



联塑
L & S

China Liansu Group Holdings Limited
中國聯塑集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2128



Interim Report 2010

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Company Profile and Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wong Luen Hei (*Chairman*)
Mr. Zuo Manlun (*Chief Executive Officer*)
Ms. Zuo Xiaoping
Mr. Lai Zhiqiang
Mr. Kong Zhaocong
Mr. Chen Guonan
Mr. Lin Shaoquan
Mr. Huang Guirong
Mr. Luo Jianfeng

Non-Executive Director

Mr. Lin Dewei

Independent Non-Executive Directors

Mr. Bai Chongen
Mr. Fung Pui Cheung
Mr. Wong Kwok Ho Jonathan

AUDIT COMMITTEE

Mr. Fung Pui Cheung (*Chairman*)
Mr. Wong Kwok Ho Jonathan
Mr. Lin Dewei

REMUNERATION COMMITTEE

Mr. Wong Luen Hei (*Chairman*)
Mr. Zuo Manlun
Mr. Fung Pui Cheung
Mr. Bai Chongen
Mr. Wong Kwok Ho Jonathan

NOMINATION COMMITTEE

Mr. Wong Luen Hei (*Chairman*)
Mr. Zuo Manlun
Mr. Fung Pui Cheung
Mr. Bai Chongen
Mr. Wong Kwok Ho Jonathan

JOINT COMPANY SECRETARIES

Mr. Ong Chi King *FCCA CPA*
Mr. Yuan Shuixian

AUTHORIZED REPRESENTATIVES

Mr. Zuo Manlun
Mr. Ong Chi King

REGISTERED OFFICE

PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA

Liansu Industrial Estate
Longjiang Town
Shunde District
Foshan City
Guangdong Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 3, 12th Floor, Tower 2
South Seas Centre
No. 75 Mody Road
Tsim Sha Tsui East
Kowloon, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Finance Limited
PO Box 1093
Queensgate House
Grand Cayman, KY1-1102
Cayman Islands

Company Profile and Corporate Information

COMPLIANCE ADVISER

Guotai Junan Capital Limited
27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

LEGAL ADVISORS

Li & Partners
22nd Floor, World-Wide House
Central
Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China Limited
Foshan Shunde Rural Commercial Bank
Company Limited
The Hong Kong and Shanghai Banking
Corporation Ltd.

Investor Information

LISTING INFORMATION

Listing: The Stock Exchange of Hong Kong Limited (The “Stock Exchange”)
Stock code: 2128

KEY DATES

Listing date - 23 June 2010
Interim Result Announcement - 30 August 2010

SHARE INFORMATION

Board lot size: 1,000 shares
Share issued as at 30 June 2010: 3,000,000,000 shares
Market Capitalization as at 30 June 2010: HK\$7,320 million

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen’s Road East, Wanchai
Hong Kong

INVESTOR RELATIONS AND MEDIA RELATIONS CONSULTANT

Porda International (Finance) PR Co., Ltd
Units 2009-2018, 20th Floor, Shui On Centre
6-8 Harbour Road, Wanchai, Hong Kong
Tel: (852) 3150-6788
Fax: (852) 3150-6728
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WEBSITE

<http://www.liansu.com>

Dear Shareholders,

On behalf of China Liansu Group Holdings Limited (the “Company” or “China Liansu”), together with its subsidiaries (the “Group”), I am pleased to present the first interim report of the Group for the six months ended 30 June 2010 (the “Period”) since its successful listing on the Main Board of the Stock Exchange on 23 June 2010.

In 2009, the business environment worldwide remained harsh following the financial tsunami. Despite the challenges posed by the global situation, the Chinese government has launched a series of measures to promote and support the use of plastic pipes in relevant areas. As a result, plastic pipes will continue to replace pipes made of traditional materials to become a major construction material. Further, increased urbanization in China and the huge investment in infrastructure market by the Chinese government will continue to drive the demand for plastic pipes.

Given the enormous room for growth in China's infrastructure market, we believe demand of plastic pipes is expected to remain high for the foreseeable future, despite the current anti-inflationary measures announced by the Chinese government to effectively address the problem of overheating of investments in the real estates development market.

With the strong ability to grow our distribution network and effectively manage planned capacity expansion, we have been successful in developing new products and new production processes. Leveraging on the geographical advantage of the proximity of its plants to urban regions, the Group will continue to expand its share in the existing 11 production facilities located in eight provinces, to solidify its dominant position in major markets. We are constructing two additional production facilities in Urumqi and Changchun. By the end of 2011, our production facilities will effectively cover seven major regions of China, i.e. Southern China, Central China, Southwestern China, Eastern China, Northern China, Northeastern China and Northwestern China, generally completing Phase One of our national footprint strategy.

Taken together, we will continue to retain and recruit qualified and experienced talent for corporate growth. Concurrently, we have already commenced identifying suitable land for building new plant facilities.

Chairman's Statement

The Group has achieved its profit forecast for the six months ended 30 June 2010. This rapid growth was resulted from the Group's large-scale operations, nationwide sales network, comprehensive product offerings, well-recognized brand, strong R&D capabilities and experienced management.

Finally, on behalf of the board of directors of the Company (the "Board"), I would like to express my sincere gratitude to all of our dedicated staff for their efforts and contributions, and to our shareholders and customers for their strong support.

Wong Luen Hei

Chairman

Hong Kong, 30 August 2010

Financial Highlights

| | Six months ended 30 June | | |
|---|--------------------------|------------------------------|--------|
| | 2010 | 2009 | Change |
| Results | RMB'million | RMB'million | (%) |
| | (audited) | (unaudited) | |
| Revenue | 3,323 | 1,859 | 78.8 |
| Profit before tax | 598 | 207 | 188.9 |
| Profit attributable to ordinary equity holders of the Company | 483 | 167 | 189.2 |
| Basic earnings per share ⁽¹⁾ (expressed in RMB per share) | 0.21 | 0.07 | 200.0 |
| Diluted earnings per share ⁽¹⁾ (expressed in RMB per share) | 0.21 | N/A | N/A |
| Dividend per share | – | – | Nil |
| | As at 30 June 2010 | As at 31 December 2009 | |
| Financial Position | RMB'million | RMB'million | Change |
| | (audited) | (audited) | (%) |
| Total assets | 5,600 | 3,499 | 60.0 |
| Net debts ⁽²⁾ | 1,305 | 1,310 | (0.4) |
| Shareholders' equity | 3,336 | 1,042 | 220.2 |
| Net assets per share (expressed in RMB per share) | 1.11 | 0.46 | 141.3 |
| Net debts to total assets (excluding cash and bank balances) | 0.37 | 0.43 | (14.0) |
| Net debts to shareholders' equity | 0.39 | 1.26 | (69.0) |

Financial Highlights

- Outstanding performance for the first half of 2010 with revenue of RMB3,323 million representing period on period growth of 78.8%
- Improved net profit margin from 9.0% to 14.5% for the six months ended 30 June 2009 and 2010 respectively
- Profit attributable to ordinary equity holders of the Company increased to RMB483 million, representing an increase of 189.2%
- Solid balance sheet with net cash (total cash and bank balances less total interest bearing bank loans) of RMB750 million as at 30 June 2010 to fund future expansion

Notes:

- ⁽¹⁾ Details of the calculation of the basic and diluted earning per share of the Company are set out in note 11 to the consolidated interim financial statements.
- ⁽²⁾ Represented total interest bearing bank loans

BUSINESS REVIEW AND ANALYSIS

According to the China Plastics Processing Industry Association (中國塑料加工工業協會), we were the largest manufacturer of plastic pipes and pipe fittings in China in terms of sales revenue in 2008. The Group is principally engaged in the manufacture and sale of a comprehensive range of plastic pipes and pipe fittings which are widely used in seven major areas including water supply, drainage, power supply and telecommunications, gas supply, agriculture, floor heating and fire-fighting. Benefiting from large-scale production operations, a nationwide sales network, a comprehensive range of product offerings with strong brand recognition and research and development capabilities, the Group recorded satisfactory results with an increase of 78.8% in revenue and 189.2% in net profit respectively for the Period as compared to the corresponding period in 2009.

During the Period under review, the Group's operating and financial performance was steady. Turnover was RMB3,323 million, representing an increase of RMB1,464 million or 78.8% over the corresponding period in 2009. Gross profit for the six months ended 30 June 2010 was RMB882 million, representing an increase of 143.6% over the corresponding period in 2009. Basic earnings per share was RMB0.21, representing an increase of 200.0% over the corresponding period in 2009.

With increasing social awareness of energy saving and environmental protection, the Chinese government has introduced a series of policies to encourage and support the use of plastic pipes. Plastic pipes are increasingly replacing pipes made of conventional materials such as concrete and metal as important construction materials. In addition, the acceleration of urbanization in China, the use of plastic pipes in place of conventional piping systems and the continuing growth of and substantial infrastructure investments in China have driven a sustained increase in the demand for plastic pipes. Starting from 2009, the Chinese government has promulgated a series of regulatory and fiscal policies targeted specially towards curbing the level of investment in the real estate sector. Since such measures are aiming at curbing the overheated property prices by increasing the supply of residential houses, there has been no material adverse effect on the sales volume and selling prices of our products to our real estate customers for the Period under review.

The Group placed great emphasis on production and operation while proceeding with project construction. During the Period, total sales volume of plastic pipes and pipe fittings was approximately 351,000 tonnes, representing an increase of approximately 151,000 tonnes or 75.5% over the same period last year. Gross profit increased by 143.6% to RMB882 million and gross profit margin increased by 7.0 percentage points to 26.5% compared to the same period last year. The continuous expansion of the Group's scale of production and market share have positioned us well in enhancing our bargaining power in negotiating the sales prices of our products with our distributors and direct customers and the purchase prices of raw materials with our suppliers, thereby, leading to an increase in our gross profit margin in the first half of 2010 when compared to the same period last year.

Management Discussion and Analysis

BUSINESS REVIEW AND ANALYSIS (continued)

LOCATION OF OUR PRODUCTION FACILITIES



During the Period, the Group benefited from an expanded production scale and a continued improvement in production efficiency and productivity. As of the end of June 2010, overall semi-annual production efficiency reached 75.9%, effective semi-annual production capacity rose to approximately 540,000 tonnes, and designed semi-annual production capacity reached approximately 1,020,000 tonnes. The expansion of production capacity and the further extension of market coverage have provided strong momentum for the expansion of the Group and had a profound effect on operation of its distribution network. With good marketing strategies in place, we believe the Group is expected to maintain stable and steady performance in the second half of 2010. Currently, the Group has effectively realized its national production network with 11 plastic pipes and pipe fittings production bases in operation which are strategically located across China. The Group is constructing two additional production bases in Urumqi, Xinjiang Uygur Autonomous Region, and Changchun, Jilin. These are expected to

Management Discussion and Analysis

BUSINESS REVIEW AND ANALYSIS (continued)

LOCATION OF OUR PRODUCTION FACILITIES (continued)

begin operation in the fourth quarter of 2010 and the first quarter of 2011 respectively, with production capacities planned to reach 34,000 tonnes and 66,300 tonnes respectively in 2012. While maintaining its construction plan, the Group additionally plans to identify suitable land in Sichuan and Shaanxi to further enhance its coverage over these regions.

