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## **CHINA LIANSU GROUP HOLDINGS LIMITED**

**中國聯塑集團控股有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2128)**

### **CONTINUING CONNECTED TRANSACTIONS**

The Board announces that on 31 December 2012, the Company entered into the Machinery Purchase Agreement with Guangdong Liansu Machinery, a company indirectly wholly-owned by Mr. Wong (the chairman and executive director of the Company as well as the controlling Shareholder) in relation to the possible purchase of machinery by the Group from Guangdong Liansu Machinery during the year ending 31 December 2013 at a price not exceeding the price offered to the Group by any Independent Third Party.

On 31 December 2012, the Company entered into the Accessories Co-operation Agreement with Guangdong Liansu Electric, a company indirectly wholly-owned by Mr. Wong in relation to the possible ODM co-operation as regards manufacturing of electronic accessories by Guangdong Liansu Electric for the Group during the year ending 31 December 2013 at a price not exceeding the price offered to the Group by any Independent Third Party.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the transactions contemplated under the Machinery Purchase Agreement are between 0.1% and 5%, the transactions contemplated under the Machinery Purchase Agreement constitute non-exempt continuing connected transactions and are subject to the reporting and disclosure requirements but exempt from the independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the transactions contemplated under the Accessories Co-operation Agreement are between 0.1% and 5%, the transactions contemplated under the Accessories Co-operation Agreement constitute non-exempt continuing connected transactions and are subject to the reporting and disclosure requirements but exempt from the independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

\* For identification purposes only

## **PRINCIPAL TERMS OF THE MACHINERY PURCHASE AGREEMENT**

### **Date**

31 December 2012

### **Parties**

Supplier: Guangdong Liansu Machinery, a wholly foreign-owned enterprise established in the PRC and indirectly wholly-owned by Mr. Wong, the principal business of which is the manufacturing and sale of plastic extrusion equipment.

Purchaser: the Company

### **Term**

12 months commencing from 1 January 2013 and ending on 31 December 2013.

### **Termination**

The Machinery Purchase Agreement may be terminated prior to its expiration by mutual agreement, or by either party to the Machinery Purchase Agreement in the following event:

- (1) the occurrence of force majeure event;
- (2) any party to the Machinery Purchase Agreement having assigned the rights under the Machinery Purchase Agreement without the prior written consent of the other party;
- (3) any party to the Machinery Purchase Agreement having notified that it is not going to perform its obligations thereunder prior to its expiration;
- (4) any party to the Machinery Purchase Agreement having failed to perform its obligations after any grace period given;
- (5) any party to the Machinery Purchase Agreement having breached any terms thereof; or
- (6) any other circumstances requiring the termination of the Machinery Purchase Agreement under the law.

## **Subject matter of purchase**

The Machinery Purchase Agreement is a master agreement which governs the supply and purchase of plastic extrusion machinery between the Group and Guangdong Liansu Machinery. Pursuant to the Machinery Purchase Agreement, the Group agreed to purchase (on a non-exclusive basis) equipment and machinery from Guangdong Liansu Machinery, and Guangdong Liansu Machinery agreed to supply (on a non-exclusive basis) such equipment and machinery to the Group.

The Group and Guangdong Liansu Machinery will enter into separate purchase order for each purchase, which shall stipulate the product quality, delivery details as well as price for each such purchase.

## **Price and cap**

Pursuant to the Machinery Purchase Agreement, the price payable by the Group shall not exceed any quotation obtainable by the Group from Independent Third Party of similar product. The aggregate amount of price payable by the Group to Guangdong Liansu Machinery for all purchases made pursuant to the Machinery Purchase Agreement shall not exceed RMB97.5 million (the “**Machinery Purchase Cap**”). In the event the Group fails to make payment in accordance with the relevant purchase order, it shall pay a penalty on the basis of 0.05% of the overdue amount calculated daily, the total amount which shall be capped at 5% of the overdue amount. In the event Guangdong Liansu Machinery fails to deliver in accordance with the relevant purchase order, it shall pay a penalty on the basis of 0.05% of the undelivered goods’ purchase price calculated daily.

