.

Our key competitors consist of other PRC manufacturers of plastic pipes, as well as large foreign producers that have entered into China through joint ventures or subsidiaries. Many of these joint ventures and foreign companies have substantially greater manufacturing, financial, research and development and marketing resources and geographical reach than us.

We believe that the principal competitive factors in our industry are:

- service offerings and product quality;
- geographical location and coverage;
- research and development capabilities;
- pricing;
- general reputation and reliability in meeting product delivery schedules; and
- flexibility and timeliness in responding to design and schedule changes.

We believe that the intense competition in the Chinese plastic pipe industry will continue in the future. See the section headed "Risk factors — Risks relating to our industry — The industry in which we operate is highly competitive, and a further increase in competition or productivity by our competitors may materially and adversely affect our market share and profit margins" and the section headed "Industry".

Regulation

Overview

The laws and regulations governing the production and sale of plastic pipe products in the PRC include, among others, the Measures for Supervision and Administration of Hygiene of Potable Water (生活飲用水衛生監督管理辦法); the Regulations on Safety Supervision over Special Equipments (特種設備安全監察條例); the Measures for Administration of Labeling for Fire Resistant Products (Provisional) (阻燃製品標識管理辦法(暫行)); the Standardization Law of the PRC (中華人民共和國標準化法) (the "Standardization Law"); the Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the "Environmental Protection Law"); and the Energy Saving Law of the PRC (中華人民共和國節約能源法) (the "Energy Saving Law"). In addition, we are subject to various PRC laws and regulations relating to foreign exchange, quality, production safety, labor and taxation. A summary of the important provisions of the aforesaid laws and regulations relating to the plastic pipe industry and our business is set out below.

Production licenses and certificates

The Measures for Supervision and Administration of Hygiene of Potable Water (生活飲用水衛生監督管理辦法) was effective from January 1, 1997 and amended on February 12, 2010. The measures set out rules to ensure the safety of human health and drinking water. According to the measures, production and sale activities of plastic pipes used for drinking water supply may only be conducted after the requisite Permit for Hygiene and Safety Products related to Potable Water (涉及飲用水衛生安全產品衛生許可批件) has been obtained. As of the date of this offering memorandum, we have obtained the requisite permit for the production and sale of plastic pipes used for water supply in accordance with the measures.

The Regulations on Safety Supervision over Special Equipments (特種設備安全監察條例) was effective from June 1, 2003 and amended on January 24, 2009. The regulations set out rules on the safety of special equipments in order to monitor, prevent and reduce accidents, and to protect human life and property safety. According to the regulations, the production of pressure pipes and pipe fitting for gas supply may only be conducted after the requisite Permit for Production of Special Equipments (特種設備製造許可證) has been obtained. As of the date of this offering memorandum, we have obtained the requisite permit for the production of pressure pipes and pipe fitting for gas supply in accordance with the regulations at all of our production facilities, except for Guiyang Liansu, which is in the process of renewing its permit for production of special equipment.

The Measures for Administration of Labellings for Fire Resistant Products (Provisional) (阻燃製品標識管理辦法(試行)) was effective from May 1, 2007. The measures set out rules on the labelling supervision and management, in respect of fire resistant products, with a view to protect human life and property safety. According to the measures, the production and sale of fire resistant plastic pipe products, such as power supply pipes and cable ducts, may only be conducted after the requisite Certificate of Labelling Application for Fire Resistant Products (阻燃製品標識使用證書) has been obtained. As of the date of this offering memorandum, we have obtained the requisite certificate for the production and sale of our plastic pipes and pipe fittings used in power supply and telecommunications, in accordance with the measures.

Production standardization

The Standardization Law, which came into effect on April 1, 1989, establishes the legal framework upon which national standards are developed and applied to various businesses and industries in the PRC. The production, sale or import of any product that does not conform to compulsory standards shall be handled by the relevant administrative authorities in accordance with the Standardization Law. Where the

Standardization Law is silent on such handling, the local Administration of Industry and Commerce may confiscate the products, and any illegal income derived therefrom, and impose a fine. In circumstances where serious consequences are incurred and criminal offense is constituted, the liabilities for responsible personnel may be investigated and established in accordance with law. As of the date of this offering memorandum, we are in compliance with the relevant applicable national standards.

Environmental protection

The Environmental Protection Law (中華人民共和國環境保護法), which was promulgated and came into force in 1989, aims to protect and improve the environment, prevent and reduce pollution and other public hazards, and safeguard human health. MEP is responsible for the overall supervision and administration of environmental protection work in the PRC and formulates national standards for pollutants and waste materials discharged in the PRC.

According to the Environmental Protection Law, where the construction of a project may cause any pollution to the environment, an environmental impact evaluation must be performed to determine the preventive and remedial measures to be adopted, and the relevant environmental protection administration approval shall be obtained. Enterprises discharging pollutants must register with relevant environmental protection administration departments. Enterprises discharging pollutants in excess of the standards set by the MEP shall be responsible for paying a sewage discharge fee for exceeding the standard which includes the cost of eliminating the pollutants.

Depending upon the circumstances and the extent of the pollution, the relevant environmental protection administration departments may impose various types of penalties on persons or enterprises who are in violation of the Environmental Protection Law. Penalties include issuance of a warning notice; imposition of a fine; determination of a time limit for rectification; issuance of an order to reinstall and resume operation of environmental protection facilities which have been dismantled or left unused; issuance of an order to suspend production or to suspend and close the business; imposition of administrative sanctions or investigation and establishment of criminal liabilities against the personnel in charge. In addition, in cases where the pollution causes damage to others, civil indemnification to victims shall be required.

According to the Environmental Protection Law and other relevant laws and regulations, the construction, renovation and extension of all our facilities must strictly conform to all aspects of the environmental impact assessment system. Production and sales activities may only be conducted after the relevant project has been inspected and approved and the requisite Permit for the Discharge of Pollutants has been issued.