Through these facilities and our sales network which consists of 29 sales offices and close to 700 independent distributors, we successfully cover our customers across China. We believe the establishment and maintenance of a broad distribution network is important to the profitability and growth of our business. We also believe our close cooperation with distributors enables us to achieve growth by leveraging on 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 the increasing market demand for plastic pipes and pipe fittings in China by allowing us to allocate our resources to focus on designing and developing new products and developing our Liansu brand. We believe that the distributorship model has been instrumental in enabling us to increase our sales and profitability during the Period.

RESEARCH AND DEVELOPMENT

Research and development has been an important factor in our success. The Group has an experienced research and development team responsible for designing and engineering our products and processes. As at 30 June 2010, we held 123 patents and have applied for an additional 140 patents in China and have 9 patent applications outside China that are pending. In recognition of our leading position and expertise in the industry, the Company has been invited to participate in drafting or revising seven national industrial standards for the plastic pipe industry in China. The Group has been recognized by several national and provincial government entities for its research and development capabilities, which we believe may help to enhance our reputation in the plastic pipe industry and build up customer confidence in our products. In the future, the Group will develop in the directions of research on high performance plastic pipes such as plastic-steel composite pipes, research on new plastic pipe systems such as pipes for irrigation and new pipe application technologies such as trenchless pipe technologies.

Management Discussion and Analysis

REVIEW ON FINANCIAL PERFORMANCE

Revenue

For the six months ended 30 June 2010, the Group's revenue was RMB3,323 million, representing an increase of RMB1,464 million or 78.8% over the same period of 2009. The increase was mainly attributable to our expanded distribution network and production scale to cope with the growth of our products demand in major markets in China .

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

| | Six months ended 30 June | | | | | | | | |
|---------------------------------|--------------------------|------------------------|-------------------------------------|------------------------|------------------------|-------------------------------------|---------------------|----------------|-------------------------------------|
| | 2010 | | | 2009 | | | Change in | | |
| | Sales volume tonnes | Revenue RMB'million | Average selling prices RMB | Sales volume tonnes | Revenue RMB'million | Average selling prices RMB | Sales volume (%) | Revenue (%) | Average selling prices (%) |
| Plastic pipes and pipe fittings | | | | | | | | | |
| - PVC ⁽¹⁾ | 277,181 | 2,199 | 7,933 | 145,311 | 1,156 | 7,955 | 90.8 | 90.2 | (0.3) |
| - Non-PVC ⁽²⁾ | 73,660 | 1,077 | 14,621 | 54,625 | 692 | 12,668 | 34.8 | 55.6 | 15.4 |
| | <u>350,841</u> | <u>3,276</u> | <u>9,338</u> | <u>199,936</u> | <u>1,848</u> | <u>9,243</u> | <u>75.5</u> | <u>77.3</u> | <u>1.0</u> |
| Others ⁽³⁾ | N/A | 47 | N/A | N/A | 11 | N/A | N/A | 327.3 | N/A |
| | <u>350,841</u> | <u>3,323</u> | <u>N/A</u> | <u>199,936</u> | <u>1,859</u> | <u>N/A</u> | <u>N/A</u> | <u>78.8</u> | <u>N/A</u> |

Notes

1. "PVC" represents polyvinyl chloride, a type of material for making plastic pipes with high mechanical strength and rigidity.
2. "Non-PVC" of plastic pipes and pipe fittings comprise primarily of polyethylene ("PE") and polypropylene random ("PP-R").
3. "Others" consists of ancillary materials such as springs for connecting plastic pipes. Sales volume for "Others" are measured in units and not tonnes, and the size of the units between different products may differ.

Substantially all of our revenue derived from plastic pipes and pipe fittings during the Period. Approximately 66.2% (first half of 2009: 62.2%) of our revenue was derived from selling PVC plastic pipe and pipe fitting products which amounted to RMB2,199 million (first half of 2009: RMB1,156 million), the remaining revenue for the Period was derived from selling non-PVC plastic pipe and pipe fitting products, and ancillary materials, which amounted to RMB1,077 million and RMB47 million (first half of 2009: RMB692 million and RMB11 million) respectively. Our revenue was mainly derived from operations in China during the Period.

Management Discussion and Analysis

REVIEW ON FINANCIAL PERFORMANCE (continued)

Revenue (continued)

The sales volume of plastic pipes and pipe fittings in first half of 2010 rose 75.5% to approximately 351,000 tonnes from approximately 200,000 tonnes in the first half of 2009 principally because of an improvement in the productivity and the establishment of new production facilities in the second half of 2009. As a result, our effective semi-annual production capacity reached approximately 540,000 tonnes as at 30 June 2010. Our semi-annual production efficiency was approximately 75.9% in the first half of 2010.

The average selling prices of our products amounted to RMB9,338 per tonne in the first half of 2010, representing an increase of approximately 1.0% from RMB9,243 per tonne in the first half of 2009. The average cost of sales amounted to RMB6,958 per tonne in the first half of 2010, representing a decrease of 7.1% from RMB7,487 per tonne in the first half of 2009.

The following table sets forth a breakdown of our revenue for plastic pipes and pipe fitting by product category for the periods indicated:

| | Six months ended 30 June | | | |
|--|---------------------------------|------------|-------------|------------|
| | 2010 | % of total | 2009 | % of total |
| | RMB'million | revenue | RMB'million | revenue |
| Water supply | 1,288 | 39.3% | 750 | 40.6% |
| Drainage | 1,238 | 37.8% | 651 | 35.2% |
| Power supply and telecommunications | 595 | 18.2% | 345 | 18.7% |
| Gas supply | 40 | 1.2% | 32 | 1.7% |
| Others ⁽¹⁾ | 115 | 3.5% | 70 | 3.8% |
| Total | 3,276 | 100.0% | 1,848 | 100.0% |

Note:

1. "Others" comprise of agriculture, floor heating and fire-fighting.

As the Group already offered a comprehensive range of plastic pipe fitting in China, there is no material changes in the Group's sales mix by product category in the first half of 2010 when compared to the corresponding period last year.

Management Discussion and Analysis

REVIEW ON FINANCIAL PERFORMANCE (continued)

Revenue (continued)

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

| Regions ⁽¹⁾ | Six months ended 30 June | | | |
|------------------------|--------------------------|-----------------------|---------------------|-----------------------|
| | 2010 RMB'million | % of total revenue | 2009 RMB'million | % of total revenue |
| Southern China | 2,278 | 68.5% | 1,200 | 64.6% |
| Southwestern China | 330 | 9.9% | 209 | 11.2% |
| Central China | 255 | 7.7% | 197 | 10.6% |
| Northern China | 205 | 6.2% | 111 | 6.0% |
| Eastern China | 122 | 3.7% | 63 | 3.4% |
| Northwestern China | 73 | 2.2% | 37 | 2.0% |
| Northeastern China | 40 | 1.2% | 21 | 1.1% |
| Outside China | 20 | 0.6% | 21 | 1.1% |
| Total | 3,323 | 100.0% | 1,859 | 100.0% |

Note:

1. Details of the areas covered by each region are set out in note 5 to the consolidated interim financial statements.

The Southern China region remained our top sales region during the Period, accounting for 68.5% of our total revenue for the first half of 2010, as compared to 64.6% of our total revenue for first half of 2009, which is primarily due to increased market demand arising from an increase in infrastructure activities in this region.

Gross profit and gross margin

Gross profit for the Period rose 143.6% to RMB882 million from RMB362 million in the corresponding period of preceding year while gross profit margin improved to 26.5% from 19.5% of the same period last year. The increase of gross profit and gross profit margin was attributable to the increase of our average selling prices and the decrease of our average raw material cost during the Period, as we have continuously improved our production efficiencies and expanded our production scale and market share. We were able to maintain a certain level of bargaining power in negotiating the selling price of our products and maximize discounts on purchasing price of our raw materials through our centralized procurement.

Management Discussion and Analysis

REVIEW ON FINANCIAL PERFORMANCE (continued)

Other revenue, income and gains

Other revenue, income and gains amounted to RMB16 million for the Period, representing an increase of 60.0% from RMB10 million for the corresponding period last year. The increase was primarily attributable to the increase in interest received from banks, government grants and subsidies.

Selling and distribution costs

Selling and distribution costs rose by 54.8% to RMB130 million from RMB84 million in the corresponding period last year due to an increase in marketing related cost and packaging cost resulting from our increased sales.

Administrative expenses

Administrative expenses rose by 85.2% to RMB100 million from RMB54 million in the corresponding period of the preceding year, primarily as a result of an increase in professional services/consultation fees incurred in connection with the preparation for the public offering of the Company, and an increase in salaries and benefits of administrative and management staff.

Other operating expenses

Other operating expenses rose by 236.4% to RMB37 million from RMB11 million in the corresponding period last year, primarily due to our commitment to continuing research and development.

Finance costs

Finance costs amounted to RMB32 million, representing an increase of 88.2% from RMB17 million of the same period last year, primarily due to our increased average borrowings, which were used for increased investments in production facilities and for the replacement of financing provided by related parties that had been repaid before listing of the Company's shares on the main board of the Stock Exchange.

Income tax

Income tax represented amounts of PRC corporate income tax ("CIT") paid by the Group, as we are not subject to any profits or income tax in the Hong Kong, the Cayman Islands and the British Virgin Islands during the Period. The effective tax rate decreased from 19.5% to 19.3% of the same period last year because of Liansu Technology Development (Wuhan) Co., Ltd. was assessed as a "High and New Technology Enterprise" in the year 2009 and was subject to a reduced CIT rate of 15%. It received CIT refund in respect of prior years during the Period.

Management Discussion and Analysis

REVIEW ON FINANCIAL PERFORMANCE (continued)

Profit for the period attributable to ordinary equity holders of the Company

Primarily as a result of the foregoing, the profit attributable to ordinary equity holders of the Company amounted to RMB483 million, representing an increase of 189.2% from RMB167 million in the corresponding period last year.

CAPITAL STRUCTURE

Details of the capital structure of the Company are set out in the note 20 to the consolidated interim financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2010, the Group had total bank loans of approximately RMB1,305 million (31 December 2009: RMB1,310 million). Approximately 77.9% of the Group's bank borrowings were denominated in Renminbi and the remaining 22.1% were in Hong Kong dollars. In addition, approximately 90.8% of the Group's total principal amount of bank borrowings were at floating rates and the remaining 9.2% were at fixed rates as at 30 June 2010. For the six months ended 30 June 2010, the interest rate ranged from 1.67% to 5.94% per annum. The Group's bank borrowings have remaining maturity periods ranging from within one year to three years.

As at 30 June 2010, the Group's current assets and current liabilities were approximately RMB3,855 million and RMB1,695 million respectively. The current ratio (that is, the ratio of current assets over current liabilities) and the quick ratio (that is, the ratio of current assets less inventories over current liabilities) of the Group rose to 2.27 and 1.71 from 1.29 and 0.80 as at 31 December 2009 respectively. Total equity of the Group increased to approximately RMB3,336 million (31 December 2009: RMB1,042 million). The gearing ratio of the Group (calculated based on the basis of the total borrowings over total assets) stood at a healthy level of 23.3% as compared to 37.4% as at 31 December 2009 due to repayment of bank loans during the Period.

