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本公告僅供參考，並不構成在美國或任何其他司法權區提呈出售建議或招攬購買任何證券的建議，倘未根據任何該等司法權區的證券法辦理登記或未獲批准而於上述地區進行上述建議、招攬或出售，即屬違法。本公告所述的證券不會根據經修訂的一九三三年美國證券法登記。倘無登記或獲豁免登記規定，證券不得在美國提呈或出售。於美國公開發售任何證券均須以可向發行人或出售證券持有人獲取的招股章程形式作出。招股章程須載有相關公司以及其管理及財務報表的詳細資料。本公司無意於美國公開發售證券或登記任何證券。

联塑
L & S

CHINA LIANSU GROUP HOLDINGS LIMITED

中國聯塑集團控股有限公司*

(於開曼群島註冊成立的有限公司)

(股份代號：2128)

海外監管公告

本海外監管公告乃根據香港聯合交易所有限公司(「**聯交所**」)證券上市規則(「**上市規則**」)第13.09(2)條的規定刊發。

茲提述中國聯塑集團控股有限公司(「**本公司**」)於二零一一年四月二十六日及二零一一年五月八日刊發關於票據發行的公告(「**該等公告**」)。除另行界定外，本公告所採用的所有詞彙均具有該等公告所界定的相同涵義。

請參閱隨附關於票據的發售備忘錄(「**發售備忘錄**」)，該發售備忘錄預計於二零一一年五月十六日或前後於新加坡證券交易所有限公司的網站發佈。

發售備忘錄在聯交所的網站刊載只是為了便於向香港的投資者進行同等的資訊傳達，並遵守上市規則第13.09(2)條的規定，此外並無任何其他目的。

發售備忘錄並不構成向任何司法權區的公眾提呈出售任何證券的招股章程、通告、通函、宣傳冊或廣告，亦並非向公眾發出邀請以就認購或購買任何證券作出要約，此外亦非供傳閱以邀請公眾發出認購或購買任何證券的要約。

發售備忘錄不得被視為對認購或購買本公司任何證券的勸誘，且並無意進行有關勸誘。不應根據發售備忘錄中所載資料作出任何投資決策。

承董事會命
中國聯塑集團控股有限公司
主席
黃聯禧

香港，二零一一年五月十六日

於本公告日期，本公司執行董事為黃聯禧先生、左滿倫先生、左笑萍小姐、賴志強先生、孔兆聰先生、陳國南先生、林少全博士、黃貴榮先生及羅建峰先生；本公司非執行董事為林德緯先生；本公司獨立非執行董事為白重恩博士、馮培漳先生及王國豪先生。

* *僅供識別*

IMPORTANT NOTICE
THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBs (AS DEFINED BELOW) UNDER RULE 144A OR (2) PERSONS OR ADDRESSEES OUTSIDE OF THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to this offering memorandum following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of this offering memorandum. In accessing the offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED HEREIN.

Confirmation and your representation: In order to be eligible to view this offering memorandum or make an investment decision with respect to the securities, investors must be either (1) qualified institutional buyers ("QIBs") (within the meaning of Rule 144A under the Securities Act) or (2) persons outside the United States (as defined under Regulation S under the Securities Act). By accepting this e-mail and accessing this offering memorandum, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) persons outside the United States and that the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States and (2) you consent to delivery of such offering memorandum by electronic transmission.

You are reminded that this offering memorandum has been delivered to you on the basis that you are a person into whose possession this offering memorandum may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of this offering memorandum to any other person. None of J.P. Morgan Securities Ltd. and The Royal Bank of Scotland plc, as Joint Bookrunners and Joint Lead Managers, The Bank of New York Mellon as the trustee, registrar, principal paying agent and transfer agent, The Bank of New York Mellon (and its relevant affiliates) as collateral agent, the issuer of the securities or any of their respective directors, officers, employees, representatives, advisers or affiliates, accepts any liability or responsibility whatsoever for any loss howsoever arising from any use of the offering memorandum or its contents or otherwise arising in connection therewith.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of the issuer in such jurisdiction.

This offering memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently none of J.P. Morgan Securities Ltd. and The Royal Bank of Scotland plc, as Joint Bookrunners and Joint Lead Managers, any person who controls the Joint Bookrunners and Joint Lead Managers or any director, officer, employee or agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the Joint Bookrunners and Joint Lead Managers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Offering memorandum **Strictly confidential**

联塑
L & S

China Liansu Group Holdings Limited

(incorporated in the Cayman Islands with limited liability)

US$300,000,000
7.875% Senior Notes due 2016

Issue Price: 99.493%
plus accrued interest, if any

The 7.875% Senior Notes due 2016 (the "Notes") will bear interest at 7.875% per annum from May 13, 2011. We will pay interest on the Notes semi-annually in arrears on May 13 and November 13 of each year, starting on November 13, 2011. The Notes will mature on May 13, 2016. The Notes will be guaranteed by certain of our subsidiaries organized outside the People's Republic of China (the "PRC").

We may redeem some or all of the Notes at any time and from time to time on or after May 13, 2014 at the redemption prices set forth in this offering memorandum, plus accrued and unpaid interest. At any time and from time to time on or before May 13, 2014, we may redeem up to 35% of the aggregate principal amount of the Notes with the proceeds of certain equity offerings. At any time prior to May 13, 2014, we may redeem all of the Notes at a price equal to 100% of their principal amount plus a "make-whole" premium plus accrued and unpaid interest. If we sell certain of our assets or experience a Change of Control Triggering Event (as defined below), we may be required to offer to purchase the Notes. We may redeem all of the Notes at 100% of their principal amount plus accrued and unpaid interest if at any time we become obligated to pay withholding taxes as a result of certain changes in tax law.

The Notes are senior obligations of China Liansu Group Holdings Limited (the "Company"), guaranteed by our existing subsidiaries other than those subsidiaries organized under the laws of the PRC (the "Subsidiary Guarantors"). The Notes will be secured by a first-priority fixed charge over the shares of each Subsidiary Guarantor. The Notes will rank at least pari passu with our unsecured indebtedness. The Notes will be effectively subordinated to our other secured indebtedness to the extent of the assets over which security is given for such other indebtedness and to all liabilities of our subsidiaries that do not guarantee the Notes.

For a more detailed description of the Notes, see "Description of the Notes" beginning on page 142.

We are not registering the Notes or the Subsidiary Guarantees under the U.S. Securities Act of 1933 (the "Securities Act") or the securities laws of any other jurisdiction. We are offering the Notes only to qualified institutional buyers in reliance on Rule 144A ("Rule 144A") under the Securities Act and outside the United States in reliance on Regulation S ("Regulation S") under the Securities Act. For a description of certain restrictions on resale or transfer, see "Notice to investors" beginning on page 217. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Approval-in-principle has been obtained for the listing of the Notes on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this offering memorandum. Approval-in-principle from, and admission of the Notes to the Official List of, the SGX-ST are not to be taken as an indication of the merits of our Company, the Notes, the Subsidiary Guarantors or any of our other subsidiaries.

Investing in the Notes involves risks. See "Risk factors" beginning on page 16.

We expect that the Notes will be ready for delivery in book-entry form through The Depository Trust Company on or about May 13, 2011.

Joint bookrunners and joint lead managers

J.P. Morgan **The Royal Bank of Scotland**

The date of this offering memorandum is May 6, 2011.

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IN CONNECTION WITH THIS OFFERING, J.P. MORGAN SECURITIES LTD., AS STABILIZING MANAGER, OR ANY PERSON ACTING FOR IT, MAY PURCHASE OR SELL THE NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE NOTES. AS A RESULT, THE PRICE OF THE NOTES MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. HOWEVER, THERE IS NO ASSURANCE THAT J.P. MORGAN SECURITIES LTD., AS STABILIZING MANAGER, OR ANY PERSON ACTING FOR IT, WILL UNDERTAKE ANY SUCH STABILIZATION ACTION. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME. THESE ACTIVITIES WILL BE UNDERTAKEN SOLELY FOR THE ACCOUNT OF J.P. MORGAN SECURITIES LTD., AS STABILIZING MANAGER, AND NOT FOR OR ON BEHALF OF THE COMPANY.

In making your investment decision, you should rely only on the information contained in this offering memorandum. Neither we nor the Initial Purchasers have authorized anyone to provide you with any other information. If you receive any unauthorized information, you must not rely on it.

We are offering to sell our Notes only in places where sales are permitted.

You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date of this offering memorandum. Our business, financial condition, results of operations and prospects may have changed since that date.

This offering memorandum is a confidential document that we are providing only to prospective buyers of our Notes. You should read this offering memorandum before deciding to buy any Notes. You must not:

- use this offering memorandum for any other purpose;
- make copies of any part of this offering memorandum or give a copy of it to any other person; or

- disclose any information in this offering memorandum to any other person.

We have prepared this offering memorandum and we are solely responsible for its contents.

You are responsible for making your own examination of this offering memorandum and your own assessment of the merits and risks of investing in our Notes. You may contact us if you need any additional information. By purchasing any Notes, you acknowledge that:

- you have reviewed this offering memorandum;

- you have had an opportunity to request from us any additional information that you need from us; and

- the Initial Purchasers are not responsible for, and are not making, any representations or warranties to you concerning our future performance or the accuracy or completeness of this offering memorandum.

None of the Initial Purchasers, the trustee, collateral agent, principal paying agent, registrar, transfer agent or any of their respective affiliates, advisors or agents have independently verified, and nor do they assume any responsibility for the accuracy or completeness of, any of the information contained in this offering memorandum.

We and the Initial Purchasers reserve the right to reject any offer to purchase any of the Notes for any reason or for no reason, or to sell less than the principal amount of the Notes for which any prospective purchaser has subscribed.

This offering memorandum is personal to each offeree and is not an offer to any other person or to the public generally to subscribe for the Notes. You represent that you are basing your investment decision solely on this offering memorandum and your own examination of us and the terms of this offering.

Neither we nor the Initial Purchasers are providing you with any legal, business, tax or other advice in this offering memorandum. You should consult your own advisors to assist you in making your investment decision and to advise you whether you are legally permitted to purchase our Notes.

You must comply with all laws that apply to you in any place in which you buy, offer or sell any Notes or possess this offering memorandum. You must also obtain any consents or approvals that you need in order to purchase the Notes. Neither we nor the Initial Purchasers are responsible for your compliance with these legal requirements.

We are making this offering of the Notes in reliance on exemptions from the registration requirements of the Securities Act. These exemptions apply to offers and sales of securities that do not involve a public offering. The Notes and the guarantees have not been recommended by any U.S. federal or state securities commission or regulatory authority or any regulatory authority in any other jurisdiction, and no such authority has determined that this offering memorandum is accurate or complete. Any representation to the contrary is a criminal offense in the United States.

Our Notes are subject to restrictions on transfer and resale that are described under "Notice to investors". By purchasing any Notes, you represent and agree to all of the provisions contained in that section of this offering memorandum. You may have to bear the financial risks of investing in our Notes for an indefinite period of time.

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any state or other jurisdiction in the United States, and may not be offered, sold, pledged or otherwise transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with applicable state securities laws.

Notice to New Hampshire residents

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED 1955, AS AMENDED, OR RSA 421-B WITH THE STATE OF NEW HAMPSHIRE, NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE, CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT ANY EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE INVESTOR, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Available information

For so long as any of the Notes and guarantees remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the company will, during any period in which the company is neither subject to Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934 nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or trustee, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

Enforcement of civil liabilities

We are incorporated under the laws of the Cayman Islands and each Subsidiary Guarantor is incorporated either in Hong Kong or the British Virgin Islands. All of our directors and officers and certain of the experts named in this offering memorandum reside outside the United States and all or a substantial portion of their assets and substantially all of our and the Subsidiary Guarantors' assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon us or such persons or to enforce against any of them, in the United States, judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws or other laws of the United States, or any state or territory within the United States.

We have been advised by our Cayman Islands legal advisers, Maples and Calder, that the courts of the Cayman Islands are unlikely (i) to recognize or enforce against us judgments of courts of the United States predicated upon the civil liability provisions of the securities laws of the United States or any state and (ii) in original actions brought in the Cayman Islands, to impose liabilities against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state, on the grounds that such provisions are penal in nature. However, in the case of laws that are not penal in nature, although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will recognize and enforce a judgment of a foreign court of competent jurisdiction without retrial on the merits based on the principle that a judgment of a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given provided that such judgment is final and conclusive, for a liquidated sum, not in respect of taxes or a fine or penalty, is not inconsistent with a Cayman Islands judgment in respect of the same matter, and was not obtained in a manner, and is not a kind the enforcement of which is, contrary to the public policy of the Cayman Islands (awards of punitive or multiple damages may well be held to be contrary to public policy). A Cayman Islands court may stay proceedings if concurrent proceedings are being brought elsewhere.

Our British Virgin Islands legal counsel, Maples and Calder, has advised us that the courts of the British Virgin Islands would recognize as a valid judgment a final and conclusive judgment in personam obtained in the federal or state courts in the United States against the company under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that: (a) such courts issuing the judgment had jurisdiction in the matter and the parties either submitted to such jurisdiction or were resident or carrying on business within such jurisdiction and were duly served with process; (b) in obtaining judgment there was no fraud on the part of the person in whose favour judgment was given or on the part of the courts; (c) recognition or enforcement of the judgment in the British Virgin Islands would not be contrary to public policy and (d) the proceedings pursuant to which judgment was obtained were not contrary to natural justice.

We have been advised by our Hong Kong legal counsel, Li & Partners, that there is doubt as to the enforceability in Hong Kong, in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated solely upon the laws of the United States (including its federal securities laws or the securities laws of any state or territory within the United States).

Furthermore, we have been advised by our PRC legal counsel, Jun He Law Offices, that there is uncertainty as to whether the courts of the PRC would (i) recognize or enforce judgments of United States courts obtained against us or our directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state or territory within the United States or (ii) entertain original actions brought in the courts of the PRC against us or our directors and officers predicated upon the federal securities laws of the United States or the securities laws of any state or territory within the United States.

Certain definitions, conventions and currency presentation used in this offering memorandum

We have prepared this offering memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms "we," "us," "our," "Liansu," the "Company," the "Group," and words of similar import, we are referring to China Liansu Group Holdings Limited and its consolidated subsidiaries, including entities controlled through contractual arrangements, except as the context requires.

All references herein to "China" or "PRC" are references to the People's Republic of China (excluding, solely for purposes of this offering memorandum, the Hong Kong Special Administrative Region, the

Macau Special Administrative Region and Taiwan); all references to "Hong Kong" are to the Hong Kong Special Administrative Region of the PRC; all references to "PRC government" are to the government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof; all references to "SAFE" are to the PRC State Administration of Foreign Exchange; all references to "PBOC" are to the People's Bank of China; and all references to the "United States" or "U.S." are to the United States of America. All references to "USD," "US$," "$" or "U.S. dollars" are to United States dollars, the legal currency of the United States; and all references to "Renminbi" or "RMB" are to Renminbi, the legal currency of the PRC.

Solely for the convenience of the reader, this offering memorandum contains translations of certain Renminbi amounts into U.S. dollars. All such U.S. dollar translations have been made at the rate of RMB 6.6000 = US$1.00, the noon buying rate in The City of New York for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 30, 2010, the last business day in 2010 in the United States. On April 15, 2011, the noon buying rate for U.S. dollars in the H.10 statistical release of the Federal Reserve Board was RMB6.5317 = US$1.00. These translations are provided for reference and convenience only. No representation is made that the Renminbi amounts stated herein could have been, or could be, converted into U.S. dollars at such rates or at any other rate. See "Exchange rate information".

Rounding adjustments have been made in calculating some of the financial information and other amounts included in this offering memorandum. As a result, numerical figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them, and actual numbers may differ from those contained herein due to rounding.

The designed annual production capacity of a production facility is the aggregate design annual capacities of the equipment and production lines that form such production facility during that year. The designed annual production capacity of such equipment or production line is as stipulated by the relevant manufacturers, adjusted on the basis that such equipment or production line is in operation 24 hours a day for 330 days in such year.

The effective annual capacity of a production facility is the aggregate effective annual production capacities of the equipment and production lines of such production facility during such year. The effective annual production capacity of any equipment or production line in any year is calculated by multiplying the number of months for which such equipment or production line had been in operation during that year by the designed annual production capacity of such equipment or production line divided by 12.

Our utilization rate is calculated by dividing the actual production volume of a production facility as of the end of a period by its effective production capacity for such period.

"Chairman" or "Mr. Wong" refers to Mr. Wong Luen Hei.

"Changchun Liansu" means Changchun Liansu Industrial Co., Ltd. (長春聯塑實業有限公司), a Sino-foreign equity joint enterprise incorporated under the laws of the PRC on October 25, 2007 and an indirect wholly-owned subsidiary of the Company.

"Daqing Liansu" means Daqing Liansu Technology Development Co., Ltd. (大慶聯塑科技發展有限公司), a limited liability company incorporated under the laws of the PRC on April 26, 2005 and an indirect wholly-owned subsidiary of the Company.

"Fitch" means Fitch Ratings Ltd. and its affiliates.

"Foshan Liansu" means Foshan Liansu Building Material Trading Co., Ltd. (佛山市聯塑建材貿易有限公司), a limited liability company incorporated under the laws of the PRC on January 28, 2008 and an indirect wholly-owned subsidiary of the Company.

"GHP" means geothermal heat pumps, which are underground pumps generally used to conduct heat energy to a particular place for heating purposes.

"GRP" means glass reinforced plastic.

"Guangdong Liansu Technology" means Guangdong Liansu Technology Industrial Co., Ltd. (廣東聯塑科技實業有限公司) (formerly known as Shunde Liansu Technology Industrial Co., Ltd. (順德市聯塑科技實業有限公司)), a wholly foreign-owned enterprise incorporated under the laws of the PRC on December 1, 1999 and an indirect wholly-owned subsidiary of the Company.

"Guiyang Liansu" means Liansu Technology Development (Guiyang) Co., Ltd. (聯塑科技發展(貴陽)有限公司), a Sino-foreign equity joint enterprise incorporated under the laws of the PRC on July 30, 2003 and an indirect wholly-owned subsidiary of the Company.

"HDPE" stands for high density polyethylene, a type of plastic resin used in making plastic pipes with high mechanical strength.

"Hebei Liansu" means Liansu Municipal Pipe (Hebei) Co., Ltd. (聯塑市政管道(河北)有限公司), a Sino-foreign equity joint enterprise incorporated under the laws of the PRC on October 12, 2005 and an indirect wholly-owned subsidiary of the Company.

"Henan Liansu" means Henan Liansu Industrial Co., Ltd. (河南聯塑實業有限公司), a limited liability company incorporated under the laws of the PRC on October 25, 2007 and an indirect wholly-owned subsidiary of the Company.

"Heshan Liansu" means Heshan Liansu Industrial Development Co., Ltd. (鶴山聯塑實業發展有限公司), a Sino-foreign equity joint enterprise incorporated under the laws of the PRC on June 21, 2002 and an indirect wholly-owned subsidiary of the Company.

"LDPE" stands for low density polyethylene, a type of plastic resin used in making plastic pipes which have certain mechanical strength that are suitable for products that require higher flexibility.

"Liansu HK" means Liansu Group Company Limited (聯塑集團有限公司), a company incorporated in Hong Kong with limited liability under the Companies Ordinance on October 8, 2003 and an indirect wholly-owned subsidiary of the Company.

"LLDPE" stands for linear low density polyethylene, a type of plastic resin used in making plastic pipes.

"MOHURD" means the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部).

"Moody's" means Moody's Investors Service, Inc. and its affiliates.

"Nanjing Liansu" means Nanjing Liansu Technology Industrial Co., Ltd. (南京聯塑科技實業有限公司), a Sino-foreign equity joint enterprise incorporated under the laws of the PRC on June 11, 2006 and an indirect wholly-owned subsidiary of the Company.

"PB pipes" stands for polybutylene pipes.

"PE pipes" stands for polyethylene plastic pipes, including those made of HDPE and LDPE, which have high mechanical strength, chemical resistance and flexibility.

"PE resins" are polyethylene based raw materials, including those used in making HDPE and LDPE pipes.

"Plastic pipe" means any plastic pipe, including conduits for telecommunication and electrical wires, that are made from PVC resins, PP-R resins and PE resins, as applicable.

"PP" stands for polypropylene, a thermoplastic polymer that is resistant to many chemical solvents, bases and acids.

"PP-R" stands for polypropylene random, a type of material for making plastic pipes with good high and low temperature properties.

"PVC" stands for polyvinyl chloride, a type of material for making plastic pipes with high mechanical strength and rigidity and is resistant to most corrosive fluids.

"PVC pipes" are plastic pipes such as PVC, PVC-U and PVC-C pipes.

"PVC resins" are polyvinyl chloride based raw materials for making plastic pipes such as PVC, PVC-U and PVC-C pipes.

"PVC-C" stands for chlorinated polyvinyl chloride, a type of material for making plastic pipes with high mechanical strength, resistance to corrosive fluids and can withstand high temperatures.

"PVC-M pipes" means modified high-resistance PVC pipes.

"PVC-U" means unplasticized polyvinyl chloride, a type of material for making plastic pipes with higher mechanical strength, elasticity and chemical resistance than pipes made from PVC.

"Shaanxi Liansu" means Shaanxi Liansu Technology Industrial Co. Ltd. (陝西聯塑科技實業有限公司), a limited liability company incorporated under the laws of the PRC on October 26, 2010 and an indirect wholly-owned subsidiary of the Company.

"Shunde Liansu Industrial" means Foshan Shunde Liansu Industrial Co., Ltd. (佛山市順德區聯塑實業有限公司), a limited liability company incorporated under the laws of the PRC on December 11, 1996 and deregistered in March 2008 that does not form part of our Group and held, prior to its deregistration, as to 75.41% by Mr. Wong and 24.59% by his wife, Ms. Zuo Xiaoping.

"Sichuan Liansu" means Sichuan Liansu Technology Industrial Co., Ltd. (四川聯塑科技實業有限公司), a limited liability company incorporated under the laws of the PRC on July 10, 2009 and an indirect wholly-owned subsidiary of the Company.

"Wuhan Liansu" means Liansu Technology Development (Wuhan) Co., Ltd. (聯塑科技發展(武漢)有限公司), a Sino-foreign equity joint enterprise incorporated under the laws of the PRC on May 22, 2001 and an indirect wholly-owned subsidiary of the Company.

"Wuhan Liansu Mold" means Wuhan Liansu Precision Mold Co., Ltd. (武漢聯塑精密模具有限公司), a limited liability company incorporated under the laws of the PRC on December 20, 2007 and an indirect wholly-owned subsidiary of the Company.

"Zhongshan Walton" means Zhongshan Walton Coating Steel Plastic Pipe Co., Ltd. (中山華通鋼塑管有限公司), a limited liability company incorporated under the laws of the PRC on July 12, 2002 and an indirect wholly-owned subsidiary of the Company.

Forward-looking statements

This offering memorandum contains "forward-looking statements" that are based on our current expectations, assumptions, estimates and projections about the company and our industry. These forward-looking statements are by their nature subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "will," "project," "seek," "should" and similar expressions. These statements include, among other things, those regarding our future financial position and results of operations, our market position, our strategy, plans, objectives, goals and targets, future production targets or future developments in the markets where we participate or are seeking to participate. We caution you that reliance on any forward-looking statement involves risks and uncertainties and are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future and are not a guarantee of future performance. Although we believe that the assumptions on which our forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate and, as a result, the forward-looking statements based on those assumptions could be materially incorrect. These forward-looking statements include, among other things, statements relating to:

- our business and operating strategies and our various measures to implement such strategies;
- our capital expenditure plans, particularly plans relating to the pipe and pipe fitting businesses;
- our operations and business prospects, including development plans for our existing and new businesses;
- our financial condition;
- the availability and costs of bank loans and other forms of financing;
- the regulatory environment as well as the general industry outlook for the pipe and pipe fitting industry in China;
- changes in political, economic, legal and social conditions in the PRC, including the specific policies of the PRC government and the local authorities in the regions where we operate, which affect availability and cost of sourcing, pricing, trading, transporting and shipping of our products;
- fluctuations in the market prices of raw materials, including PVC and other resins;
- changes in currency exchange rates;
- future developments in the pipe and pipe fitting industry in China, especially in the regions of the PRC where we have operations; and
- general economic conditions in China and internationally.

This list of important factors is not exhaustive. These and other factors are more fully discussed in "Risk factors," "Management's discussion and analysis of financial condition and results of operations" and elsewhere in this offering memorandum. In light of these and other uncertainties, you should not conclude that we will necessarily achieve any plans, objectives, projected production volumes or financial results referred to in any of the forward-looking statements. We do not undertake to update or revise of any of these forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this offering memorandum might not occur.

Exchange rate information

Hong Kong

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since October 17, 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK$7.8 to US$1.00. The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China, or the "Basic Law," which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK$7.80 to US$1.00. In May 2005, the Hong Kong Monetary Authority broadened the 22-year-old trading band from the original rate of HK$7.80 per U.S. dollar to a rate range of HK$7.75 to HK$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the link within that rate range. However, we cannot assure you that the Hong Kong government will maintain the link within that range, or at all. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. The Hong Kong government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar.

The following table sets forth, for the periods indicated, information concerning the exchange rates between Hong Kong dollars and U.S. dollars based on the noon buying rate for U.S. dollars as set forth in the H.10 statistical release of the Federal Reserve Board.

	Noon buying rate			
	Period end	**Average[(1)]**	**Low**	**High**
				(HK$ per US$1.00)
2006	7.7771	7.7681	7.7928	7.7506
2007	7.7984	7.8016	7.8289	7.7497
2008	7.7499	7.7862	7.8159	7.7497
2009	7.7536	7.7514	7.7618	7.7495
2010	7.7810	7.7687	7.8040	7.7501
2011				
January	7.7926	7.7803	7.7978	7.7683
February	7.7883	7.7895	7.7957	7.7823
March	7.7750	7.7913	7.8012	7.7750
April (through April 15, 2011)	7.7733	7.7722	7.7784	7.7671

Note:

1. For periods exceeding one month, the average of the daily noon buying rate on the last business day of each month during the period.

On April 15, 2011, the noon buying rate for U.S. dollars in the H.10 statistical release of the Federal Reserve Board was HK$7.7733 to US$1.00.

China

The People's Bank of China, or PBOC, sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set daily by PBOC on the basis of the previous day's inter-bank foreign exchange market rates and then current exchange rates in the world financial markets. During this period, the official exchange rate for the conversion of Renminbi to U.S. dollars remained generally stable. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loan principals and securities trading, still requires the approval of SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. On May 18, 2007, the PBOC enlarged 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. From July 21, 2005 to December 31, 2010, the value of the Renminbi appreciated by approximately 26.7% against the U.S. dollar. The PBOC authorized the China Foreign Exchange Trading Centre, effective since January 4, 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi on each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over-the-counter exchange rate for the business day.

The following table sets forth, for the periods indicated, information concerning the exchange rates between Renminbi and U.S. dollars based on the noon buying rate for U.S. dollars as set forth in the H.10 statistical release of the federal Reserve Board.

	Noon buying rate			
	Period end	**Average(1)**	**Low**	**High**
				(RMB per US$1.00)
2006	7.8041	7.9723	8.0702	7.8041
2007	7.2946	7.6058	7.8127	7.2946
2008	6.8225	6.9477	7.2946	6.7800
2009	6.8259	6.8307	6.8470	6.8176
2010	6.6000	6.7696	6.8330	6.6000
2011				
January	6.6017	6.5964	6.6364	6.5809
February	6.5713	6.5761	6.5965	6.5520
March	6.5483	6.5645	6.5743	6.5483
April (through April 15, 2011)	6.5317	6.5382	6.5477	6.5310

Note:

1. For periods exceeding one month, the average of the daily noon buying rate on the last business day of each month during the period.

On April 15, 2011, the noon buying rate for U.S. dollars in the H.10 statistical release of the Federal Reserve Board was RMB6.5317 to US$1.00.

Presentation of financial information

The audited consolidated financial statements and related notes as of December 31, 2008, 2009 and 2010 included elsewhere in this offering memorandum have been prepared in accordance with Hong Kong Financial Reporting Standards, or HKFRS, issued by the Hong Kong Institute of Certified Public Accountants, which differ in certain material respects from generally accepted accounting principles in the United States, or U.S. GAAP. Our reporting currency is the Renminbi. See "Risk factors — Risks relating to the Notes — There may be less publicly available information about us than is available about other companies that are organized in certain other jurisdictions".

Cautionary note regarding market and industry data

Unless otherwise indicated, all sources for market data, industry data and statistics are estimates contained in or derived from internal or industry sources that we believe to be reliable. Market data used throughout this offering memorandum have been obtained from independent experts, internal surveys, market research, publicly available information and industry publications. Although we believe these sources to be reliable, we have not independently verified these sources, and neither the company nor the Initial Purchasers make any representation as to the accuracy or completeness of such information.

Market and industry data and statistics are inherently speculative and are not necessarily reflective of actual market conditions. Such statistics are based on market and industry research, which themselves are based on sampling and subjective judgments by both the relevant researchers and the respondents, including judgments about what types of products and transactions should be included in the relevant market. In addition, the value of comparisons of statistics for different markets is limited by many factors, including the fact that (i) the markets are defined differently, (ii) the underlying information was gathered by different methods and (iii) different assumptions were applied in compiling the data. Accordingly, the market and industry data and statistics included in this offering memorandum should be viewed with caution.

Summary

This summary highlights information contained elsewhere in this offering memorandum and does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire offering memorandum, including the section entitled "Risk factors" and the financial statements and related Notes thereto included elsewhere in this offering memorandum, before making an investment decision. This offering memorandum includes forward-looking statements that involve risks and uncertainties. See "Forward-looking statements".

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 (國家稅務局) and local taxation bureau (地方稅務局) 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

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.

Corporate Information

We were incorporated in the Cayman Islands on November 5, 2009, as an exempted company with limited liability. Our principal office is located at Shunde District of Foshan City, Guangdong Province in the People's Republic of China. Our registered office is located at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Our website is www.liansu.com. Information contained on our website does not constitute part of this offering memorandum.

The Offering

The following summary contains basic information about this offering and is not intended to be complete. It does not contain all of the information that may be important to you. For a more complete understanding of the terms of the Notes being sold in this offering, see "Description of the Notes".

Issuer	China Liansu Group Holdings Limited.
Notes Offered..................................	US$300,000,000 aggregate principal amount of 7.875% Senior Notes due 2016.
Maturity Date	May 13, 2016.
Interest Payment Dates.....................	Interest will be payable semi-annually in arrears on May 13 and November 13 of each year. The first interest payment will be due on November 13, 2011.
Ranking of Notes	The Notes will be our general obligations and: • will rank at least equal in right of payment to all of our unsecured borrowings; • will be senior in right of payment to any of our future subordinated indebtedness, if any; • will be unconditionally guaranteed by the Subsidiary Guarantors; and • will be effectively subordinated to any existing and future indebtedness of our subsidiaries that do not guarantee the Notes.
Offering Price	99.493% of the principal amount of the Notes.
Subsidiary Guarantees......................	Our obligations under the Notes and the indenture will be guaranteed by certain of our subsidiaries that are organized outside the PRC. None of our existing or future subsidiaries that are organized under the laws of the PRC will guarantee the Notes in the future.
Ranking of the Subsidiary Guarantees.......................................	The guarantee of each Subsidiary Guarantor will be a general obligation of such Subsidiary Guarantor and: • will rank at least equal in right of payment to all unsecured borrowings of such Subsidiary Guarantor; • will be senior in right of payment to such Subsidiary Guarantor's future subordinated indebtedness, if any; and • will be effectively subordinated to any existing and future indebtedness of such Subsidiary Guarantor that is secured by liens that do not secure such Subsidiary Guarantee, to the extent of the property and assets securing such indebtedness.

Security	The Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors will be secured, equally and ratably, with certain future permitted indebtedness, by a first-priority fixed charge over the shares of each Subsidiary Guarantor. See "Description of the Notes — Security".
Optional Redemption	We may redeem all or part of the Notes on or after May 13, 2014 at the redemption prices as described under "Description of the Notes — Optional Redemption". Prior to May 13, 2014, we may redeem all the Notes by paying a "make whole" premium as set forth under "Description of the Notes — Optional Redemption". Prior to May 13, 2014, we may on one or more occasions use the net proceeds of specified equity offerings to redeem up to 35% of the principal amount of Notes at a redemption price equal to 107.875% of the principal amount of the Notes, plus accrued and unpaid interest and additional amounts, if any, up to the redemption date, provided that at least 65% of the original principal amount of the Notes remains outstanding after the redemption.
Additional Amounts; Redemption for Changes in Taxes	All payments in respect of the Notes or with respect to any Subsidiary Guarantee will be made without withholding or deduction for any taxes or other governmental charges, except to the extent required by law. If withholding or deduction is required by law, subject to certain exceptions, we, the relevant Subsidiary Guarantor or other payor, as applicable, will pay additional amounts so that the net amount received by a holder is no less than the amount that it would have received in the absence of such withholding or deduction. See "Description of the Notes — Additional Amounts". We may redeem the Notes in whole, but not in part, at any time, upon giving prior notice, if certain changes in tax law impose certain withholding taxes on amounts payable on the Notes, and, as a result, we or any Subsidiary Guarantor is required to pay additional amounts with respect to such withholding taxes. If we exercise such redemption right, we must pay you a price equal to the principal amount of the Notes plus accrued and unpaid interest and additional amounts, if any, to the date of redemption. See "Description of the Notes — Redemption for Tax Reasons".
Change of Control	If we experience a Change of Control Triggering Event (as defined under "Description of the Notes — Definitions"), we will be required to offer to repurchase the Notes at 101% of their principal amount plus accrued interest to the date of such repurchase. See "Description of the Notes — Repurchase of Notes Upon a Change of Control Triggering Event".

Certain Covenants............................	We will issue the Notes under the indenture. The indenture will partially limit, among other things, our ability and the ability of our restricted subsidiaries to: • incur or guarantee additional indebtedness and issue preferred stock; • pay dividends, redeem capital stock and make investments; • make other restricted payments; • create or permit to exist liens; • enter into sale and leaseback transactions; • impose restrictions on the ability of our subsidiaries to pay dividends or make other payments to us; • transfer, lease or sell certain assets, including subsidiary stock; • merge or consolidate with other entities; • enter into transactions with affiliates; and • enter into unrelated businesses. Each of these covenants is subject to a number of significant exceptions and qualifications. See "Description of the Notes — Certain Covenants" and the related definitions.
Notice to Investors............................	The Notes and the Subsidiary Guarantees have not been, and will not be, registered under the Securities Act or the securities laws of any other jurisdiction. The Notes are subject to restrictions on transfer and may only be offered or sold in transactions that are exempt from or not subject to the registration requirements of the Securities Act. See "Plan of distribution" and "Notice to investors".
Absence of a Public Market for the Notes..	The Notes will be new securities for which there is currently no market. Although the Initial Purchasers have informed us that they intend to make a market in the Notes, they are not obligated to do so and they may discontinue market making at any time without notice. Accordingly, we cannot assure you that a liquid market for the Notes will develop or be maintained.

Listing	Approval-in-principle has been obtained for the listing of the Notes on the SGX-ST. The Notes will be traded on the SGX-ST in a minimum board lot size of S$200,000 or its equivalent in US dollars, for so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, we will appoint and maintain a paying agent in Singapore, where the definitive Notes may be presented or surrendered for payment or redemption, in the event that any of the global Notes is exchanged for definitive Notes. In addition, an announcement of such exchange will be made through the SGX-ST and such announcement will include all material information with respect to the delivery of definitive Notes, including details of the paying agent in Singapore.
Form, Denomination and Registration	The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US$200,000 and integral multiples of US$1,000 in excess thereof and will be initially represented by one or more global Notes registered in the name of a nominee of The Depository Trust Company.
Book-Entry Only	The Notes will be issued in book-entry form through the facilities of The Depository Trust Company for the accounts of its participants, including Euroclear and Clearstream, Luxembourg. For a description of certain factors relating to clearance and settlement, see "Description of the Notes — Book-Entry; Delivery and Form".
Delivery of the Notes	The Company expects to make delivery of the Notes, against payment in same-day funds, on or about May 13, 2011, which is expected to be the fifth business day following the date of this offering memorandum. See "Plan of distribution".
Ratings	The Notes are expected to be rated "Ba2" by Moody's and "BB" by Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

Security Codes

	Notes sold under Rule 144A	Notes sold under Regulation S
CUSIP	16951D AA4	G2159F AA2
ISIN	US16951DAA46	USG2159FAA24
Common Code	062177691	062178361

Trustee	The Bank of New York Mellon
Registrar, Transfer Agent and Principal Paying Agent	The Bank of New York Mellon
Collateral Agent	The Bank of New York Mellon (and its relevant affiliates)

Use of Proceeds................................	We intend to use the proceeds of the offering of the Notes for refinancing of existing indebtedness, capital expenditures and other general corporate purposes.
Governing Law of the Indenture, Notes and Subsidiary Guarantees......	New York law.
Governing Law of the Share Pledges.	Hong Kong law.
Original Issue Discount	The Notes may be treated as issued with original issue discount for U.S. federal income tax purposes. In such case, U.S. holders of Notes generally must include original issue discount in gross income as ordinary income as it accrues, in advance of receiving cash attributable to that income. See "Taxation — Certain U.S. Federal Income Tax considerations for U.S. holders".
Risk Factors	Please see "Risk factors" for a description of certain of the risks you should carefully consider before investing in the Notes.

Summary historical consolidated financial information and other data

We have derived the following summary historical consolidated financial information from our audited consolidated financial statements as of and for the years ended December 31, 2008, 2009 and 2010 included elsewhere in this offering memorandum, which have been audited by Ernst & Young ("E&Y"). You should read the following summary financial information and operating 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.

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

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税法實施條例), 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.

Use of proceeds

We estimate that we will receive net proceeds from this offering in the amount of approximately US$292.0 million, after deducting underwriting fees and commissions and other estimated transaction expenses payable by us. We intend to use the net proceeds from this offering for:

- refinancing of existing indebtedness;
- capital expenditures; and
- other general corporate purposes.

We expect that the timing and final amount of disbursements to be made for the foregoing purposes will be determined by our directors with a view to obtaining the optimal benefit for us. However, depending on future events or developments, such as general market conditions, the level of demand for our products, the outlook for our industry, changes in social, political and economic conditions and the regulatory environment in the places where we conduct our business, changes in our need for capital and the availability of financing and capital to fund our needs, we may use the net proceeds differently than as described above.

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	3,427,492	519,317
Short-term borrowings				
Bank loans due within one year	630,326	95,504	630,326	95,504
Total short term borrowings	630,326	95,504	630,326	95,504
Long-term borrowings				
Bank loans	154,000	23,333	154,000	23,333
Notes offered hereby	—	—	1,927,200	292,000
Total long-term borrowings	154,000	23,333	2,081,200	315,333
Total borrowings	784,326	118,837	2,711,526	410,837
Total equity	4,004,451	606,735	4,004,451	606,735
Total capitalization(1)	4,788,777	725,572	6,715,977	1,017,572

(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 net 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.