In 2009, the Group also entered into a master agreement with Guangdong Liansu Machinery in relation to purchase of plastic pipe manufacturing equipment for the three years ended 31 December 2012, details of which are set out in the prospectus of the Company dated 9 June 2010. Under the said previous master agreement, the annual caps for the years ended 31 December 2010, 31 December 2011 and 31 December 2012 are RMB50 million, RMB60 million and RMB70 million respectively. For the year ended 31 December 2010, the year ended 31 December 2011 and the 11 months ended 30 November 2012, the purchase price paid by the Group to Guangdong Liansu Machinery in relation thereto amounted to RMB40 million, RMB50 million and RMB64 million respectively.

The Machinery Purchase Cap was arrived at after considering and taking into account the historical amounts purchased from the Group, the expected and planned expansion of the Group’s production facilities, the expected quantities and types of equipment required, the historical prices of such equipment, the market conditions and the expected development trend of the PRC plastic pipe industry, as well as the expected growth in the demand and supply of the Group’s products, and the increase in the selling prices of equipment in recent years. In view of the expansion plans of the Group’s production facilities for the coming year, an increasing amount of equipment will be required for the expansion. Since the Group has other external suppliers to supply the equipment required for the expansion and is planning to acquire only a portion of the equipment through Guangdong Liansu Machinery, the Directors considered that the proposed annual cap above is appropriate.

## **PRINCIPAL TERMS OF THE ACCESSORIES CO-OPERATION AGREEMENT**

### **Date**

31 December 2012

### **Parties**

Supplier: Guangdong Liansu Electric, a wholly foreign-owned enterprise established in the PRC and indirectly wholly-owned by Mr. Wong, the principal business of which is the manufacture and sale of electric accessories.

Purchaser: the Company

### **Term**

12 months commencing from 1 January 2013 and ending on 31 December 2013.

### **Termination**

The Accessories Co-operation Agreement may be terminated prior to its expiration:

- (1) by mutual agreement;
- (2) by the Group in the event China Liansu Electric failed to perform its obligations under the Accessories Co-operation Agreement.

### **Subject matter of co-operation**

The Accessories Co-operation Agreement is a master agreement which governs the supply and purchase of electronic accessories, such as switches and sockets on an ODM basis between the Group and Guangdong Liansu Electric. Pursuant to the Accessories Co-operation Agreement, the Group has engaged Guangdong Liansu Electric (on a non-exclusive basis) to manufacture electronic accessories on an ODM basis.

The Group and Guangdong Liansu Electric will enter into separate production order for each production, which shall stipulate the product quality, delivery details as well as price for each such purchase.

### **Price and cap**

Pursuant to the Accessories Co-operation Agreement, the price payable by the Group shall not exceed any quotation obtainable by the Group from Independent Third Party of similar product. The aggregate amount of price payable by the Group to Guangdong Liansu Electric for all purchases made pursuant to the Accessories Co-operation Agreement shall not exceed RMB30 million (the “**Accessories Purchase Cap**”).

In the event Guangdong Liansu Electric failed to deliver in accordance with the relevant production order, it shall pay a penalty on the basis of 0.05% of the undelivered goods' purchase price calculated daily.

The Group paid an amount of RMB34,710 for purchase of electronic accessories for the Group's own use from Guangdong Liansu Electric for the year ended 31 December 2010. There was no transaction for the year ended 31 December 2011 and for the 11 months ended 30 November 2012 in this respect.

The Accessories Purchase Cap was arrived at after considering and taking into account the potential market and experience of the Group in home building material products.

### **Reasons for and benefits of the transactions under the Machinery Purchase Agreement and the Accessories Co-operation Agreement**

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

Guangdong Liansu Machinery is principally engaged in the manufacturing and sale of plastic extrusion equipment. Having manufactured for the Group for the past few years, Guangdong Liansu Machinery is familiar with the Group's requirements and is a reliable source of quality equipment at reasonable prices. Although alternative suppliers of equipment are available in the market at comparable prices and quality, the Directors are of the view that it is in the interest of the Group for the Group to have the arrangement in place to purchase from Guangdong Liansu Machinery due to its reliability and track record of providing quality equipment to the Group.