In addition, in the production and operation process, plastic pipe processing enterprises must comply with the following laws and regulations related to environmental protection: the Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法); the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法); the Law of the PRC on the Prevention and Control of Pollution from Solid Wastes (中華人民共和國固體廢物污染環境防治法); the Law of the PRC on Prevention and Control of Pollution From Environmental Noise (中華人民共和國環境噪聲污染防治法); the Water Law of the PRC; and the Provisional Measures on Administration of License for the Discharge of Water Pollutants (水污染排放許可證管理暫行辦法).

In accordance with the requirements of relevant laws and regulations on environment protection, we have adopted technologies and equipment to prevent and reduce pollution, and except for Sichuan Liansu as disclosed in "Risk factors — Risks relating to our business — There are title defects relating to certain properties occupied by us in Shunde and Sichuan and there are environmental compliance issues with respect to Sichuan Liansu", we have received confirmation letters from local environmental authorities indicating that all of our PRC subsidiaries have been in compliance with the environmental protection laws and regulations since the incorporation. As of the date of this offering memorandum, we have never received an administrative penalty for breaching environmental protection laws and regulations.

Energy saving

The Energy Saving Law (中華人民共和國能源法) was revised on October 28, 2007 and came into effect on April 1, 2008. The Energy Saving Law implements an energy saving appraisal and examination system with respect to fixed asset investment projects in the PRC. In cases where a particular project fails to comply with the compulsory energy saving standards, the authorities in charge of the examination and approval or verification of projects shall not approve or certify the construction; the construction unit shall not begin construction on the project; or if completed, the completed construction project shall be prohibited from commencing production or use. The Energy Saving Law also implements a compulsory retirement system for superseded or outdated products, facilities and production techniques that consume excessive amounts of energy.

Foreign exchange

Pursuant to the Regulations on Foreign Exchange Control of the PRC (中華人民共和國外匯管理條例) promulgated on January 29, 1996, effective on April 1, 1996 and amended on August 5, 2008, payments made in foreign currencies for international transactions, such as the sale or purchase of goods, are not subject to PRC governmental control or restrictions. Certain organizations in the PRC, including foreign-invested enterprises, may purchase, sell and/or remit foreign currencies at certain banks authorized to conduct foreign exchange business upon providing valid commercial documents to such banks. However, approvals from the SAFE are required for the relevant capital account transactions, such as an overseas investment by a domestic company.

Pursuant to the Circular of the SAFE on Relevant Issues concerning Foreign Exchange Administration of Financing and Return Investments Undertaken by Domestic Residents through Overseas Special Purpose Vehicles (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) ("SAFE Notice"), promulgated on October 21, 2005 and effective on November 1, 2005, (a) a PRC citizen (a "PRC Resident") must register with the local SAFE branch before he or she establishes or controls an overseas special purpose vehicle ("SPV") for the purpose of conducting overseas equity financing; (b) when a PRC Resident contributes assets or equity interests to an overseas SPV, or engages in overseas financing after contributing assets or equity interests in a domestic enterprise to an overseas SPV, such PRC Resident must register his or her interest in the overseas SPV or any change to his or her interest in the overseas SPV with the local SAFE branch; and (c) when the overseas SPV undergoes a material change in capital outside the PRC, such as a change in share capital or merger and acquisition, the PRC Resident must, within 30 days after the occurrence of such event, register such change with the local SAFE branch. Pursuant to SAFE Notice, failure to comply with these registration procedures may result in penalties, including the imposition of restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute any dividends to the overseas SPV. As of 22nd January 2010, Mr Wong Luen Hei, our principal shareholder, has completed relevant registration with the SAFE Guangdong Branch.

On July 31, 2005 the PBOC issued a Public Announcement of the PBOC on Improving the Reform of the RMB Exchange Rate Regime, which announced that the PRC would reform the exchange rate regime by using a managed floating exchange rate, which is pegged to a basket of currencies, instead of being pegged to the US dollar.

Quality

The revised Product Quality Law of the PRC (中華人民共和國產品質量法) was promulgated on February 22, 1993, effective on September 1, 1993 and amended on July 8, 2000. The State Council's product quality supervision authority is in charge of the nationwide supervision of product quality, while the local product quality supervision authority at or above the county level is responsible for supervising the product quality within its respective administrative region. Producers and sellers shall establish internal quality management systems and implement strict job quality specifications and corresponding quality evaluation procedures. The State encourages the enterprises to ensure that the quality of their products achieves and surpasses the industrial, national and international standards.

Labor

Pursuant to the PRC Labor Law (中華人民共和國勞動法) promulgated on July 5, 1994 and effective on January 1, 1995 and the PRC Labor Contract Law (中華人民共和國勞動合同法) promulgated on June 29, 2007 and effective on January 1, 2008, if an employment relationship is established between an entity and its employees, written labor contracts shall be prepared. The relevant laws stipulate the maximum number of working hours per day and per week, respectively. Furthermore, the relevant laws also set forth the minimum wages. The entities shall establish and develop systems for occupational safety and sanitation, implement the rules and standards of the State on occupational safety and sanitation, educate employees on occupational safety and sanitation, prevent accidents at work and reduce occupational hazards.

Under the PRC Labor Contract Law: (i) an employer shall make monetary compensation, which shall be based on the number of an employee's working years with the employer at the rate of one month's wage for each year, to the employee upon termination of the employment contract with certain exceptions; (ii) if an employee has been working for the employer for a consecutive period of not less than 10 years, or if a fixed-term employment contract with an employee was entered into on two consecutive occasions, generally the employer should enter into an open-ended employment with such employee, unless the employee requests a fixed-term employment contract; (iii) where an employer fails to enter into an open-ended employment contract with an employee, it shall each month pay to the employee twice his wage, commencing from the date on which an open-ended employment contract should have been entered into; and (iv) if an employer hires an employee whose employment contract with another employer has not yet been terminated or ended, causing the other employer to suffer a loss, it shall be jointly and severally liable with the employee for the compensation for such loss.