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

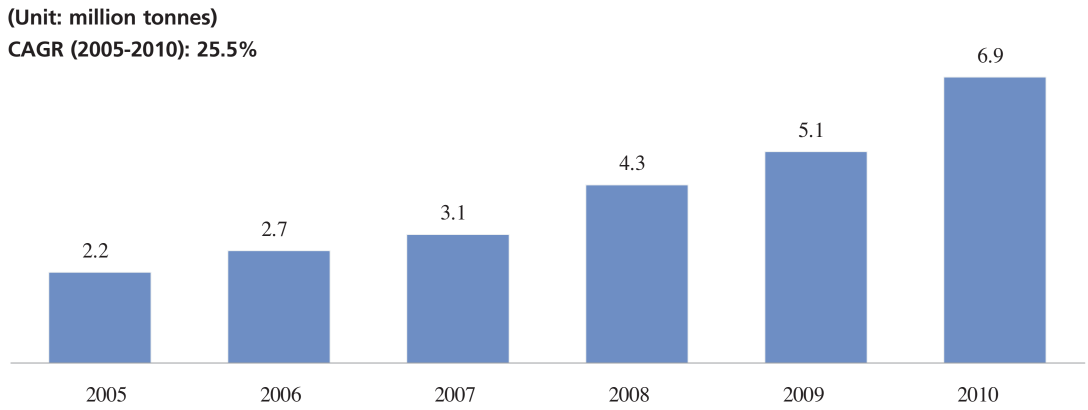
Application category	Sub-categories	Usages and types of pipes used
6. Floor heating	Heating pipes	PE-RT, PEX, PB pipes are mainly used
7. Fire-fighting	Fire-fighting pipes	Includes pipes with high compression resistance requirements, e.g. PVC-C and EP coated steel composite pipes
8. Others	Industrial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

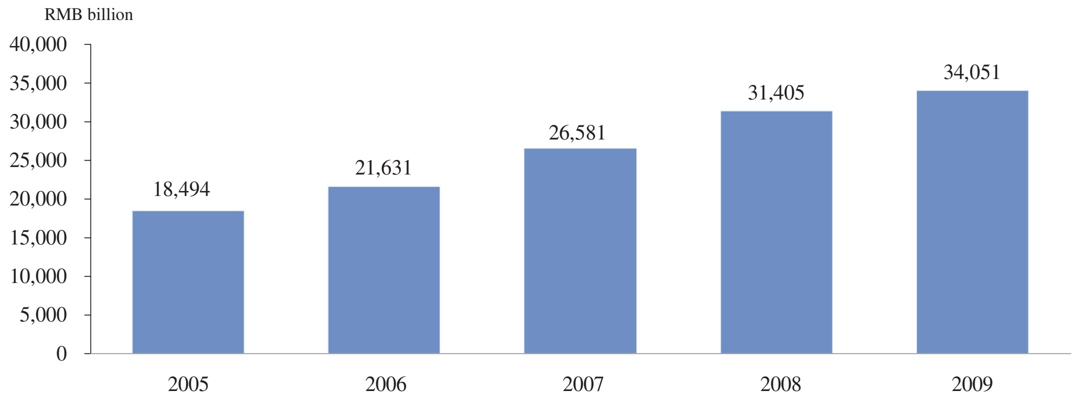
Growth drivers for China's plastic pipe industry

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.

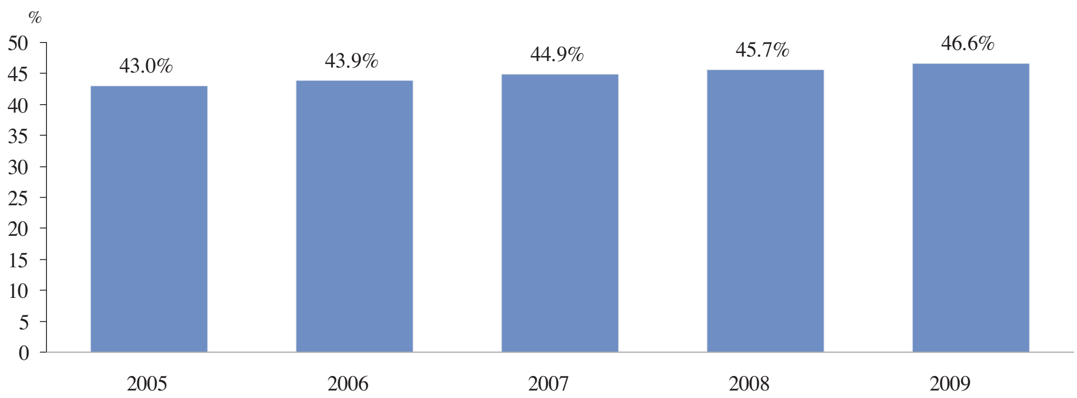
China's Gross Domestic Product, 2005-2009



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.

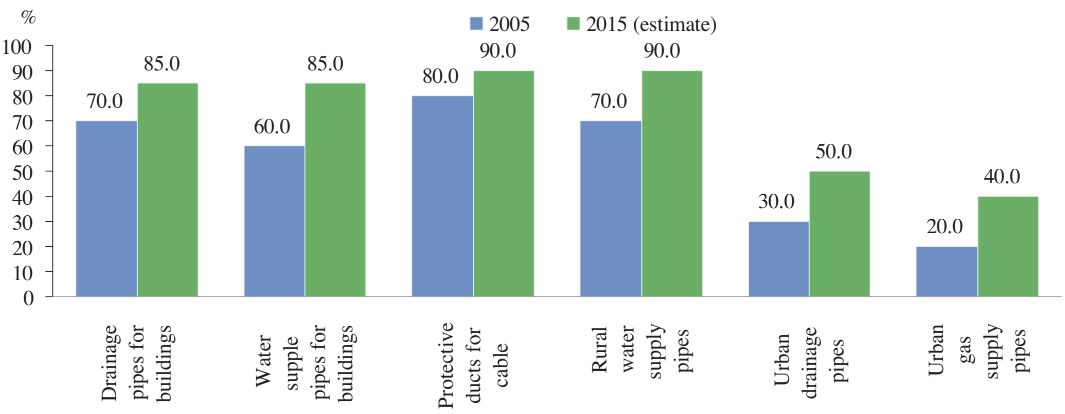
	2005	**2006**	**2007**	**2008**	**2009**	**2005-2009 CAGR**
	(RMB billion)	**(RMB billion)**	**(RMB billion)**	**(RMB billion)**	**(RMB billion)**	
Fixed asset investment	8,877	11,000	13,732	17,283	22,460	26.1%
Investment in real estate development	1,591	1,942	2,529	3,120	3,624	22.9%

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》)*

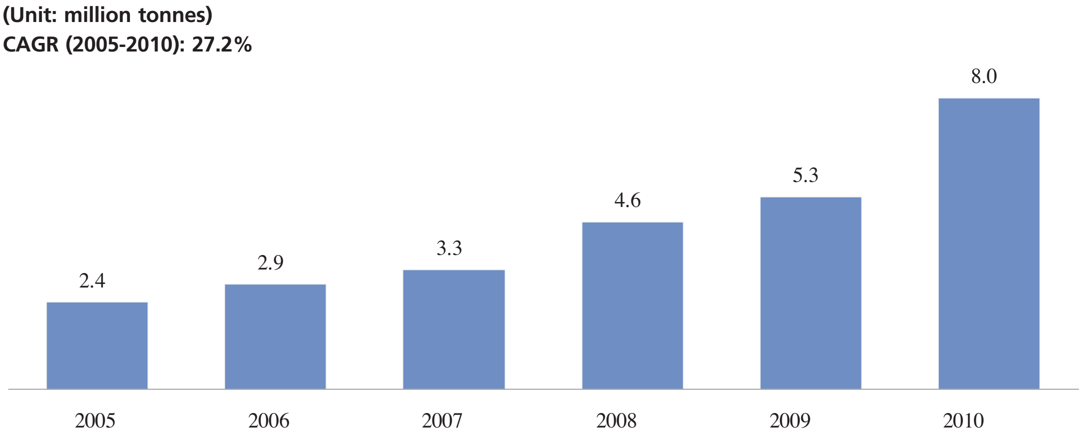
Advanced technological development allows better performance and widening applications of plastic pipes

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

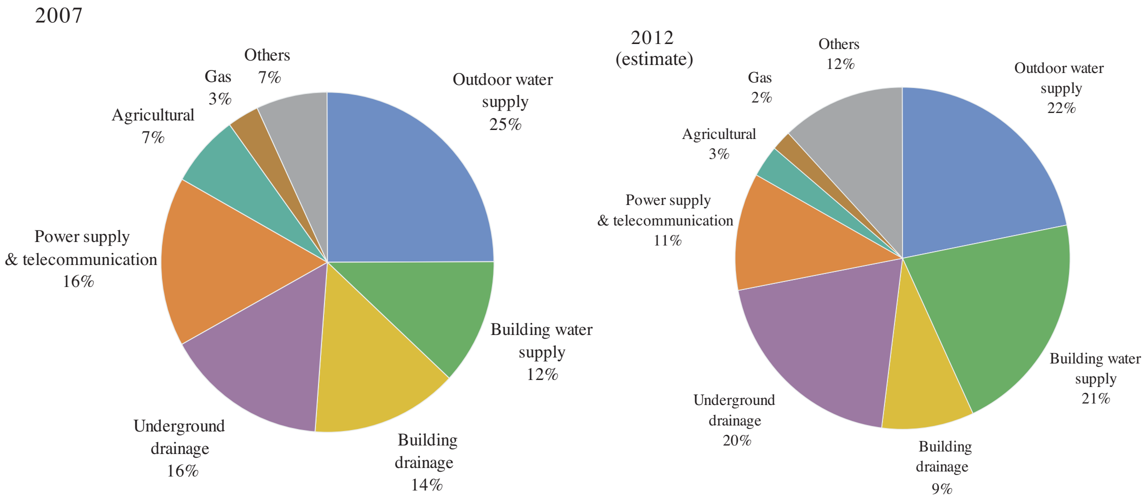


Source: Market Avenue

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

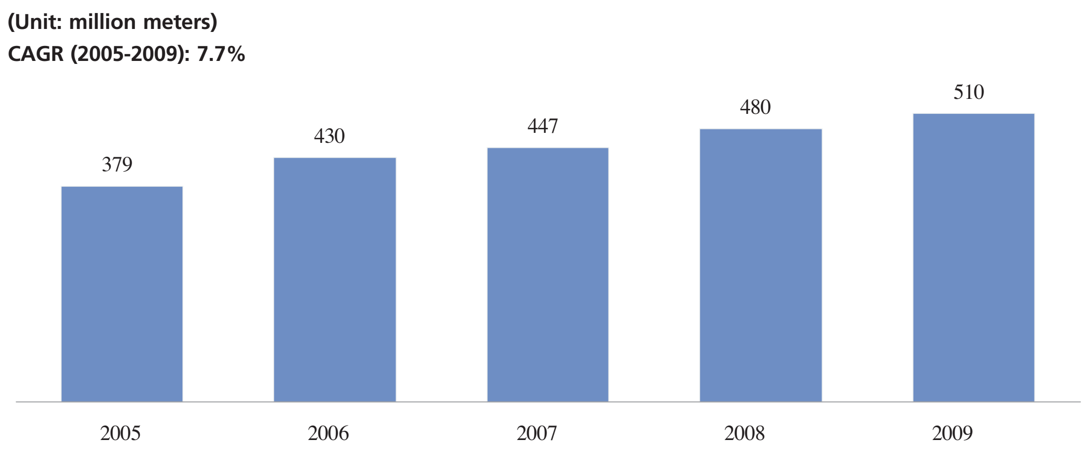
Water supply

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

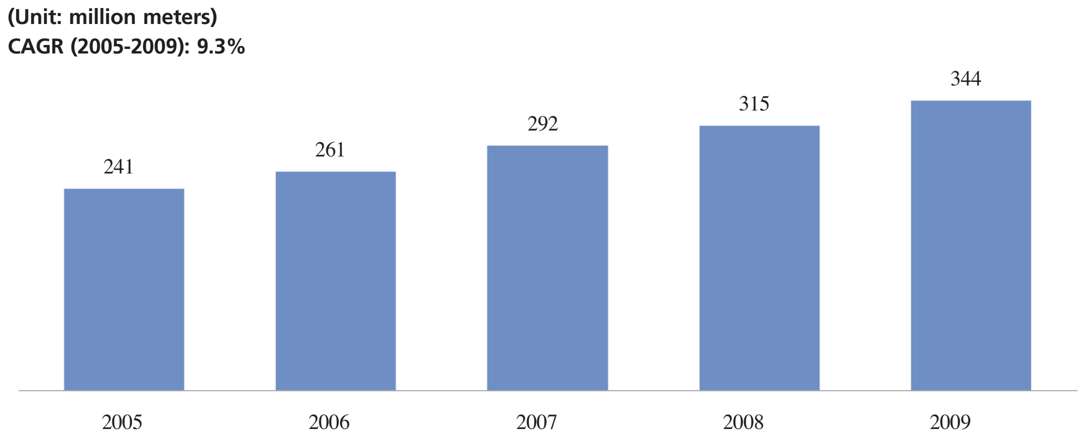


Source: National Bureau of Statistics

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

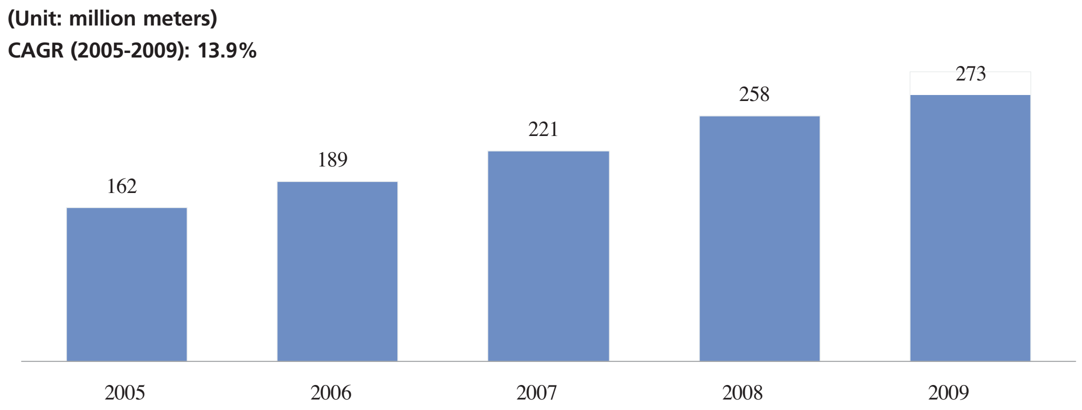
According to Market Avenue, the use of plastic pipes for agricultural purposes in China should grow over the long term due to the government's increasing concerns regarding the hygiene of water supply in agricultural areas and its motivation to develop rural water-saving irrigation systems and agricultural 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.

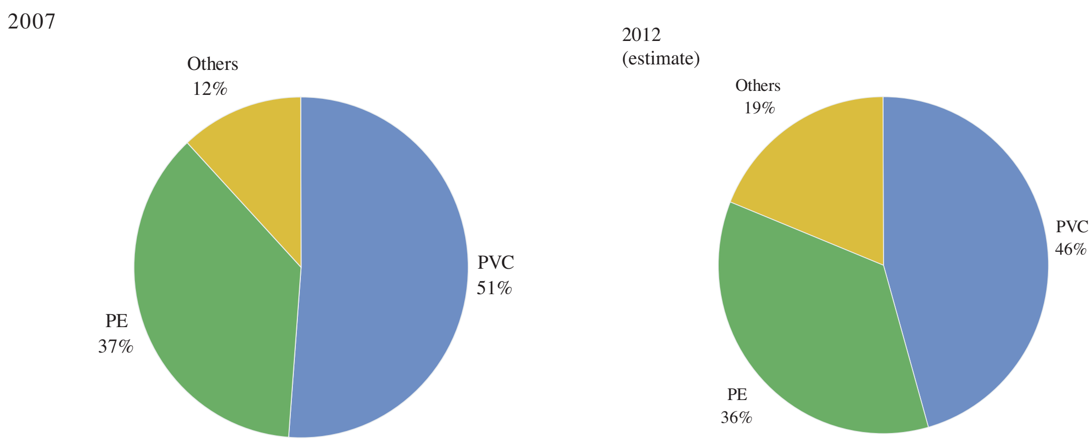
Fire-fighting

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)

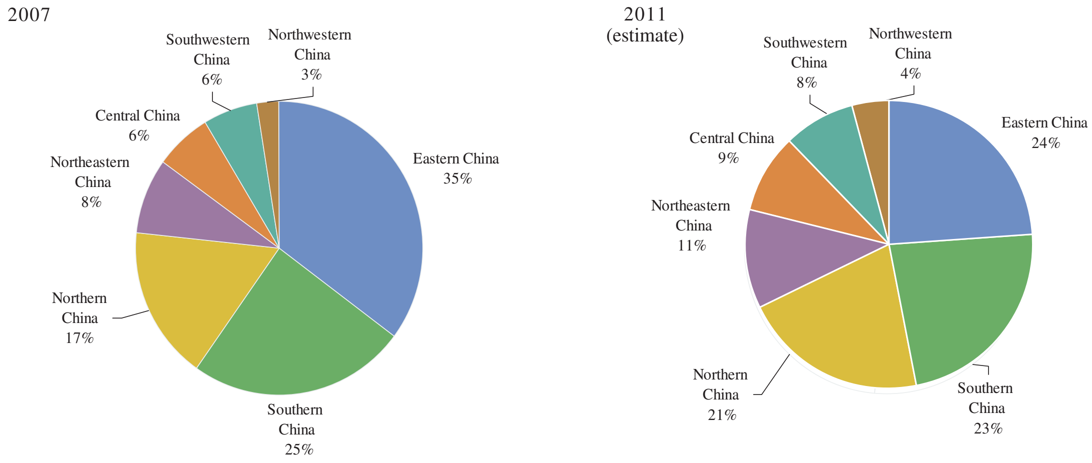


Source: Market Avenue

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.

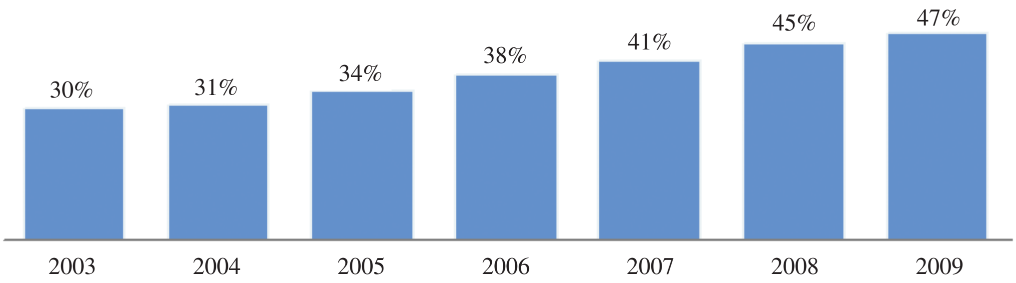
- *Economies of scale.* To better fulfill customers' project requirements and needs, many plastic pipe manufacturers seek to provide a more comprehensive range of plastic pipes and pipe fittings. According to Market Avenue, given the large variety of types of plastic pipe products in the market, only 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

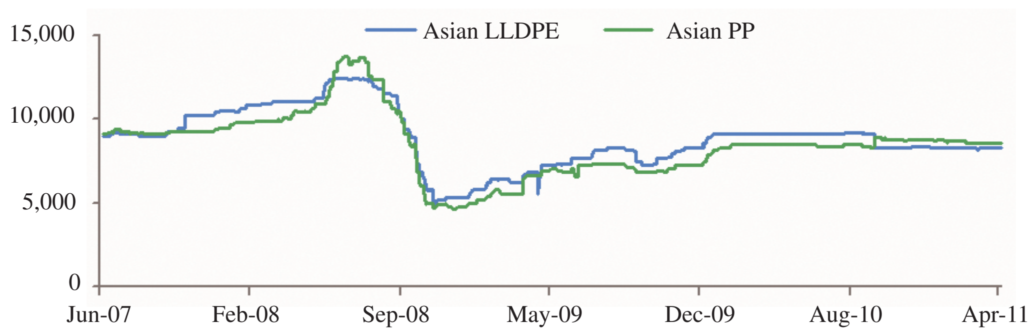
Pricing of plastic pipe products and raw materials

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)

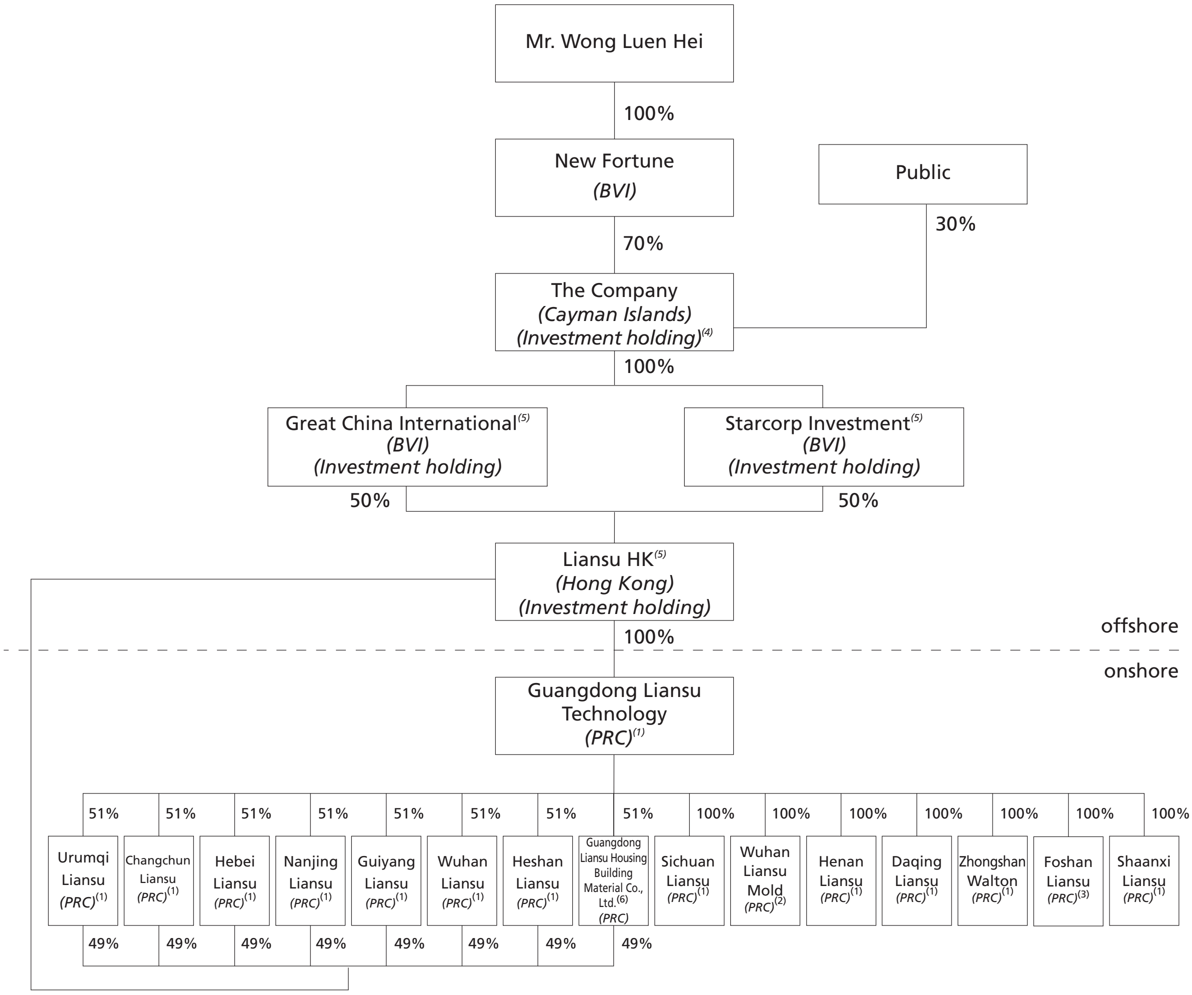


Source: Bloomberg

Corporate structure

Corporate Structure

The following chart illustrates our corporate structure as of the date of this offering memorandum.



Notes:

(1) Production and sales of plastic pipes and pipe fittings.

(2) Production and sales of plastic pipe moulds.

(3) Import and export of plastic pipes, pipe fittings and housing materials.

(4) Issuer.

(5) Subsidiary Guarantor.

(6) Formerly known as "Guangdong Liansu Municipal Engineering Co., Ltd.", to be engaged in production and sales of plastic housing products.

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 (國家稅務局) and local taxation bureau (地方稅務局) 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.

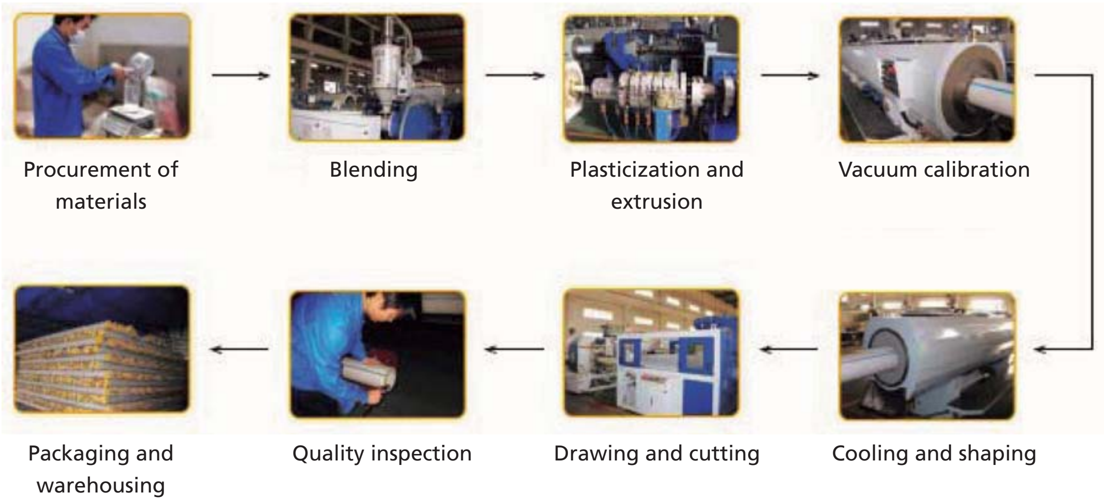
We have been expanding our production capacity throughout 2008 to 2010 and will continue to do so to capture the growing demand for our products and to enlarge our market share in various geographical areas. See "Business — Business strategies — Continue to expand our market share by increasing our production 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税法) (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.

Description of the Notes

For purposes of this "Description of the Notes," the term "Company" refers only to China Liansu Group Holdings Limited, a company incorporated with limited liability under the laws of the Cayman Islands, and any successor obligor on the Notes, and not to any of its Subsidiaries. Each Subsidiary of the Company which guarantees the Notes is referred to as a "Subsidiary Guarantor", and each such guarantee is referred to as a "Subsidiary Guarantee."

The Notes are to be issued under an indenture (the "**Indenture**"), to be dated as of the Original Issue Date, among the Company, the initial Subsidiary Guarantors, as guarantors, The Bank of New York Mellon, as trustee (the "**Trustee**") and The Bank of New York Mellon as collateral agent (the "**Collateral Agent**").

The following is a summary of certain provisions of the Indenture, the Notes and the Subsidiary Guarantees. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes and the Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date during normal office hours at the corporate trust office of the Trustee at The Bank of New York Mellon, 101 Barclay Street, Floor 4E, New York, NY 10286, United States of America.

Brief Description of the Notes

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described below under the caption "- The Subsidiary Guarantees" and in "Risk Factors - Risks Relating to the Subsidiary Guarantees and the Collateral";
- effectively subordinated to other secured obligations of the Company and the Subsidiary Guarantors to the extent of the value of the assets serving as security thereof; and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (defined below).

In addition, on the Original Issue Date, subject to the limitations described in "Risk Factors - Risks Relating to the Subsidiary Guarantees and the Collateral," the Notes will be secured by a pledge of the Collateral as described below under the caption "- Security" and will:

- be entitled to a first priority lien on the Collateral (subject to any Permitted Liens and any future intercreditor agreement as contemplated under "- Intercreditor Agreement" herein); and

- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Notes will mature on May 13, 2016, unless earlier redeemed pursuant to the terms thereof and the Indenture.

The Indenture allows additional Notes to be issued from time to time (the "**Additional Notes**"), subject to certain limitations described under "- Further Issues." Unless the context requires otherwise, references to the "Notes" for all purposes of the Indenture and this "Description of the Notes" include any Additional Notes that are actually issued. The Notes will bear interest at 7.875% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semi-annually in arrears on May 13 and November 13 of each year (each an "**Interest Payment Date**"), commencing November 13, 2011.

Interest on the Notes, when in the form of Global Notes, will be paid to Holders of record at the close of business on April 28 and October 29 immediately preceding an Interest Payment Date (each, a "**Record Date**"), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. In any case in which the date of the payment of principal of or premium (if any) or interest on the Notes is not a Business Day in the relevant place of payment or in the place of business of the Trustee, then payment of principal or premium (if any) or interest need not be made in such place on such date but may be made on the next succeeding Business Day in such place. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date. Interest on the Notes will be calculated on the basis of a 360 day year comprised of twelve 30-day months.

The Notes will be issued only in fully registered form, without coupons, in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose in the Borough of Manhattan, The City of New York (which initially will be the corporate trust administration office of the Trustee, currently located at 101 Barclay Street, Floor 4E, New York, NY 10286, United States of America), and the Notes may be presented for registration of transfer or exchange at such office or agency; *provided* that, at the option of the Company, payment of interest may be made by check mailed at the Company's expense to the address of the Holders as such address appears in the Note register. Interest payable on the Notes held through DTC will be available to DTC participants (as defined herein) on the Business Day following payment thereof.

The Subsidiary Guarantees

On the Original Issue Date, all of the Company's Subsidiaries will be Restricted Subsidiaries and the initial Subsidiary Guarantors will consist of all of the Restricted Subsidiaries (other than the Restricted Subsidiaries organized under the laws of the PRC). The initial Subsidiary Guarantors do not have significant operations or assets. All of the Restricted Subsidiaries that are not Subsidiary Guarantors are collectively referred to herein as the "**Non-Guarantor Subsidiaries**."

None of the existing or future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee at any time in the future. Although the Indenture contains limitations on the amount of additional Indebtedness that the Restricted Subsidiaries organized under the laws of the PRC may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiary will pay the holders of its debt and its trade creditors before it will be able to distribute any of its assets to the Company. See "Risk Factors — 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."

As of December 31, 2010

- the Company and all its subsidiaries had total consolidated indebtedness of RMB784.3 million (US$118.8 million) outstanding, of which RMB282.0 million (US$42.7 million) was secured;

- the Company and the Subsidiary Guarantors' outstanding secured indebtedness was nil; and

- the Non-Guarantor Subsidiaries had total indebtedness of RMB529.0 million (US$80.2 million) outstanding.

In addition, as of December 31, 2010, the Non-Guarantor Subsidiaries had RMB138.5 million (US$21.0 million) of capital commitments.

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;

- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;

- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee;

- ranks at least *pari passu* with all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law); and

- is effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (defined below).

The Company will cause each of its future Subsidiaries (other than Subsidiaries organized under the laws of the PRC), immediately upon becoming a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which such Restricted Subsidiary will guarantee the payment of the Notes. Each Subsidiary of the Company that guarantees the Notes after the Original Issue Date is referred to as a "Future Subsidiary Guarantor" and, upon execution of the applicable supplemental indenture to the Indenture, will be a "Subsidiary Guarantor".

In addition, subject to the limitations described in "Risk factors — Risks relating to the Subsidiary Guarantees and the collateral," the Subsidiary Guarantee of the Subsidiary Guarantor Pledgor:

- will be entitled to a first ranking security interest in the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor, as described below under the caption "- Security"; and

- after giving effect to any sharing of Collateral as described under the caption "- Security" below, will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. The Subsidiary Guarantors will (1) agree that their obligations under the Subsidiary Guarantees will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be repaid, the rights of the Holders under the Subsidiary Guarantees will be reinstated with respect to such payment as though such payment had not been made. All payments under the Subsidiary Guarantees are required to be made in U.S. dollars.

Under the Indenture and any supplemental indenture to the Indenture, as applicable, each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally. If a Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor and, depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee could be reduced to zero.

The obligations of each Subsidiary Guarantor under its respective Subsidiary Guarantee and the enforceability of the Collateral granted in respect of the Subsidiary Guarantee of the Subsidiary Guarantor Pledgor may be limited, or possibly invalid, under applicable laws. See "Risk factors — Risks relating to the guarantees and the collateral — The guarantees may be challenged under applicable financial assistance, insolvency or fraudulent transfer laws, which could impair the enforceability of the guarantees."

Release of the Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;

- upon a defeasance as described under "- Defeasance-Defeasance and Discharge";

- upon the designation by the Company of a Subsidiary Guarantor as an Unrestricted Subsidiary in compliance with the terms of the Indenture; or

- upon the sale of a Subsidiary Guarantor in compliance with the terms of the Indenture (including the covenants described under the captions "- Certain Covenants - Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries," "- Certain Covenants - Limitation on Asset Sales," and "- Consolidation, Mergers and Sale of Assets") resulting in such Subsidiary Guarantor no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Company's other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture.

No release of a Subsidiary Guarantor from its Subsidiary Guarantee shall be effective against the Trustee or the Holders until the Company has delivered to the Trustee an Officers' Certificate stating that all requirements relating to such release have been complied with and that such release is authorized and permitted by the terms of the Indenture.

On the Original Issue Date, all of the Company's Subsidiaries will be Restricted Subsidiaries and each of the Restricted Subsidiaries, other than Restricted Subsidiaries that are organized under the laws of the PRC, will be a Subsidiary Guarantor. However, under the circumstances described below under the caption "- Certain Covenants - Designation of Restricted and Unrestricted Subsidiaries," the Company will be permitted to designate certain of its Subsidiaries as "Unrestricted Subsidiaries." The Company's Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture and will not guarantee the Notes.

Security

The Company has agreed, for the benefit of the Holders, to pledge, or cause each initial Subsidiary Guarantor Pledgor to pledge the Capital Stock of all Restricted Subsidiaries (other than the Restricted Subsidiaries that are organized under the laws of the PRC) (the "**Collateral**") held by it on a first priority basis (subject to Permitted Liens and any future intercreditor agreement as contemplated under "- Intercreditor Agreement" herein) on the Original Issue Date in order to secure the obligations of the Company under the Notes and the Indenture and of such initial Subsidiary Guarantor Pledgor under its Subsidiary Guarantee. The initial Subsidiary Guarantor Pledgors are Great China International Holdings Ltd. and Starcorp Investment Holdings Ltd.

None of the Capital Stock of the Non-Guarantor Subsidiaries will be pledged on the Original Issue Date or at any time in the future. In addition, none of the Capital Stock of any future Restricted Subsidiary that may be organized under the laws of the PRC will be pledged at any time in the future.

The Company has also agreed, for the benefit of the holders of the Notes, to pledge, or cause each Subsidiary Guarantor to pledge, the Capital Stock owned by the Company or such Subsidiary Guarantor of any Person that becomes a Restricted Subsidiary (other than Persons organized under the laws of the PRC) after the Original Issue Date, immediately upon such Person becoming a Restricted Subsidiary, to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, in the manner described above.

Each Subsidiary Guarantor that pledges Capital Stock of a Restricted Subsidiary after the Original Issue Date, upon giving such pledge, will be a "**Subsidiary Guarantor Pledgor**."

The value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors is unlikely to be sufficient to satisfy the Company's and the Subsidiary Guarantor Pledgors' obligations under the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, and the Collateral securing the Notes and such Subsidiary Guarantees may be reduced or diluted under certain circumstances, including the issuance of Additional Notes and other Permitted Pari Passu Secured Indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture and any future intercreditor agreement as contemplated under "- Intercreditor Agreement" herein. See "- Release of Security" and "Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral — The value of the Collateral will likely not be sufficient to satisfy our obligations under the Notes."

The Bank of New York Mellon (and its relevant affiliates) will initially act as the Collateral Agent (the "Collateral Agent") under the Indenture and the Security Documents in respect of the security over the Collateral. The Collateral Agent, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Intercreditor Agreement (if any) or the Security

Documents as are set forth in the Indenture and the Security Documents. Under certain circumstances, the Trustee and the Collateral Agent may have obligations under the Security Documents or the Intercreditor Agreement (if any) that are in conflict with the interests of the Holders and the beneficiaries of the Secured Liabilities. Neither the Trustee nor the Collateral Agent will in any circumstances be under any obligation to exercise any rights or powers conferred under the Indenture or any of the Security Documents for the benefit of such parties, unless such parties have offered to the Trustee and/or the Collateral Agent indemnity and/or security satisfactory to the Trustee and the Collateral Agent, as applicable, against any loss, liability or expense.

No appraisals of the Collateral have been prepared in connection with this offering of the Notes. There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture, the Security Documents and any future intercreditor agreement following an Event of Default, would be sufficient to satisfy amounts due on the Notes or the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors. By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

So long as no Payment Default has occurred and is continuing, and subject to the terms of the Security Documents and the Indenture, the Company and the Subsidiary Guarantor Pledgors, as the case may be, will be entitled to exercise any and all voting rights and to receive, retain and use any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares or stock resulting from stock splits or reclassifications, rights issues, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of Capital Stock constituting Collateral.

Permitted Pari Passu Secured Indebtedness

On or after the Original Issue Date and subject to the Indenture, the Company and each Subsidiary Guarantor Pledgor may create Liens on the Collateral *pari passu* with the Lien for the benefit of the Holders to secure Indebtedness of the Company (including Additional Notes) and any Pari Passu Subsidiary Guarantee of a Subsidiary Guarantor Pledgor with respect to such Indebtedness (such Indebtedness of the Company and any such Pari Passu Subsidiary Guarantee, "**Permitted Pari Passu Secured Indebtedness**"); *provided* that (i) the Company or such Subsidiary Guarantor Pledgor was permitted to Incur such Indebtedness under the covenant under the caption "Limitation on Indebtedness and Preferred Stock," (ii) the holders of such Indebtedness (or their representative) become party to the Intercreditor Agreement referred to below, (iii) the agreement in respect of such Indebtedness contains provisions with respect to releases of Collateral and such Pari Passu Subsidiary Guarantee substantially similar to and no more restrictive on the Company and such Subsidiary Guarantor Pledgor than the provisions of the Indenture and the Security Documents, and (iv) the Company and such Subsidiary Guarantor Pledgor deliver to the Trustee and the Collateral Agent an Opinion of Counsel and Officers' Certificate with respect to compliance with the conditions stated in (i), (ii) and (iii) above and corporate and collateral matters in connection with the Security Documents, in form and substance as set forth in the Security Documents. The Trustee and the Collateral Agent will be permitted and authorized, without the consent of any Holder, to enter into any amendments to the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with this paragraph (including, without limitation, the appointment of any collateral agent under the Intercreditor Agreement referred to below to hold the Collateral on behalf of the Holders and the holders of Permitted Pari Passu Secured Indebtedness).

Except for certain Permitted Liens and the Permitted Pari Passu Secured Indebtedness, the Company and its Restricted Subsidiaries will not be permitted to issue or Incur any other Indebtedness secured by all or any portion of the Collateral without the consent of each Holder of the Notes then outstanding.