While the Group would like to expand into the market of electronic accessories supply, Guangdong Liansu Electric has the experience in manufacturing electronic accessories. Guangdong Liansu Electric's location is also close to the Group's factory which reduces the transportation cost of the products and is reliable source of quality products at reasonable prices.

The Directors (including the independent non-executive Directors) therefore consider that the Machinery Purchase Agreement and the Accessories Co-operation Agreement have been entered into in the ordinary and usual course of business of the Company and the terms are on normal commercial terms which have been arrived at after arm's length negotiations between the parties thereto, and that the proposed caps are fair and reasonable and that the entering into of the Machinery Purchase Agreement and the Accessories Co-operation Agreement is in the interests of the Company and the Shareholders (other than Mr. Wong and his associates) as a whole.

### **Relationship with Guangdong Liansu Machinery and Guangdong Liansu Electric**

Guangdong Liansu Machinery and Guangdong Liansu Electric are both companies indirectly wholly-owned by Mr. Wong, the chairman of the Company, an executive Director and the controlling Shareholder holding approximately 69.70% of the issued share capital of the Company as at the date of this announcement. Accordingly, Guangdong Liansu Machinery and Guangdong Liansu Electric are connected persons of the Company under the Listing Rules.

Mr. Zuo Manlun, an executive Director and the chief executive officer of the Group, and Ms. Zuo Xiaoping, an executive Director, are the brother-in-law and the wife of Mr. Wong respectively. Both Mr. Wong, Mr. Zuo Manlun and Ms. Zuo Xiaoping are considered to have a material interest in the transactions and have abstained from voting at the board meeting approving the transactions contemplated under the Machinery Purchase Agreement and the Accessories Co-operation Agreement.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, save for the above, no other Director has a material interest in the transactions and therefore no other Director is required to abstain from voting on the board resolution in relation to the transactions.

### **Listing Rules implications**

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the transactions contemplated under the Machinery Purchase Agreement are between 0.1% and 5%, the transactions contemplated under the Machinery Purchase Agreement constitute non-exempt continuing connected transactions and are subject to the reporting and disclosure requirements but exempt from the independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the transactions contemplated under the Accessories Co-operation Agreement are between 0.1% and 5%, the transactions contemplated under the Accessories Co-operation Agreement constitute non-exempt continuing connected transactions and are subject to the reporting and disclosure requirements but exempt from the independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

### **DEFINITIONS**

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

“Accessories Co-operation Agreement”	the ODM co-operation agreement dated 31 December 2012 entered into between the Company and Guangdong Liansu Electric in relation to the ODM production co-operation as regards manufacturing of electronic accessories by Guangdong Liansu Electric for the Group
“Board”	the board of Directors
“Company”	China Liansu Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange
“connected person”	has the meaning ascribed to it in rule 1.01 of the Listing Rules and as extended by Rule 14A.11 of the Listing Rules

“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Guangdong Liansu Electric”	Guangdong Liansu Electric Co., Ltd.* (廣東聯塑電氣有限公司), a wholly foreign-owned enterprise established in the PRC and indirectly wholly-owned by Mr. Wong
“Guangdong Liansu Machinery”	Guangdong Liansu Machinery Manufacturing Co., Ltd.* (廣東聯塑機器製造有限公司), a wholly foreign-owned enterprise established in the PRC and indirectly wholly-owned by Mr. Wong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	party which is third party independent of the Group and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Machinery Purchase Agreement”	the master agreement dated 31 December 2012 entered into between the Company and Guangdong Liansu Machinery in relation to the purchase of machinery by the Group from Guangdong Liansu Machinery
“Mr. Wong”	Mr. Wong Luen Hei, the chairman of the Company, an executive Director and the controlling Shareholder
“ODM”	original design manufacturing
“PRC”	the People’s Republic of China, which for the purpose of this announcement shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Share(s)”	share(s) of a nominal value of HK\$0.05 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“RMB” Renminbi, the lawful currency of the PRC

“%” per cent.

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

Hong Kong, 31 December 2012

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