Pursuant to the Regulations on Occupational Injury Insurance (工傷保險條例) promulgated on April 27, 2003 and effective on January 1, 2004, as amended on December 20, 2010 and the Interim Measures concerning the Maternity Insurance for Enterprise Employees (企業職工生育保險試行辦法) promulgated on December 14, 1994 and effective on January 1, 1995, PRC companies shall pay occupational injury insurance premiums and maternity insurance premiums for their employees.

Pursuant to the Interim Regulations on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例) promulgated and effective on January 22, 1999 and the Interim Measures concerning the Administration of the Registration of Social Insurance (社會保險登記管理暫行辦法) promulgated and effective on March 19, 1999, basic pension insurance, medical insurance and unemployment insurance are collectively referred to as social insurance. Each of the PRC companies and their employees are required to contribute to the social insurance plan.

Pursuant to the Regulations on the Administration of Housing Fund (住房公積金管理條例) promulgated and effective on April 3, 1999, as amended on March 24, 2002, PRC companies must register with the applicable housing fund management center and establish a special housing fund account in an entrusted bank. Each of the PRC companies and their employees are required to contribute to the housing fund and their respective deposits shall not be less than 5% of an individual employee's monthly average wage during the preceding year.

Enterprise income tax

The new Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the "New Income Tax Law") became effective on January 1, 2008, replacing the Income Tax Law of the PRC on Enterprises with Foreign Investment and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法) and Provisional Regulations of the PRC on Enterprise Income Tax (中華人民共和國所得稅暫行條例). The New Income Tax Law imposes a single uniform tax rate of 25% for most domestic enterprises and foreign-invested enterprises and contemplates various transitional periods and procedures. The Notification of the State Council on Carrying out the Transitional Preferential Policies concerning Enterprise Income Tax (國務院關於實施企業所得稅過渡優惠政策的通知) (the "Notification") which was promulgated and became effective on December 26, 2007 further clarifies that from January 1, 2008, the enterprises that enjoyed a "Two year exemption and three year half payment" of enterprise income tax and other preferential treatments in the form of periodic tax deductions and exemptions according to the then applicable tax laws, administrative regulations and relevant documents may, after the enactment of the Enterprise Income Tax Law, continue to enjoy such benefits until the expiration of the applicable period. Enterprises whose preferential treatment period has not commenced due to the fact that no profits had been generated in previous years will enjoy such preferential tax treatment beginning January 1, 2008 until the expiry of such period.

Under the New Income Tax Law, enterprises established outside the PRC whose "de facto management bodies" are located in the PRC are considered "resident enterprises" for PRC tax law purposes and will generally be subject to the uniform 25% enterprise income tax rate as to their global income. Under the Regulations on the Implementation of Enterprise Income Tax Law of the PRC, a "de facto management body" is defined as the body that has the significant and overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation promulgated a circular to clarify the definition of "de facto management bodies" for enterprises incorporated overseas with controlling shareholders that are PRC enterprises. It remains unclear, however, how the tax authorities will treat a case such as ours which includes an overseas enterprise invested in or controlled by another overseas enterprise that is ultimately controlled by a PRC individual resident and a Hong Kong permanent resident. So far, we are currently not treated as a PRC resident enterprise by the relevant PRC tax authorities.

Call for tender and submission of bids

In accordance with The Tender Law of the PRC (中華人民共和國招標投標法) which took effect on January 1, 2000, a call for tender is required for all aspects (including construction, reconnaissance, design and supervision) of projects relating to social and public benefits and public security, such as large-scale infrastructure and public utilities projects in the PRC, projects financed wholly or partly with state-owned funds or by state financing and projects financed with funds from an international organization or loans or aiding funds from foreign governments.

The party that calls for the tender may determine the winner of the tender based on the written report prepared and the recommendation made by a bid evaluation commission, or authorize the bid evaluation commission to determine the winner directly. The winner shall be able to satisfy the standards of a comprehensive evaluation provided in the tender documents to the best extent, or be able to meet the essential requirements in the tender documents at the lowest bid price among the bidders evaluated, except that the bid price shall not be lower than the capital costs.

Intellectual property

The revised Trademark Law of the PRC (中華人民共和國商標法) was promulgated on October 27, 2001 and became effective on December 1, 2001. Natural persons, legal persons, or other organizations that need to obtain the exclusive right to use trademarks for the goods they produce, manufacture, process, select or distribute, shall apply to the Trademark Office for trademark registration. Trademarks that are registered upon verification and approval of the Trademark Office are registered trademarks, including commodity trademarks, service marks, collective marks and certification marks. A trademark registrant shall be entitled to the exclusive right to use the registered trademark and such right shall be protected by law. A registered trademark shall be valid for ten years, commencing from the date of registration approval. Where a registered trademark needs to be used after the expiration of its validity term, a registration renewal application shall be filed within six months prior to the expiration of the term. Each registration renewal shall be valid for a ten-year period. A trademark registrant may license its registered trademark to another party by entering into a trademark license contract.

The National People's Congress adopted the Patent Law of the PRC (中華人民共和國專利法) in 1984, and amended it in 1992, 2000 and 2008. Under the Patent Law of the PRC, patents are examined and granted by the Patent Office under the State Council, and in order for a patent to be granted an invention or utility model must meet the novelty, inventiveness and practical applicability criteria. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. A patent is valid for a term of twenty years for an invention and a term of ten years for an utility model and design, commencing from the application date. Patent holders must pay annual fees to the Patent Office under the State Council to maintain the validity of a patent. A third-party user must obtain consent or proper license from the patent holder to use the patent except for certain specific circumstances provided by law. Use of patents without prior approval or licensing of the patent holder will constitute an infringement of the patent.