Intercreditor Agreement

Prior to or concurrently with the first Incurrence of any Permitted Pari Passu Secured Indebtedness, the Trustee and the Collateral Agent will, without requiring any instruction or consent from the Holders, enter into an intercreditor agreement (as amended, waived, restated, replaced and/or supplemented from time to time, the "Intercreditor Agreement") (which shall be in a form reasonably satisfactory to the Trustee and the Collateral Agent) with the Company, the Subsidiary Guarantor Pledgors, the Subsidiary Guarantors and the holders of such Permitted Pari Passu Secured Indebtedness (or their representative or agent) with respect to the Collateral securing the obligations under the Indenture and with respect to the Permitted Pari Passu Secured Indebtedness (if any) (such obligations, collectively, are herein referred to as the "Secured Obligations"). Neither the Trustee nor the Collateral Agent shall have any liability to any Holder for so entering into the Intercreditor Agreement.

The Intercreditor Agreement will provide, among other things, that (i) the secured parties thereto and the holders of any future Permitted Pari Passu Secured Indebtedness (or their representative or agent) will share equal priority and pro rata entitlement in and to the Collateral (subject to Permitted Liens); (ii) the Collateral shall only be substituted or released and Liens only be granted on the Collateral to the extent permitted under the Debt Documents (as defined herein); and (iii) the Collateral Agent shall, on behalf of the secured parties thereto, enforce the rights of the secured parties with respect to the Collateral and the Indebtedness secured thereby as described in "— Enforcement of Security" below. The holders of any subsequent Permitted Pari Passu Secured Indebtedness shall not share in the Collateral unless they (or their trustee or agent) execute and deliver a supplement to the Intercreditor Agreement or an accession letter, which shall be in a form substantially similar to the form as prescribed by the Intercreditor Agreement, and thereby become parties to the Intercreditor Agreement.

By accepting the Notes, each Holder shall be deemed to have consented to the execution of the Intercreditor Agreement by the Trustee and the Collateral Agent, any supplements, any amendments or modifications thereto, and any future intercreditor agreement required under the Indenture.

Enforcement of Security

The first priority lien securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors will be granted to the Collateral Agent. The Collateral Agent, subject to the Intercreditor Agreement (if any), will hold such Liens and security interests in the Collateral granted pursuant to the Security Documents with sole authority as directed by the written instruction of the Holders to exercise remedies under the Security Documents. The Collateral Agent has agreed to act as secured party on behalf of the Holders under the applicable Security Documents, to follow the instructions provided to it under the Indenture, the Security Documents and the Intercreditor Agreement (if any) and to carry out certain other duties.

The Indenture and/or the Security Documents principally provide that, at any time while the Notes are outstanding, the Trustee or Collateral Agent has the right to manage, perform and enforce the terms of the Security Documents relating to the Collateral and to exercise and enforce all privileges, rights and remedies thereunder according to its direction, including to take or retake control or possession of such Collateral and to hold, prepare for sale, process, lease, dispose of or liquidate such Collateral, including, without limitation, following the occurrence of an Event of Default under the Indenture.

All payments received and all amounts held by the Collateral Agent in respect of the Collateral will, subject to the terms of any Intercreditor Agreement, be applied as follows:

- first, to the ratable payment of the expenses of such sale or other realization, including but not limited to fees, costs, expenses and indemnities of the Trustee and the Collateral Agent, the registrars and the principal paying and transfer agents in respect of the Notes, including with respect to such amounts applicable to their respective agents and legal counsel (but in each case, only to the extent properly incurred and required to be paid in accordance with any documents entered into in relation to the Secured Obligations) (the "**Secured Party Documents**");

- second, to the ratable payment of accrued but unpaid interest on the Secured Obligations;

- third, to the ratable payment of unpaid principal of the Secured Obligations;

- fourth, to any make-whole premium or any other premium payable pursuant to the Secured Party Documents;

- fifth, to the ratable payment of all other Secured Obligations, until all Secured Obligations shall have been paid in full; and

- sixth, any surplus remaining after such payments to the Company or the Subsidiary Guarantor Pledgors or their successors or assigns, or to whomever may be lawfully entitled thereto.

The Collateral Agent may decline to foreclose on the Collateral or exercise remedies available if it does not receive indemnity and/or security to its satisfaction. In addition, the Collateral Agent's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Collateral Agent's Liens on the Collateral. Neither the Collateral Agent nor any of its officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Secured Obligations, for the legality, enforceability, effectiveness or sufficiency of the Security Documents or the Intercreditor Agreement, for the creation, perfection, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so.

The Security Documents provide that the Company and the Subsidiary Guarantor Pledgors shall forthwith on demand indemnify the Trustee and the Collateral Agent and each of their respective officers, employees and agents for all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind imposed against the Trustee and the Collateral Agent and each of their respective officers, employees and agents in any way relating to or arising out of the Security Documents, except to the extent that any of the foregoing are finally judicially determined to have directly resulted from the gross negligence or willful misconduct of the Trustee or the Collateral Agent, as the case may be.

This section, "- Enforcement of Security," shall be subject to any amendments to the Security Documents or the Indenture to permit the creation of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with "- Permitted Pari Passu Secured Indebtedness" above.

Release of Security

The security created in respect of the Collateral granted under the Security Documents may be released in relation to the Notes and the Subsidiary Guarantees in certain circumstances, including:

- upon repayment in full of the Notes;
- upon defeasance and discharge of the Notes as provided below under the caption "- Defeasance - Defeasance and Discharge";
- with respect to the pledge of Capital Stock of a Subsidiary Guarantor, upon the designation by the Company of such Subsidiary Guarantor as an Unrestricted Subsidiary in compliance with the terms of the Indenture;
- upon certain dispositions of the Collateral in compliance with the covenants under the captions "- Certain Covenants - Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries" or "- Certain Covenants - Limitation on Asset Sales" or in accordance with the provision under the caption "- Consolidation, Merger and Sale of Assets";
- with respect to security granted by a Subsidiary Guarantor Pledgor, upon the release of the Subsidiary Guarantee of such Subsidiary Guarantor Pledgor in accordance with the terms of the Indenture; or
- in whole or in part, with the requisite consent of the Holders in accordance with the provisions described under "- Amendments and Waivers."

Further Issues

Subject to the covenants described below, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees) in all respects (or in all respects except for the issue date, issue price and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted under clause (a) of the "- Certain Covenants - Limitation on Indebtedness and Preferred Stock" covenant described below and the other provisions of the Indenture. Such Additional Notes might not be fungible with the Notes offered hereby for United States federal income tax purposes.

Optional Redemption

At any time and from time to time, on or after May 13, 2014, the Company may at its option redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below, plus accrued and unpaid interest, if any, to (but not including) the redemption date, if redeemed during the 12-month period commencing on May 13 of any year set forth below:

Period	Redemption Price
2014	103.93750%
2015	101.96875%

At any time prior to May 13, 2014, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date.

In addition, at any time and from time to time, prior to May 13, 2014, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 107.875% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

The Company will give not less than 30 days' nor more than 60 days' notice of any redemption. If less than all of the Notes are to be redeemed, the Trustee will select Notes for redemption as follows:

- if the Notes are listed on any securities exchange, in compliance with the requirements of the principal securities exchange on which the Notes are then traded; or

- if the Notes are not listed on any securities exchange, on a pro rata basis.

However, no Note of US$200,000 in principal amount or less shall be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

Repurchase of Notes Upon a Change of Control Triggering Event

Not later than 30 days following a Change of Control Triggering Event, the Company will, upon prior written notice to the Trustee, make an Offer to Purchase all outstanding Notes (a "**Change of Control Offer**") at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the failure by the Company to purchase tendered Notes would constitute an Event of Default under the Indenture.

The Company also has agreed in the Indenture that the Trustee shall not be required to take any steps to ascertain whether a Change of Control Triggering Event has occurred or may occur, and shall be entitled to assume that no such event has occurred unless an officer of the Trustee has actual knowledge or the Trustee has received written notice of the occurrence of such event. The Trustee shall not be responsible for determining or verifying whether a Note is to be accepted for purchase under a Change of Control Offer and will not be responsible to the Holders for any loss arising from any failure by it to do so. Neither the Trustee nor any Agent shall be under any duty to determine, calculate or verify the amount payable under a Change of Control Offer and will not be responsible to the Holders for any loss arising from any failure by it to do so.

Certain of the events constituting a Change of Control under the Notes will also constitute an event of default under certain other debt instruments. Future debt of the Company may also (i) prohibit the Company from purchasing Notes in the event of a Change of Control Triggering Event, (ii) provide that a Change of Control Triggering Event is a default or (iii) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company. The ability of the Company to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See "Risk Factors — Risks Relating to the Notes — We may not be able to repurchase the Notes upon a Change of Control Triggering Event."

The definition of Change of Control includes a phrase "all or substantially all" as used with respect to the assets of the Company. No precise definition of the phrase has been established under applicable law, and the phrase will likely be interpreted under applicable law of the relevant jurisdictions based on particular facts and circumstances. Accordingly, there may be a degree of uncertainty as to the ability of a Holder of Notes to require the Company to repurchase such Holder's Notes as a result of a sale of less than all the assets of the Company to another person or group.

Notwithstanding the above, the Company will not be required to make a Change of Control Offer following a Change of Control if a third party makes the Change of Control Offer in the same manner, at the same times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes.

Additional Amounts

All payments of principal of, and premium (if any) and interest on, the Notes or under the Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption "- Consolidation, Merger and Sale of Assets") or an applicable Subsidiary Guarantor is organized or resident for tax purposes or any jurisdiction from or through which payment is made (or any political subdivision or taxing authority thereof or therein) or which is imposing such withholding or deduction because of a connection between the Company, a Surviving Person or an applicable Subsidiary Guarantor and such jurisdiction (each, as applicable, a "**Relevant Jurisdiction**"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Holder of each Note of such amounts payable under the Notes or the Subsidiary Guarantees as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

(a) for or on account of:

(i) any tax, duty, assessment or other governmental charge that would not have been imposed but for:

(A) the existence of any present or former connection between the Holder or beneficial owner of such Note or Subsidiary Guarantee, as the case may be, and the Relevant Jurisdiction other than merely holding or beneficially owning such Note or the receipt of payments thereunder or under a Subsidiary Guarantee, as the case may be, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;

(B) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30 day period;

(C) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person or any Subsidiary Guarantor addressed to the Holder or beneficial owner, as the case may be, to provide information concerning such Holder's or beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request is required by the applicable law of the Relevant Jurisdiction as a precondition to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder or beneficial owner; or

(D) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;

(ii) any estate, inheritance, gift, sale, transfer, excise, personal property or similar tax, assessment or other governmental charge;

(iii) any withholding or deduction that is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;

(iv) any tax, duty, assessment or other governmental charge which is payable other than by deduction or withholding from payments of principal of or interest or any premium on the Note or payments under the Subsidiary Guarantees; or

(v) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (i), (ii), (iii) and (iv); or

(b) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment, to the extent that such payment would be required to be included for tax purposes in the income under the laws of a Relevant Jurisdiction of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

Whenever there is mentioned in any context the payment of principal, premium or interest in respect of any Note, any Subsidiary Guarantee or any Security Document, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Tax Reasons

The Notes may be redeemed, at the option of the Company or a Surviving Person (as defined under the caption "- Consolidation, Merger and Sale of Assets"), as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the "**Tax Redemption Date**") if, as a result of:

(1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Jurisdiction affecting taxation; or

(2) any change in the existing official position, or the stating of an official position, regarding the application or interpretation of such laws, regulations or rulings (including, without limitation, a holding, judgment or order by a court of competent jurisdiction or a change in published administrative practice),

which change or amendment becomes effective on or after (i) with respect to the Company or any initial Subsidiary Guarantor, the Original Issue Date or (ii) with respect to any Future Subsidiary Guarantor or Surviving Person, the date such Future Subsidiary Guarantor or Surviving Person becomes a Future Subsidiary Guarantor or Surviving Person, as the case may be, with respect to any payment due or to become due under the Notes or the Indenture, the Company, such Subsidiary Guarantor or such Surviving Person, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, such Subsidiary Guarantor or such Surviving Person, as the case may be; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, such Subsidiary Guarantor or such Surviving Person, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Subsidiary Guarantor or a Surviving Person, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before the Tax Redemption Date:

(1) an Officers' Certificate stating that such change or amendment referred to in the prior paragraph has occurred, describing the facts related thereto and stating that the requirement to pay Additional Amounts cannot be avoided by the Company, such Surviving Person or such Subsidiary Guarantor, as the case may be, by taking reasonable measures available to it; and

(2) an Opinion of Counsel of recognized standing with respect to tax matters of the Relevant Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change or amendment referred to in the prior paragraph.

The Trustee shall accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness and Preferred Stock

(a) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), and the Company will not permit any Restricted Subsidiary to issue any Preferred Stock; *provided* that the Company may Incur Indebtedness (including Acquired Indebtedness) and any Restricted Subsidiary may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 3.5 to 1.0. Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).

(b) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary, may Incur each and all of the following ("**Permitted Indebtedness**"):

    (i) Indebtedness under the Notes (excluding any Additional Notes and any Permitted Pari Passu Secured Indebtedness of the Company) and each Subsidiary Guarantee;

    (ii) any Pari Passu Subsidiary Guarantees by any Subsidiary Guarantor;

    (iii) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (b)(iv) of this covenant; *provided* that such Indebtedness of Restricted Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness (other than any such Indebtedness excluded from the definition of "Permitted Subsidiary Indebtedness");

    (iv) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; *provided* that (x) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (b)(iv), (y) if the Company or any Subsidiary Guarantor is the obligor on such Indebtedness, such Indebtedness must be unsecured and expressly be subordinated in right of payment to the Notes, in the case of the Company, or the Subsidiary Guarantee of such Subsidiary Guarantor, in the case of a Subsidiary Guarantor and (z) if the Indebtedness is owed to the Company or any Subsidiary Guarantor, such Indebtedness must be evidenced by an unsubordinated promissory note/loan agreement or a similar instrument under applicable law;

(v) Indebtedness ("**Permitted Refinancing Indebtedness**") issued in exchange for, or the net proceeds of which are used to refinance or refund, then outstanding Indebtedness Incurred under clause (a) or clause (b)(i), (b)(ii), (b)(iii), (b)(vii), (b)(xiv) or (b)(xvii) of this covenant and any refinancings thereof in an amount not to exceed the amount so refinanced or refunded (plus premiums, accrued interest, fees and expenses); *provided* that (A) Indebtedness the proceeds of which are used to refinance or refund the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee shall only be permitted under this clause (b)(v) if (x) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or a Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or (y) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee, (B) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded and (C) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause (b)(v) by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor;

(vi) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations designed solely to protect the Company or any Restricted Subsidiary from fluctuations in interest rates, currencies or the price of commodities and not for speculation;

(vii) Indebtedness Incurred by the Company or any Restricted Subsidiary for the purpose of financing (i) all or any part of the purchase price (including any adjustment of purchase price or similar obligations) of assets, real or personal property, Capitalized Lease Obligations or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in the Permitted Business, including any such purchase through the acquisition of Capital Stock of any Person that owns such assets, real or personal property, Capitalized Lease Obligations or equipment which will, upon such acquisition, become a Restricted Subsidiary or (ii) all or any part of the purchase price (including any adjustment of purchase price or similar obligations) or the cost of development, construction or improvement of assets, real or personal property, Capitalized Lease Obligations or equipment to be used in the ordinary course of business by the Company or such Restricted Subsidiary in the Permitted Business; *provided*, *however*, that in each case (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost, (B) such Indebtedness shall be Incurred no later than 180 days after the acquisition of such assets, property, Capitalized Lease Obligations or equipment or completion of such development, construction or improvement, and (C) on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (b)(vii) (together with any refinancings thereof) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred pursuant to clause (b)(xvii) below (together with any refinancings thereof) does not exceed an amount equal to 10% of Total Assets;

(viii) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self-insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);

(ix) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit, trade guarantees or similar instruments issued in the ordinary course of business to the extent that such letters of credit, trade guarantees or similar instruments are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the 30 days following receipt by the Company or such Restricted Subsidiary, as applicable, of a demand for reimbursement;

(x) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary (other than guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition); *provided* that the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the gross proceeds actually received by the Company or any Restricted Subsidiary from the disposition of such business, assets or Restricted Subsidiary;

(xi) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided*, *however,* that such Indebtedness is extinguished within five Business Days of Incurrence;

(xii) (a) guarantees by any Non-Guarantor Subsidiary of any Indebtedness of any other Non-Guarantor Subsidiary, *provided*, *however*, that the Indebtedness guaranteed is permitted to be Incurred under the Indenture, and (b) guarantees by the Company or any Subsidiary Guarantor of any Indebtedness of the Company or any Subsidiary Guarantor, *provided*, *however*, that the Indebtedness guaranteed is permitted to be Incurred under the Indenture;

(xiii) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less; *provided* that the aggregate principal amount of Indebtedness permitted by this clause (b)(xiii) at any time outstanding does not exceed the greater of (i) US$50.0 million (or the Dollar Equivalent thereof) and (ii) the Borrowing Base;

(xiv) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US$20.0 million (or the Dollar Equivalent thereof);

(xv) Indebtedness Incurred by the Company constituting a Subordinated Shareholder Loan;

(xvi) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock in a Restricted Subsidiary pursuant to a Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Staged Acquisition Agreement; and

(xvii) Bank Deposit Secured Indebtedness Incurred by the Company or any Restricted Subsidiary; *provided* that, on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (b)(xvii) (together with any refinancings thereof) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred pursuant to clause (b)(vii) above (together with any refinancings thereof) does not exceed an amount equal to 10% of Total Assets.

(c) For purposes of determining compliance with this "Limitation on Indebtedness and Preferred Stock" covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first sentence of clause (a) of this covenant, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness.

(d) Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant will not be deemed to be exceeded with respect to any outstanding Indebtedness due solely to the result of fluctuations in the exchange rates of currencies.

Limitation on Restricted Payments

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as "**Restricted Payments**"):

(1) declare or pay any dividend or make any distribution on or with respect to the Company's or any Restricted Subsidiary's Capital Stock (other than dividends or distributions payable solely in shares of the Company's or any Restricted Subsidiary's Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;

(2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock (including options, warrants or other rights to acquire such shares of Capital Stock) of the Company, any Restricted Subsidiary or any direct or indirect parent of the Company held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary (other than the purchase of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement);

(3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Notes or any Subsidiary Guarantee (excluding any intercompany Indebtedness between or among the Company and any Wholly Owned Restricted Subsidiary); or

(4) make any Investment, other than a Permitted Investment;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

(a) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;

(b) the Company could not Incur at least US$1.00 of Indebtedness under the proviso in the first sentence of clause (a) of the covenant described under the caption "- Limitation on Indebtedness and Preferred Stock"; or

(c) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and its Restricted Subsidiaries after the Original Issue Date, shall exceed the sum (without duplication) of:

(i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on January 1, 2011 and ending on the last day of the Company's most recently ended semi-annual fiscal period for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available and have been provided to the Trustee at the time of such Restricted Payment (which may be internal consolidated financial statements); plus

(ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Original Issue Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of the Company, including any such Net Cash Proceeds received upon (x) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (y) the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock), in each case after deducting the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; plus

(iii) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Original Issue Date in any Person resulting from (w) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case, to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income), (x) the unconditional release of a guarantee provided by the Company or any Restricted Subsidiary after the Original Issue Date of an obligation of another Person, (y) the net cash proceeds from the sale of any such Investment (except to the extent such proceeds are included in the calculation of Consolidated Net Income) or (z) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments made by the Company or a Restricted Subsidiary after the Original Issue Date in any such Person; plus

(iv) the amount by which Indebtedness of the Company or any Subsidiary Guarantor is reduced on the Company's consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Original Issue Date of any Indebtedness of the Company or any Restricted Subsidiary convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); plus

(v) US$30.0 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

(1) the payment of any dividend or redemption of any Capital Stock within 120 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;

(2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;

(3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;

(4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;

(5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary or a PRC CJV payable on a pro rata basis or on a basis more favorable to the Company to all holders of any class of Capital Stock of such Restricted Subsidiary or PRC CJV, a majority of which is held, directly or indirectly through Restricted Subsidiaries, by the Company; *provided* that dividends or distributions to a Person other than the Company or a Wholly Owned Restricted Subsidiary will be excluded in calculating whether the conditions of clause (c) of the preceding paragraph have been met;

(6) the declaration and payment of dividends by the Company with respect to the fiscal year ended December 31, 2010, in an aggregate amount not to exceed HKD360.0 million; or

(7) the purchase, redemption or other acquisition or retirement for value of Capital Stock of the Company or any Restricted Subsidiary held by officers, directors or employees or former officers, directors or employees (or their estates or beneficiaries under their estates) upon death, disability, retirement, severance or termination of employment or pursuant to any agreement under which the Capital Stock was issued, or deemed to occur upon the exercise of stock options, warrants or other convertible securities if such Capital Stock represents a portion of the exercise price thereof; *provided* that the amount of purchases, redemptions or other acquisitions or retirements for value of Capital Stock pursuant to this clause (7) does not exceed US$2.0 million (or the Dollar Equivalent thereof) in the aggregate;

provided that, in the case of clause (2), (3) or (4) above, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment permitted pursuant to clause (1) of the preceding paragraph shall be included in calculating whether the conditions of clause (c) of the first paragraph of this "- Limitation on Restricted Payments" covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be their Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an accounting, appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US$10.0 million (or the Dollar Equivalent thereof), the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this "- Limitation on Restricted Payments" covenant were computed, together with a copy of any opinion or appraisal required by the Indenture.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

(a) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:

  (i) pay dividends or make any other distributions on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;

  (ii) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;

  (iii) make loans or advances to the Company or any other Restricted Subsidiary; or

  (iv) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.

(b) The provisions of paragraph (a) do not apply to any encumbrances or restrictions:

  (i) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the Indenture, the Security Documents, or under any Permitted Pari Passu Secured Indebtedness of the Company or any Subsidiary Guarantor Pledgor or Pari Passu Subsidiary Guarantee of any Subsidiary Guarantor, and any extensions, refinancings, renewals, supplements, amendments or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal, supplement, amendment or replacement, taken as a whole, are no more restrictive in any material respect than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

  (ii) existing under or by reason of applicable law, rule, regulation or order;

  (iii) with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, existing at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(iv) that otherwise would be prohibited by the provision described in clause (a)(iv) of this covenant if they arise, or are agreed to in the ordinary course of business, and that (x) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, (y) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (z) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;

(v) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the "- Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries," "- Limitation on Indebtedness and Preferred Stock" and "- Limitation on Asset Sales" covenants;

(vi) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness permitted under clause (b)(vii), (b)(xiii), (b)(xiv) or (b)(xvii) of the "- Limitation on Indebtedness and Preferred Stock" covenant if, as determined by the Board of Directors, such encumbrances or restrictions (x) are customary for such types of agreements and (y) are not expected to materially and adversely affect the ability of the Company to make required payments on the Notes and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced; or

(vii) imposed pursuant to an agreement that has been entered into to refinance Indebtedness which is permitted to be Incurred under clause (b)(v) of the covenant described under the caption "- Limitation on Indebtedness and Preferred Stock"; *provided* that such encumbrances or restrictions in respect of any such Permitted Refinancing Indebtedness are no more restrictive than those contained in the Indebtedness being refinanced.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell, any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

(a) to the Company or a Wholly Owned Restricted Subsidiary;

(b) to the extent such Capital Stock represents directors' qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;

(c) the sale of all of the shares of Capital Stock of a Restricted Subsidiary if permitted under, and made in accordance with, the "- Limitation on Asset Sales" covenant;

(d) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "- Limitation on Asset Sales" covenant; and

(e) the issuance or sale of Capital Stock of a Restricted Subsidiary that does not remain a Restricted Subsidiary after such issuance or sale; *provided* that (a) the transaction complies with the "- Limitation on Restricted Payments" covenant and (b) the Company applies the Net Cash Proceeds of such issuance or sale in accordance with the "- Limitation on Asset Sales" covenant.

Notwithstanding the foregoing, a Restricted Subsidiary may issue Common Stock to its shareholders on a pro rata basis or on a basis more favorable to the Company and its Restricted Subsidiaries.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary that is not a Subsidiary Guarantor, directly or indirectly, to guarantee any Indebtedness ("**Guaranteed Indebtedness**") of the Company or any Subsidiary Guarantor, unless (a) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee of payment of the Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim, or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee until the Notes have been paid in full.

If the Guaranteed Indebtedness (A) ranks *pari passu* in right of payment with the Notes or any Subsidiary Guarantee, then the guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or (B) is subordinated in right of payment to the Notes or any Subsidiary Guarantee, then the guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Subsidiary Guarantee.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (a) any holder (or any Affiliate of such holder) of 10% or more of any class of Capital Stock of the Company or (b) any Affiliate of the Company (each an "**Affiliate Transaction**"), unless:

(a) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not such a holder or an Affiliate of the Company or such Restricted Subsidiary; and

(b) the Company delivers to the Trustee:

(i) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and

(ii) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$15.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause (b)(i) above, an opinion issued by an accounting, appraisal or investment banking firm of recognized international standing as to the fairness to the Company or such Restricted Subsidiary of such Affiliate Transaction from a financial point of view or confirming that the terms of such Affiliate Transaction are no less favorable to the Company or the relevant Restricted Subsidiary than terms available to (or from, as applicable) a Person that is not an Affiliate of the Company or a Restricted Subsidiary.

The foregoing limitation does not limit, and shall not apply to:

(1) the payment of reasonable and customary regular fees to directors of the Company or any Restricted Subsidiary who are not employees of the Company or any Restricted Subsidiary;

(2) transactions between or among the Company and any Wholly Owned Restricted Subsidiary or between or among Wholly Owned Restricted Subsidiaries;

(3) any Restricted Payment of the type described in clause (1) or (2) of the first paragraph of the covenant described under the caption "- Limitation on Restricted Payments" if permitted by that covenant;

(4) any sale of Capital Stock (other than Disqualified Stock) of the Company;

(5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require majority shareholder approval of any such scheme;

(6) the incurrence of, and other transactions pursuant to, any Subordinated Shareholder Loan; and

(7) loans or advances to employees, officers or directors in the ordinary course of business not to exceed US$1.0 million (or the Dollar Equivalent thereof) in the aggregate at any one time outstanding.

In addition, the requirements of clause (b) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the "- Limitation on Restricted Payments" covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date and (iii) any transaction between or among the Company and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary; *provided* that in the case of clause (iii), (a) such transaction is entered into in the ordinary course of business and (b) none of the minority shareholders or minority partners of or in such Restricted Subsidiary is a Person described in clauses (a) or (b) of the first paragraph of this covenant (other than by reason of such minority shareholder or minority partner being an officer or director of such Restricted Subsidiary).

Limitation on Liens

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur, assume or permit to exist any Lien on the Collateral (other than Permitted Liens).

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind, whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are secured equally and ratably with (or, if the obligation or liability to be secured by such Lien is subordinated in right of payment to the Notes, prior to) the obligation or liability secured by such Lien, for so long as such obligation or liability is secured by such Lien.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction; *provided* that the Company or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

(a) the Company or such Restricted Subsidiary could have (1) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described under the caption "- Limitation on Indebtedness and Preferred Stock" and (2) incurred a Lien to secure such Indebtedness pursuant to the covenant described under the caption "- Limitation on Liens," in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;

(b) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and

(c) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company or such Restricted Subsidiary applies the proceeds of such transaction in compliance with, the covenant described under the caption "- Limitation on Asset Sales."

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

(a) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;

(b) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of;

(c) in the case of an Asset Sale that constitutes an Asset Disposition, the Company could Incur, at the time of and after giving pro forma effect to such Asset Disposition, at least US$1.00 of Indebtedness under the proviso in the first sentence of clause (a) of the covenant described under the caption "- Limitation on Indebtedness and Preferred Stock";

(d) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US$15.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing. For purposes of this provision, each of the following will be deemed to be cash:

(i) any liabilities, as shown on the Company's most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and

(ii) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion.

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Cash Proceeds to:

(A) permanently repay Senior Indebtedness of the Company or any Restricted Subsidiary (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or

(B) acquire properties and assets that replace the properties and assets that were the subject of such Asset Sale or Replacement Assets;

provided that, pending the application of the Net Cash Proceeds in accordance with clauses (A) or (B) of this paragraph, such Net Cash Proceeds may be temporarily invested only in cash or Temporary Cash Investments.

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (A) and (B) in the immediately preceding paragraph will constitute "Excess Proceeds." Excess proceeds of less than US$10.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US$10.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

(i) accumulated Excess Proceeds, multiplied by

(ii) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale,

rounded down to the nearest US$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use such Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes and any other *pari passu* Indebtedness tendered into (or required to be prepaid or redeemed in connection with) such Offer to Purchase exceeds the amount of Excess Proceeds, the Notes and such other *pari passu* Indebtedness will be purchased on a pro rata basis based on the principal amount of Notes and such other *pari passu* Indebtedness tendered (or required to be prepaid or redeemed). Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on the Company's Business Activities

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than a Permitted Business; *provided*, *however,* that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than a Permitted Business as long as any Investment therein was not prohibited when made by the covenant under the caption "- Limitation on Restricted Payments."

Use of Proceeds

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (a) in the approximate amounts and for the purposes specified under the caption "Use of Proceeds" in this offering memorandum and (b) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in Temporary Cash Investments.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that (a) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (b) neither the Company nor any Restricted Subsidiary guarantees or provides credit support for the Indebtedness of such Restricted Subsidiary; (c) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company or any other Restricted Subsidiary; (d) such Restricted Subsidiary does not own any Disqualified Stock of the Company or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness, or any Lien on any property, of the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under the caption "- Limitation on Indebtedness and Preferred Stock" or such Lien would violate the covenant described under the caption "- Limitation on Liens"; (e) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated as Unrestricted Subsidiaries in accordance with this paragraph; (f) the Investment deemed to have been made thereby in such newly designated Unrestricted Subsidiary and each other newly designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under the caption " Limitation on Restricted Payments"; and (g) such Restricted Subsidiary does not own or operate or possess any material license, franchise or right used in connection with the ownership or operation of any part of the Company's or its Restricted Subsidiaries' business.

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (a) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (b) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption "- Limitation on Indebtedness and Preferred Stock"; (c) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under the caption "- Limitation on Liens"; (d) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); (e) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary shall become a Subsidiary Guarantor; and (f) if such Restricted Subsidiary is not organized under the laws of the PRC, all Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary shall be pledged as required under "- Security."

Government Approvals and Licenses; Compliance with Law

The Company will, and will cause each Restricted Subsidiary to, (a) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Business, (b) preserve and maintain good and valid title to its properties and assets free and clear of any Liens other than Permitted Liens and (c) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (1) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (2) the ability of the Company or any Subsidiary Guarantor to perform its obligations under the Notes, the relevant Subsidiary Guarantee or the Indenture.

Anti-Layering

The Company will not, and will not permit any Subsidiary Guarantor to, Incur any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company or such Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes or the applicable Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or guarantees securing or in favor of some but not all of such Indebtedness.

Suspension of Certain Covenants

If, on any date following the date of the Indenture, the Notes have an Investment Grade Rating from both of the Rating Agencies and no Default or Event of Default has occurred and is continuing (a "**Suspension Event**"), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have an Investment Grade Rating from either of the Rating Agencies, the provisions of the Indenture described under the following captions will be suspended:

(1) "— Certain Covenants — Limitation on Indebtedness and Preferred Stock";

(2) "— Certain Covenants — Limitation on Restricted Payments";

(3) "— Certain Covenants — Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries";

(4) "— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries";

(5) "— Certain Covenants — Limitation on Issuances of Guarantees by Restricted Subsidiaries";

(6) "— Certain Covenants — Limitation on Sale and Leaseback Transactions";

(7) "— Certain Covenants — Limitation on Asset Sales"; and

(8) "— Certain Covenants — Limitation on Business Activities".

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any Restricted Subsidiary as an Unrestricted Subsidiary pursuant to the covenant described under the caption "- Certain Covenants - Designation of Restricted and Unrestricted Subsidiaries" or the definition of "Unrestricted Subsidiary."

Such covenants will be reinstituted and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event and, following reinstatement, the calculations under the covenant described under the caption "- Certain Covenants - Limitation on Restricted Payments" will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended. There can be no assurance that the Notes will ever achieve an Investment Grade Rating or that, if achieved, any such rating will be maintained.

Provision of Financial Statements and Reports

(a) So long as any of the Notes remain outstanding, the Company will furnish to the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other securities exchange on which the Company's ordinary shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that, if at any time the ordinary shares of the Company cease to be listed for trading on a recognized securities exchange, the Company will file with the Trustee and furnish to the Holders:

  (i) as soon as they are available, but in any event within 120 calendar days after the end of the fiscal year of the Company, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally recognized firm of independent accountants;

  (ii) as soon as they are available, but in any event within 60 calendar days after the end of the first semi-annual fiscal period of the Company, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally recognized firm of independent accountants; and

  (iii) as soon as they are available, but in any event within 60 calendar days after the end of each of the first and third fiscal quarters of the Company, copies of its unaudited financial statements (on a consolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the

Company together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.

(b) In addition, so long as any of the Notes remain outstanding, the Company will provide to the Trustee (1) within 120 days after the close of each fiscal year, an Officers' Certificate stating the Fixed Charge Coverage Ratio with respect to the two most recent semi-annual fiscal periods and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, together with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation; and (2) as soon as possible and in any event within 30 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default or any default in the performance of any covenants or agreements under the Security Documents, an Officers' Certificate setting forth the details of such Default or default, and the action which the Company proposes to take with respect thereto.

(c) Furthermore, the Company has agreed that, during any period in which the Company is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Company, as the case may be, will supply to (i) any Holder or beneficial owner of a Note or (ii) a prospective purchaser of a Note or a beneficial interest therein designated by such Holder or beneficial owner, the information specified in, and meeting the requirements of Rule 144A(d)(4) under the Securities Act upon the request of any Holder or beneficial owner of a Note.

Events of Default

The following events will be defined as "Events of Default" in the Indenture:

(a) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;

(b) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 days;

(c) default in the performance or breach of the provisions of the covenant described under the caption "- Consolidation, Merger and Sale of Assets," the failure by the Company to make or consummate an Offer to Purchase in the manner described under the captions "- Repurchase of Notes upon a Change of Control Triggering Event" or "- Certain Covenants - Limitation on Asset Sales" or the failure by the Company to create, or cause its Restricted Subsidiaries to create, a first priority lien on the Collateral (subject to any Permitted Liens and any future intercreditor agreement contemplated under "- Intercreditor Agreement" herein) in accordance with the provisions described under the caption "- Security";

(d) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (a), (b) or (c) above) and such default or breach continues for a period of 30 consecutive days after written notice of such default or breach to the Company by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;

(e) there occurs with respect to any Indebtedness (other than a Subordinated Shareholder Loan) of the Company or any Restricted Subsidiary having an outstanding principal amount of US$15.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (1) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (2) a failure to pay principal of (subject to any applicable grace period in the relevant documents) such Indebtedness when the same becomes due;

(f) one or more final judgments or orders for the payment of money are rendered against the Company or any Restricted Subsidiary and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US$15.0 million (or the Dollar Equivalent thereof) (in excess of amounts that the Company's insurance carriers have agreed in writing to pay) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

(g) an involuntary case or other proceeding is commenced against the Company or any Restricted Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for any substantial part of the property and assets of the Company or any Restricted Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;

(h) the Company or any Restricted Subsidiary (1) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (2) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary, or for all or substantially all of the property and assets of the Company or any Restricted Subsidiary, or (3) effects any general assignment for the benefit of creditors;

(i) any Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect;

(j) any default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the Security Documents or the Indenture, which adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or which adversely affects the condition or value of the Collateral, taken as a whole, in any material respect; or

(k) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms its obligations under any Security Document or, other than in accordance with the Indenture and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Collateral Agent ceases to have a first priority security interest in the Collateral (subject to any Permitted Liens).

If an Event of Default (other than an Event of Default specified in clause (g) or (h) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes, then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the request of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (g) or (h) above occurs with respect to the Company or any Restricted Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of all Holders waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

(x) all existing Events of Default, other than the non-payment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived; and

(y) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. In addition, if an Event of Default occurs and is continuing, the Trustee may, and shall upon request of Holders of at least 25% in aggregate principal amount of outstanding Notes, foreclose on the Collateral in accordance with the terms of the Security Documents and take such further action on behalf of the Holders with respect to the Collateral as the Trustee deems appropriate or is directed by the Holders of at least 25% in aggregate principal amount of outstanding Notes. See "-Security."

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law, the Indenture or the Security Documents that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders. A Holder may not pursue any remedy with respect to the Indenture or the Notes unless:

(1) the Holder has previously given the Trustee written notice of a continuing Event of Default;

(2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer the Trustee indemnity reasonably satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;

(4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and

(5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Two Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and its Restricted Subsidiaries' performance under the Indenture and the Security Documents and that the Company and its Restricted Subsidiaries have fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee in writing of any default or defaults in the performance of any covenants or agreements under the Indenture and the Security Documents. See "- Provision of Financial Statements and Reports."

Consolidation, Merger and Sale of Assets

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

(a) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets (the "**Surviving Person**") shall be a corporation organized and validly existing under the laws of the Cayman Islands, the British Virgin Islands, Bermuda, Hong Kong or the United States or any jurisdiction thereof and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture, the Notes and the Security Documents, as the case may be, including the obligation to pay Additional Amounts, and the Indenture, the Notes and the Security Documents, as the case may be, shall remain in full force and effect;

(b) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(c) immediately after giving effect to such transaction on a pro forma basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;

(d) immediately after giving effect to such transaction on a pro forma basis, the Company or the Surviving Person, as the case may be, could Incur at least US$1.00 of Indebtedness under the proviso in the first sentence of clause (a) of the covenant described under the caption "- Certain Covenants - Limitation on Indebtedness and Preferred Stock";

(e) the Company delivers to the Trustee (1) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (c) and (d)) and (2) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and such supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;

(f) each Subsidiary Guarantor, unless such Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under this covenant, shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture; and

(g) no Rating Decline shall have occurred.

No Subsidiary Guarantor will consolidate with or merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor), unless:

(A) such Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction;

(B) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(C) immediately after giving effect to such transaction on a pro forma basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;

(D) immediately after giving effect to such transaction on a pro forma basis, the Company could Incur at least US$l.00 of Indebtedness under the proviso in the first sentence of clause (a) of the covenant described under the caption "- Certain Covenants - Limitation on Indebtedness and Preferred Stock";

(E) the Company delivers to the Trustee (1) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (C) and (D)) and (2) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and

(F) no Rating Decline shall have occurred;

provided that this paragraph shall not apply to (1) any sale or other disposition that complies with the "Limitation on Asset Sales" covenant or any Subsidiary Guarantor whose Subsidiary Guarantee is unconditionally released in accordance with the provisions described under "The Subsidiary Guarantees - Release of Subsidiary Guarantees" and (2) a consolidation or merger of any Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor survives such consolidation or merger.

Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the property or assets of a Person.

The foregoing provisions would not necessarily afford Holders protection in the event of highly leveraged or other transactions involving the Company that may adversely affect Holders.

No Payments for Consents

The Company will not and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Defeasance

Defeasance and Discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture and the Security Documents will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold monies for payment in trust) if, among other things:

(a) the Company has (1) deposited with the Trustee, in trust, money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and (2) delivered to the Trustee an Opinion of Counsel or a certificate of an internationally recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity of such payment in accordance with the terms of the Indenture;

(b) the Company has delivered to the Trustee (1) either (x) an Opinion of Counsel from a firm of recognized international standing with respect to U.S. federal tax laws which is based on a change in applicable U.S. federal income tax law occurring after the Original Issue Date to the effect that beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the Company's exercise of its option under this "Defeasance and Discharge" provision and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred or (y) a ruling directed to the Trustee received from the U.S. Internal Revenue Service to the same effect as the aforementioned Opinion of Counsel, and (2) an Opinion of Counsel from a firm of recognized international standing to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law; and

(c) immediately after giving effect to such deposit on a pro forma basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of or constitute a default under, any other agreement or instrument to which the Company or any Restricted Subsidiary is a party or by which the Company or any Restricted Subsidiary is bound.