With cash and bank balances, including restricted cash, of approximately RMB2,055 million (31 December 2009: RMB487 million) as well as existing banking facilities, the directors of the Company consider that the Group has sufficient working capital for its operation and the future development.

Management Discussion and Analysis

CHARGE ON ASSETS

As at 30 June 2010, certain leasehold land, property, plant and equipment of the Group with carrying value of approximately RMB370 million were pledged to certain banks to secure bank borrowings granted to the Group.

FOREIGN EXCHANGE EXPOSURE

The Group's transactions are mainly denominated in RMB. During the Period, the Group did not have any material foreign exchange exposure and did not use any financial instruments for hedging purposes.

SIGNIFICANT INVESTMENTS

As at 30 June 2010, there was no significant investment held by the Group (31 December 2009: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisition or disposal of subsidiaries and associated companies during the period ended 30 June 2010 (31 December 2009: Nil).

CONTINGENT LIABILITIES

As at 30 June 2010, the Group did not have any material contingent liabilities (31 December 2009: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2010, the Group employed a total of approximately 7,000 employees (30 June 2009: approximately 8,500 employees) including directors. Total employee benefits expenses including directors' emoluments were RMB128 million (30 June 2009: RMB117 million) for the Period. The employees including directors are remunerated based on their work performance, professional experiences and the prevailing industry practice. The Group also makes contributions to the statutory mandatory provident fund scheme for the employees of the Group in Hong Kong and to the pension scheme for the employees of the Group in China.

Management Discussion and Analysis

EVENTS AFTER THE REPORTING PERIOD

No significant event took place subsequent to 30 June 2010.

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

The Company was successfully listed on the main board of the Stock Exchange on 23 June 2010 and issued 750 million shares of HK\$0.05 each at HK\$2.60 per share by way of placing and public offer (as set out in detail in the Results of Allocation Announcement on 22 June 2010 (the "Announcement")). The net proceeds of the IPO after deducting the relevant expenses were approximately of HK\$1,860 million.

An approximately of HK\$200 million was used for repaying a portion of our bank loans during the Period with the remaining sum of net proceeds approximately HK\$1,660 million being unutilized as at 30 June 2010 had been deposited with financial institutions in Hong Kong. The remaining net proceeds will be applied in the manner as stated in the Announcement.

UPDATES ON THE STATUS OF THE COMPANY'S EXPANSION PLANS

Up until the end of the Period, the status of the Company's production facilities expansion plans of the Group remain unchanged from the description in our prospectus dated 9 June 2010 (the "Prospectus") under the section headed "Business – Production Facilities and Production Process". We have spent in total RMB441 million on the above expansion plans up to 30 June 2010. We plan to spend an additional RMB369 million, RMB1,500 million and RMB940 million on such expansion plans for the years ending 31 December 2010, 2011 and 2012, respectively. We intend to use part of the net proceeds from the public offering as disclosed on the Announcement as well as our bank facilities and cash flows from operations to cover such estimated expenditures.

PROSPECTS

Given the general trend of economic development in the PRC, our management is confident about the future development of its plastic pipes business. Since 2008, urbanization has been steadily increasing in the PRC. The expansion of cities and the growth of urban population have facilitated an overall improvement in urban economy and urban infrastructure. This, together with a continued increase in average disposable income, living standard and product prices, has led the Group to believe that the PRC plastic pipe market will enter a new stage of rapid growth.

PROSPECTS (continued)

In recent years, there has been a significant improvement in the technology of plastic pipes in China. Some PRC enterprises have started to use more advanced production equipment and an increasing number of manufacturers have started to put emphasis on the research and development of new products and the introduction of new production technology. Our directors anticipate that plastic pipes which are of light weight material with good abrasion and corrosion resistance compared to pipes made of conventional materials are in line with the trend of modern market development. At the same time, the PRC government has also promulgated other documents such as “Several Suggestions on Strengthening Technical Innovation Advancing Chemical Building Material Industrialization” which recommend areas for application or development targets for various plastic pipes. The implementation of such policies has further stimulated demand in the plastic pipe market.

With the Group’s solid production basis and excellent innovation, research and development capabilities, the directors believe the Group will continue to maintain its market competitiveness. In 2010, the Group will focus its operations and development in the following areas with a view to further consolidating its market share.

Continuing to expand production capacity to consolidate leading market position

The Group has increased its production capacity on a continuing basis in the past in order to meet the market demand. As disclosed in the Prospectus, the Group intends to use the proceeds for the expansion of production capacity and to further improve the national distribution of production bases. The Group is constructing production bases in Urumqi and Changchun to meet the growing demand of markets in the northwest and northeast regions. In addition, the Group is also considering to increase the number of production lines in existing production bases. In its production capacity expansion plan, the Group plans to moderately increase its production capacity over the next three years based on actual business conditions and prudent estimates of future demand.

Stepping up efforts in marketing to increase market share

The Group’s marketing and advertising strategies are vital to its business success. To support the expansion of the production bases, the Group intends to expand its sales network by recruiting additional distributors and establishing more sales offices. At the same time, the Group will step up its marketing efforts to further expand its customer base in order to consolidate its market position and expand its market share.

Management Discussion and Analysis

PROSPECTS (continued)

Upgrade the Liansu brand to increase customer satisfaction and loyalty

Since its establishment, China Liansu has focused on creating recognized Chinese brands and has built up good reputation in this regard. The Group's objective is to strengthen its leading position in the PRC plastic pipe market through the "Liansu" brand and enter new areas through further expansion of its distribution network coverage. The Group will reinforce its penetration into existing markets to reinforce the "Liansu" brand and increase customer satisfaction and loyalty.

In the future, the Group will continue to actively participate in large infrastructure projects to further strengthen cooperation with government authorities, public utility entities and well known enterprises and enhance its corporate image. It will also increase its advertising budget and organize targeted marketing activities. Additionally, the Group plans to apply for registration of more intellectual properties.

The Group will continue to expand its sphere of business. In addition to organic growth, the Group will continue to seek new business opportunities including considering the expansion of its operations through acquisitions. The Group will make positive efforts to identify and carefully select plastic pipe or pipe fitting businesses for potential acquisitions, including advanced production lines to complement its operations and to meet the objectives of its long-term business development strategy.

Corporate Governance and Other Information

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES (THE “CODE”)

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company had adopted the Model Code as set out in Appendix 10 of the Listing Rules as the rules governing dealings by the directors in the listed securities of the Company. Having made specific enquiry to the directors, all of them confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the Period.

PURCHASES, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the Period.

AUDIT COMMITTEE

The Company has established an audit committee (the “Audit Committee”) pursuant to the provisions of the Code as set out in Appendix 14 to the Listing Rules, aimed at reviewing and supervising the Group’s financial reporting procedures. The Audit Committee is composed of one non-executive director and two independent non-executive directors.

At the meeting convened on 30 August 2010, the Audit Committee had reviewed the audited consolidated interim financial statements for the six months ended 30 June 2010, the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial report matters in relation to the audited consolidated interim financial statements for the six months ended 30 June 2010.

Corporate Governance and Other Information

AUDITORS

The Board of the Company has engaged Ernst & Young, Certified Public Accountants, as the auditors for the Company's interim results of 2010. The Group's consolidated interim financial statements for the six months ended 30 June 2010 have been audited by Ernst & Young, Certified Public Accountants.

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

None of the directors or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group. As disclosed in the paragraph headed "Deed of Non-Competition" in the section headed "Connected Transactions and Relationship with the Controlling Shareholder" of the Prospectus, our controlling shareholder being New Fortune Star Limited ("New Fortune") and Mr. Wong Luen Hei (the "Controlling Shareholder") has entered into a deed of non-competition in favour of our Company (for ourselves and as trustee for our subsidiaries stated therein) dated 14 May 2010 (the "Deed of Non-Competition").

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

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

Corporate Governance and Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2010, the interests and short positions of the directors and chief executives 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 (“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 (“Model Code”) of the Listing Rules were 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 the Company |
|-------------------|---|---------------------------------------|---|
| Directors | | | |
| Mr. Wong Luen Hei | Held by controlled corporation ⁽¹⁾ | 2,250,000,000 | 75.00% |
| Ms. Zuo Xiaoping | Held by spouse ⁽²⁾ | 2,250,000,000 | 75.00% |

Corporate Governance and Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(b) Share options

| Name | Capacity | Number of underlying shares held under share options | Percentage of the issued share 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% |
| Mr. 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% |

Corporate Governance and Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(b) Share options (continued)

Notes:

1. Mr. Wong Luen Hei, an executive director of the Company, is the sole shareholder of New Fortune, which in turn owns 75% of the issued shares of the Company. Accordingly Mr. Wong Luen Hei is indirectly interested in 2,250,000,000 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 14 May 2010. Mr. Wong Luen Hei is also the spouse of Ms. Zuo Xiaoping, and therefore Mr. Wong Luen Hei is deemed to be interest 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 interest 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' interest represents 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 at 30 June 2010 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.

Corporate Governance and Other Information

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2010, so far as is known to any director or chief executive of the Company, the following persons or corporations (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 share capital of the Company |
|---------------------|---------------------------------|---|---|
| New Fortune | Beneficial owner ⁽¹⁾ | 2,250,000,000 | 75.00% |

Note:

1. Mr. Wong Luen Hei is the sole shareholder of New Fortune, which in turn owns 75% of the issued shares of the Company. Accordingly Mr. Wong Luen is indirectly interested in 2,250,000,000 shares of the Company.

The above shares were the same shares as set out under the section headed “Directors’ and Chief Executives’ Interests and Short Position in Shares, Underlying Shares and Debentures” above. Save as disclosed above, as at 30 June 2010, the directors of the Company were not aware of any person or corporation (other than the directors and chief executives 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.

SHARE OPTION SCHEMES

The Company has adopted two share option schemes on 14 May 2010, pursuant to which the Company is entitled to grant options prior to and after the IPO. The details of both share option schemes are as follows:

1. Share Option Scheme

A share option scheme (the “Share Option Scheme”) was conditionally approved by resolutions of the shareholders of the Company on 14 May 2010 and the terms of such Share Option Scheme are disclosed in the Prospectus. Since the Share Option Scheme has only become effective upon the Listing, no share options were granted, exercised or cancelled by the Company under the Share Option Scheme during the six months and there were no outstanding share options under the Share Option Scheme as at 30 June 2010.

SHARE OPTION SCHEMES (continued)

2. Pre-IPO Share Option Scheme

(a) Summary of terms

The purpose of the Pre-IPO Share Option Scheme, approved by our shareholders pursuant to the written resolutions of our shareholders dated 14 May 2010, is to give our employees an opportunity to have a personal stake in our Company and help motivate them to optimize their future performance and efficiency to our 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 our 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 our listing (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 24 to the consolidated interim financial statements.

The option period shall expire on the fourth anniversary of the Listing Date (that is, 23 June 2010).