Management

The following table sets forth certain information with respect to our directors and executive officers as of the date of this offering memorandum.

Name	Age	Position
Executive directors		
Wong Luen Hei	49	Chairman of the Company
Zuo Manlun	38	Chief Executive of the Group
Zuo Xiaoping	44	Vice President of the Group
Lai Zhiqiang	45	Vice President of the Group
Kong Zhaocong	45	Vice President of the Group
Chen Guonan	43	Vice President of the Group
Lin Shaoquan	35	Vice President of the Group
Huang Guirong	35	Vice President of the Group
Luo Jianfeng	39	Executive Director of the Company
Nonexecutive directors		
Lin Dewei	51	
Independent non-executive directors		
Bai Chonggen	47	
Fung Pui Cheung	62	
Wong Kwok Ho Jonathan	37	
Senior management		
Zuo Xiaoying	39	Vice President for financial affairs and planning
Ong Chi King	37	Joint Company Secretary
Liu Guanggen	29	Chief Financial Officer
Yang Jiyue	50	Chief Technical Officer
Tan Aiqiu	38	Chief Officer of the Internal Audit Department
Pan Guohua	41	Chief Officer of the Administration Department
Lin Zhuangqun	36	Chief Officer of the Planning Department
Li Fengxi	46	Chief Officer of the Customer Service Department
Yuan Shuixian	31	Joint Company Secretary

Directors

Executive directors

Mr. Wong Luen Hei (黃聯禧), aged 49, is the founder of our Group, the Chairman of the Company and was appointed as an executive director of the Company on November 5, 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 Officer of the Group and was appointed as an executive director of the Company on February 27, 2010. He is primarily responsible for the overall management of the daily business operations and sales of our Group. Mr. Zuo has approximately 11 years of experience in the plastic pipe industry. Mr. Zuo joined our Group in December 1999 and has held various positions in operation management since joining us. 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 and the younger brother of Ms. Zuo Xiaoping and Ms. Zuo Xiaoying.

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 February 27, 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 our Group together with Mr. Wong Luen Hei, she held various positions in procurement. Ms. Zuo is the spouse of Mr. Wong and the elder sister of Mr. Zuo Manlun and Ms. Zuo Xiaoying.

Mr. Lai Zhiqiang (賴志强), aged 45, is a Vice President of the Group and was appointed as an executive director of the Company on February 27, 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 our Group in December 1999 and has held various positions in production management since joining us.

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 February 27, 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 our Group in December 1999 and has held various positions in production management and sales since joining us. Prior to joining our 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 February 27, 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 our Group in December 1999 and has held various positions in production management and engineering since joining us. Prior to joining our 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.

Mr. 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 February 27, 2010. Mr. Lin is primarily responsible for the research and development and overseas sales of the Group. Mr. Lin has approximately 8 years of experience in the plastic pipe industry. Mr. Lin joined our Group in July 2002 and has held various positions in research and development and overseas sales since joining us. Mr. 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. Mr. 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 February 27, 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 our Group in December 1999 and has held various positions in production management since joining us. Prior to joining our Group, Mr. Huang served as a deputy factory manager at Foshan City Dongjian Plastic Materials Factory (佛山市東建塑料廠) 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 April 2, 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 director

Mr. Lin Dewei (林德緯), aged 51, was appointed as a non-executive director of our Company on February 27, 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 practicing 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 of Yuegao Patent and is a shareholder of Yuegao. We have 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

Mr. Bai Chongen (白重恩), aged 47, was appointed as an independent non-executive director of the Company on February 27, 2010. Mr. 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). Mr. 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). Mr. 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 Co., Ltd. (中新蘇州工業園區開發股份有限公司) and New China Trust Co., Ltd. (新華信託股份有限公司) Mr. 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 in June 1993.

Mr. Fung Pui Cheung (馮培漳), aged 62, was appointed as an independent non-executive director of the Company on February 27, 2010. Mr. Fung is currently practicing as a sole proprietor in the name of P C Fung & Company (馮培漳會計師事務所), a certified public accounting 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 (admitted in April 1980). 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. Mr. Fung is also a director of Bank of China Group Insurance Company Limited as well as BOC Group Life Assurance Company Limited. He is a member of the Financial Reporting Review Panel and a director of The Hong Kong Chinese Importers' and Exporters' Association. 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, in the United States 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 February 27, 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

Ms. Zuo Xiaoying (左笑英), aged 39, is our Vice President and is primarily responsible for financial affairs and capital planning. Ms. Zuo joined our Group in December 1999 and has held various positions in the finance department since joining us. Ms. Zuo graduated from Shunde Normal School in Guangdong Province (廣東省順德師範學校) in July 1989 and obtained the Certificate for Industrial Accounting Profession (工業會計專業結業證書) from Shunde Labor Bureau (順德縣勞動局) in May 1992. Ms. Zuo is the sister-in-law of Mr. Wong, the younger sister of Ms. Zuo Xiaoping and the elder sister of Mr. Zuo Manlun.

Mr. Ong Chi King (王子敬), aged 37, is a resident of Hong Kong and is our Joint Company Secretary. Mr. Ong is responsible for our Group's company secretarial matters. Mr. Ong has more than 15 years of experience in accounting, finance and company secretarial work. Prior to joining our 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. Liu Guanggen (劉廣根), aged 29, is our Chief Finance Officer and is responsible for our Group's overall financial and accounting affairs. Mr. Liu joined our Group in November 2008. Prior to joining our Group, 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. Yang Jiyue (楊繼躍), aged 50, is our Chief Technical Officer and is primarily responsible for the research and development of new products and technology. Mr. Yang has approximately 22 years of experience in the plastic and hardware industry. Mr. Yang joined our Group in October 2007 and has held various positions in engineering since joining us. Mr. Yang served as a manager of the engineering department at Yurisheng Electronic (Shenzhen) Co., Ltd. (煜日升電子(深圳)有限公司) from 1999 to 2004. Mr. Yang was a deputy manager of the manufacturing department, a deputy manager of the production department and a deputy factory director of Shenzhen Mason Electronics Co., Ltd. (深圳麥遜電子有限公司) from 2005 to 2006. Mr. Yang completed a program in "Design and Manufacture of Mold" at Rhythm Machinery Corporation (リズム工機株式會社) in Japan from May 1993 to April 1994.