In the case of either discharge or defeasance, each of the Subsidiary Guarantees will terminate.

Defeasance of Certain Covenants

The Indenture further will provide that the provisions of the Indenture will no longer be in effect with respect to clauses (c), (d), (e)(1) and (g) under the first paragraph and clauses (C), (D), (E)(1) and (F) under the second paragraph under "Consolidation, Merger and Sale of Assets" and all the covenants described herein under "Certain Covenants," other than as described under "- Certain Covenants-Government Approvals and Licenses; Compliance with Law" and "- Certain Covenants - Anti-Layering," clause (c) under "Events of Default" with respect to such clauses (c), (d), (e)(1) and (g) under the first paragraph and clauses (C), (D), (E)(1) and (F) under the second paragraph under "Consolidation, Merger and Sale of Assets" and with respect to the other events set forth in such clause, clause (d) under "Events of Default" with respect to such other covenants and clauses (e) and (f) under "Events of Default" shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee, in trust, of money, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clause (b)(2) of the preceding paragraph and the delivery by the Company to the Trustee of an Opinion of Counsel from a firm of recognized international standing with respect to U.S. federal income tax matters to the effect that beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance of certain covenants and Events of Default and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred.

Defeasance and Certain Other Events of Default

In the event the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture with respect to the Notes as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company and the Subsidiary Guarantors will remain liable for such payments.

Amendments and Waiver

Amendments Without Consent of Holders

The Indenture, the Intercreditor Agreement (if any) and any Security Document may be amended, without the consent of any Holder, to:

(a) cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes, the Intercreditor Agreement (if any) or any Security Document;

(b) comply with the provisions described under "Consolidation, Merger and Sale of Assets";

(c) evidence and provide for the acceptance of appointment by a successor Trustee;

(d) add any Subsidiary Guarantor or any Subsidiary Guarantee or release any Subsidiary Guarantor from any Subsidiary Guarantee as provided or permitted by the terms of the Indenture;

(e) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;

(f) add any Subsidiary Guarantor Pledgor or release any Subsidiary Guarantor Pledgor as provided or permitted by the terms of the Indenture;

(g) add additional Collateral to secure the Notes or any Subsidiary Guarantee and create or register Liens on such additional Collateral;

(h) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;

(i) effect any changes to the Indenture in a manner necessary to comply with the procedures of DTC, Euroclear or Clearstream;

(j) permit Permitted Pari Passu Secured Indebtedness in accordance with the terms of the Indenture (including, without limitation, permitting the Trustee to enter into the Intercreditor Agreement or any amendments to the Security Documents or the Indenture, the appointment of any collateral agent under any Intercreditor Agreement to hold the Collateral on behalf of the Holders and the holders of Permitted Pari Passu Secured Indebtedness and taking any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness, in accordance with the Indenture); or

(k) make any other change that, in the good faith opinion of the Board of Directors, does not materially and adversely affect the rights of any Holder.

Amendments With Consent of Holders

Amendments of the Indenture, the Intercreditor Agreement (if any) or any Security Document may be made by the Company, the Subsidiary Guarantors and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the holders of a majority in principal amount of the outstanding Notes may waive future compliance by the Company with any provision of the Indenture, the Notes, the Intercreditor Agreement (if any) or any Security Document; *provided*, *however,* that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

(a) change the Stated Maturity of the principal of, or any installment of interest on, any Note;

(b) reduce the principal amount of, or premium, if any, or interest on, any Note;

(c) change the currency, time or place of payment of principal of, or premium, if any, or interest on, any Note;

(d) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;

(e) reduce the above stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;

(f) waive a default in the payment of principal of, premium, if any, or interest on the Notes;

(g) release any Subsidiary Guarantor from its Subsidiary Guarantee, except as provided in the Indenture;

(h) release any Collateral, except as provided in the Indenture, the Intercreditor Agreement (if any) and the Security Documents;

(i) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;

(j) amend, change or modify any Subsidiary Guarantee in a manner that adversely affects the Holders;

(k) amend, change or modify any provision of any Security Document, the Intercreditor Agreement (if any) or any provision of the Indenture relating to the Collateral in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture, such Security Document or such Intercreditor Agreement;

(l) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale;

(m) change the redemption date or the redemption price of the Notes from that stated under "- Optional Redemption" or "- Redemption for Tax Reasons";

(n) amend, change or modify the obligation of the Company or any Subsidiary Guarantor to pay Additional Amounts; or

(o) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or any Subsidiary Guarantee in a manner which adversely affects the Holders.

Unclaimed Money

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Stockholders, Members, Officers, Directors or Employees

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company or any of the Subsidiary Guarantors in the Indenture, or in any of the Notes or the Subsidiary Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, member, officer, director, employee or controlling person of the Company or any of the Subsidiary Guarantors or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under any applicable law.

Concerning the Trustee and the Paying Agent

The Bank of New York Mellon is to be appointed as Trustee under the Indenture and as registrar and paying and transfer agent (the "**Paying Agent**") with regard to the Notes. Except during the continuance of a Default, the Trustee will not be liable, except for the performance of such duties as are specifically set forth in the Indenture. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions with the Company and its Affiliates and shall not be obligated to account for any profits therefrom; *provided*, *however,* that if the Trustee acquires any conflicting interest, it must eliminate such conflict or resign.

If the Company maintains a paying agent with respect to the Notes in a member state of the European Union, such paying agent will be located in a member state of the European Union that is not obligated to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive or such other directive.

The Bank of New York Mellon (and its relevant affiliates) will initially act as Collateral Agent under the Security Documents in respect of the Security over the Collateral. The Collateral Agent, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Indenture and the Security Documents. Under certain circumstances, the Trustee may have obligations under the Security Documents or the Intercreditor Agreement that are in conflict with the interests of the Holders. The Trustee will be under no obligation to exercise any rights or powers conferred under the Indenture or any of the Security Documents for the benefit of the Holders, unless such Holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Trustee that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Security Documents and has not relied on and will not at any time rely on the Trustee in respect of such risks.

The Trustee shall not be responsible for the performance by any other person appointed by the Company in relation to the Notes and, unless notified in writing to the contrary, shall assume that the same are being duly performed. The Trustee shall not be responsible for the value of the Collateral nor any liability for the validity, sufficiency or enforceability thereof. The Trustee shall not be liable to any Holders or any other person for any action taken by the Holders or the Trustee in accordance with the instructions of the Holders. The Trustee shall be entitled to rely on any written direction of the Holders which has been duly given by the Holders of the requisite principal amount of the Notes outstanding.

Book-Entry; Delivery and Form

The certificates representing the Notes will be issued in fully registered form without interest coupons, Notes sold in offshore transactions in reliance on Regulation S under the Securities Act will initially be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a "**Regulation S Global Note**") and will be deposited with The Bank of New York Mellon as custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream.

Notes sold in reliance on Rule 144A will be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a "**Restricted Global Note**"; and together with the Regulation S Global Notes, the "**Global Notes**") and will be deposited with The Bank of New York Mellon as custodian for, and registered in the name of a nominee of, DTC.

Each Global Note (and any Notes issued for exchange therefor) will be subject to certain restrictions on transfer set forth therein as described under "Transfer Restrictions."

Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC ("**participants**") or persons who hold interests through participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Beneficial owners may hold their interests in a Global Note directly through DTC if they are participants in such system, or indirectly through organizations which are participants in such system.

Euroclear and Clearstream will hold interests in the Global Notes on behalf of their participants through DTC.

So long as DTC, or its nominee, is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Indenture and the Notes. No beneficial owner of an interest in a Global Note will be able to transfer that interest except in accordance with DTC's applicable procedures, in addition to those provided for under the Indenture and, if applicable, those of Euroclear and Clearstream.

Payments of the principal of, and interest on, a Global Note will be made to DTC or its nominee, as the case may be, as the registered owner thereof. Neither the Company nor any of the Subsidiary Guarantors, the Trustee nor the Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Company expects that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of DTC or its nominee.

The Company also expects that payments by participants to owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

The Company expects that DTC will take any action permitted to be taken by a Holder (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in a Global Note is credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. However, if there is an Event of Default under the Notes, DTC will exchange the applicable Global Note for Certificated Notes, which it will distribute to its participants and which may be legended as set forth under the heading "Transfer Restrictions."

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in a Global Note among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, any of the Subsidiary Guarantors, the Trustee or the Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

If DTC is at any time unwilling or unable to continue as a depositary for the Global Notes and a successor depositary is not appointed by the Company within 90 days, the Company will issue Certificated Notes in registered form, which may bear the legend referred to under "Transfer Restrictions," in exchange for the Global Notes. Holders of an interest in a Global Note may receive Certificated Notes, which may bear the legend referred to under "Transfer Restrictions," in accordance with the DTC's rules and procedures in addition to those provided for under the Indenture.

The Clearing Systems

General

DTC, Euroclear and Clearstream have advised the Company as follows:

DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom own DTC, and may include the Initial Purchasers. Indirect access to the DTC system is also available to others that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly ("indirect participants"). Transfers of ownership or other interests in Notes in DTC may be made only through DTC participants. In addition, beneficial owners of Notes in DTC will receive all distributions of principal of and interest on the Notes from the Trustee through such DTC participant.

Euroclear and Clearstream. Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Initial Settlement

Investors' interests in Notes held in book-entry form by DTC will be represented through financial institutions acting on their behalf as direct and indirect participants in DTC. As a result, Euroclear and Clearstream will hold positions on behalf of their participants through DTC.

Investors electing to hold their Notes through DTC (other than through accounts at Euroclear or Clearstream) must follow the settlement practices applicable to United States corporate debt obligations. The securities custody accounts of investors will be credited with their holdings against payment in same day funds on the settlement date.

Investors electing to hold their Notes through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. Notes will be credited to the securities custody accounts of Euroclear Holders and of Clearstream Holders on the Business Day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules. Secondary market trading between Clearstream participants and/or Euroclear participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional eurobonds.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream participants or Euroclear participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its U.S. depositary; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if a transaction meets its settlement requirements, deliver instructions to its U.S. depositary to take action to effect final settlement on its behalf by delivering or receiving Notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream participants and Euroclear participants may not deliver instructions directly to the U.S. depositaries.

Because of time zone differences, credits of Notes received in Clearstream or Euroclear as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the Business Day following the DTC settlement date. Such credits or any transactions in such Notes settled during such processing will be reported to the relevant Clearstream participants or Euroclear participants on such Business Day. Cash received in Clearstream or Euroclear as a result of sales of Notes by or through a Clearstream participant or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the Business Day following settlement in DTC.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in the United States mails (if intended for the Company or any Subsidiary Guarantor or the Trustee) addressed to the Company, such Subsidiary Guarantor or the Trustee, as the case may be, at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of DTC. Any such notice shall be deemed to have been delivered on the day such notice is delivered to DTC or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

The Company and each of the Subsidiary Guarantors will irrevocably (i) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, the Indenture or any transaction contemplated thereby and (ii) designate and appoint Law Debenture Corporate Services Inc. currently at 400 Madison Avenue, 4th Floor, New York, NY 10017, United States of America, for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes, the Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby. The relevant pledge documents pursuant to "—Security" will be governed under Hong Kong law.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this "Description of the Notes" for which no definition is provided.

"***Acquired Indebtedness***" means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary, whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

"***Adjusted Treasury Rate***" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield in maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"***Affiliate***" means, with respect to any Person, any other Person (i) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person, (ii) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (i) of this definition or (iii) who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (i) or (ii). For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"***Applicable Premium***" means with respect to a Note at any redemption date, the greater of (i) 1.00% of the principal amount of such Note and (ii) the excess of (A) the present value at such redemption date of the redemption price of such Note on May 13, 2014 (such redemption price being described in the first paragraph in the "- Optional Redemption" section exclusive of any accrued interest), plus all required remaining scheduled interest payments due on such Note through May 13, 2014 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such Redemption Date.

"***Asset Acquisition***" means (1) an Investment by the Company or any Restricted Subsidiary in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any Restricted Subsidiary or (2) an acquisition by the Company or any Restricted Subsidiary of the property and assets of any Person other than the Company or any Restricted Subsidiary that constitute substantially all of a division or line of business of such Person.

"***Asset Disposition***" means (a) for the purposes of the covenant described under the caption "- Certain Covenants - Limitation on Asset Sales," the sale or other disposition by the Company or any Restricted

Subsidiary (other than to the Company or another Restricted Subsidiary) of all or substantially all of the assets that constitute a division or line of business of the Company; and (b) for all other purposes, the sale or other disposition by the Company or any Restricted Subsidiary (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any Restricted Subsidiary.

"***Asset Sale***" means any sale, transfer or other disposition of any assets (including by way of merger, consolidation or Sale and Leaseback Transaction and including any sale or issuance of the Capital Stock of any Restricted Subsidiary) in one transaction or a series of related transactions by the Company or any Restricted Subsidiary to any Person; *provided* that "Asset Sale" shall not include:

(a) sales, transfers or other dispositions of inventory, receivables and other current assets in the ordinary course of business;

(b) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the covenant described under the caption "- Certain Covenants - Limitation on Restricted Payments";

(c) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US$2.0 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;

(d) any sale, transfer, assignment or other disposition of any property or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries;

(e) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;

(f) sales or other dispositions of cash or Temporary Cash Investments;

(g) a transaction covered by the covenant under the caption "- Consolidation, Merger and Sale of Assets"; and

(h) any sale, transfer or other disposition of any assets by the Company or any Restricted Subsidiary, including the sale or issuance by the Company or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary, to the Company or any other Restricted Subsidiary.

"***Attributable Indebtedness***" means, in respect of a Sale and Leaseback Transaction, at the time of determination, the present value, discounted at the interest rate implicit in such Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in such Sale and Leaseback Transaction, including any period for which such lease has been extended or may, at the option of the lessor, be extended.

"***Average Life***" means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

"***Bank Deposit Secured Indebtedness***" means Indebtedness of the Company or any Restricted Subsidiary that is secured by a pledge of one or more bank accounts of the Company or a Restricted

Subsidiary and is used by the Company and/or its Restricted Subsidiaries to, directly or indirectly, exchange U.S. dollars or Hong Kong dollars into Renminbi or vice versa; *provided*, *however*, that the aggregate amount of deposits in all such pledged bank accounts shall not at any time be less than 90% or exceed an amount equal to 110% of the aggregate outstanding principal amount of such Indebtedness.

"***Board of Directors***" means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

"***Board Resolution***" means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution in lieu of a meeting executed by the requisite members of the Board of Directors.

"***Borrowing Base***" means, as of any date, an amount equal to:

(1) 30% of the face amount of all accounts receivable owned by the Company and its Restricted Subsidiaries as of the end of the most recent semi-annual fiscal period preceding such date that were due within 90 days as of such date; plus

(2) 30% of the book value of all inventory, net of reserves, owned by the Company and its Restricted Subsidiaries as of the end of the most recent semi-annual fiscal period preceding such date.

"***Business Day***" means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, London or Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

"***Capital Stock***" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity.

"***Capitalized Lease***" means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

"***Capitalized Lease Obligations***" means the discounted present value of the rental obligations under a Capitalized Lease.

"***Change of Control***" means the occurrence of one or more of the following events:

(a) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries, taken as a whole, to any "person" (within the meaning of Section 13(d) of the Exchange Act), other than one or more Permitted Holders;

(b) the Company consolidates with, or merges with or into, any Person (other than one or more Permitted Holders), or any Person (other than one or more Permitted Holders) consolidates with, or merges with or into, the Company, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of the Company or such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the Voting Stock of the Company outstanding immediately prior to such transaction is converted into or exchanged for (or continues as) Voting Stock (other than Disqualified Stock) of the surviving or transferee Person constituting a majority of the outstanding shares of Voting Stock of such surviving or transferee Person (immediately after giving effect to such issuance) and in substantially the same proportion as before the transaction;

(c) the Permitted Holders are the beneficial owners of less than 35% of the total voting power of the Voting Stock of the Company;

(d) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of the total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;

(e) individuals who on the Original Issue Date constituted the Board of Directors (together with any new directors whose election was approved by a vote of at least a majority of the members of the Board of Directors then in office who were members of the Board of Directors on the Original Issue Date or whose election was previously so approved) cease for any reason to constitute a majority of the members of the Board of Directors then in office; or

(f) the adoption of a plan relating to the liquidation or dissolution of the Company.

"***Change of Control Triggering Event***" means the occurrence of both a Change of Control and a Rating Decline; *provided, however* that if, at the time of a Change of Control, the Notes are not currently rated by at least one Rating Agency, then a Change of Control Triggering Event will be deemed to have occurred upon the occurrence of a Change of Control only.

"***Clearstream***" means Clearstream Banking, société anonyme, Luxembourg.

"***Collateral***" means all collateral securing, or purported to be securing, directly or indirectly, the Notes or any Subsidiary Guarantee pursuant to the Security Documents, and shall initially consist of the Capital Stock of the initial Subsidiary Guarantors held by the Company or any Restricted Subsidiary.

"***Commodity Agreement***" means any forward contract, commodity swap agreement, commodity option agreement, commodities cap agreement, commodities floor agreement, commodities futures agreement or other similar agreement or arrangement designed to protect against fluctuations in commodity prices.

"***Common Stock***" means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock or ordinary shares, whether or not outstanding on the Original Issue Date, and includes, without limitation, all series and classes of such common stock or ordinary shares.

"***Comparable Treasury Issue***" means the U.S. Treasury security having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes from the redemption date to May 13, 2014.

"***Comparable Treasury Price***" means, with respect to any redemption date:

(a) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities"; or

(b) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations or (b) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.

"***Consolidated EBITDA***" means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

(a) Consolidated Interest Expense;

(b) income taxes (other than income taxes attributable to extraordinary and non-recurring gains or losses or sales of assets); and

(c) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income (other than accrual of revenue in the ordinary course of business),

all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP; *provided* that (i) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any Restricted Subsidiary and (ii) in the case of any PRC CJV consolidated in accordance with GAAP, Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

"***Consolidated Fixed Charges***" means, for any period, the sum (without duplication) of (i) Consolidated Interest Expense for such period and (ii) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of the Company or any Restricted Subsidiary held by Persons other than the Company or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Company's Capital Stock (other than Disqualified Stock) or dividends paid to the Company or to a Wholly Owned Restricted Subsidiary (*provided* that dividends declared, accrued or accounted for in one period shall not be included in "Consolidated Fixed Charges" when subsequently paid in a later period).

"***Consolidated Interest Expense***" means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of the Company and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by the Company and its Restricted Subsidiaries, without duplication, (i) interest expense attributable to Capitalized Lease Obligations and imputed interest with respect to Attributable Indebtedness, (ii) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (iii) the interest portion of any deferred payment obligation, (iv) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (v) the net costs associated with Hedging Obligations (including the amortization of fees), (vi) interest accruing on Indebtedness of any other Person that is guaranteed by the Company or any Restricted Subsidiary proportionate to the extent that such Indebtedness is guaranteed or secured by a Lien on assets of the Company or any Restricted Subsidiary, (vii) any capitalized interest and (viii) all other non-cash interest expense; *provided* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a pro forma basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

"***Consolidated Net Income***" means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

(a) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting, except to the extent of the amount of net income actually paid in cash to, or the amount of loss actually funded in cash by, the specified Person or a Restricted Subsidiary of the Person during such period;

(b) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any Restricted Subsidiary or all or substantially all of the property and assets of such Person are acquired by the Company or any Restricted Subsidiary;

(c) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;

(d) the cumulative effect of a change in accounting principles;

(e) any net after-tax gains realized on the sale or other disposition of (A) any property or assets of the Company or any Restricted Subsidiary which is not sold in the ordinary course of business or (B) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or any Restricted Subsidiary);

(f) any translation gains or losses due solely to fluctuations in currency values and related tax effects; and

(g) any net after-tax extraordinary or non-recurring gains.

"***Consolidated Net Worth***" means, at any date of determination, stockholders' equity as set forth on the most recently available semi-annual or annual consolidated balance sheet of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any Restricted Subsidiary, each item to be determined in accordance with GAAP.

"***Currency Agreement***" means any foreign exchange forward contract, currency swap agreement, currency hedge agreement, currency option agreement, currency cap agreement, currency floor agreement, currency futures agreement, accumulator or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates.

"***Default***" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"***Disqualified Stock***" means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the Stated Maturity of the Notes shall not constitute Disqualified Stock if the "asset sale" or "change of control" provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in "- Certain Covenants - Limitation on Asset Sales" and "Repurchase of Notes upon a Change of Control Triggering Event" covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company's repurchase of the Notes as are required to be repurchased pursuant to the "- Certain Covenants - Limitation on Asset Sales" and "Repurchase of Notes upon a Change of Control Triggering Event" covenants.

"***Dollar Equivalent***" means, with respect to any monetary amount in a currency other than U.S. dollars, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York using exchange rates prevailing as of the Original Issue Date.

"***DTC***" means The Depository Trust Company and its successors.

"***Equity Offering***" means (1) any underwritten primary public offering or private placement of Common Stock of the Company after the Original Issue Date to any Person other than a Wholly Owned Restricted Subsidiary or any Permitted Holder or (2) any underwritten secondary public offering or secondary private placement of Common Stock of the Company beneficially owned by a Permitted Holder, after the Original Issue Date, to the extent that a Permitted Holder or a company controlled by a Permitted Holder concurrently with such public offering or private placement purchases in cash an equal amount of Common Stock from the Company at the same price as the public offering or private placing price; *provided* that any offering or placing referred to in (A) clause (i), (B) clause (ii), or (C) a combination of clauses (i) and (ii) results in the aggregate gross cash proceeds received by the Company being no less than US$20.0 million (or the Dollar Equivalent thereof).

"***Euroclear***" means Euroclear Bank S.A./N.V., as operator of the Euroclear System.

"***Exchange Act***" means the U.S. Securities Exchange Act of 1934, as amended.

"***Fair Market Value***" means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution.

"***Fitch***" means Fitch Ratings Ltd. and its affiliates.

"***Fixed Charge Coverage Ratio***" means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent two semi-annual fiscal periods prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available and have been provided to the Trustee (which may be internal consolidated financial statements) (the "***Two Semi-annual Period***") to (2) the aggregate Consolidated Fixed Charges during such Two Semi-annual Period. In making the foregoing calculation:

(a) pro forma effect shall be given to any Indebtedness or Preferred Stock Incurred, repaid or redeemed during the period (the "***Reference Period***") commencing on and including the first day of the Two Semi-annual Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Two Semi-annual Period), in each case as if such Indebtedness or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that in the event of any such repayment or redemption, Consolidated EBITDA for such Two Semi-annual Period shall not include any interest income actually earned by the Company or such Restricted Subsidiary during such Two Semi-annual Period in respect of the funds used to repay or redeem such Indebtedness or Preferred Stock;

(b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a pro forma basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;

(c) pro forma effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period;

(d) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period; and

(e) pro forma effect shall be given to the creation, designation or re-designation of Restricted Subsidiaries and Unrestricted Subsidiaries as if such creation, designation or re-designation had occurred on the first day of such Reference Period;

provided that to the extent that clause (c) or (d) of this paragraph requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be based upon the two semi-annual fiscal periods immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

"***GAAP***" means International Financial Reporting Standards as in effect from time to time.

"***guarantee***" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided* that the term "guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "guarantee" used as a verb has a corresponding meaning.

"***Hedging Obligation***" of any Person means the obligations of such Person pursuant to any Commodity Agreement, Currency Agreement or Interest Rate Agreement.

"***Holder***" means the Person in whose name a Note is registered in the Note register.

"***Incur***" means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided* that (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms "Incurrence," "Incurred" and "Incurring" have meanings correlative with the foregoing.

"***Indebtedness***" means, with respect to any Person at any date of determination (without duplication):

(a) all indebtedness of such Person for borrowed money;

(b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(c) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments;

(d) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;

(e) all Capitalized Lease Obligations and Attributable Indebtedness;

(f) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (A) the Fair Market Value of such asset at such date of determination and (B) the amount of such Indebtedness;

(g) all Indebtedness of other Persons guaranteed by such Person to the extent such Indebtedness is guaranteed by such Person;

(h) to the extent not otherwise included in this definition, Hedging Obligations; and

(i) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

Notwithstanding the foregoing, (i) Indebtedness shall not include any capital commitments, deferred payment obligations, indemnities provided to joint venture partners or similar obligations Incurred in connection with the acquisition, development, construction or improvement of real or personal property (including land use rights) to be used in a Permitted Business; *provided* that such Indebtedness is not reflected on the consolidated balance sheet of the Company (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected on the balance sheet will not be deemed to be reflected on such balance sheet); and (ii) none of the accrual of interest or dividends, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness, the reclassification of Preferred Stock as Indebtedness due to a change in accounting principles, or the payment of dividends on Preferred Stock or Disqualified Stock in the form of additional shares of the Preferred Stock or Disqualified Stock will be deemed to be an Incurrence of Indebtedness or an issuance of Disqualified Stock.

The amount of Indebtedness of any Person at any time shall be the outstanding balance at such time of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided* that:

(A) the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP;

(B) money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be "Indebtedness" so long as such money is held to secure the payment of such interest; and

(C) the amount of or the principal amount of Indebtedness with respect to any Hedging Obligation shall be equal to zero if Incurred pursuant to clause (b)(v) of the covenant described under the caption "- Limitation on Indebtedness and Preferred Stock"; *provided* that such amount shall be equal to the net amount payable if such Hedging Obligation terminated at or prior to that time due to a default by such Person.

"***Intercreditor Agreement***" has the meaning set forth under "- Security."

"***Interest Rate Agreement***" means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate floor agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

"***Investment***" means:

(a) any direct or indirect advance, loan or other extension of credit to another Person,

(b) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others),

(c) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person, or

(d) any guarantee of any obligation of another Person to the extent such obligation is outstanding and to the extent guaranteed by such Person.

An acquisition of assets, Capital Stock or other securities by the Company or a Subsidiary for consideration to the extent such consideration consists of Common Stock of the Company will not be deemed an Investment.

For the purposes of the provisions of the "- Certain Covenants - Designation of Restricted and Unrestricted Subsidiaries" and "- Certain Covenants - Limitation on Restricted Payments" covenants: (i) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the portion of the Fair Market Value of the assets (net of liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation representing the percentage ownership of such Unrestricted Subsidiary at such time and (ii) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

"***Investment Grade***" means a rating of "AAA," "AA," "A" or "BBB," as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest Rating Categories, by S&P or any of its successors or assigns or a rating of "Aaa," or "Aa," "A" or "Baa," as modified by a "1," "2" or "3" indication, or an equivalent rating representing one of the four highest Rating Categories, by Moody's or any of its successors or assigns or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P or Moody's or both, as the case may be.

"***Lien***" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

"***Moody's***" means Moody's Investors Service, Inc. and its affiliates.

"***Net Cash Proceeds***" means:

(a) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or Temporary Cash Investments, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or Temporary Cash Investments and proceeds from the conversion of other property received when converted to cash or Temporary Cash Investments, net of

    (i) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment banks) related to such Asset Sale;

    (ii) all taxes as a result of such Asset Sale that are (i) required to be paid in cash and (ii) required to be paid in the year of such Asset Sale or the year immediately following such Asset Sale (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;

(iii) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale; and

(iv) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and

(b) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or Temporary Cash Investments, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or Temporary Cash Investments and proceeds from the conversion of other property received when converted to cash or Temporary Cash Investments, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"***Offer to Purchase***" means an offer to purchase the Notes by the Company from the Holders commenced by mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

(a) the provision of the Indenture pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;

(b) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the "***Offer to Purchase Payment Date***");

(c) that any Note not tendered will continue to accrue interest pursuant to its terms;

(d) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;

(e) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled "Option of the Holder to Elect Purchase" on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;

(f) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and

(g) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US$200,000 or integral multiples of US$1,000.

On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof to be accepted by the Company and (c) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US$200,000 or integral multiples of US$1,000. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

The Company will not be required to make an Offer to Purchase if a third party makes the Offer to Purchase in compliance with the requirements set forth in the Indenture applicable to an Offer to Purchase made by the Company and purchases all Notes properly tendered and not withdrawn under the Offer to Purchase.

The materials used in connection with an Offer to Purchase are required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

"***Officer***" means one of the executive officers of the Company or, in the case of a Subsidiary Guarantor, one of the directors or executive officers of such Subsidiary Guarantor.

"***Officers' Certificate***" means a certificate signed by two Officers.

"***Opinion of Counsel***" means a written opinion from legal counsel which is addressed to the Trustee, is in form and substance reasonably acceptable to the Trustee, and meets the requirements of the Indenture. The counsel may be an employee of or external counsel to the Company.

"***Original Issue Date***" means the date on which the Notes are originally issued under the Indenture.

"***Pari Passu Subsidiary Guarantee***" means a guarantee by any Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes); *provided* that (i) the Company is permitted to Incur such Indebtedness under the covenant described under the caption "- Certain Covenants - Limitation on Indebtedness and Preferred Stock" and (ii) such guarantee ranks *pari passu* with the Subsidiary Guarantee of such Subsidiary Guarantor.

"***Payment Default***" means (i) any default in the payment of interest on any Note when the same becomes due and payable, (ii) any default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise, (iii) the failure by the Company to make or consummate a Change of Control Offer in the manner described under the caption "- Repurchase of Notes upon a Change of Control Triggering Event," or an Offer to Purchase in the manner described under the caption "- Certain Covenants - Limitation on Asset Sales" or (iv) any Event of Default specified in clause (e) of the definition of Events of Default.

"***Permitted Business***" means the manufacture of plastic pipes and pipe fittings, any other business conducted by the Company and its Restricted Subsidiaries on the Original Issue Date as described in this offering memorandum and any other businesses reasonably related, complementary or ancillary thereto.

"***Permitted Holders***" means any or all of the following:

(a) Mr. Wong Luen Hei and his immediate family members, Ms. Zuo Xiaoping and her immediate family members, any trust established for the benefit of any of them or the estate or legal representative of any of them;

(b) any Affiliate (other than an Affiliate as defined in clause (ii) of the definition of "Affiliate") of any of the Persons specified in clause (a) of this definition; and

(c) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are more than 80% owned by one or more of the Persons specified in clauses (a) and (b) of this definition.

"***Permitted Investment***" means:

(a) any Investment in the Company or a Restricted Subsidiary that is primarily engaged, directly or indirectly, in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged, directly or indirectly, in a Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to the Company or a Restricted Subsidiary that is primarily engaged, directly or indirectly, in a Permitted Business;

(b) any Investment in cash or Temporary Cash Investments;

(c) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;

(d) stock, obligations or securities received in satisfaction of judgments;

(e) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;

(f) any Investment pursuant to a Hedging Obligation designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates and not for speculation;

(g) receivables, trade credits or other current assets owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;

(h) any securities or other Investments received as consideration in, or retained in connection with, sales or other dispositions of property or assets, including Asset Dispositions made in compliance with the covenant described under the caption "- Certain Covenants - Limitation on Asset Sales";

(i) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of "Permitted Liens" or made in connection with Liens permitted under the covenant described under the caption "- Certain Covenants - Limitation on Liens";

(j) Investments in securities of trade creditors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditors or customers;

(k) loans or advances to contractors, vendors, distributors, manufacturers or suppliers, including advance payments for the acquisition of assets, equipment, machinery, consumables or services, in the ordinary course of business and dischargeable in accordance with customary trade terms;

(l) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers, compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of a Permitted Business;

(m) deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries and prepayments made in connection with the acquisition of real property or land use rights by the Company or any Restricted Subsidiary, in each case, in the ordinary course of a Permitted Business;

(n) advances or deposits paid to governmental authorities or government-affiliated or supervised entities in the PRC in connection with the financing of land acquisition or land development or land re-development activities that are recorded as assets on the Company's consolidated balance sheet;

(o) loans and advances to officers, directors and employees made in the ordinary course of business and permitted under the "- Limitation on Transactions with Shareholders and Affiliates" covenant;

(p) repurchases of Notes; and

(q) payments made pursuant to any Staged Acquisition Agreement.

"***Permitted Liens***" means:

(a) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(b) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(c) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);

(d) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;

(e) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;

(f) any interest or title of a lessor in the property subject to any operating lease;

(g) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; *provided further* that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;

(h) Liens in favor of the Company or any Restricted Subsidiary;

(i) Liens arising from attachment or the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;

(j) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;

(k) Liens existing on the Original Issue Date;

(l) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (b)(v) of the covenant described under the caption "- Limitation on Indebtedness and Preferred Stock"; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;

(m) Liens (including extensions and renewals thereof) upon assets, real or personal property or equipment acquired after the Original Issue Date by the Company or any Restricted Subsidiary; *provided* that (a) such Lien is created solely for the purpose of securing Indebtedness of the type described under clause (b)(vii) of the covenant described under the caption "- Limitation on Indebtedness and Preferred Stock," (b) such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such property, (c) the principal amount of Indebtedness secured by such Lien does not exceed 100% of the cost of such property, development, construction or improvement and (d) such Lien shall not extend to or cover any real or personal property, equipment or assets other than such item of property and any improvements on such item;

(n) Liens under the Security Documents;

(o) Liens securing any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under "Security - Permitted Pari Passu Secured Indebtedness";

(p) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;

(q) Liens securing Hedging Obligations permitted to be Incurred under clause (b)(vi) of the "Limitation on Indebtedness and Preferred Stock" covenant, *provided* that (i) the Indebtedness relating to any such Hedging Obligation is, and is permitted by the "Limitation on Liens" covenant to be, secured by a Lien on the same property or assets securing such Hedging Obligation or (ii) such Liens are encumbering customary initial deposits or margin deposits or are otherwise within the general parameters customary in the industry and are incurred in the ordinary course of business;

(r) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers' compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;

(s) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights by the Company or any of its Restricted Subsidiaries in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;

(t) Liens on property securing Indebtedness which is permitted to be Incurred under clauses (b)(xiii), (b)(xiv) and (b)(xvi) of the covenant "- Limitation on Indebtedness and Preferred Stock";

(u) Liens upon real or personal property or assets of the Company or any Restricted Subsidiary securing any Permitted Subsidiary Indebtedness; *provided* that at the time such Lien is Incurred, the aggregate book value of property or assets as of the last day of the most recent semi-annual fiscal period for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements) and have been provided to the Trustee or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets subject to Liens Incurred pursuant to this clause (u) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Liens;

(v) any interest or title of a lessor under any Capitalized Lease Obligation permitted to be Incurred under the Indenture; *provided*, *however*, that the Liens do not extend to any property or assets that are not leased property subject to such Capitalized Lease Obligation;

(w) Liens incurred on one or more bank accounts to secure Bank Deposit Secured Indebtedness;

(x) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods; and

(y) other Liens securing obligations in an aggregate amount not exceeding US$5.0 million (or the Dollar Equivalent thereof).

"***Permitted Pari Passu Secured Indebtedness***" has the meaning set forth under "Security - Permitted Pari Passu Secured Indebtedness."

"***Permitted Subsidiary Indebtedness***" means Indebtedness of, and all Preferred Stock issued by, the Restricted Subsidiaries, taken as a whole (but excluding the amount of any Indebtedness of any Restricted Subsidiary permitted under clauses (b)(i), (b)(ii), (b)(iv), (b)(vi), (b)(ix) and (b)(xiv) of the covenant described under the caption "- Certain Covenants - Limitation on Indebtedness and Preferred Stock"); *provided* that, on the date of the Incurrence of such Indebtedness and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness does not exceed an amount equal to 15% of Total Assets.

"***Person***" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"***PRC***" means the People's Republic of China, excluding solely for purposes of this definition Hong Kong Special Administrative Region, Macau and Taiwan.

"***PRC CJV***" means any future Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 13, 2000) and the Detailed Rules for the Implementation of the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws may be amended.

"***PRC CJV Partner***" means with respect to a PRC CJV, the other party or parties to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

"***PRC Restricted Subsidiary***" means a Restricted Subsidiary organized under the laws of the PRC.

"***Preferred Stock***" as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over any other class of Capital Stock of such Person.

"***Rating Agencies***" means (i) Moody's, (ii) Fitch and (iii) if Moody's or Fitch or both shall not make a rating of the Notes publicly available, one or more "nationally recognized statistical rating organizations," as the case may be, within the meaning of Rule 15c3-l(c)(2)(iv)(F) under the Exchange Act, selected by the Company, which shall be substituted for S&P or Moody's or both, as the case may be.

"***Rating Category***" means (i) with respect to S&P, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); (ii) with respect to Moody's, any of the following categories: "Ba," "B," "Caa," "Ca," "C" and "D" (or equivalent successor categories); and (iii) the equivalent of any such category of S&P or Moody's used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories ("+" and "-" for S&P; "1," "2" and "3" for Moody's; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from "BB+" to "BB," as well as from "BB-" to "B+," will constitute a decrease of one gradation).

"***Rating Date***" means, (i) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of, or the intention by the Company or any other Person or Persons to effect, a Change of Control or (ii) in connection with actions contemplated under the caption "- Consolidation, Merger and Sale of Assets," that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

"***Rating Decline***" means, (i) in connection with a Change of Control Triggering Event, the occurrence on or within six months after the date of public notice of the occurrence of a Change of Control (which period will be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below or (ii) in connection with actions contemplated under the caption "- Consolidation, Merger and Sale of Assets," the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

(a) in the event the Notes are rated by both Moody's and Fitch on the Rating Date as Investment Grade, the rating of the Notes by either Rating Agency shall be below Investment Grade;

(b) in the event the Notes are rated by either, but not both, of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or

(c) in the event the Notes are rated below Investment Grade by both Rating Agencies on the Rating Date, the rating of the Notes by either Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

"***Reference Treasury Dealer***" means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

"***Reference Treasury Dealer Quotations***" means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to such Trustee by such Reference Treasury Dealer at 5:00 p.m. on the fifth Business Day preceding such redemption date.

"***Renminbi***" or "***RMB***" means the lawful currency of the People's Republic of China, excluding Hong Kong, Macau and Taiwan for the purposes of the Indenture.

"***Replacement Assets***" means, on any date, property or assets of a nature or type or that are used in a Permitted Business, including the Capital Stock of any Person holding such property or assets that is primarily engaged in a Permitted Business and will, upon the acquisition by the Company or any of its Restricted Subsidiaries of such Capital Stock, become a Restricted Subsidiary.

"***Restricted Subsidiary***" means any Subsidiary of the Company other than an Unrestricted Subsidiary.

"***Sale and Leaseback Transaction***" means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

"***Securities Act***" means the U.S. Securities Act of 1933, as amended.

"***Security Documents***" means, collectively, the pledge or charge agreements and any other agreements or instruments that, including the Indenture, may evidence or create any security interest in favor of the Collateral Agent and the Trustee and/or any Holders in any or all of the Collateral.

"***Senior Indebtedness***" of the Company or any Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or such Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the

Company, the Notes or (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee; *provided* that Senior Indebtedness does not include (i) any obligation to the Company or any Restricted Subsidiary, (ii) Trade Payables or (iii) Indebtedness Incurred in violation of the Indenture.