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 our directors, no options under the Pre-IPO Share Option Scheme were granted to any of our connected persons. Save for the options which have been granted before the Listing Date, no further options were granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

Corporate Governance and Other Information

SHARE OPTION SCHEMES (continued)

2. Pre-IPO Share Option Scheme (continued)

(b) Outstanding Options Granted

As of the 30 June 2010, options to subscribe for all of the shares of the Company under the Pre-IPO Share Option Scheme as described above were conditionally granted to 226 participants by our Company. 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. During the Period, 115,378,000 share options were granted under the Pre-IPO Share Option Scheme, while no share options were exercised, lapsed or cancelled.

Details of the Pre-IPO Share Options outstanding and movements during the six months ended 30 June 2010 are as follows:

| Name or category of participant | Date of grant ⁽¹⁾ | Option period ⁽¹⁾ | Exercise price HK\$ | Number of options | |
|---------------------------------|------------------------------|---|---------------------|---------------------------|---|
| | | | | Outstanding at 01/01/2010 | Granted during the Period and outstanding at 30/06/2010 |
| Chief Executive | | | | | |
| Mr. Zuo Manlun | 21/05/2010 | 23/06/2011 to 22/06/2014 ⁽³⁾ | 1.82 | — | 3,842,000 |
| Directors | | | | | |
| Ms. Zuo Xiaoping | 21/05/2010 | 23/06/2011 to 22/06/2014 ⁽³⁾ | 1.82 | — | 2,308,000 |
| Mr. Kong Zhaocong | 21/05/2010 | 23/06/2011 to 22/06/2014 ⁽³⁾ | 1.82 | — | 2,308,000 |
| Mr. Lai Zhiqiang | 21/05/2010 | 23/06/2011 to 22/06/2014 ⁽³⁾ | 1.82 | — | 2,308,000 |
| Mr. Lin Shaoquan | 21/05/2010 | 23/06/2011 to 22/06/2014 ⁽³⁾ | 1.82 | — | 1,927,000 |
| Mr. Chen Guonan | 21/05/2010 | 23/06/2011 to 22/06/2014 ⁽³⁾ | 1.82 | — | 1,927,000 |
| Mr. Huang Guirong | 21/05/2010 | 23/06/2011 to 22/06/2014 ⁽³⁾ | 1.82 | — | 1,927,000 |

Corporate Governance and Other Information

SHARE OPTION SCHEMES (continued)

2. Pre-IPO Share Option Scheme (continued)

(b) Outstanding Options Granted (continued)

| Name or category of participant | Date of grant ⁽¹⁾ | Option period ⁽¹⁾ | Exercise price HK\$ | Number of options | |
|---|------------------------------|---|---------------------|---------------------------|---|
| | | | | Outstanding at 01/01/2010 | Granted during the Period and outstanding at 30/06/2010 |
| Mr. Luo Jianfeng | 21/05/2010 | 23/06/2011 to 22/06/2014 ⁽³⁾ | 1.82 | — | 1,927,000 |
| Directors | | | | | |
| Mr. Lin Dewei | 21/05/2010 | 23/06/2011 to 22/06/2014 ⁽³⁾ | 1.82 | — | 692,000 |
| Subtotal directors | | | | — | 15,324,000 |
| Subtotal directors and chief executive | | | | — | 19,166,000 |
| Employees⁽²⁾ | | | | | |
| In aggregate | 21/05/2010 | 23/06/2011 to 22/06/2014 ⁽³⁾ | 1.82 | — | 96,212,000 |
| Total | | | | — | 115,378,000 |

Notes:

1. All dates are shown in the format of day/month/year.
2. None of such grantees is a connected person of the Company.
3. The options are exercisable from 23 June 2011 to 22 June 2014 (both days inclusive) subject to the following vesting periods:
 - (i) up to 25% of the options commencing on 23 June 2011.
 - (ii) up to 60% of the options (including the options not exercised under the limit prescribed for in the previous period) commencing on 23 June 2012; and
 - (iii) up to 100% of the options (including the options not exercised under the limit prescribed for in the previous periods) commencing on 23 June 2013.

Corporate Governance and Other Information

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

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

Hong Kong, 30 August 2010



To the shareholders of China Liansu Group Holdings Limited

(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated interim financial statements of China Liansu Group Holdings Limited (the “Company”) set out on pages 33 to 102, which comprise the consolidated statement of financial position as at 30 June 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the interim financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these interim financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated interim 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 as to whether the consolidated financial statements are free from material misstatement.

Independent Auditors' Report

To the shareholders of China Liansu Group Holdings Limited

(Incorporated in Cayman Islands with limited liability)

Auditors' responsibility (continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 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 interim financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2010 and of the Group's profit and cash flows for the six months 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

30 August 2010

Consolidated Statement of Comprehensive Income

Six months ended 30 June 2010

| | Notes | Six months ended 30 June | |
|---|-------|--------------------------|--------------------------------|
| | | 2010 RMB'000 | 2009 RMB'000 (unaudited) |
| REVENUE | 6 | 3,323,021 | 1,859,039 |
| Cost of sales | | (2,441,035) | (1,497,134) |
| Gross profit | | 881,986 | 361,905 |
| Other revenue, income and gains | 6 | 15,564 | 9,920 |
| Selling and distribution costs | | (130,345) | (83,610) |
| Administrative expenses | | (100,462) | (53,546) |
| Other operating expenses, net | | (36,754) | (11,029) |
| Finance costs | 8 | (31,725) | (16,718) |
| PROFIT BEFORE TAX | 7 | 598,264 | 206,922 |
| Income tax expense | 9 | (115,695) | (40,346) |
| PROFIT FOR THE PERIOD | | 482,569 | 166,576 |
| OTHER COMPREHENSIVE INCOME | | | |
| Exchange differences on translation of foreign operations | | (383) | 183 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | 482,186 | 166,759 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | 11 | | |
| Basic | | RMB0.21 | RMB0.07 |
| Diluted | | RMB0.21 | N/A |

Consolidated Statement of Financial Position

30 June 2010

| | Notes | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|--|-------|-------------------------------------|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 12 | 1,434,834 | 1,302,735 |
| Prepaid land lease payments | 13 | 203,076 | 205,516 |
| Other intangible assets | | 1,050 | 1,138 |
| Deposits paid for the purchase of property, plant and equipment | | 102,168 | 26,248 |
| Deferred tax assets | 21 | 4,177 | 7,314 |
| Total non-current assets | | 1,745,305 | 1,542,951 |
| CURRENT ASSETS | | | |
| Inventories | 14 | 951,947 | 743,507 |
| Trade and bills receivables | 15 | 604,219 | 466,735 |
| Prepayments, deposits and other receivables | 16 | 243,506 | 257,938 |
| Amounts due from related companies | 30(a) | 339 | 720 |
| Restricted cash | 17 | 172,902 | 125,133 |
| Cash and cash equivalents | 17 | 1,881,689 | 361,767 |
| Total current assets | | 3,854,602 | 1,955,800 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 18 | 357,429 | 232,702 |
| Other payables and accruals | 19 | 456,696 | 501,547 |
| Interest-bearing bank loans | 20 | 818,944 | 427,527 |
| Amount due to a director | 30(c) | — | 263,798 |
| Amounts due to related companies | 30(b) | 778 | 15,693 |
| Tax payable | | 61,040 | 73,770 |
| Total current liabilities | | 1,694,887 | 1,515,037 |
| NET CURRENT ASSETS | | 2,159,715 | 440,763 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 3,905,020 | 1,983,714 |

Consolidated Statement of Financial Position

30 June 2010

| | | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|--|----|--|---|
| TOTAL ASSESTS LESS CURRENT LIABILITIES | | <u>3,905,020</u> | <u>1,983,714</u> |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank loans | 20 | 485,690 | 882,150 |
| Deferred tax liabilities | 21 | 65,919 | 41,749 |
| Deferred income | 22 | 17,827 | 17,827 |
| | | <u>569,436</u> | <u>941,726</u> |
| Total non-current liabilities | | <u>569,436</u> | <u>941,726</u> |
| Net assets | | <u><u>3,335,584</u></u> | <u><u>1,041,988</u></u> |
| EQUITY | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | 23 | 131,297 | 352 |
| Reserves | | 3,204,287 | 1,041,636 |
| | | <u>3,335,584</u> | <u>1,041,988</u> |
| Total equity | | <u><u>3,335,584</u></u> | <u><u>1,041,988</u></u> |

Wong Luen Hei
Director

Luo Jianfeng
Director

Consolidated Statement of Changes in Equity

Six months ended 30 June 2010

| | Attributable to owners of the Company | | | | | | | | Total RMB'000 |
|--|---------------------------------------|-------------------|-------------------------------------|-----------------------------------|----------------------------|----------------------------------|---------------------|------------------------------------|------------------|
| | Share capital | Share Premium | Statutory reserve ⁽¹⁾ | Capital reserve ⁽²⁾ | Share option reserve | Merger reserve ⁽³⁾ | Retained profits | Exchange fluctuation reserve | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| At 1 January 2010 | 352 | — | 129,667 | 31,645 | — | 5,515 | 841,729 | 33,080 | 1,041,988 |
| Issue of shares (note 23) | 130,945 | 1,673,604 | — | — | — | — | — | — | 1,804,549 |
| Equity-settled share option arrangement (note 24) | — | — | — | — | 6,861 | — | — | — | 6,861 |
| Total comprehensive income for the period | — | — | — | — | — | — | 482,569 | (383) | 482,186 |
| Appropriation to statutory reserve | — | — | 337 | — | — | — | (337) | — | — |
| At 30 June 2010 | <u>131,297</u> | <u>1,673,604*</u> | <u>130,004*</u> | <u>31,645*</u> | <u>6,861*</u> | <u>5,515*</u> | <u>1,323,961*</u> | <u>32,697*</u> | <u>3,335,584</u> |

| | Attributable to owners of the Company | | | | | | | | Total RMB'000 |
|--|---------------------------------------|------------------|-------------------------------------|-----------------------------------|----------------------------|----------------------------------|---------------------|------------------------------------|------------------|
| | Share capital | Share premium | Statutory reserve ⁽¹⁾ | Capital reserve ⁽²⁾ | Share option reserve | Merger reserve ⁽³⁾ | Retained profits | Exchange fluctuation reserve | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| At 1 January 2009 | — | — | 50,394 | 31,645 | — | 32,455 | 277,512 | 32,108 | 424,114 |
| Deemed distributions ⁽³⁾ | — | — | — | — | — | 481 | (481) | — | — |
| Total comprehensive income for the period | — | — | — | — | — | — | 166,576 | 183 | 166,759 |
| Appropriation to statutory reserve | — | — | 5,629 | — | — | — | (5,629) | — | — |
| At 30 June 2009 (unaudited) | <u>—</u> | <u>—</u> | <u>56,023</u> | <u>31,645</u> | <u>—</u> | <u>32,936</u> | <u>437,978</u> | <u>32,291</u> | <u>590,873</u> |

* These reserve accounts comprise the consolidated reserves of RMB3,204,287,000 in the consolidated statement of financial position as at 30 June 2010 (31 December 2009: RMB1,041,636,000).

Consolidated Statement of Changes in Equity

Six months ended 30 June 2010

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 (the "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 utilised to offset prior years' losses or to increase capital, provided 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 Industrial Co., Ltd. ("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 Luen Hei ("Mr. Wong"), the then sole beneficial shareholder of the Group, at a cash consideration of RMB19,380,000. The acquisition has been accounted for as a common control transaction.