Ms. Tan Aiqiu (譚愛球), aged 38, is our Chief Officer of the Internal Audit Department and is primarily responsible for the Group's internal audit. Ms. Tan has approximately 14 years of experience in finance and accounting. Ms. Tan worked in the financial department of Shunde Liansu Industrial from December 1996 to November 1999. After joining our Group in December 1999, Ms. Tan was responsible for the Group's financial matters. Ms. Tan completed a program of "Computerized Accounting" from Hunan Institute of Science and Technology (湖南理工學院) from March 2007 to July 2009.

Mr. Pan Guohua (潘國華), aged 41, is our Chief Officer of the Administration Department and is primarily responsible for the management of our human resources department. Mr. Pan has approximately 23 years of experience in sales, marketing and administration. Mr. Pan joined our Group in March 2007 and has held various positions in sales and administration. Prior to joining our Group, Mr. Pan was the deputy manager of the overseas department and a deputy general manager at Shunde Longjiang Dingheng Group (順德龍江定恒集團) from 1991 to 2001. Mr. Pan was a general manager of Shunde Eternal Home Appliance Industrial Co., Ltd. (順德億龍家庭電器實業有限公司) from 2002 to 2006 and an assistant to the president of Eternal (Guangdong) Electric Holding Ltd. (廣東億龍電器股份有限公司) from 2005 to 2006.

Mr. Lin Zhuangqun (林壯群), aged 36, is our Chief Officer of the Planning Department and is primarily responsible for brand promotion and marketing. Mr. Lin has approximately 14 years of experience in the field of marketing. Mr. Lin joined our Group in December 1999 and has served in the planning department since joining our Group. Mr. Lin obtained the qualifications of Schemer (策劃師) from China Scheming Research Institute in August 2003 and PRC Registered Schemer (中國註冊策劃師) from China Distance Education & Career Certification Center (中國遠程教育職業培訓認證中心) in May 2004. Mr. Lin completed a diploma in public relations and advertising from Jinan University (暨南大學) in June 1996.

Ms. Li Fengxi (李鳳喜), aged 46, is our Chief Officer of the Customer Service Department and is responsible for the management and operation of the Group's customer service department. Ms. Li joined our Group in December 1999 and has held various positions in the production department and customer service department.

Mr. Yuan Shuixian (袁水先), aged 31, is our Joint Company Secretary. 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.

Board committees

Audit committee

Our Company established an audit committee on May 14, 2010 with written terms of reference in compliance with the listing rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of our Group. The audit committee comprises Mr. Fung Pui Cheung, Mr. Wong Kwok Ho Jonathan and Mr. Lin Dewei. Mr. Fung Pui Cheung is the chairman of the audit committee of the Stock Exchange of Hong Kong Limited.

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 June 30, 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 December 31, 2010 with a recommendation to the board for approval.

Remuneration committee

Our Company established a remuneration committee on May 14, 2010 with written terms of reference in compliance with the code provisions of the Code of Corporate Governance Practices set out in Appendix 14 to the listing rules of the Stock Exchange of Hong Kong Limited. The functions of this committee include the formulation and the recommendation to the board on our Company's policy and structures for all remuneration of our directors and senior management of our Company, the establishment of a formal and transparent procedure for developing policy on remuneration, the determination of specific remuneration packages of all executive directors and senior management in the manner specified in the terms of reference, the recommendation to the board of the remuneration of non-executive directors, review and approval of performance-based remuneration, and review and recommendation to our shareholders as to the fairness and reasonableness of the terms of any director's service agreement which is subject to the prior approval of our shareholders in general meeting pursuant to the listing rules of the Stock Exchange of Hong Kong Limited.

The remuneration committee comprises Mr. Wong Luen Hei, Mr. Zuo Manlun, Mr. Fung Pui Cheung, Dr. Bai Chongen and Mr. Wong Kwok Ho Jonathan. Mr. Wong Luen Hei is the chairman of the remuneration committee.

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.

Nomination committee

Our Company established a nomination committee on May 14, 2010. The primary functions of the nomination committee are to make recommendations to the board regarding candidates to fill vacancies on the board. The nomination committee comprises Mr. Wong Luen Hei, Mr. Zuo Manlun, Mr. Fung Pui Cheung, Mr. Bai Chongen and Mr. Wong Kwok Ho Jonathan. Mr. Wong Luen Hei is the chairman of the nomination committee.

The nomination committee shall convene at least one meeting each year. In 2010, the nomination committee convened one meeting and reviewed the structure, size and composition of the board and reviewed the independence of all independent non-executive directors.

Compensation of directors

Directors' remuneration for 2009 and 2010 are as follows:

	2008	2009	2010	2010
	RMB	RMB	RMB	USD
				(in millions)
Fees	—	—	1.3	0.2
Other Emoluments:				
Salaries, allowances and benefits in kind	2.1	2.1	3.4	0.5
Performance-related bonus	1.7	1.9	1.6	0.2
Equity-settled share option expense	—	—	6.0	0.9
Pension scheme contributions	0.1	0.2	0.2	0.1
Total	3.9	4.2	12.5	1.9

Pre-IPO share option scheme

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 May 14, 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 for 2010.

The option period shall expire on June 22, 2014. 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 affiliates.