"***Staged Acquisition Agreement***" means an agreement between the Company or a Restricted Subsidiary and any Person that is not an Affiliate of the Company (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire more than 50% of the Capital Stock of a Person for a consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such Agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

"***Stated Maturity***" means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

"***Subordinated Indebtedness***" means any Indebtedness of the Company or any Subsidiary Guarantor which is contractually subordinated or junior in right of payment to the Notes or any Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

"***Subordinated Shareholder Loan***" means unsecured Indebtedness Incurred by the Company from any Permitted Holder other than the Company (but only for so long as such Indebtedness is owed to any Permitted Holder (other than the Company or any Restricted Subsidiary)) as to which (a) the payment of principal of (and premium, if any) and interest and other payment obligations in respect of such Indebtedness is, by its terms or by the terms of any agreement or instrument pursuant to which such Indebtedness is issued or remains outstanding and an agreement (the "Subordination Agreement") to be entered into among the holders of such Indebtedness (or trustees or agents therefor) and the Trustee, is expressly made subordinate to the prior payment in full of the Notes to at least the following extent: (i) no payments of principal of (or premium, if any) or interest on or otherwise due in respect of such Indebtedness may be permitted for so long as any Default exists; (ii) such Indebtedness may not (x) provide for payments of principal of such Indebtedness at the Stated Maturity thereof or by way of a sinking fund applicable thereto or by way of any mandatory redemption, defeasance, retirement or repurchase thereof by the Company or any Restricted Subsidiary (including any redemption, retirement or repurchase which is contingent upon events or circumstances), in each case prior to the final Stated Maturity of the Notes or (y) permit redemption or other retirement (including pursuant to an offer to purchase made by the Company or any Restricted Subsidiary) of such other Indebtedness at the option of the holder thereof prior to the final Stated Maturity of the Notes, except to the extent such redemption or other retirement is permitted under the covenant described under "— Certain Covenants — Limitation on Restricted Payments" on the date of such redemption or other retirement, (iii) the Subordination Agreement will prohibit the holders of such Indebtedness (or trustees or agents therefor) from pursuing remedies against the Company or any of the Restricted Subsidiaries or their respective assets or properties in an insolvency proceeding or in respect of a default under such Indebtedness until 183 days after the Notes are paid in full and (iv) the Subordination Agreement will provide in the event that any payment is received by the holders of such Indebtedness (or any trustee or agent therefor) in respect of such Indebtedness where such payment is prohibited by one or more of the subordination provisions described in this definition, such payment shall be held in trust for the benefit of, and shall be paid over or delivered to, the Trustee on behalf of the Holders of the Notes, and (b) the terms thereof provide that interest (and premium, if any) thereon is paid solely in the form of (i) pay-in-kind, or PIK, payments constituting additional Subordinated Shareholder

Loans or (ii) cash (to the extent provided for when such Subordinated Shareholder Loan was originally Incurred) if such cash interest (or premium, if any) payment would be permitted to be made under the covenant described under "— Certain Covenants — Limitation on Restricted Payments" on the date of such payment.

"***Subsidiary***" means, with respect to any Person, any corporation, association or other business entity (i) of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person or (ii) of which 50% of the outstanding Voting Stock is owned, directly or indirectly, by such Person and which is "controlled" and consolidated by such Person in accordance with GAAP; *provided*, *however,* that with respect to clause (ii) the occurrence of any event (other than the issuance or sale of Capital Stock) as a result of which such corporation, association or other business entity ceases to be "controlled" by such Person under GAAP and to constitute a Subsidiary of such Person shall be deemed to be a designation of such corporation, association or other business entity as an Unrestricted Subsidiary by such Person and be subject to the requirements under the first paragraph of "- Designation of Restricted and Unrestricted Subsidiaries" covenant.

"***Subsidiary Guarantee***" means any guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

"***Subsidiary Guarantor***" means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; *provided* that Subsidiary Guarantor will not include any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes.

"***Subsidiary Guarantor Pledgor***" means any initial Subsidiary Guarantor Pledgor named herein and any other Subsidiary Guarantor which pledges Collateral to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor under its Subsidiary Guarantee; *provided* that a Subsidiary Guarantor Pledgor will not include any Person whose pledge under the Security Documents has been released in accordance with the Security Documents, the Indenture and the Notes.

"***Temporary Cash Investment***" means any of the following:

(a) direct obligations of the United States of America, any state of the European Economic Area, the People's Republic of China and Hong Kong or any agency of the foregoing or obligations fully and unconditionally guaranteed by the United States of America, any state of the European Economic Area, the People's Republic of China and Hong Kong or any agency of the foregoing, in each case maturing within one year;

(b) demand or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America or any state thereof, any state of the European Economic Area or Hong Kong, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US$100.0 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;

(c) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;

(d) commercial paper, maturing within 180 days of the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-1" (or higher) according to Moody's or "A-1" (or higher) according to S&P;

(e) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof and rated at least "A" by S&P or Moody's;

(f) any mutual fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (a) through (e) above; and

(g) demand or time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with (i) Agricultural Bank of China, Shunde Rural Commercial Bank, Industrial and Commercial Bank of China Limited, China Merchants Bank Co., Ltd., Bank of Communications Co., Ltd, Bank of Guiyang, Bank of China Limited, China Minsheng Banking Corp., Ltd, Bank of Cangzhou, China CITIC Bank, China Construction Bank Corporation, The Industrial Bank Co., Ltd, Industrial and Commercial Bank of China (Asia) Limited, Hang Seng Bank, The Hongkong and Shanghai Banking Corporation Limited, Luso International Banking Ltd, Citibank, DBS Bank Ltd., Bank of China (Hong Kong) Limited, UBS AG, China Everbright Bank, Shenzhen Development Bank, China Guangfa Bank, Xiamen International Bank, Hua Xia Bank Co., Limited, Bank of Jilin, and Heshan Rural Credit Cooperatives (ii) any other bank or trust company organized under the laws of the PRC or Hong Kong, whose long-term debt rating by Moody's or S&P is as high or higher than any of those banks listed in clause (i) of this paragraph or (iii) any other bank organized under the laws of the PRC or Hong Kong, *provided* that, in the case of clause (iii), such deposits do not exceed US$10.0 million (or the Dollar Equivalent thereof) with any single bank or US$30.0 million (or the Dollar Equivalent thereof) in the aggregate on any date of determination.

"***Total Assets***" means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent semi-annual fiscal period for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile in a timely manner) are available and have been provided to the Trustee; *provided* that "Total Assets" shall be calculated after giving pro forma effect to include the cumulative value of all of the assets, real or personal property or equipment the acquisition, development, construction or improvement of which involves the calculation of Total Assets, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender.

"***Trade Payables***" means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services and payable within 90 days.

"***Transaction Date***" means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

"***Unrestricted Subsidiary***" means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture and (2) any Subsidiary of an Unrestricted Subsidiary.

"***U.S. Government Obligations***" means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the holder thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

"***Voting Stock***" means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

"***Wholly Owned***" means, with respect to any Subsidiary of any Person, the ownership of 100% of the outstanding Capital Stock of such Subsidiary (other than any director's qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Subsidiaries of such Person are entitled to 95% or more of the economic benefits distributable by such Subsidiary; and *provided further* that solely for purposes of clause (b) of the first paragraph of the covenant described under the caption "- Limitation on Restricted Payments," a Restricted Subsidiary shall be considered a Wholly Owned Restricted Subsidiary if the ownership of 90% or more of the outstanding Capital Stock of such Restricted Subsidiary is owned, directly or indirectly, by the Company.

Taxation

The discussion below is not intended to constitute a complete analysis of all tax consequences relating to ownership of the Notes and guarantees. Prospective purchasers of the Notes and guarantees should consult their own tax advisors concerning the tax consequences of their particular situations. This description is based on current laws, regulations and interpretations. These laws, regulations and interpretations, however, may change at any time, and any change could be retroactive to the date of issuance of the Notes and guarantees. These laws and regulations are also subject to various interpretations and the relevant tax authorities or the courts could later disagree with the explanations or conclusions set out below.

Cayman Islands

The following is a discussion of certain Cayman Islands income tax consequences of an investment in the Notes and guarantees. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under the laws of the Cayman Islands, so long as the holders of the Notes are not residents of the Cayman Islands, payments of interest, principal and premium, if any, on the Notes and guarantees will not be subject to taxation and no withholding will be required on the payment of interest and principal or premium to any holder of the Notes, as the case may be, nor will gains derived from the disposal of the Notes and guarantees be subject to Cayman Islands income or corporation tax. The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. The Cayman Islands are not party to any double taxation treaties that are applicable to any payments made to or by us.

No stamp duty is payable in respect of the issue of the Notes. An instrument of transfer in respect of a Note is stampable if executed in or brought into the Cayman Islands.

We are incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, have obtained an undertaking from the Governor in Cabinet of the Cayman Islands as to tax concessions under the Tax Concessions Law (1999 Revision). In accordance with the provision of section 6 of The Tax Concessions Law (1999 Revision), the Governor in Cabinet undertakes with us:

- that no law which is hereafter enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to us or our operations; and

- in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable, on or in respect of the shares, debentures or other obligations of us, or by way of the withholding, in whole or part, of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of 20 years from November 17, 2009.

British Virgin Islands

There is no income or other tax of the British Virgin Islands imposed by withholding or otherwise on any payment to be made to or by the Subsidiary Guarantors pursuant to the Notes and guarantees.

Hong Kong

The following summary of certain Hong Kong tax consequences of the purchase, ownership and disposition of the Notes and guarantees is based upon laws, regulations, decisions and practice now in effect, all of which are subject to prospective change and possibly retroactive change. The summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and guarantees and does not purport to deal with the consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Notes and guarantees should consult their own tax advisors concerning the application of Hong Kong tax laws to their particular situation as well as any consequences of the purchase, ownership and disposition of the Notes and guarantees arising under the laws of any other taxing jurisdiction.

Withholding tax

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes and guarantees) or interest in respect of the Notes and guarantees, or payments made by a guarantor pursuant to its guarantee of the Notes and guarantees.

Profits tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business. Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), or Inland Revenue Ordinance, as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes and guarantees where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Notes and guarantees will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

a corporation carrying on a trade, profession or business in Hong Kong; or

a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

In the case of a financial institution (as defined in the Inland Revenue Ordinance), interest on the Notes and guarantees will be subject to Hong Kong profits tax where such interest arises through or from the carrying on by the financial institution of its business in Hong Kong.

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note and guarantee (for so long as the register of holders of the Notes and guarantees is maintained outside Hong Kong).

PRC

Taxation of interest

The New EIT Law imposes a withholding tax at the rate of 10% on interest paid by PRC "resident enterprises" to a holder of Notes that is a "non-resident enterprise" so long as such "non-resident enterprise" holder does not have an establishment or place of business in China or, despite the existence of establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China, to the extent such interests are sourced within China. Pursuant to these provisions of the PRC tax law, if we are considered a PRC "resident enterprise," interest payable to "non-resident enterprise" holders on the Notes and guarantees may be treated as income derived from sources within China and be subject to PRC withholding tax. It is unclear whether the PRC tax authorities would treat us as a PRC "resident enterprise." To the extent that China has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to holders of Notes and guarantees who qualify for such treaty benefits.

Taxation on capital gains

The New EIT Law imposes a tax at the rate of 10% on capital gains realized by a holder of Notes and guarantees that is a "non-resident enterprise" so long as any such "non-resident enterprise" holder does not have an establishment or place of business in China or, despite the existence of establishment or place of business in China, the relevant gain is not effectively connected with such establishment or place of business in China, to the extent such capital gains are sourced within China. Pursuant to these provisions of the PRC tax law, if we are considered a PRC "resident enterprise," capital gains realized by holders of Notes and guarantees may be treated as income derived from sources within China and be subject to PRC tax. The application of this provision to holders of Notes and guarantees is uncertain. To the extent that China has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of tax, such lower rate may apply to qualified investors in the Notes and guarantees.

Stamp duty

No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes and guarantees is maintained outside Mainland China) of a Note and guarantee.

Certain U.S. Federal Income Tax Considerations for U.S. Holders

TO COMPLY WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY PROSPECTIVE INVESTORS, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"); (B) SUCH DISCUSSION IS BEING USED IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE INVESTORS SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion is a summary of certain material U.S. federal income tax considerations relating to the purchase, ownership and disposition of the Notes by a U.S. holder (as defined below), but does not purport to be a complete analysis of all potential tax effects and does not address the effects of the U.S. federal estate or gift tax laws, the Medicare tax on net investment income, any state, local or non-U.S. tax laws, or any provision of any potentially applicable tax treaties. This discussion is based upon the Code, U.S. Treasury regulations issued or proposed thereunder, and judicial and administrative interpretations thereof, each as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. No rulings from the U.S. Internal Revenue Service (the "IRS") have been sought with respect to the matters discussed below. There can be no assurance the IRS will not take a different position concerning the tax consequences of the purchase, ownership or disposition of the Notes or that any such position would not be sustained.

This discussion does not address all of the U.S. federal income tax consequences that might be relevant to a U.S. holder in light of such U.S. holder's particular circumstances or to U.S. holders subject to special rules, such as:

- banks, insurance companies or other financial institutions;
- broker-dealers;
- traders that elect to use a mark-to-market method of accounting;
- partnerships or other pass-through entities, or persons holding the Notes through such entities;
- real estate investment trusts;
- regulated investment companies;
- persons liable for the alternative minimum tax;
- tax-exempt organizations;
- U.S. expatriates;
- U.S. holders whose functional currency is not the U.S. dollar; and
- persons holding the Notes as part of a "straddle," "hedge," "conversion transaction," or other integrated transaction.

In addition, this discussion is limited to persons that purchase the Notes for cash pursuant to this Offering Memorandum at original issue, at their "issue price" (as defined below) that hold the Notes as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment).

For purposes of this discussion, a "U.S. holder" is a beneficial owner of a Note that is, for U.S. federal income tax purposes,

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or if a valid election is in place to treat the trust as a United States person.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. U.S. holders that are partnerships, and partners in such partnerships, should consult their tax advisors regarding the tax consequences of the purchase, ownership and disposition of the Notes.

This discussion of certain U.S. federal income tax considerations is for general information only and is not tax advice. Prospective investors should consult their tax advisors concerning the tax consequences of the purchase, ownership and disposition of the Notes in light of their particular circumstances, including the application of the U.S. federal income tax considerations discussed below, as well as the application of any other U.S. federal tax laws, any state, local, or non-U.S. tax laws, or provisions of any applicable tax treaties.

Payments of interest

Payments of stated interest (including any PRC taxes withheld therefrom) and any Additional Amounts on the Notes will be taxable to a U.S. holder as ordinary interest income at the time such payments are received or accrued, in accordance with such U.S. holder's method of accounting for U.S. federal income tax purposes.

Interest income (including any Additional Amounts) and any OID (as defined below) on a Note will constitute foreign source income and generally will be considered "passive category" income (or, in the case of certain U.S. holders, "general category" income) for purposes of computing the foreign tax credit allowable to U.S. holders under U.S. federal income tax laws. Subject to certain limitations and conditions, any PRC income taxes withheld from interest income on a Note will generally be treated as foreign income tax eligible for credit against the U.S. holder's U.S. federal income tax liability or, at the holder's election, eligible for deduction in computing the holder's U.S. federal taxable income. If a U.S. holder elects to claim a foreign tax credit, rather than a deduction for a particular tax year, such election will apply to all foreign income taxes paid by the U.S. holder in that particular year. U.S. holders should consult their tax advisors regarding the creditability or deductibility of any withholding taxes.

Original Issue Discount

The Notes will 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 redemption price at maturity by more than a *de minimis* amount. The amount of OID on the Notes will be *de minimis* if it is less than 0.25% of the stated redemption price at maturity multiplied by the number of complete years to maturity.

Generally, the "issue price" of a Note will be the first price at which a substantial amount of the Notes are sold to the public for cash, excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. The "stated redemption price at maturity" of the Notes is the sum of all payments on the Notes other than payments of qualified stated interest. "Qualified stated interest" is stated interest that is unconditionally payable in cash or property (other than additional debt instruments of the issuer) at least annually at a single fixed rate.

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 and will generally have to include in gross income increasingly greater amounts of OID over the life of the Notes.

A U.S. holder may elect to recognize all of the stated interest and OID on a Note using a constant yield method. The constant yield election generally will apply only to the Note with respect to which it is made and cannot be revoked without the consent of the IRS.

Sale, exchange, redemption or other taxable disposition of Notes

Upon the sale, exchange, redemption or other taxable disposition of a Note, a U.S. holder will generally recognize gain or loss equal to the difference between the amount realized upon the disposition (less any amount attributable to accrued by unpaid interest not previously included in income, which will be taxable as ordinary interest income) and the U.S. holder's adjusted tax basis in the Note. A U.S. holder's adjusted tax basis in a Note will generally be the cost of the Note to the U.S. holder, increased by any accrued OID and decreased by any payment on the Note other than qualified stated interest.

Any gain or loss will be capital gain or loss, and if the U.S. holder has held the Note for more than one year at the time of disposition, long-term capital gain or loss. Long-term capital gain recognized by certain non-corporate U.S. holders, including individuals, will generally be subject to preferential tax rates. The deductibility of capital losses is subject to limitations.

Any gain or loss will generally be U.S.-source income for purposes of computing a U.S. holder's foreign tax credit limitation. A U.S. holder's amount realized would include the gross amount of the proceeds of the disposition before deduction of any PRC taxes. U.S. holders should consult their tax advisors regarding their eligibility for benefits under the income tax treaty between the United States and the PRC and the creditability of any PRC tax on gain from a disposition of Notes.

Information Reporting and Backup Withholding

A U.S. holder may be subject to information reporting and backup withholding when such holder receives payments of interest (including any OID) and principal on the Notes or proceeds from a sale or other disposition of Notes, unless (i) the holder is an exempt recipient or (ii) in the case of backup withholding, the holder provides a correct taxpayer identification number and complies with applicable certification requirements. U.S. holders should consult their tax advisors regarding the application of the information reporting and backup withholding rules.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a U.S. holder's U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

Recently enacted legislation requires individual U.S. Holders to report information to the IRS with respect to their investment in Notes unless certain requirements are met. Investors who are individuals and fail to report required information could become subject to substantial penalties. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of this new legislation on their investment in Notes.

Plan of distribution

J.P. Morgan Securities Ltd. and The Royal Bank of Scotland plc are acting as the Joint Bookrunners and Joint Lead Managers for the offering and as the Initial Purchasers named below. Subject to the terms and conditions stated in the purchase agreement dated May 6, 2011, each Initial Purchaser named below has severally agreed to purchase from us, and we have agreed to sell to such Initial Purchaser, the principal amount of the Notes set forth opposite such Initial Purchaser's name.

Initial Purchaser	Principal Amount of Notes
J.P. Morgan Securities Ltd.	US$195,000,000
The Royal Bank of Scotland plc	US$105,000,000
Total	US$300,000,000

The purchase agreement provides that the obligations of the Initial Purchasers to purchase the Notes are subject to approval of legal matters by their counsel and to other conditions. After the initial offering, the offering price and other selling terms may be varied from time to time by the Initial Purchasers.

The Initial Purchasers propose to resell the Notes at the offering price set forth on the cover page of this offering memorandum within the United States to qualified institutional buyers (as defined in Rule 144A), or QIBs, in reliance on Rule 144A and outside the United States in reliance on Regulation S. See "Notice to investors". The price at which the Notes are offered may be changed at any time without notice.

We have agreed that, for a period of 90 days from the date of the purchase agreement, we will not, without the prior written consent of the Initial Purchasers, offer, sell, contract to sell or otherwise dispose of any debt securities issued or guaranteed by the Company or any of the Subsidiary Guarantors. The Initial Purchasers in their sole discretion may consent to the offering and sales of debt securities by us at any time without notice.

The Notes will constitute a new class of securities with no established trading market. Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. The Initial Purchasers have advised us that they currently intend to make a market in the Notes. However, they are not obligated to do so and it may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the Notes.

In connection with the offering of the Notes, J.P. Morgan Securities Ltd. (or its affiliates) may engage in transactions that stabilize, maintain or otherwise affect the price of the Notes. Specifically, J.P. Morgan Securities Ltd. (or its affiliates) may overallot the offering, creating a syndicate short position. In addition, J.P. Morgan Securities Ltd. (or its affiliates) may bid for, and purchase, the Notes in the open market to cover syndicate shorts or to stabilize the price of the Notes. Any of these activities may stabilize or maintain the market price of the Notes above independent market levels. Neither we nor the Initial Purchasers make any representation that J.P. Morgan Securities Ltd. (as stabilizing manager) will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

The Initial Purchasers and certain of their affiliates have performed certain investment banking and advisory services for the Company and their affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Company and its affiliates in the ordinary course of business. The Initial Purchasers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution.

The Initial Purchasers or their affiliates may purchase Notes for their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities issued by the Company or its subsidiaries or associates, at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this offering memorandum relates (notwithstanding that such selected counterparties may also be purchasers of Notes).

We expect to deliver the Notes against payment for the Notes on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the fifth business day following the date of the pricing of the Notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally settle in three business days. Purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify alternative settlement arrangements to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next succeeding business day should consult their own advisor.

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial Purchasers may be required to make because of any of those liabilities.

Selling restrictions

General

No action has been taken or will be taken in any jurisdiction by us or the Initial Purchasers that would permit a public offering of the Notes, or the possession, circulation or distribution of this offering memorandum or any other material relating to the Notes or this offering, in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this offering memorandum nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

United States

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from registration under the Securities Act.

The Initial Purchasers, through their affiliates, acting as selling agents where applicable, propose to offer the Notes to certain persons in offshore transactions in reliance on Regulation S and in accordance with applicable law and propose to offer the Notes to QIBs in the United States pursuant to Rule 144A. Except as permitted under the purchase agreement, the Notes will not be offered, sold or delivered within the United States. Any offer or sale of the Notes in the United States in reliance on Rule 144A will be made by broker-dealer affiliates who are registered as such under the Exchange Act.

United Kingdom

No invitation or inducement to engage in investment activity (within the meanings of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by the Initial Purchasers in connection with the issue or sale of the Notes may be communicated or caused to be communicated except in circumstances in which section 21(1) of the FSMA does not apply to the Initial Purchasers. All applicable provisions of the FSMA must be complied with respect to anything done or to be done by the Initial Purchasers in relation to any Notes in, from or otherwise involving the United Kingdom.

Hong Kong

This offering memorandum has not been and will not be registered with the Registrar of Companies in Hong Kong. Accordingly, except as mentioned below, this offering memorandum may not be issued, circulated or distributed in Hong Kong. A copy of this offering memorandum may, however, be issued, to a limited number of prospective applicants for the Notes in Hong Kong in a manner which does not constitute an offer of the Notes to the public in Hong Kong or an issue, circulation or distribution in Hong Kong of a "prospectus" within the meaning of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the "CO"). No advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong (who will not, in contravention of, among others, the CO, sell, offer or market the Notes to persons who are public in Hong Kong, or who are not within the definition of "professional investors") or only to "professional investors" within the meaning as defined in the SFO and any rules made thereunder.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948) (as amended), or the FIEL, and disclosure under the FIEL has not been made with respect to the Notes. Accordingly, the Notes may not be offered or sold, directly or indirectly in Japan or to, or for the account of, any resident of Japan, or to others for reoffering or re-sale, directly or indirectly in Japan or to, or for the benefit of, any resident of Japan, except pursuant to any exemption from the registration requirements of the FIEL and otherwise in compliance with the FIEL and other applicable provisions of Japanese laws and regulations. As used in this paragraph, "resident of Japan" means any person residing in Japan including any corporation or other entity organized under the laws of Japan.

Singapore

This offering memorandum has not been registered with the Monetary Authority of Singapore, or the MAS. Accordingly, this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than: (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"); (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where the Notes are subscribed or purchased in reliance of an exemption under Sections 274 or 275 of the SFA, the Notes shall not be sold within the period of six months from the date of the initial acquisition of the Notes, except to any of the following persons:

(a) an institutional investor (as defined in Section 4A of the SFA);

(b) a relevant person (as defined in Section 275 (2) of the SFA); or

(c) any person pursuant to an offer referred to in Section 275 (1A) of the SFA,

unless expressly specified otherwise in Section 276(7) of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

a. a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

b. a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

1. to an institutional investor (under Section 274 of the SFA), or to a relevant person (as defined in Section 275(2) of the SFA) and in accordance with the conditions specified in Section 275 of the SFA;

2. where no consideration is or will be given for the transfer;

3. where the transfer is by operation of law; or

4. as specified in Section 276(7) of the SFA.

PRC

This offering memorandum does not constitute a public offering of the Notes, whether by sale of by subscription, in the PRC. The Notes will not be offered or sold within the PRC by means of this offering memorandum or any other document.

British Virgin Islands

No invitation will be made directly or indirectly to any person resident in the British Virgin Islands to subscribe to any of the Notes but may be acquired by British Virgin Islands persons who receive the offer of the Notes outside of the British Virgin Islands and in a manner which does not contravene the laws of the jurisdiction in which such offer is received.

Cayman Islands

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the Notes.

Notice to investors

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Regulation S Notes (as defined below) or the Restricted Notes (as defined below).

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and may only be offered or sold (a) within the United States to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or (b) to persons in offshore transactions in reliance on Regulation S.

Each purchaser of the Notes offered otherwise than in reliance on Regulation S (the "Restricted Notes") will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

(1) The purchaser (A) (i) is a qualified institutional buyer, (ii) is aware that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such Notes for its own account or for the account of a qualified institutional buyer or (B) is purchasing such Notes in an offshore transaction pursuant to Regulation S.

(2) The purchaser understands that the Restricted Notes are being offered in a transaction not involving any public offering in the United States within the meaning of the U.S. Securities Act, that such Notes and the Subsidiary Guarantees have not been and will not be registered under the U.S. Securities Act and that (A) if in the future it decides to offer, resell, pledge or otherwise transfer any of the Notes within the applicable time periods referred to in Rule 144(d) under the Securities Act, such Notes may be offered, resold, pledged or otherwise transferred only (i) to the Company or any of our subsidiaries, (ii) in the United States to a person whom the seller reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in a transaction complying with the provisions of Rule 904 under the Securities Act, (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 (if available), or (v) pursuant to an effective registration statement under the Securities Act, in each of cases (i) through (v) in accordance with any applicable securities laws of any State of the United States, and that (B) the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of the Notes from it of the resale restrictions referred to in (A) above.

(3) The purchaser understands that the Restricted Notes will, unless otherwise agreed by us and the holder thereof, bear a legend substantially to the following effect (the "Restricted Note Legend"):

THIS NOTE AND THE GUARANTEES IN RESPECT HEREOF (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND THIS NOTE AND THE GUARANTEES IN RESPECT HEREOF MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS NOTE AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) TO THE COMPANY OR ANY OF ITS SUBSIDIARIES, (II) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 UNDER THE SECURITIES ACT, (IV) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (V) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

Each purchaser of the Notes offered in reliance on Regulation S (the "Regulation S Notes") will be deemed to have represented and agreed that it is purchasing such Notes in an offshore transaction (as such term is defined in Regulation S) pursuant to Regulation S and understands that such Notes will, unless otherwise agreed by us and the holder thereof, bear a legend substantially to the following effect (the "Regulation S Legend"):

THIS NOTE AND THE GUARANTEES IN RESPECT HEREOF (OR ITS PREDECESSOR) WERE ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND MAY NOT BE TRANSFERRED IN THE UNITED STATES EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM IN REGULATION S UNDER THE SECURITIES ACT.

Restricted Notes may be exchanged for Notes not bearing the Restricted Note Legend but bearing the Regulation S Legend upon certification by the transferor in the form set forth in the indenture that the transfer of any such Restricted Note has been made in accordance with Rule 904 under the Securities Act.

Each purchaser of the Notes will be deemed to have represented and agreed as follows:

(1) The purchaser acknowledges that the Company, the Subsidiary Guarantors, the paying and transfer agent, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agree that if any of the acknowledgements, representations or agreement deemed to have been made by its purchase of the Notes are no longer accurate, it shall promptly notify the Company, the Subsidiary Guarantors, the paying and transfer agent and the Initial Purchasers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

(2) The purchaser will not transfer the Notes to any person or entity, unless such person or entity could itself truthfully make the foregoing representations and covenants.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A.

RATINGS

The Notes are expected to be rated "Ba2" by Moody's and "BB" by Fitch. The ratings reflect the rating agencies' assessment of the likelihood of timely payment of the principal of and interest on the Notes. The ratings do not address the payment of any grossed up payments for withholding taxes and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. We cannot assure you that the ratings will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgment circumstances so warrant. Each such rating should be evaluated independently of any other rating on the Notes, our other securities or us.

LEGAL MATTERS

Certain legal matters in connection with this offering will be passed upon for us by Milbank, Tweed, Hadley & McCloy LLP as to matters of U.S. federal and New York law, by Jun He Law Offices as to matters of PRC law, by Maples and Calder as to matters of Cayman Islands law and British Virgin Islands law, and by Li & Partners as to matters of Hong Kong law. Certain legal matters in connection with this offering will be passed upon for the Initial Purchasers by Skadden, Arps, Slate, Meagher & Flom as to matters of U.S. federal and New York law and by Commerce and Finance Law Offices as to matters of PRC law.

INDEPENDENT PUBLIC ACCOUNTANTS

Our audited consolidated financial statements as of and for each of the financial years ended December 31, 2008, 2009 and 2010 included in this offering memorandum have been audited by Ernst &Young, certified public accountants, as stated in their reports appearing in this offering memorandum.

Index to Consolidated Financial Statements

China Liansu Group Holdings Limited

Page

Our Consolidated Financial Statements as of and for the Year Ended December 31, 2010

Accountants' Report on Our Consolidated Financial Information as of and for the Three Years Ended December 31, 2007, 2008 and 2009

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

To the shareholders of China Liansu Group Holdings Limited
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Liansu Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 34 to 96, which comprise the consolidated and company statements of financial position as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong
18 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

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

Wong Luen Hei
Director

Luo Jianfeng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

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

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

Notes:

(1) In accordance with the Company Law of the PRC, each of the Company's subsidiaries registered in the PRC is required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses) determined in accordance with generally accepted accounting principles in the PRC (''PRC GAAP'') to the statutory reserve until the balance of the reserve fund reaches 50% of its registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided that the remaining balance of the statutory reserve is not less than 25% of the registered capital.

(2) Capital reserve mainly represented the difference between the consideration and the book value of the share of the net assets acquired in respect of the acquisition of non-controlling interests.

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

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

COMPANY STATEMENT OF FINANCIAL POSITION

31 December 2010

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

Wong Luen Hei
Director

Luo Jianfeng
Director

1. CORPORATE INFORMATION

China Liansu is a limited liability company incorporated in the Cayman Islands. The addresses of its registered office and principal place of business are disclosed in the section headed "Corporate Information" of this annual report.

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transaction, unrealised gains and losses resulting from intercompany transactions and dividends are eliminated on consolidation in full.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

Improvements to HKFRSs

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

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

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

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

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

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Business combinations

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of comprehensive income in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	4.5% to 5%
Plant and machinery	9% to 19%
Furniture, fixtures and office equipment	9.5% to 32.3%
Motor vehicles	9.5% to 32.3%
Leasehold improvements	Over the shorter of the lease terms and 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and other assets under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost represents the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

Research and development costs

All research costs are charged to the statement of comprehensive income as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include trade and bills receivables, other receivables, amount due from a related company, restricted cash and cash and cash equivalents, which are classified as loans and receivables.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest income in the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income in other expenses.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the statement of comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

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

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) income from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Pension obligations

The Group operates a defined contribution retirement benefit scheme, Mandatory Provident Fund (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

Share option schemes

The Group adopted two share option schemes. The fair value of the employee services received in exchange for the grant of options is recognised as an expense and credited to share option reserve under equity. For grant of share options, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options at the date on which they are granted by using a binomial model, further details of which are given in note 27 to the financial statements, excluding the impact of any service condition and non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become vested. From the Company's perspective, the Company grants the share options to its subsidiaries' employees to exchange for their services provided to the subsidiaries. Accordingly, in the Company's statement of financial position, the equity-settled share option expenses, which are recognised in the consolidated financial statements, are treated as part of the "investments in subsidiaries".

At the end of the reporting period, the Group and the Company revise their estimates of the number of options that are expected to ultimately vest. They recognise the impact of the revision of original estimates, if any, in the statement of comprehensive income of the Group and in the "investments in subsidiaries" of the Company, and make a corresponding adjustment to equity over the remaining vesting period. When the options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (at nominal value) and share premium.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Other borrowing costs are recognised as expenses in the statement of comprehensive income in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

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

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

Foreign currencies

The Company's functional currency is Hong Kong dollar ("HK$") while the Company's presentation currency for the financial statements is RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

Deferred tax liabilities

Deferred income tax liabilities have not been established for income tax and withholding tax that would be payable on certain profits of the subsidiaries in the PRC to be repatriated and distributed by way of dividends as the directors consider that the timing of the reversal of the related temporary differences can be controlled and such temporary differences will not be reversed in the foreseeable future.

If these undistributed earnings of subsidiaries in the PRC are considered to be repatriated and distributed by way of dividends, the deferred income tax charge and deferred income tax liability would have been increased by the same amount of approximately RMB25,475,000.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of trade and other receivables

The Group's provision policy for doubtful debts is based on the ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of the Group's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required. As at 31 December 2010, impairment losses of RMB4,531,000 (31 December 2009: RMB8,506,000) have been recognised for trade receivables.

Provision for obsolete inventories

Management reviews the aged analysis of inventories of the Group at the end of each reporting period, and makes provision for obsolete and slow moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. As at 31 December 2010, the Group had inventories that were measured at net realisable value (where lower than cost) of RMB3,096,000 (31 December 2009: RMB3,096,000).

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of plastic pipes and pipe fittings. For management purposes, the Group's businesses are organised by geographical area based on the location of the customers and assets are attributable to the geographical unit based on the location of the assets. The Group has eight reportable operating segments as follows:

(a) Southern China, including Guangdong Province, Guangxi Zhuang Autonomous Region, Hunan Province, Fujian Province and Hainan Province;

(b) Southwestern China, including Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province and Xizang (Tibet) Autonomous Region;

(c) Central China, including Hubei Province, Jiangxi Province and Henan Province;

(d) Eastern China, including Shanghai Municipality, Jiangsu Province, Zhejiang Province and Anhui Province;

(e) Northern China, including Beijing Municipality, Tianjin Municipality, Hebei Province, Shandong Province, Inner Mongolia Autonomous Region and Shanxi Province;

(f) Northwestern China, including Shaanxi Province, Ningxia Hui Autonomous Region, Qinghai Province, Gansu Province and Xinjiang Uygur Autonomous Region;

(g) Northeastern China, including Liaoning Province, Jilin Province and Heilongjiang Province; and

(h) Outside China.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, finance costs and other unallocated income and expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, restricted cash, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

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

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

During the years ended 31 December 2010 and 2009, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

4. OPERATING SEGMENT INFORMATION (continued)

Operating segment information for the year ended 31 December 2010

	Southern China RMB'000	Southwestern China RMB'000	Central China RMB'000	Eastern China RMB'000	Northern China RMB'000	Northwestern China RMB'000	Northeastern China RMB'000	Outside China RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:										
Sales to external customers	5,294,866	681,300	602,539	331,144	459,728	188,712	104,045	49,198	–	7,711,532
Intersegment sales	668,251	147,894	218,041	25,825	99,524	9,298	11,125	17,069	(1,197,027)	–
Total	5,963,117	829,194	820,580	356,969	559,252	198,010	115,170	66,267	(1,197,027)	7,711,532
Segment results	1,554,019	190,484	242,875	57,939	95,059	42,295	24,882	8,340	(182,245)	2,033,648
Reconciliations:										
Unallocated income and expenses										(616,989)
Bank interest income										9,828
Finance costs										(52,971)
Profit before tax										1,373,516
Segment assets	2,399,681	284,771	523,583	196,153	330,929	164,553	184,994	3,706	–	4,088,370
Reconciliations:										
Deferred tax assets										2,295
Restricted cash										23,044
Cash and cash equivalents										1,500,292
Other unallocated assets										14,799
Total assets										5,628,800
Other segment information:										
Depreciation and amortisation	63,429	12,238	16,627	8,645	14,169	3,112	3,280	1,812	–	123,312
Impairment of trade receivables, net	7,186	(741)	711	–	–	–	–	–	–	7,156
Write-back of inventories to net realisable value	(370)	–	–	–	–	–	–	–	–	(370)
Capital expenditure*	193,924	26,942	181,794	15,453	45,112	77,759	36,955	11,431	(7,979)	581,391

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

4. OPERATING SEGMENT INFORMATION (continued)

Operating segment information for the year ended 31 December 2009

	Southern China RMB'000	Southwestern China RMB'000	Central China RMB'000	Eastern China RMB'000	Northern China RMB'000	Northwestern China RMB'000	Northeastern China RMB'000	Outside China RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:										
Sales to external customers	3,717,188	487,509	483,259	168,423	270,033	91,053	72,606	32,173	—	5,322,244
Intersegment sales	294,925	135,695	153,187	17,267	50,063	—	7,801	—	(658,938)	—
Total	4,012,113	623,204	636,446	185,690	320,096	91,053	80,407	32,173	(658,938)	5,322,244
Segment results	881,540	126,973	125,990	43,686	58,650	20,491	19,559	7,331	(70,981)	1,213,239
Reconciliations:										
Unallocated income and expenses										(380,056)
Bank interest income										2,706
Finance costs										(36,475)
Profit before tax										799,414
Segment assets	1,754,553	244,622	292,690	209,382	285,978	69,777	130,030	7,871	—	2,994,903
Reconciliations:										
Deferred tax assets										7,314
Restricted cash										125,133
Cash and cash equivalents										361,767
Other unallocated assets										9,634
Total assets										3,498,751
Other segment information:										
Depreciation and amortisation	46,019	5,965	7,811	2,103	9,801	397	2,103	890	—	75,089
Impairment of trade receivables, net	6,921	739	(488)	—	—	—	—	—	—	7,172
Write-back of inventories to net realisable value	(293)	—	—	—	(1,229)	—	—	—	—	(1,522)
Capital expenditure*	340,189	71,076	57,122	67,515	56,178	45,598	54,961	6,348	(8,340)	690,647

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

5. REVENUE, OTHER REVENUE, INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts (net of value-added tax) during the year.

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

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

Government grants and subsidies represented funding received from government authorities to support certain of the Group's research and development activities. There are no unfulfilled conditions or contingencies related to these grants and subsidies.

6. FINANCE COSTS

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

7. PROFIT BEFORE TAX

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

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

* Research and development costs and the impairment of trade receivables, net are included in "Other expenses" in the consolidated statement of comprehensive income.