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. 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 of 31 December 2009. The Distribution was fully paid in May 2010.

Consolidated Statement of Cash Flows

Six months ended 30 June 2010

| | Notes | Six months ended 30 June | |
|---|-------|--------------------------|--------------------------------|
| | | 2010 RMB'000 | 2009 RMB'000 (unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax: | 7 | 598,264 | 206,922 |
| Adjustments for: | | | |
| Finance costs | 8 | 31,725 | 16,718 |
| Bank interest income | 6 | (2,095) | (426) |
| Loss on disposal of items of property, plant and equipment | 7 | 1,190 | — |
| Depreciation | 7 | 51,866 | 31,168 |
| Recognition of prepaid land lease payments | 7 | 2,440 | 2,100 |
| Amortisation of other intangible assets | 7 | 157 | 118 |
| Impairment of trade receivables, net | 7 | 8,171 | 2,279 |
| Write-back of inventories to net realisable value | 7 | (132) | (749) |
| Equity-settled share option expense | 7 | 6,861 | — |
| | | 698,447 | 258,130 |
| Increase in inventories | | (208,308) | (279,094) |
| Increase in trade and bills receivables | | (145,655) | (126,874) |
| Decrease/(increase) in prepayments, deposits and other receivables | | 14,432 | (51,393) |
| Decrease/(increase) in amounts due from related companies | | 381 | (3,987) |
| Increase in trade and bills payables | | 124,727 | 328,794 |
| Decrease in other payables and accruals | | (10,584) | (52,955) |
| Increase in amounts due to related companies | | 240 | 4,654 |
| Cash generated from operations | | 473,680 | 77,275 |
| Interest received | | 2,095 | 426 |
| Corporate income tax paid | | (101,118) | (17,721) |
| Net cash flows from operating activities | | 374,657 | 59,980 |

Consolidated Statement of Cash Flows

Six months ended 30 June 2010

| | Note | Six months ended 30 June | |
|--|------|---------------------------------|-----------------------|
| | | 2010 | 2009 |
| | | RMB'000 | RMB'000 |
| | | | (unaudited) |
| Net cash flows from operating activities | | <u>374,657</u> | <u>59,980</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | | (304,272) | (206,528) |
| Proceeds from disposal of items of property, plant and equipment | | 1,816 | 12,337 |
| Additions of prepaid land lease payments | | — | (18,061) |
| Additions of other intangible assets | | (69) | (16) |
| Increase in restricted cash | | <u>(47,769)</u> | <u>(182,375)</u> |
| Net cash flows used in investing activities | | <u>(350,294)</u> | <u>(394,643)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank loans | | 511,500 | 529,000 |
| Repayment of bank loans | | (514,112) | (345,700) |
| (Decrease)/increase in amounts due to related companies | | (8,041) | 180,846 |
| (Decrease)/increase in amount due to a director | | (88,651) | 56,555 |
| Interest paid | | (31,725) | (16,718) |
| Proceeds from issue of shares, net of expenses | | <u>1,629,839</u> | <u>—</u> |
| Net cash flows from financing activities | | <u>1,498,810</u> | <u>403,983</u> |
| NET INCREASE IN | | | |
| CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents at beginning of the period | | 361,767 | 135,947 |
| Effect of exchange rate changes, net | | <u>(3,251)</u> | <u>481</u> |
| CASH AND CASH EQUIVALENTS | | | |
| AT END OF THE PERIOD | | <u><u>1,881,689</u></u> | <u><u>205,748</u></u> |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 17 | <u><u>1,881,689</u></u> | <u><u>205,748</u></u> |

Notes To Financial Statements

30 June 2010

1. CORPORATE INFORMATION

China Liansu Group Holdings Limited (“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, 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 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 Hong Kong Institute of Certified Public Accountants (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 (collectively referred to as the “Group”) for the six months ended 30 June 2010. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group 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 period's financial statements.

| | |
|--|---|
| HKFRS 1 (Revised) | <i>First-time Adoption of Hong Kong Financial Reporting Standards</i> |
| HKFRS 2 Amendments | <i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i> |
| HKFRS 3 (Revised) | <i>Business Combinations</i> |
| HKAS 27 (Revised) | <i>Consolidated and Separate Financial Statements</i> |
| HKAS 32 Amendment | <i>Amendment to HKAS 32 Financial Instruments: Presentation - Classification of Rights Issues</i> |
| HKAS 39 Amendment | <i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items</i> |
| HK(IFRIC)-Int 17 | <i>Distributions of Non-cash Assets to Owners</i> |
| Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008 | <i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations - Plan to Sell the Controlling Interest in a Subsidiary</i> |
| HK Interpretation 4 (Revised in December 2009) | <i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i> |
| HKFRSs (Amendments) | <i>Improvements to HKFRSs 2009</i> |

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 have no financial impact on the Group.

The 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 the 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.

Notes To Financial Statements

30 June 2010

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognition, the reported results in the period that an acquisition occurs, and future reported results. 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. 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*. As the Group has not undertaken such transactions, the adoption of the revised standard has no financial impact on the Group.

The HKAS 32 Amendment revises the definition of financial liabilities such that rights, option or warrants issued to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, option or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. As the Group currently has no such rights, option or warrants in issue, the amendment is unlikely to 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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.

Improvements to HKFRSs

In May 2009, the HKICPA issued its *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- (a) *HKFRS 2 Share-based Payment*: Clarifies that a contribution of a business on the formation of a joint venture and 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 anytime, 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.

HK Interpretation 4 Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases is revised as a consequence of the amendment to *HKAS 17 Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of *HK Interpretation 4* 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 property accounted for in accordance with *HKAS 16*, *HKAS 17* and *HKAS 40*.

- (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.

Notes To Financial Statements

30 June 2010

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Improvements to HKFRSs (continued)

- (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 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) 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.

The amendments to the following standards below did not have any impact on the accounting policies, financial position or performance of the Group:

| | |
|--------------------|---|
| HKFRS 1 Amendments | Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards-Additional Exemptions for First-time Adopters</i> |
| HKFRS 5 | <i>Non-current Assets Held for Sale and Discontinued Operations</i> |
| HK (IFRIC)-Int 9 | <i>Reassessment of Embedded Derivatives</i> |
| HK (IFRIC)-Int 16 | <i>Hedges of a Net Investment in a Foreign Operation</i> |

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 | <i>Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards-Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters²</i> |
| HKFRS 9 | <i>Financial Instruments⁴</i> |
| HKAS 24 (Revised) | <i>Related Party Disclosures³</i> |
| HKAS 32 Amendment | <i>Amendment to HKAS 32 Financial Instruments: Presentation-Classification of Rights Issues¹</i> |
| HK(IFRIC)-Int 14 Amendments | <i>Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement³</i> |
| HK(IFRIC)-Int 19 | <i>Extinguishing Financial Liabilities with Equity Instruments²</i> |
| Improvements to HKFRSs (May 2010) | <i>Amendments to a number of HKFRSs³</i> |

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 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application, but is not yet in a position to state whether these new and revised HKFRSs will have a significant impact on the Group's results of operations and financial position.

Notes To Financial Statements

30 June 2010

3. 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 interests in subsidiaries are stated at cost less any impairment losses.

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.

An assessment is made at the end of each reporting periods 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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.

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.

Notes To Financial Statements

30 June 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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 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.

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 lives 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Intangible assets** (continued)*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.

Notes To Financial Statements

30 June 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 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 amortised cost using the effective interest rate method less any allowance for impairment. Amortised 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 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 operating expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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.

Notes To Financial Statements

30 June 2010

3. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial Assets carried at amortised cost (continued)

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 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 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, amount due to a director, amounts due to related companies, interest-bearing bank loans and other financial liabilities included in other payables and accruals.

Notes To Financial Statements

30 June 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

Loans and borrowings

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 labor 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated 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.

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.

Notes To Financial Statements

30 June 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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 installments.

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 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 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

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 granted by using a binomial model, 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 perspective of the Company, 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 "interests 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 "interests 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 functional currency of the Company is Hong Kong dollar ("HK\$") while the presentation currency of the Company 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.

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4. 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.

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 realisation 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 30 June 2010, impairment losses of RMB16,677,000 (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 30 June 2010, the Group had inventories that were measured at net realisable value (where lower than cost) of RMB2,491,000 (31 December 2009: RMB3,096,000).

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's businesses are organised by geographical areas based on the location of the customers and assets are attributable to the geographical unit based on the location of the assets. The Group has eight reportable operating segments as follows:

- (a) Southern China, including Guangdong Province, Guangxi Zhuang Autonomous Region, Hunan Province, Fujian Province and Hainan Province;
- (b) Southwestern China, including Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province and Xizang (Tibet) Autonomous Region;
- (c) Central China, including Hubei Province, Jiangxi Province and Henan Province;
- (d) Eastern China, including Shanghai Municipality, Jiangsu Province, Zhejiang Province and Anhui Province;
- (e) Northern China, including Beijing Municipality, Tianjin Municipality, Hebei Province, Shandong Province, Inner Mongolia Autonomous Region and Shanxi Province;
- (f) Northwestern China, including Shaanxi Province, Ningxia Hui Autonomous Region, Qinghai Province, Gansu Province and Xinjiang Uygur Autonomous Region;
- (g) Northeastern China, including Liaoning Province, Jilin Province and Heilongjiang Province;
and
- (h) Outside China

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs and other unallocated operating income and expenses are excluded from such measurement.

Segment assets exclude 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.

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5. OPERATING SEGMENT INFORMATION (continued)

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

During the six months ended 30 June 2010 and 2009, 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 six months ended 30 June 2010

| | 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 | 2,277,690 | 330,086 | 255,000 | 122,260 | 205,270 | 72,756 | 39,938 | 20,021 | — | 3,323,021 |
| Intersegment sales | 335,998 | 74,483 | 101,670 | 11,429 | 44,844 | 4,134 | 5,006 | 1,242 | (578,806) | — |
| Total | 2,613,688 | 404,569 | 356,670 | 133,689 | 250,114 | 76,890 | 44,944 | 21,263 | (578,806) | 3,323,021 |
| Segment results | | | | | | | | | | |
| Reconciliations: | 650,333 | 109,141 | 101,492 | 21,135 | 47,574 | 21,839 | 9,146 | 2,616 | (81,290) | 881,986 |
| Unallocated operating income and expenses | | | | | | | | | | (254,092) |
| Interest income | | | | | | | | | | 2,095 |
| Finance costs | | | | | | | | | | (31,725) |
| Profit before tax | | | | | | | | | | 598,264 |
| Segment assets | | | | | | | | | | |
| Reconciliations: | 2,083,298 | 264,523 | 405,288 | 196,982 | 319,637 | 114,259 | 149,395 | 1,675 | — | 3,535,057 |
| Deferred tax assets | | | | | | | | | | 4,177 |
| Restricted cash | | | | | | | | | | 172,902 |
| Cash and cash equivalents | | | | | | | | | | 1,881,689 |
| Other unallocated assets | | | | | | | | | | 6,082 |
| Total assets | | | | | | | | | | 5,599,907 |
| Other segment information: | | | | | | | | | | |
| Depreciation and amortisation | 30,571 | 5,241 | 4,686 | 3,970 | 6,778 | 977 | 1,399 | 841 | — | 54,463 |
| Capital expenditure | 84,444 | 17,391 | 30,071 | 9,017 | 16,634 | 25,017 | 10,639 | 21 | (6,194) | 187,040 |
| Impairment of trade receivables, net | 8,199 | (739) | 711 | — | — | — | — | — | — | 8,171 |
| Write-back of inventories to net realisable value | (132) | — | — | — | — | — | — | — | — | (132) |