Outstanding options granted

As of December 31, 2010, we had 114,801,000 options to subscribe to the Company's shares under the Pre-IPO Share Option Scheme as described above. All the options under the Pre-IPO Share Option Scheme were granted on May 21, 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 that were forfeited.

Share option scheme

A share option scheme (the "Share Option Scheme") was conditionally approved by resolutions of the Company's shareholders on May 14, 2010. 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 December 31, 2010.

Principal shareholders

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As of the date of this offering memorandum, 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") are 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 Name the Company
Directors			
Mr. Wong Luen Hei	Held by controlled corporation (1)	2,100,000,000	70.00%
Ms. Zuo Xiaoping	Held by spouse (2)	2,100,000,000	70.00%

(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)	2,308,000	0.08%
Ms. Zuo Xiaoping	Beneficial owner (2)	2,308,000	0.08%
Mr. Kong Zhaocong	Beneficial owner (3)	2,308,000	0.08%
Mr. Lai Zhiqiang	Beneficial owner (3)	2,308,000	0.08%
Dr. Lin Shaoquan	Beneficial owner (3)	1,927,000	0.06%
Mr. Chen Guonan	Beneficial owner (3)	1,927,000	0.06%
Mr. Huang Guirong	Beneficial owner (3)	1,927,000	0.06%
Mr. Luo Jianfeng	Beneficial owner (3)	1,927,000	0.06%
Mr. Lin Dewei	Beneficial owner (3)	692,000	0.02%
Chief executive			
Mr. Zuo Manlun	Beneficial owner (3)	3,842,000	0.13%

Notes:

1. Mr. Wong Luen Hei, an executive director of the Company, is the sole shareholder of New Fortune, which in turn owned 70% of the Company's issued shares. Accordingly, Mr. Wong Luen Hei was indirectly interested in 2,100,000,000 shares of the

Company. 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 May 14, 2010. Mr. Wong Luen Hei is also the spouse of Ms. Zuo Xiaoping, and therefore Mr. Wong Luen Hei is deemed to be interested in all the shares of the Company in which Ms. Zuo Xiaoping is interested by virtue of the SFO.

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

Save as disclosed above, as of the date of this offering memorandum, 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 is 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 short positions of substantial shareholders

As of the date of this offering memorandum, 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)	2,100,000,000	70.00%

Notes:

1. Mr. Wong Luen Hei is the sole shareholder of New Fortune, which in turn owned 70% of the issued shares of the Company. Accordingly Mr. Wong Luen Hei was indirectly interested in 2,100,000,000 shares of the Company as of the date of this offering memorandum.

Save as disclosed above, as of the date of this offering memorandum, 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.

Related party transactions

The following is a summary of material transactions we have engaged in with our direct and indirect shareholders, affiliates of our shareholders and other related parties, including those in which we or our management have a significant equity interest. We believe each of these arrangements as described below have been entered into on arm's-length basis or on terms that we believe have been at least as favorable to us as similar transactions with non-related parties. For a further discussion of related party transactions, see Note 33 to our financial statements included elsewhere in this offering memorandum.

Leases and utilities costs

On December 20, 2009, we entered into lease agreements with Guangdong Liansu Machinery Engineering Co., Ltd. ("Guangdong Liansu Machinery") and Guangdong Liansu Electric Co., Ltd. ("Guangdong Liansu Electric") whereby we leased part of our property located in the east of Dengdong Road, Longjian Town Community, Shunde District, Foshan City, Guangdong Province to Guangdong Liansu Machinery and Guangdong Liansu Electric for use as their production facilities. Guangdong Liansu Machinery and Guangdong Liansu Electric are indirectly wholly owned by Mr. Wong Luen Hei, a director and the controlling shareholder. The lease was renewed on December 31, 2010, under which the related rents payable by Guangdong Liansu Machinery and Guangdong Liansu Electric to us are RMB374,000 per annum and RMB480,000 per annum, respectively. The related utilities costs are charged by the relevant government authorities on us. Accordingly, Guangdong Liansu Machinery and Guangdong Liansu Electric will reimburse us for the same amount of utilities costs paid by us on their behalf.

Lease agreements with our Chairman

On December 20, 2009 and January 1, 2010, we entered into five lease agreements with Mr. Wong, a director and the controlling shareholder. Under the leases with Mr. Wong (the "Wong Leases"), Mr. Wong agreed to lease to us four properties located in Guangdong for use as office, cafeteria, workshops and warehouses, and one property in Hong Kong for use as office (the "Wong Properties"). As we have been leasing these properties from Mr. Wong historically, our directors are of the view that it is in the interest of the Group in terms of cost, time and stability to continue the Wong Leases instead of purchasing such properties or finding and relocating to alternative properties. Our directors are of the view that the Wong Leases are on normal commercial terms.

The term of each of the Wong Leases for the Guangdong properties is nine years commencing on January 1, 2010 and expiring on December 31, 2018, and may be terminated at any time during the term by us. The nine-year term for the Guangdong properties is to provide us with the flexibility of leasing the properties for a longer term for convenience, stability and other reasons in the interest of the Group. The term of the Wong Lease for the Hong Kong property is two years commencing on January 1, 2010 and expiring on December 31, 2011.

We did not pay any rent under the Wong Leases during 2008 and 2009 as Mr. Wong agreed to lease the Wong Properties to us for free prior to 2010.

The aggregate rent payable by us to Mr. Wong under the Wong Leases is RMB3,230,873 per annum for the Guangdong properties and HK$216,000 per annum for the Hong Kong property. Such rent was determined based on comparable market rent. The rent for the Guangdong properties will increase at the rate of 10% every three years. The basis for such increase is to take into account the expected market increases in rental and inflation.