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

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

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

(a) Directors' remuneration (continued)

During the year, certain directors were granted share options, in respect of their services to the Group, under the Company's share option scheme, further details of which are set out in note 27 to the financial statements. The fair value of such options, which has been recognised in the consolidated statement of comprehensive income over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

The remuneration of each of the directors for the year ended 31 December 2010 is set out below:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:						
Mr. Wong Luen Hei	—	627	52	—	10	689
Mr. Zuo Manlun	—	627	52	1,190	10	1,879
Ms. Zuo Xiaoping	—	627	52	715	10	1,404
Mr. Lai Zhiqiang	—	300	300	715	30	1,345
Mr. Kong Zhaocong	—	300	300	715	27	1,342
Mr. Chen Guonan	—	300	300	597	33	1,230
Dr. Lin Shaoquan	—	300	300	597	33	1,230
Mr. Huang Guirong	—	300	225	597	55	1,177
Mr. Luo Jianfeng	575	—	52	597	—	1,224
	575	3,381	1,633	5,723	208	11,520
Non-executive director:						
Mr. Lin Dewei	244	—	—	214	—	458
Independent non-executive directors:						
Dr. Bai Chongen	174	—	—	—	—	174
Mr. Fung Pui Cheung	174	—	—	—	—	174
Mr. Wong Kwok Ho, Jonathan	174	—	—	—	—	174
	522	—	—	—	—	522
	1,341	3,381	1,633	5,937	208	12,500

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

(a) Directors' remuneration (continued)

The remuneration of each of the directors for the year ended 31 December 2009 is set out below:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:						
Mr. Wong Luen Hei	—	336	330	—	29	695
Mr. Zuo Manlun	—	336	280	—	33	649
Ms. Zuo Xiaoping	—	336	280	—	33	649
Mr. Lai Zhiqiang	—	240	220	—	29	489
Mr. Kong Zhaocong	—	240	220	—	29	489
Mr. Chen Guonan	—	240	220	—	25	485
Dr. Lin Shaoquan	—	239	200	—	22	461
Mr. Huang Guirong	—	180	150	—	11	341
Mr. Luo Jianfeng	—	—	—	—	—	—
	—	2,147	1,900	—	211	4,258
Non-executive director:						
Mr. Lin Dewei	—	—	—	—	—	—
Independent non-executive directors:						
Dr. Bai Chongen	—	—	—	—	—	—
Mr. Fung Pui Cheung	—	—	—	—	—	—
Mr. Wong Kwok Ho, Jonathan	—	—	—	—	—	—
	—	—	—	—	—	—
	—	2,147	1,900	—	211	4,258

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

No director waived or agreed to waive any emolument and no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

There were no other emoluments paid or payable to the independent non-executive directors during the year (2009: Nil).

(b) Five highest paid employees

The Group's five highest paid employees during the year were all directors. Details of the remuneration of the directors during the year are set out in note 8(a) above.

9. INCOME TAX EXPENSE

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

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2009: Nil).

PRC corporate income tax

The Group's income tax provision in respect of its operations in Mainland China has been calculated at the applicable tax rates on the taxable profits for the years ended 31 December 2010 and 2009, based on the existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

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

10. DIVIDENDS

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

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

11. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

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

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

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

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

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

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

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

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2010	**437,242**	**698,986**	**20,524**	**54,955**	**3,826**	**289,361**	**1,504,894**
Additions	**43,661**	**229,309**	**8,726**	**14,292**	**633**	**234,845**	**531,466**
Transfers	**200,384**	**65,777**	**—**	**—**	**319**	**(266,480)**	**—**
Disposals	**(1,047)**	**(7,999)**	**(228)**	**(3,874)**	**(1,599)**	**—**	**(14,747)**
At 31 December 2010	**680,240**	**986,073**	**29,022**	**65,373**	**3,179**	**257,726**	**2,021,613**
Accumulated depreciation:							
At 1 January 2010	**(48,935)**	**(120,149)**	**(7,099)**	**(25,099)**	**(877)**	**—**	**(202,159)**
Depreciation provided during the year	**(24,668)**	**(79,409)**	**(4,137)**	**(9,013)**	**(849)**	**—**	**(118,076)**
Disposals	**158**	**419**	**135**	**3,085**	**743**	**—**	**4,540**
At 31 December 2010	**(73,445)**	**(199,139)**	**(11,101)**	**(31,027)**	**(983)**	**—**	**(315,695)**
Net book value:							
At 31 December 2010	**606,795**	**786,934**	**17,921**	**34,346**	**2,196**	**257,726**	**1,705,918**
Cost:							
At 1 January 2009	361,870	384,035	14,579	38,395	1,783	75,513	876,175
Acquisition of a subsidiary (note 26)	—	17	63	—	—	—	80
Additions	5,761	268,183	6,791	17,784	1,111	357,335	656,965
Transfers	76,217	65,643	573	122	932	(143,487)	—
Disposals	(6,606)	(18,892)	(1,482)	(1,346)	—	—	(28,326)
At 31 December 2009	437,242	698,986	20,524	54,955	3,826	289,361	1,504,894
Accumulated depreciation:							
At 1 January 2009	(33,896)	(81,782)	(5,669)	(19,541)	(443)	—	(141,331)
Depreciation provided during the year	(16,569)	(44,748)	(2,623)	(6,423)	(434)	—	(70,797)
Disposals	1,530	6,381	1,193	865	—	—	9,969
At 31 December 2009	(48,935)	(120,149)	(7,099)	(25,099)	(877)	—	(202,159)
Net book value:							
At 31 December 2009	388,307	578,837	13,425	29,856	2,949	289,361	1,302,735

12. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

13. PREPAID LAND LEASE PAYMENTS

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

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

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

14. INVESTMENTS IN SUBSIDIARIES

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

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

14. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Starcorp Investment Holdings Ltd.	British Virgin Islands	US$1	100%	—	Investment holding
Great China International Holdings Ltd.	British Virgin Islands	US$1	100%	—	Investment holding
Liansu Group Company Limited	Hong Kong	HK$13,000,000	—	100%	Investment holding and engaged in the sale of plastic pipes and pipe fittings since April 2010
Guangdong Liansu Technology Industrial Co., Ltd.*	PRC	HK$1,300,000,000	—	100%	Manufacture and sale of plastic pipes and pipe fittings
Guangdong Liansu Municipal Engineering Pipe Co., Ltd.**	PRC	HK$200,000,000	—	100%	Manufacture and sale of plastic pipes and pipe fittings
Heshan Liansu Industrial Development Co., Ltd.**	PRC	HK$174,000,000	—	100%	Manufacture and sale of plastic pipes and pipe fittings
Liansu Technology Development (Wuhan) Co., Ltd.**	PRC	HK$111,000,000	—	100%	Manufacture and sale of plastic pipes and pipe fittings
Liansu Technology Development (Guiyang) Co., Ltd.**	PRC	HK$115,000,000	—	100%	Manufacture and sale of plastic pipes and pipe fittings
Nanjing Liansu Technology Industrial Co., Ltd.**	PRC	US$26,750,000	—	100%	Manufacture and sale of plastic pipes and pipe fittings
Liansu Municipal Pipe (Hebei) Co., Ltd.**	PRC	US$27,790,000	—	100%	Manufacture and sale of plastic pipes and pipe fittings
Henan Liansu Industrial Co., Ltd.#	PRC	RMB200,000,000	—	100%	Manufacture and sale of plastic pipes and pipe fittings

* Registered as a wholly-foreign-owned enterprise under the PRC laws.

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

Registered as a limited liability company under the PRC laws.

The above table lists the Company's subsidiaries which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the Group's net assets. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

15. INVENTORIES

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

16. TRADE AND BILLS RECEIVABLES

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

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

Trade and bills receivables are unsecured and interest-free.

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

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

16. TRADE AND BILLS RECEIVABLES (continued)

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

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

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

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

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

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors believe that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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

18. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

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

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

Note:

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and restricted cash are deposited with creditworthy banks with no recent history of default.

19. TRADE AND BILLS PAYABLES

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

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

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

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

20. OTHER PAYABLES AND ACCRUALS

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

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

21. INTEREST-BEARING BANK LOANS

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

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

21. INTEREST-BEARING BANK LOANS (continued)

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

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

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

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

22. DEFERRED TAX

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

	Provision for impairment of assets RMB'000	Accelerated tax depreciation RMB'000	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Withholding tax on distributable profits of subsidiaries in the PRC RMB'000	Deferred government grants RMB'000	Total RMB'000
At 1 January 2010	**1,258**	**—**	**(3,600)**	**(38,149)**	**6,056**	**(34,435)**
(Charged)/credited to the consolidated statement of comprehensive income for the year (note 9)	**(564)**	**—**	**105**	**(3,134)***	**(4,455)**	**(8,048)**
At 31 December 2010	**694**	**—**	**(3,495)**	**(41,283)**	**1,601**	**(42,483)**
At 1 January 2009	1,346	189	(3,705)	(7,688)	—	(9,858)
(Charged)/credited to the consolidated statement of comprehensive income for the year (note 9)	(88)	(189)	105	(30,461)	6,056	(24,577)
At 31 December 2009	1,258	—	(3,600)	(38,149)	6,056	(34,435)

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

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

22. DEFERRED TAX (continued)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The applicable rate for the Group is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of their earnings generated from 1 January 2008.

As at 31 December 2010, the Group has not recognised deferred tax liabilities of RMB25,475,000 (2009: Nil) in respect of temporary differences relating to the undistributed profits of subsidiaries, amounting to RMB509,508,000 (2009: Nil), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

23. DEFERRED INCOME

Deferred income represented government grants received by the Group as financial subsidies for its construction of new factory premises in Changchun. The grants received are released to the consolidated statement of comprehensive income over the expected useful lives of the relevant properties by equal annual instalments. As the related assets were not ready for use as of 31 December 2010, no deferred income was released to the consolidated statement of comprehensive income for the year ended 31 December 2010.

24. SHARE CAPITAL

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

24. SHARE CAPITAL (continued)

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

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

Notes:

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

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

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

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

25. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries which are established in the PRC has been transferred to reserve funds which are restricted as to use.

(b) Company

	Notes	Share premium RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
Balance at 1 January 2009		—	—	—	—	—	—
Total comprehensive income for the year		—	—	1	(10,378)	—	(10,377)
At 31 December 2009 and 1 January 2010		—	—	1	(10,378)	—	(10,377)
Total comprehensive income for the year		—	—	(59,489)	357,636	—	298,147
Issue of shares		1,673,604	—	—	—	—	1,673,604
Equity-settled share option arrangements	27	—	35,891	—	—	—	35,891
Proposed final 2010 dividend	10	—	—	—	(303,026)	303,026	—
At 31 December 2010		**1,673,604**	**35,891**	**(59,488)**	**44,232**	**303,026**	**1,997,265**

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share option schemes in note 2.4 to the financial statements. The amount will either be transferred to the share premium when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

26. BUSINESS COMBINATION

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

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

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

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

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

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

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

27. SHARE OPTION SCHEMES

On 14 May 2010 (the "Adoption Date"), the Company adopted a share option scheme (the "Share Option Scheme") and a pre-initial public offering share option scheme (the "Pre-IPO Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Share Option Scheme

Eligible participants of the Share Option Scheme ("Eligible Persons") include (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group ("Executive"), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group; (b) a director or proposed director (including an independent non-executive director) of any member of the Group; (c) a direct or indirect shareholder of any member of the Group; (d) a supplier of goods or services to any member of the Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and (g) an associate of any of the persons referred to in paragraphs (a) to (c) above.

The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date. An offer of the grant of a share option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the date of the board of directors approving the grant of the share options (the "Offer Date") provided that no such grant of an option may be accepted after the expiry of the effective period of the Share Option Scheme. An option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favour of the Company of HK$1 by way of consideration for the grant thereof is received by the Company on or before the date upon which an offer of an option must be accepted by the relevant Eligible Person, being a date not later than 28 days after the Offer Date. Such remittance shall in no circumstances be refundable.

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

27. SHARE OPTION SCHEMES (continued)

Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to give the employees an opportunity to have a personal stake in the Company and help motivate them to optimise their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such employees who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. The principal terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Share Option Scheme except that:

(i) the subscription price per share under the Pre-IPO Share Option Scheme shall be at a 30% discount to the offer price of HK$2.6; and

(ii) all options granted under the Pre-IPO Share Option Scheme will only be vested in the following manner:

Vesting period	Maximum percentage of options exercisable
From the 1st anniversary of the Listing Date until the day immediately before the 2nd anniversary of the Listing Date	25% of the total number of the shares under options
From the 2nd anniversary of the Listing Date until the day immediately before the 3rd anniversary of the Listing Date	35% of the total number of the shares under options
From the 3rd anniversary of the Listing Date until the day immediately before the 4th anniversary of the Listing Date	40% of the total number of the shares under options

27. SHARE OPTION SCHEMES (continued)

Pre-IPO Share Option Scheme (continued)
The option period shall be expired on the fourth anniversary of the Listing Date.

All the options under the Pre-IPO Share Option Scheme were granted on 21 May 2010 at a consideration of HK$1 paid by each grantee. The total number of shares of the Company which may be issued upon the exercise of all options granted under the Pre-IPO Share Option Scheme is 115,378,000.

Pre-IPO Share Options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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

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

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

2010

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

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

27. SHARE OPTION SCHEMES (continued)

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

The fair value of the Pre-IPO Share Options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Batch	1	2	3
Dividend yield (%)	3.169	3.169	3.169
Expected volatility (%)	56.58	56.58	56.58
Risk free rate (%)	0.794	0.956	1.126
Expected option period (Years)	2.59	3.09	3.59

At the end of the reporting period, the Company had 114,801,000 Pre-IPO Share Options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of the outstanding Pre-IPO Share Options would, under the Company's present capital structure, result in the issue of 114,801,000 additional ordinary shares of the Company and additional share capital of approximately HK$5,740,000 and share premium of approximately HK$203,198,000 (before issue expenses).

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

28. MAJOR NON-CASH TRANSACTION

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

29. CONTINGENT LIABILITIES

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

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

30. PLEDGE OF ASSETS

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

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

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

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

(b) As lessee

The Group leases certain of its production plants, warehouses and equipment under operating lease arrangements. Leases are negotiated for terms ranging from one to eight years.

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

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

32. COMMITMENTS

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

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

33. RELATED PARTY BALANCES AND TRANSACTIONS

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

(a) Amount due from a related company

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

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

(b) Amounts due to related companies

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

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

(c) Amount due to a director

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

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

33. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

(d) Related party transactions

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

Notes:

(i) The sales of goods to related companies were conducted in accordance with terms agreed between the Group and its related companies, determined with reference to similar transactions with third party customers.

(ii) Raw materials were sold to related companies at cost plus mark-up.

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

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

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

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

(vii) Purchases of equipment from related companies were made with reference to the prices and conditions offered by the related companies to their third party customers.

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

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

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

33. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

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

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

(f) Compensation of key management personnel of the Group

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

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

34. FINANCIAL INSTRUMENTS

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

Financial assets – loans and receivables

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

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

34. FINANCIAL INSTRUMENTS (continued)

Financial liabilities at amortised cost

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

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

The carrying amounts of the Group's financial instruments recorded at amortised cost in the financial statements approximated to their fair values as at the end of the reporting period. Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Trade and bills receivables, other receivables, restricted cash, cash and cash equivalents, amounts due from/to related companies, trade and bills payables, financial liabilities included in other payables and accruals and an amount due to a director approximate to their carrying amounts largely due to the short-term maturities of these instruments.
- The fair values of the non-current portion of interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans, amounts due to a director and related companies and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

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

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on the weighted average balances of floating rate borrowings).

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

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group's businesses are located in Mainland China and most of the transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB, except for certain bank balances and interest-bearing bank loans which denominated in HK$. The Group has not hedged its foreign exchange rate risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and loans).

	Increase/ (decrease) in HK$ rate %	Increase/ (decrease) in profit before tax RMB'000
2010		
If the RMB weakens against the HK$	**5**	**2,971**
If the RMB strengthens against the HK$	**(5)**	**(2,971)**

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

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, prepayments, deposits and other receivables, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

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

Group

	2010			
	Within 1 year RMB '000	**1 to 2 years RMB '000**	**More than 2 years RMB '000**	**Total RMB '000**
Trade and bills payables	**242,760**	**—**	**—**	**242,760**
Financial liabilities included in other payables and accruals	**163,066**	**—**	**—**	**163,066**
Interest-bearing bank loans	**654,983**	**107,520**	**50,354**	**812,857**
	1,060,809	**107,520**	**50,354**	**1,218,683**

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

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company

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

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

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as going concern and to maintain reasonable capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a net borrowings to equity ratio, which is net borrowings divided by total equity. Net borrowings include interest-bearing bank loans, amounts due to a director and related companies less cash and cash equivalents and restricted cash. Capital represents the total equity.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

At the end of the reporting period, the Group's strategy was to maintain the net borrowings to equity ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The net borrowings to equity ratios at the ends of the reporting periods were as follows:

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

36. APPROVAL OF THE FINANCIAL STATEMENTS

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

ERNST & YOUNG
安 永

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

9 June 2010

The Directors
China Liansu Group Holdings Limited
J.P. Morgan Securities (Asia Pacific) Limited
UBS AG, Hong Kong Branch

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of China Liansu Group Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), prepared on the basis set out in note 2 of Section II, for each of the three years ended 31 December 2007, 2008 and 2009 (the "Relevant Years"), for inclusion in the prospectus of the Company dated 9 June 2010 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the Cayman Islands on 5 November 2009 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Pursuant to a corporate reorganization (the "Reorganization") as described in the paragraph headed "Reorganization" in the section headed "History and Development" to the Prospectus, the Company became the holding company of the subsidiaries now comprising the Group.

The Group is principally engaged in the manufacture and sale of plastic pipes and pipe fittings. The Company and its subsidiaries have adopted 31 December as their financial year end date. Particulars of the subsidiaries comprising the Group are set out in note 1 of Section II.

No audited financial statements have been prepared for the Company and the two subsidiaries which were incorporated in the British Virgin Islands (the "BVI") since their respective dates of incorporation as there are no statutory requirements for these companies to prepare audited financial statements. The statutory audited financial statements or management accounts of the Group's other subsidiaries incorporated in the Mainland China and Hong Kong were prepared in accordance with the relevant accounting principles applicable to these companies in their respective jurisdictions, all of which were not audited by us.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the consolidated statements of financial position, the consolidated statements of comprehensive income, the consolidated statements of changes in equity, the consolidated statements of cash flows for the Relevant Years and the statement of financial position of the Company as at 31 December 2009 (collectively, the "Underlying Financial Statements") in accordance with the basis set out in note 2 of Section II.

The Directors are responsible for the content of the Prospectus, including the preparation and the true and fair presentation of the Underlying Financial Statements and the Financial Information in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the respective companies of the Group are responsible for the preparation and the true and fair presentation of the respective financial statements and, where appropriate, management accounts in accordance with the relevant accounting principles and financial regulations applicable to these companies. In preparing the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently, and that judgements and estimates made are prudent and reasonable. It is our responsibility to form an independent opinion based on our audit of the Financial Information.

Procedures performed in respect of the Financial Information

The Financial Information of the Group for the Relevant Years set out in this report has been prepared from the Underlying Financial Statements and in accordance with the basis set out in note 2 of Section II. For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Years in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. No adjustments were considered necessary by us to the Underlying Financial Statements to conform to the accounting policies referred to in note 3 of Section II of this report for the Relevant Years.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2 of Section II, the Financial Information gives a true and fair view of the consolidated results and cash flows of the Group for the Relevant Years and of the state of affairs of the Group as at 31 December 2007, 2008 and 2009, and of the Company as at 31 December 2009 in accordance with HKFRSs.

I. FINANCIAL INFORMATION

Consolidated statements of comprehensive income

	Notes	Year ended 31 December		
		2007	2008	2009
		RMB'000	RMB'000	RMB'000
CONTINUING OPERATIONS				
REVENUE	6	2,618,248	3,618,526	5,322,244
Cost of sales		(2,285,404)	(3,114,419)	(4,109,005)
Gross profit		332,844	504,107	1,213,239
Other revenue, income and gains	6	3,148	21,717	22,876
Selling and distribution costs		(110,203)	(161,853)	(198,509)
Administrative expenses		(80,985)	(106,571)	(163,554)
Other operating expenses, net		(16,595)	(17,659)	(38,163)
Finance costs	8	(27,460)	(45,894)	(36,475)
Share of losses of a jointly-controlled entity		(4,506)	(4,969)	—
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	7	96,243	188,878	799,414
Income tax expense	10	(16,938)	(34,221)	(155,443)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		79,305	154,657	643,971
DISCONTINUED OPERATIONS				
Profit/(loss) for the year from discontinued operations	7, 11	2,175	(18,743)	—
PROFIT FOR THE YEAR		81,480	135,914	643,971
OTHER COMPREHENSIVE INCOME				
Exchange differences on translation of foreign operations		12,197	14,237	972
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		93,677	150,151	644,943
Profit for the year attributable to:				
Owners of the Company		75,360	135,481	643,971
Non-controlling interests		6,120	433	—
		81,480	135,914	643,971
Total comprehensive income attributable to:				
Owners of the Company		87,557	149,718	644,943
Non-controlling interests		6,120	433	—
		93,677	150,151	644,943

Consolidated statements of financial position

	Notes	As at 31 December 2007	2008	2009
		RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	14	547,576	734,844	1,302,735
Investment properties	15	78,483	—	—
Prepaid land lease payments	16	111,277	176,894	205,516
Other intangible assets		99	1,052	1,138
Deposits paid for the purchase of property, plant and equipment		57,020	34,097	26,248
Interest in a jointly-controlled entity	17	40,700	—	—
Deferred tax assets	26	1,439	1,535	7,314
Total non-current assets		836,594	948,422	1,542,951
CURRENT ASSETS				
Inventories	19	451,303	584,131	743,507
Trade and bills receivables	20	237,409	203,247	466,735
Prepayments, deposits and other receivables	21	307,731	238,524	257,938
Amounts due from related companies	36(a)	17,584	16,304	720
Restricted cash	22	10,909	2,780	125,133
Cash and cash equivalents	22	186,637	135,947	361,767
Total current assets		1,211,573	1,180,933	1,955,800
CURRENT LIABILITIES				
Trade and bills payables	23	199,040	39,667	232,702
Other payables and accruals	24	519,246	447,630	501,547
Interest-bearing bank loans	25	510,600	416,700	427,527
Amounts due to directors	36(c)	429,802	492,772	263,798
Amounts due to related companies	36(b)	34,398	226,045	15,693
Tax payable		17,803	19,034	73,770
Total current liabilities		1,710,889	1,641,848	1,515,037
NET CURRENT ASSETS/(LIABILITIES)		(499,316)	(460,915)	440,763
TOTAL ASSETS LESS CURRENT LIABILITIES		337,278	487,507	1,983,714
NON-CURRENT LIABILITIES				
Interest-bearing bank loans	25	88,000	52,000	882,150
Deferred tax liabilities	26	—	11,393	41,749
Deferred income	27	—	—	17,827
Total non-current liabilities		88,000	63,393	941,726
Net assets		249,278	424,114	1,041,988
EQUITY				
Equity attributable to owners of the Company				
Share capital	28	—	—	352
Reserves		244,075	424,114	1,041,636
		244,075	424,114	1,041,988
Non-controlling interests		5,203	—	—
Total equity		249,278	424,114	1,041,988

Consolidated statements of changes in equity

	Attributable to the owners of the Company								
	Share capital	Statutory reserve(1)	Capital reserve(2)	Merger reserve(4)	Retained profits	Exchange fluctuation reserve	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	—	15,631	(3,409)	—	105,174	5,674	123,070	121,189	244,259
Acquisitions of non-controlling interests (3)	—	—	33,448	—	—	—	33,448	(95,455)	(62,007)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	(24,739)	(24,739)
Disposal of a subsidiary (note 30(b))	—	—	—	—	—	—	—	(1,912)	(1,912)
Total comprehensive income for the year	—	—	—	—	75,360	12,197	87,557	6,120	93,677
Appropriation to statutory reserve	—	13,319	—	—	(13,319)	—	—	—	—
At 31 December 2007 and 1 January 2008	—	28,950*	30,039*	—	167,215*	17,871*	244,075	5,203	249,278
Disposal of subsidiaries	—	(924)	1,606	—	—	—	682	(2,238)	(1,556)
Contribution from a shareholder (note 29)	—	—	—	29,639	—	—	29,639	—	29,639
Deemed distributions (4)	—	—	—	2,816	(2,816)	—	—	—	—
Dividends payable to non-controlling interests	—	—	—	—	—	—	—	(3,398)	(3,398)
Total comprehensive income for the year	—	—	—	—	135,481	14,237	149,718	433	150,151
Appropriation to statutory reserve	—	22,368	—	—	(22,368)	—	—	—	—
At 31 December 2008 and 1 January 2009	—	50,394*	31,645*	32,455*	277,512*	32,108*	424,114	—	424,114
Issue of shares (note 28)	352	—	—	—	—	—	352	—	352
Deemed distributions (4)	—	—	—	481	(481)	—	—	—	—
Dividend payable to the then shareholder of a subsidiary(4)	—	—	—	(8,041)	—	—	(8,041)	—	(8,041)
Distribution to Mr. Wong(4)	—	—	—	(19,380)	—	—	(19,380)	—	(19,380)
Total comprehensive income for the year	—	—	—	—	643,971	972	644,943	—	644,943
Appropriation to statutory reserve	—	79,273	—	—	(79,273)	—	—	—	—
At 31 December 2009	352	129,667*	31,645*	5,515*	841,729*	33,080*	1,041,988	—	1,041,988

* These reserve accounts comprise the consolidated reserves of RMB244,075,000, RMB424,114,000 and RMB1,041,636,000 in the consolidated statements of financial position as at 31 December 2007, 2008 and 2009, respectively.

Notes:

(1) In accordance with the Company Law of the People's Republic of China (the "PRC"), the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses) determined in accordance with generally accepted accounting principles in the PRC ("PRC GAAP") to the statutory reserve until the balance of the reserve fund reaches 50% of the entity's registered capital. The statutory reserve can be utilized to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of registered capital.

(2) Capital reserve mainly represented the difference between the consideration and the book value of the share of the net assets acquired in respect of the acquisition of non-controlling interests.

(3) The acquisitions of non-controlling interests consisted of the following transactions:

(a) On 27 June 2007, Liansu Group Company Ltd. ("Liansu HK") acquired an additional 26% equity interest in Guangdong Liansu Technology Industrial Co., Ltd. ("Guangdong Liansu Technology") from EI TI Group Co., Ltd. ("EI TI HK"), a related party of the Group, for a consideration of HK$13,000,000 (approximately RMB12,600,000 equivalent). As at the acquisition date, EI TI HK was 100% owned by Mr. Wong Luen Hei ("Mr. Wong"), the founder and the existing sole shareholder of the Group. Following the completion of the acquisition of the additional equity interest in Guangdong Liansu Technology, Guangdong Liansu Technology became a wholly-owned subsidiary of the Group.

(b) On 12 July 2007, Liansu HK acquired an additional 49% equity interest in Liansu Technology Development (Guiyang) Co., Ltd. ("Guiyang Liansu") from EI TI HK for a consideration of HK$13,700,000 (approximately RMB13,306,000 equivalent). Following the completion of the acquisition of the additional equity interest in Guiyang Liansu, Guiyang Liansu became a wholly-owned subsidiary of the Group.

(c) On 25 July 2007, Liansu HK acquired an additional 49% equity interest in Liansu Technology Development (Wuhan) Co., Ltd. ("Wuhan Liansu") from Liansu International Development Co., Ltd. ("Liansu International"), a related party of the Group, for a consideration of HK$18,600,000 (approximately RMB18,060,000 equivalent). As at the acquisition date, Liansu International was 100% owned by Mr. Wong. Following the completion of the acquisition of the additional equity interest in Wuhan Liansu, Wuhan Liansu became a wholly-owned subsidiary of the Group.

(d) On 26 July 2007, Liansu HK acquired an additional 49% equity interest in Heshan Liansu Industrial Development Co., Ltd. ("Heshan Liansu") from Liansu International for a consideration of HK$18,600,000 (approximately RMB18,041,000 equivalent). Following the completion of the acquisition of the additional equity interest in Heshan Liansu, Heshan Liansu became a wholly-owned subsidiary of the Group.

The above considerations were settled via the amount due to Mr. Wong.

(4) Pursuant to a sale and purchase agreement dated 26 October 2009 (the "S&P Agreement"), Guangdong Liansu Technology acquired a 100% equity interest in Zhongshan Walton Coating Steel Plastic Pipe Co., Ltd. ("Zhongshan Walton" or "中山華通鋼塑管有限公司" in Chinese) from Guangdong Liansu Electric Co., Ltd. ("Liansu Electric" or "廣東聯塑電氣有限公司" in Chinese), a company which is wholly owned by Mr. Wong, at a cash consideration of RMB19,380,000. The acquisition has been accounted for as a common control transaction, details of which have been set out in note 29(a) of Section II.

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

Consolidated statements of cash flows

	Notes	Year ended 31 December 2007	2008	2009
		RMB'000	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax:				
From continuing operations		96,243	188,878	799,414
From discontinued operations	11	2,531	(18,137)	—
Adjustments for:				
Finance costs	8	29,292	48,627	36,475
Share of losses of a jointly-controlled entity		4,506	4,969	—
Interest income	6	(626)	(739)	(2,706)
Loss on disposal of items of property, plant and equipment	7	—	217	828
(Gain)/loss on disposal of subsidiaries	7	(221)	23,070	—
Gain on disposal of a jointly-controlled entity	6	—	(4,969)	—
Depreciation	7	41,785	56,406	70,797
Recognition of prepaid land lease payments	7	1,928	2,940	4,031
Amortization of other intangible assets	7	9	170	261
Impairment of trade receivables, net	7	3,666	2,074	7,172
Write-down/(write-back) of inventories to net realizable value	7	494	2,019	(1,522)
		179,607	305,525	914,750
Increase in inventories		(249,160)	(139,204)	(157,829)
(Increase)/decrease in trade and bills receivables		(72,566)	938	(268,036)
Increase in prepayments, deposits and other receivables.		(73,476)	(14,364)	(16,752)
(Increase)/decrease in amounts due from related companies		(11,704)	1,280	15,584
Increase/(decrease) in trade and bills payables		45,611	(153,333)	192,992
Increase/(decrease) in other payables and accruals		200,714	76,062	(15,923)
Receipt of government grants		–	–	17,827
(Decrease)/increase in amounts due to related companies		(2,826)	916	(916)
Cash generated from operations		16,200	77,820	681,697
Interest received		626	739	2,706
Corporate income tax paid		(7,860)	(33,809)	(76,130)
Net cash flows from operating activities		8,966	44,750	608,273

		Year ended 31 December		
	Notes	2007	2008	2009
		RMB'000	RMB'000	RMB'000
Net cash flows from operating activities		8,966	44,750	608,273
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(170,739)	(251,115)	(586,848)
Proceeds from disposal of items of property, plant and equipment		3,785	20,716	17,529
Additions of investment properties		(2,005)	(10,203)	—
Additions of prepaid land lease payments		(54,485)	(79,145)	(31,971)
Additions of other intangible assets		(78)	(1,236)	(347)
Acquisition of subsidiaries	29	—	1,935	10
Disposal of subsidiaries	30	17,990	23,697	—
(Increase)/decrease in restricted cash		7,612	8,129	(122,353)
Net cash flows used in investing activities		(197,920)	(287,222)	(723,980)
CASH FLOWS FROM FINANCING ACTIVITIES				
New bank loans		802,974	802,800	1,663,177
Repayment of bank loans		(453,924)	(842,500)	(822,200)
Increase/(decrease) in amounts due to related companies		4,806	153,876	(217,026)
Increase/(decrease) in amounts due to directors		7,976	125,114	(228,209)
Interest paid		(29,292)	(48,627)	(35,332)
Dividends paid to non-controlling interests		(24,739)	—	—
Proceeds from issue of shares	28	—	—	352
Distribution to Mr. Wong	29(a)	—	—	(19,380)
Net cash flows from financing activities		307,801	190,663	341,382
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		118,847	(51,809)	225,675
Cash and cash equivalents at beginning of year		73,326	186,637	135,947
Effect of exchange rate changes, net		(5,536)	1,119	145
CASH AND CASH EQUIVALENTS AT END OF YEAR		186,637	135,947	361,767
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	22	186,637	135,947	361,767

Statement of financial position of the Company

	Notes	As at 31 December 2009
		RMB'000
NON-CURRENT ASSETS		
Interests in subsidiaries	18	694,194
CURRENT ASSETS		
Prepayments		3,165
Cash and bank balances		3,962
Total current assets		7,127
CURRENT LIABILITIES		
Other payables		7,298
An interest-bearing bank loan	25	176,100
Amount due to a director	36(c)	263,798
Total current liabilities		447,196
NET CURRENT LIABILITIES		(440,069)
TOTAL ASSETS LESS CURRENT LIABILITIES		254,125
NON-CURRENT LIABILITY		
An interest-bearing bank loan	25	264,150
Net liabilities		(10,025)
EQUITY		
Share capital	28	352
Accumulated loss		(10,377)
Deficiency in assets		(10,025)

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, the Cayman Islands.

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

In the opinion of the directors of the Company, the ultimate holding company of the Company is New Fortune Star Limited ("New Fortune"), a limited liability company incorporated in the BVI.

Particulars of the subsidiaries comprising the Group at the end of each of the Relevant Years are set out below:

Company name	Place and date of incorporation/ establishment	Issued and fully paid share capital/paid-in capital as at 31 December 2009	Percentage of equity attributable to the Company As at 31 December 2007	2008	2009	Principal activities
Starcorp Investment Holdings Ltd.[(1)#] (星展投資控股有限公司)	BVI 9 September 2003	US$1	100%	100%	100%	Investment holding
Great China International Holdings Ltd.[(1)#] (華拓國際控股有限公司)	BVI 9 September 2003	US$1	100%	100%	100%	Investment holding
Liansu HK[(2)] (聯塑集團有限公司)	Hong Kong 8 October 2003	HK$13,000,000	100%	100%	100%	Investment holding
Guangdong Liansu Technology[(3)(19)] (廣東聯塑科技實業有限公司)	PRC 1 December 1999	HK$380,000,000	100%	100%	100%	Manufacture and sale of plastic pipes and pipe fittings
Guangdong Liansu Municipal Engineering Pipe Co., Ltd. ("Liansu Municipal")[(3)(20)] (廣東聯塑市政工程管道有限公司)	PRC 15 July 2005	HK$200,000,000	100%	100%	100%	Manufacture and sale of plastic pipes and pipe fittings
Heshan Liansu [(4)(20)] (鶴山聯塑實業發展有限公司)	PRC 21 June 2002	HK$88,000,000	100%	100%	100%	Manufacture and sale of plastic pipes and pipe fittings
Wuhan Liansu[(5)(20)] (聯塑科技發展(武漢)有限公司)	PRC 22 May 2001	HK$58,000,000	100%	100%	100%	Manufacture and sale of plastic pipes and pipe fittings
Guiyang Liansu [(6)(20)] (聯塑科技發展(貴陽)有限公司)	PRC 30 July 2003	HK$60,000,000	100%	100%	100%	Manufacture and sale of plastic pipes and pipe fittings
Nanjing Liansu Technology Industrial Co., Ltd. ("Nanjing Liansu")[(7)(20)] (南京聯塑科技實業有限公司)	PRC 11 June 2006	US$18,000,000	100%	100%	100%	Manufacture and sale of plastic pipes and pipe fittings
Liansu Municipal Pipe (Hebei) Co., Ltd. ("Hebei Liansu") [(8)(20)] (聯塑市政管道(河北)有限公司)	PRC 12 October 2005	US$22,000,000	100%	100%	100%	Manufacture and sale of plastic pipes and pipe fittings

Changchun Liansu Industrial Co., Ltd. ("Changchun Liansu") [9][20] (長春聯塑實業有限公司)	PRC 25 October 2007	HK$59,821,259	100%	100%	100%	Under construction
Urumqi Liansu Technology Development Co., Ltd.[10][20] (烏魯木齊聯塑科技發展有限公司)	PRC 27 December 2007	RMB65,650,000	100%	100%	100%	Under construction
Wuhan Liansu Precision Mold Co., Ltd.[5] (武漢聯塑精密模具有限公司)	PRC 20 December 2007	RMB10,000,000	100%	100%	100%	Manufacture and sale of plastic injection moulds
Henan Liansu Industrial Co., Ltd. [11] (河南聯塑實業有限公司)	PRC 25 October 2007	RMB30,000,000	100%	100%	100%	Manufacture and sale of plastic pipes and pipe fittings
Daqing Liansu Technology Development Co., Ltd.[12] (大慶聯塑科技發展有限公司)	PRC 26 April 2005	RMB58,000,000	100%	100%	100%	Manufacture and sale of plastic pipes and pipe fittings
Zhongshan Walton[13] (中山華通鋼塑管有限公司)	PRC 12 July 2002	RMB10,000,000	—	100%	100%	Manufacture and sale of plastic-steel composite pipe products
Sichuan Liansu Technology Industrial Co., Ltd. ("Sichuan Liansu")[14] (四川聯塑科技實業有限公司)	PRC 10 July 2009	RMB30,000,000	—	—	100%	Manufacture and sale of plastic pipes and pipe fittings
Foshan Liansu Import & Export Trading Co., Ltd. ("Foshan Liansu")[15] (佛山市聯塑進出口貿易有限公司)	PRC 28 January 2008	RMB5,000,000	—	—	100%	Trading of plastic pipes and pipe fittings
Guangdong Yunan Liansu Machinery Co., Ltd. [16][20] (廣東郁南聯塑機器有限公司)	PRC 15 December 2006	RMB10,358,320*	100%	—	—	Manufacture and sale of machinery
Guangdong Liansu Machinery Manufacturing Co., Ltd. ("Liansu Machinery")[17][20] (廣東聯塑機器製造有限公司)	PRC 24 May 2005	HK$20,010,422*	100%	—	—	Manufacture and sale of plastic extrusion equipment
Foshan Shunde Yingxin Real Estate Development Co., Ltd. ("Yingxin Real Estate")[17][20] (佛山市順德區盈信房地產開發有限公司)	PRC 13 January 2004	RMB20,000,000*	100%	—	—	Property development and investment
Foshan EI TI Plastic Chemical Co., Ltd. ("Foshan EI TI Plastic")[18] (佛山市依達塑膠化工有限公司)	PRC 23 April 2001	RMB3,800,000*	51.05%	—	—	Trading of plastic polymers

\# *Except for these two subsidiaries, all of the above investments in subsidiaries are indirectly held by the Company.*

* *Balances represented the paid-in capitals of the respective companies at their respective disposal dates.*

Notes:

(1) No audited financial statements have been prepared for each of the Relevant Years as these subsidiaries are not subject to any statutory audit requirements in their jurisdiction of incorporation.

(2) The financial statements for the years ended 31 December 2007, 2008 and 2009 were audited by Joseph W.P. Fan & Co., certified public accountants in Hong Kong.

(3) The financial statements for the years ended 31 December 2007 and 2008 were audited by 佛山市中正誠會計師事務所有限公司 (Foshan Zhongzhengcheng Certified Public Accountants Co., Ltd.) registered in the PRC. The financial statements for the year ended 31 December 2009 were audited by 廣東信華會計師事務所 (Guangdong Xinhua Certified Public Accountants) registered in the PRC.

(4) The financial statements for the years ended 31 December 2007, 2008 and 2009 were audited by 廣東公認會計師事務所有限公司 (Guangdong Gongren Certified Public Accountants Co., Ltd.) registered in the PRC.

(5) The financial statements for the years ended 31 December 2007 and 2008 were audited by 湖北安華會計師事務所有限公司 (Hubei Anhua Certified Public Accountants Co., Ltd.) registered in the PRC. The financial statements for the year ended 31 December 2009 were audited by 武漢蓮城會計師事務所 (Wuhan Liancheng Certified Public Accountants Firm) registered in the PRC.