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

5. OPERATING SEGMENT INFORMATION (continued)

Operating segment information for the six months ended 30 June 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 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Segment revenue: | | | | | | | | | | |
| External customers | 1,200,163 | 209,165 | 196,843 | 62,658 | 110,623 | 37,445 | 20,948 | 21,194 | — | 1,859,039 |
| Intersegment sales | 138,599 | 68,525 | 116,962 | — | 18,671 | 375 | 2,178 | — | (345,310) | — |
| Total | <u>1,338,762</u> | <u>277,690</u> | <u>313,805</u> | <u>62,658</u> | <u>129,294</u> | <u>37,820</u> | <u>23,126</u> | <u>21,194</u> | <u>(345,310)</u> | <u>1,859,039</u> |
| Segment results: | | | | | | | | | | |
| Reconciliations: | 244,318 | 52,003 | 53,290 | 12,694 | 24,299 | 7,735 | 3,173 | 3,376 | (38,983) | 361,905 |
| Unallocated operating income and expenses | | | | | | | | | | (138,691) |
| Interest income | | | | | | | | | | 426 |
| Finance costs | | | | | | | | | | (16,718) |
| Profit before tax | | | | | | | | | | <u>206,922</u> |
| Other segment information: | | | | | | | | | | |
| Depreciation and amortisation | 21,899 | 2,593 | 3,763 | 58 | 3,922 | — | 1,151 | — | — | 33,386 |
| Capital expenditure | 74,385 | 34,026 | 20,699 | 32,137 | 27,192 | 32,854 | 13,812 | 6,355 | (5,496) | 235,964 |
| Impairment of trade receivables, net | 2,279 | — | — | — | — | — | — | — | — | 2,279 |
| Write-back of inventories to net realisable value | (749) | — | — | — | — | — | — | — | — | (749) |

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

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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 six months ended 30 June 2010 and 2009.

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

| | Six months ended 30 June | |
|--|--------------------------|------------------|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| | | (unaudited) |
| <i>Revenue</i> | | |
| Sale of goods | <u>3,323,021</u> | <u>1,859,039</u> |
| <i>Other revenue, income and gains</i> | | |
| Gross rental income from leasing of properties | 706 | 1,239 |
| Gain on sale of raw materials | 750 | 3,023 |
| Income from the provision of utilities | 2,152 | 3,407 |
| Bank interest income | 2,095 | 426 |
| Government grants and subsidies | 1,998 | 1,262 |
| Others | <u>7,863</u> | <u>563</u> |
| | <u>15,564</u> | <u>9,920</u> |

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 | Six months ended 30 June | |
|---|-------|--------------------------|--------------------------------|
| | | 2010 RMB'000 | 2009 RMB'000 (unaudited) |
| Cost of inventories sold | | 2,441,167 | 1,497,883 |
| Depreciation | 12 | 51,866 | 31,168 |
| Recognition of prepaid land lease payments | 13 | 2,440 | 2,100 |
| Amortisation of other intangible assets | | 157 | 118 |
| Research and development costs* | | 24,630 | 7,636 |
| Loss on disposal of items of property, plant and equipment | | 1,190 | — |
| Minimum lease payments under operating leases in respect of land and buildings | | 4,632 | 3,550 |
| Auditors' remuneration | | 2,565 | 167 |
| Employee benefit expenses | | | |
| Wages and salaries | | 99,448 | 106,236 |
| Pension scheme contributions (defined contribution scheme) | | 20,377 | 9,445 |
| Staff welfare and other expenses | | 1,724 | 1,575 |
| Equity-settled share option expense | 24 | 6,861 | — |
| | | 128,410 | 117,256 |
| Impairment of trade receivables, net* | 15 | 8,171 | 2,279 |
| Write-back of inventories to net realisable value | | (132) | (749) |
| Net rental income | | (232) | (766) |

* Research and development costs and the impairment of trade receivables, net are included in "Other operating expenses, net" on the face of the consolidated statement of comprehensive income.

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8. FINANCE COSTS

| | Six months ended 30 June | |
|------------------------|--------------------------|---------------|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| | | (unaudited) |
| Interest on bank loans | <u>31,725</u> | <u>16,718</u> |

9. INCOME TAX

| | Six months ended 30 June | |
|---------------------------------|--------------------------|---------------|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| | | (unaudited) |
| Current - PRC | | |
| Charge for the period | 93,895 | 32,160 |
| Overprovision in the prior year | (5,507) | — |
| Deferred (note 21) | <u>27,307</u> | <u>8,186</u> |
| Total tax charge for the period | <u>115,695</u> | <u>40,346</u> |

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 six months ended 30 June 2010 and 2009.

9. INCOME TAX (continued)*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 the six months ended 30 June 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 rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates are as follows:

| | Six months ended 30 June | |
|---|---------------------------------|-------------|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| | | (unaudited) |
| Profit before tax | 598,264 | 206,922 |
| Tax at the PRC corporate income tax rate | 149,566 | 51,731 |
| Overseas tax differential | 8,182 | 17 |
| Effect of tax concessions for certain subsidiaries | (66,921) | (22,688) |
| Income not subject to tax | — | (76) |
| Expenses not deductible for tax | 5,037 | 2,304 |
| Tax losses utilised from previous years | (236) | (244) |
| Tax losses not recognised | 1,404 | 595 |
| Adjustments in respect of current tax of previous year | (5,507) | — |
| Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries [#] | 24,170 | 8,707 |
| Tax charge at the Group's effective rate | 115,695 | 40,346 |

[#] 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 to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of their earnings generated from 1 January 2008.

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10. DIVIDENDS

The board of directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil (unaudited)).

11. EARNINGS PER SHARE

| | Six months ended 30 June | |
|---|--------------------------|----------------------|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| | | (unaudited) |
| Earnings | | |
| Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation | <u>482,569</u> | <u>166,576</u> |
| | Number of Shares | |
| Shares | | |
| Weighted average number of ordinary shares of the Company in issue used in the basic earnings per share calculation | <u>2,279,005,525</u> | 2,250,000,000 |
| Effect of dilution - weighted average number of ordinary shares: share options | <u>1,243,738</u> | — |
| | <u>2,280,249,263</u> | <u>2,250,000,000</u> |

The weighted average number of shares used to calculate the basic earnings per share for the six months ended 30 June 2009 includes 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 23(a) and (b)); and
- (ii) 2,242,000,000 shares issued to New Fortune as a result of capitalisation of an amount due to Mr. Wong (note 23(c)).

11. EARNINGS PER SHARE (continued)

The weighted average number of shares used to calculate the basic earnings per share for the six months ended 30 June 2010 includes the weighted average of 750,000,000 shares issued upon the listing of the Company's shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 June 2010 (the "Listing Date"), namely 29,005,525 shares and the above mentioned 2,250,000,000 ordinary shares.

No adjustment had been made to the basic earnings per share amounts presented for the period ended 30 June 2009 in respect of a dilution as the Group had no potential dilutive ordinary shares in issue during that period.

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12. PROPERTY, PLANT AND EQUIPMENT

| | 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 |
| Cost: | | | | | | | |
| At 1 January 2010 | 437,242 | 698,986 | 20,524 | 54,955 | 3,826 | 289,361 | 1,504,894 |
| Additions | 2,728 | 67,659 | 2,779 | 7,555 | 633 | 105,617 | 186,971 |
| Transfers | 141,398 | 29,595 | — | — | — | (170,993) | — |
| Disposals | — | (825) | (114) | (3,055) | (1,599) | (762) | (6,355) |
| At 30 June 2010 | 581,368 | 795,415 | 23,189 | 59,455 | 2,860 | 223,223 | 1,685,510 |
| Accumulated depreciation: | | | | | | | |
| At 1 January 2010 | 48,935 | 120,149 | 7,099 | 25,099 | 877 | — | 202,159 |
| Depreciation provided during the period | 11,001 | 34,327 | 1,873 | 4,277 | 388 | — | 51,866 |
| Disposals | — | (64) | (25) | (2,516) | (744) | — | (3,349) |
| At 30 June 2010 | 59,936 | 154,412 | 8,947 | 26,860 | 521 | — | 250,676 |
| Net book value: | | | | | | | |
| At 30 June 2010 | 521,432 | 641,003 | 14,242 | 32,595 | 2,339 | 223,223 | 1,434,834 |
| At 31 December 2009 | 388,307 | 578,837 | 13,425 | 29,856 | 2,949 | 289,361 | 1,302,735 |
| Cost: | | | | | | | |
| At 1 January 2009 | 361,870 | 384,035 | 14,579 | 38,395 | 1,783 | 75,513 | 876,175 |
| Additions | 822 | 74,732 | 1,510 | 8,698 | 452 | 131,674 | 217,888 |
| Transfers | 40,607 | 10,010 | 5 | 122 | — | (50,744) | — |
| Disposals | — | (9,104) | (1,500) | (276) | — | (4,956) | (15,836) |
| At 30 June 2009 | 403,299 | 459,673 | 14,594 | 46,939 | 2,235 | 151,487 | 1,078,227 |
| Accumulated depreciation: | | | | | | | |
| At 1 January 2009 | 33,896 | 81,782 | 5,669 | 19,541 | 443 | — | 141,331 |
| Depreciation provided during the period | 8,477 | 18,597 | 1,204 | 2,714 | 176 | — | 31,168 |
| Disposals | — | (2,322) | (974) | (203) | — | — | (3,499) |
| At 30 June 2009 (unaudited) | 42,373 | 98,057 | 5,899 | 22,052 | 619 | — | 169,000 |
| Net book value: | | | | | | | |
| At 30 June 2009 (unaudited) | 360,926 | 361,616 | 8,695 | 24,887 | 1,616 | 151,487 | 909,227 |

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 RMB300,740,000 as at 30 June 2010 (31 December 2009: RMB303,841,000) (note 27).

13. PREPAID LAND LEASE PAYMENTS

| | Notes | 2010 RMB'000 | 2009 RMB'000 (unaudited) |
|--|-------|-----------------|--------------------------------|
| At 1 January | | 210,115 | 180,811 |
| Additions | | — | 18,061 |
| Recognised during the period | 7 | (2,440) | (2,100) |
| At 30 June | | 207,675 | 196,772 |
| Current portion included in prepayments, deposits and other receivables | 16 | (4,599) | (4,284) |
| Non-current portion | | 203,076 | 192,488 |

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 RMB69,745,000 as at 30 June 2010 (31 December 2009: RMB53,513,000) (note 27).