Trademark licensing agreements

We entered into various trademark licensing agreements (the "TM Agreements") with Guangdong Liansu Profiles Co., Ltd. ("Guangdong Liansu Profiles"), Guangdong Liansu Machinery, Guangdong Liansu Electric, Guangdong Liansu Fire Fighting & Value & Plumbing Accessories Co., Ltd. ("Guangdong Liansu Plumbing") and Guangdong Liansu Valves Co., Ltd. (the "TM Licensees"). The TM Licensees are companies indirectly wholly-owned by Mr. Wong, a director and the controlling shareholder. The principal business activities of the TM Licensees are as follows:

Name of TM Licensee	Principal business	Licensing period
Guangdong Liansu Profiles	Manufacture and sale of plastic profiles and plates used in the manufacture of doors and windows	November 7, 2008 — November 6, 2011
Guangdong Liansu Machinery	Manufacture and sale of plastic extrusion equipment	September 1, 2009 — September 1, 2014
Guangdong Liansu Electric	Manufacture and sale of electric accessories	May 21, 2008 — May 20, 2011
Guangdong Liansu Plumbing	Manufacture and sale of fire fighting, valve and plumbing accessories	September 1, 2009 — September 1, 2014
Guangdong Liansu Valves Co., Ltd.	Manufacture and sale of valves	September 1,2009 — September 1, 2014

Under the TM Agreements, we agreed to grant licenses to the TM Licensees for the use of our trademarks (Registration numbers: 1165446, 1251506, 1304639, 1311260, 1373207, 1388519, 1388297, 1662387, 1664661 and 4880481). The terms of the licenses are generally five years, most of which are renewable by mutual agreement. We entered into the TM Agreements because we do not use the licensed trademarks in the specific classes in our operations while the licenses have been historically granted to the TM Licensees for use on authorized goods and the licenses provide us with additional income. Our directors are of the view that the licenses are on normal commercial terms. At the time of entry into the licenses, we considered the TM Licensees' business needs and the fact that we do not use the licensed trademarks in the specific classes in determining the various terms of the licenses. Taking into account such factors, some of the licenses were granted for more than three years. The TM Agreements provide for the scope and limitations of use and provisions for termination and damages in the event of breach by the TM Licensees. Our local sales representatives will also regularly monitor the use of our trademarks through market observation and customer feedback and report any breach of our licenses.

The aggregate license fee payable by the TM Licensees to us under the TM Agreements is RMB0.85 million per year. The license fees under the TM Agreements were arrived at after arm's length negotiation between the parties based on a number of different factors including the scale of operations and actual production and financial capabilities of the TM Licensees, and the costs of application and protection of the relevant trademarks, and not based on the revenue generated by the TM Licensees from the trademarks.

Patent licensing agreements

We entered into various patent licensing agreements (the "Patent Agreements") with Guangdong Liansu Machinery (the "Patent Licensee"). The Patent Licensee is a company indirectly wholly-owned by Mr. Wong, a director and the controlling shareholder. The principal business activities of the Patent Licensee are as follows:

Name of Patent Licensee	Principal business	Licensing period
Guangdong Liansu Machinery	Manufacture and sale of plastic extrusion equipment	Six years

Under the Patent Agreements, we agreed to grant licenses to the Patent Licensee for the use of our patents (Patent numbers: ZL200420083266.9, ZL200420047376.X, ZL200410027772.0, ZL200410051204.4, ZL200520055175.9, ZL200520065613.X, ZL200620059076.2 and ZL200620063221.4). The term of the licenses is six years, renewable by mutual agreement. We entered into the Patent Agreements because we do not use the licensed patents in our operations while the licenses have been historically granted to the Patent Licensee for use on authorized goods and the licenses provide us with additional income. Our directors are of the view that the licenses are on normal commercial terms. At the time of entry into the licenses, we considered the Patent Licensee's business needs and the fact that we do not use the licensed patents in determining the various terms of the licenses. The Patent Agreements provide for the scope and limitations of use and provisions for termination and damages in the event of breach by the Patent Licensee. We will also regularly monitor the use of our patents and report any breach of our licenses.

The aggregate license fee payable by the Patent Licensee to us under the Patent Agreements is RMB43,333 per year. The license fees under the Patent Agreements were arrived at after arm's length negotiation between the parties based on a number of different factors including the scale of operations and actual production and financial capability of the Patent Licensee and the cost of application and protection of the relevant patents, and not based on the revenue generated by the Patent Licensee from the patents.

Agency agreements

We entered into various agency agreements (the "Agency Agreements") with Yuegao Trademark and Yuegao Patent ("Yuegao"), agencies specialising in registrations of trademarks and patents. Under the Agency Agreements, we engaged Yuegao to carry out, on our behalf, various trademark registrations and patent applications and other related matters such as trademark disputes and transfers. As we have not performed such trademark and patent related matters by ourselves historically and Yuegao has been dealing with such matters for us and is familiar with our numerous trademarks and patents, our directors are of the view that it is in the interest of our Group to continue the engagement of Yuegao for convenience and efficiency, although we may terminate such engagement at any time and engage an independent third party if necessary. Our directors are of the view that the Agency Agreements are on normal commercial terms.

Yuegao comprises companies in which Mr. Lin Dewei, a non-executive Director, holds a 51% equity interest.

We enter into the Agency Agreements from time to time as and when the services of Yuegao are needed for matters relating to our trademarks and patents. Each of the Agency Agreements is effective as from our payment of the relevant agency fee and until the completion of the relevant tasks by Yuegao, and may be terminated by us at any time. The agency fees payable for patent matters are based on the fee guidance issued by the All-China Patent Agents Association (中華全國專利代理人協會) and the agency fees payable for trademark matters are based on the fee levels generally charged in the market.