(6) The financial statements for the years ended 31 December 2007, 2008 and 2009 were audited by 貴州仁信會計師事務所 (Guizhou Renxin Certified Public Accountants Firm) registered in the PRC.

(7) The financial statements for the years ended 31 December 2007, 2008 and 2009 were audited by 南京中信會計師事務所 (Nanjing Zhongxin Certified Public Accountants Firm) registered in the PRC.

(8) The financial statements for the years ended 31 December 2007, 2008 and 2009 were audited by 河北華獅會計師事務所有限責任公司 (Hebei Hua Lion Certified Public Accountants Co., Ltd.) registered in the PRC.

(9) The financial statements for the years ended 31 December 2007, 2008 and 2009 were audited by 吉林正泰會計師事務所有限公司 (Jilin Zhengtai Certified Public Accountants Co., Ltd.) registered in the PRC.

(10) No auditor was appointed by this company for the period from its date of establishment to 31 December 2007. The financial statements for the years ended 31 December 2008 and 2009 were audited by 新疆德恒有限責任會計師事務所 (Xinjiang Deheng Certified Public Accountants Firm Limited) registered in the PRC.

(11) The financial statements for the years ended 31 December 2007, 2008 and 2009 were audited by 河南華穎會計師事務所有限公司 (Henan Huaying Certified Public Accountants Co., Ltd.) registered in the PRC.

(12) The financial statements for the years ended 31 December 2007, 2008 and 2009 were audited by 杜爾伯特維信會計師事務所有限公司 (Durbote Weixin Certified Public Accountants Co., Ltd.) registered in the PRC.

(13) The financial statements for the year ended 31 December 2008 were audited by 中山信誠合夥會計師事務所 (Zhongshan Xincheng Partnership Certified Public Accountants Firm) registered in the PRC. The financial statements for the year ended 31 December 2009 were audited by 中山市中正聯合會計師事務所有限公司 (Zhongshan Zhongzheng United Certified Public Accountants Co., Ltd.) registered in the PRC.

(14) The financial statements for the year ended 31 December 2009 were audited by 四川萬通會計師事務所 (Sichuan Wantong Certified Public Accountants Firm) registered in the PRC.

(15) The financial statements for the year ended 31 December 2009 were audited by 廣東信華會計師事務所 (Guangdong Xinhua Certified Public Accountants) registered in the PRC.

(16) The financial statements for the year ended 31 December 2007 were audited by 郁南西江會計師事務所有限公司 (Yunan Xijiang Certified Public Accountants Co., Ltd.) registered in the PRC.

(17) The financial statements for the year ended 31 December 2007 were audited by 佛山市中正誠會計師事務所有限公司 (Foshan Zhongzhengcheng Certified Public Accountants Co., Ltd.) registered in the PRC.

(18) The financial statements for the year ended 31 December 2007 were audited by 佛山市達正會計師事務所有限公司 (Foshan Dazheng Certified Public Accountants Co., Ltd.) registered in the PRC.

(19) Registered as wholly-foreign-owned enterprises under the PRC law.

(20) Registered as Sino-foreign equity joint ventures under the PRC law.

The English names of the subsidiaries and auditors registered in the PRC represent management's best effort at translating the Chinese names of those companies as no English names have been registered.

2. BASIS OF PRESENTATION

Pursuant to the Reorganization as more fully explained in the paragraph headed "Reorganization" in the section headed "History and Development" to the Prospectus, the Company became the holding company of the companies now comprising the Group on 11 November 2009. The companies now comprising the Group are under the common control of Mr. Wong before and after the Reorganization. Accordingly, for the purpose of this report, the Financial Information set out in this report has been prepared on a combined basis by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Relevant Years and as further explained in note 3(b) below.

The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the Relevant Years include the results and cash flows of all companies now comprising the Group, as if the current structure had been in existence throughout the Relevant Years, or since their respective dates of acquisition, incorporation or establishment, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2007, 2008 and 2009 have been prepared to present the state of affairs of the Group as if the current group structure had been in existence and in accordance with the respective equity interests and/or the power to exercise control over the individual companies attributable to the Company as at the respective dates.

All intra-group transactions and balances have been eliminated on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. All HKFRSs effective for the accounting periods commencing from 1 January 2007, 2008 and 2009, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Years. The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Issued but not yet effective HKFRSs

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

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[1]
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters[2]
HKFRS 1 Amendment	Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[4]
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment — Group Cash-settled Share-based Payment Transactions[2]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[6]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation — Classification of Rights Issues[3]
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[4]
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary [1]
HK Interpretation 4 (Revised in December 2009)	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases [2]

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2009 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 38 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that except for the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised), these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with non controlling interests.

The principal accounting policies adopted by the Group in arriving at the Financial Information set out in this report, which conform to HKFRSs and accounting principles generally accepted in Hong Kong, are set out below:

Basis of consolidation

The consolidated financial information includes the financial statements of the Company and its subsidiaries for the years ended 31 December 2007, 2008 and 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries of the Group, except for those acquisitions which qualify as business combinations under common control which are accounted for using merger accounting.

(a) **Purchase method of accounting**

The purchase method of accounting involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities incurred or assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the business combination over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost is less than the fair value of the net assets of the subsidiary acquired, the difference, after reassessment, is recognized directly in the consolidated statements of comprehensive income.

(b) **Merger accounting for business combinations under common control**

The Financial Information incorporates the financial statement items of the combining entities subject to common control in the Relevant Years as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling party's perspective. No amount is recognized in respect of goodwill or excess of acquirers' interests in the fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of comprehensive income include the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under common control, whichever is a shorter period, regardless of the date of the common control combination.

All income, expenses, and unrealized gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of non-controlling interests are accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as an equity transaction.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Jointly-controlled entity

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interest in a jointly-controlled entity is stated in the consolidated statements of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of the jointly-controlled entity is included in the consolidated statements of comprehensive income and consolidated reserves, respectively. Unrealized gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's interest in the jointly-controlled entity, except where unrealized losses provide evidence of an impairment of the asset transferred.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is 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 period 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.

Related parties

A party is considered to be related to the Group if:

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

(b) the party is a jointly-controlled entity;

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

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 depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the statement of comprehensive income in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and other assets under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost represents the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and building held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured at cost, including transaction costs, less accumulated depreciation and any impairment losses. Depreciation is provided using the straight-line method to write off the cost of the investment property over its estimated useful life of 20 years.

Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of comprehensive income in the year of the retirement or disposal.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software

Computer software is stated at cost less any impairment losses and is amortized on the straight-line basis over its estimated useful life of five years.

Research and development costs

All research costs are charged to the statement of comprehensive income as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

Financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognized initially, they are measured at fair value.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and bills receivables, other receivables and amounts due from related companies, which are classified as loans and receivables.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance income in the statement of comprehensive income. The loss arising from impairment is recognized in the statement of comprehensive income in other operating expenses, net.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;

- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement;

and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other operating expenses, net in the statement of comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

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

Subsequent measurement

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in the statement of comprehensive income.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in the statement of comprehensive income.

Inventories

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 direct 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 to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits

Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organized by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Other borrowing costs are recognized as expenses in the statement of comprehensive income in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

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

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

Foreign currencies

The functional currency of the Company is Hong Kong dollar ("HK$") while the presentation currency of the Company for the Financial Information is RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

Operating lease commitments - Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of trade and other receivables

The 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 judgement. A considerable amount of judgement is required in assessing the ultimate realization of these receivables, including 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. As at 31 December 2007, 2008 and 2009, impairment loss of RMB7,271,000, RMB8,530,000 and RMB8,506,000, have been recognized for trade receivables.

Provision for obsolete inventories

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes provision for obsolete and slow moving inventory items identified that are no longer suitable for sale. Management estimates the net realizable value for such inventories based primarily on the latest invoice prices and current market conditions. As at 31 December 2007, 2008 and 2009, the Group had inventories that were measured at net realizable value (where lower than cost) of RMB3,617,000, RMB2,738,000 and RMB3,096,000, respectively.

5. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of plastic pipes and pipe fittings. For management purposes, the Group is organized into geographical areas based on the location of the customers and assets are attributable to the geographical unit based on the location of the assets. The Group has eight reportable operating segments as follows:

(a) Southern China, including Guangdong Province, Guangxi Zhuang Autonomous Region, Hunan Province, Fujian Province and Hainan Province;

(b) Southwestern China, including Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province and Xizang (Tibet) Autonomous Region;

(c) Central China, including Hubei Province, Jiangxi Province and Henan Province;

(d) Eastern China, including Shanghai Municipality, Jiangsu Province, Zhejiang Province and Anhui Province;

(e) Northern China, including Beijing Municipality, Tianjin Municipality, Hebei Province, Shandong Province, Inner Mongolia Autonomous Region and Shanxi Province;

(f) Northwestern China, including Shaanxi Province, Ningxia Hui Autonomous Region, Qinghai Province, Gansu Province and Xinjiang Uygur Autonomous Region;

(g) Northeastern China, including Liaoning Province, Jilin Province and Heilongjiang Province; and

(h) Outside China.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income, finance costs, share of losses of a jointly-controlled entity and other unallocated operating income and expenses are excluded from such measurement.

Segment assets exclude interest in a jointly-controlled entity, deferred tax assets, restricted cash, cash and cash equivalents, amounts due from related companies and other unallocated head office and corporate assets as these assets are managed on a group basis.

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

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

During the Relevant Years, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

Operating segment information for the year ended 31 December 2007

	Continuing operations											
	Southern China	Southwestern China	Central China	Eastern China	Northern China	Northwestern China	Northeastern China	Outside China	Eliminations	Consolidated	Discontinued operations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:												
External customers	1,692,705	281,872	209,750	167,987	129,735	45,372	48,853	41,974	—	2,618,248	403,239	3,021,487
Intersegment sales	1,490	1,852	—	—	—	—	1,897	—	(5,239)	—	—	—
Total	1,694,195	283,724	209,750	167,987	129,735	45,372	50,750	41,974	(5,239)	2,618,248	403,239	3,021,487
Segment results	218,405	31,819	27,174	21,628	16,690	5,842	6,453	5,410	(577)	332,844	23,822	356,666
Reconciliation:												
Unallocated operating income and expenses										(205,196)	(19,745)	(224,941)
Interest income										561	65	626
Finance costs										(27,460)	(1,832)	(29,292)
Share of losses of a jointly- controlled entity										(4,506)	—	(4,506)
Gain on disposal of a subsidiary										—	221	221
Profit before tax										96,243	2,531	98,774
Segment assets	1,026,002	83,739	100,352	56,116	158,160	9,360	45,056	19,253	—	1,498,038	292,860	1,790,898
Reconciliation:												
Interest in a jointly-controlled entity										40,700	—	40,700
Deferred tax assets										895	544	1,439
Restricted cash										10,909	—	10,909
Cash and cash equivalents										163,338	23,299	186,637
Other unallocated assets										13,499	4,085	17,584
Total assets										1,727,379	320,788	2,048,167
Other segment information:												
Depreciation and amortization	31,402	3,896	5,634	278	—	—	719	—	—	41,929	1,793	43,722
Capital expenditure	89,010	6,557	9,215	35,321	25,589	—	3,983	—	—	169,675	61,167	230,842
Impairment of trade receivables, net	3,177	—	489	—	—	—	—	—	—	3,666	—	3,666
Write-down of inventories to net realizable value	494	—	—	—	—	—	—	—	—	494	—	494

Note: Capital expenditure consists of additions of property, plant and equipment, prepaid land lease payments, other intangible assets and investment properties.

Operating segment information for the year ended 31 December 2008

	Continuing operations											
	Southern China	Southwestern China	Central China	Eastern China	Northern China	Northwestern China	Northeastern China	Outside China	Eliminations	Consolidated	Discontinued operations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:												
External customers	2,398,985	396,652	310,229	149,170	196,215	59,558	56,941	50,776	—	3,618,526	316,171	3,934,697
Intersegment sales	177,685	111,351	230,470	1,483	55,716	—	10,170	—	(586,875)	—	—	—
Total	2,576,670	508,003	540,699	150,653	251,931	59,558	67,111	50,776	(586,875)	3,618,526	316,171	3,934,697
Segment results	344,448	66,007	76,472	24,163	30,545	9,821	9,694	5,248	(62,291)	504,107	24,892	528,999
Reconciliation:												
Unallocated operating income and expenses										(270,033)	(17,267)	(287,300)
Interest income										698	41	739
Finance costs										(45,894)	(2,733)	(48,627)
Share of losses of a jointly-controlled entity										(4,969)	—	(4,969)
Loss on disposal of subsidiaries										—	(23,070)	(23,070)
Gain on disposal of a jointly-controlled entity										4,969	—	4,969
Profit before tax										188,878	(18,137)	170,741
Segment assets	1,266,767	122,144	202,767	87,684	186,680	21,941	70,153	20,887	—	1,979,023	—	1,979,023
Reconciliation:												
Deferred tax assets										1,535	—	1,535
Restricted cash										2,780	—	2,780
Cash and cash equivalents										135,947	—	135,947
Other unallocated assets										10,070	—	10,070
Total assets										2,129,355	—	2,129,355
Other segment information:												
Depreciation and amortization	39,079	4,706	6,335	305	2,889	—	1,147	97	—	54,558	4,958	59,516
Capital expenditure	106,453	10,149	29,766	34,064	96,490	5,636	51,801	387	—	334,746	22,930	357,676
Impairment of trade receivables, net	2,074	—	—	—	—	—	—	—	—	2,074	—	2,074
Write-down of inventories to net realizable value	268	—	—	—	1,751	—	—	—	—	2,019	—	2,019

Note: Capital expenditure consists of additions of property, plant and equipment, prepaid land lease payments, other intangible assets and investment properties.

Operating segment information for the year ended 31 December 2009

	Southern China	Southwestern China	Central China	Eastern China	Northern China	Northwestern China	Northeastern China	Outside China	Eliminations	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:										
External customers	3,717,188	487,509	483,259	168,423	270,033	91,053	72,606	32,173	—	5,322,244
Intersegment sales	294,925	135,695	153,187	17,267	50,063	—	7,801	—	(658,938)	—
Total	4,012,113	623,204	636,446	185,690	320,096	91,053	80,407	32,173	(658,938)	5,322,244
Segment results	881,540	126,973	125,990	43,686	58,650	20,491	19,559	7,331	(70,981)	1,213,239
Reconciliation:										
Unallocated operating income and expenses										(380,056)
Interest income										2,706
Finance costs										(36,475)
Profit before tax										799,414
Segment assets	1,754,553	244,622	292,690	209,382	285,978	69,777	130,030	7,871	—	2,994,903
Reconciliation:										
Deferred tax assets										7,314
Restricted cash										125,133
Cash and cash equivalents										361,767
Other unallocated assets										9,634
Total assets										3,498,751
Other segment information:										
Depreciation and amortization	46,019	5,965	7,811	2,103	9,801	397	2,103	890	—	75,089
Capital expenditure	340,189	71,076	57,122	67,515	56,178	45,598	54,961	6,348	(8,340)	690,647
Impairment of trade receivables, net	6,921	739	(488)	—	—	—	—	—	—	7,172
Write-back of inventories to net realizable value	(293)	—	—	—	(1,229)	—	—	—	—	(1,522)

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

6. REVENUE, OTHER REVENUE, INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts (net of value-added tax) during the Relevant Years.

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

	Notes	Year ended 31 December		
		2007	2008	2009
		RMB'000	RMB'000	RMB'000
Revenue				
Sale of goods		3,021,487	3,934,697	5,322,244
Represented by:				
Revenue attributable to continuing operations		2,618,248	3,618,526	5,322,244
Revenue attributable to discontinued operations		403,239	316,171	—
		3,021,487	3,934,697	5,322,244
Other revenue, income and gains				
Gross rental income from leasing of properties		4,261	5,355	2,442
Gain on disposal of a jointly-controlled entity	17	—	4,969	—
Gain on disposal of a subsidiary	30(b)	221	—	—
Gain on sale of raw materials		167	6,743	6,124
Income from the provision of utilities		—	3,965	8,262
Bank interest income		626	739	2,706
Government grants and subsidies		1,676	2,685	2,106
Others		612	1,856	1,236
		7,563	26,312	22,876
Represented by:				
Other revenue, income and gains attributable to continuing operations		3,148	21,717	22,876
Other revenue, income and gains attributable to discontinued operations		4,415	4,595	—
		7,563	26,312	22,876

Government grants and subsidies represented funding received from government authorities to support certain of the Group's research and development activities. There are no unfulfilled conditions or contingencies related to these grants and subsidies.

7. PROFIT BEFORE TAX

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

	Notes	Year ended 31 December 2007	2008	2009
		RMB'000	RMB'000	RMB'000
Cost of inventories sold		2,664,327	3,403,678	4,110,527
Depreciation	14,15	41,785	56,406	70,797
Recognition of prepaid land lease payments	16	1,928	2,940	4,031
Amortization of other intangible assets		9	170	261
Research and development costs*		11,608	11,177	20,801
(Gain)/loss on disposal of subsidiaries	11,30	(221)	23,070	—
Loss on disposal of items of property, plant and equipment		—	217	828
Minimum lease payments under operating leases in respect of land and buildings		1,915	7,334	10,336
Auditors' remuneration		161	267	2,731
Employee benefit expenses (including directors' remuneration (note 9(a))):				
Wages and salaries		110,523	188,789	188,606
Pension scheme contributions (defined contribution scheme)		10,711	17,594	25,681
Staff welfare and other expenses		9,447	9,056	9,522
		130,681	215,439	223,809
Impairment of trade receivables, net*	20	3,666	2,074	7,172
Write-down/(write-back) of inventories to net realizable value		494	2,019	(1,522)
Net rental income		(2,357)	(3,278)	(1,065)

* *Research and development costs and the impairment of trade receivables, net are included in "Other operating expenses, net" on the face of the consolidated statements of comprehensive income.*

\# *The disclosure presented in this note for the two years ended 31 December 2007 and 2008 included those amounts charged/credited in respect of the discontinued operations.*

8. **FINANCE COSTS**

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**
Interest on bank loans	29,292	48,627	36,475
Represented by:			
Finance costs attributable to continuing operations	27,460	45,894	36,475
Finance costs attributable to discontinued operations	1,832	2,733	—
	29,292	48,627	36,475

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) **Directors' remuneration**

Directors' remuneration for the Relevant Years, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**
Fees	—	—	—
Other emoluments:			
Salaries, allowances and benefits in kind	1,590	2,144	2,147
Performance related bonuses	1,800	1,660	1,900
Pension scheme contributions	84	139	211
	3,474	3,943	4,258

The remuneration of each of the directors for the year ended 31 December 2007 is set out below:

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
Mr. Wong Luen Hei	—	240	300	12	552
Ms. Zuo Xiaoping	—	240	250	15	505
Mr. Zuo Manlun	—	240	250	15	505
Mr. Lai Zhiqiang	—	180	200	10	390
Mr. Chen Guonan	—	180	200	10	390
Mr. Kong Zhaocong	—	180	200	8	388
Mr. Lin Shaoquan	—	170	200	7	377
Mr. Huang Guirong	—	160	200	7	367
Mr. Luo Jianfeng	—	—	—	—	—
	—	1,590	1,800	84	3,474
Non-executive director:					
Mr. Lin Dewei	—	—	—	—	—
Independent non-executive directors:					
Mr. Bai Chongen	—	—	—	—	—
Mr. Fung Pui Cheng	—	—	—	—	—
Mr. Wong Kwok Ho, Jonathan	—	—	—	—	—
	—	—	—	—	—
	—	1,590	1,800	84	3,474

The remuneration of each of the directors for the year ended 31 December 2008 is set out below:

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
Mr. Wong Luen Hei	—	328	300	19	647
Ms. Zuo Xiaoping	—	328	250	22	600
Mr. Zuo Manlun	—	328	250	22	600
Mr. Lai Zhiqiang	—	235	200	17	452
Mr. Chen Guonan	—	215	200	17	432
Mr. Kong Zhaocong	—	235	200	14	449
Mr. Lin Shaoquan	—	235	130	15	380
Mr. Huang Guirong	—	240	130	13	383
Mr. Luo Jianfeng	—	—	—	—	—
	—	2,144	1,660	139	3,943
Non-executive director:					
Mr. Lin Dewei	—	—	—	—	—
Independent non-executive directors:					
Mr. Bai Chongen	—	—	—	—	—
Mr. Fung Pui Cheng	—	—	—	—	—
Mr. Wong Kwok Ho, Jonathan	—	—	—	—	—
	—	—	—	—	—
	—	2,144	1,660	139	3,943

The remuneration of each of the directors for the year ended 31 December 2009 is set out below:

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
Mr. Wong Luen Hei	—	336	330	29	695
Ms. Zuo Xiaoping	—	336	280	33	649
Mr. Zuo Manlun	—	336	280	33	649
Mr. Lai Zhiqiang	—	240	220	29	489
Mr. Chen Guonan	—	240	220	25	485
Mr. Kong Zhaocong	—	240	220	29	489
Mr. Lin Shaoquan	—	239	200	22	461
Mr. Huang Guirong	—	180	150	11	341
Mr. Luo Jianfeng	—	—	—	—	—
	—	2,147	1,900	211	4,258
Non-executive director:					
Mr. Lin Dewei	—	—	—	—	—
Independent non-executive directors:					
Mr. Bai Chongen	—	—	—	—	—
Mr. Fung Pui Cheng	—	—	—	—	—
Mr. Wong Kwok Ho, Jonathan	—	—	—	—	—
	—	—	—	—	—
	—	2,147	1,900	211	4,258

During the Relevant Years, no director waived or agreed to waive any emoluments and no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

There were no other emoluments paid or payable to the independent non-executive directors during the Relevant Years.

(b) **Five highest paid employees**

The five highest paid employees of the Group during the Relevant Years are all directors. Details of the remuneration of the directors during the Relevant Years are set out in note 9(a) above.

10. INCOME TAX EXPENSE

	Year ended 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Current — PRC			
Charge for the year	18,217	27,860	130,866
Deferred (note 26)	(923)	6,967	24,577
Total tax charge for the year	17,294	34,827	155,443
Represented by:			
Tax charge attributable to continuing operations	16,938	34,221	155,443
Tax charge attributable to discontinued operations (note 11)	356	606	—
	17,294	34,827	155,443

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the Relevant Years.

PRC corporate income tax ("CIT")

The income tax provision of the Group in respect of its operations in Mainland China has been calculated at the applicable tax rates on the taxable profits for each of the Relevant Years, based on the existing legislation, interpretations and practices in respect thereof.

Pursuant to the then applicable PRC national and local tax laws, except for certain preferential tax treatment available to certain of the Group's subsidiaries, the Group's subsidiaries located in Mainland China were subject to CIT at the statutory rate of 33% during the year ended 31 December 2007.

During the 5th session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduced a wide range of changes which included, but are not limited to, the unification of the income tax rates for domestic-invested and foreign-invested enterprises, which resulted in a reduction of CIT rate from 33% to 25%. The effect of this change has been reflected in the calculation of deferred taxes as at 31 December 2007.

Guangdong Liansu Technology and Liansu Machinery are located in the Coastal Open Economic Zones of China and are subject to the region's preferential CIT rate of 27% for the year ended 31 December 2007. The other major tax concessions applicable to the entities within the Group are detailed as follows:

Name of company	Details of tax concessions
Guangdong Liansu Technology	Guangdong Liansu Technology was assessed as a "High and New Technology Enterprise" in 2008 and was subject to CIT at a reduced rate of 15% for the two years ended 31 December 2008 and 2009.
Liansu Municipal	Liansu Municipal is a foreign invested enterprise ("FIE") which engages in manufacturing and is exempted from CIT for two years commencing from its first year with assessable profits after deducting tax losses brought forward, and is entitled to a 50% tax reduction for the subsequent three years (the "FIE Tax Holiday"). Liansu Municipal's first profit-making year was the year ended 31 December 2006 which was also the first year of its FIE Tax Holiday. Accordingly, it was exempted from CIT for the two years ended 31 December 2006 and 2007 and is subject to CIT at a reduced rate of 12.5% for the three years ending 31 December 2010.

Name of company	Details of tax concessions
Heshan Liansu	Heshan Liansu is a FIE which engages in manufacturing and is entitled to the FIE Tax Holiday. Heshan Liansu's first profit-making year was the year ended 31 December 2007 which was also the first year of its FIE Tax Holiday. Accordingly, it was exempted from CIT for the two years ended 31 December 2007 and 2008 and is subject to CIT at a reduced rate of 12.5% for the three years ending 31 December 2011.
Hebei Liansu	Hebei Liansu is a FIE which engages in manufacturing and is entitled to the FIE Tax Holiday. Hebei Liansu's first profit-making year was the year ended 31 December 2008 which was also the first year of its FIE Tax Holiday. Accordingly, it was exempted from CIT for the two years ended 31 December 2008 and 2009 and is subject to CIT at a reduced rate of 12.5% for the three years ending 31 December 2012.
Nanjing Liansu	Nanjing Liansu is a FIE which engages in manufacturing and is entitled to the FIE Tax Holiday. Nanjing Liansu's first year of its FIE Tax Holiday was the year ended 31 December 2008. Accordingly, it was exempted from CIT for the two years ended 31 December 2008 and 2009 and is subject to CIT at a reduced rate of 12.5% for the three years ending 31 December 2012.
Guiyang Liansu	Guiyang Liansu is a FIE which engages in manufacturing and is entitled to the FIE Tax Holiday. Guiyang Liansu's first profit-making year was the year ended 31 December 2006 which was also the first year of its FIE Tax Holiday. Accordingly, it was exempted from CIT for the two years ended 31 December 2006 and 2007 and is subject to CIT at a reduced rate of 12.5% for the three years ending 31 December 2010.
Wuhan Liansu..	Wuhan Liansu was entitled to a CIT rate of 24% before the implementation of the New Corporate Income Tax Law as it is a FIE which engages in manufacturing in Wuhan, one of the five cities along the Yangtze River which could enjoy such special tax preferential treatment. In the meantime, 3% of local income tax was exempted by the local government. Wuhan Liansu was also entitled to the FIE Tax Holiday. Its first profit-making year was the year ended 31 December 2004 which was also the first year of its FIE Tax Holiday. Accordingly, it was exempted from CIT for the two years ended 31 December 2004 and 2005 and was subject to CIT at a reduced rate of 12%, 12% and 12.5%, for the three years ended 31 December 2006, 2007 and 2008, respectively. Wuhan Liansu was assessed as a "High and New Technology Enterprise" in 2009 and was subject to CIT at a reduced rate of 15% for the year ended 31 December 2009.
Liansu Machinery...	Liansu Machinery is a FIE which engages in manufacturing and is entitled to the FIE Tax Holiday. Liansu Machinery's first profit-making year was the year ended 31 December 2006 which was also the first year of its FIE Tax Holiday. Accordingly, it was exempted from CIT for the two years ended 31 December 2006 and 2007 and is subject to CIT at a reduced rate of 12.5% for the three years ending 31 December 2010.

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rate to the tax expense at the effective tax rate for each of the Relevant Years is as follows:

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**
Profit before tax (including profit/(loss) from discontinued operations)	98,774	170,741	799,414
Tax at the PRC corporate income tax rate	32,595	42,685	199,854
Overseas tax differential	754	66	776
Effect of tax concession for certain subsidiaries	(21,953)	(27,767)	(85,779)
Income not subject to tax	(80)	(930)	(318)
Expenses not deductible for tax	2,638	10,044	8,432
Losses attributable to a jointly-controlled entity	788	820	—
Effect of lower enacted tax rate used for the recognition of deferred tax	524	—	—
Tax losses utilized from previous years	—	(389)	(140)
Tax losses not recognized	2,028	2,610	2,157
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries#	—	7,688	30,461
Tax charge at the Group's effective rate	17,294	34,827	155,443

\# *Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of their earnings generated from 1 January 2008.*

11. DISCONTINUED OPERATIONS

In 2008, the Group decided to dispose of its interests in certain subsidiaries which carried out property development and investment, plastic extrusion equipment manufacturing and plastic polymers trading businesses because it planned to focus its resources on its core business of manufacturing plastic pipes and pipe fittings. The disposals of these entities were all completed during the year ended 31 December 2008, details of which are set out in note 30.

The results of the discontinued operations are presented below:

	Year ended 31 December	
	2007	**2008**
	RMB'000	**RMB'000**
Revenue, other revenue, income and gains	407,654	320,766
Total expenses	(405,344)	(315,833)
Profit of the discontinued operations	2,310	4,933
Gain/(loss) recognized on disposal of the discontinued operations	221	(23,070)
Profit/(loss) before tax from the discontinued operations	2,531	(18,137)
Income tax expense (note 10)	(356)	(606)
Profit/(loss) for the year from the discontinued operations	2,175	(18,743)

The net cash flows incurred by the discontinued operations are presented as follows:

	Year ended 31 December	
	2007	2008
	RMB'000	RMB'000
Operating activities	(4,484)	(60,106)
Investing activities	(45,861)	(20,777)
Financing activities	68,651	62,466
Net cash inflow/(outflow)	18,306	(18,417)

12. DIVIDENDS

No dividend has been declared by the Company since its incorporation.

13. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007, net of accumulated depreciation	190,232	191,103	7,441	14,150	242	28,566	431,734
Additions	5,613	50,856	3,810	12,589	360	86,400	159,628
Transfers	53,662	5,604	—	—	1,599	(60,865)	—
Disposals	—	(3,733)	(41)	(11)	—	—	(3,785)
Depreciation	(9,821)	(22,791)	(1,973)	(5,143)	(273)	—	(40,001)
At 31 December 2007 and 1 January 2008, net of accumulated depreciation	239,686	221,039	9,237	21,585	1,928	54,101	547,576
Additions	10,507	133,997	3,792	7,744	451	124,192	280,683
Transfers	90,073	6,371	926	—	—	(97,370)	—
Disposals	(30)	(14,622)	(468)	(1,017)	—	(4,796)	(20,933)
Depreciation	(13,889)	(31,958)	(2,549)	(6,096)	(483)	—	(54,975)
Acquisition of a subsidiary (note 29).	5,168	11,599	132	86	—	51	17,036
Disposal of subsidiaries (note 30)	(3,541)	(24,173)	(2,160)	(3,448)	(556)	(665)	(34,543)
At 31 December 2008 and 1 January 2009, net of accumulated depreciation	327,974	302,253	8,910	18,854	1,340	75,513	734,844
Additions	5,761	268,183	6,791	17,784	1,111	357,335	656,965
Transfers	76,217	65,643	573	122	932	(143,487)	—
Disposals	(5,076)	(12,511)	(289)	(481)	—	—	(18,357)
Depreciation	(16,569)	(44,748)	(2,623)	(6,423)	(434)	—	(70,797)
Acquisition of a subsidiary (note 29).	—	17	63	—	—	—	80
At 31 December 2009, net of accumulated depreciation	388,307	578,837	13,425	29,856	2,949	289,361	1,302,735
At 1 January 2007							
Cost	199,560	223,893	9,703	25,067	249	28,566	487,038
Accumulated depreciation	(9,328)	(32,790)	(2,262)	(10,917)	(7)	—	(55,304)
Net carrying amount	190,232	191,103	7,441	14,150	242	28,566	431,734
At 31 December 2007 and 1 January 2008							
Cost	258,836	275,736	13,431	37,632	2,208	54,101	641,944
Accumulated depreciation	(19,150)	(54,697)	(4,194)	(16,047)	(280)	—	(94,368)
Net carrying amount	239,686	221,039	9,237	21,585	1,928	54,101	547,576
At 31 December 2008 and 1 January 2009							
Cost	361,870	384,035	14,579	38,395	1,783	75,513	876,175
Accumulated depreciation	(33,896)	(81,782)	(5,669)	(19,541)	(443)	—	(141,331)
Net carrying amount	327,974	302,253	8,910	18,854	1,340	75,513	734,844
At 31 December 2009							
Cost	437,242	698,986	20,524	54,955	3,826	289,361	1,504,894
Accumulated depreciation	(48,935)	(120,149)	(7,099)	(25,099)	(877)	—	(202,159)
Net carrying amount	388,307	578,837	13,425	29,856	2,949	289,361	1,302,735

Certain of the Group's interest-bearing bank loans were secured by certain of the Group's buildings and machinery, which had aggregate net carrying amounts of approximately RMB79,817,000, RMB165,218,000 and RMB303,841,000 as at 31 December 2007, 2008 and 2009, respectively (note 33).

15. INVESTMENT PROPERTIES

Group

	2007	2008
	RMB'000	RMB'000
Cost at 1 January, net of accumulated depreciation	78,177	78,483
Additions	2,090	10,203
Depreciation provided during the year	(1,784)	(1,431)
Disposal of subsidiaries (note 30(a))	—	(87,255)
At 31 December	78,483	—
At 31 December:		
Cost	80,267	—
Accumulated depreciation	(1,784)	—
Net carrying amount	78,483	—

The Group's investment properties were situated in the PRC.

The Group's investment properties were valued at 31 December 2007 by CB Richards Ellis, independent professionally qualified valuers at RMB129,300,000, by reference to market evidence of transaction prices for similar properties. The investment properties were leased to third parties under operating leases, further summary of which are included in note 34.

Certain of the Group's interest-bearing bank loans were secured by certain of the Group's investment properties, which had an aggregate amount of approximately RMB60,165,000 as at 31 December 2007 (note 33).

16. PREPAID LAND LEASE PAYMENTS

Group

	Notes	2007	2008	2009
		RMB'000	RMB'000	RMB'000
At beginning of year		107,832	113,636	180,811
Additions		69,046	65,554	33,335
Acquisition of a subsidiary	29(a)	—	20,620	—
Recognized during the year	7	(1,928)	(2,940)	(4,031)
Disposal of subsidiaries	30	(61,314)	(16,059)	—
At end of year		113,636	180,811	210,115
Current portion included in prepayments, deposits and other receivables	21	(2,359)	(3,917)	(4,599)
Non-current portion		111,277	176,894	205,516

Certain of the Group's interest-bearing bank loans were secured by certain of the Group's prepaid land lease payments, which had aggregate carrying amounts of approximately RMB74,097,000, RMB24,219,000 and RMB53,513,000 as at 31 December 2007, 2008 and 2009, respectively (note 33).

17. INTEREST IN A JOINTLY-CONTROLLED ENTITY

Group

Interest in a jointly-controlled entity represented the share of net assets of Guizhou Zunyi Lianhe Electrochemical Co., Ltd. ("Guizhou Zunyi") as at 31 December 2007.

Particulars of the jointly-controlled entity are as follows:

Company name	**Place and date of establishment**	**Paid-in capital**	**Percentage of ownership interest attributable to the Group as at 31 December 2007**	**Principal activities**
Guizhou Zunyi Lianhe Electrochemical Co., Ltd. (貴州遵義聯和電化有限公司)*	PRC 19 January 2004	RMB80,000,000	60%	Manufacture and sale of carbide products

* *The name of this company referred to in this report represents management's best effort at translating the Chinese name of the company as no English name has been registered.*

Pursuant to the articles of association of Guizhou Zunyi and the joint venture contract of Guizhou Zunyi entered into between Liansu HK and Zunyi Chlorine Alkali Co., Ltd. ("Zunyi Chlorine Alkali or "遵義氯鹹股份有限公司" in Chinese), the joint venture partner, the board of directors of Guizhou Zunyi was jointly controlled by Liansu HK and Zunyi Chlorine Alkali. As a result, notwithstanding Liansu HK held a 60% equity interest in Guizhou Zunyi, it did not exercise unilateral control over Guizhou Zunyi. Guizhou Zunyi was, therefore, accounted for as a jointly-controlled entity of the Group. The amount due from the Group's jointly-controlled entity is disclosed in note 36(a).

The following table illustrates the summarized financial information of the Group's jointly-controlled entity:

Share of the jointly-controlled entity's results:

	Year ended 31 December	
	2007	**2008**
	RMB'000	**RMB'000**
Total revenue, other revenue, income and gains	145,200	68,575#
Total expenses	(149,706)	(73,544)#
Loss after tax	(4,506)	(4,969)

Represented the operating results of the Group's jointly-controlled entity from 1 January 2008 to the date immediately before its disposal by the Group.

Share of the jointly-controlled entity's assets and liabilities:

	As at 31 December 2007
	RMB'000
Assets	54,199
Liabilities	(13,499)
Net assets	40,700

On 12 April 2008, Liansu HK disposed of its entire 60% equity interest in Guizhou Zunyi to Zunyi Chlorine Alkali, an independent third party, at a cash consideration of RMB40,700,000, determined with reference to the net assets value of Guizhou Zunyi as at 31 December 2007. The gain on disposal of Guizhou Zunyi, amounting to RMB4,969,000, was included in "Other revenue, income and gains" on the face of the consolidated statements of comprehensive income (note 6).

18. INTERESTS IN SUBSIDIARIES

Company

	As at 31 December 2009
	RMB'000
Unlisted investments, at cost	—
Amounts due from subsidiaries	694,194
	694,194

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The Directors consider that the carrying amounts of the amounts due from subsidiaries approximate to their fair values as at 31 December 2009.

19. INVENTORIES

Group

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Raw materials	386,193	373,388	384,619
Work in progress	2,809	10,433	17,917
Finished goods	62,301	200,310	340,971
	451,303	584,131	743,507

Certain of the Group's interest-bearing bank loans were secured by certain of the Group's inventories, which had aggregate carrying amounts of approximately RMB122,499,000 and RMB102,591,000 as at 31 December 2007 and 2008, respectively (note 33).

20. TRADE AND BILLS RECEIVABLES

Group

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**
Trade receivables	244,680	211,777	468,355
Bills receivable	—	—	6,886
Less: Impairment provision	(7,271)	(8,530)	(8,506)
	237,409	203,247	466,735

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

Trade and bills receivables are unsecured and non-interest-bearing. The carrying amounts of trade and bills receivables approximate to their fair values.

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

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**
Within 3 months	135,706	127,008	396,252
4 to 6 months	29,345	36,768	42,160
7 to 12 months	35,594	25,309	15,837
1 to 2 years	36,023	11,249	10,144
2 to 3 years	741	2,913	1,942
Over 3 years	—	—	400
	237,409	203,247	466,735

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

	2007	2008	2009
	RMB'000	RMB'000	RMB'000
At beginning of year	3,605	7,271	8,530
Impairment losses recognized (note 7)	3,666	2,074	7,172
Amount written off as uncollectible	—	—	(7,196)
Disposal of subsidiaries	—	(815)	—
At end of year	7,271	8,530	8,506

The above provision of RMB7,271,000, RMB8,530,000 and RMB8,506,000 as at 31 December 2007, 2008 and 2009 is all for individually impaired trade receivables with their carrying amounts before provision of RMB7,271,000, RMB8,580,000 and RMB8,506,000. The individually impaired trade receivables relate to customers that were in default or delinquency in payments. The Group does not hold any collateral or other credit enhancements over these balances.