14. INVENTORIES

| | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|------------------|-------------------------------------|---|
| Raw materials | 458,130 | 384,619 |
| Work in progress | 31,703 | 17,917 |
| Finished goods | 462,114 | 340,971 |
| | 951,947 | 743,507 |

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15. TRADE AND BILLS RECEIVABLES

| | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|----------------------------|---|---|
| Trade receivables | 613,796 | 468,355 |
| Bills receivable | 7,100 | 6,886 |
| Less: Impairment provision | (16,677) | (8,506) |
| | <u>604,219</u> | <u>466,735</u> |

The Group's major customers are independent distributors, civil contractors, property developers, utility companies and municipalities in mainland 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 terms 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 the reporting period, based on the invoice date and net of provisions, is as follows:

| | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|-----------------|---|---|
| Within 3 months | 516,840 | 396,252 |
| 4 to 6 months | 48,173 | 42,160 |
| 7 to 12 months | 35,812 | 15,837 |
| 1 to 2 years | 3,394 | 10,144 |
| 2 to 3 years | — | 1,942 |
| Over 3 years | — | 400 |
| | <u>604,219</u> | <u>466,735</u> |

15. TRADE AND BILLS RECEIVABLES (continued)

Movements in the provision for impairment of trade receivables of the Group are as follows:

| | 2010 | 2009 |
|---------------------------------------|----------------|---------------|
| | RMB'000 | RMB'000 |
| At 1 January | 8,506 | 8,530 |
| Impairment losses recognised (note 7) | 8,171 | 2,279 |
| | <u>16,677</u> | <u>10,809</u> |
| At 30 June | 16,677 | 10,809 |

The above provision of RMB16,677,000 as at 30 June 2010 (31 December 2009: RMB8,506,000) is for individually impaired trade receivables with their carrying amount before provision of RMB16,677,000 (31 December 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 trade and bills receivables of the Group that are neither individually nor collectively considered to be impaired is as follows:

| | As at 30 | As at 31 |
|-------------------------------|-----------------|----------------|
| | June | December |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Neither past due nor impaired | 481,011 | 398,432 |
| Past due but not impaired | | |
| Less than 3 months past due | 107,525 | 41,023 |
| 4 to 6 months past due | 10,329 | 16,215 |
| 7 to 12 months past due | 4,814 | 6,551 |
| 1 to 2 years past due | 540 | 3,657 |
| 2 to 3 years past due | — | 457 |
| Over 3 years past due | — | 400 |
| | <u>604,219</u> | <u>466,735</u> |

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15. TRADE AND BILLS RECEIVABLES (continued)

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.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|--|----|---|---|
| Prepayments | | 193,487 | 207,482 |
| Current portion of prepaid land lease payments | 13 | 4,599 | 4,599 |
| Value-added tax recoverable | | 22,342 | 27,151 |
| Deposits | | 12,051 | 5,173 |
| Other receivables | | 11,027 | 13,533 |
| | | 243,506 | 257,938 |

The above balances are unsecured, interest-free and have no fixed terms of repayment.

17. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

| | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|---|---|---|
| Cash and bank balances | 2,054,591 | 486,900 |
| Less: Restricted cash: | | |
| Guarantee deposits as performance bonds | 1,995 | 357 |
| Guarantee deposits for issuance of bank acceptance notes | 163,001 | 124,523 |
| Guarantee deposits for issuance of letters of credit | 7,906 | 253 |
| | <u>172,902</u> | <u>125,133</u> |
| Cash and cash equivalents | <u>1,881,689</u> | <u>361,767</u> |
| Denominated in RMB (note) | 577,329 | 452,419 |
| Denominated in other currencies | 1,477,262 | 34,481 |
| | <u>2,054,591</u> | <u>486,900</u> |

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.

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18. TRADE AND BILLS PAYABLES

| | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|----------------|---|---|
| Trade payables | 153,880 | 102,338 |
| Bills payable | 203,549 | 130,364 |
| | 357,429 | 232,702 |

The trade payables are non-interest-bearing. 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:

| | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|-----------------|---|---|
| Within 3 months | 286,407 | 176,086 |
| 4 to 6 months | 69,965 | 55,996 |
| 7 to 12 months | 540 | 91 |
| 1 to 2 years | 168 | 304 |
| 2 to 3 years | 124 | — |
| Over 3 years | 225 | 225 |
| | 357,429 | 232,702 |

19. OTHER PAYABLES AND ACCRUALS

| | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|-------------------------------|---|---|
| Advances from customers | 233,132 | 233,687 |
| Accruals | 24,712 | 21,275 |
| Salaries and welfare payables | 37,014 | 39,836 |
| Other payables | 161,838 | 206,749 |
| | 456,696 | 501,547 |

The above balances are non-interest-bearing and have no fixed terms of repayment.

20. INTEREST-BEARING BANK LOANS

| | Contractual interest rate (%) | Maturity | As at 30 June 2010 RMB'000 | Contractual interest rate (%) | Maturity | As at 31 December 2009 RMB'000 |
|---------------------|-------------------------------------|-----------|-------------------------------------|-------------------------------------|-----------|---|
| Current | | | | | | |
| Bank loans | | | | | | |
| – secured (note 27) | 4.78-5.84 | 2010-2011 | 186,310 | 1.67-5.31 | 2010 | 229,100 |
| – unsecured | 1.67-5.84 | 2010-2011 | 632,634 | 2.77-5.84 | 2010 | 198,427 |
| | | | <u>818,944</u> | | | <u>427,527</u> |
| Non-current | | | | | | |
| Bank loans | | | | | | |
| – secured (note 27) | 4.86-5.94 | 2011-2013 | 435,690 | 1.67-5.84 | 2011-2012 | 662,150 |
| – unsecured | 5.40 | 2011 | 50,000 | 5.4 | 2011 | 220,000 |
| | | | <u>485,690</u> | | | <u>882,150</u> |
| | | | <u>1,304,634</u> | | | <u>1,309,677</u> |

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20. INTEREST-BEARING BANK LOANS (continued)

| | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|-------------------------------------|---|---|
| Analysed into bank loans repayable: | | |
| Within one year or on demand | 818,944 | 427,527 |
| In the second year | 422,000 | 868,460 |
| In the third year | 63,690 | 13,690 |
| | <u>1,304,634</u> | <u>1,309,677</u> |

As at 30 June 2010, the carrying amounts of all the Group's bank loans are denominated in RMB, except for unsecured bank loans of HK\$330,000,000 (approximately RMB288,134,000 equivalent) (31 December 2009: HK\$30,000,000) which were denominated in Hong Kong dollars. As at 31 December 2009, the Group also had a secured bank loan of HK\$500,000,000 (approximately RMB440,250,000 equivalent) which was denominated in Hong Kong dollars.

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 27.

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 current borrowings and non-current borrowings approximate to their fair values at the end of the reporting period.

21. DEFERRED TAX

The following are the major deferred tax assets/(liabilities) recognised and their movements during the period:

| | Provision for impairment of assets RMB'000 | Depreciation allowance in excess of related 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) |
| Credited/(charged) to the consolidated statement of comprehensive income for the period (note 9) | 1,137 | 181 | — | (24,170) | (4,455) | (27,307) |
| At 30 June 2010 | <u>2,395</u> | <u>181</u> | <u>(3,600)</u> | <u>(62,319)</u> | <u>1,601</u> | <u>(61,742)</u> |
| At 1 January 2009 | 1,346 | 189 | (3,705) | (7,688) | — | (9,858) |
| Credited/(charged) to the consolidated statement of comprehensive income for the period (note 9) | 345 | 70 | 106 | (8,707) | — | (8,186) |
| At 30 June 2009 (unaudited) | <u>1,691</u> | <u>259</u> | <u>(3,599)</u> | <u>(16,395)</u> | <u>—</u> | <u>(18,044)</u> |
| | | | | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 | |
| Gross deferred tax assets recognised in the consolidated statement of financial position | | | | 4,177 | 7,314 | |
| Gross deferred tax liabilities recognised in the consolidated statement of financial position | | | | (65,919) | (41,749) | |
| | | | | (61,742) | (34,435) | |

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22. 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 installments. As the related assets were not ready for use as of 30 June 2010, no deferred income was released to the consolidated statement of comprehensive income for the six months then ended.

23. SHARE CAPITAL

| | As at 30 June 2010 | As at 31 December 2009 |
|---|-------------------------------------|------------------------------|
| Authorised: | | |
| 20,000,000,000 ordinary shares of HK\$0.05 each (31 December 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 (31 December 2009: 4,000,000 shares of HK\$0.1 each) | HK\$ 150,000,000 | HK\$ 400,000 |
| Equivalent to | RMB 131,297,000 | RMB 352,000 |

23. SHARE CAPITAL (continued)

The following changes in the Company's authorised and issued share capital took place during the period:

| | 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 | 881,000 |
| Issuance of new shares for sub-division of each share | (b) | 10,000,000,000 | — | — |
| As at 30 June 2010 | | <u>20,000,000,000</u> | <u>1,000,000</u> | <u>881,000</u> |
| Issued: | | | | |
| 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 30 June 2010 | | <u>3,000,000,000</u> | <u>150,000</u> | <u>131,297</u> |

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23. SHARE CAPITAL (continued)

Notes:

- (a) As of the date of incorporation of the Company, its authorised 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 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\$1.00 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\$1.00 each from New Fortune, and reduced its authorised 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 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, 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). Such allotment and capitalisation were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in (d) below.
- (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.

24. SHARE OPTION SCHEME

On 14 May 2010 (the “Adoption Date”), the Company adopted a pre-initial public offering share option scheme (the “Pre-IPO Share Option Scheme”) and a share option scheme (the “Share Option Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group.

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 |

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24. SHARE OPTION SCHEME (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 fair value of the Pre-IPO Share Options granted during the six months ended 30 June 2010 was estimated at approximately RMB128,071,000 of which the Group recognised a share option expense of RMB6,861,000 during the six months ended 30 June 2010.

The fair value of the Pre-IPO Share Options granted during the period 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 115,378,000 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 present capital structure of the Company, result in the issue of 115,378,000 additional ordinary shares of the Company and additional share capital of RMB5,769,000 and share premium of RMB204,219,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 115,378,000 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 3.7% of the Company's shares in issue as at that date.

24. SHARE OPTION SCHEME (continued)**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, 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 favor 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 30 June 2010, no share options have been granted under the Share Option Scheme since its adoption.

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25. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transaction

As disclosed in note 23(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 shareholder, credited as fully paid at par.

26. CONTINGENT LIABILITIES

As at 30 June 2010, the Group had no significant contingent liabilities (31 December 2009: Nil).

27. 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:

| | Note | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|-------------------------|------|-------------------------------------|---|
| Land | 13 | 69,745 | 53,513 |
| Buildings | | 232,755 | 232,193 |
| Machinery and equipment | | 67,985 | 71,648 |
| | | <u>370,485</u> | <u>357,354</u> |

28. 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 30 June 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|---|-------------------------------------|---|
| Within one year | 427 | 1,890 |
| In the second to fifth years, inclusive | — | 2,880 |
| After five years | — | 540 |
| | <u>427</u> | <u>5,310</u> |

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28. OPERATING LEASE ARRANGEMENTS (continued)

(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 9 years.