Based on past experience, the number of our trademark registrations is generally around 50 within China and 20 outside China per year. Based on the general levels of agency fees charged for trademark registrations within China and outside China, we estimate that the total agency fee for trademark registrations would not exceed RMB250,000 per year. As for patent registrations, based on our experience, the number of our patent registrations is generally around 100 per year. Based on the general levels of agency fees charged for registration of different types of patents, we estimate that the total agency fee for patent registrations would not exceed RMB400,000 per year. Accordingly, we estimate that the aggregate agency fee payable by us under the Agency Agreements will be less than HK$1 million per year.

Purchase of equipment for plastic pipe manufacturing

On December 20, 2009, we entered into a framework equipment purchase agreement with Guangdong Liansu Machinery for the three years ending December 31, 2012. The equipment purchase agreement is for a term of three years commencing on January 1, 2010 and is renewable for another term of three years, subject to mutual agreement on the specific terms of the renewed agreement. Under the equipment purchase agreement, we agreed to purchase (on a non-exclusive basis) equipment for plastic pipe manufacturing from Guangdong Liasu Machinery and the quality and price of the equipment supplied to us must be comparable to the quality and price of similar equipment that we can obtain from an independent third party. The type of the equipment to be supplied by Guangdong Liansu Machinery under the equipment purchase agreement will depend on our actual needs and a separate agreement will be entered into for each purchase, setting out the prices and payment arrangement for such purchase. Guangdong Liansu Machinery has been historically the entity responsible for providing equipment for our operations before it was disposed of by us to a company outside of our Group that is wholly-owned by Mr. Wong Luen Hei, a director and the controlling shareholder on December 26, 2008. We believe it is in our interest to continue to purchase certain equipment for the manufacture of plastic pipes and pipe fittings from Guangdong Liansu Machinery because it is familiar with our requirements and is a reliable source of high quality equipment at reasonable price.

Description of other material indebtedness

The following summary of the principal terms of the instruments governing our material indebtedness does not purport to be a complete description of all of the terms of these instruments and may not contain all of the information that may be important to prospective investors. Investors should read the notes to our consolidated financial statements for additional information about our indebtedness.

As of December 31, 2010, all our bank loans were denominated in Renminbi except for unsecured bank loans of HK$360 million. Our total borrowings amounted to RMB784.3 million (US$118.8 million) as of December 31, 2010. We set forth below a summary of the material terms and conditions of these loans.

PRC loan agreements

Guangdong Liansu Technology has entered into loan agreements with various PRC banks, including the Bank of China, Agricultural Bank of China and Shunde Rural Commercial Bank. As of December 31, 2010, the total amount outstanding under our PRC loan agreements was RMB478.0 million (US$72.4 million). The primary purpose of these loans is to fund our working capital, purchases of raw materials and salaries, while the loan obtained from Shunde Rural Commercial Bank was used to finance construction of our production facilities. Our PRC loans have terms ranging from six months to three years. These PRC loans are typically secured by corporate guarantees provided by certain of our operating companies in the PRC and mortgages over certain of their assets. The Notes and the Subsidiary Guarantees will be structurally subordinated to these loans and any other indebtedness incurred by our subsidiaries in the PRC.

Interest

Our PRC loans generally bear interest at floating rates calculated with reference to the PBOC benchmark interest rate. Floating interest rates are generally subject to annual or quarterly review by the lenders. Interest payments are payable either monthly or quarterly. As of December 31, 2010, the interest rates with respect to our PRC loans ranged from 4.41% to 5.94% per annum.

Covenants

Under our PRC loans, the borrowers and certain guarantors have agreed, among other things, not to take the following actions without obtaining the relevant lender's prior consent:

- creating encumbrances on their properties or assets;
- altering the nature or scope of their business operations in any material respect;
- making major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions or reorganizations;
- making an application for bankruptcy, liquidation or dissolution proceedings;
- reducing their registered capital;
- prepaying the loans;
- selling or disposing of assets;
- transferring a substantial equity interest in the borrower; and
- incurring other indebtedness or granting guarantees to third parties.

Dividend restrictions

Certain of our PRC credit facilities, which governed outstanding indebtedness of RMB250 million (US$37.9 million) as of December 31, 2010, contain various restrictions on the payment of dividends by the relevant borrowers and guarantors under these facilities. These restrictions are of two types. The first type limits the payment of dividends to 50% of net profit. The second type prohibits the payment of dividends in the event that after-tax profit is zero or negative, accumulated losses exceed net profit, scheduled debt service exceeds pre-tax earnings or pre-tax earnings are not sufficient for the scheduled payment of interest, principal and expenses. The 50%-of-net-profit restriction applies to Guangdong Liansu Technology, our wholly owned PRC holding company through which we hold our interests in all our PRC operating company subsidiaries, and to two wholly-owned operating company subsidiaries. We intend to negotiate amendments to these credit facilities in order to eliminate these restrictions, failing which we intend to seek lender consents to prepay these credit facilities with a portion of the proceeds of the offering of the Notes. See "Risk Factors — Risks Relating to the Notes — Our subsidiaries are subject to restrictions on the payment of dividends".

Guarantee and security

The abovementioned two wholly-owned operating company subsidiaries have entered into guarantee agreements with certain of the PRC lenders in connection with the PRC loans pursuant to which these subsidiaries have guaranteed all liabilities of Guangdong Liansu Technology under those loans. The obligation of Guangdong Liansu Technology under the PRC loan agreements are secured by mortgages over its certain properties, equipment and machinery and mortgages over certain properties of one of the abovementioned wholly-owned operating company subsidiaries.

Offshore loan agreement

On December 24, 2010, Guangdong Liansu Technology entered into a loan agreement with Luso International Banking Ltd., a commercial bank in the Macao Special Administration Region of the PRC, for a one year term loan facility of HK$60 million to fund its working capital. The loan is secured by a guarantee provided by our Company pursuant to which we have guaranteed all liabilities of the subsidiary borrower under the loan. As of December 31, 2010, the amount outstanding under this loan was approximately RMB51.1 million (US$7.7 million) and the interest rate was 3.45% per annum.