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

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	108,631	106,436	398,432
Past due but not impaired			
Less than 3 months past due	55,445	47,002	41,023
4 to 6 months past due	22,440	32,717	16,215
7 to 12 months past due	14,029	8,403	6,551
1 to 2 years past due	35,489	5,776	3,657
2 to 3 years past due	633	2,913	457
Over 3 years past due	742	—	400
	237,409	203,247	466,735

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors believe that no impairment provision is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	Note	As at 31 December		
		2007	**2008**	**2009**
		RMB'000	**RMB'000**	**RMB'000**
Prepayments		281,445	203,989	198,178
Deferred expenses		10,323	7,965	9,304
Current portion of prepaid land lease payments	16	2,359	3,917	4,599
Value-added tax recoverable		1,563	2,445	27,151
Deposits		3,764	3,139	5,173
Other receivables		8,277	17,069	13,533
		307,731	238,524	257,938

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

22. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Group

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**
Cash and bank balances	197,546	138,727	486,900
Less: Restricted cash:			
Guarantee deposits as performance bonds	1,141	2,780	357
Guarantee deposits for issuance of bank acceptance notes	9,768	—	124,523
Guarantee deposits for issuance of letters of credit	—	—	253
	10,909	2,780	125,133
Cash and cash equivalents	186,637	135,947	361,767
Denominated in RMB (note)	191,767	133,311	452,419
Denominated in other currencies	5,779	5,416	34,481
	197,546	138,727	486,900

Note: The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and restricted cash are deposited with creditworthy banks with no recent history of default.

23. TRADE AND BILLS PAYABLES

Group

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Trade payables	61,428	39,667	102,338
Bills payable	137,612	—	130,364
	199,040	39,667	232,702

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

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

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Within 3 months	70,769	36,407	176,086
4 to 6 months	125,550	2,350	55,996
7 to 12 months	1,141	111	91
1 to 2 years	1,489	111	304
2 to 3 years	91	597	—
Over 3 years	—	91	225
	199,040	39,667	232,702

24. OTHER PAYABLES AND ACCRUALS

Group

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Advances from customers	282,181	325,404	233,687
Accruals	4,657	4,183	21,275
Salaries and welfare payables	10,251	28,865	39,836
Other payables	222,157	89,178	206,749
	519,246	447,630	501,547

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

25. INTEREST-BEARING BANK LOANS

Group

	Contractual interest rate	Maturity	As at 31 December 2007	Contractual interest rate	Maturity	As at 31 December 2008	Contractual interest rate	Maturity	As at 31 December 2009
	(%)		RMB'000	(%)		RMB'000	(%)		RMB'000
Current									
Bank loans									
— secured (note 33)	5.43-7.52	2008	495,600	5.67-8.22	2009	334,200	1.67-5.31	2010	229,100
— unsecured	6.73	2008	15,000	6.12-8.22	2009	82,500	2.77-5.84	2010	198,427
			510,600			416,700			427,527
Non-current									
Bank loans									
— secured (note 33)	5.67-7.94	2009	88,000	7.56	2010	20,250	1.67-5.84	2011-2012	662,150
— unsecured			—	7.56	2010	31,750	5.4	2011	220,000
			88,000			52,000			882,150
			598,600			468,700			1,309,677

Group

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Analysed into bank loans repayable:			
Within one year or on demand	510,600	416,700	427,527
In the second year	88,000	52,000	868,460
In the third year	—	—	13,690
	598,600	468,700	1,309,677

Company

	Contractual interest rate	Maturity	As at 31 December 2009
	(%)		RMB'000
Current			
Bank loan — secured	1.67	2010	176,100
Non-current			
Bank loan — secured	1.67	2011	264,150
			440,250

Company

	As at 31 December 2009
	RMB'000
Analysed into bank loans repayable:	
Within one year or on demand	176,100
In the second year	264,150
	440,250

The carrying amounts of all the Group's bank loans at the end of each reporting period are denominated in RMB, except for an unsecured bank loan of HK$30,000,000 (approximately RMB26,427,000 equivalent) and a secured bank loan of HK$500,000,000 (approximately RMB440,250,000 equivalent) as at 31 December 2009, which were denominated in Hong Kong dollars.

The carrying amount of the Company's bank loan was denominated in Hong Kong dollars.

Certain of the Group's bank loans are secured or guaranteed by:

(a) Pledges over certain of the Group's assets, details of which are set out in note 33;

(b) Pledges over certain of the assets of the Group's related parties, details of which are set out in note 36(f);

(c) Personal guarantees executed by certain directors and a member of key management personnel of the Company, details of which are set out in notes 36(e) (i) and (ii);

(d) Corporate guarantees executed by certain related companies of the Group, details of which are set out in note 36(e) (iii);

(e) Bank loans of RMB38,000,000 and RMB8,000,000 were jointly and severally guaranteed by certain third party individuals as at 31 December 2008 and 2009, respectively; and

(f) A corporate guarantee, amounting to RMB49,000,000, executed by Foshan EI TI Plastic as at 31 December 2008.

The Company's bank loan is secured by pledges over certain assets of a related company of the Group, details of which are set out in note 36(f).

The Directors estimate the fair value of the bank loans by discounting their future cash flows at the market rate. The Directors consider that the carrying amounts of the Group's and the Company's current borrowings and non-current borrowings approximate to their fair values at the end of each reporting period.

26. DEFERRED TAX

Group

The following are the major deferred tax assets/(liabilities) recognized and their movements during the Relevant Years:

	Provision for impairment of assets	Depreciation allowance in excess of related depreciation	Fair value adjustments arising from acquisition of a subsidiary	Withholding tax on distributable profits of subsidiaries in the PRC	Deferred government grants	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	516	—	—	—	—	516
Credited to the consolidated statement of comprehensive income for the year (note 10)	477	446	—	—	—	923
At 31 December 2007 and 1 January 2008	993	446	—	—	—	1,439
Credited/(charged) to the consolidated statement of comprehensive income for the year (note 10)	354	297	70	(7,688)	—	(6,967)
Disposals of subsidiaries (note 30)	(98)	(804)	—	—	—	(902)
Acquisition of a subsidiary (note 29(a))	97	250	(3,775)	—	—	(3,428)
At 31 December 2008 and 1 January 2009	1,346	189	(3,705)	(7,688)	—	(9,858)
Credited/(charged) to the consolidated statement of comprehensive income for the year (note 10)	(88)	(189)	105	(30,461)	6,056	(24,577)
At 31 December 2009	1,258	—	(3,600)	(38,149)	6,056	(34,435)

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Gross deferred tax assets recognized in the consolidated statements of financial position	1,439	1,535	7,314
Gross deferred tax liabilities recognized in the consolidated statements of financial position	—	(11,393)	(41,749)
	1,439	(9,858)	(34,435)

27. DEFERRED INCOME

Deferred income represented government grants received by the Group during the year ended 31 December 2009 as financial subsidies for its construction of new factory premises in Changchun. The grants received are released to the consolidated statement of comprehensive income over the expected useful lives of the relevant properties by equal annual installments. As the related assets were not ready for use as of 31 December 2009, no deferred income was released to the consolidated statement of comprehensive income for the year then ended.

28. SHARE CAPITAL

Company

	As at 31 December 2009
	RMB'000
Authorized:	
10,000,000,000 ordinary shares of HK$0.1 each	880,500
Issued and fully paid:	
4,000,000 ordinary shares of HK$0.1 each	352

(a) As of the date of incorporation of the Company, its authorized share capital was US$50,000 divided into 50,000 shares of US$1.00 each. On the same date, one share of US$1.00 par value was allotted and issued nil paid to the initial subscriber and was then transferred to New Fortune. On 10 November 2009, 49,999 shares of US$1.00 each were allotted and issued fully paid to New Fortune. On 20 November 2009, the authorized share capital of the Company was increased by HK$1,000,000,000 by creating an additional 10,000,000,000 shares of HK$0.1 each. On the same date, the Company issued 4,000,000 shares of HK$0.1 each to New Fortune and repurchased 50,000 issued shares of US$1.00 each from New Fortune, and reduced its authorized share capital by the cancellation of 50,000 shares of US$1.00 each.

(b) Pursuant to the written resolution of the shareholder of the Company dated 14 May 2010, the Company capitalized an amount of HK$199,600,000 (approximately RMB175,798,000 equivalent) owing to a director (note (a) of Section III).

(c) Pursuant to the written resolution of the shareholder of the Company dated 19 May 2010, the par value of each ordinary share was sub-divided from HK$0.1 each to HK$0.05 each.

29. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of Zhongshan Walton

In April 2008, Liansu Electric acquired a 100% equity interest in Zhongshan Walton from certain independent third parties. Zhongshan Walton is principally engaged in the manufacture and sale of plastic-steel composite pipes. Pursuant to the S&P Agreement, Guangdong Liansu Technology acquired from Liansu Electric its entire equity interests in Zhongshan Walton at a cash consideration of RMB19,380,000 (the "Acquisition"). Prior to and after the Acquisition, Zhongshan Walton is indirectly controlled by Mr. Wong. Accordingly, the Acquisition was regarded as a common control transaction and was accounted for using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by the HKICPA. The Financial Information has been presented as if Zhongshan Walton has been included in the Group when Zhongshan Walton first came under the control of Mr. Wong in April 2008. The consideration paid by the Group to Liansu Electric for the Acquisition was accounted for as a distribution to Mr. Wong.

The fair values of the identifiable assets and liabilities of Zhongshan Walton as at the date of acquisition by Liansu Electric were as follows:

	Notes	Fair value
		RMB'000
Property, plant and equipment	14	17,036
Prepaid land lease payments	16	20,620
Deposits paid for the purchase of property, plant and equipment		164
Deferred tax assets		347
Inventories		35,695
Trade receivables		7,807
Prepayments, deposits and other receivables		9,196
Cash and bank balances		1,935
Trade payables		(2,184)
Other payables and accruals		(24,402)
Interest-bearing bank loans		(20,800)
Amounts due to directors		(12,000)
Deferred tax liabilities		(3,775)
		29,639
Total contribution from Mr. Wong, presented as merger reserve in the Financial Information		29,639

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

	RMB'000
Cash consideration	—
Cash and bank balances acquired	1,935
Net inflow of cash and cash equivalents in respect of the acquisition of Zhongshan Walton	1,935

(b) **Acquisition of Foshan Liansu**

On 8 November 2009, Guangdong Liansu Technology acquired a 100% equity interest in Foshan Liansu from Foshan Xingzhan Investment Co., Ltd. ("Foshan Xingzhan" or "佛山市星展投資有限公司" in Chinese), an independent third party, at a cash consideration of RMB5,000,000. Foshan Liansu is principally engaged in trading of plastic pipes and pipe fittings.

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

	Note	Fair value recognized on acquisition	Previous carrying amount
		RMB'000	RMB'000
Property, plant and equipment	14	80	80
Inventories		25	25
Trade receivables		2,624	2,624
Prepayments, deposits and other receivables		3,344	3,344
Cash and bank balances		5,010	5,010
Trade payables		(43)	(43)
Other payables and accruals		(6,040)	(6,040)
		5,000	5,000
Satisfied by cash		5,000	

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

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

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

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

30. DISPOSALS OF SUBSIDIARIES

(a) Disposals of subsidiaries to related parties

During the year ended 31 December 2008, the Group disposed of the following subsidiaries to certain related parties of the Group:

(i) On 8 September 2008, Liansu HK and Guangdong Liansu Technology transferred their equity interests of 32% and 68% in Yingxin Real Estate to Yan Sing Fu Sing Real Estate (Holdings) Limited ("Yan Sing Fu Sing" or "盈信富星地產集團有限公司" in Chinese), at a cash consideration of approximately RMB6,400,000 and RMB13,600,000, respectively. The consideration was determined with reference to the paid-in capital of Yingxin Real Estate as at 8 September 2008. Yan Sing Fu Sing is 100% owned by Mr. Wong. RMB13,600,000 was settled in cash and RMB6,400,000 was settled by offsetting the amount due to Mr. Wong.

(ii) On 26 December 2008, Liansu HK and Guangdong Liansu Technology transferred their equity interests of 49% and 51% in Liansu Machinery to Star Excel Investment Limited ("Star Excel"), at a cash consideration of approximately HK$9,800,000 (approximately RMB8,643,000 equivalent) and HK$10,210,000 (approximately RMB9,005,000 equivalent), respectively. The consideration was determined with reference to the paid-up capital of Liansu Machinery as at 8 December 2008. Star Excel is 100% owned by Mr. Wong. HK$10,210,000 was settled in cash and HK$9,800,000 was settled by offsetting the amount due to Mr. Wong.

(iii) On 17 June 2008, Liansu HK and Guangdong Liansu Technology transferred their equity interests of 49% and 51% in Guangdong Yunan Liansu Machinery Co., Ltd. ("Yunan Liansu Machinery" or "廣東郁南聯塑機器有限公司" in Chinese) to Star Excel at a cash consideration of approximately HK$6,000,000 (approximately RMB5,283,000 equivalent) and HK$4,572,000 (approximately RMB4,026,000 equivalent), respectively. The consideration was determined with reference to the paid-in capital of Yunan Liansu Machinery as at 17 June 2008. HK$4,572,000 was settled in cash and HK$6,000,000 was settled by offsetting the amount due to Mr. Wong.

The net assets of the subsidiaries disposed of to the Group's related parties during the year ended 31 December 2008 are as follows:

	Notes	RMB'000
Net assets disposed of:		
Property, plant and equipment	14	34,107
Investment properties	15	87,255
Prepaid land lease payments	16	16,059
Other intangible assets		113
Deposits paid for the purchase of property, plant and equipment		740
Deferred tax assets	26	902
Inventories		13,960
Trade receivables		37,721
Prepayments, deposits and other receivables		57,697
Amounts due from related companies		147,614
Cash and bank balances		3,831
Trade payables		(8,171)
Other payables and accruals		(165,943)
Interest-bearing bank loans		(7,000)
Amounts due to related companies		(159,695)
Tax payable		(381)
		58,809
Release of capital reserve		2,446
Income tax expense#		7,699
Loss on disposals of subsidiaries		(21,997)
		46,957
Satisfied by:		
Cash		26,631
Amounts due to directors		20,326
		46,957

\# According to the Corporate Income Tax Law of the PRC and a PRC tax circular Caishui 2009 No.59 ("Circular 59"), gains arising from all corporate restructuring are subject to CIT unless a restructuring transaction satisfies certain prescribed conditions under the circular. Taxable gain arising from a restructuring transaction is calculated with reference to the fair market value of the asset under disposal at disposal date.

Since the disposals of the Group's equity interests therein Yingxin Real Estate, Liansu Machinery and Yunan Liansu Machinery did not fulfill all the relevant prescribed conditions in the circular, taxable gains arising from such transactions were, therefore, subject to CIT. Accordingly, the Group has made CIT provision thereon these transactions in accordance with the requirements of Circular 59.

An analysis of the net inflow of cash and cash equivalents in respect of the disposals of subsidiaries to the related parties is as follows:

	RMB'000
Cash consideration received	26,631
Cash and bank balances disposed of	(3,831)
Net inflow of cash and cash equivalents in respect of the disposals of subsidiaries to the related parties	22,800

(b) **Disposals of subsidiaries to third parties**

During the two years ended 31 December 2007 and 2008, the Group disposed of the following subsidiaries to third parties:

(i) On 23 November 2007, Guangdong Liansu Technology disposed of its equity interest of 90% in Foshan Fuxing Real Estate Development Co., Ltd. ("Foshan Fuxing") to Foshan Shunde Foao Group Co., Ltd. (佛山市順德佛奧集團有限公司), an independent third party, at a cash consideration of RMB18,000,000. The consideration was determined with reference to the paid-in capital of Foshan Fuxing as at 23 November 2007. The principal activities of Foshan Fuxing was property development.

(ii) On 5 June 2008, Guangdong Liansu Technology disposed of its equity interest of 51.05% in Foshan EI TI Plastic to Foshan Xingzhan, at a cash consideration of RMB1,940,000. The consideration was determined with reference to the paid-in capital of Foshan EI TI Plastic as at 5 June 2008.

The net assets of the subsidiaries disposed of to third parties during the two years ended 31 December 2007 and 2008 are as follows:

	Notes	As at 31 December	
		2007	2008
		RMB'000	RMB'000
Net assets disposed of:			
Property, plant and equipment	14	—	436
Prepaid land lease payments	16	61,314	—
Other intangible assets		23	—
Inventories		359	26,093
Trade receivables		69	1,236
Prepayments, deposits and other receivables		38,486	36,628
Amounts due from related companies		—	85,150
Cash and bank balances		10	1,043
Trade payables		—	(53)
Other payables and accruals		(80,570)	(6,144)
Interest-bearing bank loans		—	(104,000)
Amounts due to related companies		—	(34,160)
Tax payable		—	(138)
Non-controlling interests		(1,912)	(2,238)
		17,779	3,853
Release of capital reserve		—	(840)
Gain/(loss) on disposals of subsidiaries		221	(1,073)
		18,000	1,940
Satisfied by:			
Cash		18,000	1,940

An analysis of the net inflow of cash and cash equivalents in respect of the disposals of subsidiaries to third parties during the years ended 31 December 2007 and 2008 is as follows:

	Year ended 31 December	
	2007	2008
	RMB'000	RMB'000
Cash consideration received	18,000	1,940
Cash and bank balances disposed of	(10)	(1,043)
Net inflow of cash and cash equivalents in respect of the disposals of subsidiaries to third parties	17,990	897

31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Major non-cash transactions

(a) As disclosed in note (3) to the consolidated statements of changes in equity in Section I, the Group acquired additional equity interests in certain subsidiaries from its related companies during the year ended 31 December 2007. The purchase considerations, amounting to RMB62,007,000 in aggregate, were settled via the amount due to Mr. Wong.

(b) As disclosed in note 30(a), the Group disposed of its equity interests in Yingxin Real Estate, Liansu Machinery and Yunan Liansu Machinery to its related parties during the year ended 31 December 2008. A portion of the consideration, amounting to RMB20,326,000, was settled via offsetting the amount due to Mr. Wong.

32. CONTINGENT LIABILITIES

At the end of each of the Relevant Years, neither the Group nor the Company had any significant contingent liabilities.

33. PLEDGE OF ASSETS

At the end of each of the Relevant Years, the following assets of the Group were pledged to certain banks for securing the bank loans granted to the Group:

		As at 31 December		
	Notes	**2007**	**2008**	**2009**
		RMB'000	**RMB'000**	**RMB'000**
Land	16	74,097	24,219	53,513
Buildings		66,159	134,426	232,193
Machinery and equipment		13,658	30,792	71,648
Inventories	19	122,499	102,591	—
Investment properties	15	60,165	—	—
		336,578	292,028	357,354

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties and certain production plants under operating lease arrangements, with leases negotiated for terms ranging from 1 to 8 years.

At the end of each of the Relevant Years, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**
Within one year	4,141	746	1,890
In the second to fifth years, inclusive	10,387	2,898	2,880
After five years	13,992	1,260	540
	28,520	4,904	5,310

(b) As lessee

The Group leases certain of its production plants, warehouses and equipment under operating lease arrangements. Leases are negotiated for terms ranging from 1 to 5 years.

At the end of each of the Relevant Years, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Within one year	2,323	8,419	8,808
In the second to fifth years, inclusive	8,483	328	3,896
After five years	—	—	76
	10,806	8,747	12,780

35. COMMITMENTS

Group

In addition to the operating lease commitments detailed in note 34(b) above, the Group had the following capital commitments at the end of each of the Relevant Years:

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
Property, plant and equipment	101,610	103,167	109,650
Prepaid land lease payments	13,100	9,303	—
	114,710	112,470	109,650

The Company had no capital commitments at 31 December 2009.

36. RELATED PARTY BALANCES AND TRANSACTIONS

During the Relevant Years, the Group's management is of the view that the following companies are related companies of the Group, which had transactions with the Group:

Name of the company	Relationship
EI TI HK	Under the common control of Mr. Wong
Liansu International	Under the common control of Mr. Wong
Star Excel	Under the common control of Mr. Wong
Top Jump Holdings Limited	Under the common control of Mr. Wong
Liansu Electric	Under the common control of Mr. Wong
Guangdong Liansu Profiles Co., Ltd. (廣東聯塑型材有限公司)	Under the common control of Mr. Wong
Jiangmen Liansu Soft Hoses Co., Ltd. (江門市聯塑軟管有限公司, now known as Jiangmen Liansu Facilities Co., Ltd. (江門市聯塑市政設施有限公司))	Under the common control of Mr. Wong
Liansu Machinery [(1)]	Under the common control of Mr. Wong
Guangdong Liansu Valves Co., Ltd. (廣東聯塑閥門有限公司) [(2)]	Under the common control of Mr. Wong
Yingxin Real Estate [(3)(8)]	Under the common control of Mr. Wong prior to 4 December 2009
Guizhou Ruihua Plastics Co., Ltd. (貴州瑞華塑膠有限公司)	Under the common control of Mr. Wong
Yan Sing Fu Sing	Under the common control of Mr. Wong
Foshan Shunde Liansu Industrial Co., Ltd. (佛山市順德區聯塑實業有限公司)	Under the common control of Mr. Wong
Yunan County Liansu Machinery Co., Ltd. (郁南縣聯塑機器有限公司)	Under the common control of Mr. Wong
Foshan Shunde Yingxin Property Management Co., Ltd.[(8)] (佛山市順德區盈信物業管理有限公司)	Under the common control of Mr. Wong prior to 4 December 2009
Foshan Somso Wine Co., Ltd. [(9)] (佛山市西堡紅酒有限公司)	Under the significant influence of directors
Guangdong Liansu Fire Fighting & Valve & Plumbing Accessories Co., Ltd. (廣東聯塑消防閥門水暖器材有限公司)	Under the common control of Mr. Wong
Miquan Liansu Plastic Pipe Co., Ltd. (米泉市聯塑管道有限公司) [(4)]	Under the significant influence of a director
Shanghai Liansu Trading Co., Ltd. (上海聯塑貿易有限公司) [(5)]	Under the significant influence of a director
Guizhou Zunyi[(6)]	Jointly-controlled entity of the Group
Guangzhou Yuegao Patent Trademark Agency Co., Ltd.[(7)] (廣州粵高專利商標代理有限公司)	Under the control of a director
Guangdong Yuegao Trademark Agency Co., Ltd.[(7)] (廣東粵高商標代理有限公司)	Under the control of a director

Notes:

(1) This company became a related company of the Group after it was disposed of by the Group on 26 December 2008 (note 30(a)(ii)).

(2) This company was formerly known as Yunan Liansu Machinery. It became a related company of the Group after it was disposed of by the Group on 17 June 2008 (note 30(a)(iii)).

(3) This company became a related company of the Group after it was disposed of by the Group on 8 September 2008 (note 30(a)(i)).

(4) Mr. Kong Zhaocong had a 40% equity interest in this company which was disposed of by Mr. Kong Zhaocong in August 2009.

(5) Mr. Zuo Manlun had a 40% equity interest in this company.

(6) This company, a then 60%-owned jointly-controlled entity of the Group, was considered as a related party to the Group prior to its disposal on 12 April 2008 (note 17).

(7) Mr. Lin Dewei had a 51% equity interest in each of these two companies.

(8) These companies were disposed of by Mr. Wong on 4 December 2009.

(9) Mr. Wong and Mr. Zuo Manlun had 35% and 25% equity interests, respectively, in this company before 31 August 2009. On 31 August 2009, Mr. Wong transferred his 35% equity interest to Mr. Zuo Manlun and an independent third party.

In addition to the balances and transactions disclosed elsewhere in this report, the Group had the following material balances and transactions with related parties during the Relevant Years:

(a) **Amounts due from related companies**

Group

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**
Trade receivables from related companies:			
— Guangdong Liansu Profiles Co., Ltd.	—	1,720	—
— Shanghai Liansu Trading Co., Ltd.	—	552	—
— Miquan Liansu Plastic Pipe Co., Ltd.	—	3,962	—
	—	6,234	—
Other receivables from related companies:			
— Guangdong Liansu Profiles Co., Ltd.	180	900	720
— Liansu Electric	3,869	165	—
— Star Excel	—	9,005	—
— Miquan Liansu Plastic Pipe Co., Ltd.	3,450	—	—
— Foshan Shunde Yingxin Property Management Co., Ltd.	4,085	—	—
	11,584	10,070	720
Other receivable from a jointly-controlled entity:			
— Guizhou Zunyi	6,000	—	—
	17,584	16,304	720

Trade receivables from the Group's related companies are unsecured, non-interest bearing and repayable on similar credit terms to those offered to the customers of the Group. The Group's non-trade receivables from related companies are unsecured, non-interest-bearing and have no fixed terms of repayment.

As at the date of this report, the Group's non-trade receivables from related companies had been fully settled.

(b) **Amounts due to related companies**

Group

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**
Trade payables to related companies:			
— Guangdong Liansu Profiles Co., Ltd.	—	916	—
Other payables to related companies:			
— Star Excel	9,504	8,951	—
— Foshan Shunde Liansu Industrial Co., Ltd.	6,000	—	—
— Foshan Somso Wine Co., Ltd.	1,535	—	—
— Guizhou Ruihua Plastics Co., Ltd.	3,650	2,078	—
— Liansu Electric	—	7,500	8,041
— Yingxin Real Estate	—	146,000	—
— Liansu Machinery	—	35,600	7,652
— Guangdong Liansu Valves Co., Ltd.	—	25,000	—
— Yunan County Liansu Machinery Co., Ltd.	13,709	—	—
	34,398	225,129	15,693
	34,398	226,045	15,693

Trade payables to the Group's related companies are non-interest-bearing. The Group's non-trade payables to related companies are unsecured, non-interest-bearing and have no fixed terms of repayment.

As at the date of this report, the Group's non-trade payables to related companies had been fully settled.

(c) **Amounts due to directors**

Group

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**
Mr. Wong	383,682	475,653	263,798
Mr. Zuo Manlun	46,120	17,119	—
	429,802	492,772	263,798

Company

	As at 31 December 2009
	RMB'000
Mr. Wong	263,798

The amounts due to directors are unsecured, non-interest-bearing and have no fixed terms of repayment. Out of the amount due to Mr. Wong as of 31 December 2009, an amount of HK$100,000,000 (approximately RMB88,000,000 equivalent) was repaid subsequent to the end of the reporting period and the remaining balance was capitalized. Please refer to note (a) of Section III for details.

(d) **Related party transactions**

	Notes	2007	2008	2009
		Year ended 31 December		
		RMB'000	RMB'000	RMB'000
Sales of goods to related companies:				
— Liansu Electric	(i)	—	18,312	177
— Guangdong Liansu Profiles Co., Ltd.	(i)	—	197	—
— Miquan Liansu Plastic Pipe Co., Ltd.	(i)	—	4,060	8,258
— Shanghai Liansu Trading Co., Ltd.	(i)	—	10,887	—
— Liansu Machinery	(i)	—	—	1,176
— Guangdong Liansu Valves Co., Ltd.	(i)	—	—	373
— Yingxin Real Estate	(i)	—	—	322
— Foshan Shunde Yingxin Property Management Co., Ltd.	(i)	—	—	466
— Guangdong Liansu Fire Fighting & Valve & Plumbing Accessories Co., Ltd.	(i)	—	—	562
		—	33,456	11,334
Sales of raw materials to related companies:				
— Liansu Electric	(ii)	—	8,749	403
— Liansu Machinery	(ii)	—	—	23,590
— Guangdong Liansu Profiles Co., Ltd.	(ii)	—	3,195	5,080
— Jiangmen Liansu Soft Hoses Co., Ltd.	(ii)	—	—	2,956
— Miquan Liansu Plastic Pipe Co., Ltd.	(ii)	—	2,558	1,299
		—	14,502	33,328
Sales of equipment to related companies:				
— Jiangmen Liansu Soft Hoses Co., Ltd.	(iii)	—	—	7,137
— Guangdong Liansu Profiles Co., Ltd.	(iii)	—	—	2,886
— Liansu Electric	(iii)	1,676	—	—
— Miquan Liansu Plastic Pipe Co., Ltd.	(iii)	—	1,398	—
		1,676	1,398	10,023
Provision of utilities to related companies:				
— Liansu Machinery*	(iv)	—	984	791
— Liansu Electric*	(iv)	—	1,858	1,676
— Guangdong Liansu Profiles Co., Ltd.	(iv)	—	396	1,846
— Jiangmen Liansu Soft Hoses Co., Ltd.	(iv)	—	—	293
		—	3,238	4,606
Rental income from related companies:				
— Guangdong Liansu Profiles Co., Ltd.	(v)	180	720	720
— Jiangmen Liansu Soft Hoses Co., Ltd.	(v)	—	79	275
— Liansu Machinery*	(v)	—	—	156
— Liansu Electric*	(v)	—	—	200
		180	799	1,351
Sales of buildings to a related company:				
— Guangdong Liansu Fire Fighting & Valve & Plumbing Accessories Co., Ltd.	(iii)	—	—	4,792
Purchases of materials from related companies:				
— Liansu Electric	(vi)	—	278	430
— Guangdong Liansu Profiles Co., Ltd.	(vi)	—	1,185	5,335
— Liansu Machinery	(vi)	—	—	1,956
— Jiangmen Liansu Soft Hoses Co., Ltd.	(vi)	—	—	4,175
— Guizhou Ruihua Plastics Co., Ltd.	(vi)	—	3,220	133
— Shanghai Liansu Trading Co., Ltd.	(vi)	—	2,384	—
— Miquan Liansu Plastic Pipe Co., Ltd.	(vi)	—	—	3,926
— Guangdong Liansu Valves Co., Ltd.	(vi)	—	—	669
— Guangdong Liansu Fire Fighting & Valve & Plumbing Accessories Co., Ltd.	(vi)	—	—	158

		Year ended 31 December		
	Notes	2007	2008	2009
		RMB'000	RMB'000	RMB'000
		—	7,067	16,782
Purchases of equipment from related companies:				
— Guangdong Liansu Valves Co., Ltd.	(vii)	—	33,209	74,331
— Liansu Machinery*	(vii)	—	2,495	49,162
— Jiangmen Liansu Soft Hoses Co., Ltd.	(vii)	—	—	6,947
— Yunan County Liansu Machinery Co., Ltd.	(vii)	5,766	—	—
— Guizhou Ruihua Plastics Co., Ltd.	(vii)	1,030	120	—
		6,796	35,824	130,440
Licensing trademarks to related companies				
— Liansu Electric*	(viii)	—	117	200
— Guangdong Liansu Profiles Co., Ltd.*	(viii)	—	8	50
— Liansu Machinery*	(viii)	—	—	100
— Guangdong Liansu Fire Fighting & Valve & Plumbing Accessories Co., Ltd.*	(viii)	—	—	40
— Guangdong Liansu Valves Co., Ltd.*	(viii)	—	—	60
		—	125	450
Licensing patents to a related company				
— Liansu Machinery*	(viii)	26	43	43
Agency services provided by related companies in relation to trademarks and patents				
— Guangzhou Yuegao Patent Trademark Agency Co., Ltd.*	(ix)	182	281	231
— Guangdong Yuegao Trademark Agency Co., Ltd.*	(ix)	201	171	194
		383	452	425
Use of properties owned by a director*	(x)	—	—	—

Notes:

(i) The sales of goods to related companies were conducted in accordance with terms agreed between the Group and its related companies, determined with reference to similar transactions with third party customers.

(ii) Raw materials were sold to related companies at cost plus mark-up.

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

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

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

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

(vii) Purchases of equipment from related companies were made with reference to the prices and conditions offered by the related companies to its third party customers.

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

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

(x) The properties owned by a director, including office, cafeteria, workshops and warehouses, were used by the Group at nil consideration.

In addition to the transactions disclosed above, the Group acquired additional equity interests from and disposed of equity interests of certain subsidiaries to certain related parties during the years ended 31 December 2007 and 2008, respectively, details of which were set out in notes to the consolidated statements of changes in equity and note 30, respectively.

* *These related party transactions constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.*

(e) **Guarantees provided by the related parties of the Group**

The Group's related parties have provided corporate guarantees or personal guarantees, in connection with certain bank borrowings obtained by the Group, as follows:

(i) Personal guarantees provided by the Group's directors:

	As at 31 December	
	2007	**2008**
	RMB'000	**RMB'000**
Mr. Wong	175,000	221,500
Ms. Zuo Xiaoping	160,000	221,500
Mr. Zuo Manlun	—	42,500

(ii) A personal guarantee provided by a member of the Group's key management personnel:

	As at 31 December 2008
	RMB'000
Ms. Zuo Xiaoying	13,500

(iii) Corporate guarantees provided by the Group's related companies:

	As at 31 December 2008
	RMB'000
Yingxin Real Estate	69,250
Liansu Machinery	158,750

(f) **Pledges over certain assets of the related parties of the Group**

Group

Certain of the Group's bank loans are secured by assets of the Group's related parties. The carrying amounts of these bank loans as at the end of each of the Relevant Years are:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**
Secured by:			
Land and buildings jointly owned by Mr. Wong and Ms. Zuo Xiaoping	47,800	111,000	—
Time deposits of Mr. Wong	304,800	—	—
Investment properties of Yingxin Real Estate	—	179,000	—
Land use rights of Liansu Machinery	—	25,000	—
Time deposits of Top Jump Holdings Limited	—	—	440,250

Company

The Company's bank loan is secured by assets of a related party of the Company. The carrying amount of this bank loan as at 31 December 2009 is as follows.

	As at 31 December 2009
	RMB'000
Secured by:	
Time deposits of Top Jump Holdings Limited	440,250

The pledges over the time deposits of Top Jump Holdings Limited will be fully released prior to the listing of the Company's shares on the Stock Exchange.

(g) **Compensation of key management personnel of the Group**

In addition to the amounts paid to the Company's directors as disclosed in note 9(a), compensation of other key management personnel of the Group is set out as follows:

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**
Short-term employees benefits	1,076	1,174	1,469
Post-employment benefits	63	62	117
Total compensation paid to other key management personnel	1,139	1,236	1,586

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Years are as follows:

Group

Financial assets — loans and receivables

		As at 31 December		
	Notes	**2007**	**2008**	**2009**
		RMB'000	**RMB'000**	**RMB'000**
Trade and bills receivables	20	237,409	203,247	466,735
Other receivables	21	8,277	17,069	13,533
Amounts due from related companies	36(a)	17,584	16,304	720
Restricted cash	22	10,909	2,780	125,133
Cash and cash equivalents	22	186,637	135,947	361,767
		460,816	375,347	967,888

Financial liabilities at amortized cost

		As at 31 December		
	Notes	**2007**	**2008**	**2009**
		RMB'000	**RMB'000**	**RMB'000**
Trade and bills payables	23	199,040	39,667	232,702
Financial liabilities included in other payables and accruals		232,408	118,043	246,585
Interest-bearing bank loans	25	598,600	468,700	1,309,677
Amounts due to directors	36(c)	429,802	492,772	263,798
Amounts due to related companies	36(b)	34,398	226,045	15,693
		1,494,248	1,345,227	2,068,455

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans, amounts due to directors and related companies and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The carrying amounts of the Group's financial instruments approximated to their fair values as at the end of each of the Relevant Years. Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of the directors of the Company reviews and agrees policies for managing each of these risks and they are summarized below.

Interest rate risk

Interest rate risk means the risk on the fluctuation of fair value on future cash flows of financial instruments which arise from changes in interest rates. Floating interest rate instruments will result in the Group facing the risk of changes in market interest rate, and fixed interest rate instruments will result in the Group facing fair value interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's annual profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ decrease in basis points	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity*
		RMB'000	RMB'000
Year ended 31 December 2009	50	3,306	—
Year ended 31 December 2009	-50	(3,306)	—
Year ended 31 December 2008	50	2,411	—
Year ended 31 December 2008	-50	(2,411)	—
Year ended 31 December 2007	50	2,993	—
Year ended 31 December 2007	-50	(2,993)	—

* Excluding retained profits

Foreign currency risk

The Group's businesses are located in Mainland China and most of the transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB. Accordingly, fluctuations of the exchange rates of RMB against foreign currencies do not have significant effects on the Group's results. The Group has not hedged its foreign exchange rate risk.

A reasonably possible change of 5% in the exchange rate between the Hong Kong dollar and RMB would have no material impact on the Group's profit during the Relevant Years and there would be no impact on the Group's equity.

Credit risk

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, prepayments, deposits and other receivables arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

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

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

Group

	As at 31 December 2007		
	Within 1 year	1 to 2 years	Total
	RMB'000	RMB'000	RMB'000
Interest-bearing bank loans	527,733	96,566	624,299
Trade and bills payables	199,040	—	199,040
Financial liabilities included in other payables and accruals	232,408	—	232,408
Amounts due to directors	429,802	—	429,802
Amounts due to related companies	34,398	—	34,398
	1,423,381	96,566	1,519,947

Group

	As at 31 December 2008		
	Within 1 year	1 to 2 years	Total
	RMB'000	RMB'000	RMB'000
Interest-bearing bank loans	431,525	56,823	488,348
Trade and bills payables	39,667	—	39,667
Financial liabilities included in other payables and accruals	118,043	—	118,043
Amounts due to directors	492,772	—	492,772
Amounts due to related companies	226,045	—	226,045
	1,308,052	56,823	1,364,875

Group

	As at 31 December 2009			
	Within 1 year	1 to 2 years	More than 2 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank loans	476,766	894,547	14,034	1,385,347
Trade and bills payables	232,702	—	—	232,702
Financial liabilities included in other payables and accruals	246,585	—	—	246,585
Amounts due to directors	263,798	—	—	263,798
Amounts due to related companies	15,693	—	—	15,693
	1,235,544	894,547	14,034	2,144,125

The maturity profile of the Company's financial liabilities as at 31 December 2009, based on the contractual undiscounted payments, is as follows:

Company

	As at 31 December 2009		
	Within 1 year	1 to 2 years	Total
	RMB'000	RMB'000	RMB'000
Interest-bearing bank loans	181,981	266,270	448,251
Other payables	7,298	—	7,298
Amount due to a director	263,798	—	263,798
	453,077	266,270	719,347

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as going concern and to maintain reasonable capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Years.

The Group monitors capital using a net borrowing to equity ratio, which is net borrowings divided by total capital. Net borrowings include interest-bearing bank loans, amounts due to directors and related companies less cash and cash equivalents and restricted cash. Capital represents the total equity.

At the end of each of the Relevant Years, the Group's strategy was to maintain the net borrowings to equity ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The net borrowings to equity ratios at the end of each of the Relevant Years were as follows:

	As at 31 December		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Interest-bearing bank loans	598,600	468,700	1,309,677
Amounts due to directors	429,802	492,772	263,798
Amounts due to related companies	34,398	226,045	15,693
Less: Cash and cash equivalents	(186,637)	(135,947)	(361,767)
Restricted cash	(10,909)	(2,780)	(125,133)
Net borrowings	865,254	1,048,790	1,102,268
Total equity	249,278	424,114	1,041,988
Net borrowings to equity ratio	347%	247%	106%

III. SUBSEQUENT EVENTS

The following events occurred subsequent to 31 December 2009 and up to the date of this accountants' report:

(a) Pursuant to the written resolution of the shareholder of the Company dated 14 May 2010, the Company capitalized an amount of HK$199,600,000 (approximately RMB175,798,000 equivalent) due to Mr. Wong (notes 28 and 36(c) of Section II).

(b) Pursuant to the written resolution of the shareholder of the Company dated 14 May 2010, the Company adopted a Pre-IPO Share Option Scheme.

(c) On 23 April 2010, the Group participated in the auction for the assets of Henan Hualin Group Industry Co., Ltd. (河南省華林集團工業有限公司) ("Henan Hualin") and was successful in its bid for Henan Hualin's land and the buildings and production lines thereon in Henan (being the property leased by the Group) for a price of RMB119,000,000. On 17 May 2010, the Group entered into an agreement with Hualin Group Bankruptcy Trustee (河南省華林集團工業有限公司破產管理人) under which it was agreed that RMB40,000,000 of the auction price would be paid before 31 May 2010 (already paid on 27 May 2010), with the remaining balance to be paid before 30 June 2010.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or its subsidiaries in respect of any period subsequent to 31 December 2009.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

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