As at 30 June 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|---|---|---|
| Within one year | 5,819 | 8,808 |
| In the second to fifth years, inclusive | 15,624 | 3,896 |
| After five years | 11,308 | 76 |
| | <u>32,751</u> | <u>12,780</u> |

29. COMMITMENTS

In addition to the operating lease commitments detailed in note 28(b) above, the Group had the following capital commitments at the end of the reporting period:

| | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|-----------------------------------|---|---|
| Contracted, but not provided for: | | |
| Property, plant and equipment | <u>131,136</u> | <u>109,650</u> |

30. RELATED PARTY BALANCES AND TRANSACTIONS

During the six months ended 30 June 2010, the Group's management is of the view that the following companies are related companies of the Group, which had the following transactions with the Group:

| Name of the company | Relationship |
|--|---|
| 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 or “Liansu Profiles”) | Under the common control of Mr. Wong |
| Jiangmen Liansu Soft Hoses Co., Ltd. (江門市聯塑軟管有限公司 or “Liansu Soft Hoses”, 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 |
| Guangdong Liansu Machinery Manufacturing Co., Ltd. (廣東聯塑機器製造有限公司 or “Liansu Machinery”) | Under the common control of Mr. Wong |
| Guangdong Liansu Valves Co., Ltd. (廣東聯塑閥門有限公司 or “Liansu Valves”) | Under the common control of Mr. Wong |
| Guizhou Ruihua Plastics Co., Ltd. (貴州瑞華塑膠有限公司) | Under the common control of Mr. Wong |
| Miquan Liansu Plastic Pipe Co., Ltd. ⁽¹⁾ (米泉市聯塑管道有限公司 or “Miquan Liansu”) | Under the significant influence of a director |
| 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 or “Liansu Fire Fighting & Valve & Plumbing Accessories”) | Under the common control of Mr. Wong |
| Guangzhou Yuegao Patent Trademark Agency Co., Ltd. ⁽²⁾ (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. ⁽²⁾ (廣東粵高商標代理有限公司) | Under the control of a director |

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30. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Notes:

- (1) Mr. Kong Zhaocong, a director, had a 40% equity interest in this company which was disposed of by Mr. Kong Zhaocong in August 2009.
- (2) Mr. Lin Dewei, a director, had a 51% equity interest in these companies.

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 period:

(a) Amounts due from related companies

| | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|---|---|---|
| Other receivables from a related company: | | |
| – Liansu Profiles Co., Ltd. | — | 720 |
| Prepayment to related companies: | | |
| – Guangzhou Yuegao Patent Trademark Agency Co., Ltd. | 164 | — |
| – Guangdong Yuegao Trademark Agency Co., Ltd. | 175 | — |
| | 339 | — |

The Group's non-trade receivables from related companies are unsecured, non-interest-bearing and have no fixed terms of repayment.

30. RELATED PARTY BALANCES AND TRANSACTIONS (continued)**(b) Amounts due to related companies**

| | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|--------------------------------------|---|---|
| Other payables to related companies: | | |
| – Liansu Electric | 240 | 8,041 |
| – Liansu Machinery | 538 | 7,652 |
| | <u>778</u> | <u>15,693</u> |

The Group's non-trade payables to related companies are unsecured, non-interest-bearing and have no fixed terms of repayment.

(c) Amount due to a director

| | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|----------|---|---|
| Mr. Wong | <u>—</u> | <u>263,798</u> |

The amount due to a director was unsecured, non-interest-bearing and had no fixed terms of repayment.

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30. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

(d) Related party transactions

| | Notes | Six months ended 30 June | |
|--|-------|--------------------------|--------------------------------|
| | | 2010 RMB'000 | 2009 RMB'000 (unaudited) |
| Sales of goods to related companies: | | | |
| – Miquan Liansu | (i) | — | 7,833 |
| – Liansu Electric | (i) | 234 | — |
| – Liansu Machinery | (i) | 326 | — |
| – Liansu Fire Fighting & Valve & Plumbing Accessories | (i) | 175 | — |
| | | <u>735</u> | <u>7,833</u> |
| Sales of raw materials to related companies: | | | |
| – Liansu Machinery | (ii) | 466 | — |
| – Liansu Profiles | (ii) | — | 2,636 |
| – Liansu Soft Hoses | (ii) | — | 2,956 |
| – Miquan Liansu | (ii) | — | 921 |
| | | <u>466</u> | <u>6,513</u> |
| Sales of equipment to related companies: | | | |
| – Liansu Soft Hoses | (iii) | — | 6,206 |
| – Liansu Profiles | (iii) | — | 2,103 |
| | | <u>—</u> | <u>8,309</u> |
| Provision of utilities to related companies: | | | |
| – Liansu Machinery | (iv) | 851 | 291 |
| – Liansu Electric | (iv) | 1,168 | 1,612 |
| – Liansu Profiles | (iv) | — | 731 |
| – Liansu Soft Hoses | (iv) | — | 166 |
| | | <u>2,019</u> | <u>2,800</u> |

30. RELATED PARTY BALANCES AND TRANSACTIONS (continued)**(d) Related party transactions (continued)**

| | Notes | Six months ended 30 June | |
|---|-------|--------------------------|--------------------------------|
| | | 2010 RMB'000 | 2009 RMB'000 (unaudited) |
| Rental income from related companies: | | | |
| – Liansu Profiles | (v) | — | 360 |
| – Liansu Soft Hoses | (v) | — | 236 |
| – Liansu Machinery | (v) | 187 | 156 |
| – Liansu Electric | (v) | 240 | 200 |
| | | 427 | 952 |
| | | 427 | 952 |
| Purchases of materials from related companies: | | | |
| – Liansu Electric | (vi) | — | 367 |
| – Liansu Profiles | (vi) | 213 | 17,856 |
| – Liansu Machinery | (vi) | 2,505 | — |
| – Liansu Soft Hoses | (vi) | — | 1,091 |
| – Guizhou Ruihua Plastics Co., Ltd. | (vi) | — | 1,971 |
| – Miquan Liansu | (vi) | — | 3,832 |
| | | 2,718 | 25,117 |
| | | 2,718 | 25,117 |
| Purchases of equipment from related companies: | | | |
| – Liansu Valves | (vii) | — | 22,208 |
| – Liansu Fire Fighting & Valve & Plumbing Accessories | (vii) | 1,173 | — |
| – Liansu Machinery | (vii) | 33,401 | 4,813 |
| | | 34,574 | 27,021 |
| | | 34,574 | 27,021 |

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30. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

(d) Related party transactions (continued)

| | Notes | Six months ended 30 June | |
|--|--------|--------------------------|--------------------------------|
| | | 2010 RMB'000 | 2009 RMB'000 (unaudited) |
| Licensing trademarks to related companies | | | |
| – Liansu Electric | (viii) | 100 | 100 |
| – Liansu Profiles | (viii) | 25 | 25 |
| – Liansu Machinery | (viii) | 150 | — |
| – Liansu Fire Fighting & Valve & Plumbing Accessories | (viii) | 50 | — |
| – Liansu Valves | (viii) | 100 | — |
| | | 425 | 125 |
| Licensing patents to a related company | | | |
| – Liansu Machinery | (viii) | 22 | — |
| Agency service from a related company | | | |
| – Guangzhou Yuegao Patent Trademark Agency Co., Ltd. | (ix) | 216 | — |
| Lease of properties owned by a director | (x) | 1,710 | — |

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 was 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.

30. RELATED PARTY BALANCES AND TRANSACTIONS (continued)**(d) Related party transactions (continued)**

Notes: (continued)

(viii) Licensing trademarks and patents to related companies were conducted based on mutually agreed terms.

(ix) Agency services were provided by a related company based on mutually agreed terms.

(x) The properties including office, 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.

(e) Pledges over certain assets of the related parties of the Group

As at 31 December 2009, certain of the Group's bank loans were secured by assets of the Group's related parties. The carrying amount of these bank loans as at that date was:

| | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|--|---|---|
| <i>Secured by:</i> | | |
| Time deposits of Top Jump Holdings Limited | — | 440,250 |

(f) Compensation of key management personnel of the Group

| | Six months ended 30 June | |
|---|---------------------------------|----------------|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Short-term employees benefits | 986 | 486 |
| Post-employment benefits | 45 | 37 |
| Total compensation paid to key management personnel | <u>1,031</u> | <u>523</u> |

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31. FINANCIAL INSTRUMENTS BY CATEGORY

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

| | Notes | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|------------------------------------|-------|-------------------------------------|---|
| Trade and bills receivables | 15 | 604,219 | 466,735 |
| Other receivables | 16 | 11,027 | 13,533 |
| Amounts due from related companies | 30(a) | 339 | 720 |
| Restricted cash | 17 | 172,902 | 125,133 |
| Cash and cash equivalents | 17 | 1,881,689 | 361,767 |
| | | <u>2,670,176</u> | <u>967,888</u> |

Financial liabilities at amortised cost

| | Notes | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|--|-------|-------------------------------------|---|
| Trade and bills payables | 18 | 357,429 | 232,702 |
| Financial liabilities included in other payables and accruals | | 198,852 | 246,585 |
| Interest-bearing bank loans | 20 | 1,304,634 | 1,309,677 |
| Amount due to a director | 30(c) | — | 263,798 |
| Amounts due to related companies | 30(b) | 778 | 15,693 |
| | | <u>1,861,693</u> | <u>2,068,455</u> |

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans, amount 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 carrying amounts of the Group's financial instruments 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. 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 summarised below.

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 RMB'000 | Increase/ (decrease) in equity* RMB'000 |
|---|--|---|--|
| Six months ended 30 June 2010 | 50 | 4,972 | — |
| Six months ended 30 June 2010 | -50 | (4,972) | — |
| Six months ended 30 June 2009 (Unaudited) | 50 | 2,118 | — |
| Six months ended 30 June 2009 (Unaudited) | -50 | (2,118) | — |

* 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 period and there would be no impact on the Group's equity.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

Management of the Group 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:

| | As at 30 June 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 | 357,429 | — | — | 357,429 |
| Financial liabilities included in other payables and accruals | 198,852 | — | — | 198,852 |
| Interest-bearing bank loans | 875,872 | 475,097 | 65,405 | 1,416,374 |
| Amounts due to related companies | 778 | — | — | 778 |
| | <u>1,432,931</u> | <u>475,097</u> | <u>65,405</u> | <u>1,973,433</u> |
| | As at 31 December 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 |
| | <u>1,235,544</u> | <u>894,547</u> | <u>14,034</u> | <u>2,144,125</u> |

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**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 period.

The Group monitors capital using a net borrowing to equity ratio, which is net borrowings divided by total equity. Net borrowings include interest-bearing bank loans, amount due to a director and related companies less cash and cash equivalents and restricted cash. Capital represents the total equity.

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:

| | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|----------------------------------|---|---|
| Interest-bearing bank loans | 1,304,634 | 1,309,677 |
| Amount due to a director | — | 263,798 |
| Amounts due to related companies | 778 | 15,693 |
| Less: Cash and cash equivalents | (1,881,689) | (361,767) |
| Restricted cash | (172,902) | (125,133) |
| Net borrowings/(cash) | (749,179) | 1,102,268 |
| Total equity | 3,335,584 | 1,041,988 |
| Net borrowings to equity ratio | N/A | 106% |

Notes To Financial Statements

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33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 August 2010.